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# ELEVATION CAPITAL MANAGEMENT LIMITED: DE LA RUE PLC [DLAR:LN]



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# DE LA RUE: THE WORLD'S LARGEST COMMERCIAL BANKNOTE PRINTER

De La Rue PLC is the world's largest commercial banknote printer, involved in the production of over 150 national currencies



# BANKNOTES

THE WORLD'S LARGEST  
COMMERCIAL BANKNOTE  
PRINTER

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# DE LA RUE: THE WORLD'S LARGEST PASSPORT MANUFACTURER

De La Rue PLC is also the world's largest passport manufacturer and solution provider



# PASSPORTS

THE WORLD'S LARGEST  
PASSPORT  
MANUFACTURER

# DE LA RUE: MULTIPLE BUSINESS LINES



## Central Banks Currency

The Company provides market leading printed banknotes, banknote substrates and security features



## State Manufacturing

The Company supplies substrates, component security features, services and solutions to the state manufacturing sector



## Central Banks Cash Processing Solutions

The Company provides central banks with an integrated range of cash processing products, consultation, and support services



## Commercial Sector Cash Processing Solutions

The Company provides the commercial sector with an integrated range of cash processing products, consultation, and support services



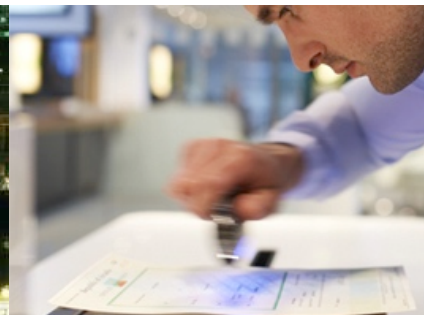
## Protecting Identity

The Company is the largest commercial provider of passport solutions in the world



## Government Authentication & Traceability Solutions

The Company combines digital, data and physical security to deliver authentication and traceability solutions



## Financial & Secure Documents

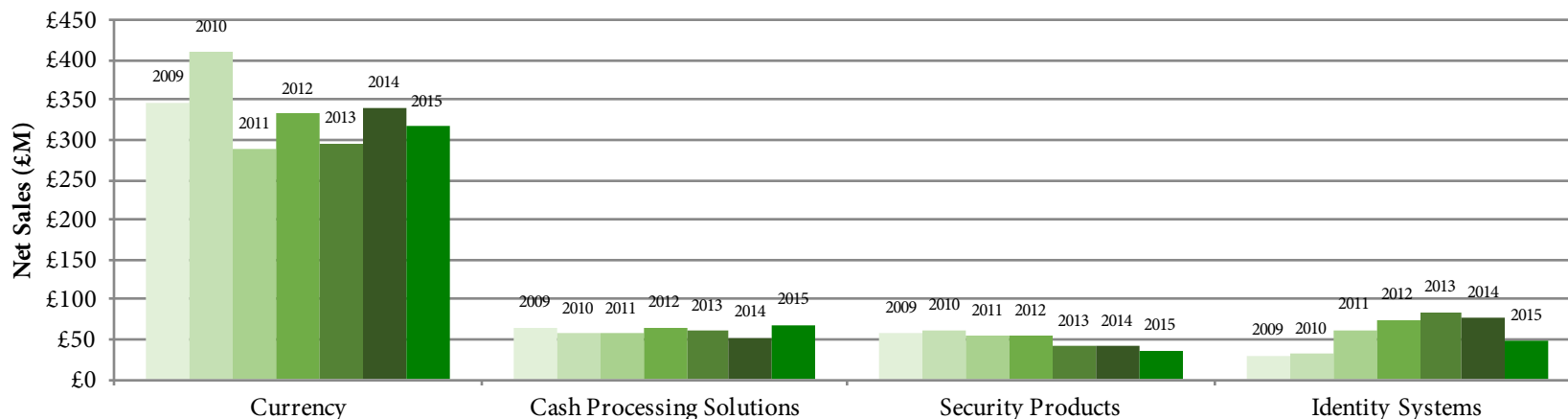
The Company is the world's largest commercial security printer

# DE LA RUE: MULTIPLE BUSINESS LINES – TWO REPORTING SEGMENTS

The lumpy nature of the currency printing business dictates the need for the Company to have multiple revenue streams outside its currency printing business. The Company has two reporting business segments:

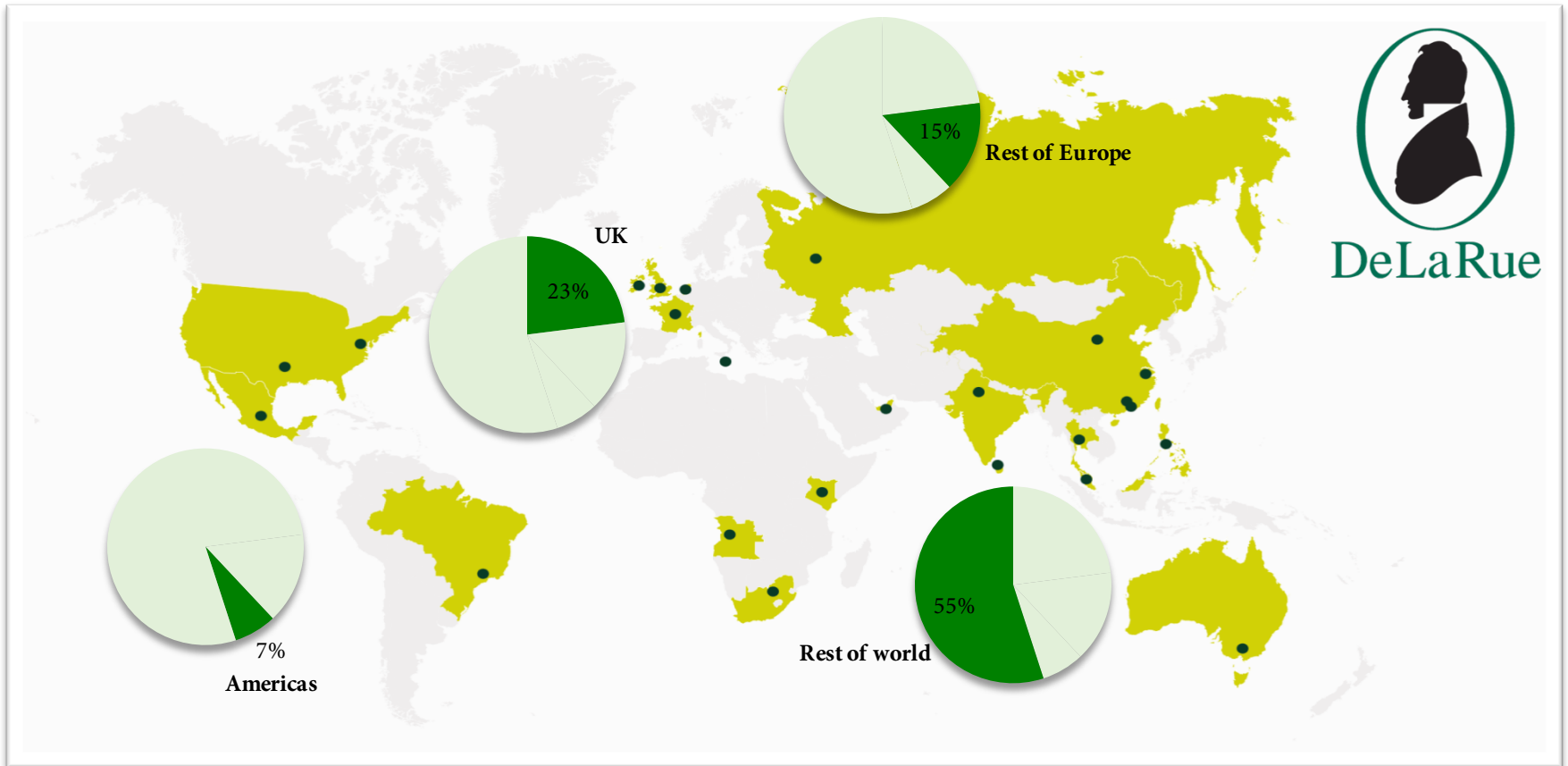
- **Currency Segment** (67% Revenue)
  - Production of printed banknotes, banknote paper and banknote security components
- **Solutions Segment** (33% Revenue)
  - *Cash Processing Solutions* (15% Revenue)  
Production of large banknote sorters and authentication machines
  - *Security Products* (8% Revenue)  
Production of security documents, including authentication labels, cheques, stamps etc.
  - *Identity Systems* (10% Revenue)  
Production of passports, ePassport, national ID and eID, driving licences etc.

Revenue by Business Segment\*



# DE LA RUE: GLOBAL DIVERSIFIED REVENUE GENERATION

De La Rue has been involved in the production of over 150 national currencies, and passports or identity systems for over 65 countries. It employs approximately 4,000 people in 24 countries





# DE LA RUE: TWO HUNDRED YEARS OF INNOVATION

1813

Thomas de La Rue's first commercial venture was in 1813, when the first edition of Le Miroir Politique newspaper was published in Guernsey



1821

Thomas de la Rue set up in London as a printer, stationer and fancy goods manufacturer

1853

De La Rue was awarded the contract to print adhesive fiscal stamps for the UK's Board of Inland Revenue. Not only the first stamps to be surface printed, they were also the first perforated stamps to be issued



1860

Thomas de la Rue printed its first paper money - the Mauritius £5, £1 and 10 shilling notes

1921

The de la Rue family left the business and the Company converted to public ownership



1947

De La Rue listed on the London Stock Exchange on 27 March 1947

1957

De La Rue first marketed a banknote counting machine



1967

De La Rue jointly developed and installed the world's first through the wall ATM at Barclays Bank in Enfield, UK



2003

De La Rue signed a seven-year contract to print and supply sterling for the Bank of England, taking over the Bank's manufacturing operation

2009

De La Rue won a 10 year contract to produce the UK passport and The Bank of England renews the contract to print sterling



2013

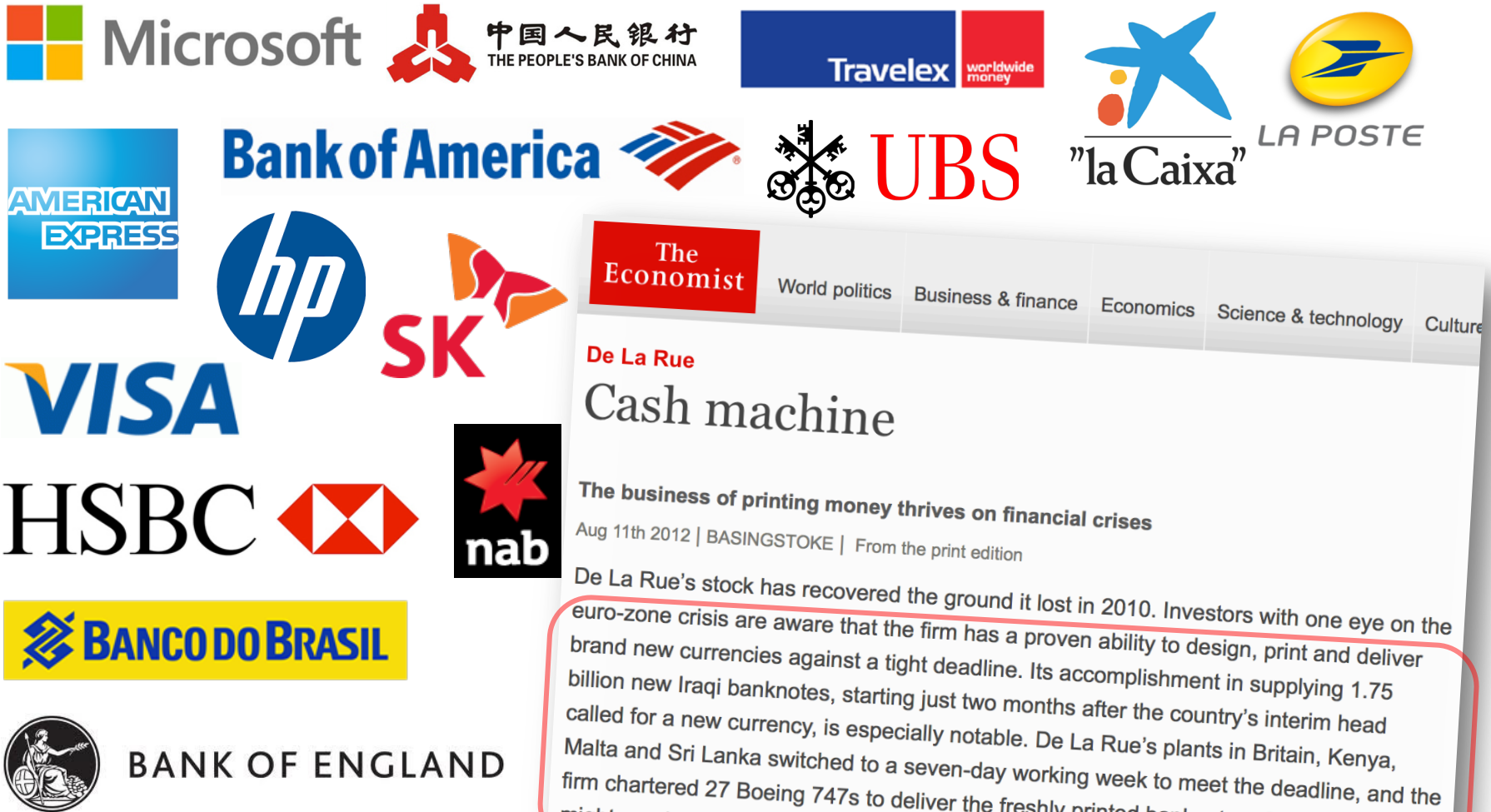
De La Rue celebrates its 200th anniversary

2014

De La Rue won a new 10 year contract to print Britain's banknotes that will start in April 2015

# DE LA RUE: ESTABLISHED REPUTATION IS ONE OF ITS MOST VALUABLE ASSETS

De La Rue is one of the most recognised and highly regarded names in the currency printing business. Its global customers include many of the world's central banks and government agencies



# DE LA RUE: KEY COMPETITORS IN THE BANKNOTE & IDENTITY SYSTEMS INDUSTRIES



DeLaRue

## UK-Domicile

Founded in 1813

Public Company

~4,000 employees worldwide

2014 Revenue: £473M

### Key Businesses:

#### Currency

67% Revenue

#### Cash Processing Solutions

15% Revenue

#### Security Products

8% Revenue

#### Identity Systems

10% Revenue



## French-Domicile

Founded in 1842

Private Company

~6,000 employees worldwide

Revenue: \$1.3B

### Key Businesses:

#### Payment

A customer relationship reinvented by mobility

#### Telecoms

The technologies and markets that make mobility happen

#### Identity

ID documents and identification solutions

#### Solutions

OT solutions for a world of mobility



Giesecke & Devrient

Creating Confidence.

## German-Domicile

Founded in 1852

Private Company

~11,450 employees worldwide

2014 Revenue: €1.8B

### Key Businesses:

#### Banknote

48% Revenue

- paper, printing, processing

#### Mobile Security

41% Revenue

- financial institutions, enterprise security / OEM

#### Government Solutions

9% Revenue

- Veridos, secunet

## State-Owned Printers

### Global

Many countries choose to employ state-owned agencies to undertake the task of developing and printing documents of national significance

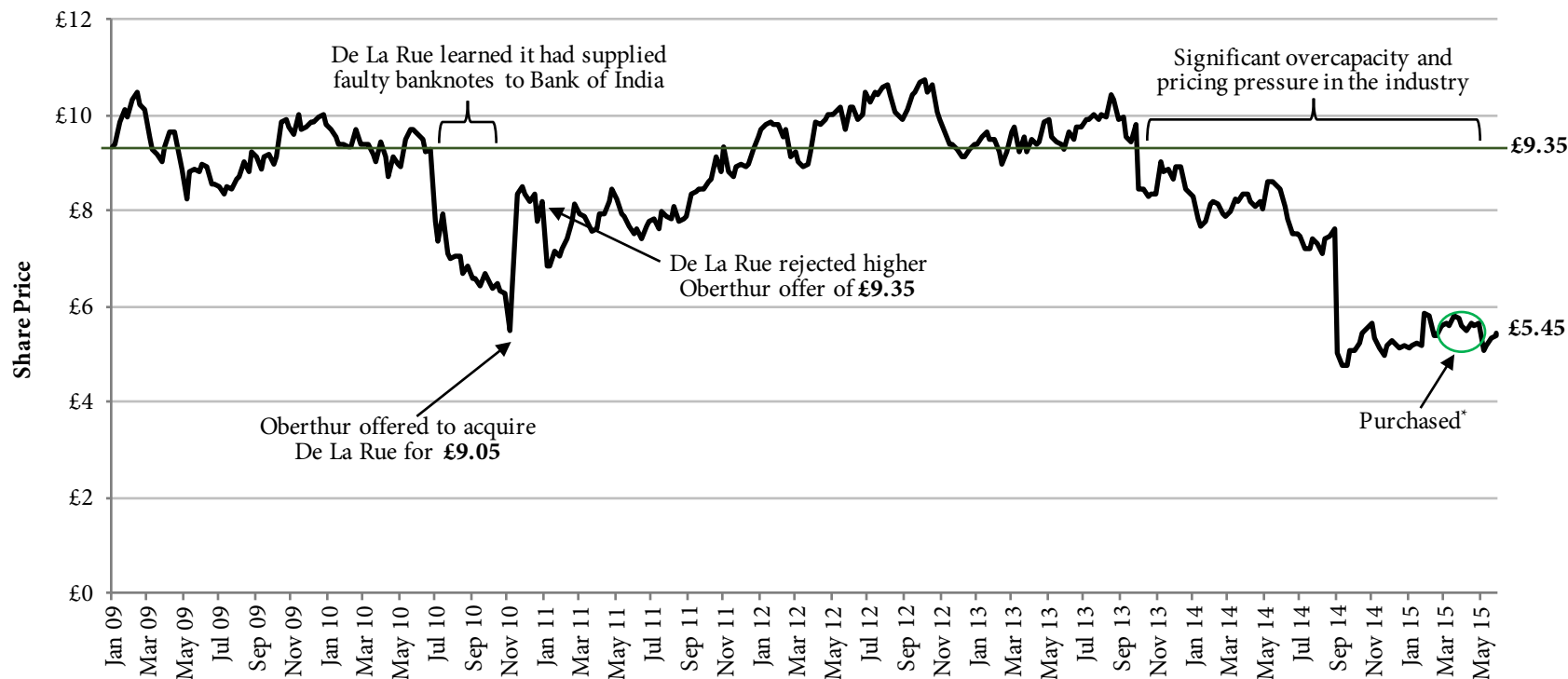
State-owned print works account for around 85% of the 150 billion banknotes produced each year\*

In recent years some state-owned printers have becoming increasingly active on the global banknote market, while some have/announced the end of production



# DE LA RUE: REASONS FOR SHARE PRICE DECLINE

- Recent overcapacity in the banknote industry, caused by increased longevity of banknotes and state-owned suppliers entering the commercial market is creating a very challenging operating environment for commercial printers like De La Rue. Its share price has declined more than 56% in two years, from £10.72 on 26/10/12 to £4.75 on 10/10/2014
- We noted how far the price had declined below a rejected 2011 takeover price of £9.35, and initiated research. We later initiated our position within the Elevation Capital Value Fund during February 2015. Our average cost is £5.59\* per share
- Current share price\*\* = £5.45 (Market Capitalisation = £551.2M)



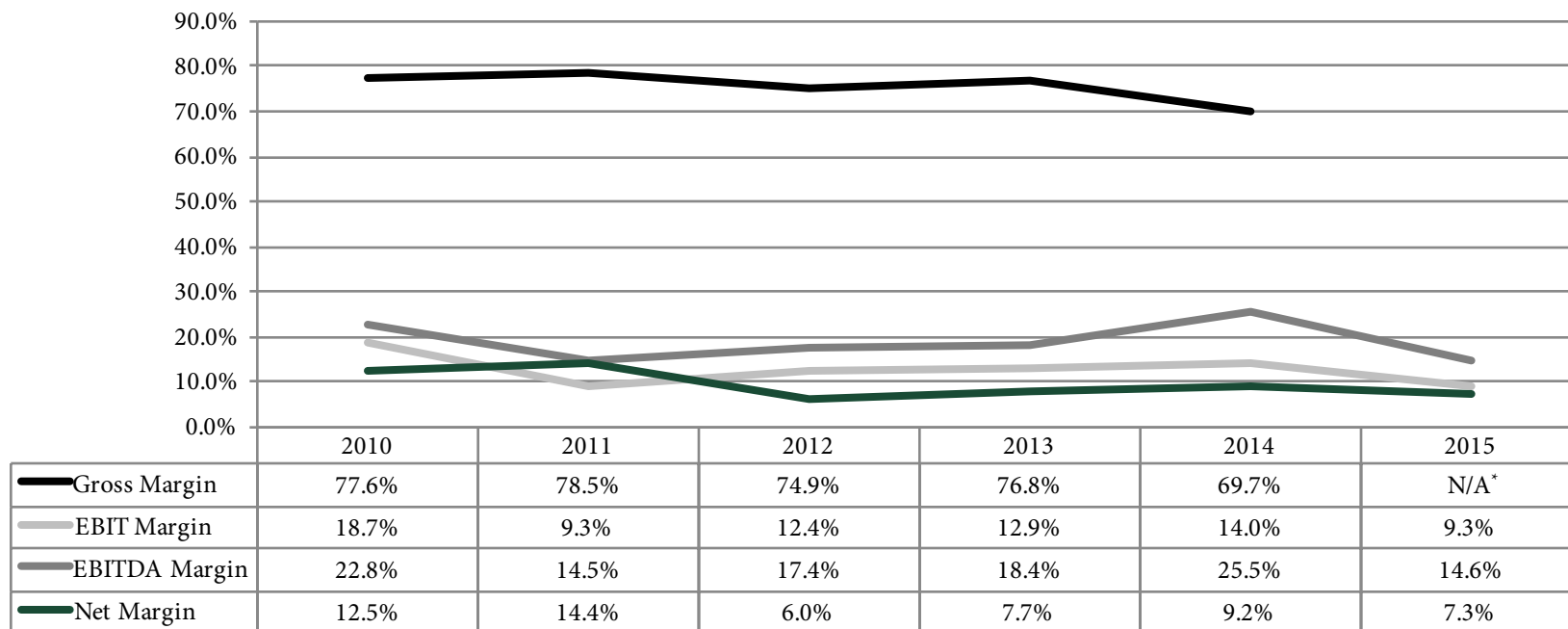
\* FOR ELEVATION CAPITAL VALUE FUND (ONLY) – AS AT 31 MAY 2015. ELEVATION CAPITAL SEPARATE ACCOUNTS PURCHASED THE STOCK BETWEEN £ 5.05 – £ 5.64 DURING THE PERIOD 4 MARCH 2015 – 31 MAY 2015

\*\* AS AT 22 JUNE 2015

# DE LA RUE: OVERCAPACITY LEADS TO SIGNIFICANT MARGIN PRESSURE

- The rosy industry outlook in FY2014 (significantly improved margins) in the currency printing business been replaced by fierce competition in FY2015, which caused margins to contract significantly
- The reported large discount offered by the Company to renew the Bank of England contract is one example of the result of overcapacity in the industry
- Investors are worried that this industry-wide overcapacity is putting pressure on margins on a longer term basis

De La Rue Margins

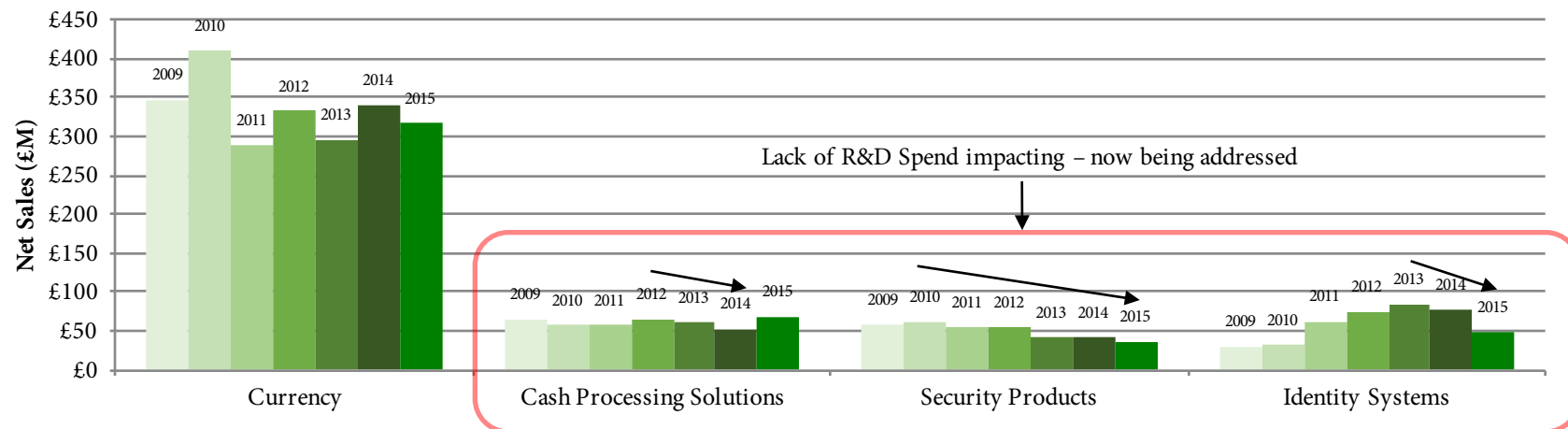


# DE LA RUE: RECENT UNDERINVESTMENT IN R&D RECTIFIED...

We visited De La Rue in June 2015 and raised questions with regard to the future growth opportunity and the Company's diversification efforts, especially after observing the continued decline in revenue in the Solutions Segment since 2012. Management commented that:

- A significant underinvestment had occurred in R&D over the last five years and this has been reflected in the Security Products and Identity Systems Revenue
- An important part of the ongoing investment and strategy for the business is to increase R&D spending to rectify its position as a market leader in these segments, re-invigorate market share and in turn, earnings from these segments – they are also less competitive markets and have historically delivered higher margins than the paper segment of the business

Revenue by Business Segment\*



\* DATA SOURCE: DE LA RUE ANNUAL REPORTS

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# DE LA RUE: CAPITAL STRUCTURE & OWNERSHIP

## Equity

- De La Rue has 101.1 million shares outstanding. Current market capitalisation is £551.2M based on share price of £5.45\*

## Debt

- At the end of FY2015 (31 March 2015), De La Rue had £111M\*\* in net debt, up from £90M as at the end of FY2014 (31 March 2014). This reflects reduced operating cash flow, continued capex, special pension contributions and dividend payments

## Concentrated Ownership and Potential Shareholder Activism

- The top 10 investors (made up of large asset managers) own a combined 46.9% of the Company
- We suggest that shareholder activism is possible and may force improved shareholders return

### Top 10 Investors\*\*\*

M & G Investment Management Ltd.	8.3%
Franklin Templeton Investment Management Ltd.	5.7%
Schroder Investment Management Ltd.	5.4%
Jupiter Asset Management Ltd.	5.1%
Mondrian Investment Partners Ltd.	4.8%
Columbia Threadneedle Investments (UK)	4.6%
BlackRock Advisors (UK) Ltd.	4.1%
Nordea Investment Funds SA	3.1%
European Value Partners Advisors SARL	3.0%
Kames Capital	2.9%
<b>Top 10 Investors</b>	<b>46.9%</b>

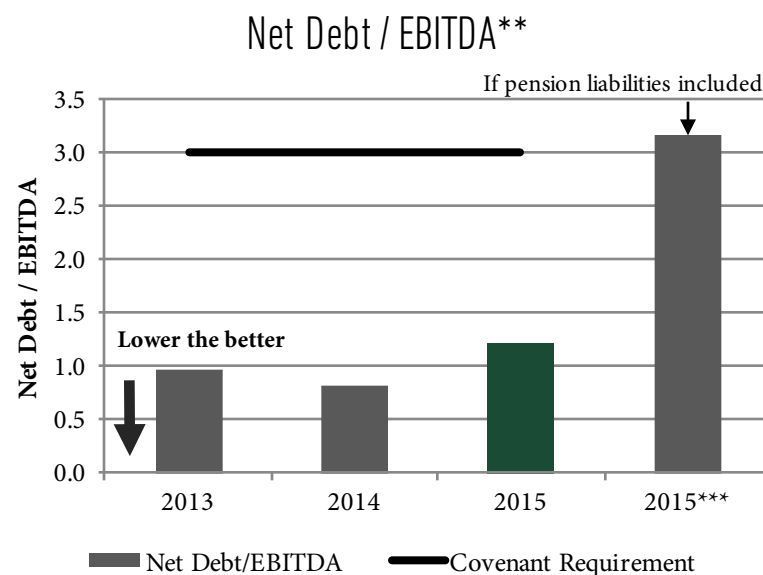
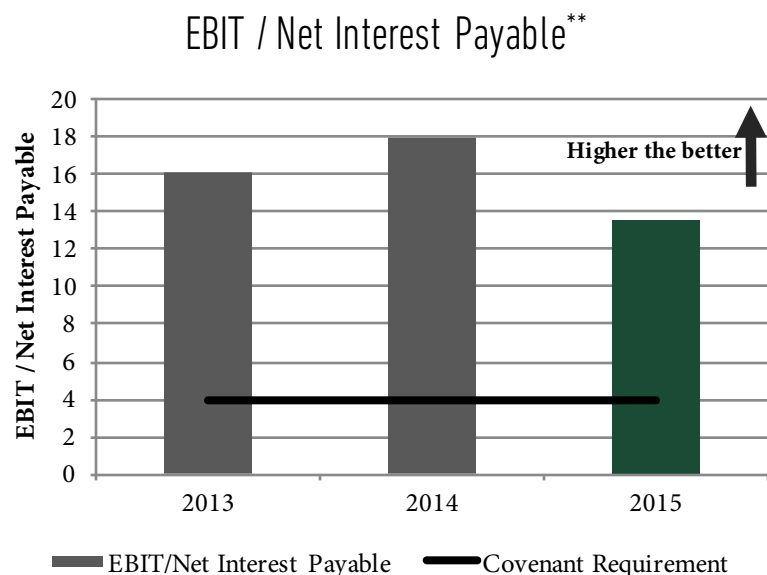
\* AS AT 22 JUNE 2015

\*\* AS AT 31 MARCH 2015

\*\*\* DATA SOURCE: THOMSON REUTERS EIKON AS AT 11 JUNE 2015

# DE LA RUE: FINANCIAL LEVERAGE

- The main debt instrument that De La Rue uses is a revolving credit facility of £250M (£142M drawn) that expires in December 2019. The covenants require that:
  - EBIT/Net Interest Payable > 4.0x (Currently 13.5x\*)
  - Net Debt / EBITDA < 3x (Currently 1.23x\*, accounting for pension shortfall this increases to 3.16x)
- Currently, the Company is still well within the covenant requirements. However, the ratios are moving in the wrong direction due to weaker earnings, increased investment in R&D and borrowings (FY2015 Net debt of £111M vs £89.9 in FY2014)
- We do not view the covenants, or debt levels generally, as a significant threat to the business in the short term. However, we believe Management should focus on debt reduction and cost control in the medium term



\* DE LA RUE 2015 PRELIMINARY RESULTS ANNOUNCEMENT – 28 MAY 2015

\*\* DE LA RUE ANNUAL REPORTS FROM 2013, 2014 AND 2015 PRELIMINARY RESULTS ANNOUNCEMENT

\*\*\* ADJUSTED TO INCLUDE PENSION LIABILITIES



# DE LA RUE: FINANCIAL LEVERAGE - PENSION DEFICIT AND FUNDING (1)

- In 2010, De La Rue announced that it would be moving its employees from final salary to defined contribution pension schemes from the date April 1, 2013. The net effect is that the retirement fund of employees is determined by the performance of the investments rather than their pay. Pensions earned up to the date of the transfer (01/04/2013) were protected. This was done in response to the increasing size of the pension deficit and it followed similar moves by a number of British companies including WH Smith, Barclays and Rentokil among others
- De La Rue has pension liabilities of ~£237M which are currently underfunded. When Oberthur made its original bid for the business in 2010, De La Rue's pension liabilities were only ~£120M
- We believe De La Rue's strategy for paying back the pension deficit is manageable and realistic. The headline figure of £237M overstates the extent of the liability and rising interest rates will have a significant positive impact on the deficit
- Martin Weale, one of the more hawkish members of Bank of England's Monetary Policy Committee commented to Financial Times on 23 June 2015 that the Bank of England should be ready to raise borrowing costs as early as August 2015\*
- A new formal (triennial) funding valuation of the UK defined benefit pension scheme as at 5 April 2015 has commenced



## DE LA RUE: FINANCIAL LEVERAGE - PENSION DEFICIT AND FUNDING (2)

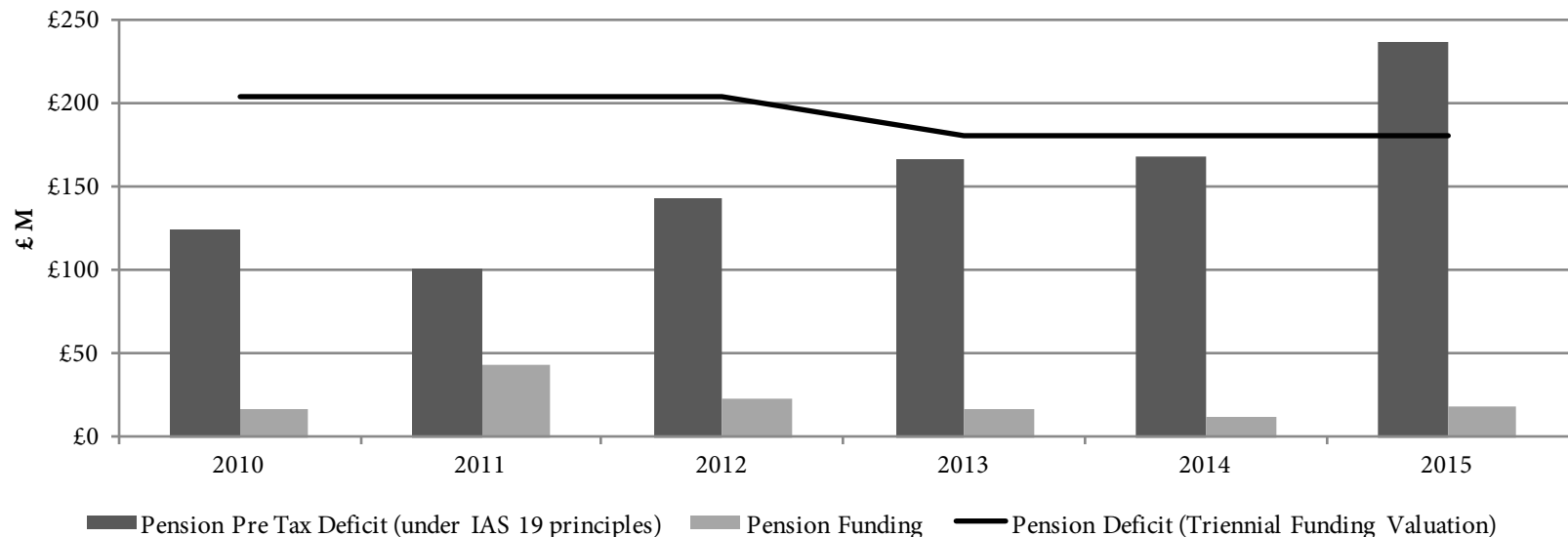
- From the Company's FY2015 Preliminary Results Announcement made on 28 May 2015:

*"The special funding arrangements, agreed in 2012, remain unchanged and are aimed to eliminate the deficit by 2022.*

*The valuation of the pension scheme under IAS 19 principles indicates a pre-tax scheme deficit at 28 March 2015 of £236.7m (29 March 2014: £168.0m). The increase of £68.7m is largely a reflection of the significant decrease in the discount rate used to project the value of the scheme liabilities (3.2 per cent in 2014/15 compared with 4.5 per cent in the prior year). The increase has been partly mitigated by a reduction in the RPI inflation rate, returns on scheme assets and Group funding contributions.*

*In common with other final salary schemes, the scheme valuation is very sensitive to any movement in the discount rate, with a 0.25 per cent increase in discount rate resulting in a £56m decrease in liabilities or vice versa, and hence the deficit would reduce should interest and discount rates increase in the future.*

Pension Deficit and Funding



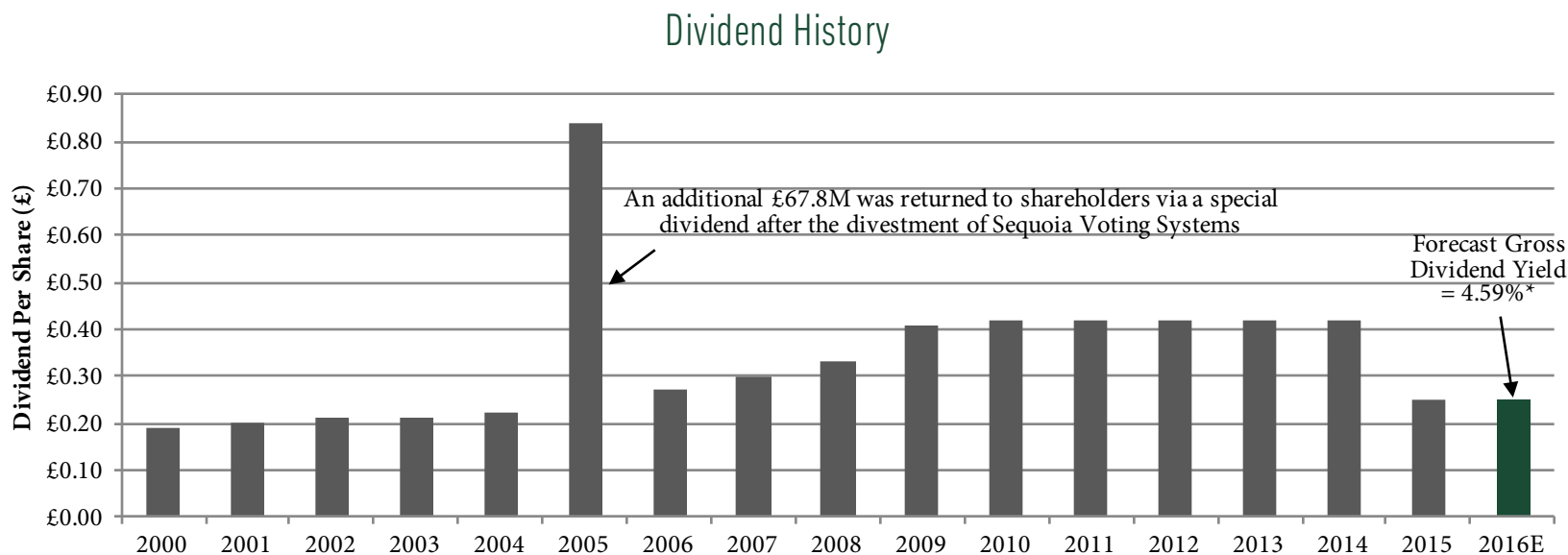
# DE LA RUE: CONSISTENT CAPITAL RETURN HISTORY

## Dividends

- De La Rue has been consistent in returning surplus capital to shareholders (via dividends or other means)
- Due to the difficult trading environment, the Company reduced dividends from £0.423 per share in FY2014 to £0.25 per share in FY2015
- Management now seeks to maintain dividends at FY2015 level of £0.25 per share in the near future (Forecast Gross Dividend Yield of 4.59%\*)

## Share Buybacks

- The Board has the authority to buy back up to 10,074,081 shares in the market (10% of the issued shares)
- No shares have been bought back in recent years\*



\* AS AT 22 JUNE 2015

DATA SOURCE: THOMSON REUTERS EIKON/WORLDSCOPE AS AT 11 JUNE 2015

# DE LA RUE: CONSISTENT CAPITAL RETURN HISTORY - EXAMPLE

## 2008 Capital Return via B Share Scheme/Deferred Shares

In 2008, the Company used a relatively complex scheme (combination of B share scheme and deferred shares) to return ~£460M of surplus capital to shareholders after the sale of its Cash Systems to The Carlyle Group. The capital return was structured for the following reasons:

- To provide shareholders a choice between receiving the cash in the form of income or capital
- To reduce the number of shares such that the share price of one new ordinary share approximated the share price of one existing ordinary share

### Return of Cash - Posting of Circular

21 Oct 2008

De La Rue announces that it is today posting a circular (the "Circular") to its shareholders and convening an Extraordinary General Meeting, to be held on 14 November 2008, to obtain shareholder approval for the proposed return of £459.8m cash to shareholders.

On 16 June 2008 the Company announced that it had entered into a conditional agreement for the sale of its Cash Systems business (excluding those activities relating to banknote sorters, the Cash Processing Solutions Division) to The Carlyle Group for a total cash consideration of £360m on a cash and debt free basis, subject to adjustment for a normalised level of working capital. On 1 September 2008, the Company announced the completion of the sale.

The Return of Cash is being made using a B share scheme which gives certain shareholders a choice between receiving the cash in the form of income or capital. The return will be accompanied by a proportional share consolidation to maintain comparability of the share price, earnings per share, dividend per share and other per share data. Further details are set out below.

#### Highlights of the Return of Cash:

- Shareholders to receive 305 pence in cash per existing ordinary share.
- Return to be implemented by way of a B share issue which provides certain shareholders with flexibility to elect to receive cash in the form of income or capital or a combination of the two.
- 25 for 39 share consolidation to seek to maintain comparability of share price, earnings per share and dividend per share.
- Extraordinary General Meeting to approve the proposed Return of Cash at 10.30am on 14 November 2008.
- Last date for election of the capital option 1.00pm on 21 November 2008.
- Cheques expected to be dispatched to shareholders and CREST accounts credited on 28 November 2008.

#### Details of the Return of Cash:

Subject to shareholder approval and listing of the B shares, shareholders will receive one B share for every existing ordinary share that they hold on 14 November 2008. Shareholders (other than those in the United States, Canada, Australia, Japan or the Republic of South Africa) will be able to elect between the following choices in respect of those B shares:

- To receive a single dividend of 305 pence per B share for some or all of their B shares. B shares in respect of which a shareholder has chosen to receive this single dividend payment will automatically be converted into deferred shares, which will have negligible value.
- To accept an offer by JPMorgan Cazenove Limited ('JPMorgan Cazenove') to sell some or all of their B shares to JPMorgan Cazenove (acting as principle\_ for 305 pence per B share, free of all dealing expenses and commissions, on 25 November 2008 (or such later date as the Company and JPMorgan Cazenove may agree) (the "Purchase Offer"). Further details of the Purchase Offer are contained within the Circular.

The B shares will be admitted to trading on the London Stock Exchange's main market for listed securities and admitted to the Official List of the UK Listing Authority. Shareholders who do not elect, or who are not eligible to elect, for any of the B share alternatives will receive the single dividend of 305 pence per B share on all of their B shares, subject to such dividend being declared.

A share consolidation will take place in conjunction with the Return of Cash. Existing ordinary shares will be subdivided and consolidated so that shareholders receive 25 New Ordinary Shares (subject to fractional entitlements) for every 39 existing ordinary shares held on 14 November 2008. The intention is that, subject to market movements, the share price of one New Ordinary Share immediately after listing should be approximately equal to the share price of once existing ordinary share immediately beforehand. The effect of the share consolidation will be to reduce the number of issued ordinary shares to reflect the return of 305 pence per ordinary share, but shareholders will own the same proportion of De La Rue issued share capital immediately following the consolidation as they did previously (subject to fractional entitlements). The ratio used for the share consolidation has been set by reference to De La Rue's market capitalisation at close of business on 20 October 2007.

The New Ordinary Shares will be traded on the London Stock Exchange in the same way as existing ordinary shares and will be equivalent to the existing ordinary shares in all material respects, including their dividend, voting and other rights.

# DE LA RUE: SUPERIOR BUSINESS VERSUS SELECTED LISTED PEERS

- De La Rue operates in a specialist industry and listed peers are few
- Accordingly, the listed company peer list for De La Rue is less relevant than for other businesses in which one can draw a more direct comparison
- In this case we assess De La Rue against companies which have similar characteristics but which do not operate in the same industry. The intention is to provide an overview of the trading multiples and margins of a small cross section of public companies in the technology, security and printing industries
- De La Rue is trading at a premium to the selected companies, as it is clearly a superior business with higher margins

## Peer Group

	Market Cap (USD)	TTM P/E	NTM P/E	Price/ Sales	EV/NTM EBITDA	Price/ Book	Dividend Yield	Net Profit Margin	EBITDA Margin	EBIT Margin
Communis PLC	157M	17.5x	9.4x	0.29x	4.3x	0.8x	4.51%	-4.4%	7.7%	4.4%
DS Smith PLC	5,704M	21.4x	14.8x	0.92x	8.9x	3.2x	3.06%	3.5%	10.7%	6.3%
Elanders AB	135M	11.5x	6.9x	0.28x	4.2x	0.8x	2.53%	2.4%	8.9%	5.7%
G4S PLC	6,987M	49.4x	17.3x	0.64x	9.8x	4.7x	3.60%	1.3%	7.5%	4.7%
Laird PLC	1,605M	20.4x	15.9x	1.80x	10.6x	2.3x	3.66%	8.9%	13.9%	10.2%
Regus	3,859M	36.7x	21.3x	1.46x	8.4x	4.6x	1.54%	4.2%	13.3%	6.1%
RPC Group	2,708M	32.5x	14.1x	1.40x	8.2x	3.0x	2.62%	3.7%	15.8%	10.9%
ST Ives	376M	51.9x	9.0x	0.70x	6.4x	1.9x	4.40%	3.2%	13.2%	8.8%
<b>Median Average</b>	<b>2,156M</b>	<b>27.0x</b>	<b>14.4x</b>	<b>0.81x</b>	<b>8.3x</b>	<b>2.6x</b>	<b>3.33%</b>	<b>3.4%</b>	<b>11.9%</b>	<b>6.2%</b>
<b>De La Rue PLC</b>	<b>864M</b>	<b>16.2x</b>	<b>15.2x</b>	<b>1.16x</b>	<b>9.3x</b>	<b>n/a</b>	<b>4.59%</b>	<b>7.3%</b>	<b>20.0%</b>	<b>14.7%</b>

# DE LA RUE: ELEVATION CAPITAL'S VALUATION RANGE

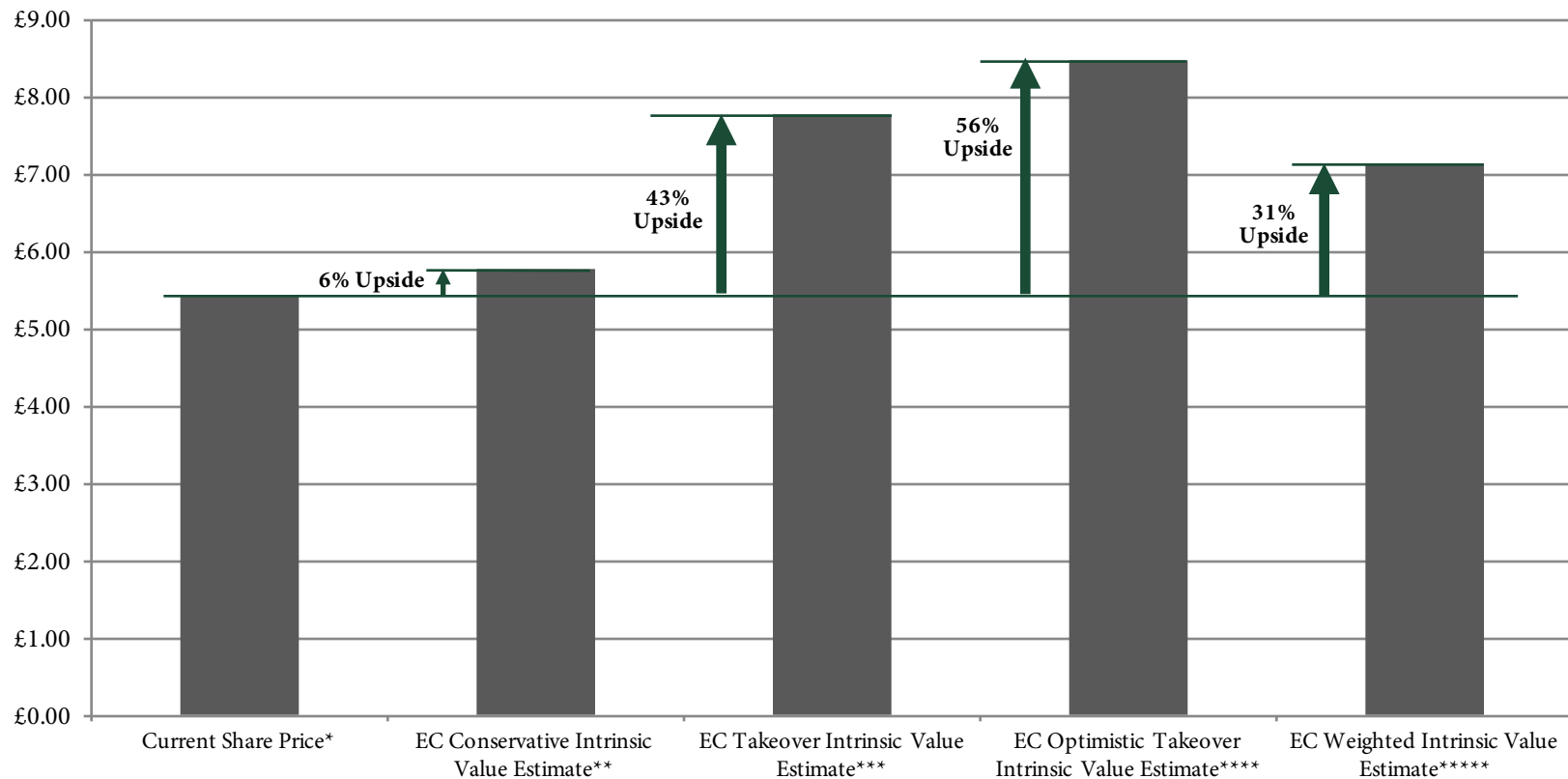
Elevation Capital Estimated Intrinsic Value Range:

£5.78 - £8.47 PER SHARE

Upside Potential Range:

+6% - +56%

## Valuation Summary



\* DE LA RUE SHARE PRICE AS AT 22 JUNE 2015

\*\* CONSERVATIVE INTRINSIC VALUE ESTIMATE BASED ON DE LA RUE 10YR AVERAGE EV/EBITDA MULTIPLE OF 7.44X (USING FY2015 NORMALISED EBITDA)

\*\*\* TAKEOVER INTRINSIC VALUE ESTIMATE BASED ON 2010 OBERTHUR INITIAL OFFERED PRICE, TRANSLATED TO AN EV/EBITDA MULTIPLE OF 9.56X (USING FY2015 NORMALISED EBITDA)

\*\*\*\* OPTIMISTIC TAKEOVER INTRINSIC VALUE ESTIMATE BASED ON 2010 OBERTHUR FINAL OFFERED PRICE, TRANSLATED TO AN EV/EBITDA MULTIPLE OF 10.33X (USING FY2015 NORMALISED EBITDA)

\*\*\*\*\* BASED ON A 50% WEIGHT OF THE FOLLOWING TWO ESTIMATES: £5.78 FOR EC CONSERVATIVE INTRINSIC VALUE ESTIMATE, AND £8.47 FOR EC OPTIMISTIC TAKEOVER INTRINSIC VALUE ESTIMATE

\*\*\*\*\* SOURCE: THOMSON REUTERS EIKON, AS AT 22 JUNE 2015 (STARMINE IS A PROPRIETARY RESEARCH TOOL OWNED BY THOMSON REUTERS. THE STARMINE INTRINSIC VALUE ESTIMATE IS BASED ON EPS PROJECTIONS FROM THE STARMINE SMARTGROWTH MODEL)

# DE LA RUE: KEY OPPORTUNITIES (1)

## Takeover

- The most clear and present opportunity for an investment in De La Rue is a takeover situation. An offer from Oberthur forms a large part of our valuation and we perceive a high probability of an offer being presented. Having assessed operational and governance changes to both De La Rue and Oberthur since the last takeover attempt, we believe that De La Rue remains a desirable takeover target for Oberthur and Oberthur remains in a position to finance a takeover. Based on the valuation multiple from Oberthur's previous acquisition attempt, we value De La Rue conservatively at £7.76 and optimistically at £8.47



The failed attempt by Oberthur to acquire De La Rue in 2010 for £9.35 makes it the top potential acquirer of the Company

Potential hurdle is whether the UK would allow De La Rue to be sold to an overseas buyer

## BainCapital

Oberthur had reportedly sought financial support from Bain Capital in its 2010 failed acquisition attempt of De La Rue. It was reported that Bain Capital would only support the deal if it had the approval of the De La Rue board



Giesecke & Devrient  
Creating Confidence.

G&D is also a logical buyer, with 48% of its revenue derived from its banknote business

Potential hurdle is whether the UK would allow De La Rue to be sold to an overseas buyer



G4S plc is the world's largest security company that is based in UK

Its recent failed attempt to jointly bid to print British banknotes with Oberthur suggests the possibility for G4S to acquire De La Rue to expand its Cash Solutions and Security Systems and Technology segments.

## Private Equity

THE CARLYLE GROUP

GLOBAL ALTERNATIVE ASSET MANAGEMENT

BainCapital

KKR

Private equity groups Carlyle Group, KKR, Bain Capital (and the German company Wincor Nixdorf) were named potential bidders for De La Rue's Cash Systems business in 2008. Eventually Carlyle emerged as the top bidder, paying £360M in a leveraged buyout

We suggest that one of the private equity players could team up with one of the industry players to jointly bid for De La Rue, similar to what was speculated in 2010 with Oberthur and Bain Capital

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# DE LA RUE: KEY OPPORTUNITIES (2)

## New Contracts

- The turbulent situation in Europe (with reference to the ongoing possibility of a Greek default and exit from the Euro Zone), can be regarded as a positive for De La Rue. The company operates in a competitive environment in which it must fight hard for contracts, however, as the largest private operator in the currency printing market, it is in a strong position to receive new contracts as they become available. Any printing of Drachma's or any other currencies will have been done covertly and De La Rue has historically been tight lipped about disclosing clients. However, it is the most likely candidate for such a contract

## Dividends

- De La Rue management have, to their credit, demonstrated an inclination to return capital to shareholders through dividends. De La Rue shareholders have received a dividend yield of, on average, 4.78% over the last 5 years. They have also historically returned capital to shareholders in the event of divestments, for instance following the 2008 divestment of the Cash Systems segment to Carlyle Group management returned ~£460M to shareholders. Current Forecast Gross Dividend Yield of 4.59%\*

## The Telegraph



By Harry Wallop, Retail Editor  
5:26PM BST 29 May 2012

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### De La Rue silent on deal to print Drachma

De La Rue, the money printer, failed to dampen speculation that it has been secretly awarded a contract to start printing drachmas the moment Greece is forced out of the euro.



A collection of old Greek Drachma and euro notes and coins. Photo: AP

### Secretary Lew Announces Historic Decision To Feature A Woman On The Newly Redesigned Ten Dollar Note

6/17/2015

Treasury seeks public input on currency theme of "Democracy" with #TheNew10

WASHINGTON - Treasury Secretary Jacob J. Lew today announced that a newly redesigned \$10 note will feature a woman. In exercising his responsibility to select currency features and design, Treasury Secretary Lew will select a notable woman - with a focus on celebrating a champion for our inclusive democracy. In keeping with that theme, the U.S. Department of the Treasury is asking the American people to share ideas, symbols, and designs for the new \$10 note that reflect what democracy means to them. You can share your ideas using the hashtag the New 10 or by visiting [thenew10.treasury.gov](http://thenew10.treasury.gov).

The Treasury Department, with the Bureau of Engraving and Printing, expects to unveil the new \$10 note in 2020, the 100th anniversary of the passage of the 19th Amendment, which gave women the right to vote.



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# DE LA RUE: KEY OPPORTUNITIES (3)

## R&D Benefits

- We believe the Management had made the correct recent decision to increase R&D spending to rectify its position as a market leader in its solution segments and re-invigorate market share and earnings from these segments. We foresee an improvement in overall margins due to these solution segments are in less competitive markets and have historically higher margins than the paper segment of the business

## New Management

- Simply put, De La Rue requires new management to deliver. Since mid-2012, shareholders have received a return of - 48% (excluding dividends). Before this, management turned down a bid of £9.35 - even refusing to engage the bidders. Given the current share price of £5.45\* (admittedly with the benefit of hindsight), the decision to rebuff the bid now seems hard to justify. An increase in efficiency and an increase in margins is required and management's historical performance in this area makes it ripe for activism

## Emerging Markets

- With declining cash usage in a number of developed markets, emerging markets are a key to growth in the currency and security printing industry as well as anti-counterfeiting consultancy which De La Rue is seeking to expand. De La Rue has recently finished designing and producing new banknotes for Fiji and was contracted to design and manufacture the currency of the newest country in the world, South Sudan, when it was formed in 2011



De La Rue spent six months designing and manufacturing a new currency for South Sudan ahead of the country's creation in July 2011

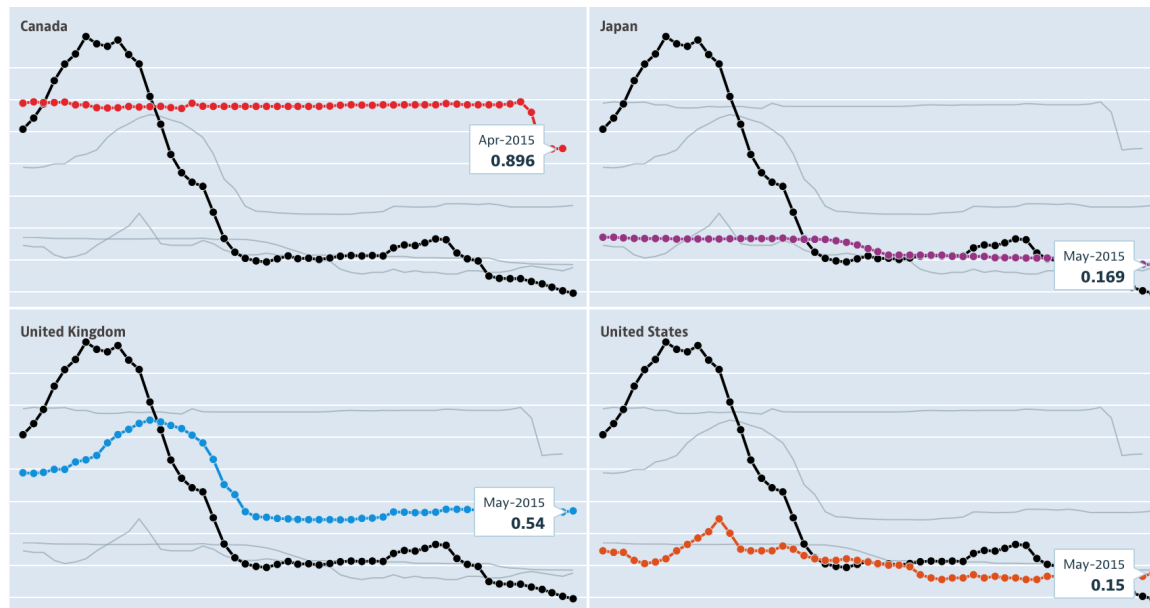
# DE LA RUE: KEY RISKS (1)

## Competition Risks

- De La Rue operates in competitive markets and its products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of customers
- Technological revolution or failure to innovate may result in loss of market share and lower margins. This competition may drive the consolidation which ends in De La Rue being acquired by Oberthur (the optimal outcome for shareholders). However, in the meantime it reduces the tender prices and profitability of new contracts

## Pension/Retirement Benefit Obligations

- We believe De La Rue's strategy for paying back the pension deficit is manageable and realistic. The headline figure of £237M overstates the extent of the liability and rising interest rates will have a significant positive impact on the deficit



Short-term interest rates (% per annum, Jan/11 – May/15) of Canada, Japan, UK, US and Euro Area (black line) - Source: OECD

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# DE LA RUE: KEY RISKS (2)

## Contract Attrition

- The timing of contract awards can be uncertain. Delays in awards may result in volatility in the order book and the operating performance and failure to optimise capacity. Political factors can also delay government procurement decisions for sensitive products like banknotes and passports. Failure to win or renew a material contract could restrict growth opportunities and/or have an adverse impact on the Group's financial performance and reputation. However, although De La Rue has some contracts which we would consider to be important to its ongoing success (such as the contracts to produce both the British passport and the British pound), none of De La Rues contracts were worth more than 10% in terms of revenue for the 2013/14 year

## Reputation Risks

- There is potential for reputational and financial damage in the event of the loss of materials from a manufacturing site or as a result of negligence or theft. For example, the production of defective currency or machinery, or the loss of product in transit may result in reputation damage for De La Rue and The Group may be contractually liable for any losses. The consequences of such an outcome became apparent in 2010, when defective currency was sent to a client believed to be the Bank of India. As a consequence, De La Rue's share price fell approximately 50% and management announced a program to improve quality and production capacity, increasing capital expenditure

## Reducing Cash Use

- Society is increasingly using cards for transactions and carrying less cash. In a decade it's possible that even cards will be obsolete, as smartphones are being explored as a means of payment. However, cash is still popular in emerging markets (which De La Rue has increasingly targeted), representing an opportunity in these regions



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# DE LA RUE: ELEVATION CAPITAL CONCLUSION

## Conclusion

- De La Rue operates in a niche industry and is renowned as a world leader in its field
- Recent share price weakness has presented the opportunity to acquire a fractional interest in the Company at what we believe is a discount to our intrinsic value estimates, particularly in a takeover scenario which should not be dismissed
- De La Rue pays an attractive dividend which has yielded for shareholders an average of 4.78% over the last 5 years (Forecast Gross Dividend Yield of 4.59%\*)
- De La Rue has moderate debt levels at 1.23x Net Debt/EBITDA (accounting for pension shortfall this increases to 3.16x)
- De La Rue has a number of high value contracts (in particular those to design and print the British pound and the British passport)
- Demise of currencies is overblown and fraud protection systems will be very important in both currency & passports – so fundamentally it is still an attractive business
- Recent decision to increase investment in R&D spending will likely improve margins and revenue in the long run
- The most attractive aspect of De La Rue is the likelihood that it will be acquired. The very competitive forces which have obliged De La Rue to lower prices and compress margins are likely to be the driver of industry consolidation which will lead to it being acquired in our opinion



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# 'INDEPENDENT THINKING – DISCIPLINED INVESTING'

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## INDEPENDENT THINKING

[In-de-pend-ent Think-ing] **ində'pendənt THiNkiNG** *verb*

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying. We also believe that cash is sometimes the most attractive investment.

## DISCIPLINED INVESTING

[Dis-ci-plined In-vest-ing] **disciplinəd inves'ting** *verb*

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. Our investments are premised on the concept of "Margin of Safety" which we believe reduces risk.