
DS Smith Plc



First Half Results 2009/10
10 December 2009

Introduction

Peter Johnson
Chairman

Financial Review

Steve Dryden

Group Finance Director

Financial Highlights

	EBITDA¹ £m	EBITDA¹ margin %	Free cash flow per share¹ (pence)	EPS ¹ (pence)	DPS (pence)
H1 2009/10	84.4	8.3%	8.6	6.1	1.5
H1 2008/09	88.8	8.1%	5.4	7.7	2.6
Change	(4.4)	0.2pts	3.2	(1.6)	(1.1)
% change	(5)%	-	59%	(21)%	(42)%

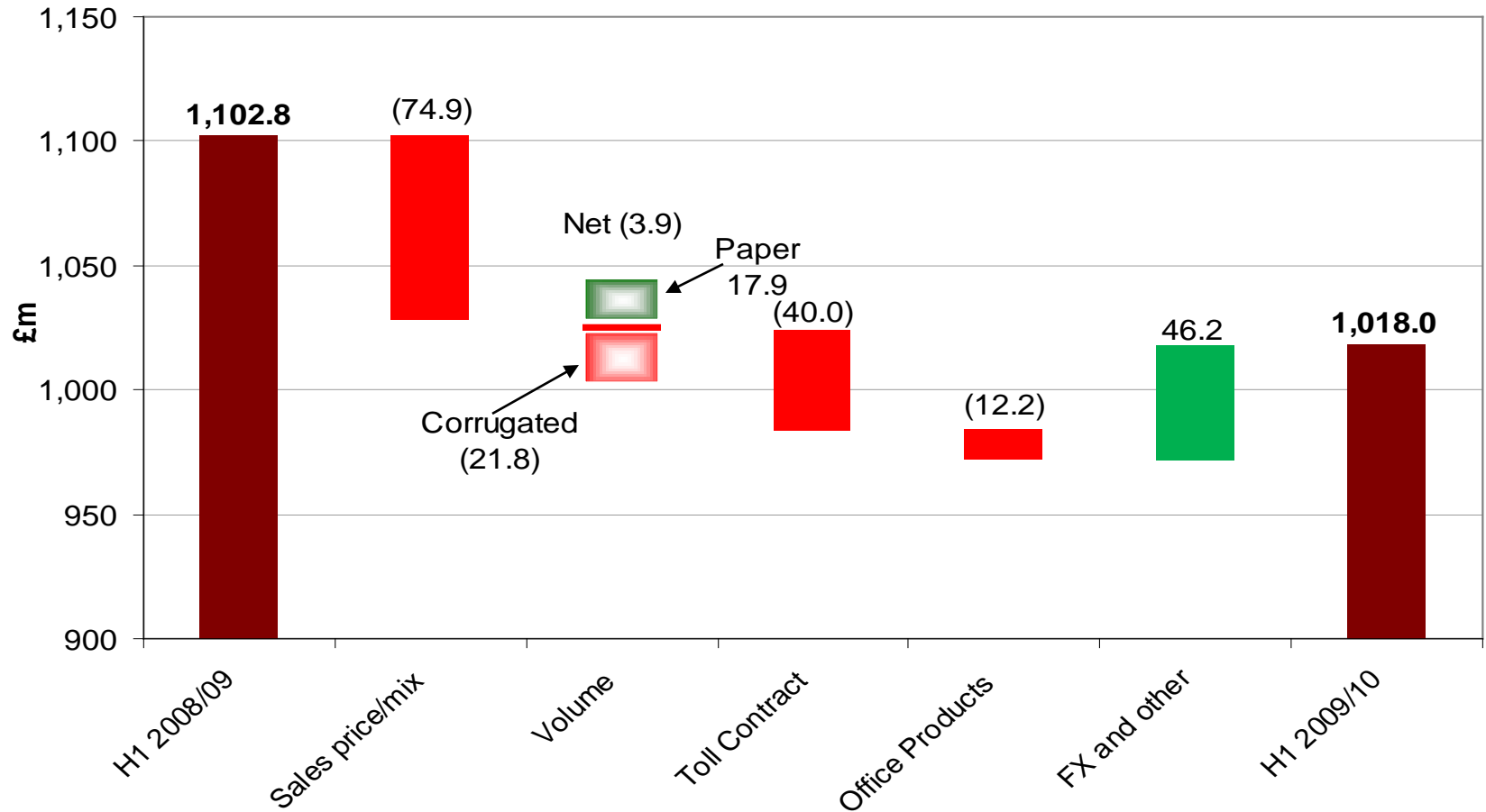
Resilient business delivering a strong cash flow performance

¹ before exceptional items

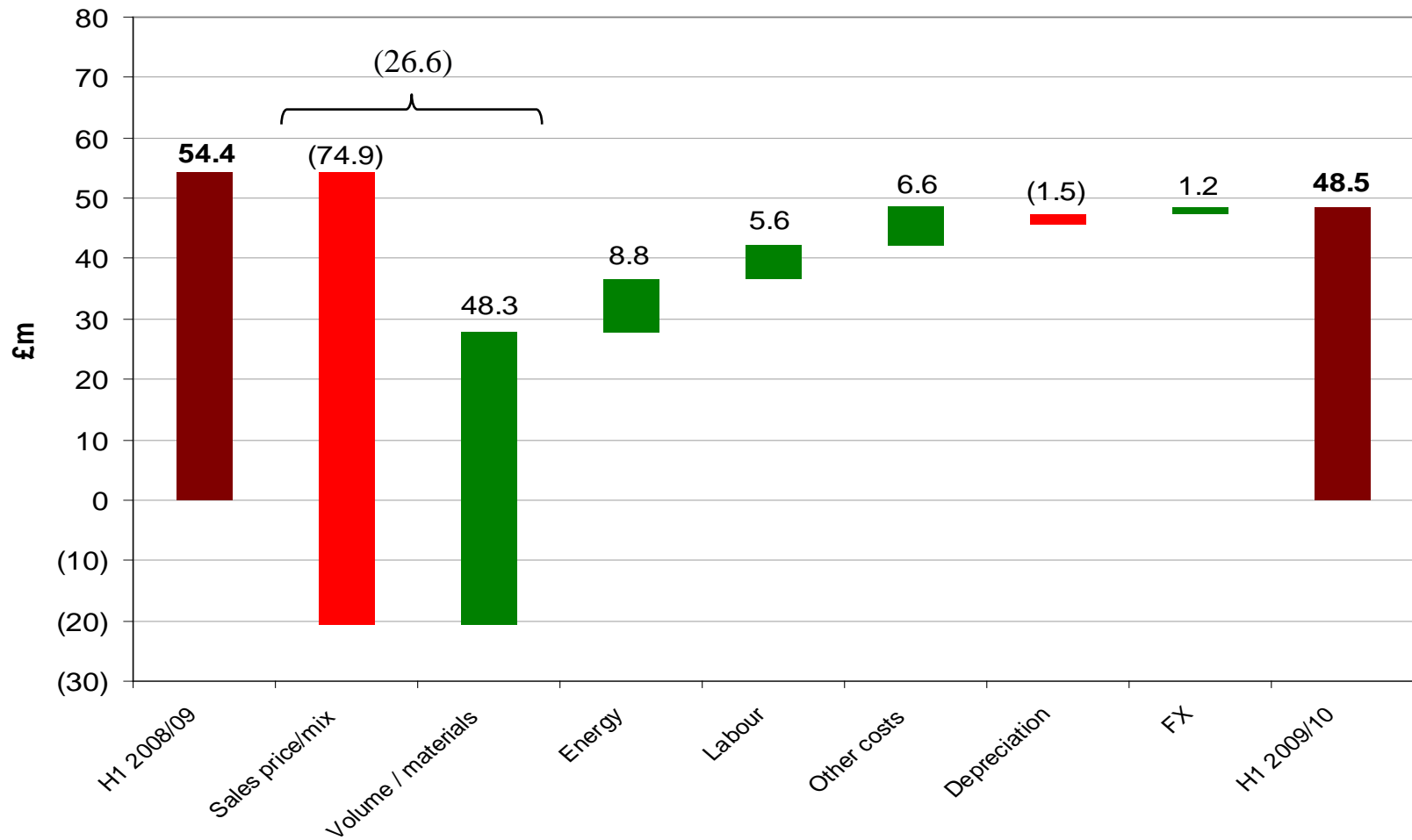
Group Income Statement

£million	2009/10 H1	2008/09 H1	Change
Revenue	1,018.0	1,102.8	(84.8)
EBITDA	84.4	88.8	(4.4)
Depreciation and amortisation	(35.9)	(34.4)	(1.5)
Operating Profit	48.5	54.4	(5.9)
Net interest	(8.2)	(11.1)	2.9
Employee benefit finance (charge) / income	(5.6)	0.2	(5.8)
Associated companies	-	0.6	(0.6)
Profit before tax and exceptional items	34.7	44.1	(9.4)
Income tax expense	(10.9)	(13.5)	2.6
Exceptional items (net of tax)	(0.3)	(12.9)	12.6
Profit after tax	23.5	17.7	5.8

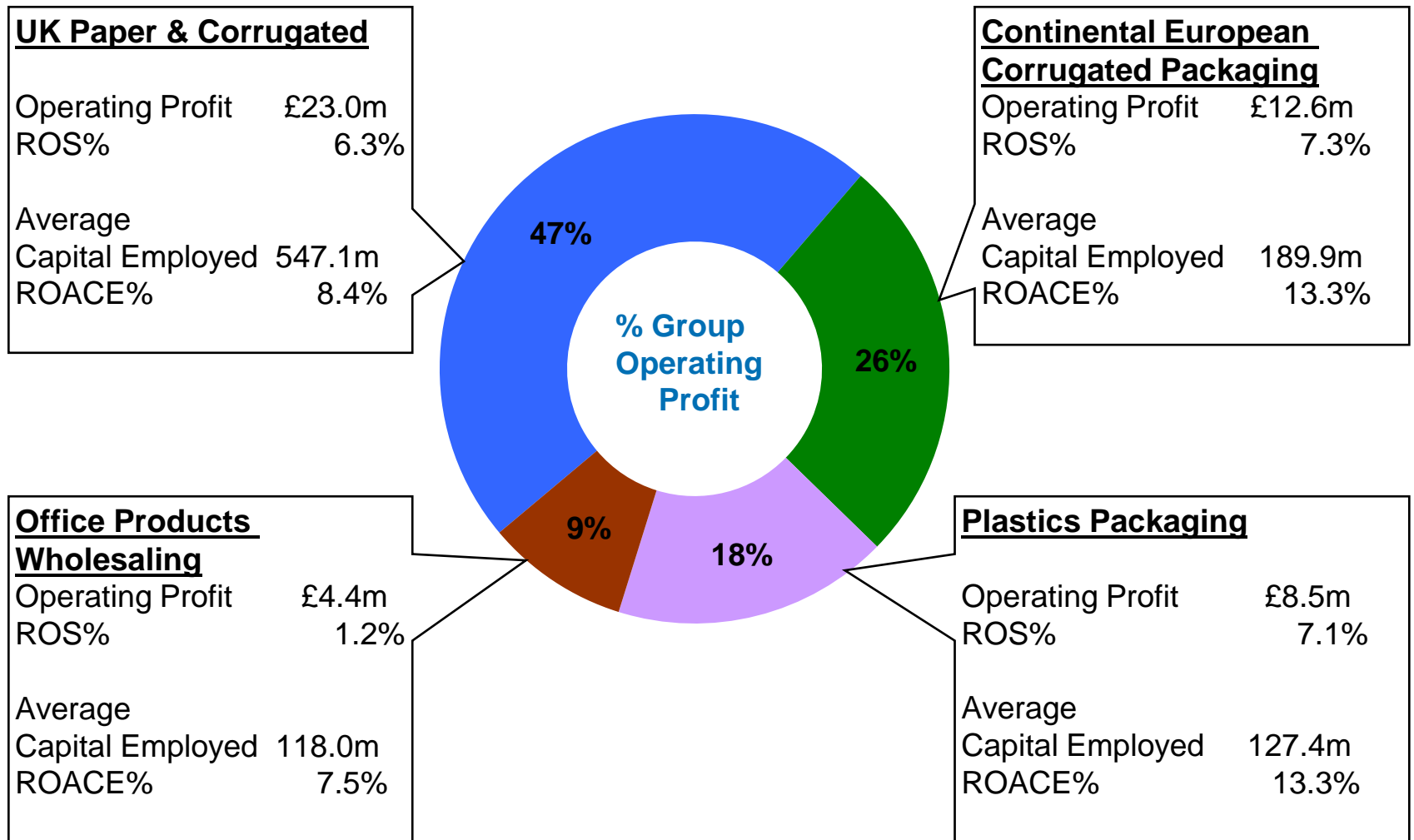
Revenue bridge



Operating Profit Bridge



Segmental analysis for the H1¹



¹ before exceptional items

UK Paper & Corrugated Packaging

- Paper volumes up, corrugated down
- Overall revenue down due to weaker paper prices
- Excellent result from corrugated packaging due to lower paper prices, restructuring benefits and FMCG focus
- Price increases implemented in September and November to recover higher input costs
- Paper performance improving

£m	H1 09/10	H1 08/09
Revenue	367.2	437.0
OP	23.0	28.8
ROS%	6.3%	6.6%
ROACE %	8.4%	10.6%

Continental European Corrugated Packaging

- Revenue lower especially in the industrial sector, FMCG more resilient
- Profits supported by cost reductions and lower paper prices
- Ukraine (associate): trading profitably despite challenging economic conditions; negotiations with banks continuing

£m	H1 09/10	H1 08/09
Revenue	171.7	191.2
OP	12.6	16.1
ROS%	7.3%	8.4%
ROACE %	13.3%	16.1%

Plastic Packaging

- Much improved result
- LPD:
 - USA: good performance, continuing growth in new market sectors
 - Europe: benefiting from restructuring and market share gain in wine
- RTP:
 - beverage crates recovery
 - demand lower in industrial sectors
- Polymer prices fell during H1, now rising

£m	H1 09/10	H1 08/09
Revenue	120.0	123.9
OP	8.5	4.0
ROS%	7.1%	3.2%
ROACE %	13.3%	6.1%

Office Products Wholesaling - Spicers

- Electronic Office Supplies continues to grow despite recession
- Non-electronic office supplies declining
- Difficult UK market conditions mitigated by broader product offering, improved service and restructuring programme benefits
- Continental Europe performance mixed; good profit performance France, Germany and Italy; Spain and Ireland difficult

£m	H1 09/10	H1 08/09
Revenue	359.1	350.7
OP	4.4	5.5
ROS%	1.2%	1.6%
ROACE %	7.5%	8.4%

Update on restructuring

£m	Charged to Income in 2008/09	Charged to Income in H1 2009/10	Savings in H1 2009/10 ¹	Annual savings
UK Paper and Corrugated Packaging	(18.2)	-	6.8	13.5
Continental European Corrugated Packaging	(1.6)	(0.5)	0.9	2.8
Plastic Packaging	(3.5)	-	2.5	5.1
Office Products Wholesaling	(3.7)	-	3.0	6.1
Restructuring	(27.0)	(0.5)	13.2	27.5
Impairments	(28.7)			
Exceptional Costs	(55.7)			

¹ Constant exchange rates

Input Cost Increases & Pricing Recovery

Annualised impact of known cost increases:

▪ Waste paper	£14m
▪ Energy	£12m
▪ Externally sourced paper	<u>£36m</u>
	£62m

▪ Price recovery: 2009/10 – normal delay

2010/11 – targeting full recovery

▪ Paper price increases in (timing), box pricing announced

Pension Deficit

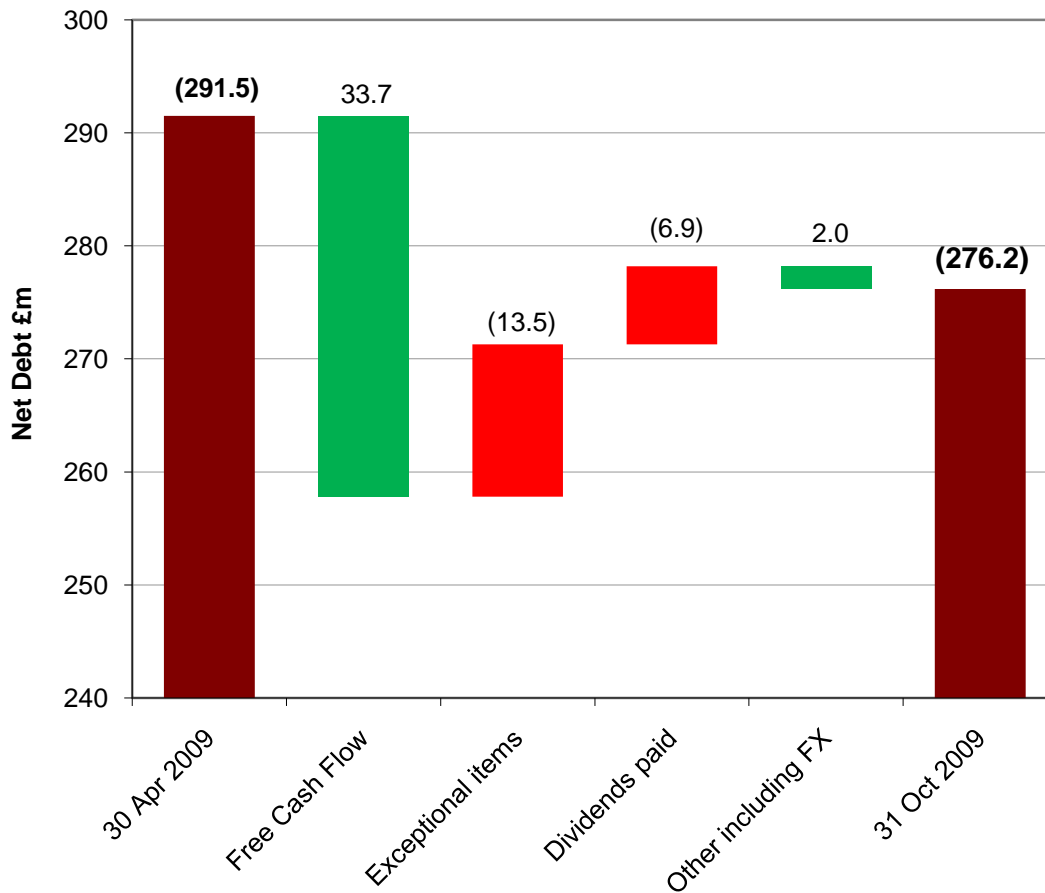
£million	H1 09/10	Full Year 08/09
Equities	403.5	349.8
Bonds, gilts and cash	236.4	205.5
Market value of assets	639.9	555.3
Value of liabilities	(880.0)	(746.6)
Deficit	(240.1)	(191.3)
Deferred tax	67.0	53.3
Net pension liability	(173.1)	(138.0)

Discount rate	5.6%	6.4%
Employee benefit net finance (charge) / income	(5.6)	1.5

Free Cash Flow

£million	H1 09/10	H1 08/09	Change 09/10 vs 08/09
Operating profit	48.5	54.4	(5.9)
Depreciation and amortisation	35.9	34.4	1.5
EBITDA	84.4	88.8	(4.4)
Working capital	(1.9)	1.7	(3.6)
Other	(5.4)	(8.8)	3.4
Cash generated from operations	77.1	81.7	(4.6)
Net capital expenditure	(23.4)	(41.0)	17.6
Taxation	(10.9)	(8.6)	(2.3)
Interest	(9.1)	(10.9)	1.8
Free cash flow	33.7	21.2	12.5
Exceptional cash costs	(13.5)	(1.3)	(12.2)
Dividends	(6.9)	(24.3)	17.4
Acquisitions/disposals	-	(1.3)	1.3
Net Cash Flow	13.3	(5.7)	19.0
Free Cash Flow per share - pence	8.6	5.4	3.2

Net Debt Movement



Debt facilities

- total facilities: £620m
- headroom: £267.1m
- Committed facilities to November 2012 of £525m

Covenant Headroom

Covenant	H1 2009/10	Headroom¹	Full Year 2008/09	Headroom¹
Consolidated Net Assets >£360m	£604m	£244m	£594m	£234m
EBITDA/Net Debt ratio <3.25 times	1.7x	EBITDA £75.7m	1.8x	EBITDA £75.4m
Profit before Interest/Net Interest Payable >3 times	5.0x	Profit before Interest £37.1m	4.5x	Profit before Interest £34.6m

¹ Headroom calculated on last 12 months. Excludes pensions and exceptional Costs

Guidance

Net interest: No change from H1 2009/10

Energy: H1 09/10 down £8.8m on H1 08/09

Full year circa £107m

Net capex: H1 09/10 £23.4m

Full year £50m

Employment benefit finance charge:

H1 09/10 expense £5.6m

Full year expense £11.2m

Key Points

- Uncertain environment → ▪ Strong market position in more resilient market sectors
- Lower volumes → ▪ Ability to reduce costs
- Significant input cost increases → ▪ Targeting full recovery

Continued focus on cash generation underpinned by strong financial position

Outlook

Tony Thorne
Group Chief Executive

DS Smith Strategy

Key Elements:

Packaging

- Growth in converted products
- Expansion in Continental Europe
- Targeted development paper
- Growth in Recycling

Office Products

- UK: Expansion of range; Structural cost reduction
- Continental Europe: Continued growth

Financial

- Packaging > WACC over industry cycle
- Office Products > 20% ROACE

H1 2009/10 Performance Drivers

Operating profit	H1 2009/10	Change vs H1 08/09	Key Drivers
	£m	£m	
UK Paper and Corrugated	23.0	(5.8)	Drop in paper prices
Cont. European Corrugated	12.6	(3.5)	Lower volumes; Box price erosion
Plastic Packaging	8.5	4.5	Costs cut
Packaging	44.1	(4.8)	
Office Products Wholesaling	4.4	(1.1)	Weak demand
Total	48.5	(5.9)	
Free Cash Flow	33.7	12.5	

Why Better Than Expected?

- **Strong Market Positions**
 - Volumes better than markets
 - Less price erosion
- **Cost Reduction**
 - Early implementation
 - 'Open for Business'
- **Cash Management**
 - 'Way of Life'

Going Forward - Packaging

Input Cost:	Waste paper and energy up
Demand:	Below last year; improving trend
Capacity:	Overhang; industry stocks low
Cost Recovery:	CCM increase; box prices moving up

Going Forward – Office Products

- Market remains difficult
- Spicers taken share in all markets, good base
- Teams managing gross margins well
- Cost reduction in place
- Second Half normally stronger

Priorities

- Hold cost gains; no drift
- “Open for Business” – response fast & reliable
- Capex: productivity, maintain position core markets
- Input Cost Recovery: price increases a must

Outlook

- Higher than expected H1 provides solid base
- Trading conditions remain uncertain
- H2 and particularly start point 2010/11 dependent on:
 - Demand in new calendar year
 - Speed of recovery of input cost increases