



**Filtrona plc**



**Investor Presentation**

**Half Year 2011 & Group Strategy**



**24 August 2011**



# Agenda

- |                              |                         |
|------------------------------|-------------------------|
| <b>1. Operational Review</b> | <b>- Colin Day</b>      |
| <b>2. Financial Review</b>   | <b>- Steve Crummett</b> |
| <b>3. Outlook</b>            | <b>- Colin Day</b>      |
| <b>4. Group Strategy</b>     | <b>- Colin Day</b>      |
| Bank Facilities              | <b>- Steve Crummett</b> |
| Acquisition of Reid Supply   | <b>- Colin Day</b>      |

## **Operational Review - Colin Day, Chief Executive**

## HY 2011: Summary

- Strong balanced revenue growth across the group
- Supported by increased gross and operating margins
- Cash flow generation remains strong
- Interim dividend per share increased by 10% to 3.3p
- FY 2011 outlook remains positive
- CEO transition accomplished

# All divisions performing strongly



**Protection & Finishing**  
Revenue ↑ 24%  
Op Margin ↑ 230bps  
Op Profit ↑ 36%



**Porous Technologies**  
Revenue ↑ 7%  
Op Margin unchanged  
Op Profit ↑ 7%

## GROUP

Revenue ↑ 10%  
Op Margin ↑ 30bps  
Op Profit ↑ 12%

### Coated & Security

Revenue ↑ 8%  
Op Margin ↓ 100bps  
Op Profit ↑ 1%

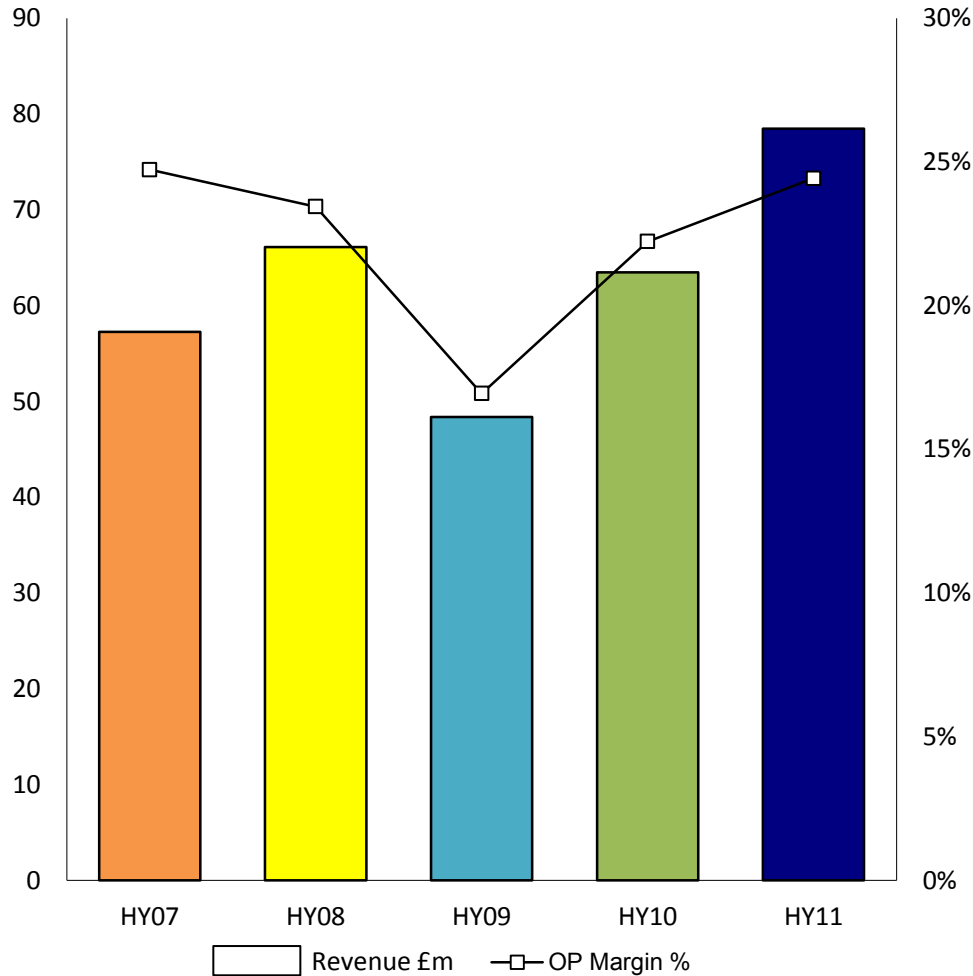


### Filter Products

Revenue ↑ 1%  
Op Margin unchanged  
Op Profit ↑ 1%

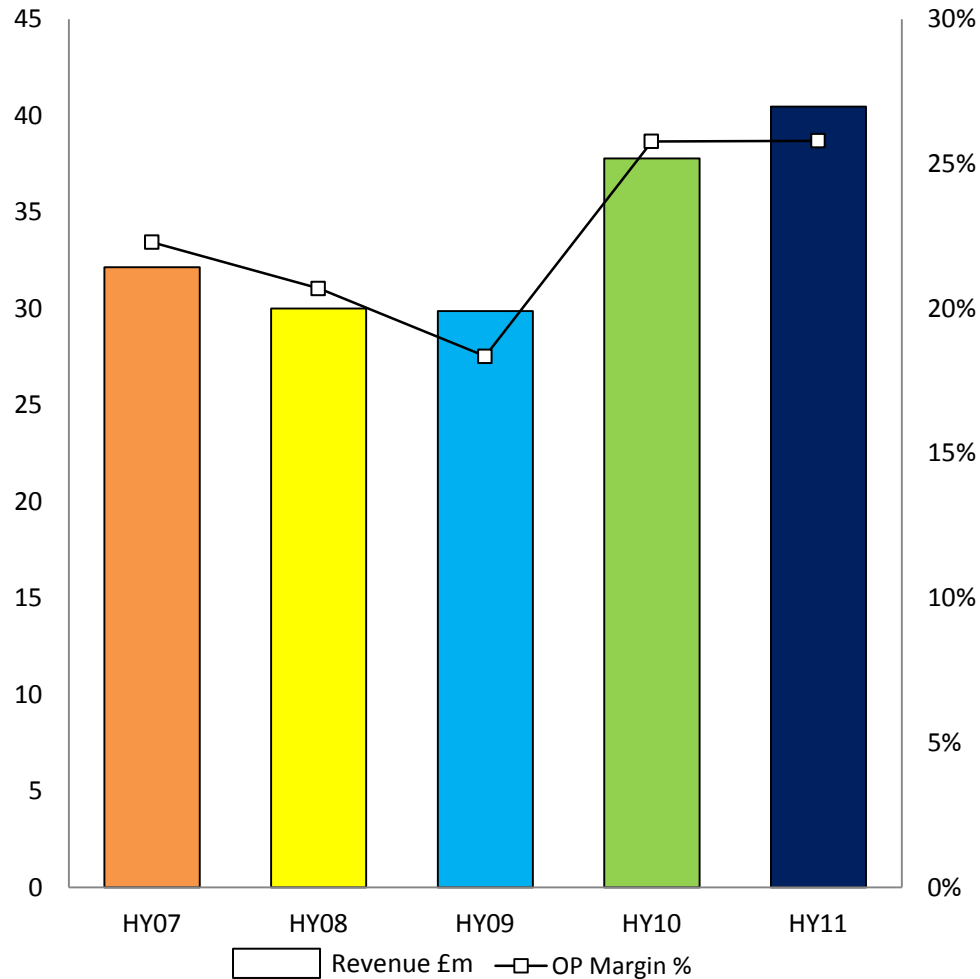


# Protection & Finishing Products



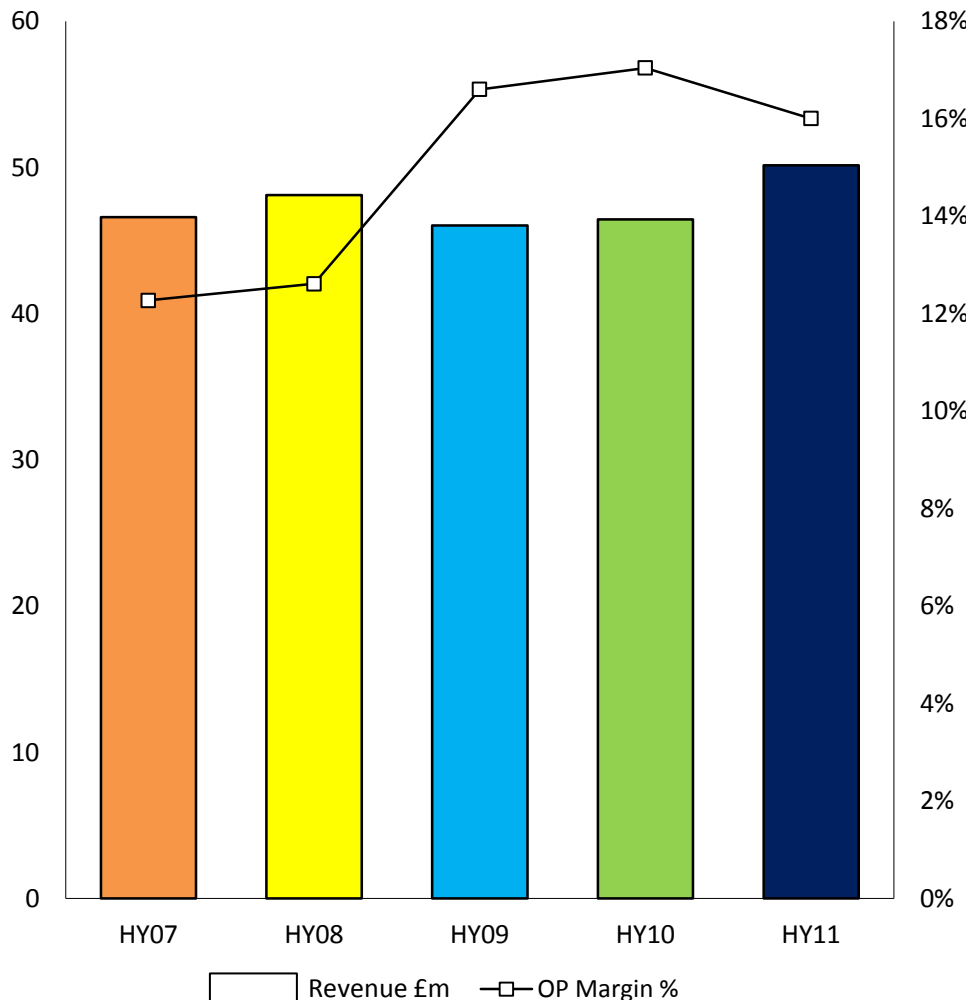
- All operating units contributing strongly
- E-marketing gaining momentum
- New site start-up programme being accelerated
- Distribution network strengthened and expanded
- Rising input costs successfully mitigated

# Porous Technologies



- Printer Systems revenue up 63%, driven by next generation platform launch
- Underlying Medical Diagnostics revenue up 7%
- Writing Instruments level. Household Products and Personal Care up 13%
- “Core” Porous Technology divisional revenue up 13%
- Technology developments in Wound Care and “Porous Plastics”

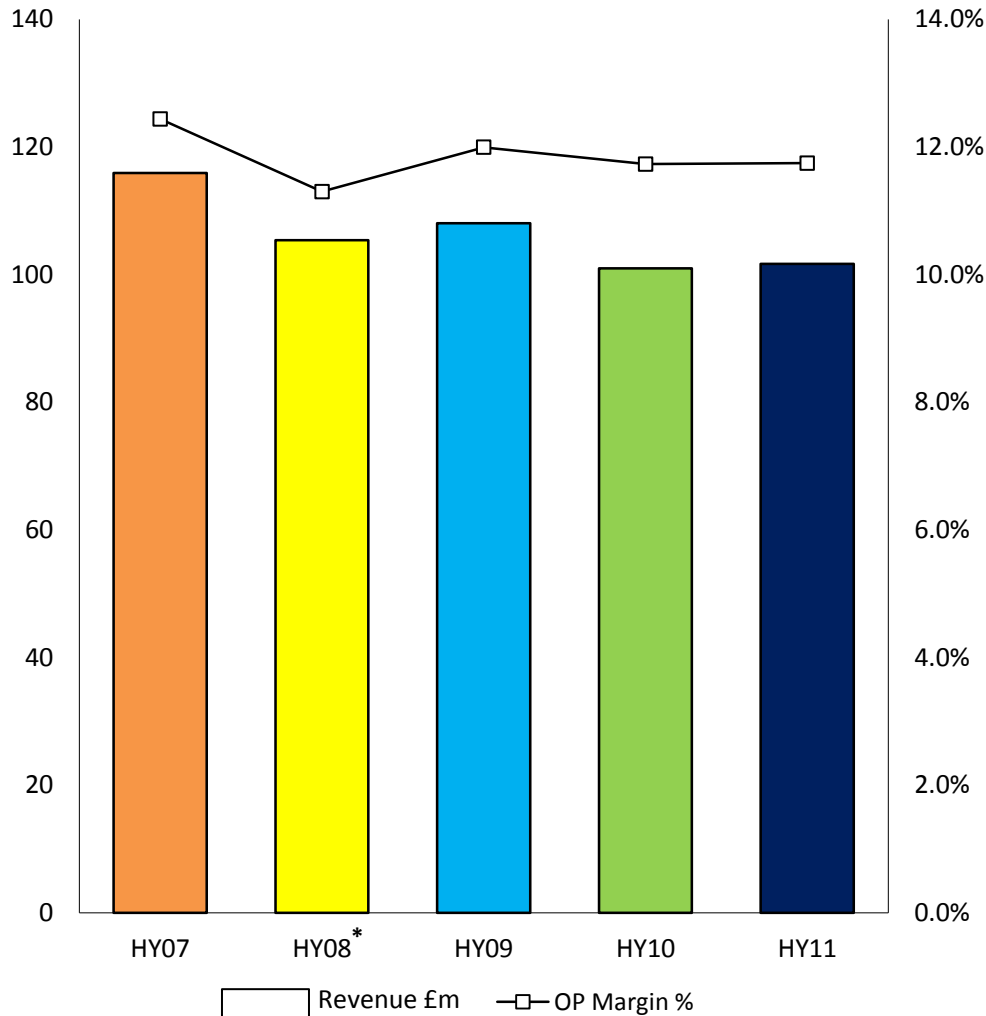
# Coated & Security Products



- Encouraging performance in tear tape, revenue up 6%
- Labels revenue up 17%
  - Successful re-branding of BP Labels to Payne
- Continued success of Payne Authentication System, up 48%
  - Queens Award: Innovation
- Enitor extrusion margin impacted by raw material price increases
- Divisional margin also impacted by third party UK passport contract loss in 2010



# Filter Products



Note: at constant exchange rates

\* Excludes restructuring costs

- Underlying volumes level
- Further growth in Asia, now 53% of volumes
  - Growth supported by Singapore Head Office and new facility in Thailand
- European volumes up by 2%
  - MNCs and Independents
- Continued investment in new products, services and capabilities
- Ongoing productivity improvements and cost reduction

# Key operational developments

## Protection & Finishing Products



Ongoing construction of new facility for MSI,  
Houston, Texas

## Coated & Security Products



Expansion of Taggant manufacturing, Banbury, UK

## Porous Technologies



Hydrophilic foam pouring line,  
St Charles, Michigan

## Filter Products



New state of the art manufacturing facility, Thailand

# Key commercial developments

## Protection & Finishing Products



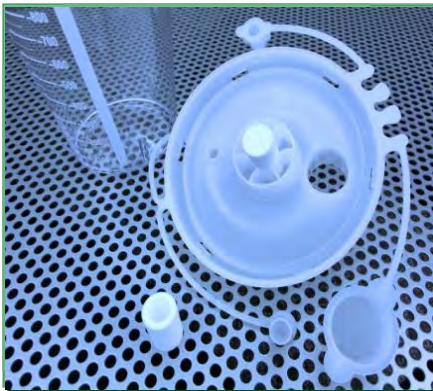
Launch of Duraco Chinese Catalogue

## Coated & Security Products



Wide width promotional tape solution for Kraft, Brazil

## Porous Technologies



“Porous Plastic” technology  
– medical canister filter



Supersoft woundcare foam



Ochre™ - eco-friendly filter.

## **Financial Review - Steve Crummett, Group Finance Director**

## Income statement - summary

	<b>HY 11</b>	<b>HY 10</b>	<b>Growth</b>	
	£m	£m	Actual FX	Constant FX
<b>Revenue</b>	<b>268.6</b>	<b>247.6</b>	<b>+8%</b>	<b>+10%</b>
<i>Like-for-like<sup>1</sup></i>				<b>+8%</b>
<b>Gross margin</b>	<b>36.2%</b>	<b>35.3%</b>	<b>+90 bps</b>	<b>+90 bps</b>
<b>Operating profit<sup>2</sup></b>	<b>43.6</b>	<b>40.0</b>	<b>+9%</b>	<b>+12%</b>
<b>Operating margin</b>	<b>16.2%</b>	<b>16.2%</b>	<b>-</b>	<b>+30 bps</b>
<b>Profit before tax<sup>2</sup></b>	<b>39.5</b>	<b>34.6</b>	<b>+14%</b>	<b>+17%</b>
<b>Net income<sup>2,3</sup></b>	<b>27.5</b>	<b>23.9</b>	<b>+15%</b>	<b>+19%</b>
<b>Adjusted earnings<sup>2,3</sup></b>	<b>26.8</b>	<b>23.1</b>	<b>+16%</b>	<b>+20%</b>
<b>Adjusted earnings per share<sup>2,3</sup></b>	<b>13.0p</b>	<b>11.3p</b>	<b>+15%</b>	<b>+18%</b>

<sup>1</sup> Like-for-like = Constant FX, adjusting for acquisitions

<sup>2</sup> Before intangible amortisation

<sup>3</sup> Continuing operations



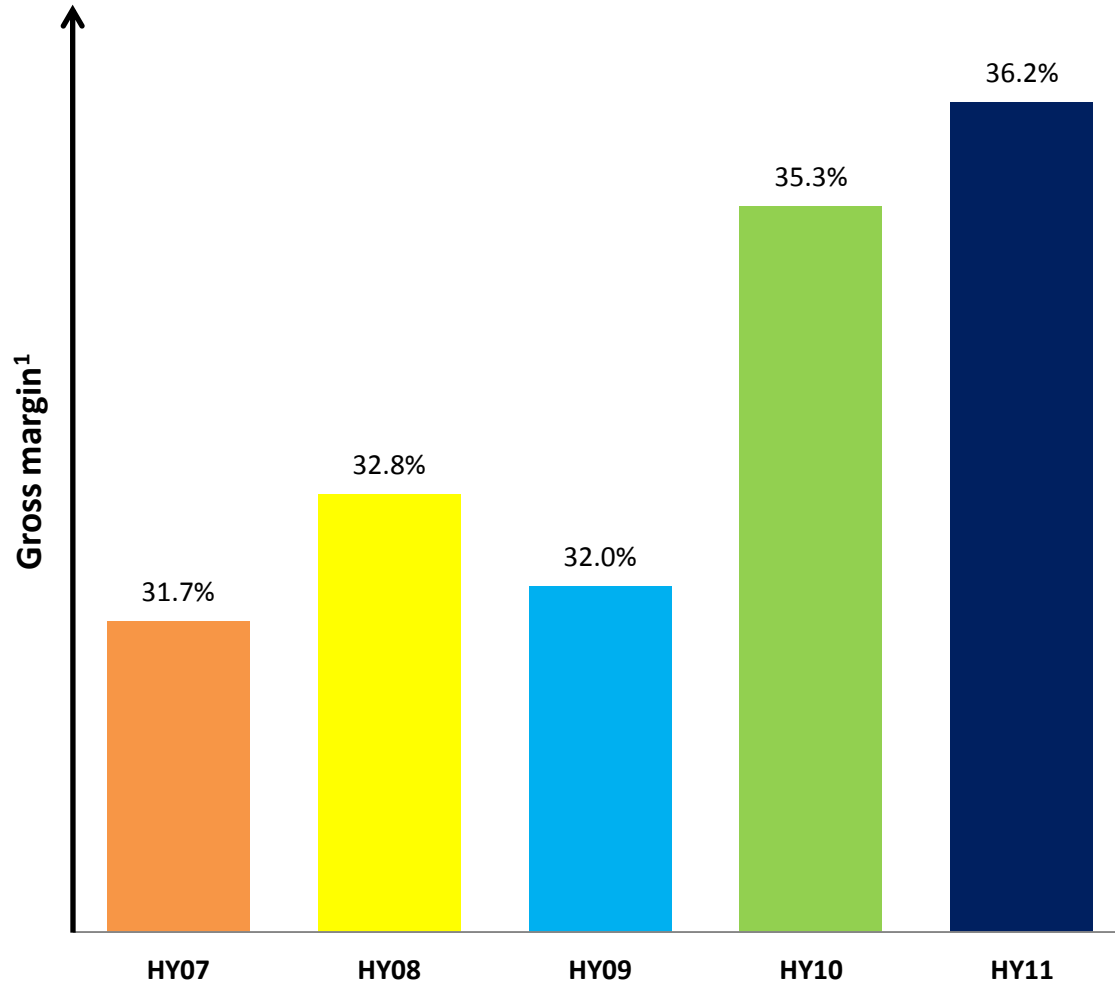
## Revenue growth – volume / mix / price

	%
Volume / mix	6.5
Price	1.5
Acquisitions	1.7
<b>Constant FX growth</b>	<b>9.7</b>
Exchange	(1.2)
<b>Reported growth</b>	<b>8.5</b>

## Revenue growth – by division

	<b>HY 11 £m</b>	<b>Growth Constant FX</b>
Protection & Finishing Products	<b>78.5</b>	<b>23.6%</b>
Porous Technologies	<b>40.5</b>	<b>7.1%</b>
Coated & Security Products	<b>50.1</b>	<b>8.0%</b>
Filter Products	<b>101.7</b>	<b>0.7%</b>
Elims	<b>(2.2)</b>	
Group	<b>268.6</b>	<b>9.7%</b>
Group – at Actual FX	<b>268.6</b>	<b>8.5%</b>

# Gross margin

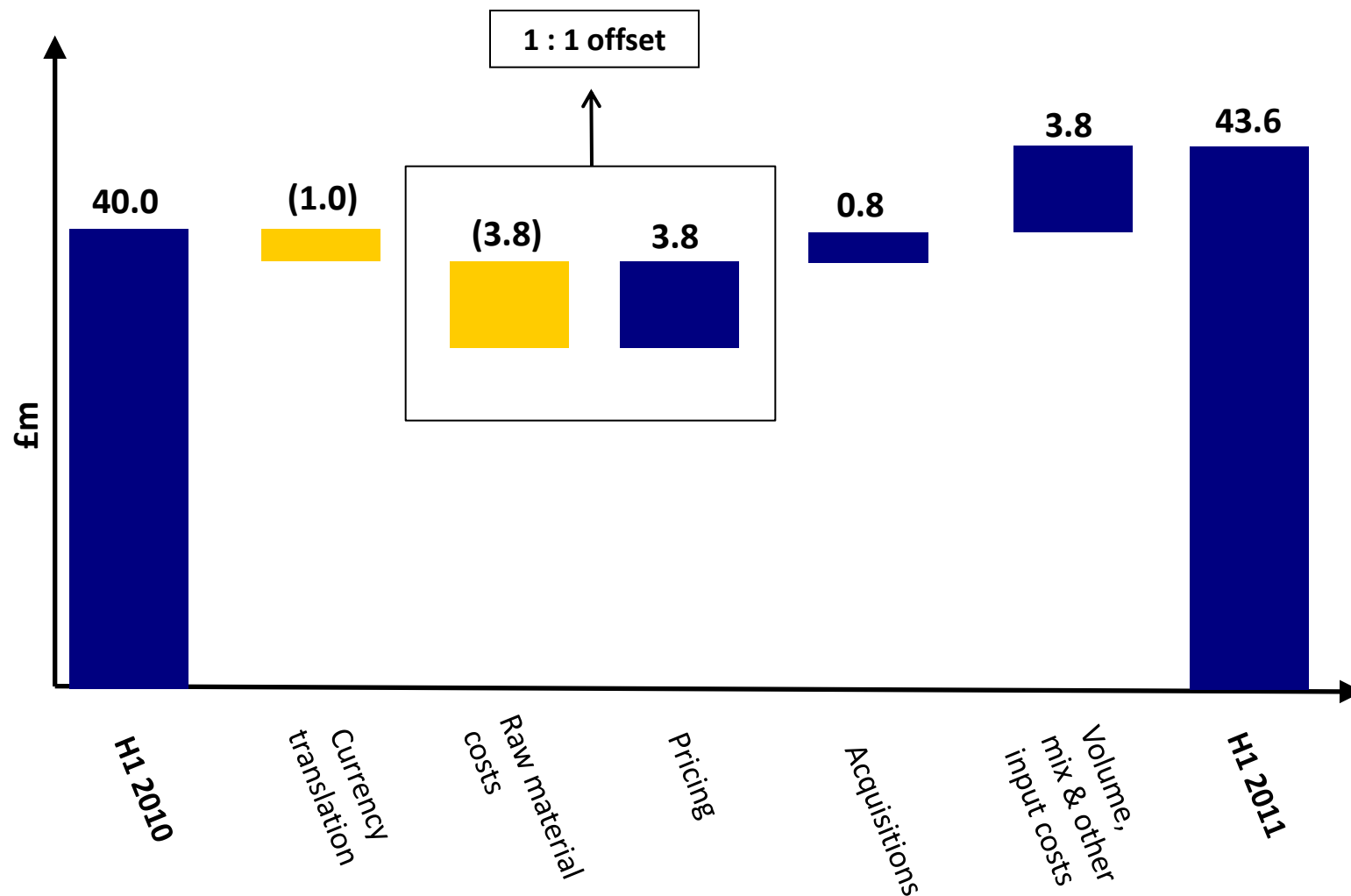


- 90 bps GM improvement
  - Mix effect benefit from higher growth in higher GM divisions
  - Sales pricing offsets raw material increases 1:1
  - Operational leverage impact from higher volume
  - Cost efficiencies
- Strategic focus on GM progression via cost and process efficiencies

<sup>1</sup> Constant FX, continuing operations

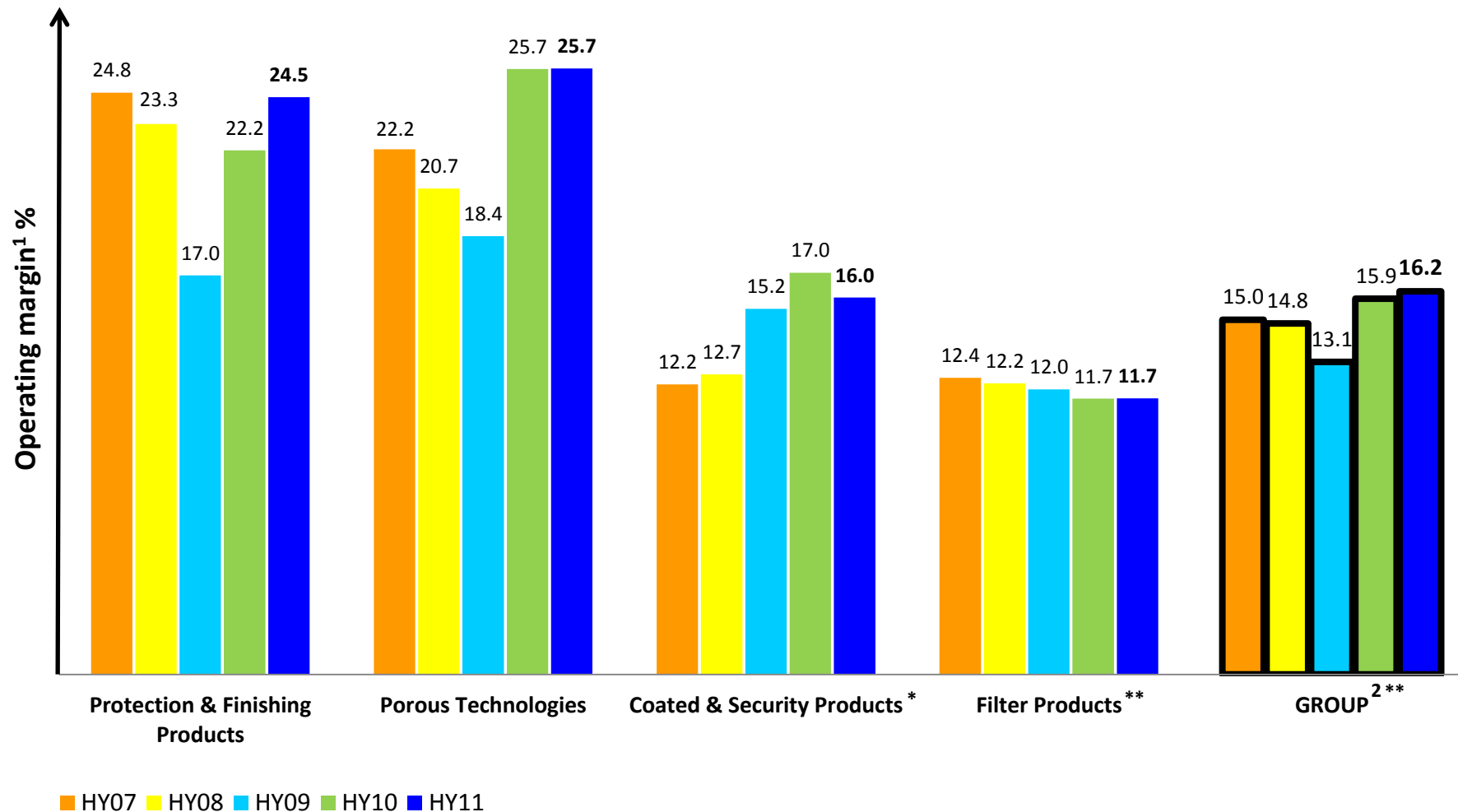


## Operating profit<sup>1</sup> – key movements



<sup>1</sup> Before intangible amortisation

# Operating margin<sup>1</sup>



<sup>1</sup> Operating profit before intangible amortisation divided by revenue. At Constant FX

<sup>2</sup> Continuing operations

\*Normalised to eliminate impact of non-recurring income and profit of £0.7m in 2009

\*\*Excludes £1.0m Filter Products' restructuring in 2008

# Divisional summary

	Revenue		Operating profit <sup>1</sup>	
	<b>HY 11</b> <b>£m</b>	<b>Growth</b> Constant FX	<b>HY 11</b> <b>£m</b>	<b>Growth</b> Constant FX
Protection & Finishing Products	<b>78.5</b>	<b>23.6%</b>	<b>19.2</b>	<b>36.2%</b>
Porous Technologies	<b>40.5</b>	<b>7.1%</b>	<b>10.4</b>	<b>7.2%</b>
Coated & Security Products	<b>50.1</b>	<b>8.0%</b>	<b>8.0</b>	<b>1.3%</b>
Filter Products	<b>101.7</b>	<b>0.7%</b>	<b>11.9</b>	<b>0.8%</b>
Central Services / Elims	<b>(2.2)</b>		<b>(5.9)</b>	
<b>Group</b>	<b>268.6</b>	<b>9.7%</b>	<b>43.6</b>	<b>11.8%</b>
<b>Group – at Actual FX</b>	<b>268.6</b>	<b>8.5%</b>	<b>43.6</b>	<b>9.0%</b>

<sup>1</sup> Before intangible amortisation

## Income statement - continued

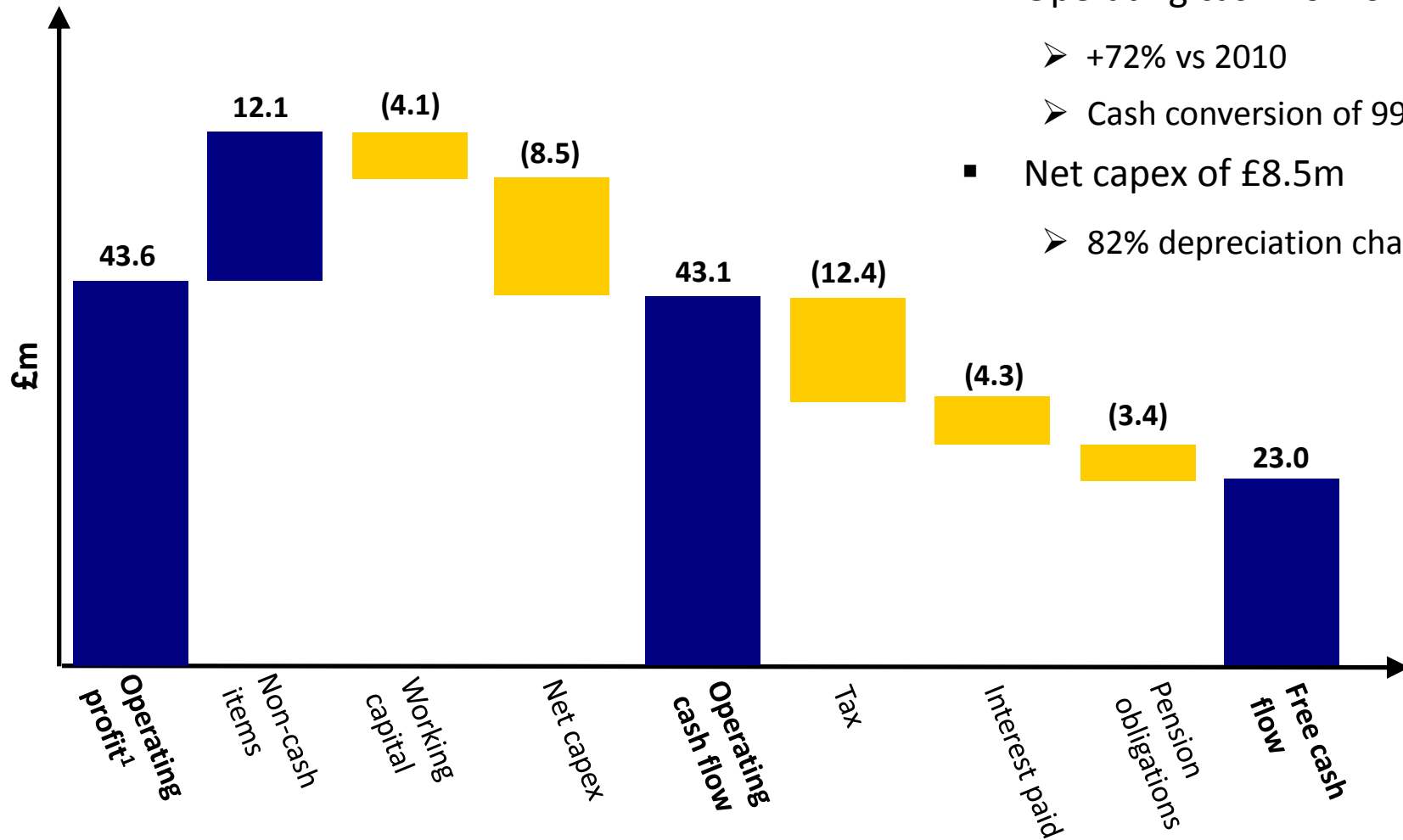
	<b>HY 11</b>	<b>Growth</b>	
	<b>£m</b>	Actual FX	Constant FX
Operating profit <sup>1</sup>	<b>43.6</b>	<b>+9%</b>	<b>+12%</b>
Net finance charge	<b>(4.1)</b>	<b>(24%)</b>	<b>(23%)</b>
Profit before tax <sup>1</sup>	<b>39.5</b>	<b>+14%</b>	<b>+17%</b>
Taxation	<b>(12.0)</b>		
- <i>Underlying tax rate</i>	<b>30%</b>		
Net income <sup>1,2</sup>	<b>27.5</b>	<b>+15%</b>	<b>+19%</b>
Adjusted earnings <sup>1,2</sup>	<b>26.8</b>	<b>+16%</b>	<b>+20%</b>
EPS - adjusted <sup>1,2</sup>	<b>13.0p</b>	<b>+15%</b>	<b>+18%</b>
EPS – diluted adjusted <sup>1,2</sup>	<b>12.6p</b>	<b>+14%</b>	<b>+17%</b>

- Lower interest charge driven by lower debt levels, lower fee amortisation and higher pension credit
- HY 2011 underlying tax charge down to 30% (HY 2010 – 31%)

<sup>1</sup> Before intangible amortisation

<sup>2</sup> Continuing operations

# Cash flow



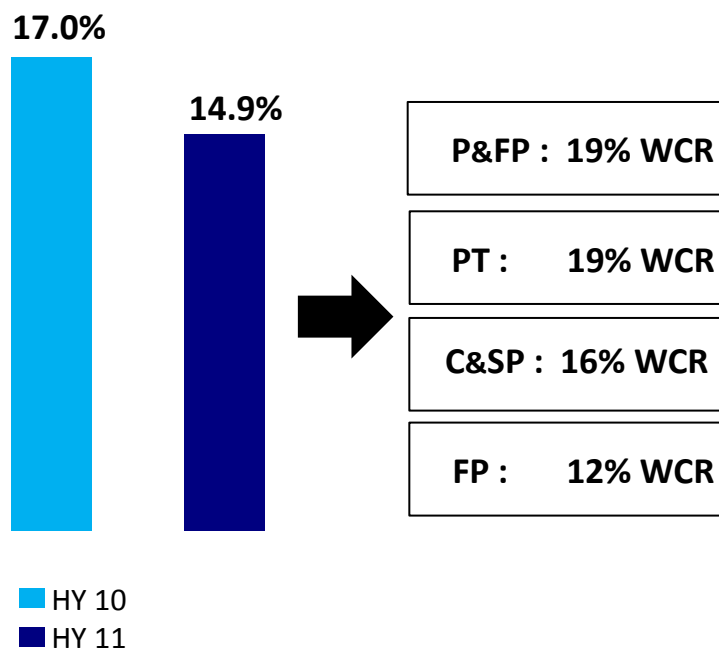
- Operating cash flow of £43.1m
  - +72% vs 2010
  - Cash conversion of 99%
- Net capex of £8.5m
  - 82% depreciation charge

**Net debt down to £81.5m**

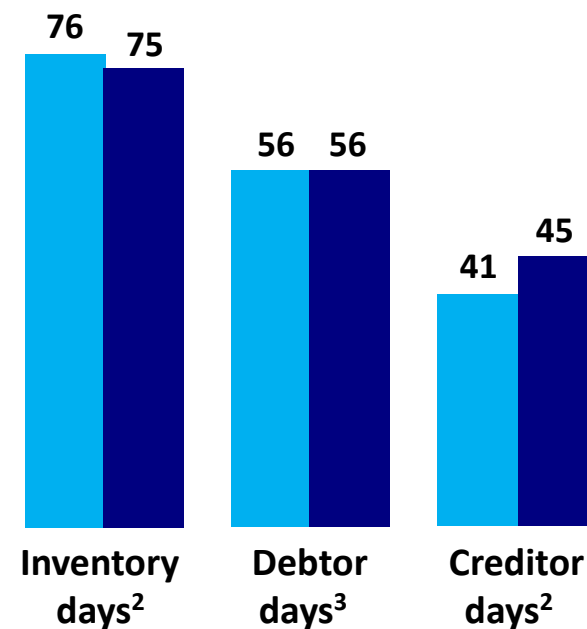
<sup>1</sup> Before intangible amortisation

# Working capital

## Working capital / revenue<sup>1</sup> (WCR)



## Key metrics



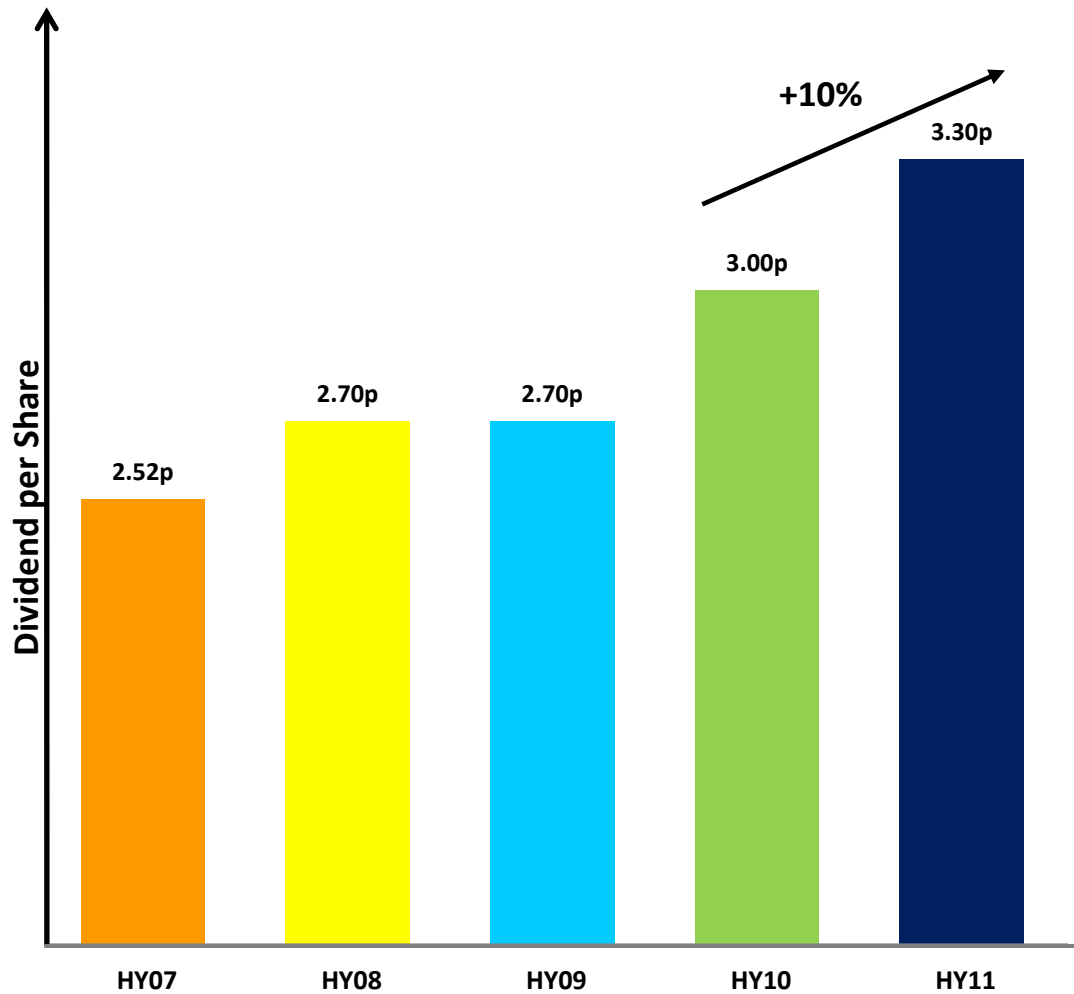
**Working capital / revenue<sup>1</sup> ratio of 14.9%, down by 210 bps**

<sup>1</sup> Constant FX, based on last 12 month revenue

<sup>2</sup> Number of current cost of sales days held as inventory or trade payables

<sup>3</sup> Number of current sales days held in trade receivables

# Dividend



- Dividend per share up 10% to 3.3p
- Progressive dividend policy, in line with profit growth

## **Outlook - Colin Day, Chief Executive**



## 2011 outlook

- Positive momentum continuing into H2
- Supported by accelerated drive on balanced growth
- Continued strong cash flow
  - Capex likely to increase in H2
- Tax rate guidance for 2011 of 30%
- Well positioned for continued positive development

## **Group Strategy - Colin Day, Chief Executive**

## First five months review

- Obtained good understanding of businesses
- Established a growth strategy agenda
- Encouraged investment to drive top line performance
- Challenged “profit protection” mind set
- Established priorities and “stretch” targets
- Refocused M&A activity/direction
- Addressing HR/talent issues/depth
- Assessing suitability of incentive programmes
- Addressing Group “unification” model

**Working on ambitious yet deliverable plans 2012-14**

# Initial conclusions

## Strengths

- International reach
- Quality and service ethos
- Customer acquisition & retention
- Product innovation & technical capability
- Distribution infrastructure & capability
- Robust pricing methodology
- Strong, stable management team

## Opportunities

- Greater focus on balanced profitable growth
- Expanded geographic footprint, especially in emerging markets to enhance global infrastructure
- Value-creating, complementary M&A
- Further improvements in innovation and technical offering, e.g. e-commerce/marketing
- Create a strong and mobile talent base at all levels

**Solid, Steady, Stable...but not spectacular**

## Objective

To build on our “3 S’s” to maximise shareholder value by delivering balanced profitable growth in both our existing and future opportunity markets and technologies

# Business objectives

## Above industry average revenue growth

- Focus on volume
- Improve go-to-market
- Pipeline innovations
- White space opportunities
- Existing market penetration

## Continued margin improvement

- Operational gearing
- Gross and Operating margin efficiencies
- Partial re-investment in Sales, Marketing & Innovation (SM&I)
- Business reconfiguration

## Disciplined use of capital

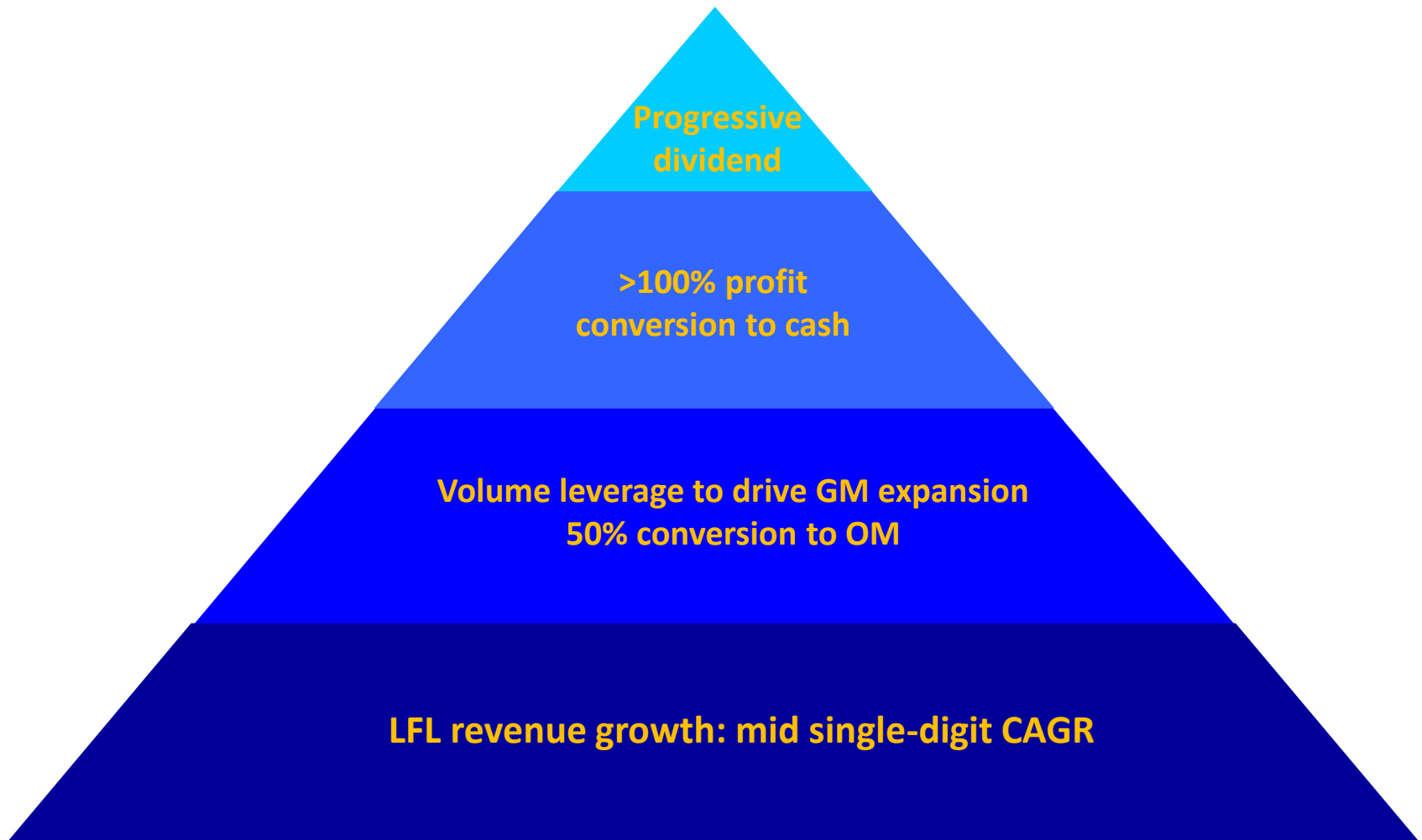
- Net Working Capital prioritisation
- Capex investment to support revenue growth
- Strategic M&A
- Tax efficiency

## Unified culture

- Leverage talent across divisions
- Appropriate and stretching KPIs
- Effective remuneration programmes
- Motivated, strategic growth-thinking organisation

**Balanced profitable growth in existing & new markets**

# Vision 2015



**Aim to be “best in class”**

# Key challenges

- **ORGANISATION**
  - depth
  - mobility
  - multicultural
  - “challenge” culture
- **GO-TO-MARKET (GTM)**
  - resources
  - e-marketing
  - sales versus marketing
- **RISK PROFILE**
  - cautious/risk adverse
  - balanced/risk opportunity
- **M&A**
  - large opportunity pool
  - integration risk
  - avoid “deal fever”



## Key tasks

- Drive baseline revenue
- Identify key geographic and product white space opportunities
- Focus on faster growing markets/economies
- Invest in improving operational excellence and execution
  - Supply/distribution/logistics
  - Go To Market (GTM) / commercial
  - Back office
- Tax efficiency in line with growth models
- Focus on NWC improvements/capex = strong cash generation
- Strengthen organisation
- Fewer/more critical KPI's

## Progress to date

- We have:
  - Rekindled appetite for growth
  - Clear objectives
  - Clear growth strategy
  - Clear targets
  - Simple/focused KPI's
  
- We are:
  - Identifying new talent to support progress
  - Intending to deliver in a sensible/pragmatic timeframe

**.....whilst not forgetting our commitment to CSR & HSE**

# Bank facilities

- Refinanced main bank facilities
- Key terms:
  - £330m facility
  - € and £
  - 5 year term
  - c£20m drawn
- Facilities are in addition to US\$160m USPP loan notes
- No anticipated impact on finance charge as a result
  - Larger facility  $\Rightarrow$  higher fees
  - Lower margin offset by fee amortisation
- Supports the M&A strategy

# Acquisition of Reid Supply

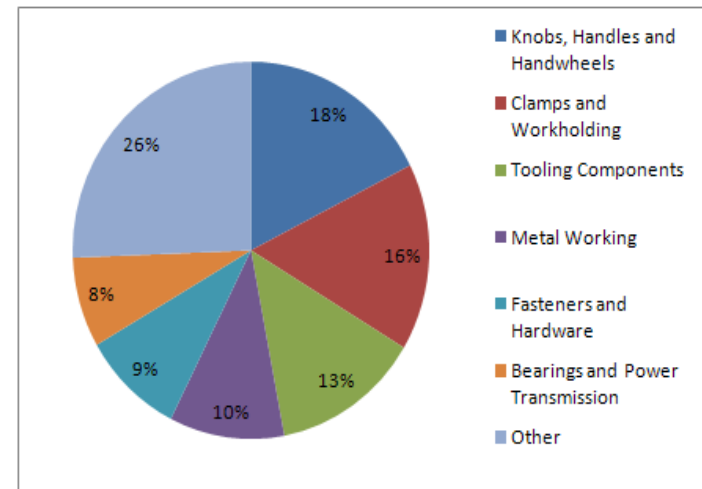
## Background

- Leading distributor of standard industrial components to a broad range of markets and customers via a catalogue
- Services North America and export markets from a single site in Muskegon, Michigan

## Key Metrics

- Revenue 2010: \$33.6m
- Operating Profit 2010: \$3.2m
- Purchase price \$30m+\$2m
- Employees c 100
- Live Customers: 26,000
- Catalogue parts: >50,000
- Average order value \$173

## 2010 Revenue by Product Range



## Products



# Acquisition of Reid Supply

## Strategic Rationale

### **Strong fit with Protection & Finishing Products (PFP) principles**

- Catalogue based, industrial distribution business
- Large & complementary customer base
- Product mix overlap
- Progressive E-Commerce offer & growing
- Distribution model with a service ethos

## Synergies

- Cross sell product range to Reid and PFP customer base
- Introduce Reid Products to PFP Global product range
- Strengthen existing Reid service levels through PFP existing US distribution network
- Enhance marketing effectiveness through PFP proven approach
- Purchasing synergies through PFP's global purchasing position

## Appendices

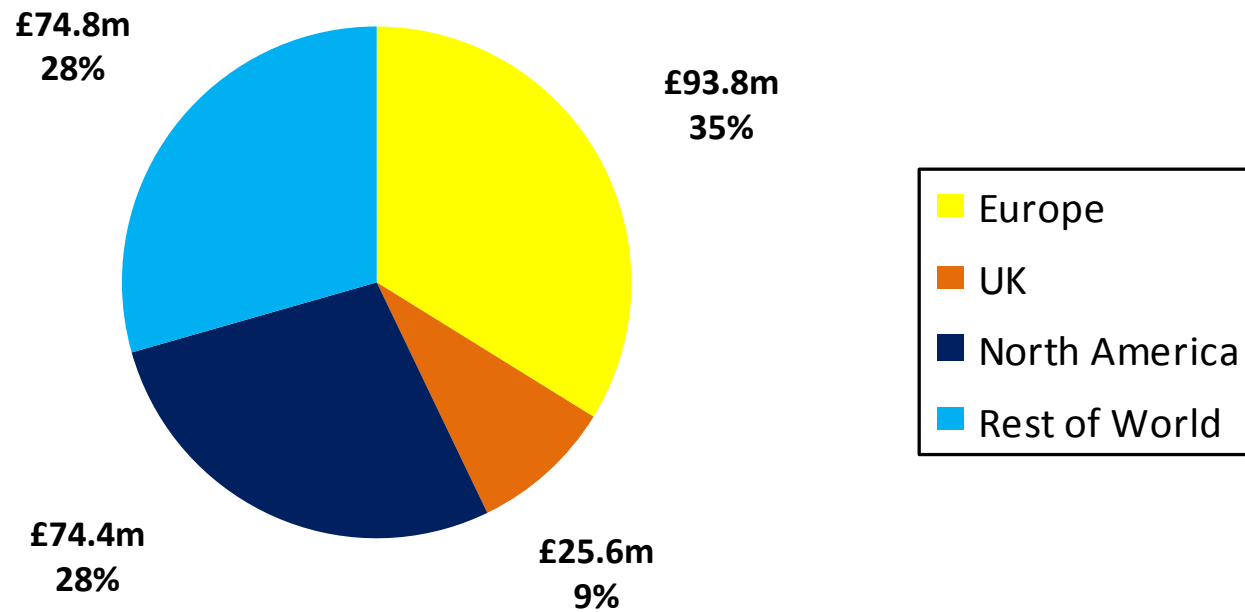
## Exchange rates

6 months ended 30 June 2011	Average	Closing
US \$/£	1.61	1.61
Euro €/£	1.14	1.11
Indonesia IDR/£	14,100	13,800

Impact of a one cent (or 100 IDR) change per annum	Op. Profit
US \$/£	c. £0.25m
Euro €/£	c. £0.15m
Indonesia IDR/£	c. £0.10m

6 months ended 30 June 2010	Average	Closing
US \$/£	1.52	1.50
Euro €/£	1.16	1.22
Indonesia IDR/£	14,000	13,600

## Revenue by destination – H1 2011





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**24 August 2011**

