De La Rue

2020/21
Half Year Results

25 November 2020

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 £15.3m showing significant year-on-year growth
- Net debt reduced to £21.6m at end of H1 2020/21
- Turnaround Plan cost savings on track
- Good first half with a series of contract wins in Authentication and Currency
- Authentication £120m of lifetime contract wins year-to-date
- Bank of England contract extended
- All remaining available polymer and banknote printing capacity utilised for year
- Equity capital raising of £100m gross proceeds, bank facilities extended and renegotiated Pension scheme deficit contributions

(1) Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £10.2m (H1 2019/20: net charges of £11.0m), amortisation of acquired intangible assets of £0.5m (H2 2019/20: £0.4m). See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

H1 2020/21 showing good progress

Half year results summary

- Adjusted Currency revenue[(1)] of £126.0m – market stabilising with better H2 revenue and mix
- Authentication revenue of £31.7m – loss of revenue reported in prior year and two contracts impacted by pandemic
- Identity Solutions decline as UK Passport contract in run-off and sale of International Identity Solutions in October 2019

Adjusted operating profit[(3)]

- £15.3m – significant year-on-year growth reflecting progress on the Turnaround Plan
- Ongoing businesses moved into profit
- Full year net debt in line with expectations

Net debt

- Reduced to £21.6m (from £102.8m at FY 2019/20; £170.7m at H1 2019/20) in H1 2020/21

Key operational developments

- Turnaround Plan on track

Current trading

- Strong order book on both sides of the company
- Cost base increasingly competitive

(1) Adjusted revenue is a non-IFRS measure and excludes revenue from non-novated paper contracts of £4.6m (H1 2019/20: £26.4m).
(2) Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £10.2m (H1 2019/20: net charges of £11.0m), amortisation of acquired intangible assets of £0.5m (H2 2019/20: £0.4m). See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

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Divisional update

Currency

- **Stabilising performance during year**
  - Weaker mix first half, better expected in second half
  - Expect to utilise 100% of remaining banknote and polymer capacity in year
  - Extension of the Bank of England contract
- **Polymer and new products**
  - Continued good growth in polymer with positive outlook
  - Progressing with Increased investment in polymer
  - Investing in paper threads

Authentication

- **Contract growth momentum**
  - £120m of lifetime contracts YTD
  - Good pipeline of opportunities
- **Operational progress**
  - Two contracts impacted by pandemic, growth elsewhere
  - Ghana and UK HMRC increasing revenue in H2 2020/21
  - In discussion on COVID-19 immunity certification schemes

Identity Solutions

- Completed transition to the new supplier for UK Passport during H1 2020/21
- International Identity Solutions business sale completed October 2019
- Minimal ongoing revenue

The Turnaround Plan

Three key pillars - well-positioned platform for future growth

Pillar	
Cost reduction	• Cost out programme – on track • Gateshead expected to cease banknote production in December 2020 • ~£36m annualised cost out substantially completed • Restructuring cash costs of approximately £16m in FY 2020/21 • Continue to focus on identifying and enacting further cost reduction opportunities

Currency	• Targeting 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
	  ○ Invest R&D in polymer - second line ordered and operational in H2 FY 2021/22

Authentication	• Continue to target continued strong year-on-year growth in the Authentication division
	  ○ Good pipeline of contracts with £120m built up year-to-date and pipeline promising for GRS
	  ○ New contract revenue in H2 2020/21 delivering growth
	  ○ Expect £100m revenue in FY 2021/22

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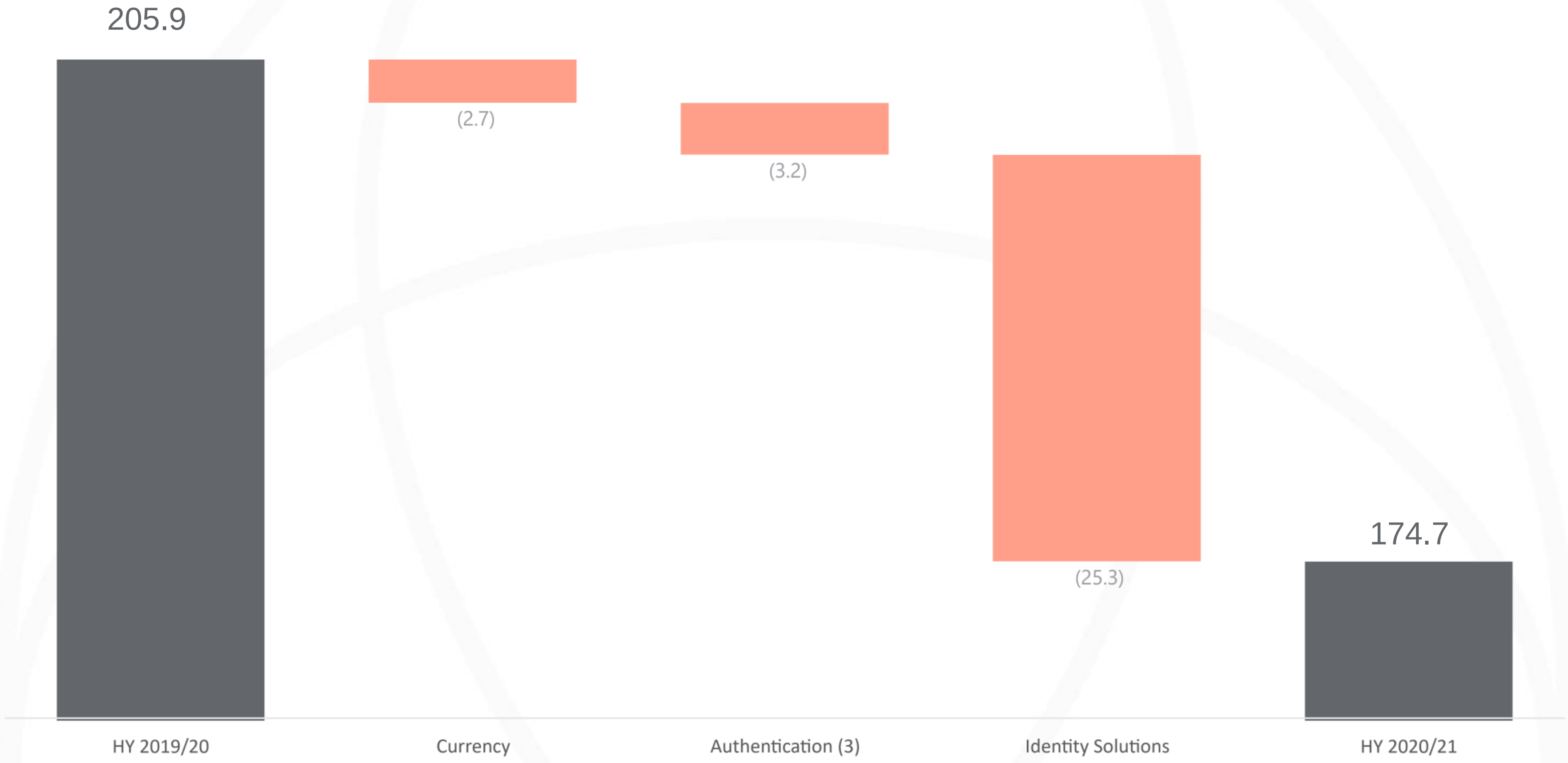
Income statement

	HY21 £m	HY20 £m	Change
Adjusted Revenue(1)	174.7	205.9	-15.1%
IFRS Revenue	179.7	232.3	-22.6%
Gross profit	49.4	51.3	-3.7%
Adjusted operating profit(2)	15.3	2.2	595.5%
Adjusted operating margin(3)	8.8%	1.0%	774bps
IFRS operating profit/(loss)	4.6	(9.2)	n/a
Adjusted basic earnings/(loss) per share(4)(5)	6.5p	(1.4p)	7.9p
IFRS basic earnings per share(5)	1.0p	(9.8p)	10.8p

(1) Adjusted Revenue is a non-IFRS measure and excludes “pass-through” revenue relating to non-novated paper and International IDS business contracts of £5.0m (H1 2019/20: £26.4m).
(2) Adjusted operating profit and adjusted operating profit margin are a non-IFRS measure and excludes exceptional items net charges of £10.2m (H1 2019/20: net charges of £11.0m) and amortisation of acquired intangible assets of £0.5m (H1 2019/20: £0.4m).
(3) Adjusted basic earnings per share is a non-IFRS measure and excludes exceptional item net charges net of tax of £7.8m (H1 2019/20: net charges of £9.2m) and amortisation of acquired intangible assets net of tax of £0.4m (H1 2019/20: £0.3m).
(4) Prior year earnings per share metrics are restated to reflects adjustments associated with the Rights Issue with regards to weighted average number of shares.
(5) See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

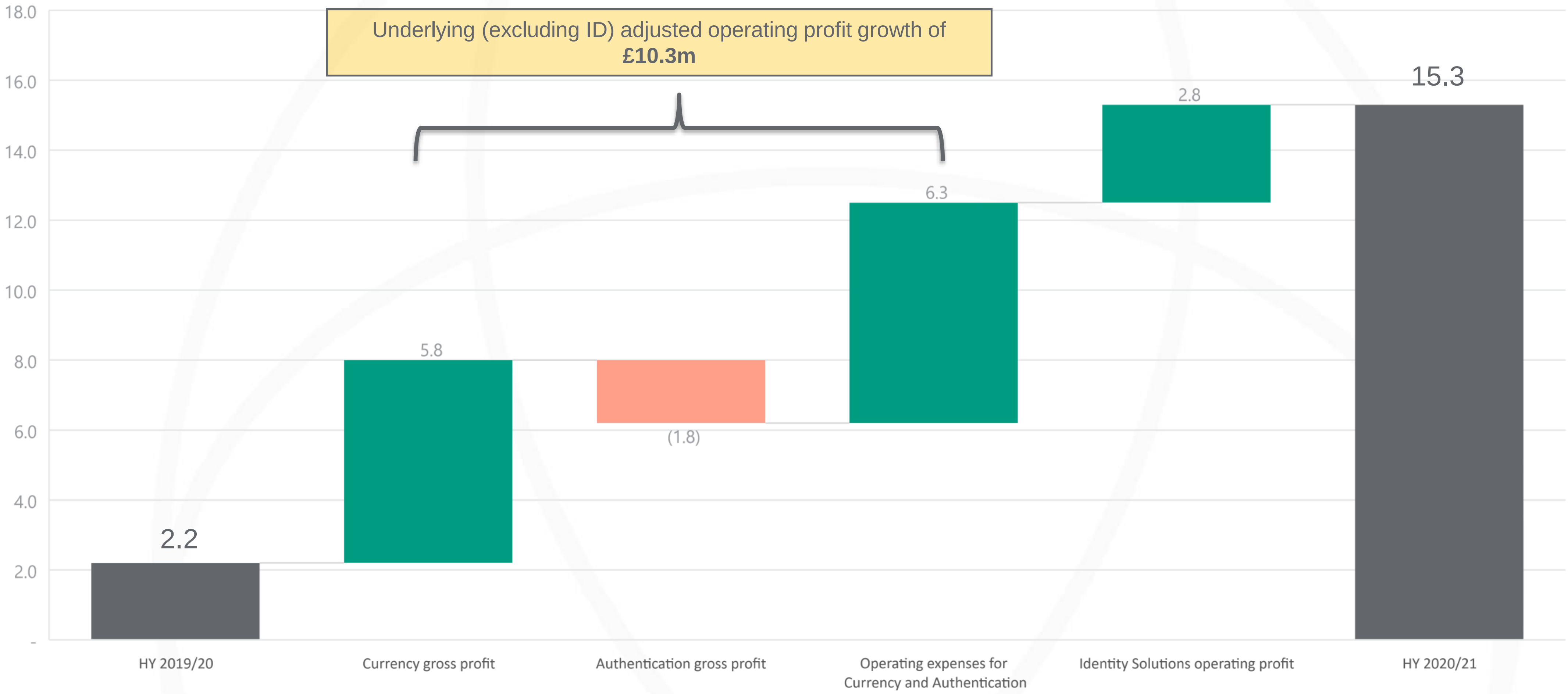
Adjusted revenue[(1)(2)]



(1) Adjusted revenue is a non-IFRS measure and excludes revenue from non-novated paper and International ID contracts of £5.0m (H1 2019/20: £26.4m).
(2) Comparative Authentication and Identity Solutions revenues for FY 2019/20 have been restated to present the revenues of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer £1.9m of revenues from the Identity Solutions results to Authentication.
(3) Decline in Authentication revenues include the impact of £1.6m of contracts sold as part of the Identity Solutions disposal.

See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

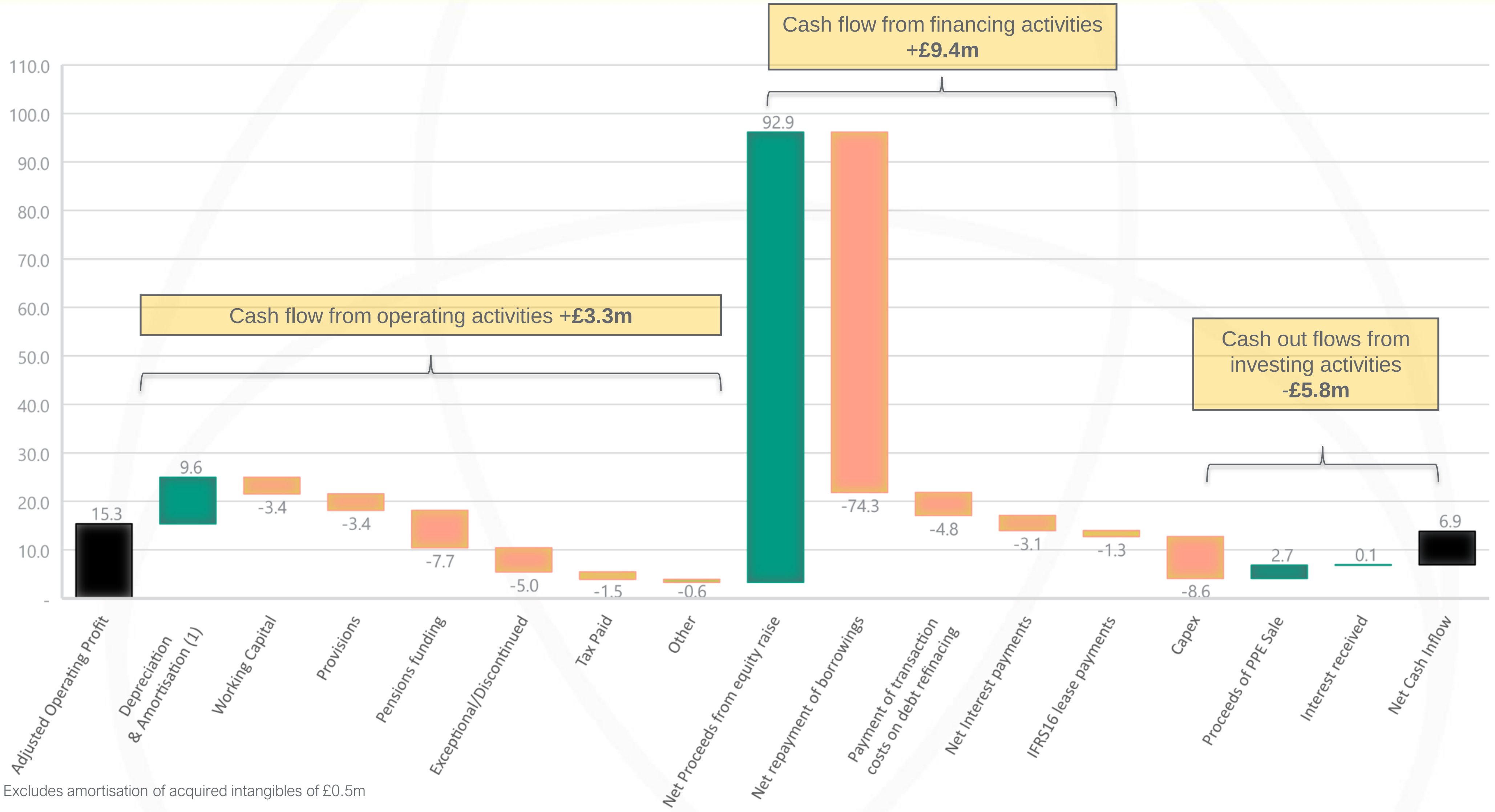
Adjusted operating profit[1]



(1) Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £10.2m (H1 2019/20: net charges of £11.0m), amortisation of acquired intangible assets of £0.5m (H1 2019/20: £0.4m)

See slide 21 for reconciliation of non-IFRS to comparable IFRS measures

Cashflow



(1) Excludes amortisation of acquired intangibles of £0.5m

Net Debt and Pension

Material de-risking of the balance sheet

Net Debt & Banking Covenants	- Group net debt decrease to £21.6m at 26th September 2020 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) - Since 26 September 2020 the Group has reallocated £25m of the undrawn RCF from the cash to the bond and guarantee component to support contracts and future growth +150bps increase in margin across the grid – increased as agreed with Lenders during refinancing - Significant headroom, the revised covenant tests: EBIT/net interest payable 6.0 times (covenant of ≥2.4 times in this financial year), net debt/EBITDA 0.45 times (covenant of ≤3.0 times).
UK Defined Benefit Pension	- Revised deficit reduction plan agreed with trustees delivering immediate cash savings whilst ensuring deficit will be repaid £1.3m deficit at 26 September 2020 valuation under IAS19 – a movement from surplus of £64.8m at year end 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 April 2024, £24.5m thereafter to FY2028/29) - Additional contributions payable only in exceptional circumstances - Next triennial valuation in 31 December 2022 (results by April 2024)

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Outlook

- Completed equity capital raising in July 2020
- Bank facilities extended and renegotiated Pension scheme deficit contributions
- On track with Turnaround Plan costs
- Good progress with contract wins during H1 2020/21
- In H2 2020/21 new wins for Authentication delivering revenue and expect better mix for Currency
- Trading for full year in line with Board expectations

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Cash flow control

	HY 2020/21 £m
Inventories	(3.6)
Trade and other receiveables	7.6
Trade and other payables	(7.4)
Total cash flow working capital movement	**(3.4)**

- a build in inventory mainly within Currency, which in part was attributable to changes in the delivery schedule on a significant contract;
- a decrease in receivables mainly reflecting a positive working capital movement on trade receivables and contract assets, an inflow in relation to derivative assets, offset by a cash collateral balance taken out relating to a material new Currency sales contract;
- a reduction in payables due to timing of trade creditor payments which was partially offset by movements in advance payments;

Exceptional items

	H1 20/21 £m	H1 19/20 £m
Site relocation and restructuring	(9.3)	(8.2)
Costs associated with equity raise and bank refinancing	(3.2)	-
Pension underpin costs	(0.4)	(0.5)
Gain on sale of PPE	2.7	-
Cost associated with disposal of subsidiary	-	(2.0)
Cost associated with the close out of hedge positions	-	(1.0)
Gain on disposal of subsidiary	-	0.7
Total exceptional items – (charge)/credit	**(10.2)**	**(11.0)**
Exceptional items – tax credit/(charge)	**2.4**	1.8

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.

Non-IFRS measures

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 £4.6m (HY 2019/20: £26.4m) and Identify Solutions: £0.4m (HY 2019/20: £nil).

	2020/21 Half Year £m	2019/20 Half Year £m
Revenue on an IFRS basis	**179.7**	232.3
- Exclude pass-through revenue	**(5.0)**	(26.4)
Adjusted revenue	**174.7**	205.9

Adjusted operating profit

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

	2020/21 Half Year £m	2019/20 Half Year £m
Operating profit from continuing operations on an IFRS basis	**4.6**	(9.2)
- Amortisation of acquired intangible assets	**0.5**	0.4
- Exceptional items	**10.2**	11.0
Adjusted operating profit from continuing operations	**15.3**	2.2

Non-IFRS measures

Adjusted basic earnings per share

	2020/21 Half Year £m	2019/20 Half Year £m
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	1.5	(11.1)
- Amortisation of acquired intangible assets	0.5	0.4
- Exceptional items	10.2	11.0
- Tax on amortisation of acquired intangibles	(0.1)	(0.1)
- Tax on exceptional items	(2.4)	(1.8)
Adjusted profit attributable to equity shareholders of the Company from continuing operations	9.7	(1.6)
Weighted average number of ordinary shares for basic earnings*	149.6	113.5

*Prior year share numbers are restated following the Rights issue

	2020/21 Half Year pence per share	*Restated 2019/20 Half Year pence per share
Basic earnings per ordinary share continuing operations on an IFRS basis	1.0	(9.8)
Adjusted basic per ordinary share for continuing operations	6.5	(1.4)

*Prior year numbers are restated following the Rights issue

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 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.

2020/21 Half Year	Currency	Authentication	Identity Solutions	Central	Total of continuing operations
	£m	£m	£m	£m	£m
Operating profit/(loss) on IFRS basis	**(5.7)**	**3.3**	**8.9**	**(1.9)**	**4.6**
Amortisation of acquired intangibles	-	0.5	-	-	0.5
Net exceptional items	8.2	0.1	-	1.9	10.2
Adjusted operating profit/(loss)	**2.5**	**3.9**	**8.9**	**-**	**15.3**
Enabling function overheads	11.3	2.8	-	(14.1)	-
Adjusted controllable operating profit/(loss)	**13.8**	**6.7**	**8.9**	**(14.1)**	**15.3**

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 H1 2019/20 and H1 2020/21.

2020/21 Half Year	Currency	Authentication	Identity Solutions	Central	Total of continuing operations
	£m	£m	£m	£m	£m
Gross Profit	**24.3**	**13.8**	**10.6**	**0.7**	**49.3**
Divisional overhead	(10.5)	(7.1)	(1.7)	(14.8)	(34.0)
Adjusted controllable operating profit/(loss)	13.8	6.7	8.9	**(14.1)**	15.3
Enabling function overheads	(11.3)	(2.8)	-	14.1	-
Adjusted operating profit/(loss)	**2.5**	**3.9**	**8.9**	-	**15.3**
Amortisation of acquired intangibles	-	(0.5)	-	-	(0.5)
Net exceptional items	(8.2)	(0.1)	-	(1.9)	(10.2)
Operating profit/(loss) on IFRS basis	**(5.7)**	3.3	**8.9**	**(1.9)**	**4.6**

2019/20 Half Year	Currency	Authentication	Identity Solutions	Central	Total of continuing operations
	£m	£m	£m	£m	£m
Gross Profit	**18.5**	**15.6**	**16.9**	**0.3**	**51.3**
Divisional overhead	-	-	-	-	-
Adjusted controllable operating profit/(loss)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Central overhead base	(31.0)	(7.0)	(10.8)	(0.3)	(49.1)
Adjusted operating profit/(loss)	**(12.5)**	**8.6**	**6.1**	-	**2.2**
Amortisation of acquired intangibles	-	(0.4)	-	-	(0.4)
Net exceptional items	0.2	-	-	(11.2)	(11.2)
Operating profit/(loss) on IFRS basis	**(12.3)**	**8.2**	**6.1**	**(11.2)**	**9.2**