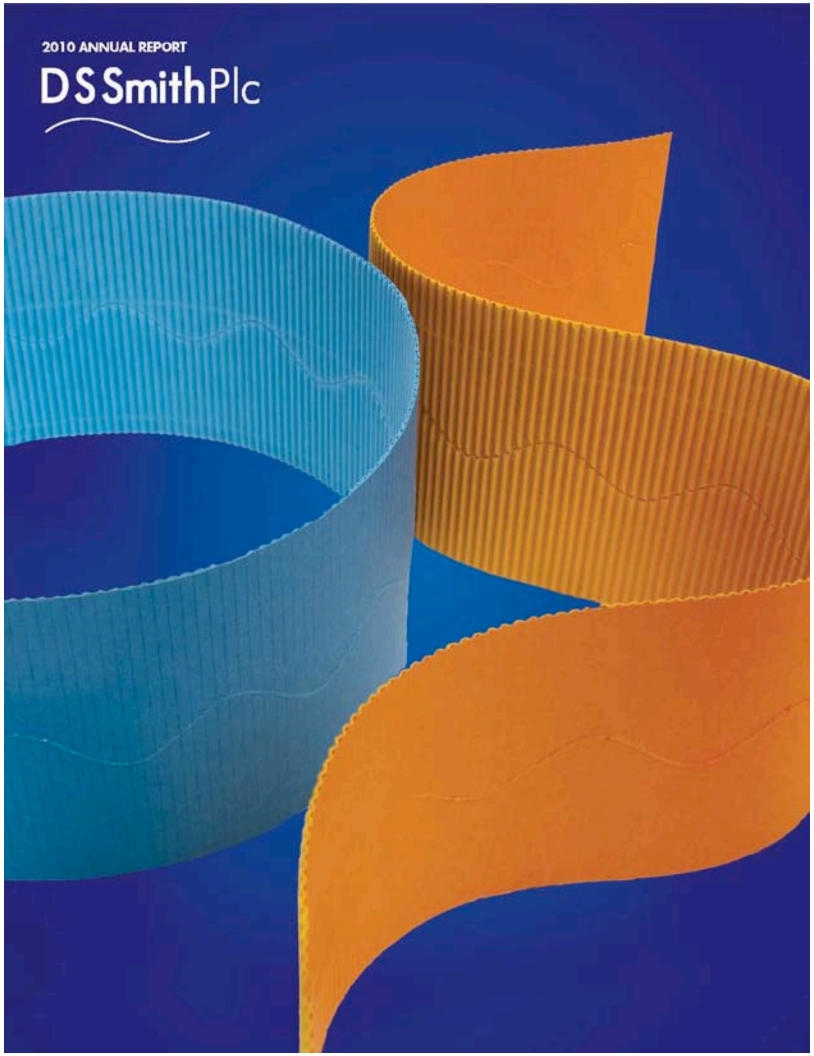


# DS Smith Plc

## Full Year Results 2009/10
## 24 June 2010

DS Smith Plc

# Introduction

Miles Roberts

Group Chief Executive

# Summary – Robust Performance

- EBITDA up 1.3% to £166.0m
- Adjusted EPS up 2.4% to 12.9p (2008/09: 12.6p)
- Strong cash flow generation; net debt reduced to £239.5m
- Dividend increased by 4.5%
- Review of strategy and business operations
- Current financial year started well

# Financial Review

Steve Dryden

Group Finance Director



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# Key themes

| | |
|---|---|
| **Sustained growth** | Modest increase in EBITDA despite the business and economic cycle |
| **Responsive** | Reacted quickly to volume and cost pressures<br><br>Developing new products and services |
| **Margin progression** | Improved EBITDA margin by 0.2ppts to 8.0%<br>– Packaging EBITDA margin up 0.5ppts to 10.5% |
| **Portfolio Management** | Focus on opportunities of scale<br>– exit small niche positions |
| **Reducing debt** | Strong cash flow with net debt reduced to 1.4x EBITDA (1.8x)<br>Capacity to invest for growth |



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# Group Income Statement

| £million | 2009/10 | 2008/09 | Change |
|---|---|---|---|
| **Revenue** | **2,070.6** | **2,106.6** | **(36.0)** |
| **EBITDA** | **166.0** | **163.9** | **2.1** |
| Depreciation and amortisation | (72.0) | (69.9) | (2.1) |
| **Operating Profit** | **94.0** | **94.0** | **–** |
| Net interest | (14.4) | (23.6) | 9.2 |
| Employment benefit finance (charge) / income | (11.5) | 1.5 | (13.0) |
| Associated companies | 0.2 | 0.6 | (0.4) |
| **Profit before tax and exceptional items** | **68.3** | **72.5** | **(4.2)** |
| Income tax expense | (17.8) | (22.6) | 4.8 |
| Exceptional items (net of tax) | (12.4) | (61.1) | 48.7 |
| **Profit/(loss) after tax** | **38.1** | **(11.2)** | **49.3** |
| **Adjusted EPS** | **12.9p** | **12.6p** | **0.3p** |



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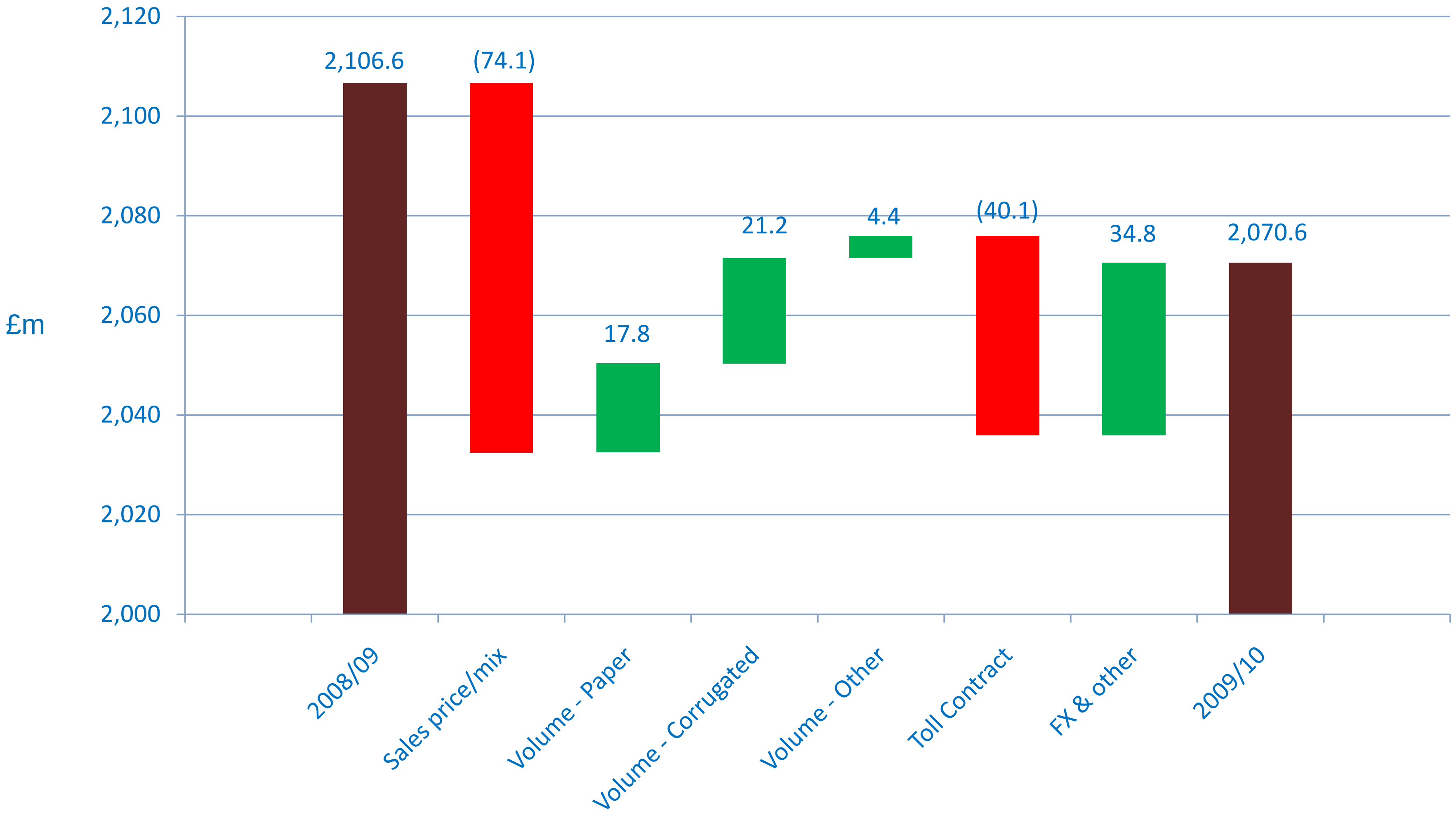
# Revenue bridge



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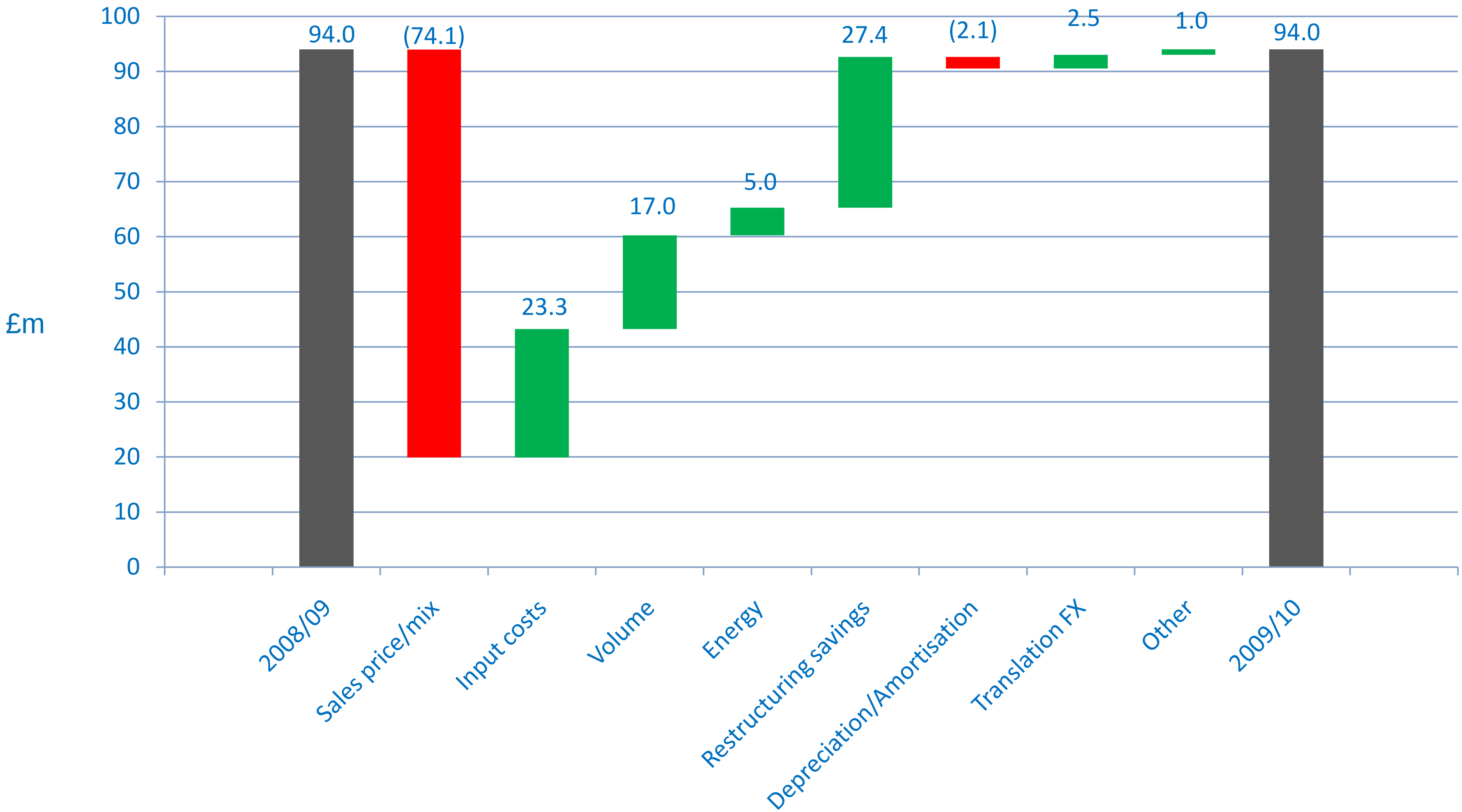
# Operating profit bridge



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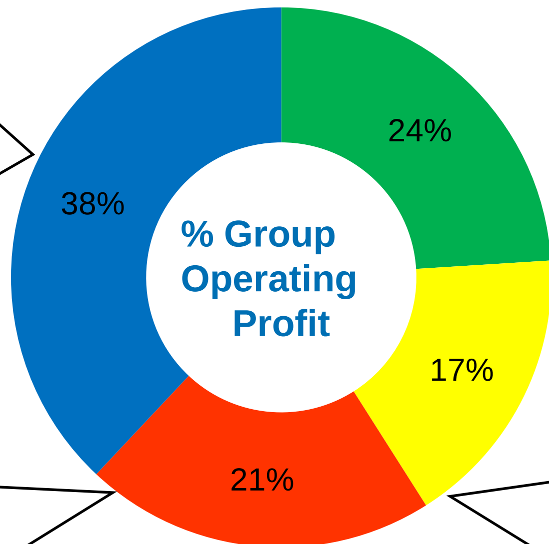
# Packaging accounts for 80% of Group operating profit[1]

**UK Paper & Corrugated**

| | |
|---|---|
| Operating Profit | £35.4m |
| ROS% | 4.7% |
| Average Capital Employed | £538.6m |
| ROACE% | 6.6% |

**Continental European Corrugated Packaging**

| | |
|---|---|
| Operating Profit | £22.9m |
| ROS% | 6.4% |
| Average Capital Employed | £192.4m |
| ROACE% | 11.9% |




**Office Products Wholesaling**

| | |
|---|---|
| Operating Profit | £20.2m |
| ROS% | 2.8% |
| Average Capital Employed | £119.4m |
| ROACE% | 16.9% |

**Plastics Packaging**

| | |
|---|---|
| Operating Profit | £15.5m |
| ROS% | 6.7% |
| Average Capital Employed | £123.2m |
| ROACE% | 12.6% |

[1] before exceptional items

# UK Paper & Corrugated Packaging

| £m | 2009/10 | 2008/09 |
|---|---|---|
| Revenue | 750.2 | 785.8 |
| OP | 35.4 | 36.5 |
| ROS% | 4.7% | 4.6% |
| ROACE % | 6.6% | 6.7% |

- Paper volumes up, corrugated boxes level, better than market performance
- Overall revenue down
- Excellent result from corrugated packaging due to lower paper prices, restructuring benefits and FMCG focus
- Price increases implemented from September onwards to recover rising input costs



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# Continental European Corrugated Packaging

- Revenue down – volumes up but pricing lower
- Gained market share
- Resilience of FMCG sector
- Profits supported by significant cost reduction actions
- Ukraine (associate): trading profitably, economic conditions improving; negotiations with banks continue

| £m | 2009/10 | 2008/09 |
|---|---|---|
| Revenue | 355.4 | 363.4 |
| OP | 22.9 | 30.4 |
| ROS% | 6.4% | 8.4% |
| ROACE % | 11.9% | 15.2% |



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# Plastic Packaging

- Much improved result
- LP&D:
  - USA: good performance continuing growth in new market sectors
  - Europe: benefiting from restructuring programme
- RTP:
  - demand remains low in industrial sectors
  - beverage crates recovery
- Polymer prices rising strongly through second half of year

| £m | 2009/10 | 2008/09 |
|---|---|---|
| Revenue | 231.3 | 236.9 |
| OP | 15.5 | 7.0 |
| ROS% | 6.7% | 3.0% |
| ROACE % | 12.6% | 5.3% |



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# Office Products Wholesaling

- Electronic Office Supplies continues to grow despite recession
- Non-electronic office supplies declined until the last quarter

| £m | 2009/10 | 2008/09 |
|---|---|---|
| Revenue | 733.7 | 720.5 |
| OP | 20.2 | 20.1 |
| ROS% | 2.8% | 2.8% |
| ROACE % | 16.9% | 15.2% |

- Difficult UK market conditions more than mitigated by restructuring programme benefits
- Continental Europe; good profit performance in France, Germany and Italy; Spain and Ireland difficult

# Free cash flow per share up 28%

| £million | 2009/10 | 2008/09 | Change 09/10 vs 08/09 |
|---|---|---|---|
| Operating profit before exceptional items | 94.0 | 94.0 | - |
| Depreciation and amortisation | 72.0 | 69.9 | 2.1 |
| **EBITDA** | **166.0** | **163.9** | **2.1** |
| Working capital | (2.4) | 30.8 | (33.2) |
| Other | (9.7) | (11.1) | 1.4 |
| Capital expenditure | (52.6) | (87.4) | 34.8 |
| Taxation | (21.3) | (21.0) | (0.3) |
| Sale of assets | 13.0 | 7.7 | 5.3 |
| Net Interest paid | (16.2) | (23.0) | 6.8 |
| **Free cash flow** | **76.8** | **59.9** | **16.9** |
| Exceptional cash costs | (18.4) | (17.2) | (1.2) |
| Dividends | (12.9) | (36.3) | 23.4 |
| Acquisitions/disposals | (1.0) | (1.2) | 0.2 |
| **Net Cash Flow** | **44.5** | **5.2** | **39.3** |
| Free Cash Flow per share - pence | 19.6 | 15.3 | 4.3 |



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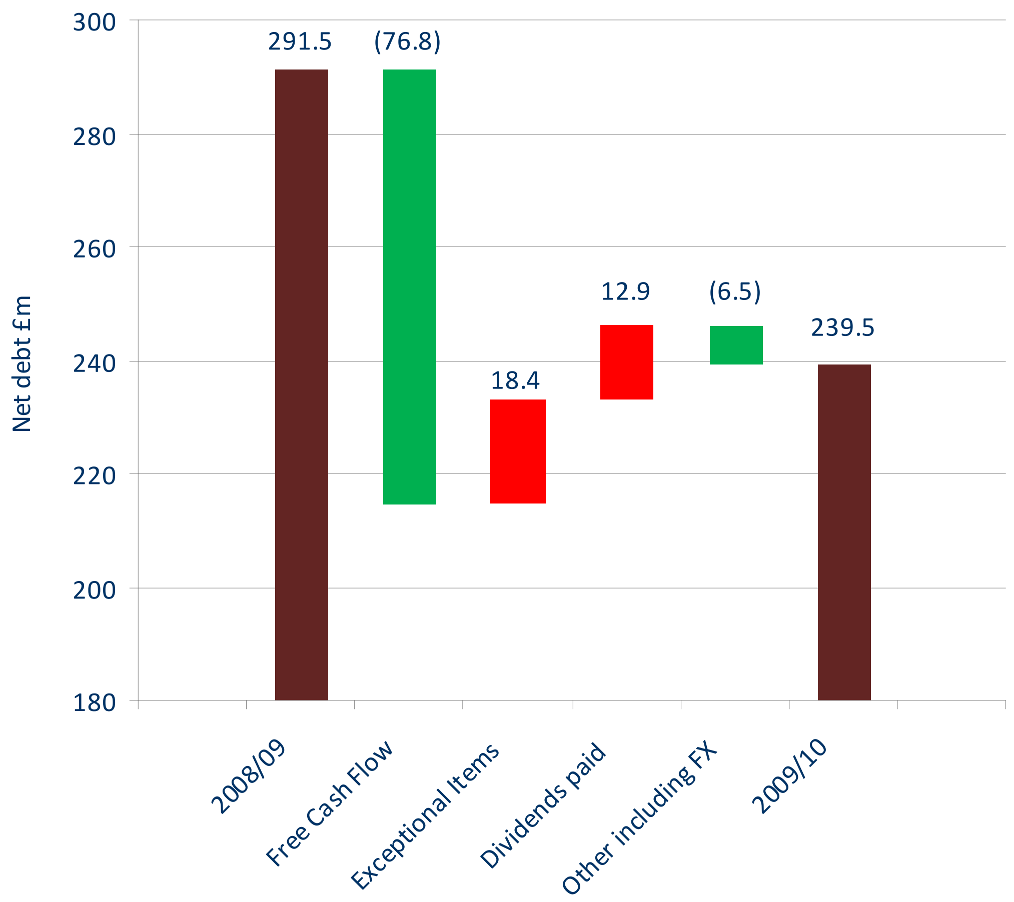
# Net Debt reduced by £52 million




**Debt facilities**

- total facilities: £566.5m
- headroom: £311.0m
- Committed facilities to November 2012 of £530m



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# Guidance

| | | |
|---|---|---|
| **Input cost/ recovery** | 2010/11<br>2011/12 | Normal delay, recover all but c £10m<br>Targeting full recovery |
| **Energy** | 2009/10<br>2010/11 | £109m<br>£120m expected |
| **Finance cost** | 2009/10<br>2010/11 | Effective rate 4.9%<br>Effective rate 5.7% expected |
| **Employment benefit finance** | 2009/10<br>2010/11 | £(11.5)m<br>c £8.0m expected |
| **Net capital expenditure** | 2009/10<br>2010/11 | £52.6m<br>£55.0m targeted |



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# Financial Summary

| | |
|---|---|
| **Markets** | Gained share across key markets |
| **Margins** | Improved Packaging EBITDA margin by 0.5ppts to 10.5% |
| **Conversion costs** | Delivered on 2008/09 Action Programme to improve efficiency |
| **Cash** | Strong cash flow – reducing debt |

**Strong focus on efficiency, margins, cash and return on capital**

# Key Themes

Miles Roberts

Group Chief Executive

# Business Review

Five areas of focus for review

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

## Five areas of focus for review

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

- Higher margins
- Lower cyclicality
- Returns > WACC

## Five areas of focus for review

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

- Customer service
- Rate of Innovation
- Quality
- Environment



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# Severnside Recycling in partnership with Tesco




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# Coming to a store near you




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# Five areas of focus for review

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

Operational and asset efficiency

- Organisation structure/scale
- Process design
- Capital allocation



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# Five areas of focus for review

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

- Engagement of people
- Build high performance culture
  - incentives
  - appraisals
  - alignment

# Five areas of focus for review

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

Build on existing competencies

# Summary – Robust Performance

- EBITDA up 1.3% to £166.0m
- Adjusted EPS up 2.4% to 12.9p (2008/09: 12.6p)
- Strong cash flow generation; net debt reduced to £239.5m
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- Review of strategy and business operations
- Current financial year started well

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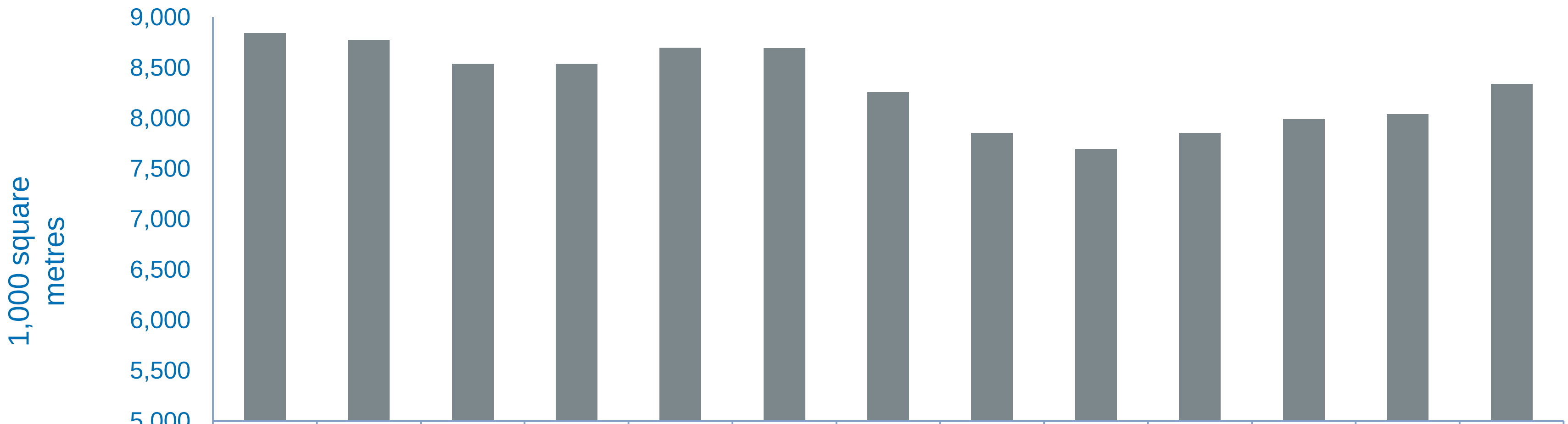
# Thank you

# Appendices

# European Market Corrugated Volume

**2009 vs 2007: -9.0%** **Qtr1-10 vs Qtr1-09: +8.4%**

**2009 vs 2008: -5.8%** **Qtr1-09 vs Qtr1-08: -4.1%**




| | Q1-07 | Q2-07 | Q3-07 | Q4-07 | Q1-08 | Q2-08 | Q3-08 | Q4-08 | Q1-09 | Q2-09 | Q3-09 | Q4-09 | Q1-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Volume, ksm | 8,841 | 8,776 | 8,539 | 8,541 | 8,697 | 8,693 | 8,256 | 7,854 | 7,694 | 7,850 | 7,986 | 8,039 | 8,337 |

2007 2008 2009 2010

Source: FEFCO & DSS data



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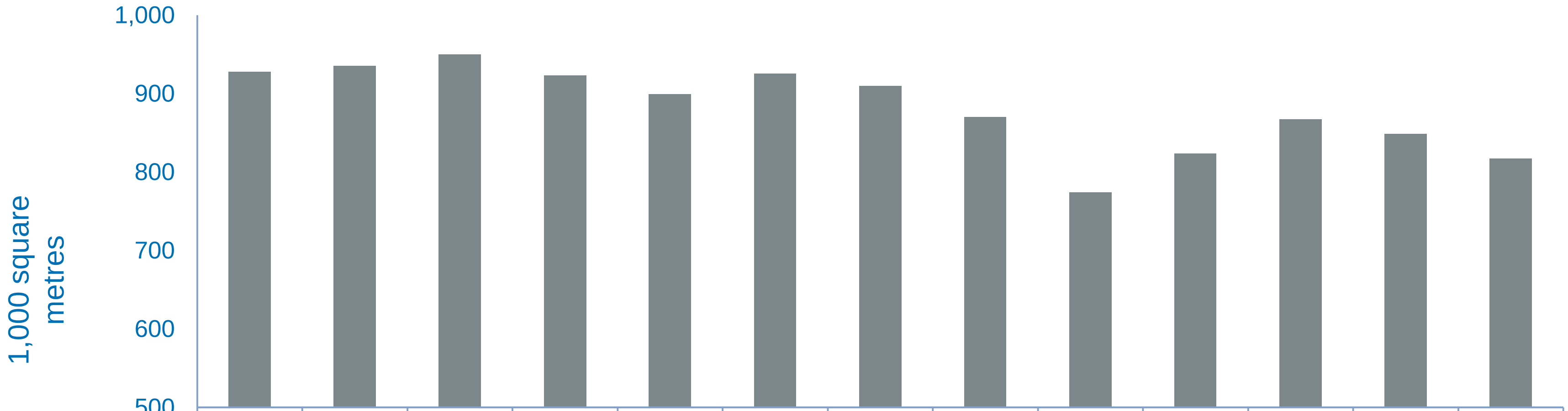
# UK Market Corrugated Volume

**2009 vs 2007: -11.3%** **Qtr1-10 vs Qtr1-09: +5.6%**

**2009 vs 2008: -8.1%** **Qtr1-09 vs Qtr1-08: -9.1%**




| | Q1-07 | Q2-07 | Q3-07 | Q4-07 | Q1-08 | Q2-08 | Q3-08 | Q4-08 | Q1-09 | Q2-09 | Q3-09 | Q4-09 | Q1-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Volume, ksm | 928 | 935 | 950 | 923 | 899 | 925 | 909 | 870 | 774 | 823 | 867 | 848 | 817 |

Source: FEFCO & DSS data

# 2008/09 Action Plan Achieved

| £million | Charged to Income in 2008/09 | Charged to Income in 2009/10 | Savings in 2009/10 | Annual savings |
|---|---|---|---|---|
| UK Paper and Corrugated Packaging | (18.2) | - | 14.4 | 14.5 |
| Continental European Corrugated Packaging | (1.6) | (1.2) | 2.7 | 4.0 |
| Plastic Packaging | (3.5) | 0.3 | 5.1 | 5.2 |
| Office Products Wholesaling | (3.7) | (1.8) | 5.2 | 5.4 |
| **Total Restructuring** | **(27.0)** | **(2.7)** | **27.4** | **29.1** |
| Impairments and disposal costs | (28.7) | (10.6) | | |
| Tax | (5.4) | 0.9 | | |
| **Total Exceptional Costs** | **(61.1)** | **(12.4)** | | |



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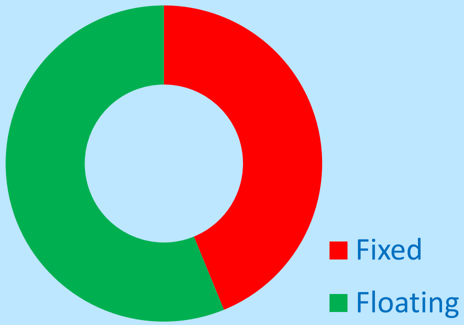
# Paper and Packaging Cost Increases & Pricing Recovery

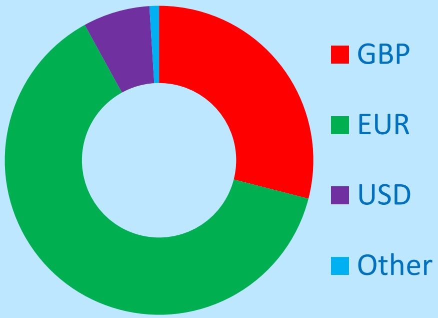
| | Cost increases |
|---|---|
| ▪ Waste paper | £40m |
| ▪ Energy | £10m |
| ▪ Externally sourced paper | £50m |
| | £100m |

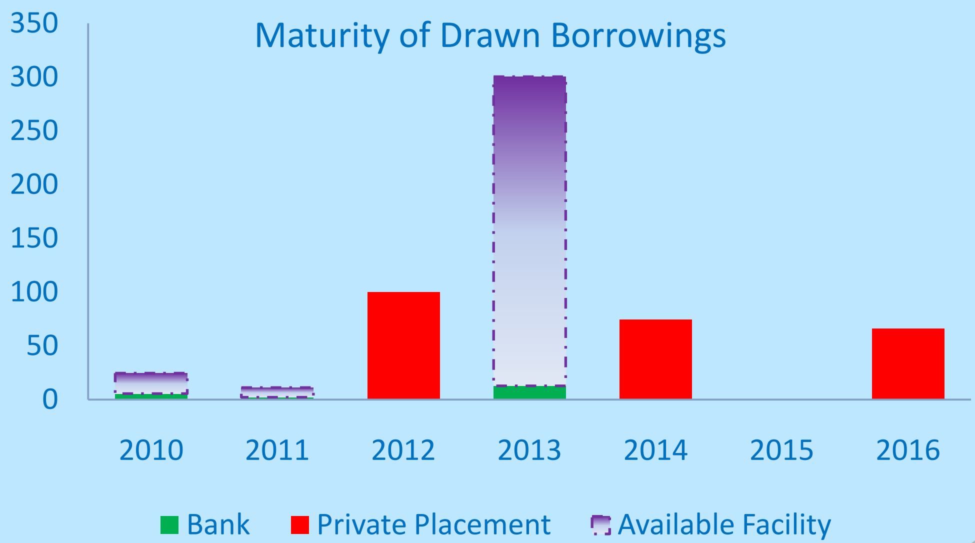
▪ Price recovery: 2010/11 – normal delay, all but circa £10m recovered

2011/12 – targeting full recovery

# Debt Analysis




Weighted average life of borrowings is 3.7 years

| **Net debt** | **£m** |
|---|---|
| Borrowings | 262.1 |
| Derivative financial instruments | 10.2 |
| Less net cash | (32.8) |
| *Net debt | **£239.5** |

| | |
|---|---|
| *Consolidated Net Assets | £619.3m |
| *EBITDA/Net Debt ratio | 1.4x |
| *Profit before Interest/ Net Interest Payable | 6.9x |

* As defined by the Group's banking covenants



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# Covenant Headroom

| Covenant | 2009/10 | Headroom | 2008/09 | Headroom |
|---|---|---|---|---|
| Consolidated Net Assets >£360m | £619.3m | £259.3m | £594.4m | £234.4m |
| Net Debt/EBITDA ratio <3.25 times | 1.4 | EBITDA £93.5m | 1.8 | EBITDA £75.4m |
| Profit before Interest/Net Interest Payable >3 times | 6.9 | Profit before Interest £56.6m | 4.5 | Profit before Interest £34.6m |



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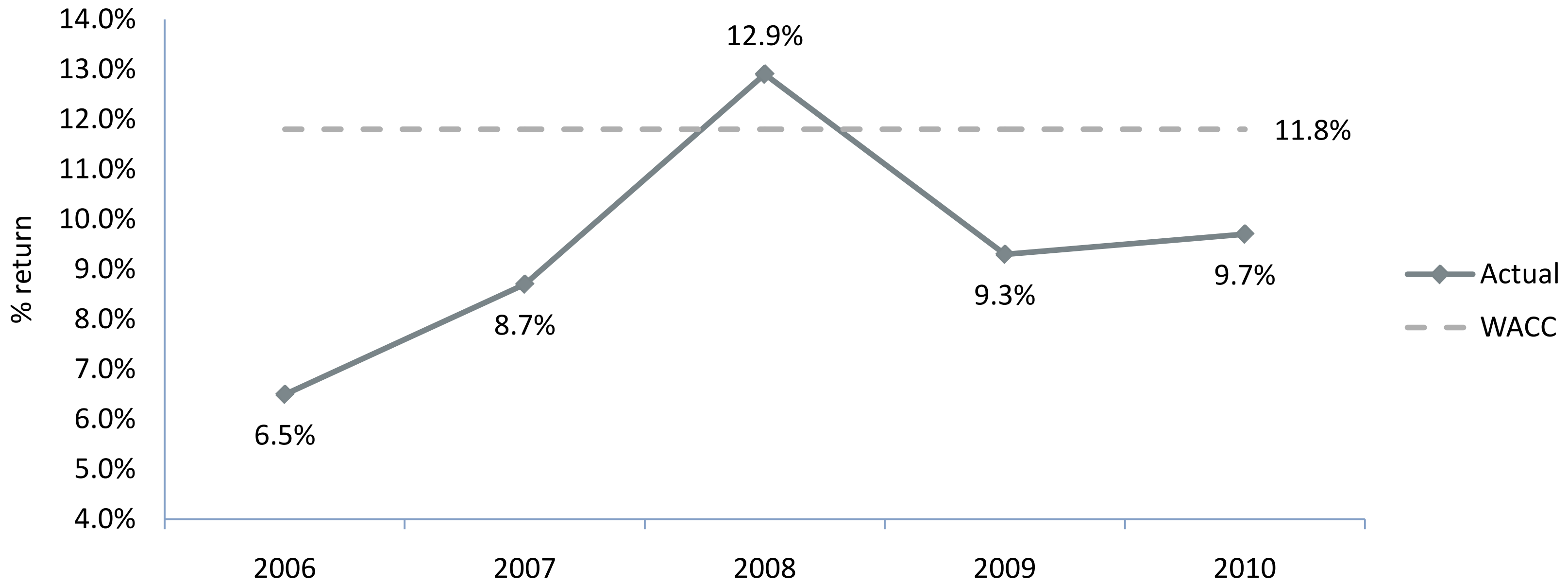
# Pensions

| £million | 2009/10 | 2008/09 |
|---|---|---|
| Equities | 420.1 | 349.8 |
| Bonds, gilts and cash | 269.0 | 205.5 |
| **Market value of assets** | **689.1** | **555.3** |
| Value of liabilities | (892.2) | (746.6) |
| **Deficit** | **(203.1)** | **(191.3)** |
| Deferred tax | 57.0 | 53.3 |
| **Net pension liability** | **(146.1)** | **(138.0)** |
| Discount rate | 5.6% | 6.4% |
| Employment benefit net finance (charge) / income | (11.5) | 1.5 |

# Improving returns on capital




| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Operating Profit (£m) | 60.4 | 77.7 | 119.6 | 94.0 | 94.0 |
| Average Capital Employed (£m) | 930.0 | 895.0 | 925.7 | 1,009.5 | 973.6 |