

## Review of strategy

# 1 DELIVER OPERATIONAL EXCELLENCE

### This strategic priority is about cost and efficiency management across the Group, with a relevance to Banknote Print and Polymer substrate.

The downside risk of Banknote Print lies with the unpredictability of market demands. The number of central banks outsourcing banknote printing is relatively stable. However, overspill from state print works, which could be significant, has caused fluctuations of demand in the commercial market. Central banks' irregular order patterns add another layer of uncertainty.

To address this potential downside risk, we look to both supply and demand. On the supply side, we aim to reduce our internal banknote printing capacity to match long term average demands, while creating flexibility through outsourcing to external partners to cover any surge in demand.

In November 2018, we announced that we were evaluating a number of cost saving initiatives. We have concluded the evaluation process and have developed a cost out plan that is expected to deliver a total annualised saving in excess of c£20m by FY22. This includes:

**Corporate efficiency:** we will reduce corporate overheads by layering the organisation structure and as a benefit of moving to a divisional structure.

**Manufacturing optimisation:** we will continue to monitor any changes in market conditions and review our manufacturing footprint on a regular basis to ensure we have the optimum footprint to deal with the changes. We will also continue to optimise cost of quality, procurement and manufacturing fixed costs.

### Automated manufacturing

As technology progresses and becomes more affordable, automation and robotics are no longer limited to high volume operations. With industrial automation, we can maximise what we can produce in any given space. This means we can raise output and productivity without the need for an expensive factory extension or relocation. We can also retain or establish production in a country with high labour costs.

This doesn't necessarily mean we should automate everything. We must base decisions on whether we can achieve and sustain improvements, and see a return on investment. We also need to factor into production decisions softer benefits such as employee satisfaction levels and workplace culture, both of which are vital to running a successful growing business.



● ●  
Industrial automation allows us to maximise our workflow and output within a given space.

● ●  
**Alan Newman,**  
Advanced Manufacturing Engineering Director

On the demand side, orders can be sparse and vary in size, which creates uncertainties in cash supply in each country as well as in the commercial market. We look to build trusted partnerships with our customers, by helping them better understand the cash cycle in their countries and, over a longer term, to manage the buying cycle for them. 'Banknote-as-a-service', a managed service model enabled by our proprietary cash cycle management software, DLR Analytics, will ensure 'just-in-time' delivery, helping customers to better manage their budgets and to reduce inventory. Building more long term partnerships like this will improve our visibility of orders, thus reducing volatility in performance.

DLR Analytics, which more than 85 central banks are using, expanded its service offering with the launch of its forecasting functionality in June 2018. During the year, two central banks that use DLR Analytics have signed up to test our banknote-as-a-service offering. Following its success at the Central Banking Awards in January 2018, De La Rue Analytics was awarded the 'Currency Technology Provider of the Year' at the Central Banking's FinTech and RegTech Global Awards in 2019.

## 2 INVEST FOR GROWTH

**We continue to drive growth through organic investment and, if appropriate, through acquisitions and partnerships.**

Innovation is a key differentiator for us – we aim to counter the counterfeiters at every turn, and that means having access to the best technology. As set out in the 2015 strategy, we plan to double R&D investment from 2015 to 2020, to improve product offerings and drive growth, and we have almost achieved that this year, with R&D investment up 82% since 2015.

As a result of the investment and improved focus, the number of patents filed and granted over the past four years has totalled 137 and 133, respectively.

We invest in R&D primarily in two areas: material science and software development. We are world leaders in physical authentication and aim to continue to strengthen our position. We are placing more focus on exploiting existing technology platforms, such as holographics, as well as creating disruptive technologies.

To encourage long term recurring revenues, we continue to invest in building our digital and service offering. We have enhanced our existing software platforms such as track and trace system DLR Certify and online cash cycle management platform DLR Analytics by adding new modules and expanding the offerings. We are also exploring new frontier technologies such as blockchain as part of our brand protection solutions for customers looking for better ways to ensure supply chain integrity.



### Exploring a new frontier

Blockchain is a secure ledger technology. Transactional and contract data within a ledger are stored as blocks, and each block is linked to the previous one using public cryptography and a timestamp. Due to its highly secure method of transferring and storing data, blockchain technology is being used in a number of areas, the most widely known today is crypto currencies. The technology is also well-positioned for use in other industries that require secure data solutions, such as supply chain management.

It can help to prevent counterfeits by allowing real time tracking of genuine goods, stop unauthorised products entering the market and authorised goods entering unauthorised distribution channels. Although the technology is still in its infancy, it is predicted to be the most used technology in world trade by 2030. At De La Rue, we are actively exploring various possibilities of how to best engage and adopt this new approach into our existing lines of business.

→ Read more on [www.delarue.com](http://www.delarue.com)

●●  
**Blockchain is predicted to be the most used technology in world trade by 2030. We are exploring possibilities of how to adopt it into our lines of business.**  
 ●●

**Brett Nelson,**  
 Digital Product Manager,  
 Product Authentication & Traceability

## Review of strategy continued

### 3 STRENGTHEN BALANCE SHEET

#### **We aim to strengthen our balance sheet through improving profit and managing cash prudently.**

We have adopted a capital allocation framework designed to create increasing shareholder value, based on executing our strategy. Our capital allocation priorities are:

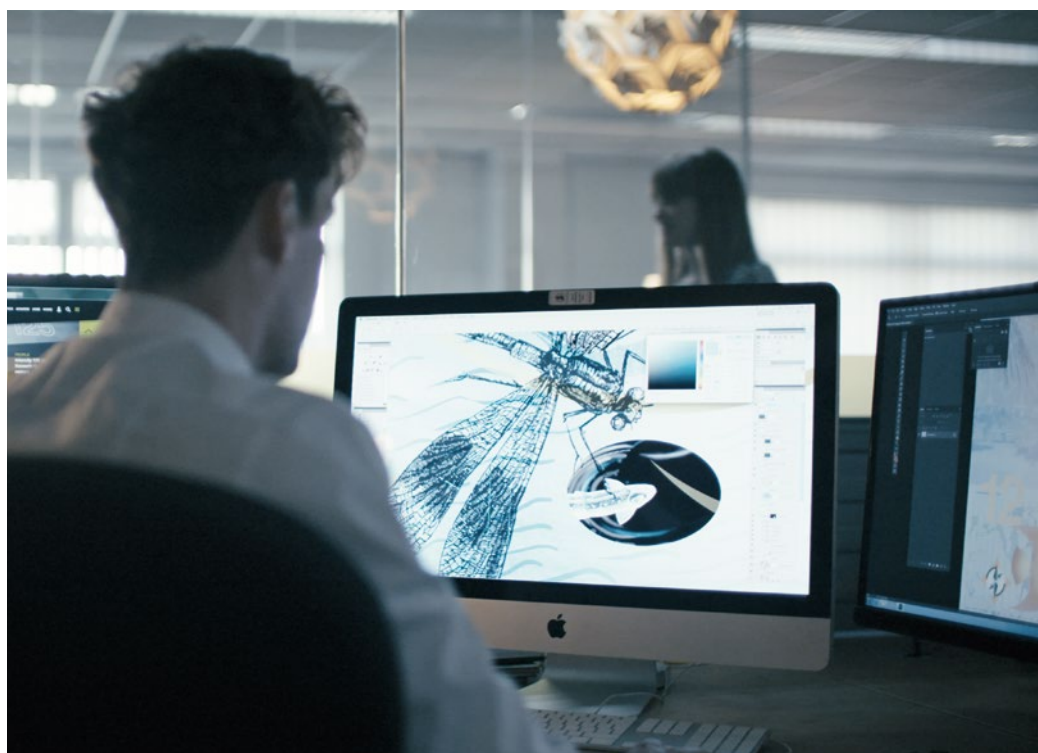
- organic growth investments – capital projects, investment in R&D and sales
- dividend payment – aim to at least maintain dividend per share in the short to medium term
- mergers and acquisitions – explore value enhancing opportunities

We are disciplined in allocating our capital resource. Investing to keep our factories and equipment functioning efficiently is important, so is investing in technology and capability. In the next few years, we expect an increasing proportion of our capital expenditures to be invested in new capabilities and technologies that will drive either greater efficiency or future growth. The Group's return on capital employed average in the past four years was 40%, demonstrating our ability to generate good returns on our investments.

Given the nature of our business, the size of contracts and timing of orders and shipments vary significantly, which could have a profound effect on our working capital.

We look to manage our working capital better through a number of ways: 1) tighter control on inventory; 2) better vendor management; 3) credit control. During the year, we appointed inventory managers to each site, and set up a credit control function. We also renegotiated payment terms with our key suppliers.

In FY19, our year end net debt was £107.5m (31 March 2018: £49.9m). The year on year increase was due to adverse working capital movement. Further details on net debt is provided in the Financial Review section on pages 32 to 34.



#### **Design precision**

Banknotes and identity documents are arguably some of the most widely recognised and iconic products in the world. And a lot of thoughts and skills go into their design. The process starts with an understanding of how they are going to be used – whether by people or machines – and the specific security threats they need to counter throughout their lifetime. Our design team works closely with customers and end users on this.

We also use insights and data from our work around the world, and keep abreast of all technological developments. Plus the complex and highly skilled process of converting artwork into technically accurate, print-ready files. The precision applied by our design team in translating graphics, patterns and engravings to high security print is measured in microns – a millionth of a metre.



The finest designs are always based on best practice. De La Rue's expertise has come from working across the globe, creating a diverse range of complex bespoke design solutions.



**Julian Payne**, Creative Director

## 4 DRIVE CULTURAL CHANGE

Our culture underpins every aspect of our business. It's the strategic priority that enables us to manage all the other priorities effectively.

Since 2015, we have been creating a dynamic, results oriented, and high performing culture. Our programme has four main strands: accelerating performance management culture; improving leadership skills and capabilities; improving recognition; building confidence in the business through improved communication.

There is strong evidence of better performance management across the Group in FY19. We achieved this by better alignment of objectives across functions at all levels of the organisation, as well as enhanced succession development. Last year, half the appointments to the senior leadership team were of internal candidates.

We have been focusing over the last three years on training our managers and leaders in the skills required to improve performance, through an established leadership development programme. We have also changed the senior leadership team structure, streamlining operations and reducing layers.

The platform put in place in 2016 to enable De La Rue colleagues to recognise others' effort and commitment is now becoming the norm. People have sent 100,000 recognitions since it was launched. We continued to improve our internal and external communications by adding more initiatives in the last year.

As announced in May 2019, we will undergo some significant changes during the next 12 months. The proposed delayering of structure and the changing of the operating model will change the way we operate, as well as the way we think and behave. It requires a more agile and high performing culture to sustain it.

### Looking ahead

In the next two years, we will face some significant challenges. Replacing the contribution from the UK passport contract will be hard, and the anticipated market pressure in the banknote print market will have an impact on margin. That said, we must raise our game to stay competitive.

The proposed reorganising and right sizing of the business will allow better strategic focus and bring cost benefits in the short term.

For the long term, riding on the strong momentum in the GRS market and stable growth in brand protection, we expect PA&T to double its revenue within the next three years. The cost out programme to reduce corporate and factory overhead and production costs will enable us to compete more effectively in the banknote print market, and to partially offset the impact on margin. Thus, we remain confident about the long term future of the business.



#### Award winning

We always strive for the best and are proud to be recognised as leaders in both innovation and design. In recent years, we have won 14 industry awards for design, four Queen's Award for innovation, and two Central Banking Innovation awards for our cash cycle management software DLR Analytics.

In 2019 we were awarded the prestigious Currency Services Provider of the Year by Central Banking. Most recently, De La Rue has been recognised as one of the Superbrands in the UK.



Read more on [www.delarue.com](http://www.delarue.com)