De La Rue

2020/21

Full Year Results

26 May 2021

Disclaimer

Cautionary note regarding forward-looking statements

These results include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “plans”, “may”, “will”, “could”, “shall”, “risk”, “aims”, “predicts”, “continues”, “assumes”, “positioned” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these results and the information incorporated by reference into these results and include statements regarding the intentions, beliefs or current expectations of the directors, De La Rue or the Group concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of De La Rue and the industry in which it operates.

By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Company. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation or assurance that trends or activities underlying past performance will continue in the future. Accordingly, investors or potential investors should not place undue reliance on these forward-looking statements. The Group's actual results of operations, financial condition, liquidity, dividend policy and the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in these results and/or the information incorporated by reference into these results. In addition, even if the results of operations, financial condition, liquidity and dividend policy of the Group and the development of the industry in which it operates, are consistent with the forward-looking statements contained in these results and/or the information incorporated by reference into these results, those results or developments may not be indicative of results or developments in subsequent periods.

Other than in accordance with its legal or regulatory obligations, De La Rue does not undertake any obligation to update these forward-looking statements, which speak only as at the date of this document, and will not publicly release any revisions that may be made to these forward-looking statements, which may result from events or circumstances arising after the date of this document.

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Introduction

- Adjusted operating profit(1) of £38.1m with 60.8% year-on-year growth
- IFRS operating profit of £14.5m (FY 2019/20: £42.8m)
- Net debt of £52.3m at end of FY 2020/21
- Turnaround Plan cost savings of £36m completed and delivered on schedule
- Good year for both Authentication and Currency
- Authentication strong second half and £195m of multi-year lifetime contract wins year-to-date
- Currency 100% banknote utilisation in H2 2020/21 with strong margin progression during year
- Bank of England polymer contract for new notes starting July 2021
- £100m equity capital raise completed in July 2020
- Positive start to FY 2021/22

(1) Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £22.6m (FY 2019/20: net gain of £20.0m), amortisation of acquired intangible assets of £1.0m (FY 2019/20: £0.9m). See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

FY 2020/21 good performance

Full year results summary

- Adjusted Currency revenue(1) of £286.8m – increased banknote volumes and higher security feature sales
- Authentication revenue of £77.6m – new contracts positive impact in H2 2020/21
- Identity Solutions decline as UK Passport contract ended with majority of revenue and profits n H1 2020/21

Adjusted operating profit(3)

- £38.1m – significant year-on-year growth reflecting Turnaround Plan
- Ongoing businesses moved into adjusted operating profit of £27.5m (FY 2019/20: £1.4m)
- Full year net debt lower than expectations

Net debt

- Reduced to £52.3m from £102.8m at FY 2019/20 (£21.6m at H1 2020/21)

Key operational developments

- First full year of Turnaround Plan implementation

Current trading

- Good current trading for both divisions of the company
- Costs now rebased

(1) Adjusted revenue is a non-IFRS measure and excludes revenue from non-novated paper contracts of £9.3m (FY 2019/20: £40.1m).
(2) Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £22.6m (FY 2019/20: net gain of £20.0m), amortisation of acquired intangible assets of £1.0m (FY 2019/20: £0.9m). See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

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Divisional update

Currency

- **Increasing performance during year**
  - Strong ongoing global demand for cash
  - Weaker mix first half, good growth in volumes second half
  - Utilised 100% banknote capacity in H2 2020/21
- **Polymer and new products**
  - Bank of England polymer contract July 2021
  - Secured new polymer site
  - Paper threads seeing traction

Authentication

- **Contract growth momentum**
  - £195m of multi-year lifetime contracts YTD
  - Bahrain, Ghana, and Qatar GRS wins
  - Renewal of Microsoft contract
  - Good pipeline of opportunities remaining
- **Operational progress**
  - Two contracts impacted by pandemic, with strong growth in H2 2020/21
  - Ghana and UK HMRC increased revenue in H2 2020/21

Identity Solutions

- Completed transition to the new supplier for UK Passport
- Minimal ongoing revenue

The Turnaround Plan

Three key pillars - well-positioned platform for future growth

Cost reduction	• £36m of annualised cost out completed from the Turnaround Plan from the end of FY 2020/21 • Gateshead banknote production ceased in December 2020 • Restructuring cash costs of Turnaround Plan £10.1m in FY 2020/21 • Continue to focus on identifying and enacting further cost reduction opportunities
Currency	• Improved and sustainable profitability in the Currency division ○ Improve revenue and profitability of banknotes ○ Protect and grow paper thread division with new products and features ○ Convert the world to polymer and be the market leader ○ Second polymer line site secured
Authentication	• Continue to target continued strong year-on-year growth in the Authentication division ○ Good pipeline of contracts with £195m built up year-to-date and pipeline promising ○ New contract revenue in H2 2020/21 delivered strong 27.8% year-on-year growth in H2 2020/21 ○ Expect £100m revenue by FY 2021/22

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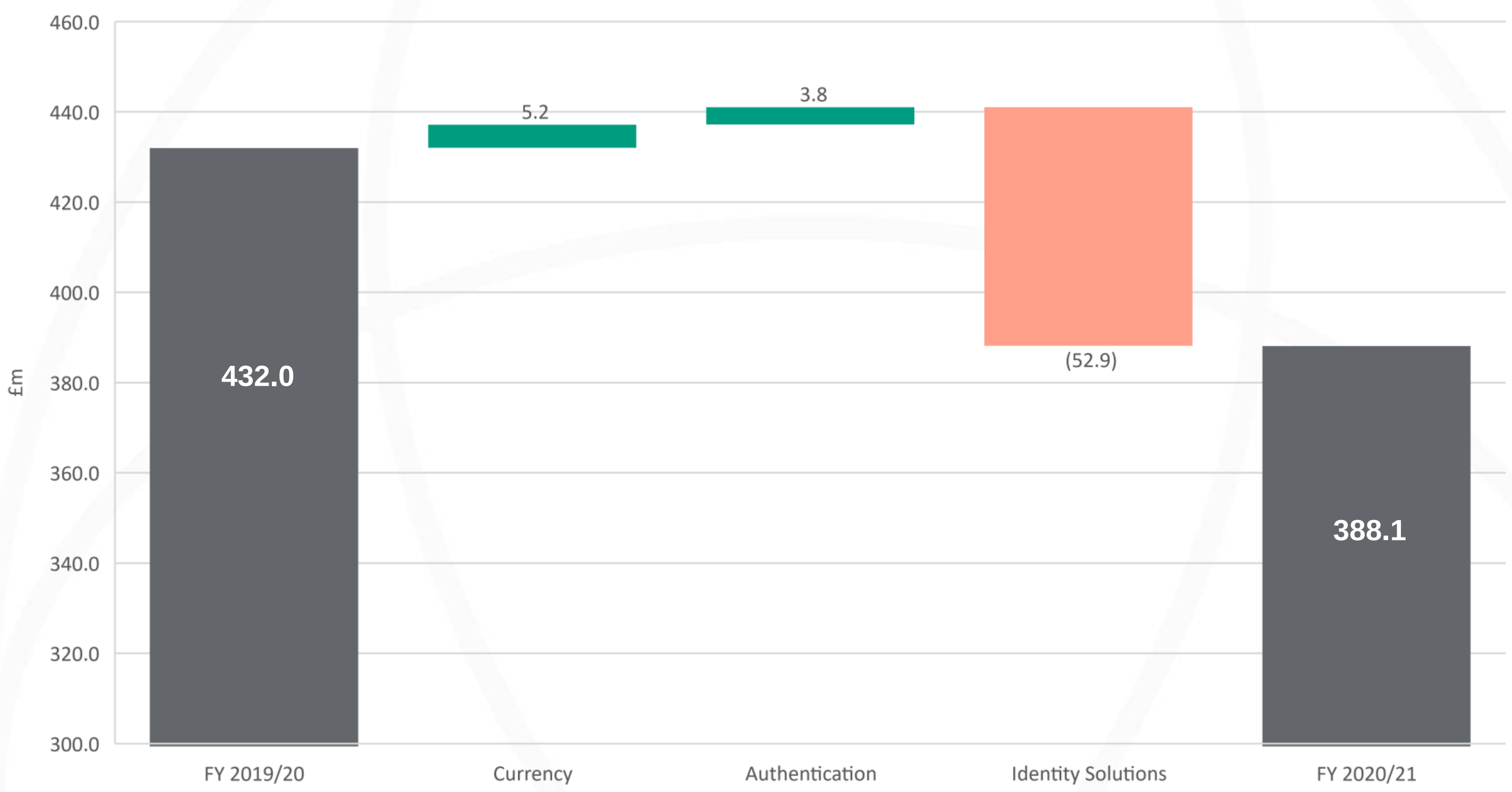
Income statement

	FY 2020/21 £m	FY 2019/20 Restated[2] £m	Change
Adjusted Revenue[1]	388.1	432.0	-10.2%
IFRS Revenue	397.4	472.1	-15.8%
Gross profit	107.8	105.9	1.8%
Adjusted Gross profit margin	27.8%	24.5%	330bps
IFRS Gross profit margin	27.1%	22.4%	470bps
Adjusted operating profit[3]	38.1	23.7	60.8%
Adjusted operating margin[3]	9.8%	5.5%	430bps
IFRS operating profit/(loss)	14.5	42.8	-66.1%
Adjusted basic earnings/(loss) per share[4][5]	14.7p	11.1p	32.4%
IFRS basic earnings per share[5]	3.7p	30.3p	-87.8%

(1) Adjusted Revenue is a non-IFRS measure and excludes “pass-through” revenue relating to non-novated paper and International IDS business contracts of £9.3m (FY 2019/20: £40.1m).
(2) FY 2019/20 figures have been restated to reflect a change in presentation of certain contract related payments to include these as cost of goods sold rather than a reduction to revenue. The impact of this restatement is an increase to revenue with an offsetting increase to cost of goods sold of £5.3m with no overall impact on profits compared to the figures originally reported. See slide 25 for further details.
(3) Adjusted operating profit and adjusted operating profit margin are a non-IFRS measure and excludes exceptional items net charges of £22.6m (FY 2019/20: net credit of £20.0m) and amortisation of acquired intangible assets of £1.0m (FY 2019/20: £0.9m).
(4) Adjusted basic earnings per share is a non-IFRS measure and excludes exceptional item charges net of tax of £18.4m (FY 2019/20: net credit of £22.5m) and amortisation of acquired intangible assets net of tax of £0.6m (FY 2019/20: £0.7m).
(5) Prior year earnings per share metrics are restated to reflects adjustments associated with the equity capital raise with regards to weighted average number of shares.

See slides 20-24 for reconciliation of non-IFRS to comparable IFRS measures

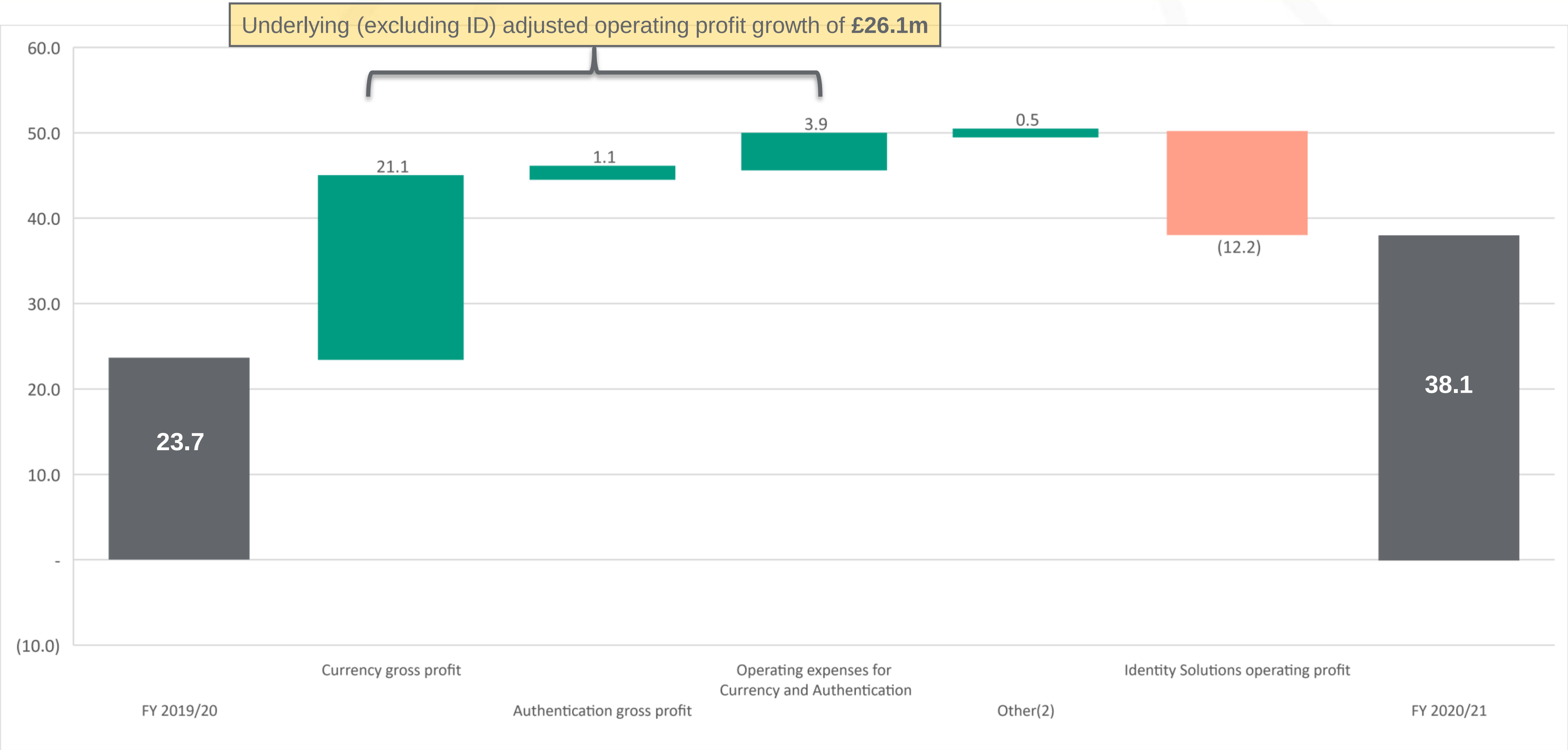
Adjusted revenue(1)(2)



(1) Adjusted Revenue is a non-IFRS measure and excludes "pass-through" revenue relating to non-novated paper and International IDS business contracts of £9.3m (FY 2019/20: £40.1m). See slide 20 for reconciliation of non-IFRS to comparable IFRS measures.

(2) FY 2019/20 figures have been restated to reflect a change in presentation of certain contract related payments in Authentication to include these as cost of goods sold rather than a reduction to revenue. The impact of this restatement is an increase to revenue with an offsetting increase to cost of goods sold of £5.3m with no overall impact on profits compared to the figures originally reported. Total revenue is £432.0m vs £426.7m as previously reported. See slide 25 for further details.

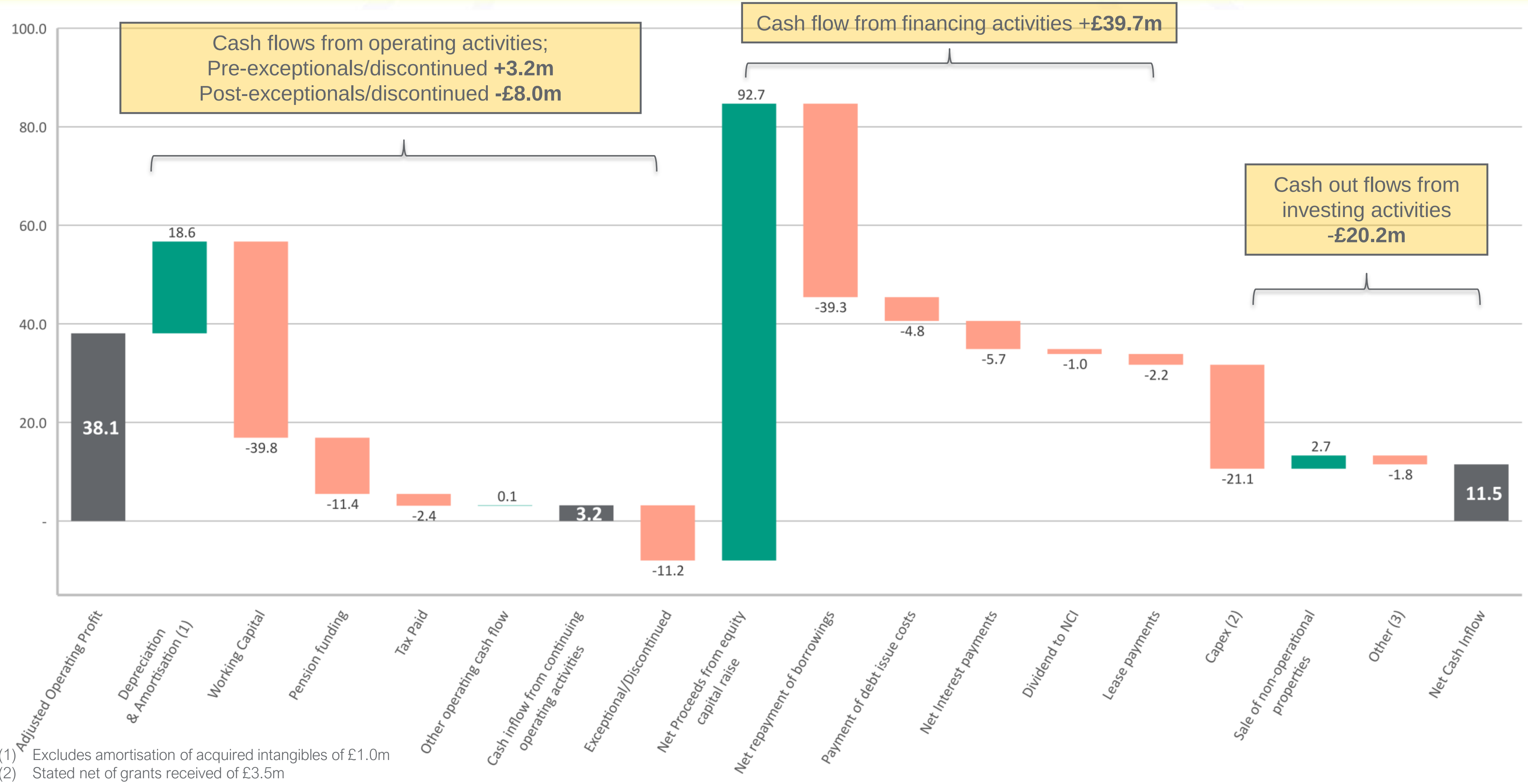
Adjusted operating profit(1)



(1) Adjusted operating profit and adjusted operating profit margin are a non-IFRS measure and excludes exceptional items net charges of £22.6m (FY 2019/20: net credit of £20.0m) and amortisation of acquired intangible assets of £1.0m (FY 2019/20: £0.9m). See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

(2) Includes £0.5m of unallocated losses in FY 2019/2020

Cash flow



(1) Excludes amortisation of acquired intangibles of £1.0m
(2) Stated net of grants received of £3.5m
(3) Other includes an outflow of £1.9m in relation to IDS disposal working capital repayment

Net debt and pension

Material de-risking of the balance sheet

Net Debt & Banking Covenants	• Group net debt decrease to £52.3m at 27th March 2021 from £102.8m at 28th March 2020 • £275m facility size including a minimum of £100m for bonds and guarantees to support future growth, and additional flexibility built in • In H2 2020/21 the Group has reallocated £25m of the undrawn RCF from the cash to the bond and guarantee component to support contracts and future growth • There was a +150bps increase in margin across the grid agreed with lenders during the refinancing and other updates made in the year • Significant headroom, the revised covenant tests: EBIT/net interest payable 6.3 times (covenant of ≥2.4 times in FY 2020/21), net debt/EBITDA 0.99 times at year end (covenant of ≤3.0 times).
UK Defined Benefit Pension	• £18.5m net deficit at 27th March 2021 valuation under IAS19 – (28 March 2020 £64.8m surplus) as positive growth in scheme assets were more than offset by growth in liabilities primarily driven by lower discount rates used in the valuation. • Agreed reduced contributions from £23m to £15m per annum (to March 2023, £24.5m thereafter to FY 2028/29) as a result of the Recovery Plan pension contributions for FY 2020/21 were £11.4m with the final quarter's payment of £3.8m falling just outside of year end but prior to 31 March 2021 (FY 2019/20: £21.3m) • Additional contributions payable only in exceptional circumstances • Next triennial valuation in 31 December 2022 (results by April 2024)

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Summary and outlook

- Strong growth in adjusted operating profits with both ongoing divisions performing well
- Delivered £36m of Turnaround Plan cost out with full benefit in FY 2021/22
- Good progress with contract wins and opportunities for Authentication and expect £100m of revenue in FY 2021/22
- Currency margin grew during FY 2020/21 and strong order book coverage for FY 2021/22
- Good start to FY 2021/22

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Exceptional items

	2021 £m	2020 £m
Site relocation and restructuring	**(21.4)**	(9.3)
Costs associated with the equity raise and bank refinancing	**(2.9)**	–
Pension underpin costs	**(0.6)**	(1.1)
Gain/(loss) on resolution of a historical issue relating to UK defined benefit pension scheme	**(0.1)**	8.7
Gain on sale of PPE	**2.7**	–
Gain/(loss) on disposal of subsidiary (net of costs associated with disposal)	**(0.3)**	22.7
Venezuela expected credit loss provision	**–**	(1.0)
Exceptional items in operating profit	**(22.6)**	20.0
Tax (charge)/credit on exceptional items	**4.2**	2.5

Non-IFRS measures

De La Rue plc publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. These non-statutory measures are prepared on a basis excluding the impact of exceptional items and amortisation of acquired intangibles. Amortisation of acquired intangible assets and exceptional items are excluded as they are not considered to be representative of underlying business performance.

The measures the Group uses along with appropriate reconciliations to the equivalent IFRS measures where applicable are shown in the following tables.

The Group's policy on classification of exceptional items is also set out below:

The Directors consider items of income and expenditure which are material by size and/or by nature and not representative of normal business activities should be disclosed separately in the financial statements so as to help provide an indication of the Group's underlying business performance. The Directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the Directors believe would give rise to exceptional items for separate disclosure would include: gains or losses on the disposal of businesses, curtailments on defined benefit pension arrangements or changes to the pension scheme liability which are considered to be of a permanent nature such as the change in indexation or the GMPs, and non-recurring fees relating to the management of historical scheme issues, restructuring of businesses, asset impairments and costs associated with the acquisition and integration of business combinations.

All exceptional items are included in the appropriate income statement category to which they relate.

Adjusted revenue

Adjusted revenue excludes "pass through" revenue relating to non-novated contracts following the paper and international identify solutions business sales. The following amounts of "pass through" revenue have been excluded: Paper £8.9m (FY 2020: £33.5m) and Identify Solutions: £0.4m (FY 2020: £6.6m).

	2020 £m	**2021 £m**
Revenue on an IFRS basis	472.1	**397.4**
– exclude pass-through revenue	(40.1)	**(9.3)**
Adjusted revenue	432.0	**388.1**

Non-IFRS measures

Adjusted operating profit

Adjusted operating profit represents earnings from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

	2019 £m	2020 £m	**2021 £m**
Operating profit from continuing operations on an IFRS basis	31.5	42.8	**14.5**
– Amortisation of acquired intangible assets	0.7	0.9	**1.0**
– Exceptional items	27.9	(20.0)	**22.6**
Adjusted operating profit from continuing operations	60.1	23.7	**38.1**

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Non-IFRS measures

Adjusted basic earnings per share

Adjusted earnings per share are the earnings attributable to equity shareholders, excluding exceptional items and amortisation of acquired intangible assets and discontinued operations divided by the weighted average basic number of ordinary shares in issue. It has been calculated by dividing the De La Rue plc's adjusted operating profit from continuing operations for the period by the weighted average basic number of ordinary shares in issue excluding shares held in the employee share trust.

	2019 £m	2020 £m	**2021 £m**
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	19.4	34.4	**6.4**
– Exceptional items	27.9	(20.0)	**22.6**
– Amortisation of acquired intangibles	0.7	0.9	**1.0**
– Tax on amortisation of acquired intangibles	0.3	(0.2)	**(0.4)**
– Tax on exceptional items	(4.2)	(2.5)	**(4.2)**
Adjusted profit attributable to equity shareholders of the Company from continuing operations	44.1	12.6	**25.4**
Weighted average number of ordinary shares for basic earnings[1]	102.9	113.7	**172.4**

Note:

1 Prior year share numbers are restated following the Equity Capital Raise.

	2019 pence per share	2020 pence per share	**2021 pence per share**
Basic earnings per ordinary share continuing operations on an IFRS basis	18.8	30.3	**3.7**
Basic adjusted earnings per ordinary share for continuing operations	42.9	11.1	**14.7**

Non-IFRS measures

Adjusted controllable operating profit by division

Adjusted controllable operating profit represents earnings from continuing operations of the on-going divisions adjusted to exclude exceptional items and amortisation of acquired intangible assets and costs relating to the enabling functions such as Finance, IT, HR and Legal that are deemed to be attributable only to the on-going two divisional structure model. Key reporting metrics for monitoring the divisional performance will be linked, going forward, to gross profit and controllable profit (being adjusted operating profit before the allocation of enabling function overheads), with the enabling functional cost base being managed as part of the overall business key turnaround objectives.

The group has considered the requirements of IFRS 8 with regards to the need to restate segmental results and concluded that the Group is unable to make this restatement. This is due to the cost base and employee structure of the business under the previous functional model being materially different to the new divisional structure. Therefore, it is not possible to undertake a like-for-like reallocation of costs for new divisions for the comparative period. Although comparatives have not been restated, in the commentaries included in this release, we have provided commentary on the changes in divisional cost base, to enable a year-on-year performance by division. The Group has also determined, for the same reasons as set out above, that it is unable to calculate the current period segmental results on the original basis for comparability purposes.

2020/21 Full Year	Currency	Authentication	Identity Solutions	Central	Total of continuing operations
	£m	£m	£m	£m	£m
Operating profit/(loss) on IFRS basis	**(4.4)**	**9.9**	**10.2**	**(1.2)**	**14.5**
Amortisation of acquired intangibles	-	1.0	-	-	1.0
Net exceptional items	20.6	0.4	0.4	1.2	22.6
Adjusted operating profit/(loss)	**16.2**	**11.3**	**10.6**	**-**	**38.1**
Enabling function overheads	25.5	7.0	-	(32.5)	-
Adjusted controllable operating profit/(loss)	**41.7**	**18.3**	**10.6**	**(32.5)**	**38.1**

Non-IFRS measures

Adjusted operating expenses reconciliation

Due to the cost base and employee structure of the business under the previous functional model being materially different to the new divisional structure, the table below is presented to show the Group adjusted operating expenses make-up for FY 2019/20 and FY 2020/21.

2020/21 Full Year	Currency	Authentication	Identity Solutions	Central	Total of continuing operations
	£m	£m	£m	£m	£m
Gross Profit	**65.3**	**29.9**	**12.6**	**-**	**107.8**
Divisional overhead	(23.6)	(11.6)	(2.0)	(32.5)	(69.7)
Adjusted controllable operating profit/(loss)	**41.7**	**18.3**	**10.6**	**(32.5)**	**38.1**
Enabling function overhead base allocation	(25.5)	(7.0)	-	32.5	-
Adjusted operating profit/(loss)	**16.2**	**11.3**	**10.6**	**-**	**38.1**
Amortisation of acquired intangibles	-	(1.0)	-	-	(1.0)
Net exceptional items	(20.6)	(0.4)	(0.4)	(1.2)	22.6
Operating profit/(loss) on IFRS basis	**(4.4)**	**9.9**	**10.2**	**(1.2)**	**14.5**

2019/20 Full Year	Currency	Authentication	Identity Solutions	Central	Total of continuing operations
	£m	£m	£m	£m	£m
Gross Profit	**44.2**	**28.8**	**33.4**	**(0.5)**	**105.9**
Divisional overhead	-	-	-	-	-
Adjusted controllable operating profit/(loss)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Central overhead base	(53.6)	(18.0)	(10.6)	-	(82.2)
Adjusted operating profit/(loss)	**(9.4)**	**10.8**	**22.8**	**(0.5)**	**23.7**
Amortisation of acquired intangibles	-	(0.9)	-	-	(0.9)
Net exceptional items	(0.5)	(0.2)	24.8	(4.1)	20.0
Operating profit/(loss) on IFRS basis	**(9.9)**	**9.7**	**47.6**	**(4.6)**	**42.8**

Restatement of FY 2019/20 revenue and cost of goods sold figures

During the period management has changed its presentation of certain contract related payments to correctly reflect the nature of these payments, being payments to third parties rather than customers. These payments are now shown as a cost of goods sold instead of a reduction to revenue in accordance with IFRS 15. The prior period revenue and cost of goods sold (£5.3m) has been restated to reflect this change.

The current year impact of this is the inclusion of £5.1m of payments in cost of sales that would have previously been reported as a reduction to revenue. This reclassification has no impact of Gross Margin, Operating Profit or Profit Before Tax or the Group's Earnings Per Share measures. The prior period has been restated given the importance, to the users of the financial statements, of understanding revenue growth within the Authentication segment.