

Strategic update

A MORE STREAMLINED, FOCUSED BUSINESS

In May 2015, we announced a five year plan to transform De La Rue into a less capital intensive, more technology led security product and services provider, with a more balanced business portfolio that will deliver growth and improve quality of earnings, as well as reduce volatility in the business.

The main priorities were:

- Divesting non-core business
- Reducing our exposure to the volatility of the paper market
- Improving predictability and competitiveness in Banknote Print
- Diversifying revenue by growing Polymer, Security Features, IDS, and PA&T
- Reducing our pension deficit

We have made good progress against these priorities, making De La Rue a very different business today than it was four years ago. We have divested the underperforming CPS business. We have sold the paper business, removing our exposure to an over supplied market whilst maintaining surety of supply of a key raw material. And we have also grown Polymer, Security Features and PA&T, the product lines in the growth area.

The strategic review of our international identity business is ongoing, and we have made good progress.

Our pension deficit has been reduced by £157.3m since 2015. Our aim is to eradicate the deficit in the coming years to give us more strategic optionality in the future.

The shape of our business today is materially different to four years ago. We are now embarking on the next phase of transformation of the Group into a technology led security product and service provider.

Authentication

This division is focused on a high growth market. The market is growing in both the commercial and government sectors. In the commercial sector there is consumer demand for protection against counterfeit goods, particularly in the context of more and more retail moving online. Meanwhile brand owners are seeking new and innovative ways of not only protecting their consumers against counterfeit but also better connecting with them.

Proposed Group operating model realignment

Our business is now focused on two clear markets: Currency and Authentication. We announced on 30 May 2019 the proposed realignment of the Group operating model into two market focused divisions, namely:



Currency

Encompassing our Banknote Print and Polymer product lines, focused on the provision of finished Banknotes and advanced Banknote substrate into central banks and state print works.



Authentication

Encompassing our Security Features, identity related security components and Product Authentication product lines, focused on the supply of products and services to authenticate goods as genuine and to assure tax revenues.

The market dynamics of these two divisions are different, in terms of the solutions that customers seek, customer buying behaviours and the competitive landscape. This in turn offers very different opportunities for De La Rue in terms of the growth rates and margin opportunities available to us in each sector. By aligning the Group structure into two divisions focused on our chosen markets, we will not only optimise the operations of each division to the market dynamics they face, but we will also give ourselves strategic optionality in the future.

Governments have a desire to frustrate illicit trade, partly to protect citizens from dangerous goods, but also to raise taxes. We are seeing a structural shift in the Government Revenues Solutions (GRS) market due to more and more countries adopting the World Health Organisation's Framework Convention on Tobacco Control into law.

Combining differentiated security features with digital and service offerings is also important in this market. The investments we have made over recent years in software capabilities, ongoing service provision and R&D focused on IP generation all underpin our solutions in this market.

Currency

The currency market continues to grow but remains unpredictable due to the volatile nature of overspill and customers' irregular buying patterns. Cash remains the pre-eminent payment mechanism around the world due to its inclusivity, resilience, anonymity and low cost of use for both consumers and retailers. However, alternative payment mechanisms continue to erode share of cash transactions in some countries.

Normalisation of overspill volumes from recent levels means there is currently over capacity in the industry, leading to pricing pressure.

The priority for this division is to maintain our leading market position in Banknote Print, continuing to grow our market share in Polymer, whilst remaining competitive by improving efficiency, optimising capacity and cutting costs.

With demand for banknotes expected to normalise, we will now, as first set out in 2015, complete the programme to match our banknote print capacity with the estimated long term average demand of circa 6bn notes per annum. This includes access to one print line at Debden under our agreement with the Bank of England.

The priorities below were set out in our 2015 strategy plan. The following pages report against these priorities. In future we will report against the new divisional structure.

Our strategic priorities	2020 goals	
1 DELIVER OPERATIONAL EXCELLENCE		 Read more about operational excellence on page 24 .
<ul style="list-style-type: none"> • Divest non-core business • Limit exposure to paper market volatility • Reduce banknote print volatility • Drive efficiency 	<ul style="list-style-type: none"> • Standardised footprint with flexibility to deal with demand surges • Improved return on capital employed (ROCE) • Better quality of earnings 	
2 INVEST FOR GROWTH		 Read more about investing for growth on page 25 .
<ul style="list-style-type: none"> • Invest in skills and new capabilities • Invest in new technologies and service solutions • Accelerate growth through partnerships and acquisitions 	<ul style="list-style-type: none"> • Mid-single digit revenue growth 2015–2020 CAGR* • More diversified revenue streams • Double R&D investment by 2020 	
3 STRENGTHEN BALANCE SHEET		 Read more about strengthening the balance sheet on page 26 .
<ul style="list-style-type: none"> • Manage working capital more efficiently • Maintain prudent capital investment • Manage pension deficit effectively 	<ul style="list-style-type: none"> • Improved cash flow • Reduced pension deficit 	
4 DRIVE CULTURAL CHANGE		 Read more about cultural change on page 27 .
<ul style="list-style-type: none"> • Improve performance management • Training and development 	<ul style="list-style-type: none"> • Dynamic, high performing culture • Diverse skilled workforce with high ethical standards 	

* CAGR = Compound Average Growth Rate.