

## Interview with the CEO

# QUESTIONS AND ANSWERS WITH MARTIN SUTHERLAND

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### How do you plan to deal with the loss of the UK passport contribution in a year's time?

For identity, we offer two different things. There is the solutions side, based on our identity software, and supplying the identity token such as passports and ID cards, and the security features and components that make the token difficult to counterfeit.

After the decision of the UK passport retender in April 2018, we conducted a review of the cost base and competitiveness of our identity business and concluded that while the identity business has a strong foundation and good growth potential, the market dynamics have changed. The truth is that the identity solutions market has been consolidating, and we are not big enough to compete in it.

The more attractive growth opportunity for us is identity related security features and components, where the market is more fragmented, and we can differentiate ourselves. So, while the UK passport retender result means we lose half our identity business, this market remains attractive. But it will mean a shift in sales focus, targeting a different group of customers such as the state print works sector.

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### What's the key driver for the proposed realignment of the operating model and how will it help you deliver the strategy?

We have made good progress in achieving our strategic objectives in the past four years. The shape of our business has changed significantly, particularly after exiting the Cash Processing Solutions and the paper business. The strong growth momentum in Product Authentication and Traceability (PA&T) and Security Features will transform the business in the next few years, into one that is less capital intensive and more technology led.

To reflect the current state of the business and the different characteristics of the four remaining products: Banknote Print, Polymer, Security Features and PA&T, we are announcing a proposal to realign our operating model and better align our resources with our strategy.

The proposed operating model will focus on two market areas: Currency and Authentication. Currency encompasses Banknote Print and Polymer substrate. Authentication combines the existing PA&T business with Security Features and components. Given their distinctive characteristics and market dynamics, the two divisions require different approaches. This structure will ensure that each division has the necessary management focus, investment profile and cultural attributes to succeed.

The banknote print market continues to grow but remains unpredictable due to the irregular buying patterns of customers and fluctuating overspill orders from state print works. Priorities for this division are to improve cost competitiveness through optimisation of the manufacturing footprint, efficiency improvements and greater operational flexibility.

In contrast, the Authentication division is exposed to higher growth markets in brand protection and product traceability, with a greater value attributed to technology and integration. The priority for this division is to maximise the growth opportunity with both government and enterprise customers through an innovative portfolio of security and value-add components, software and services. This will equip the Authentication business to accelerate growth in existing markets, as well as positioning it for diversification into adjacent areas, such as brand enhancement. Each division will be led by a managing director with operational responsibility from sales to delivery.

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### As the business is becoming smaller and more streamlined, do you require the same level of investment?

As a counter-counterfeiting business, intellectual property is one of the most valuable assets for us. It underpins the integrity of our products, whether banknotes, ID cards or authentication labels. To stay ahead of the counterfeiters, we must continue to invest in new technology.

We have an excellent heritage in this but had fallen behind when I took over. So we have increased our investment in R&D by 82% since 2015. Frankly, the first couple of years we were just playing catch up, but we've developed some new technologies in the last few years. We are spending more of our R&D budget on disruptive technology, to future proof the business. We are also investing more in software development, to continue to enhance our digital offerings, such as DLR Certify and DLR Analytics. We think the current level of R&D investment is about right. The focus right now is maximising the return on our technology platforms.

Building capabilities is also important for the future success of the business. An increasing proportion of our capital expenditure will be invested in new capabilities and technologies that will drive either greater efficiency or future growth.





### What are De La Rue's competitive strengths, and what's driving growth?

We have a foundation of 200 years of history – a fantastic brand, a strong record of innovation, and a best-in-class security print design facility. We operate in growth markets and have huge potential to further diversify our revenue streams. We are making good progress on this front, but still have a long way to go.

Product Authentication is growing for primarily two reasons. Firstly, governments wanting to protect revenues, and secondly the need to protect brands and consumers from counterfeit goods, which is being driven by increased globalisation and e-commerce.

We're focusing on niche markets where we combine the physical and digital worlds. In the UAE, for example, we provide a track and trace solution compliant with the World Health Organisation's Framework Convention for Tobacco Control, as well as secure tax stamps. This helps the government generate more tax revenue, while reducing the risk to citizens' health. In the Kingdom of Saudi Arabia, we are helping the government with a similar mechanism for sugary drinks, to help improve citizens' health.

These factors are all driving growth, but also, despite stories to the contrary, cash is still growing. It accounts for 17 of every 20 transactions around the world, and the number of banknotes in circulation rises by 3% to 4% each year. Three quarters of the world's population live in countries where 95% of all transactions are cash.

Even in the developed world – the UK, Eurozone and the US – cash in circulation is rising 5% to 6% a year. Other digital payment methods will clearly work alongside cash, but these technologies tend to replicate each other due to their similarity, as we have seen with mobile payment and contactless cards. So, I can assure you, cash will still be a vital part of the payment ecosystem alongside these other payment methods for a long time to come.



### Where would you like to see the business in five years' time?

It's been a busy few years and I think we've accomplished a lot. We've become far more streamlined and focused. However, some things haven't moved as fast as I would have liked, and there's still a lot to do. We need to look at how we can do things better, faster and cheaper, while taking costs out.

We will become much more of a technology led business, investing in automation and robotics, with the aim of becoming a world class manufacturer. We already have strong products and solutions to compete in our fast changing markets. And within the next three to five years, we're aiming to launch some disruptive technologies we're working on, which will keep us ahead of the marketplace.

Our goal is to grow the business, both organically and through acquisition, into one with leading positions in all our chosen markets. With the focus provided by our proposed new divisional structure, it is my aim that in less than five years' time, Authentication will contribute the majority of the Group's profit.



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