Full year results

2018/19

13 June 2019

DS Smith

A year of significant delivery

Strong strategic progress

- Acquisition of Europac - upgrade to synergies from €50m to €70m
- Sale of plastics division - expected completion by end of 2019

Strong operational performance

- Market outperformance - volume growth at 2.4%(1)
- Volume growth in all regions through FMCG and e-commerce focus
- Continued success of US operations

Strong financial performance

- Excellent pricing discipline
- Record margin and upgrade of medium-term target to 10 to 12%
- Organic adjusted operating profit +9%
- Cash generation: FCF +84%
- Robust balance sheet – pro-forma(2) net debt/EBITDA <2.0X

Well positioned for the future

Notes
(1) Corrugated box volumes (excluding Europac) and adjusted for the number of working days
(2) Pro forma reflecting remedy and Plastics disposals

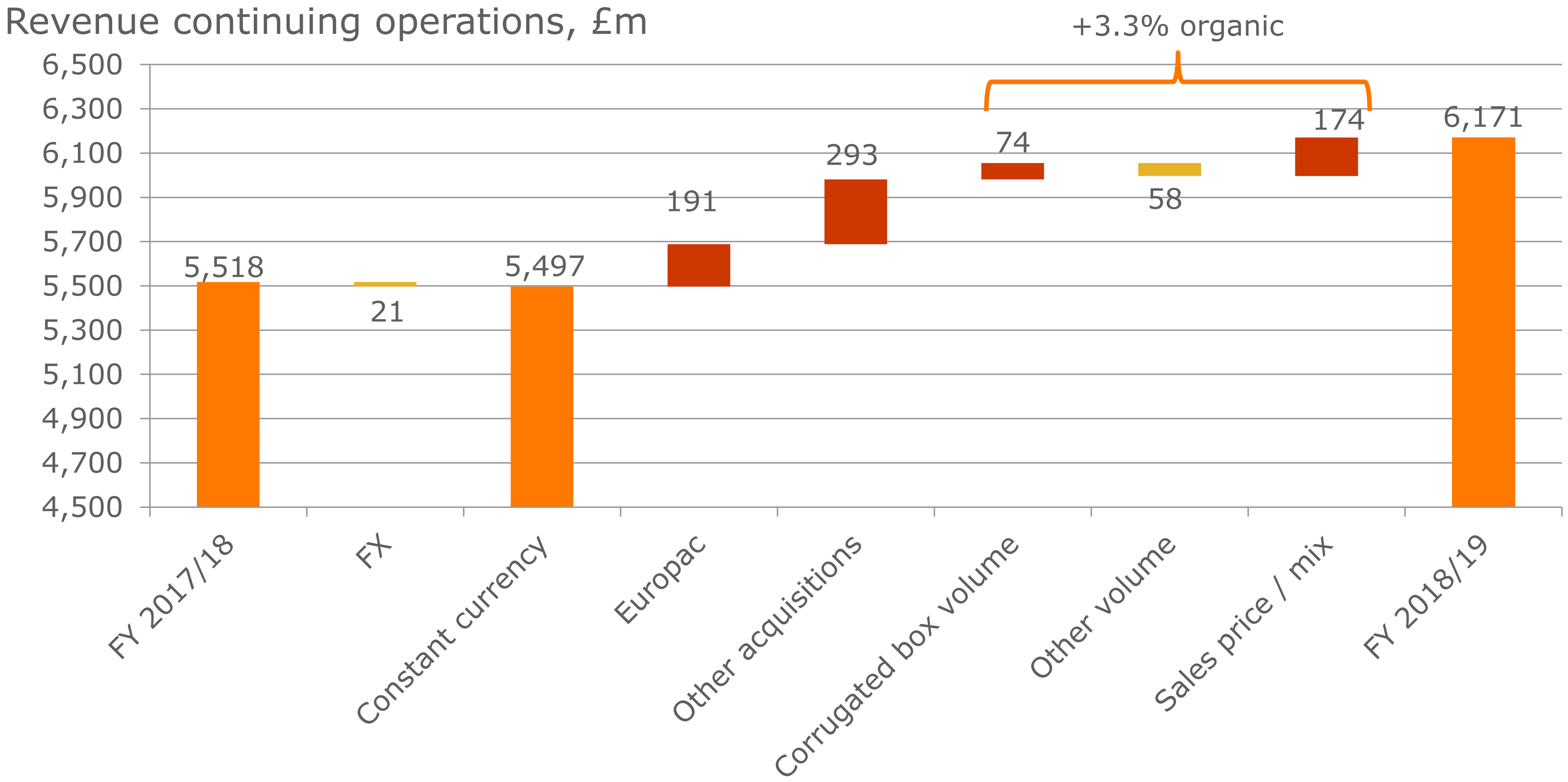
Financial results

Financial highlights

Continuing operations	**2018/19**	**Change** *reported*	**Change** *constant currency*
Revenue (£m)	6,171	+12%	+12%
Operating profit[1] (£m)	631	+28%	+28%
Return on sales[1]	10.2%	+130bps	+120bps
Adjusted EPS[1]	33.3p	+8%	+8%
Dividend per share	16.2p	+13%	+13%
ROACE[1]	13.6%	-10bps	-10bps

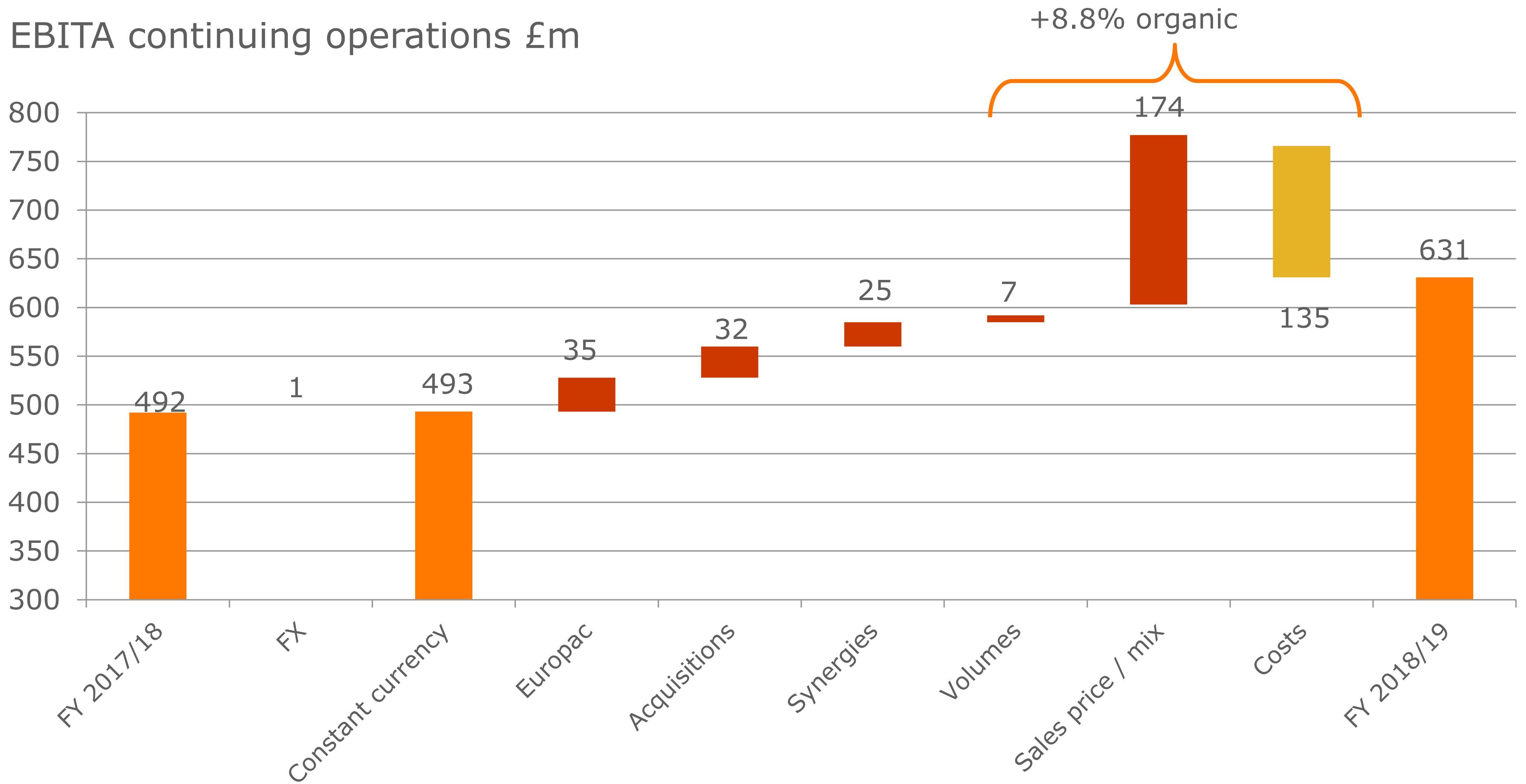
(1) Before amortisation and adjusting items

Acquisitions, volumes and pricing driving revenues



Note: Other volume includes paper, recycling and corrugated sheet

Strong organic growth



Segmental analysis

	Return on sales % 2018/19	Return on sales % 2017/18 (restated)	Change constant currency
UK	10.7%	10.0%	+70 bps
Western Europe	8.0%	6.9%	+110 bps
DCH and Northern Europe	9.3%	8.1%	+120 bps
Central Europe and Italy	10.4%	8.8%	+150 bps
North America	16.6%	16.1%	+40 bps
Group	10.2%	8.9%	+120 bps

Synergy delivery and operational efficiency

- **Interstate Resources**
  - Fully on track for delivery of cost synergies target of $40m
  - $10m (£8m) delivered in FY18
  - Incremental $23m (£18m) delivered in FY19

- **Europac**
  - Initial delivery against cost synergies €6m in FY19
  - Upgrade of cost synergy target from €50m to €70m, delivered by FY22
  - Benefits from paper optimisation
  - Savings from corporate office

- **Further opportunities to optimise the efficiency of our business**
  - Asset optimisation
  - SG&A efficiency

Update on disposals

Plastics division

- Discontinued with effect 31 October 2018
- Agreement to dispose for c. £450m gross, c. £400 million net proceeds
- DoJ phase 2 as expected
- Completion expected in calendar H2
- 1.7 pence adjusted earnings per share contribution in FY19 (FY18: 2.3 pence per share)
- Substantial expected gain on disposal

Remedies

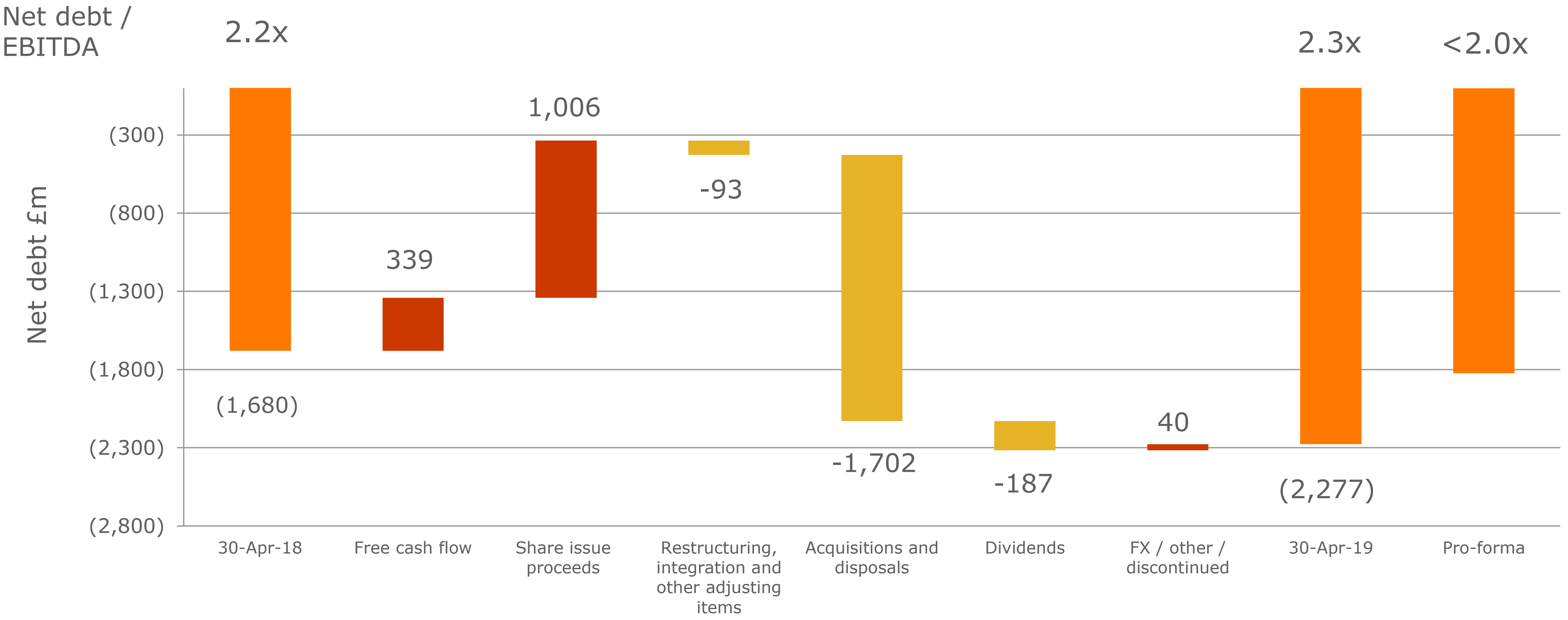
- Agreed c.£54m disposal of two packaging businesses (Portugal, France)
- Expected completion H1 FY20

Strong cash generation

Cash flow £m (continuing operations)		FY 2018/19		FY 2017/18 (restated)
EBITDA		**820**		**649**
Underlying working capital		70		(136)
Invoice discounting movement		(82)		118
Pension payments/other		(34)		(26)
Capex (net of proceeds)				
• Core DS Smith	(272)		(312)	
• Europac	(17)		n/a	
		(289)		(312)
Tax and interest		(146)		(109)
Free cash flow		**339**		**184**
FCF per share		**25.6p**		**16.5p**
Cashflow conversion		**102%**		**99%**

£m	30/4/19	y/y change
Non-recourse receivable factoring, like for like	483	(76)
Non-recourse factoring – Europac	42	(10)
Current total	525	(86)

Cash flow robust following Europac acquisition



Pro-forma reflecting Plastics and remedy disposals

Strong deleveraging profile

- Net debt £2,277 million
- 2.3x net debt / EBITDA(1)
- <2.0x assuming Plastics and remedy disposals
- Interstate put-option liability £172 million
  - Approximately 0.2x pro forma EBITDA
- 5 year RCF refinanced (November 2018)
- Further working capital opportunities

(1) Based on banking covenants
Key adjustments – constant FX, and pro-forma EBITDA for businesses acquired in the year

2018/19: progress on our medium term targets

Volume growth	Return on sales	Return on average capital employed	Net debt / EBITDA	Cash conversion
+2.4%	10.2% +120bps	13.6%	2.3x[(2)]	102%
Target: **2.9%[1]**	**Target:** **8-10%**	**Target:** **12 - 15%**	**Target:** **≤2.0x**	**Target:** **>100%**

Notes – Volumes on a like-for-like basis, excluding Europac.
All figures are continuing operations on a constant currency basis, before adjusting items and amortisation and including adoption of IFRS15. Net debt / EBITDA calculated in accordance with banking covenants.

1. GDP+1% based on weighted average GDP of 1.9%
2. Pro-forma reflecting Plastics and remedy disposals <2.0x

Technical guidance

For FY20 continuing operations (plastics discontinued & including IFRS 16)

- Capex: £370 million
- Depreciation: £320 million
- Amortisation: £140 million
- Tax rate: 23% - 24%
- Interest incl. pension: £85 million (of which £5 million is pension charge)
- Pension deficit reduction cash contribution: £20 million
- Adjusting items: c. £76 million
- FX: €1c move versus GBP = approximately £2.4m EBITA

FY20 capex	£m
Core DS Smith (including Indiana greenfield)	285
Europac – base	54
Europac – integration	31
Total	**370**

FY20 adjusting items	£m
Acquisition related	
• Europac integration	23
• Interstate integration	8
• Other M&A/disposal costs	19
	50
Technical / accounting	
• Put option unwind	8
Other restructuring	18
Total*	**76**

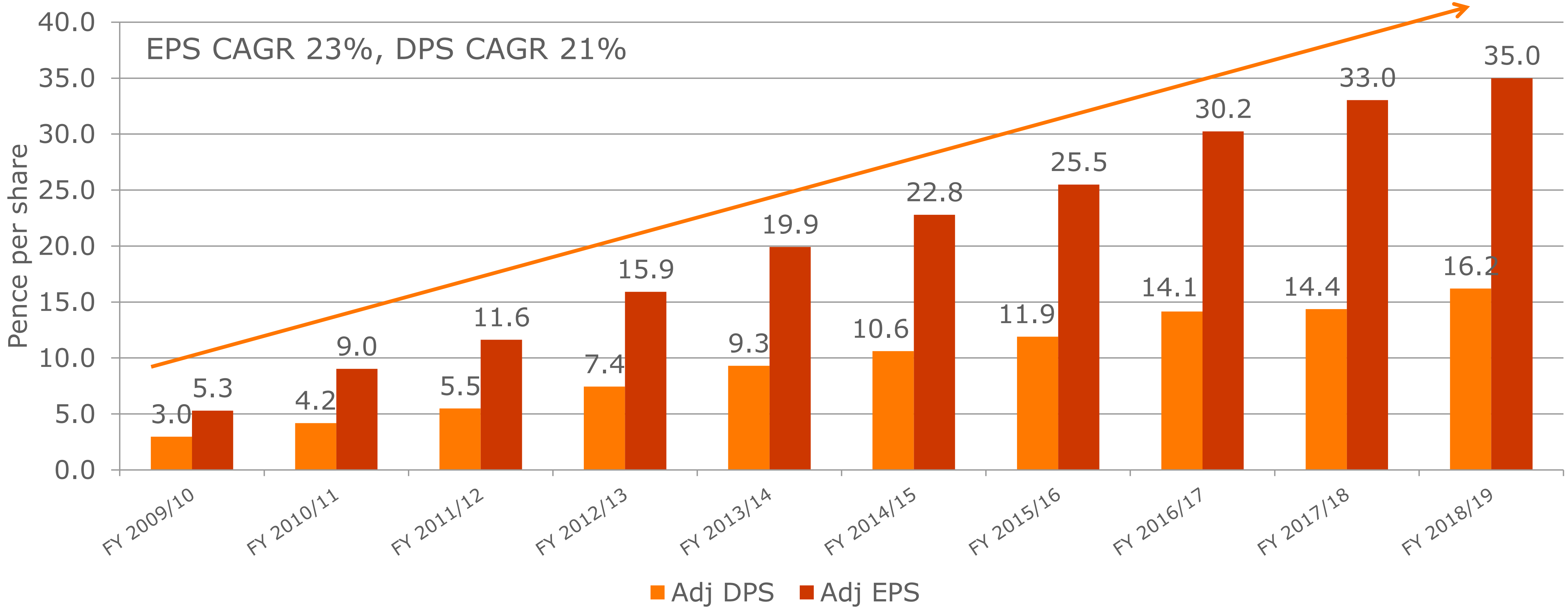
*excluding expected gain on disposal of Plastics of over £200 million

IFRS 16 Guidance

- Impact on FY20 (continuing operations) of IFRS 16 (Leases). The estimated impact on the consolidated financial position and the Group Key Performance Indicators are as follows:

• Property, plant and equipment	c. +£235m
• EBITDA	c. +£75m
• Depreciation	c. +£70m
• Interest	c. +£10m
• Adjusted PBT	c. -£5m
• Net debt	c. +£235m
• Net debt / EBITDA	Negligible (no impact on leverage ratios)
• ROACE	-30bps

Strong continuous growth in EPS and DPS



EPS includes both continuing and discontinued operations (Plastics)
Historic EPS and DPS adjusted for rights issue bonus factor

2018/19 – a year of significant delivery

Redefining packaging for a changing world

A year of significant delivery

- Strong strategic progress
- Strong operational performance
- Strong financial performance

Structural drivers remain strong

Resilient business model

Well positioned for the future

Structural drivers for corrugated remain strong

E-comm

Retail-Channel Change

Sustainability

New channels

"Greater channel fragmentation is one of our key challenges…"

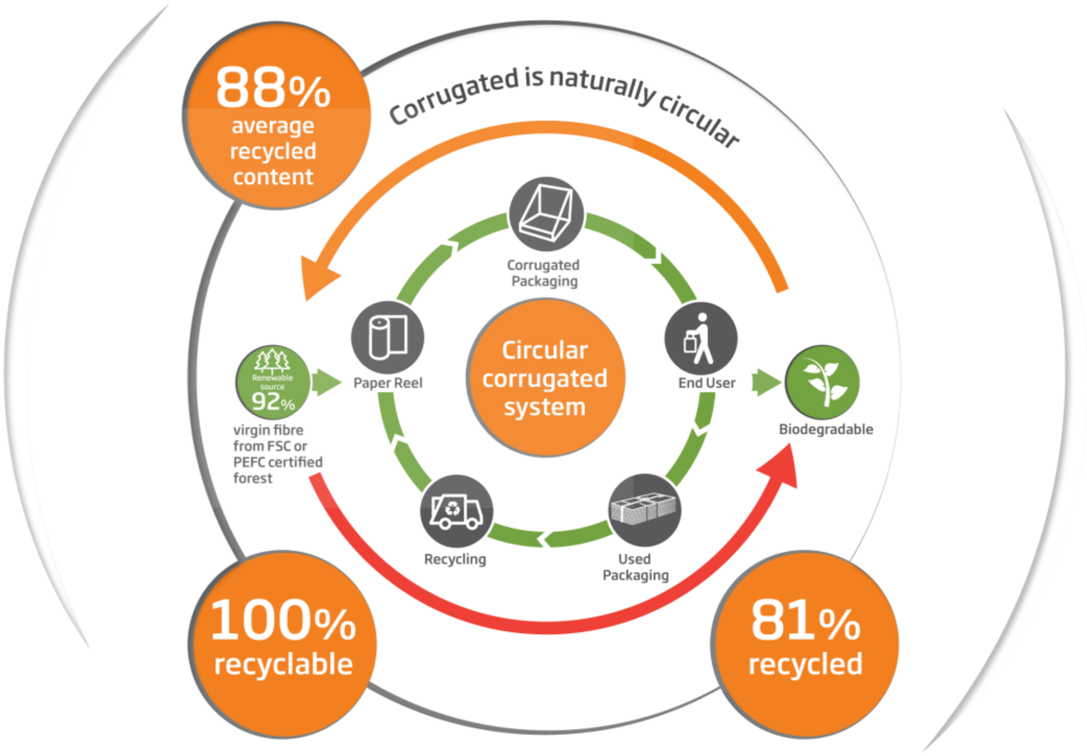
David Walker - Nestle Project Manager
Logistics Transformation (May 2018)

Nestlé

£5.7bn opportunity

ELLEN MACARTHUR FOUNDATION

Sustainability increasingly front of mind



E-commerce driving growth

- Increasing share in total retail sales
- New entrants and developments
  - E-pharma, E-grocery, frozen food, sharing economy
  - Demographics, internet penetration, improving delivery infrastructure

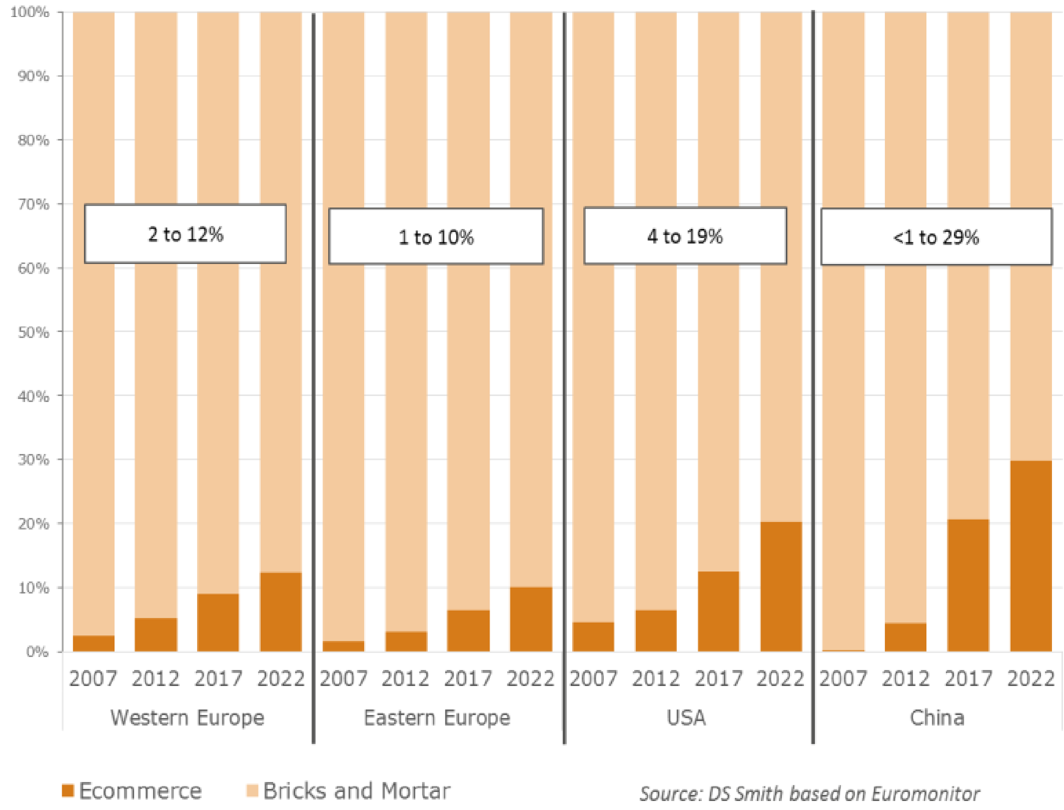
E-COMMERCE Sales Growth

P&G Categories	P&G Growth	Versus Market
Category 1	+20%	
Category 2	+20%	
Category 3	+30%	
Category 4	+40%	
Category 5	+50%	
Category 6	+70%	
Category 7	+40%	
Category 8	+40%	
Category 9	+60%	
Category 10	+10%	

Top 8 Countries	P&G Growth	Versus Market
Country 1	+30%	
Country 2	+50%	
Country 3	+10%	
Country 4	+10%	
Country 5	+20%	
Country 6	+20%	
Country 7	+0%	
Country 8	+60%	

FY '18
+30%

In 15 years, the share of e-commerce in total retail grows from:



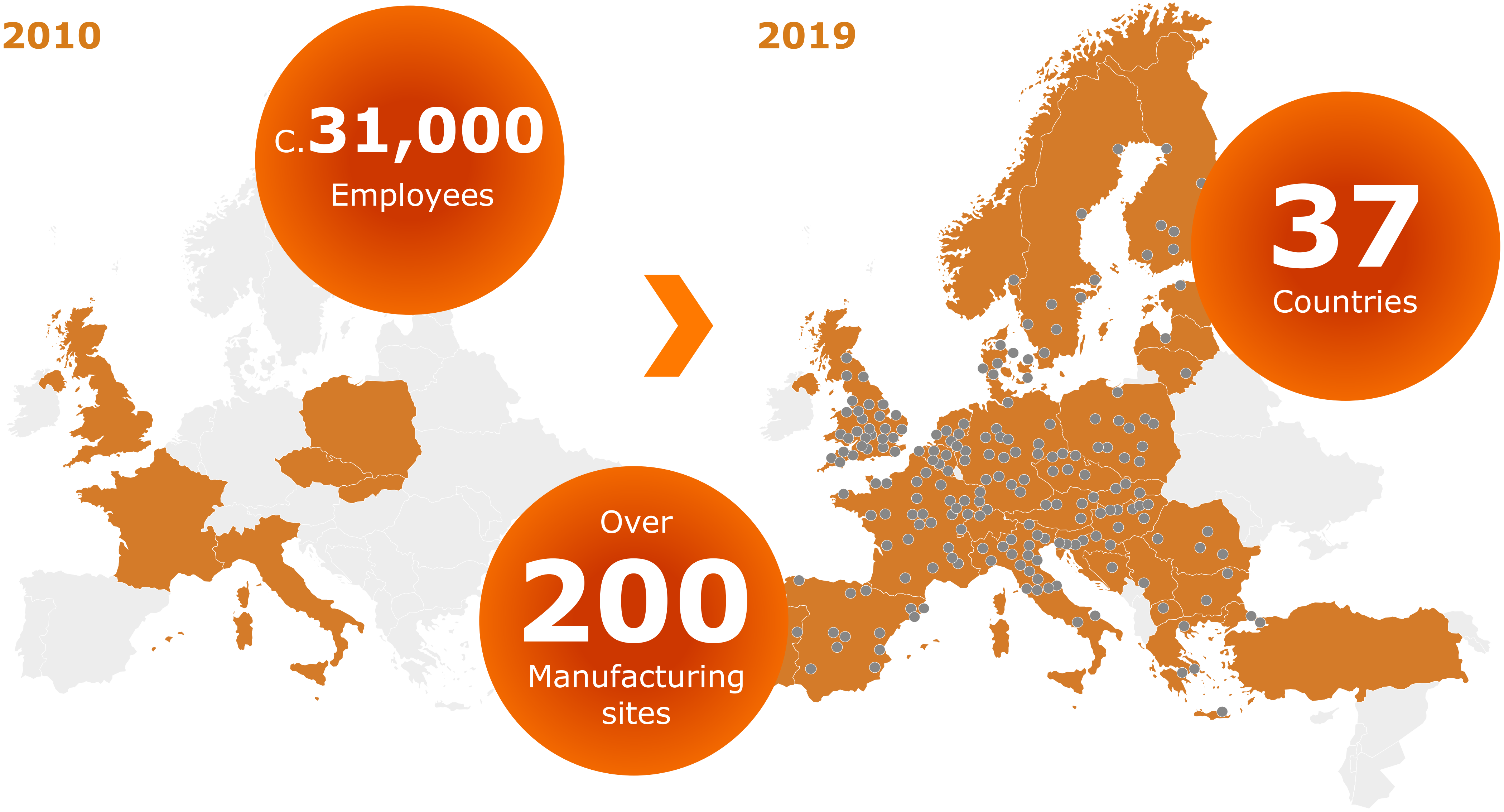
Source: DS Smith based on Euromonitor

Innovation leader

- Leader in packaging innovation
- c. 700 designers and innovators
- 9 major innovation hubs
- 36 practical innovation centres
  - R&D in raw materials innovation
  - Collaboration with partnership research organisations

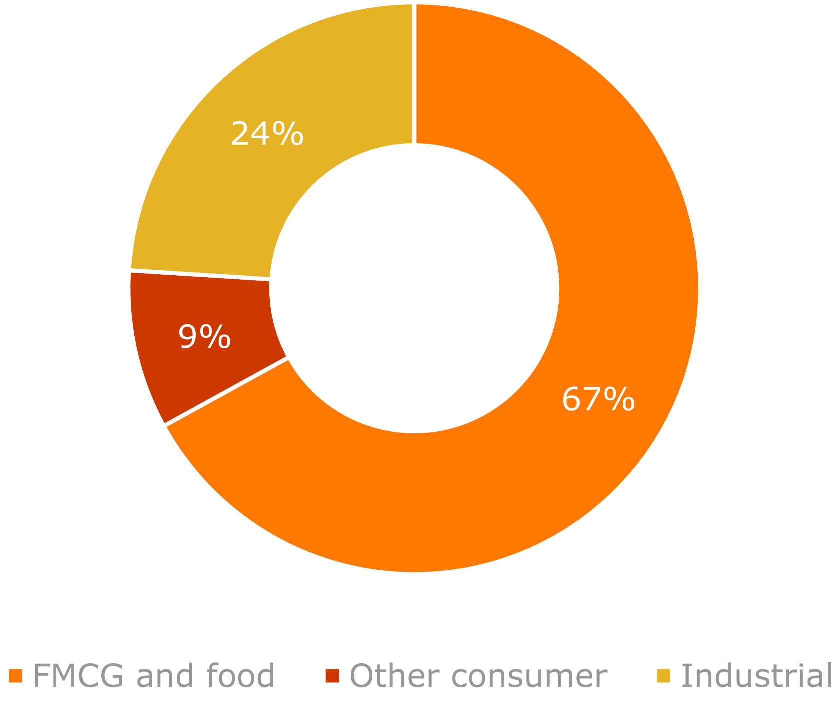
DS Smith

Our scale means we are able to serve global customers…

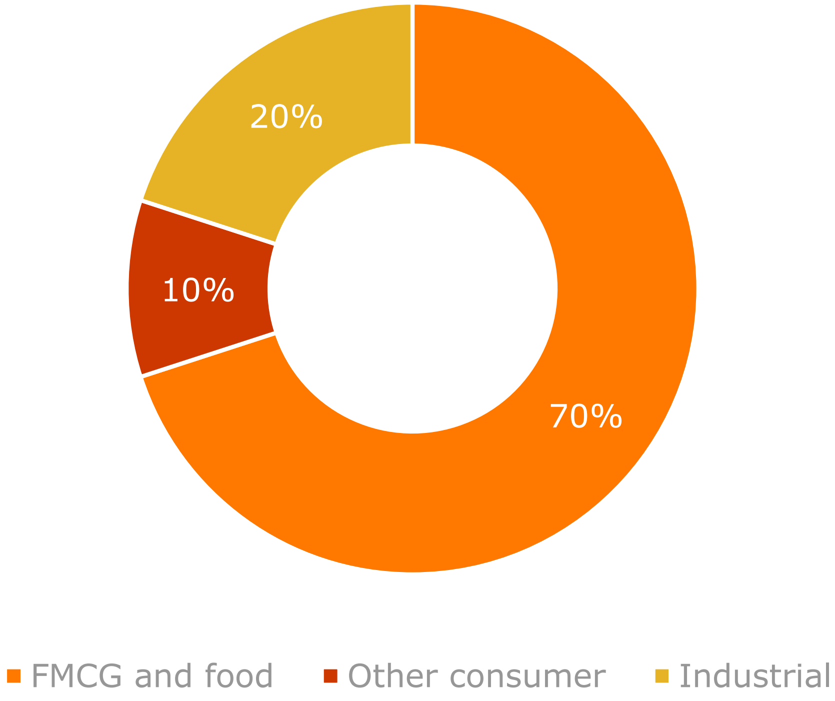


Highly resilient FMCG focus

DS Smith 2016/17



DS Smith 2018/19



Source: DS Smith analysis

Resilient FMCG driving volume growth

Core FMCG customers

- Continued strong performance ahead of Group average
- Consistent growth throughout the year
- Pricing discipline and margin focus
- Market leading e-commerce offering continues to drive strong growth
- Winning with multinationals – top 20 customers + 7%
- US – capacity temporarily constrained
- Expect further progress in FY20

Industrial customers

- Industrial deterioration in H2
  - Export led impact, notably in Germany
  - Supply chain compression
  - Clear pricing discipline and margin focus

Looking ahead

- Expect our like-for-like volume growth in H1 2019/20 to recover from H2 2018/19

36% (2015) → **41%** (2018)

(estimated share of wallet of top-20 customers)

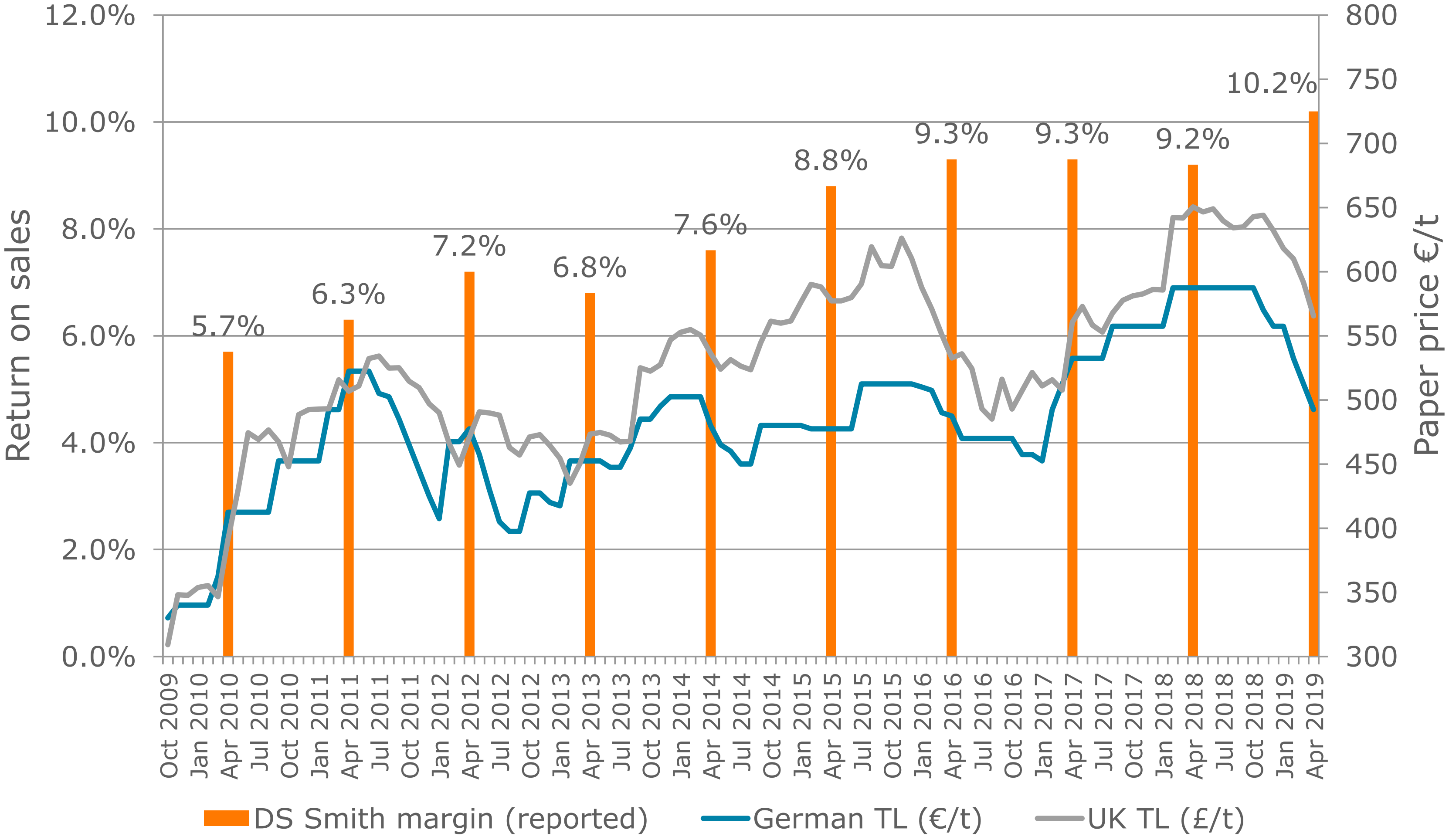
c.€2bn

remaining in Europe alone...

We are also focused on more strategic supplier relationships… Over the past five years, we have reduced our total number of suppliers by roughly 20%.

Global product supply officer

Consistent margin progression through the cycle



Drivers of margin upgrade

Geographic coverage

Innovation

End-to-end solutions

Partnership approach

- Increasing value-added proposition for customers
- Contribution from North America business and Europac
  - High quality businesses
  - Synergy outperformance
- Optimising the benefits of scale
  - Operational efficiency

New medium term margin target to 10 - 12%

Delivering in the US

- Strong demand for our expertise
- Cost synergies on track for $40m, ahead of schedule
- Successful integration of Corrugated Container Corp
- Commercial successes
- Capacity constrained

- Exciting growth opportunities
  - Indiana packaging site – completion expected November 2019
  - Increases our packaging capacity in North America by c. 1/3
    - Start-up losses of £15m in FY20

High quality customers

Reckitt Benckiser, Mondelēz International, Unilever, L'ORÉAL, MARS, JOHN DEERE, VOLVO, Nestlé, HERSHEY'S

Delivery from value-adding acquisitions - Europac

- Initial performance and asset quality – as expected
  - High quality paper operations
  - Significant opportunity to transform packaging assets
- 3rd largest market in Europe – growing fast
- Improved overall global supply chain
  - Key kraftliner asset in strategic location
- Integration going very well
  - Excellent employee engagement
- Excellent customer reaction
- Target cost synergies now €70 million (up from €50 million), phased over 3 years

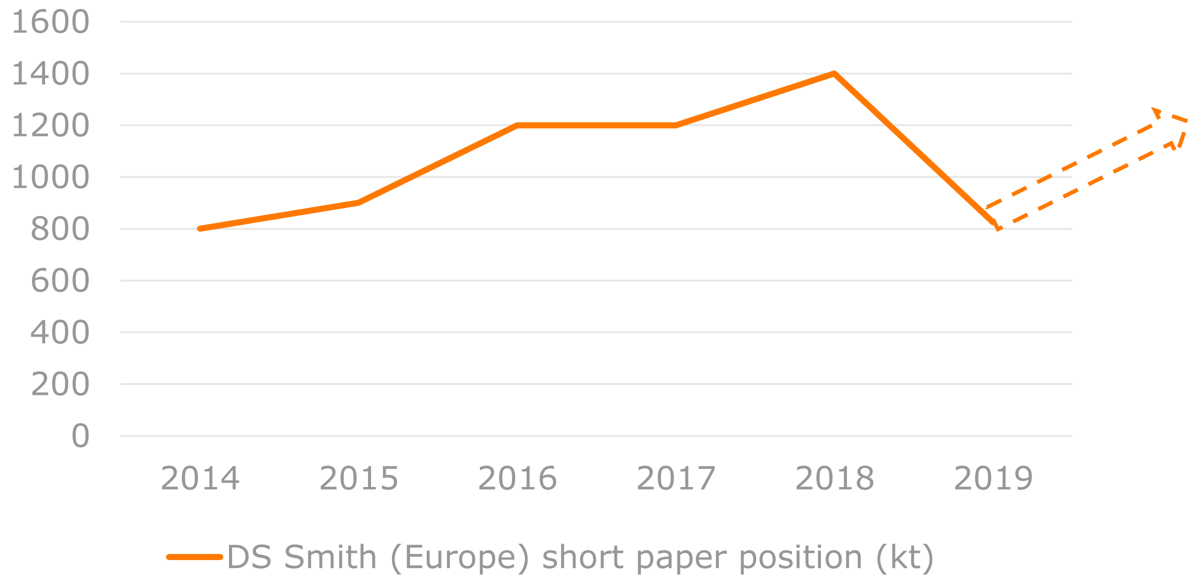
Optimising our paper manufacturing

- Paper asset base for high quality packaging
  - Key assets in strategic locations
  - Enhanced kraft and light-weight paper capability

- Currently c. 80% integrated in Europe
  - Plan to optimise paper footprint and capability
  - Consistent packaging growth
  - Medium term target integration towards 60%

- US – security of supply necessary
  - Grow packaging assets to reduce "long" position

- Result – the right assets in the right place

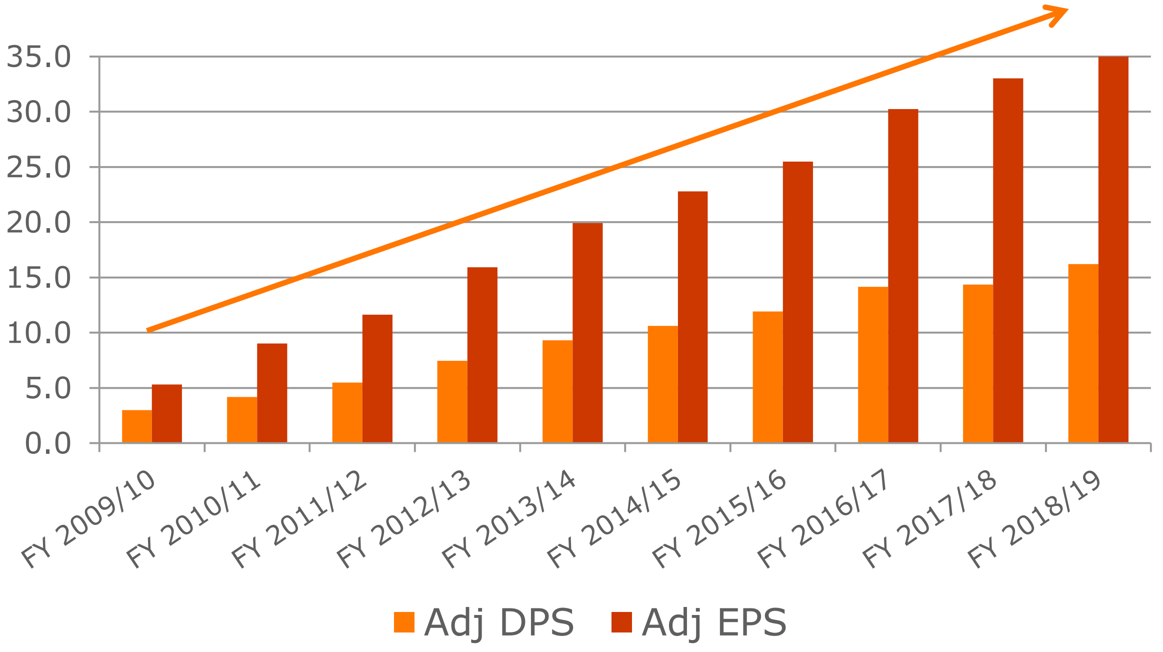


Outlook

- Structural drivers for continued volume growth remain strong
- Volume growth expected to improve from H2'19
  - Driven by success with FMCG customers
- Robust pricing discipline
- Consistent strategy for a volatile macroeconomic and input cost environment
- Focus on driving cost efficiency and cash generation
- Opportunity to optimise our paper manufacturing
- Expect FY20 to be a further year of good progress

Our value proposition

- Market leading packaging solutions
  - FMCG focus, innovation led
- Consistent top line growth & proven cyclical resilience
- Consistent margin growth – upgraded target
- 9+ years EPS growth: 23% CAGR since May 2010
- Proven capital allocation discipline
  - Strong cashflow and deleveraging profile
  - Value creating acquisitions and disposals
- Consistent dividend growth: 21% CAGR since May 2010
- Confident in business model



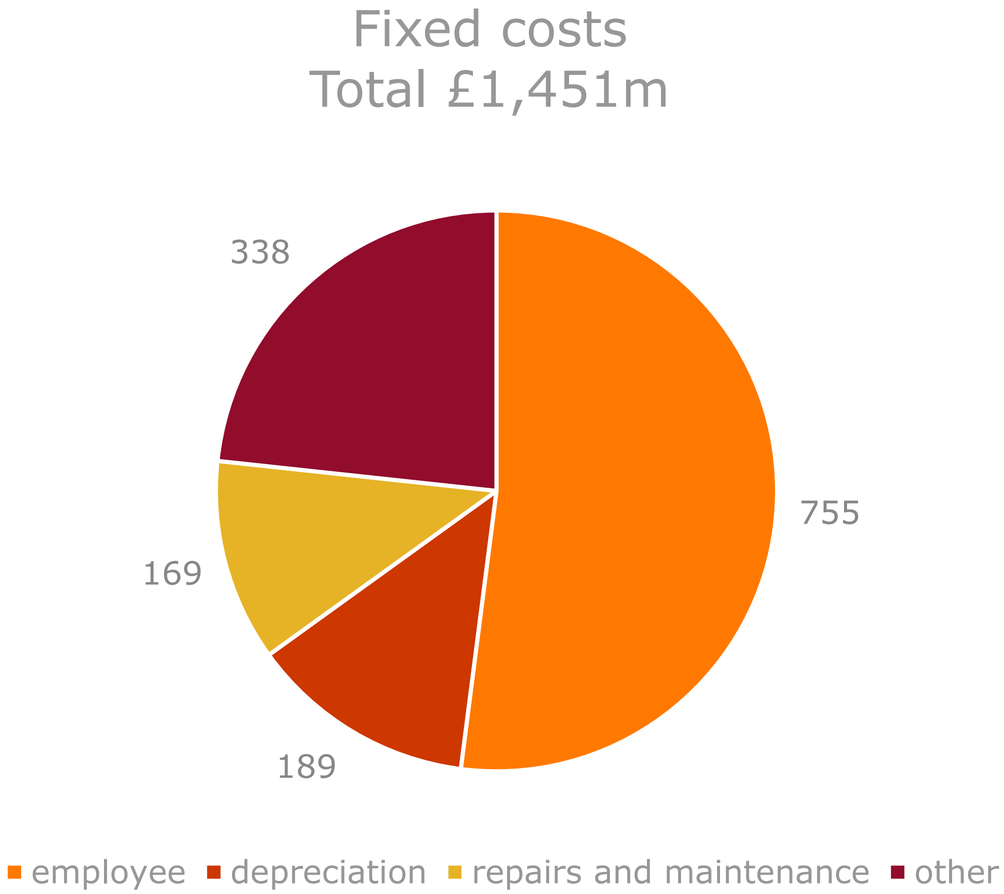
EPS includes both continuing and discontinued operations (Plastics)
Historic EPS and DPS adjusted for rights issue bonus factor

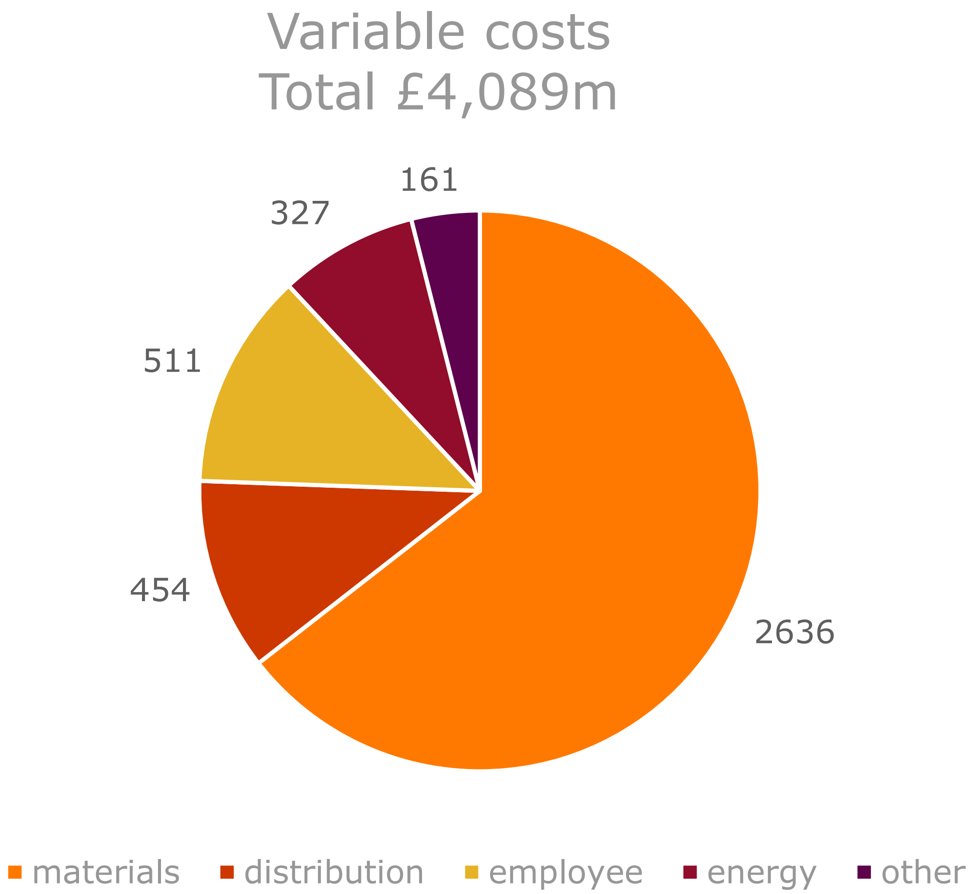
Appendix

Foreign exchange exposure

2018/19	Revenue (%)	EBITA (%)	Average rate FY 2017/18	Average rate H1 2018/19	Average rate FY 2018/19	Closing rate 30 Apr 2019
GBP	16.5	10.1				
EUR	56.2	53.7	1.132	1.129	1.135	1.159
PLN	2.9	2.1	4.785	4.852	4.830	4.970
SEK	2.5	2.2	11.156	11.726	11.783	12.331
DKK	2.4	(0.1)	8.394	8.565	8.467	8.655
USD	10.6	21.1	1.356	1.311	1.304	1.301
Other	8.9	10.9				

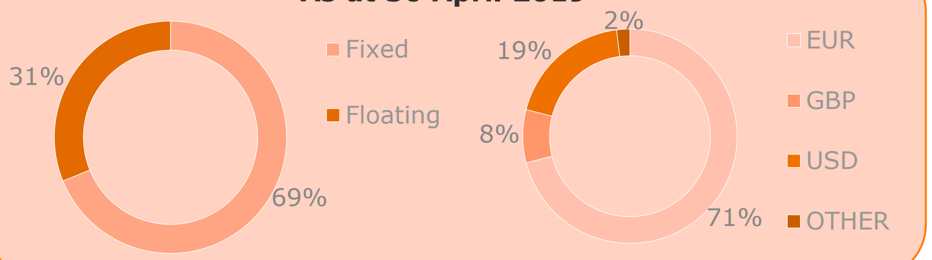
Cost analysis 2018/19





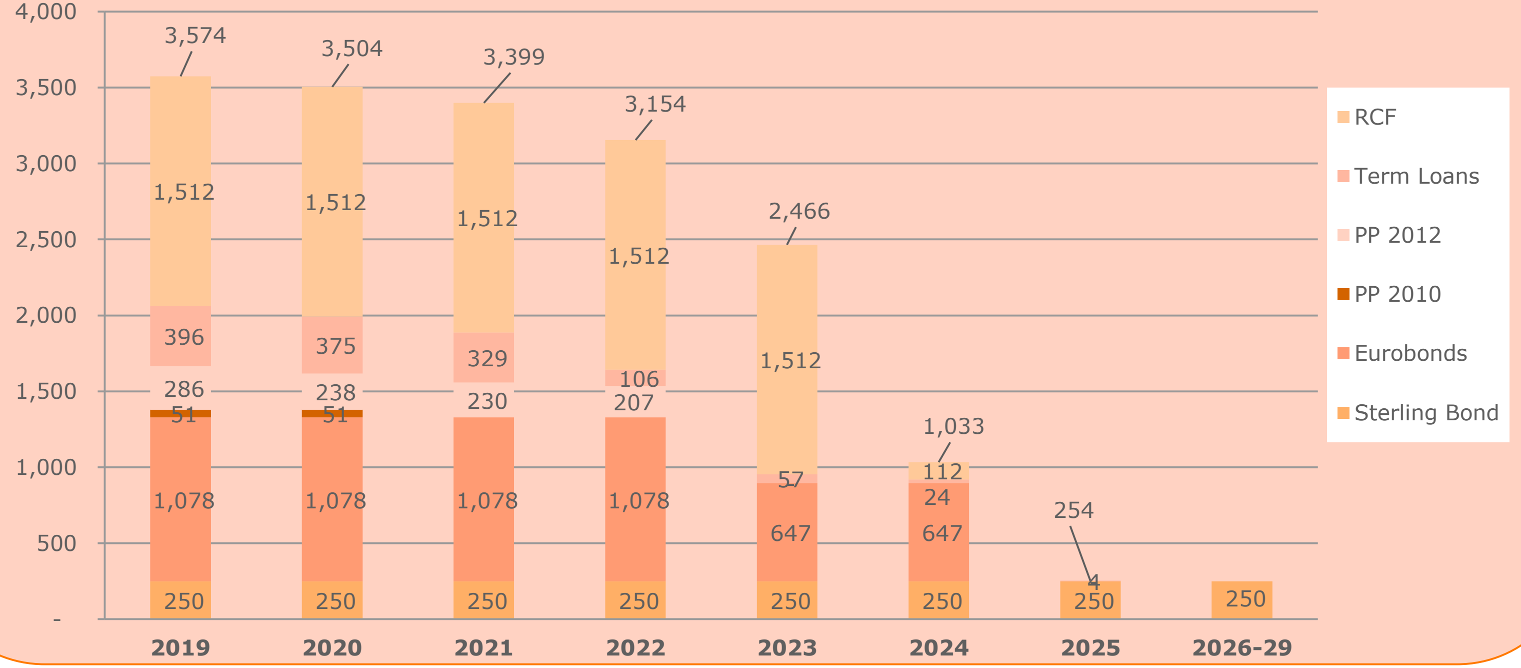
Debt analysis

As at 30 April 2019 **



Net Debt	£2,277m
Net Debt/ EBITDA*	2.3 x
EBITDA/ Net Interest*	13.0 x

Facilities at 30 April 2019**



* Ratios as defined in the Group's banking agreements.
** Debt shown net of swaps and fees.
Includes drawn Europac debt facilities.

As at 30 April 2019, the weighted average remaining life of the Group's committed borrowing facilities was 4.6 years.