Capital Markets Day

Driving growth

18 January 2017

The Power of Less®

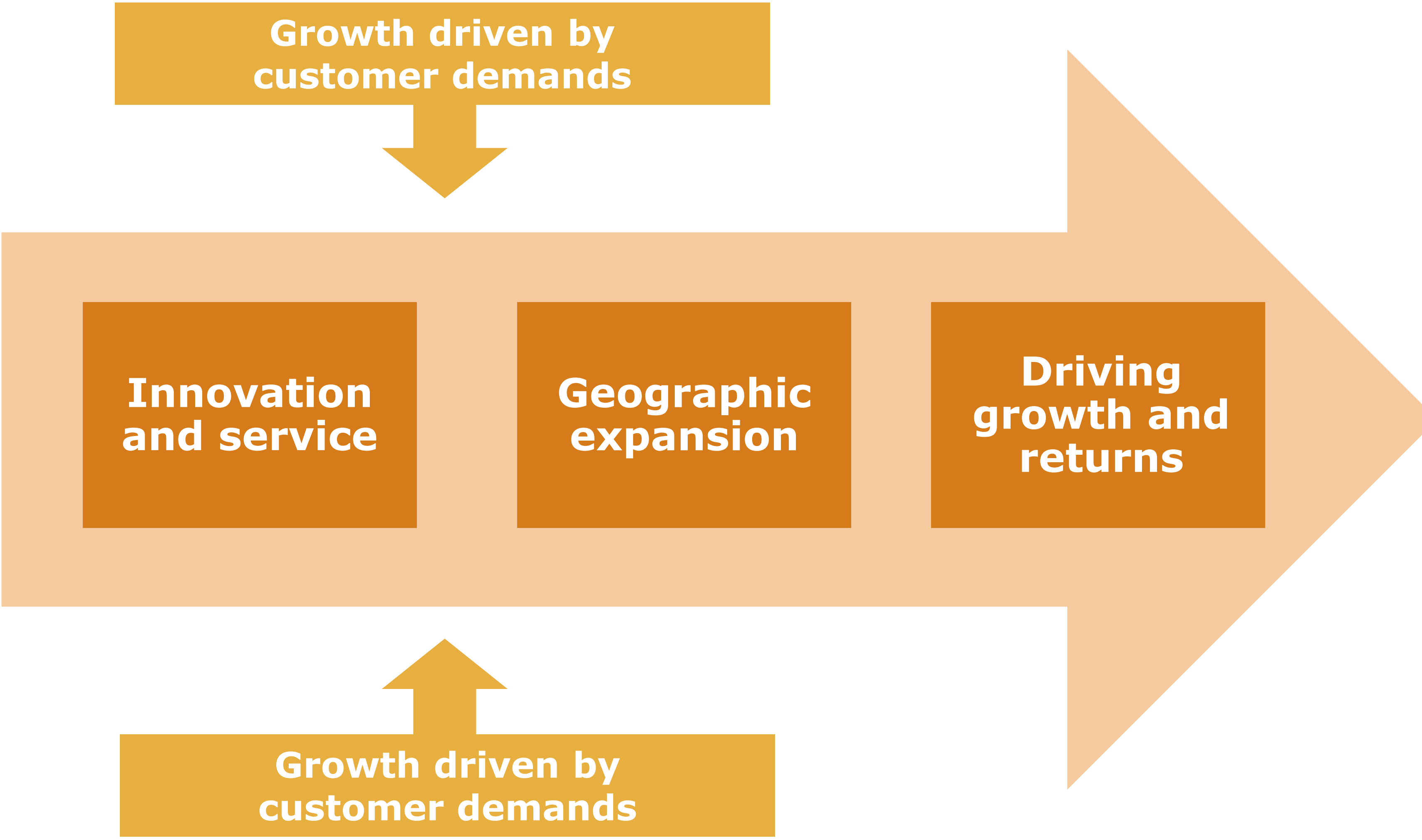
Plan for the day

09:10	**Introduction**	*Miles Roberts*
09:20	**E-commerce**	*Isabel Rocher and Mark Shaw*
10:10	*Coffee break*	
10:30	**Point of sale packaging**	*Richard Saysell*
11.00	**Nestle Customer Presentation**	*Santiago Gimenez (DS Smith) and Branka Markovic (Nestlé)*
11:20	**Introduction to the site**	*Per V Frederiksen*
11:40	**Site tour**	
12:30	*Lunch*	
13:30	**Impact and PackRight centre tours**	
14:20	**Strategy discussion**	
15:10	**Closing remarks**	*Miles Roberts*

Introduction

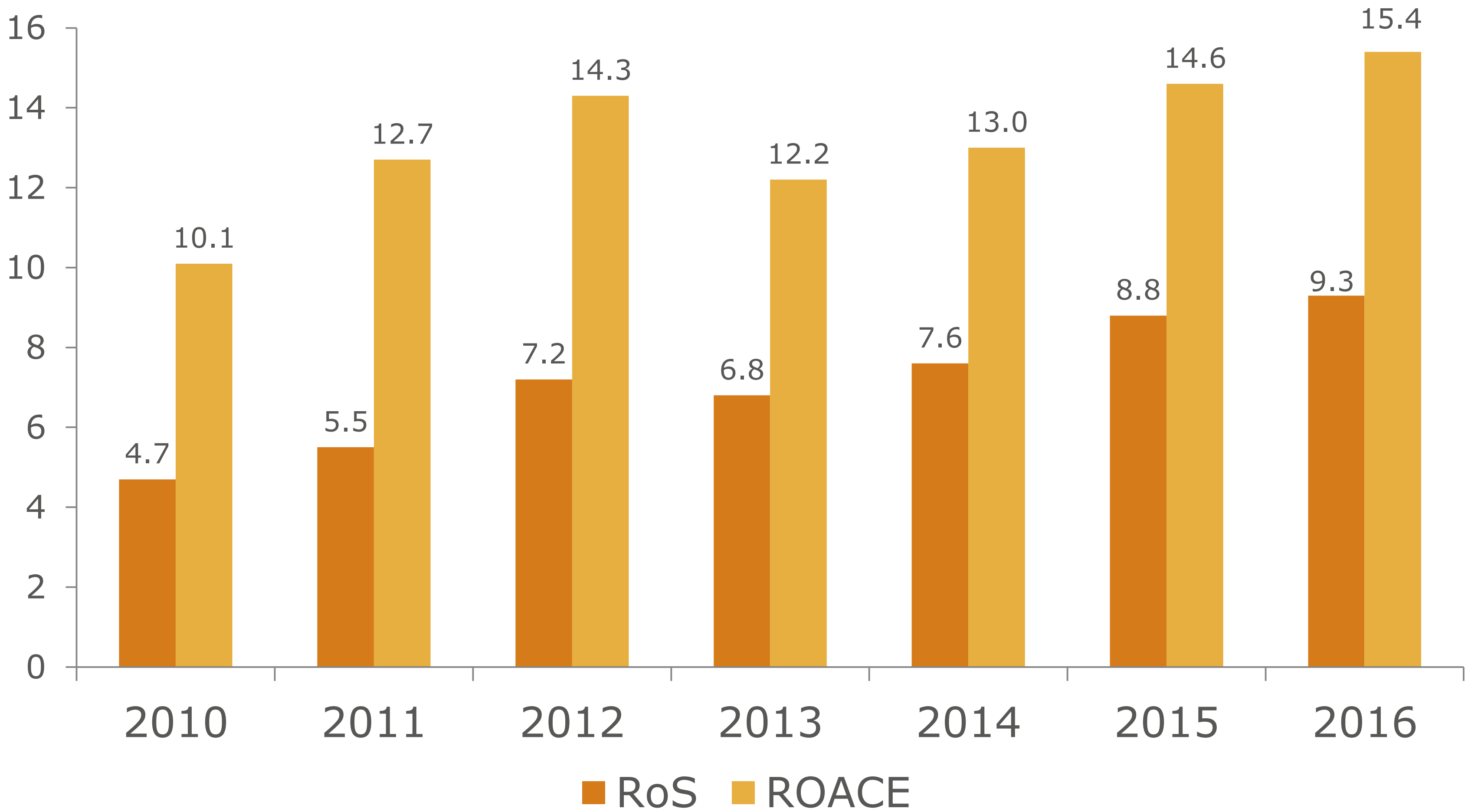
Miles Roberts, CEO

Sustainable growth drivers



Consistent returns growth

% ROS +460bps, ROACE +530bps over 6 years



Full year adjusted return on sales and return on average capital employed, before amortisation and exceptional items

Growth drivers

Current

- Market share gain – organic and inorganic
  - Unique network supports Pan-European procurement
  - Innovation
  - FMCG focus
  - Value creating acquisitions
- Lead development of new markets – eg retail ready
- Higher growth / higher margin business mix

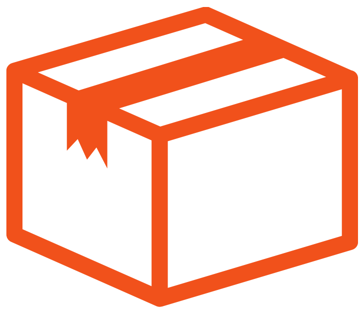
Future

- Continued customer consolidation of suppliers
- Continued consolidation of packaging market
- Continued product and service innovation
- **Consumer / retail trends**
  - **E-commerce**
  - **Point of Sale / Display**

E-commerce

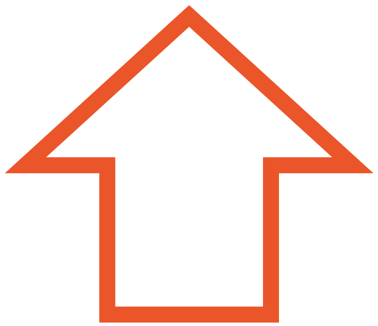
Why e-commerce is a key focus for DS Smith

- Substantial market growth
- Good margin opportunity
- Enhancing industry leadership
- Opportunity to add significant value to our customers



4.2bn+

Parcels per annum



12%+

Forecast annual growth

Point of Sale

Why Point of Sale / Display is a key area of focus for DS Smith

- Strong market growth
- Higher margin
- Fragmented supply base
- Customer pull for pan-European service and solutions

£3bn
direct market opportunity plus add-on services

"In the medium term (5 years), I'd forecast cardboard-related display growing at 10-12% per year"

POS Trade Marketing Manager, Multinational FMCG company

Future growth drivers - our strategic approach

1. Analyse the future
2. Identify the key consumer /retail trends driving growth
3. Develop and invest in packaging solutions to help our customers
4. Deliver growth and returns

Presenters

Presenters

Miles Roberts
CEO of DS Smith Plc

Per V Frederiksen
Managing Director, Germany and Switzerland region

Alex Manisty
Director of Strategy

Mark Shaw
Market Development Director

Isabel Rocher
Head of e-commerce solutions

Richard Saysell
Managing Director, Creo, a division of DS Smith Plc

Presenters

Branka Markovic
Promotional items and Point of sale, Nestlé

Santiago Gimenez
Strategic Account Director Packaging Division, DS Smith

Markus-Oliver Kramm
General Manager, Erlensee site

Martin Greb
Impact Centre Manager, Erlensee site

Stefan Eller
General Manager CEC

Thomas Loeffler
PackRight Centre Manager Erlensee site

Key messages

Dynamic consumer and retail environment

Developing and investing to help our customers

Consistent strong organic growth

Enhanced financial returns

E-commerce

Introduction

Mark Shaw
Market Development Director

Isabel Rocher
Head of e-commerce solutions, DS Smith Plc

Previously Head of EU Packaging and shipping supplies *Amazon EU*

The e-commerce opportunity

- **Introduction to the e-commerce market**
- **Market dynamics**
- **Creating value**

The e-commerce market

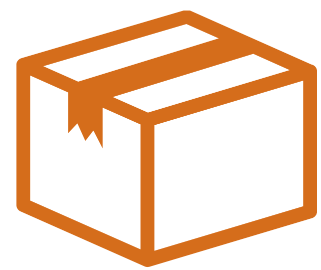
European market overview

296m

people are e-shoppers

€1,540

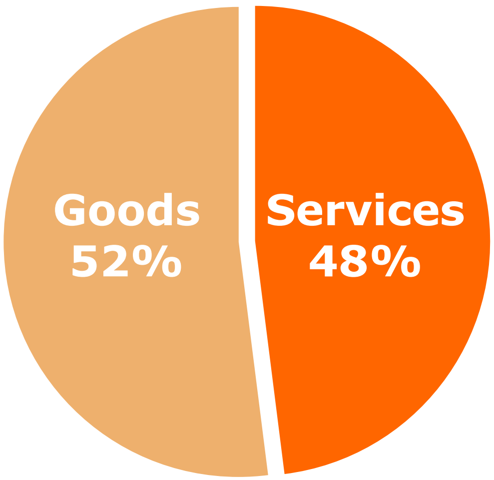
Average annual spending per e-shopper



4.2bn+

Parcels per annum

European market overview



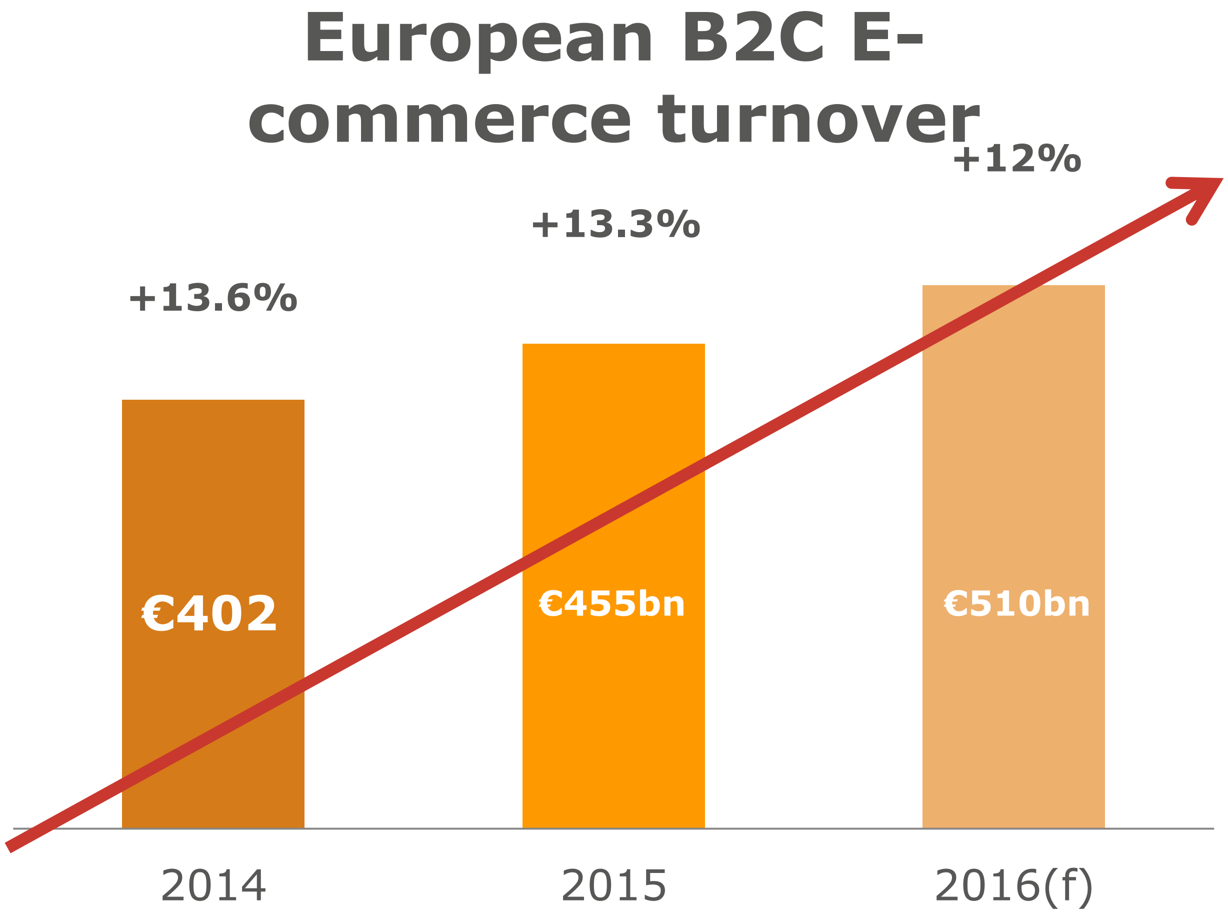
Share of e-commerce in GDP **2.6%**

8%

Estimated share of **goods sold online** out of **total retail of goods**

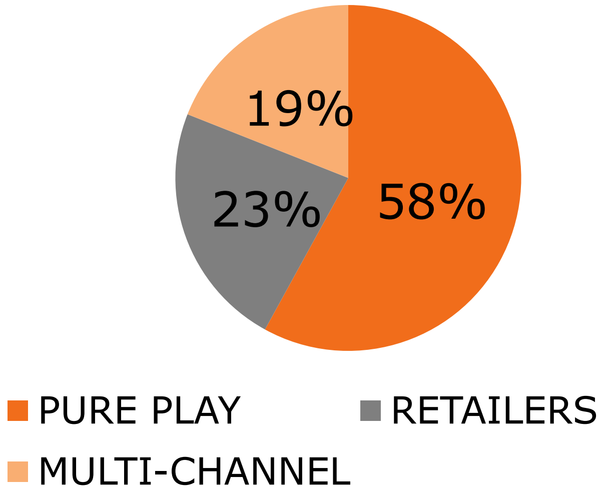
€455bn total online sales in 2015

Strong market growth

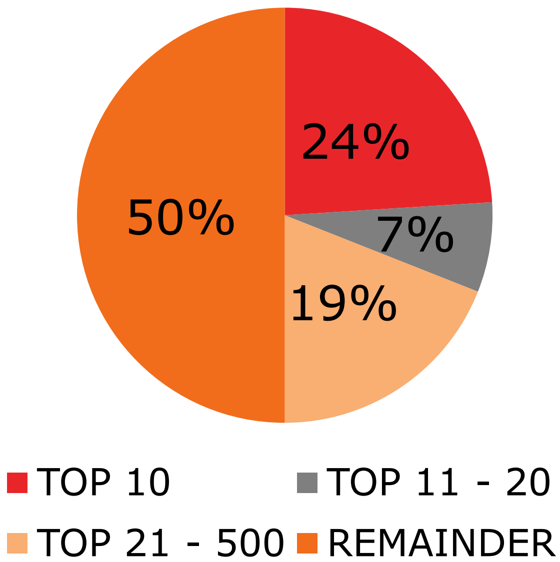


Heterogeneous and fragmented market

Heterogeneous market



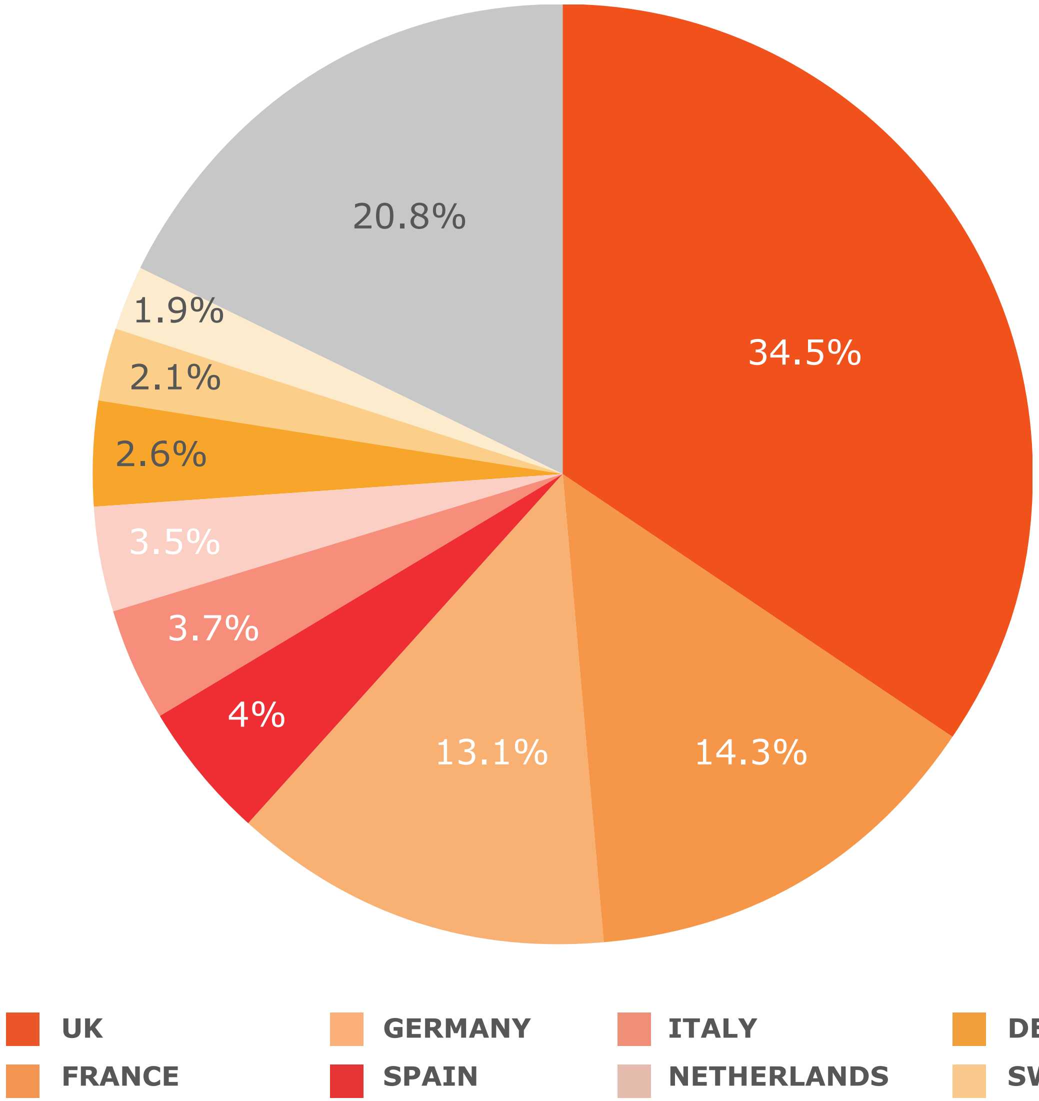
Highly fragmented



- Market split between **pure play** e-commerce retailers(>80% sales online), retailers who also have an on-line channel, and **multi-channel** companies
- Top-20 e-commerce retailers in account for c. **31% of total market**
- Very long tail of small businesses

Sources: DS Smith Analysis

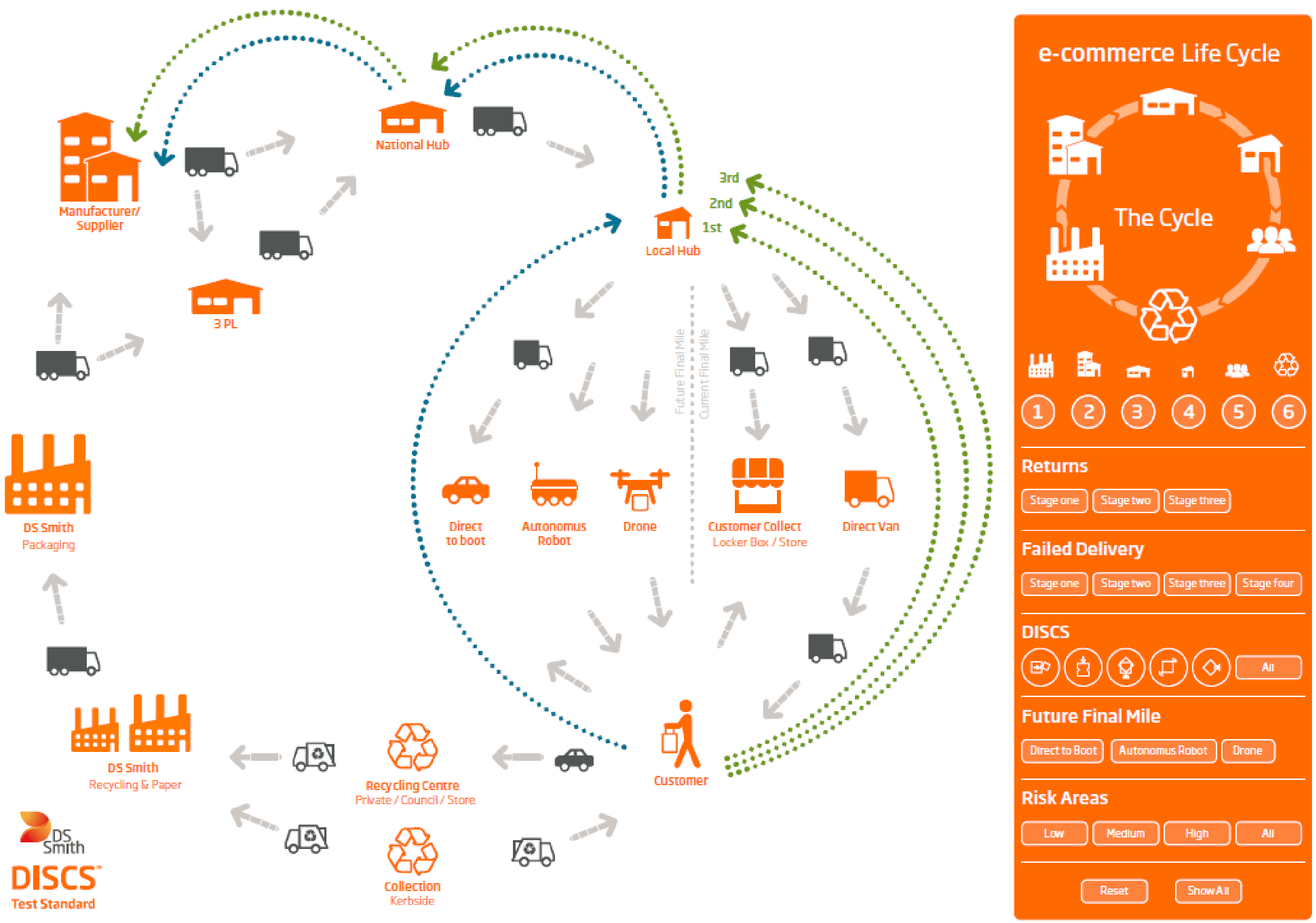
UK leading e-commerce within Europe



- Germany and France expected to grow to approx size of UK
- DS Smith leads UK market

Market dynamics

50 touch-points on average vs. 5 in traditional retail



Packaging under stress in final mile

myHermes
Makes delivery easy.

Inbound / unloading

Sorting / outbound / loading

2 minutes

New delivery formats need packaging solutions

Packaging challenge to reduce void space

REDUCE VOID SPACE

REDUCE DAMAGE IN TRANSIT OR RETURN

IMPROVE PACKAGING PERFORMANCE/BOX QUALITY

€4bn

Transportation cost reduction/void-fill elimination brings a €4bn savings opportunity for western European e-commerce businesses

Source: Amazon webinar- Packaging for Amazon fulfilment, 2016

The future of packaging in the e-commerce world

Branding experience shifts with e-commerce > the role of packaging adapts

Shelf vs. website

- Product reviews and information instantly available to ease consumer choice,
- Decision based on consumer reviews

Source: Amazon webinar- Packaging for Amazon fulfilment, 2016

Packaging is critical to product perception

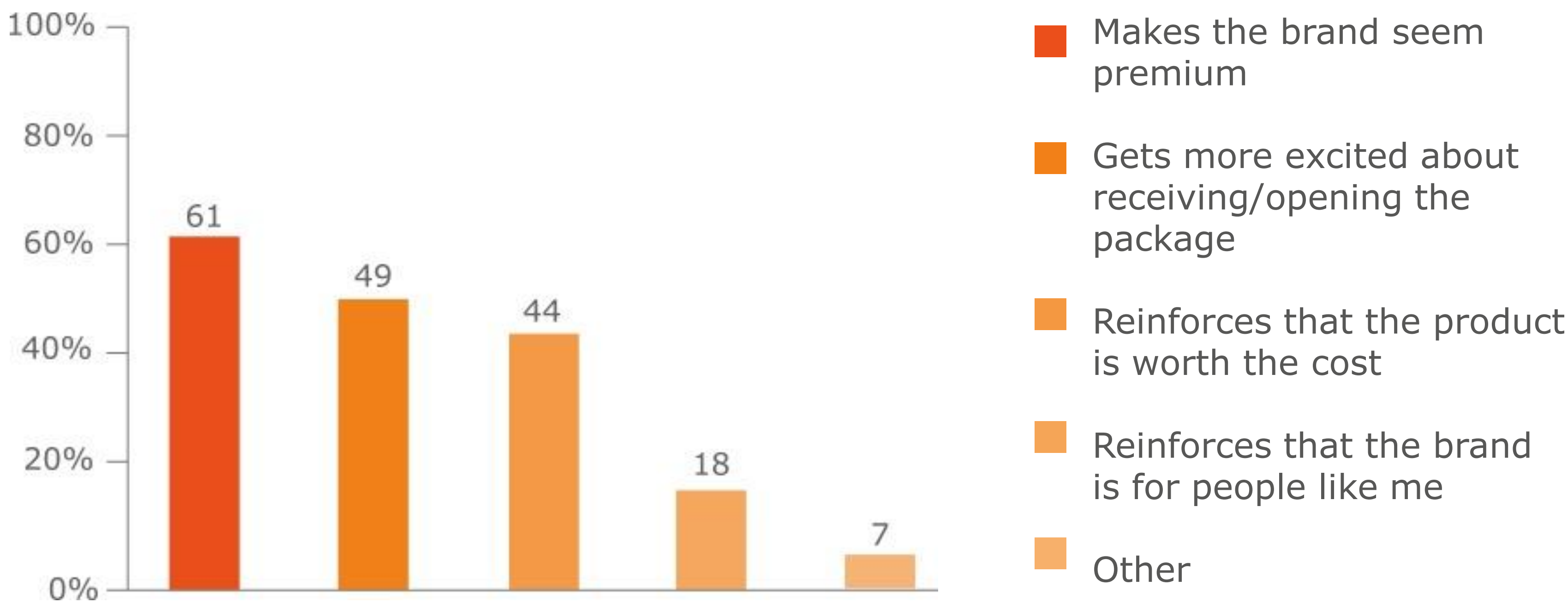
Different first moment of truth:

- Fulfils the transit requirements
- Reinforces consumer experience

Source: Amazon webinar- Packaging for Amazon fulfilment, 2016

Opportunity to create brand value

How does the packaging affect your perception of the brand?



Sources: www.keenpac.com/how-packaging-impacts-brand-perception-in-e-commerce-2

Packaging becoming more sophisticated

Frustration-Free Packaging
Optimized for customer experience & sustainability

FFP

OMNICHANNEL

Ship in own container
Waste reduction

SIOC

MULTICHANNEL

Prep-Free Packaging
Prep removal

PFP

E-COMMERCE

Not certified

TRADITIONAL

New packaging certification guidelines by Amazon

Creating value

Large addressable market, growing at c. 12%

2015

4.2 billion parcels shipped p.a.

C. 1.5 billion m^2 corrugated

C. 3% corrugated market

Forecast to grow at c. 12% p.a.

Growth 2015-18

Additional 500m parcels p.a.

C. €100m p.a.

Growth in e-commerce packaging is **c. 20% of all** corrugated packaging growth

Sources: E-commerce Foundation (May 2016), statistics for EU market

The environment

MARKET	INSIGHTS	DS SMITH APPROACH
Fragmented & Heterogeneous	E-tailer pinchpoints	1. Fundamentals
		2. Service Toolbox
Different level of maturity	Consumer expectations	3. Right-Size Packaging
Fast growing & fluid structured last mile	No industry standard or leadership in packaging	4. Reverse Logistics
		5. Omni-channel Packaging

The fundamentals

CHALLENGE

No widely adopted performance packaging standards for e-commerce packages

OUR TARGET

Bring order where there currently is chaos

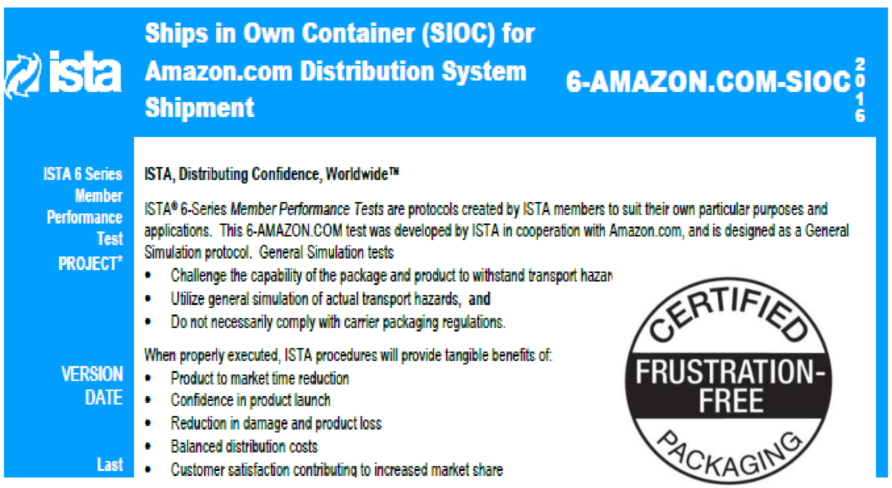
OUR STRATEGY

- Strongly support and align with the Amazon testing protocols
- Establish testing protocols supported by a full testing process (DISCS)

Supporting Amazon packaging certification programme

DS Smith globally accredited testing partner to Amazon:

- Rolling out globally



ista

Ships in Own Container (SIOC) for Amazon.com Distribution System Shipment

6-AMAZON.COM-SIOC 2016

ISTA 6 Series Member Performance Test PROJECT*

ISTA, Distributing Confidence, Worldwide™

ISTA® 6-Series *Member Performance Tests* are protocols created by ISTA members to suit their own particular purposes and applications. This 6-AMAZON.COM test was developed by ISTA in cooperation with Amazon.com, and is designed as a General Simulation protocol. General Simulation tests

- Challenge the capability of the package and product to withstand transport hazar
- Utilize general simulation of actual transport hazards, and
- Do not necessarily comply with carrier packaging regulations.

VERSION DATE

When properly executed, ISTA procedures will provide tangible benefits of:

- Product to market time reduction
- Confidence in product launch
- Reduction in damage and product loss
- Balanced distribution costs
- Customer satisfaction contributing to increased market share

Last

CERTIFIED FRUSTRATION-FREE PACKAGING

Industry leading standards

- First mover advantage
- Rolling out across Europe in 2017
- PackRight Centre network facilitates speed of roll-out

The fundamentals

CHALLENGE

Pack design protocols are not currently adapted to e-commerce supply chain

OUR TARGET

Bring order where there currently is chaos

OUR STRATEGY

- DS Smith was at the forefront in developing the “5 Easy’s” for RRP
- DS Smith leading with the “5 Easy’s” in e-commerce packaging
- Our PackRight centre network across Western Europe will accelerate deployment

Applying our packaging design knowledge

- The "5 Easy's" of retail-ready packaging well established
- DS Smith developing the "5 Easy's" of e-commerce packaging
- Leverage strength of European design network

Five Easy's of e-commerce packaging

EASY TO SOURCE
RECEIVE
STORE
IDENTIFY

EASY TO PACK
ASSEMBLE
PACK
RIGHT SIZE

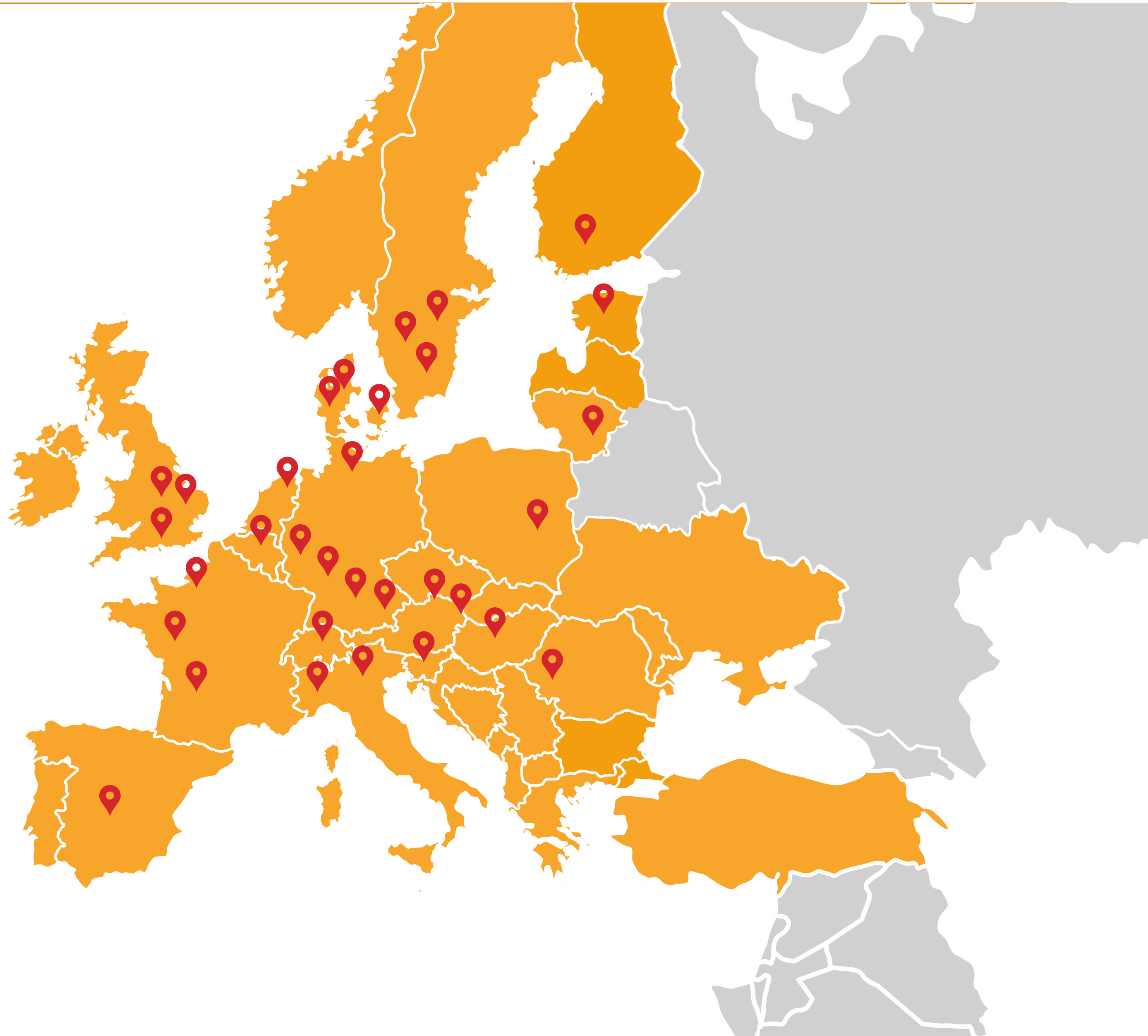
EASY TO SHIP
PROTECT
SECURE
TRACK
OPTIMISED SPACE

EASY FOR CONSUMER
OPEN
UNPACK
FLATTEN
RETURN
BRAND EXPECTATION

EASY TO RECYCLE
REUSE
KERBSIDE RECYCLE
FULLY RECYCLABLE

Our network of PackRight Centres

DS Smith PackRight Centres



Right-size packaging

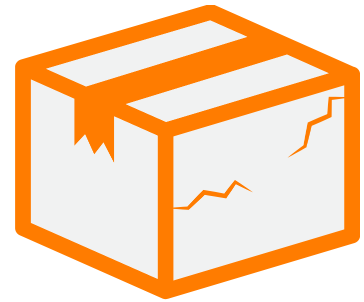
CHALLENGE
Void fill exists because of the current inability to produce right-size packs on demand

OUR TARGET
To provide our customers with right size Packaging - on demand

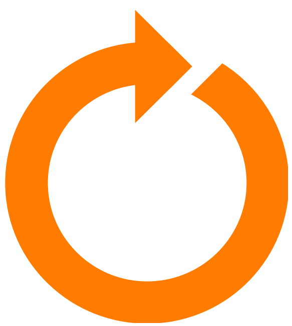
OUR STRATEGY
- Understand the needs of the different market segments
- Build solutions to those needs
- Draw on our knowledge of our international machine systems business and our designer network to build solutions

Right-size packaging - €4bn opportunity

On avg. 55% of each box is empty



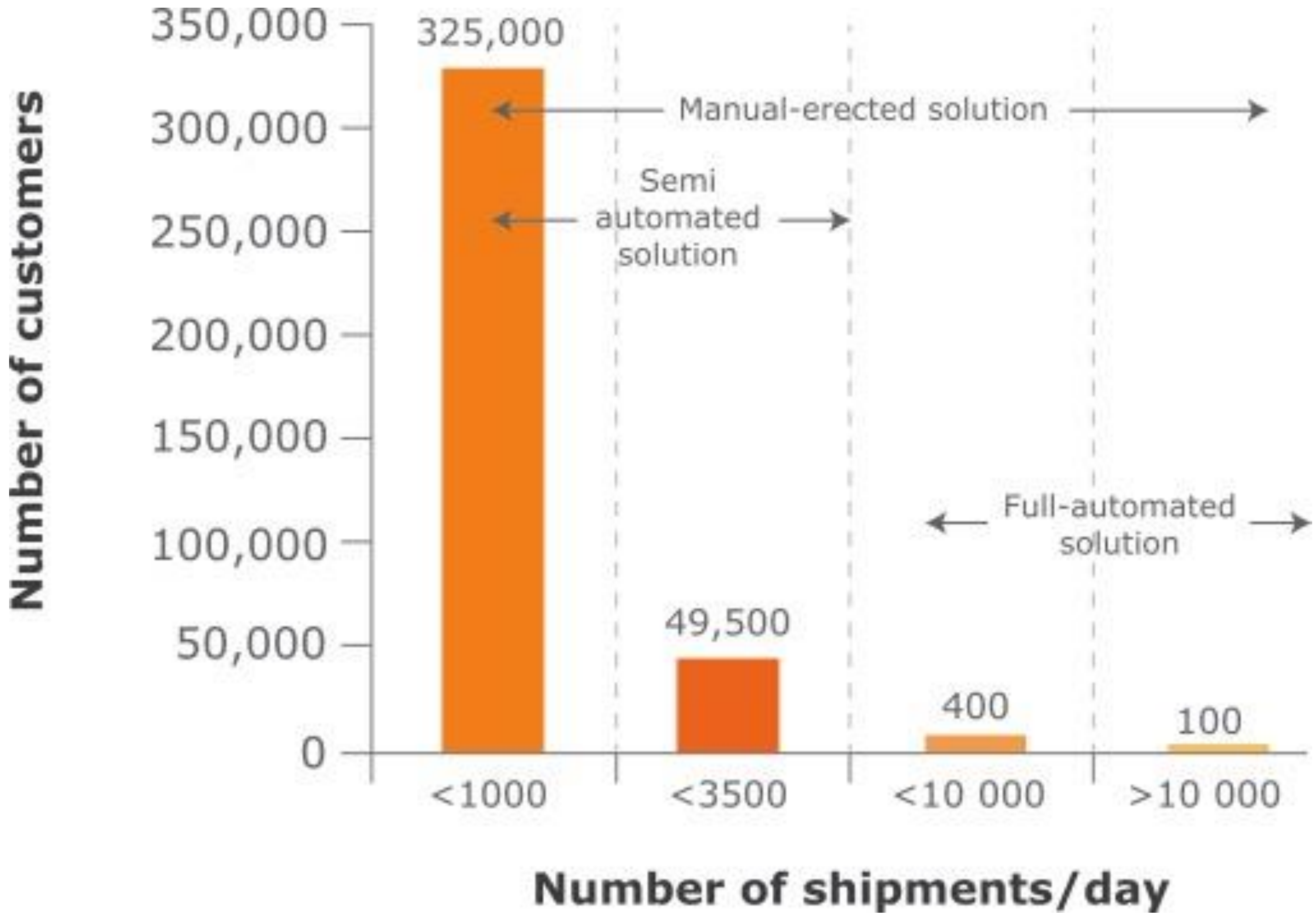
20% - 30% of items shipped are returned! Up to 70% in fashion e-retail



Optimization leads to 40% of cost reduction in transportation

Costs structure per shipment:
45% Labour
35% Transportation
20% Material costs (box + void fill)

Consumer value creation: right-size packaging



Right-size packaging

The aim of right-size packaging

- Multi-size boxes from limited number of “blank” SKUs
- Controllable waste

Different customers = different challenges

Smaller e-commerce retailers

- Non-automated solution most cost efficient
- **DS Smith patented solution**
- Eliminates void space

Larger e-commerce retailers

- Our machine systems designers developing an automated solution
- Trialling a prototype in the market
- Same team as developed patented mandrel technology to optimise the packing rates in FMCG manufacturing sites

E-commerce packaging expected to evolve

Development from plain box to high value-add

Right-size packaging **Omni-channel packaging**

Summary - Creating value from the opportunity

- Creating value by
  - Void space reduction
  - Supply chain optimisation
- Omnichannel - enhancing the branding and personalisation
- Large, fast-growing market
- Building industry leadership
  - Setting standards
  - Anchor customer
  - Anchor technology
- E-commerce – c. **20% of corrugated market growth**

Introduction to point of sale

Richard Saysell

Managing Director of Creo, part of the DS Smith Group

- c. 28 years experience in print and packaging
- Founded the Creo business, focused on PoS and Display, in 2007
- Creo acquired by DS Smith in 2016

Point of sale

- **In-store promotional and directional advertising**

- **Displays used at the point of sale (PoS)**
  - On-shelf displays
  - Free-standing display units (FSDUs)
    - Creating in-store theatre

- **FMCG, other consumer and media companies, and retailers**

- **Higher growth**
  - Driven by move to PoS marketing rather than mass marketing

- **Higher margin potential**
  - High quality requirement to complement the primary product
  - Opportunity to move up value chain

Point of sale drives sales

Consumer and retail trends drive growth of PoS

INFLUENCES

- Cost conscious consumers
- Less mass marketing, more targeted promotion
- Importance of discounts offered in store
- Manufacturers trying to create an event

CONSEQUENCES:

- Decisions made in-store
- Need product to stand out in a busy supermarket environment
- Displays needs to be adaptable for different store types

Point of sale – market landscape

Large market for PoS services, production and delivery

£6.6bn

POS SERVICES

Minimal	£1bn	£2.9bn	£2bn
Consultation	Design and development	Engineering & manufacture of POS	In-store Digital & Mobile

£2.9bn

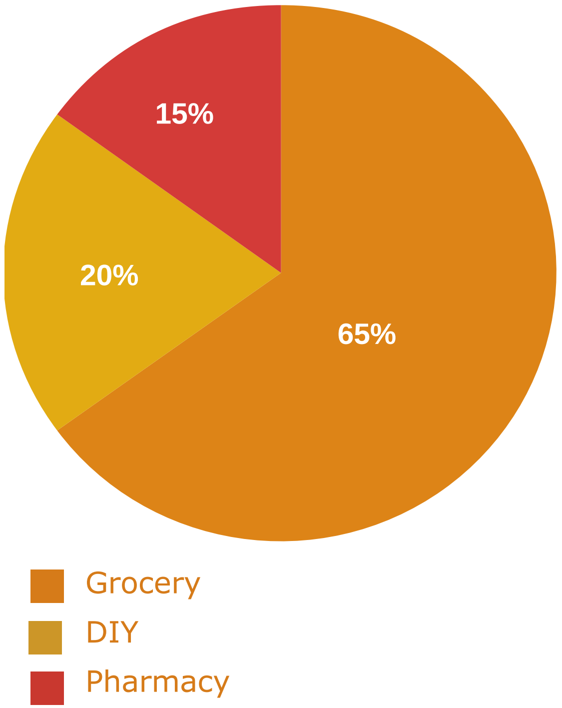
PRODUCTION & DELIVERY

£1.9bn		£1bn
Engineering of FSDU	Manufacture	Logistics

Sources: European market size
P-O-P Industry Report, 2016
Path to Purchase Industry Shopper Study, 2015

Grocery is the largest user of display packaging in Europe

Corrugated display market sector



"We try to use all the tools we can to influence shopper behaviour before the moment of purchase"
Former Global Head of Shopper Marketing, Multinational FMCG company

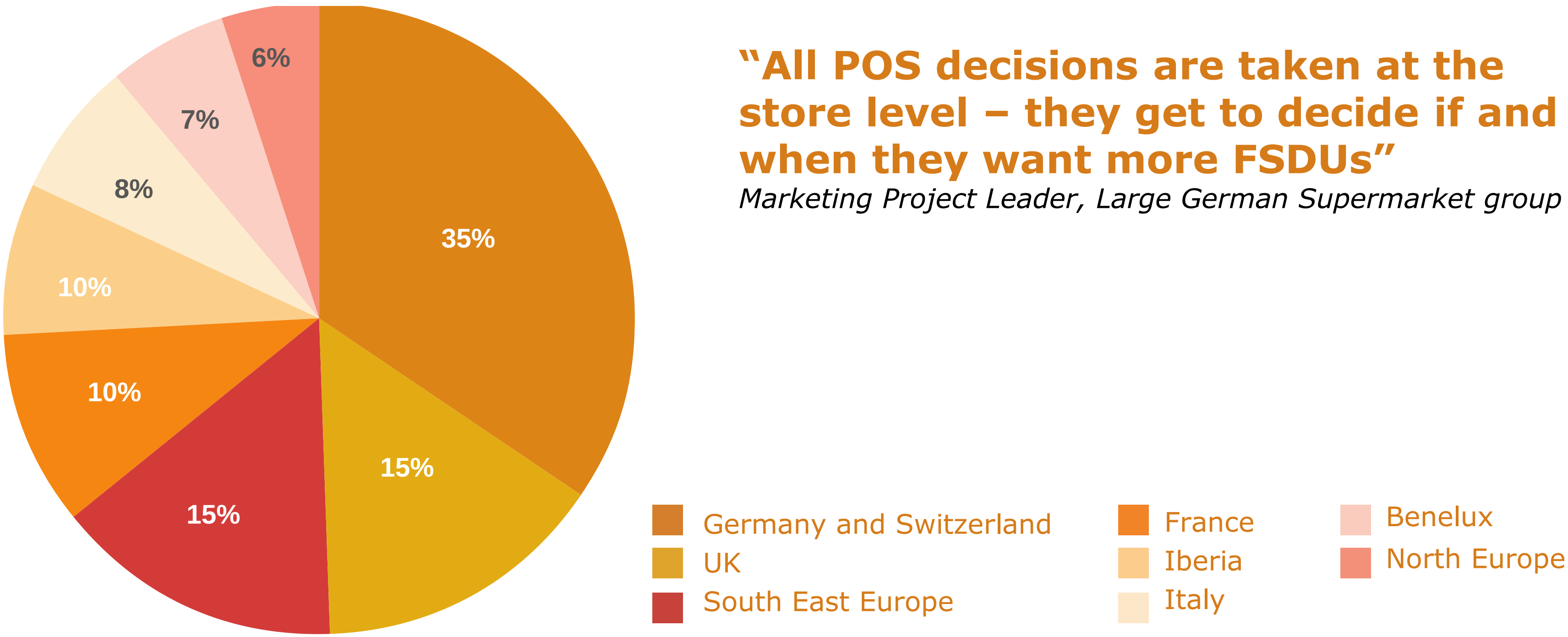
"Displays are very heavily used in Denmark, and Europe as a whole. About 60% of our products in stores in Denmark sit on a display, and most of these are cardboard FSDUs"
Head of PoS Sourcing, Multinational FMCG company

Natural fit with existing DS Smith infrastructure and customer base

Sources: White Space Interviews

Particularly well developed in Germany

European Cardboard display by country



"All POS decisions are taken at the store level – they get to decide if and when they want more FSDUs"
Marketing Project Leader, Large German Supermarket group

Highly fragmented market

Sources: White Space Interviews

Fast growing market

"There has been a big transition from ATL (including TV) into other forms of marketing. People talk about the shift to digital, but the shift to in-store marketing is as big generally, and is probably larger in FMCG where the snap decision to purchase is made at the point of purchase without research beforehand."

Former Global Head of Shopper Marketing, Multinational FMCG company

"In the medium term (5 years), I'd forecast cardboard-related display growing at 10-12% per year."

PoS Trade Marketing Manager, Multinational FMCG company

"POS in general – measured in value – is probably growing 10–12% as the solutions are more …complex and intelligent."

Director, independent Display / PoS manufacturer

"We are pioneering FSDUs as a marketing strategy and now have 30 in a store."

Area Manager, Pan-European discount supermarket group

Sources: White Space Interviews
ANA US Brand Activation Marketing Forecast Report 2016

Customers want more from their suppliers

Customers want a joined-up, multinational approach

75%

of marketers claimed their cross territory POS was poor to average

Technology is key to effective implementation and analysis

82%

of marketers claimed that they were failing to measure marketing ROI in an effective way

61%

of marketers were less than satisfied with their current campaign technology

Sources: DS Smith customer survey

Point of sale strategy

Strategy

1. **Combining insight, design and manufacturing expertise**

2. **Leverage pan-European network and global service platform**

3. **Economies from highly automated production**
   - Designed for both high and low volume product runs

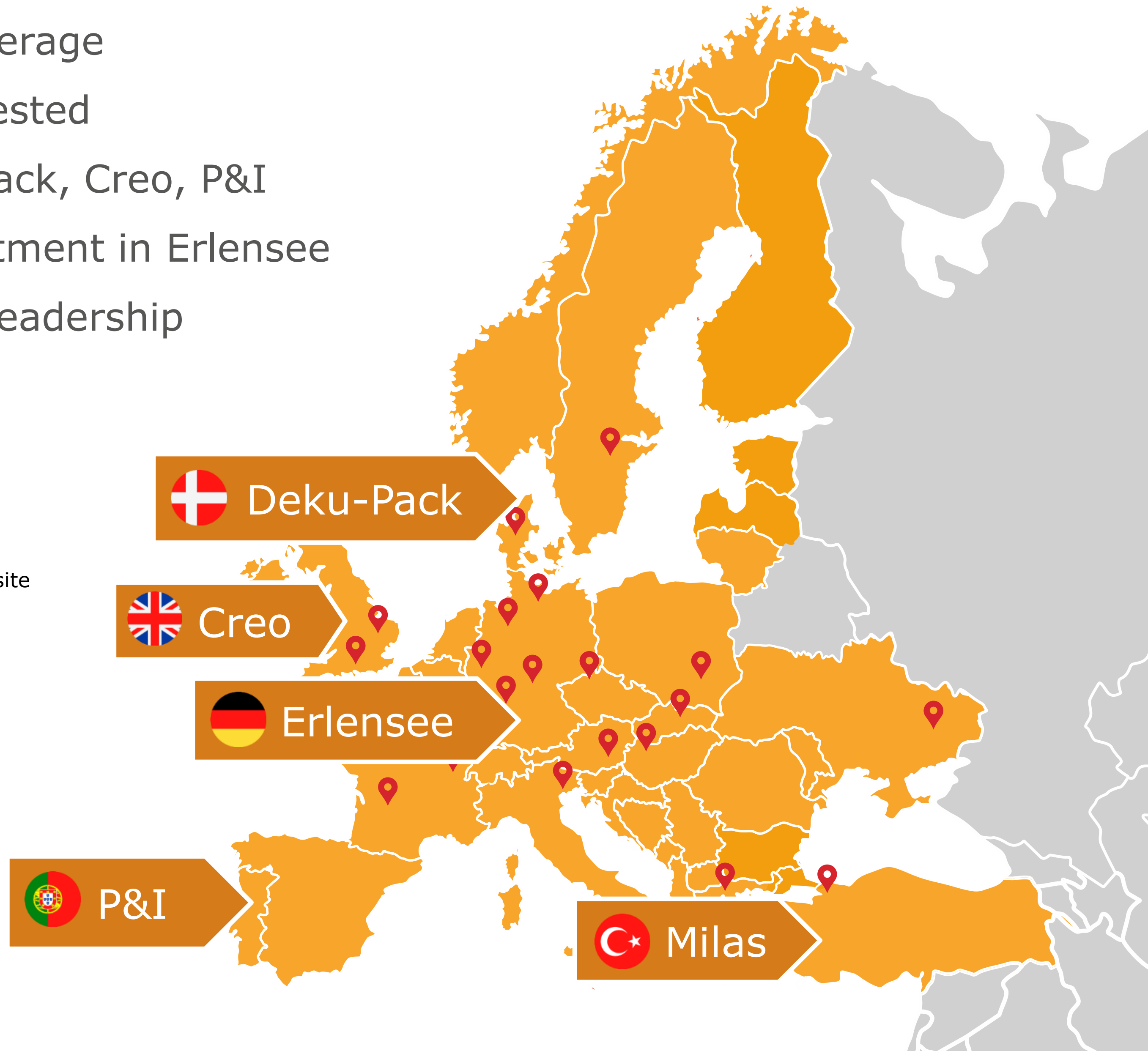
4. **Develop higher-end services**
   - Leverage design expertise

5. **Build long-term relationships**
   - Technology
   - End-to-end services

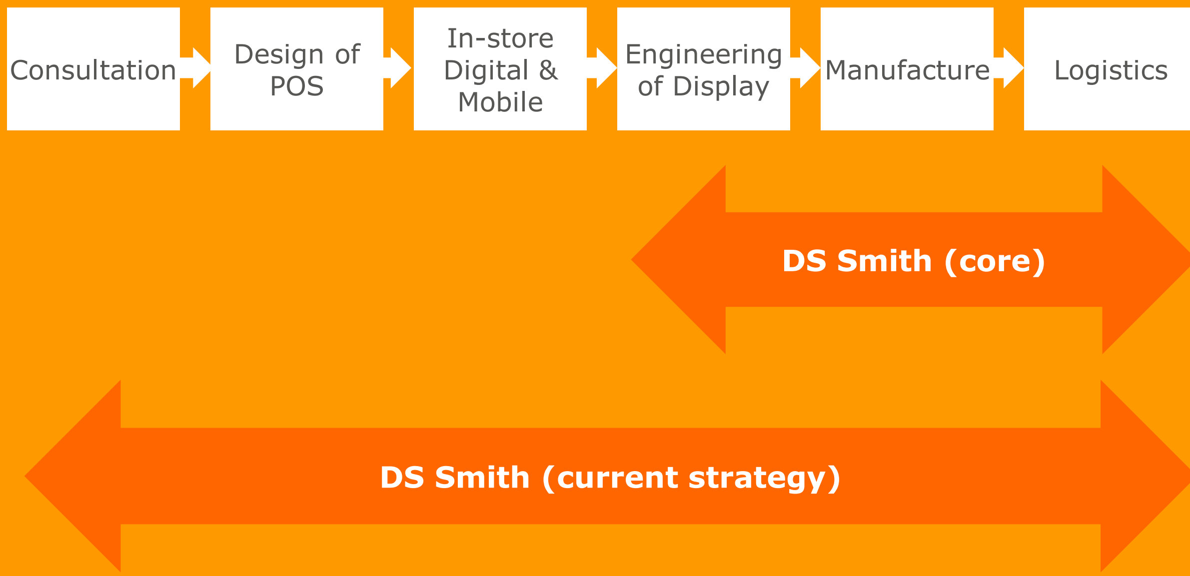
Unique coverage and capability

- Pan-European coverage
- £100 million+ invested
  - Milas, Deku-Pack, Creo, P&I
  - Organic investment in Erlensee
- Building industry leadership

DS Smith Display manufacturing site



Building higher-end services



Skillset:

- Highly efficient manufacturing of FSDUs
- Transcreation of POS designs for local markets
- Procurement of permanent displays and other POS materials
- In-store digital expertise
- Shopper marketing
- Marketing activation front-end to the business
- One-stop-shop account management for POS

Long-term relationships built on technology

Case study

Reckitt Benckiser

- **Combining DS Smith pan-European network with the display expertise acquired via Creo**

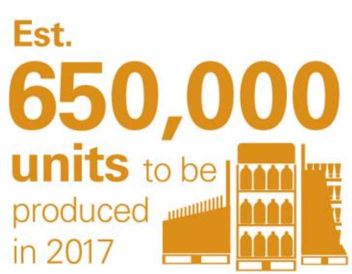
- DS Smith

- Creo

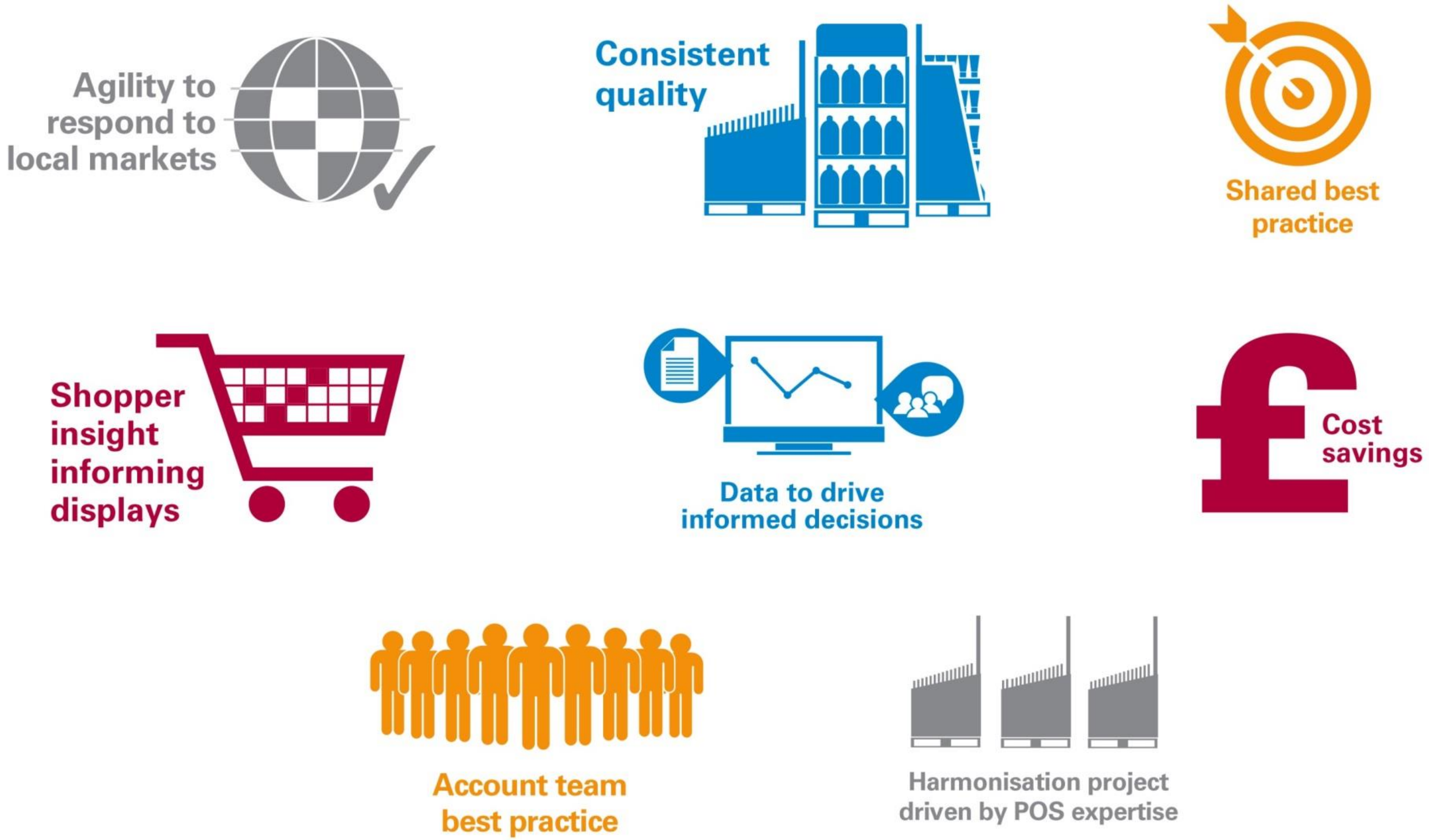
Winning new business

Pan-European service for PoS / Display

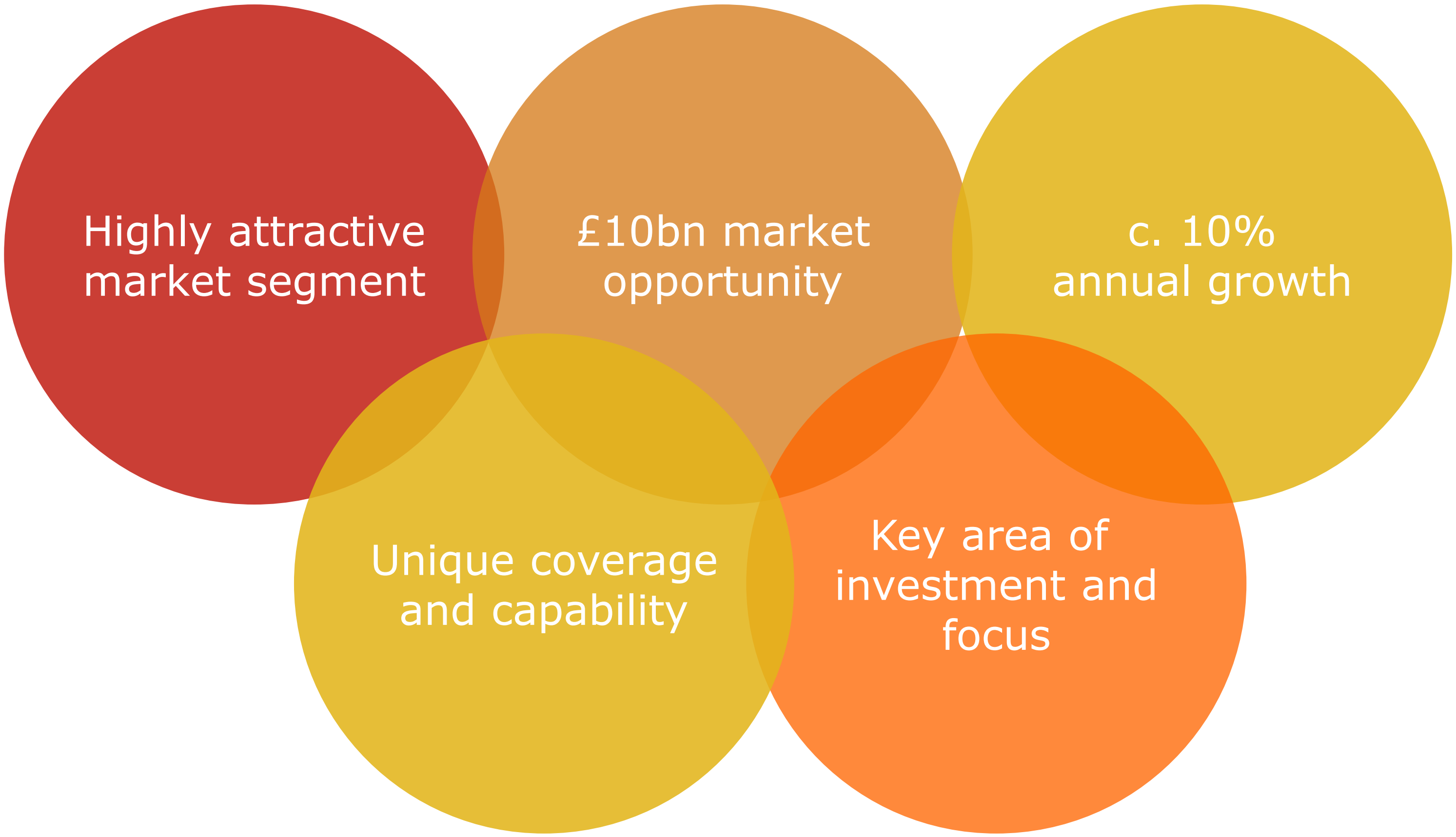
- Supplying display across a number of European countries
- Centralised artworking and one campaign management system to deliver brand control
- Data controlled and analysed centrally to facilitate best practice
- Opportunity to react effectively at local market level through DS Smith network of suppliers



Benefits for Reckitt Benkiser



Summary



Driving growth – moving up the value chain

Case study - Nestlé

Presenters

Branka Markovic
Promotional items and
Point of Sale, Nestlé

Santiago Gimenez
Business Lead Europe
at DS Smith, Nestle
Retail Integration

Background

2010

- Nestlé (Germany) need a co-ordinated solution for their display / PoS packaging
    - DS Smith competes and won against other corrugated manufacturers, print management agencies, and national co-packing partners to **manage the supply chain from end-to-end**… from the marketing cycle through to the retail space

Subsequently…

- DS Smith Germany developed a new Retail Integration Model to simultaneously improve lead times to retailers while driving efficiencies that fuel growth

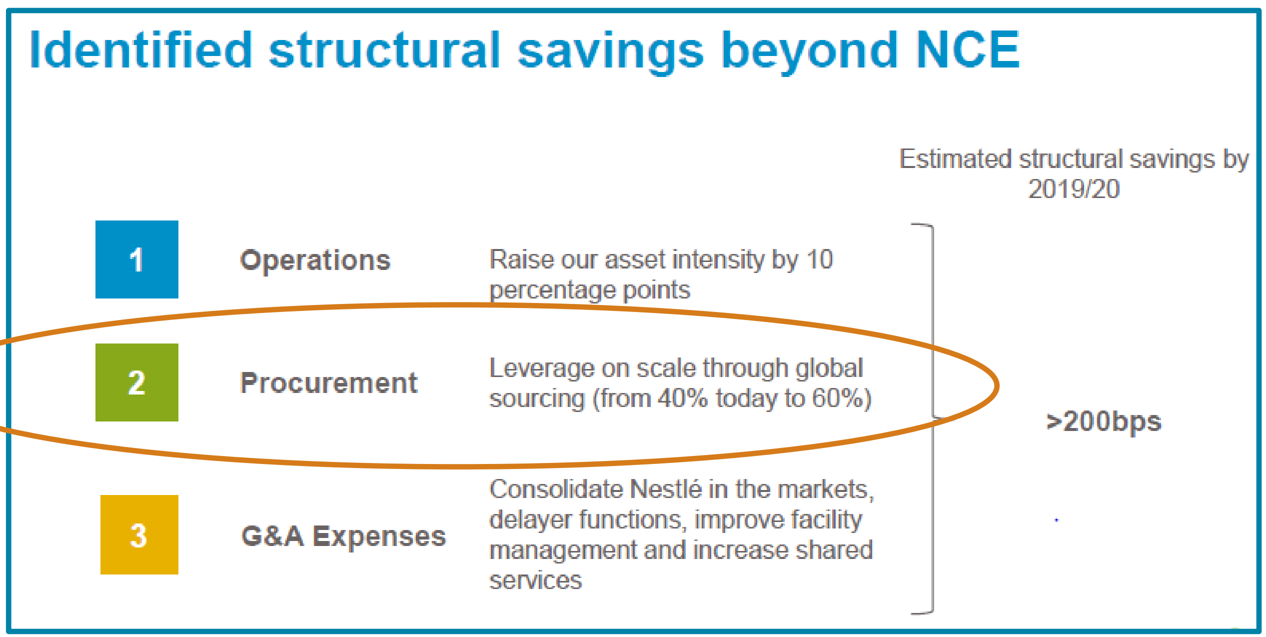
- Centralised Retail Integration Team developed

Nestlé drive for efficiency

Nestlé responding to the challenge of "deflationary downsizing" through

1. **Premiumisation**

2. **Supply chain efficiency**



Nestlé: June 2016 presentation to investors at DB Global Consumer Conference

Consolidating the supplier base for PoS

The challenge

- Starting point:
  - 42 suppliers
  - 465+ specifications
  - 17 markets
  - 7 business categories

- The aim
  - 2 suppliers
  - Streamlined specifications
  - Improved speed to market

DS Smith's customer-centric approach

Market-by-market approach to address the challenge

Rationalise the complex Nestlé portfolio 'horizontally'
- Integrate SRP into POS designs

Scaled up new Retail Integration Model
- To optimise manufacturing efficiency
- To reduce co-packing costs
- To shorten the supply chain end-to-end
- To achieve speed-to-market
- To become more responsive to retailers

For this Nestlé require an end-to-end solution from the **marketing cycle** to the **supply chain in order to** manage the Retail chain

The outcome

For DS Smith

- Won additional three major country “clusters” comprising 8 European countries representing c. 70% of the total contract
- Sourced from sites across Europe, including Erlensee

For Nestlé

- Improved brand consistency
- More efficient
- Faster speed to market
- Improved environmental impact
- Reduced complexity
- Reduced overall cost

Looking to the future

- **Greater innovation**
- **Ever-increasing consumer expectations**
- **Multi-level harmonisation**

Good Food, Good Life

Introduction to Erlensee

Welcome to Erlensee

Per V Frederiksen
Managing Director,
Germany and Switzerland
region

Welcome to Erlensee

- Europe’s largest dedicated Display / PoS site
- Complemented with Impact and PackRight centres
- Ground-breaking ceremony in August 2015
- Completion 12 months later
- Now fully operational, on time and on budget

Erlensee

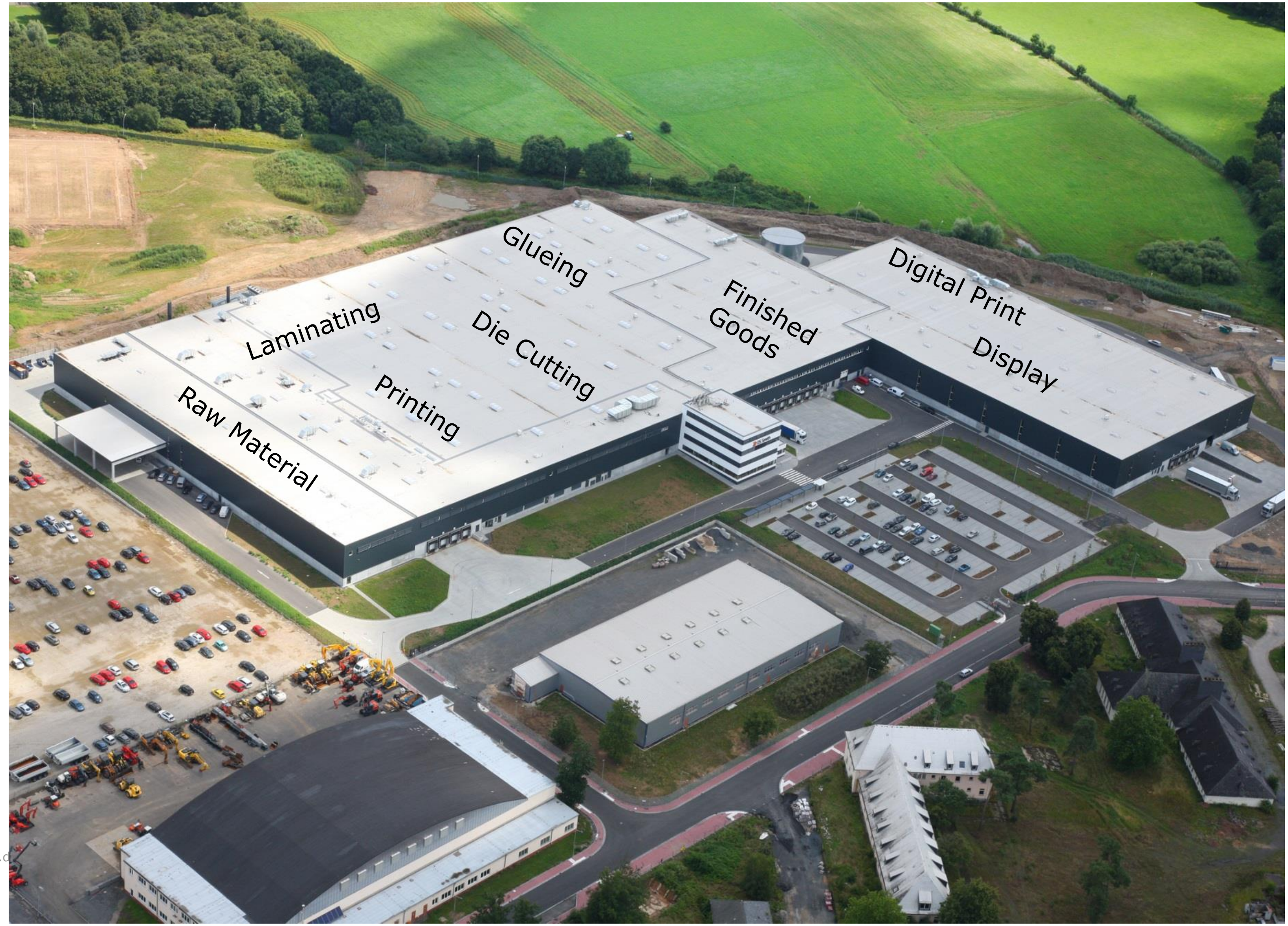
Why did we build Erlensee?

- Display / P.O.S identified as a higher growth market
  - opportunity to build leadership position
- Strategic positioning in the centre of Germany and Europe
- Our customers require European scope and scale

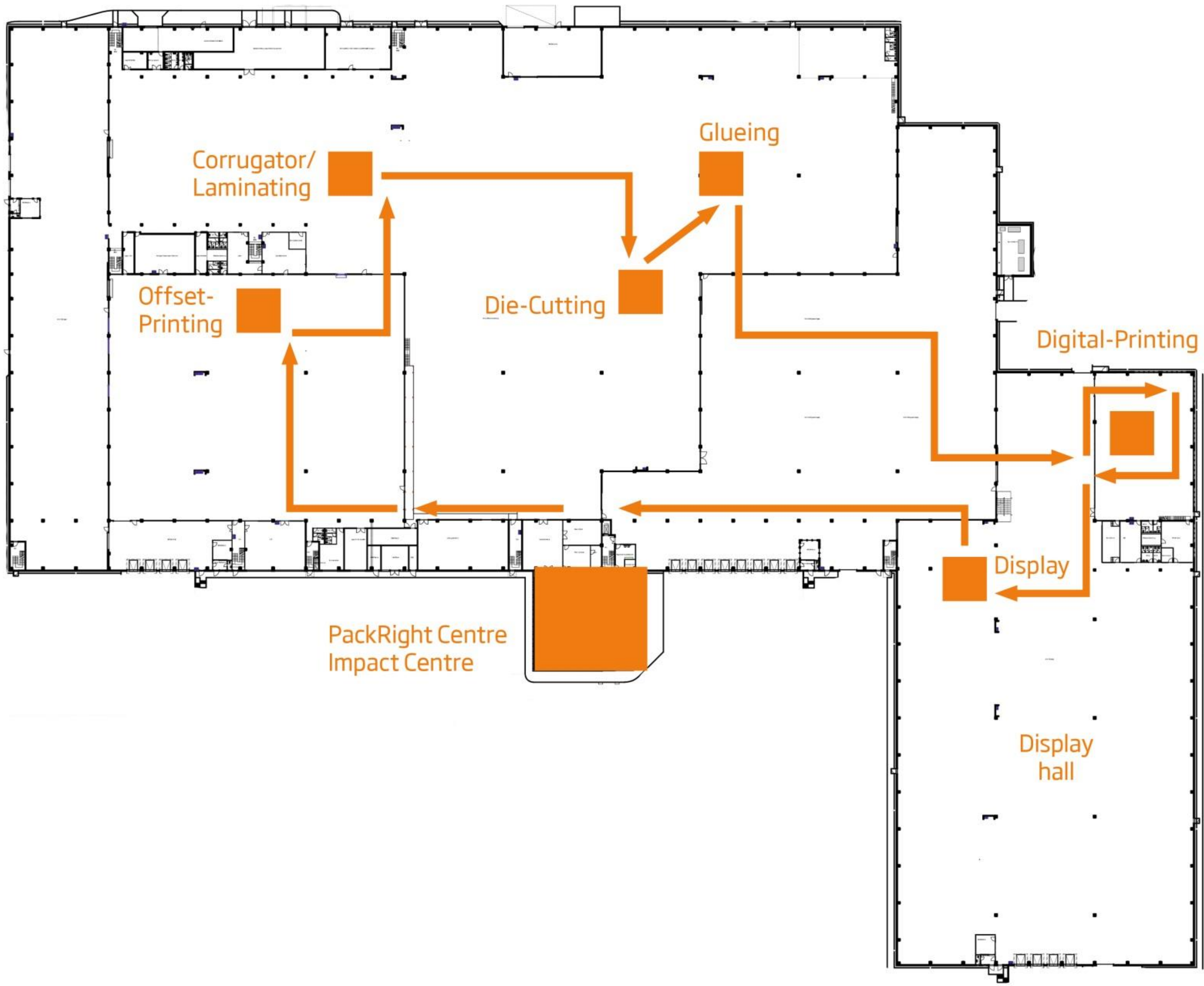
Benefits of the investment

- Complements the existing and newly acquired display companies
- Significantly reduce COGS and improve competitiveness
- Ability to handle substantial European customer requirements
- Will deliver return on capital at top end of medium term target range

DS Smith Erlensee



The site


Corrugator/
Laminating
Glueing
Offset-
Printing
Die-Cutting
Digital-Printing
Display
PackRight Centre
Impact Centre
Display
hall

www

Strategy scenarios

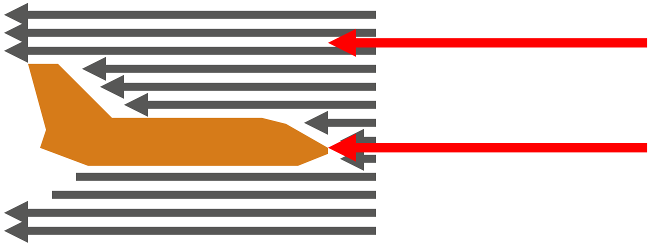
Why use Scenario Planning at DS Smith?

- We wanted to identify the **big drivers of change** in our business, using the best internal and external expertise
- We then wanted to think about **how those drivers could affect the future**, whilst being careful to avoid predictions
- The main objective was to **test our Corporate Plan** against different plausible versions of the future, called **Scenarios**
- The subsidiary objective was to bring our thinking to life in attractive visual ways, for use as **Thought-Leadership** material with customers, colleagues and other stakeholders

Putting our Corporate Plan in the "Wind-Tunnel"

Rehearsing the future:

Asking "what if" now, to avoid saying "if only" later…



Conditions in the wind tunnel
≡ Scenarios

Aircraft model
≡ Strategy/Option

These images are illustrative and taken as screenshots from various documents; hence slight colour discrepancies might occur.
The right Brandmark assets can be found in the Download Centre on Plexus.

What we did

- Workshop – DS Smith stakeholders – range of ages, divisions, functions.
- External interviews
- Identified and prioritised Drivers most likely to influence the future
- Workshop team created plausible stories from small groups of Drivers to start to “Rehearse the Future”
- Three full Scenarios created by central team using these stories, with high quality magazine and films produced to bring the Scenarios to life

High uncertainty, high impact factors influencing our future

The Drivers

Retail & E-Retail

Brands

Social Pressure for Zero Packaging

Alternative materials replacing Forest Fibre usage

Evolution of Customer Base

Demographics

Legislation

Technology

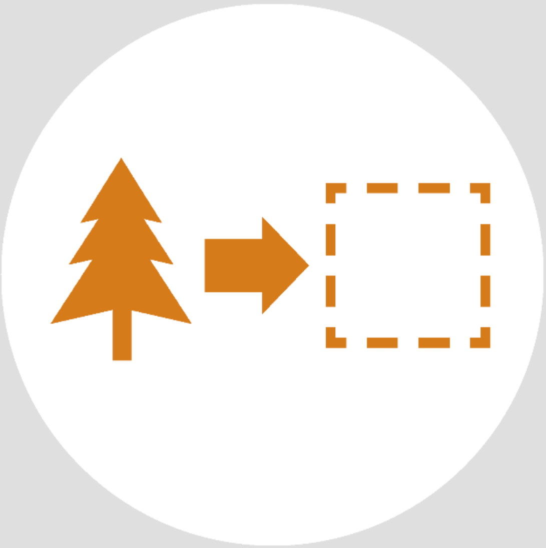
How will omnichannel strategies play out? What will happen to the “last-mile” delivery?

What if advertising fails, and retail becomes the new battleground? What about micro-brands?

Social Pressure for Zero Packaging

What if there's a recycling backlash? What if packaging becomes the new tobacco?

Alternative materials replacing Forest Fibre usage



What are the threats and opportunities from innovative materials? Will there be new demands for forest fibres?

Evolution of customer base

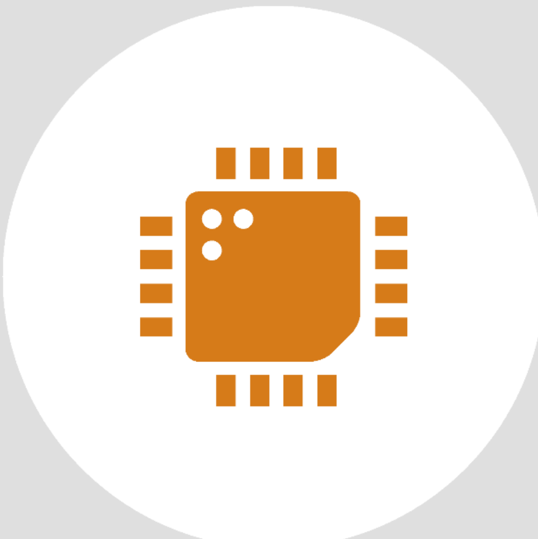
What if local micro-manufacturing overtakes mega-plants? What if customers outsource manufacturing completely?

Demographics

The developed world is ageing. The developing world is young and increasingly middle class. How could that change the industry?

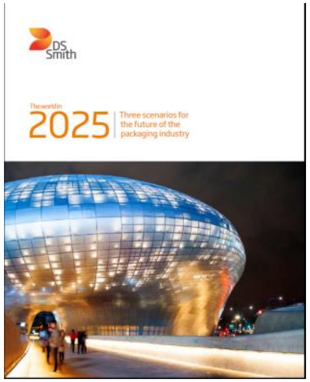
Legislation

How could governments affect the supply cycle? What might the consequences be?



Things are starting to become intelligent, from factories to homes to cars. How could that affect us and our customers?

Materials for use with Customers and other stakeholders



www.dssmith.com/packaging/strategists/our-vision/rehearsing-the-future/global-trends

www.dssmith.com/ecommerce-scenario

www.dssmith.com/consumerexperience-scenario

www.dssmith.com/recycling-scenario

Focus today on the implication of two scenarios

"Caring Convenience"

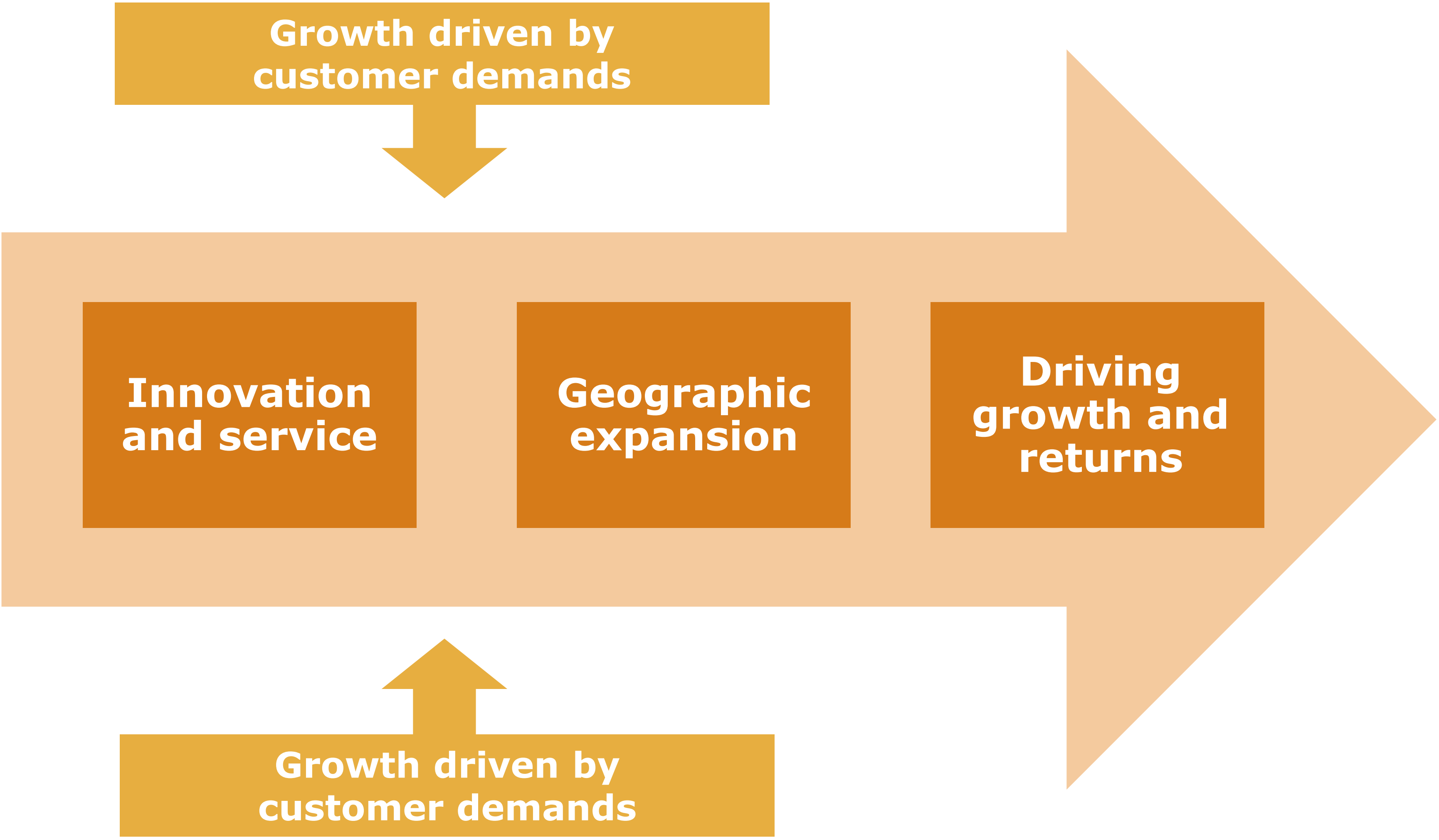
- The potential impact of e-commerce on packaging has meant even greater resource allocation to DS Smith's response to e-retailing opportunities

"Everything is an Experience"

- The growing need for FMCG brandholders to engage more closely with shoppers at the point of sale has meant an acceleration in the implementation of the DS Smith Display strategy, including consulting services

Conclusion

Growth drivers



Key messages

Dynamic consumer and retail environment

Developing and investing to help our customers

Consistent strong organic growth

Enhanced financial returns