Crystal Amber Fund Limited

9 November 2022

Open letter to all the shareholders in De La Rue plc

Dear Shareholder

Background

Crystal Amber is De La Rue's second largest shareholder, owning just under 10 per cent of De La Rue's issued share capital. Crystal Amber became a shareholder in April 2018. At the time of De La Rue's £100 million rescue equity fundraise in July 2020, Crystal Amber was De La Rue's largest shareholder and supported the company by investing a further £18 million at 110p a share. During regular engagement since this investment, Crystal Amber has sought to assist De La Rue's management. However, in the last 18 months, De La Rue's share price has fallen by 53 per cent.

De La Rue Chairman, Kevin Loosemore accuses Crystal Amber of market manipulation

Crystal Amber notes the announcements from De La Rue on 27 October 2022 and 3 November 2022 that its board had decided to convene a shareholder general meeting to decide whether Kevin Loosemore should continue as Chairman. De La Rue acknowledged that Crystal Amber had requested that Kevin Loosemore tender his resignation. However, no specific reason was provided by De La Rue to market participants for this request, the RNS stating: "The Board has engaged with Crystal Amber on a number of occasions to understand its concerns and so is disappointed it has chosen to pursue this course of action," implying that the resignation request was linked to criticism of poor business performance. This is both misleading and untrue. It is most unusual for a board of a Company to effectively requisition a general meeting itself regarding the continued role of a director outside the normal annual general meeting. The announcement neglected to mention the real proximate cause for the resignation request: that in an email to Richard Bernstein, Kevin Loosemore accused Crystal Amber of market manipulation in seeking to promote a financial plan that is expected to result in a significant and sustained rise in De La Rue's share price.

Set out as follows is the correspondence evidencing the true nature of the resignation request .

On 25 October, in response to the email set out in Appendix 1 sent to Kevin Loosemore on 24 October, Kevin Loosemore replied: "Should what you have in mind be actions that cause a short term 'blip' in the share price in order that you can trade to 'mitigate your losses' we would need to carefully consider the question of market manipulation."

Having taken legal advice, Crystal Amber believes that Kevin Loosemore's statement is libellous. It is clearly defamatory. Crystal Amber believes that not only is this response inconsistent with how a Chairman of a listed plc should engage with a long-term and significant part owner of a business, it is contrary to De La Rue's principles set out in its 2022 Report & Accounts that the Chairman's "role is to promote a culture of openness and debate." Importantly, it is illustrative of poor judgment. The same poor judgment manifests itself by De La Rue having failed to deliver on its turnaround plan, having produced two profit warnings in 2022 and a share price that languishes on eight times earnings.

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Crystal Amber's value release solution

Crystal Amber's preference is to engage with investee company managements in private. In early July 2022, Crystal Amber wrote to De La Rue's Chairman and Chief Executive to request that Crystal Amber, as a long-term, 10 per cent shareholder be invited to nominate a director in a non-executive capacity. Subsequently, Crystal Amber met with the Chief Executive to discuss the proposal and attended De La Rue's board meetings at De La Rue's request in July and September 2022, in order to "present our credentials." On 30 September 2022, Kevin Loosemore informed Crystal Amber that the De La Rue Board had rejected this request. Crystal Amber accepts that the De La Rue Board is entitled to make this judgement but it believes that it is misguided.

In requesting board representation, Crystal Amber had sought to effect a substantial and sustained share price re-rating by enabling the De La Rue board to acknowledge and "own" the following:

1. Despite being a former constituent of the FTSE 100 Index, De La Rue is now a small cap company. With a market capitalisation of £187 million, its head office and plc cost base, which the Fund estimates to be £10 million per annum, must be substantially reduced. In 2022, its eight board members were paid £2.1 million.

2. The turnaround strategy has failed. De La Rue's £187 million market capitalisation is after the £100 million equity infusion in 2020. When Kevin Loosemore became Chairman in October 2019, before the £100 million fundraise, De La Rue's market capitalisation was £205 million. The turnaround plan reduced annual costs by £36 million. In the year to March 2022, after the £36 million cost cutting, De La Rue's pre-tax profits were £30.9 million. In November 2020, broker forecasts for the current year to March 2023 were for a pre-tax profit of £52 million and earnings per share of 21.1p. Current market estimates are for pre-tax profits of £30.1 million and earnings per share of 11.7p.

3. Cost cutting is not a long-term strategy. Crystal Amber understands that there has recently been further significant cost cutting within De La Rue's Authentication division. Top line growth is what is required and is lacking, but Crystal Amber has found De La Rue unable to communicate a strategy for growth.

4. Our analysis shows that within its Currency division, polymer sales, as well as being below expectations, with its much longer duration, are cannibalising the traditional banknote business. With cost plus contracts on paper, having removed substantial costs as a result of the cost cutting programme, revenues are accordingly reduced.

5. De La Rue's two divisions Currency and Authentication command a far higher strategic value than their operational value. Currency suffers from over-capacity. De La Rue, as market leader by volume is ideally placed to participate in this consolidation.

By focussing on the strategic value of Currency and Authentication, Crystal Amber believes that approximately £440 million of value for shareholders could be generated. Reflecting year-end net debt of £90 million, £360 million, equivalent to 185p a share would be available as against the current £187 million, 96p a share. Concurrently, with the agreement of its pension fund trustees, De La Rue should dispose of its pension scheme. The recent increase in long-term interest rates is expected to have substantially reduced the deficit since revised and reduced contributions were agreed with the trustees in March 2022.

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Inappropriate and concerning communication from Kevin Loosemore

In January 2022, Kevin Loosemore wrote the following to Richard Bernstein:

1. “The real fix for DLR is in the 2028/30 time horizon.”
2. “Moving a share price by news flow is only a temporary action and only benefits sellers.”
3. In response to Crystal Amber adding to its shareholding following the first profit warning, “ Thanks for your support- a good price. I will not be buying as i(sic) am overexposed to DLR.”

In October 2022, Kevin Loosemore wrote to Richard Bernstein: “I have worked for DLR for free with the decline in my shares having offset any fee.” Crystal Amber notes that Kevin Loosemore purchased 947,840 shares at 110p a share. His unrealised loss is approximately £142,000. Since becoming Chairman in October 2019, Kevin Loosemore’s fees as a non-executive director amount to £625,000.

Why shareholders in De La Rue should vote against Kevin Loosemore remaining as Chairman and a director

1. The three year Turnaround Plan has failed;
2. There have already been two profit warnings in 2022;
3. By his own admission, Kevin Loosemore is "overexposed to DLR" and has ceased to act as an impartial and independent Chairman and director acting in the best interests of all shareholders;
4. The RNS and resolution are misleading to shareholders as to the true reason for the call for the Chairman's resignation and indicative of a deeper leadership malaise.

De La Rue’s 2022 Report & Accounts states that “the board values the importance of building strong relationships with shareholders and investors” and that the role of the Chairman is to “promote a culture of openness and debate.”

Crystal Amber has sought change privately. Crystal Amber did not requisition this shareholder meeting or publicly call for Kevin Loosemore's resignation.

Rather than admit that profits are substantially below the expectations set when Crystal Amber and other shareholders backed (with £100 million) the turnaround plan, Kevin Loosemore has failed to take responsibility. Instead, he has accused Crystal Amber of “unnecessary distraction” for articulating reality to the board and accused Crystal Amber of market manipulation for attempting to seek to recover its losses through the release of shareholder value.

Crystal Amber has concluded that Kevin Loosemore’s actions and attitude are an impediment to the release and return of shareholder value at De La Rue.

In the event of this shareholder meeting proceeding, Crystal Amber recommends that De La Rue’s shareholders vote AGAINST the resolution.

Yours faithfully

Christopher Waldron
Chairman

Crystal Amber Fund Limited

Appendix 1: Email from Crystal Amber to Kevin Loosemore, 24 October 2022

From: *Richard Bernstein*
Sent: *24 October 2022 18:12*
To: *Loosemore, Kevin (Basingstoke)*
Cc: *Vacher, Clive (Basingstoke)*

Subject: *RE: Board*

Kevin,

I hope that you had a good trip and a safe flight home. Out of respect for you, I have postponed acting until your return.

Since you and Clive came in to rescue the business, I have regularly provided my assessment. Unfortunately to our cost, it has proven prescient. The past is behind us so let me be clear about the future. You are on course for a third profit warning. H1 may be in line but thereafter will not be met, despite your latest round of savage cost cutting.

You do not want Juan#, despite him jumping through all of your hoops, you prefer to keep the problems and turmoil in-house. So we have concluded that Juan will not be part of the future and we will no longer pursue this course. Instead, we have a far more radical solution which since you are unwilling to engage properly with a long term owner, we will be announcing independently.

I accept that this will be of interest to the press. Our objective is not to provide journalistic copy but to mitigate our significant financial losses since we gave you £18 million of the £100 million raise in 2020. In the past, you have said that press comment may cause instability. However, it is already clear that this is precisely the current state of affairs. Our continuing silence will make us complicit.

To be clear, we know and will express that you are both fighting hard for De La Rue. However, I was told many years ago, not to confuse achievement with effort. The turnaround plan has stalled. There is no free cash flow generation and although you have dealt with the legacy issues of Portals and the pension, the underlying businesses are not delivering on what matters- revenues. Cost cutting is not a strategy.

It is regrettable that your engagement is confined to box ticking.

Best wishes,

Richard

Juan Morera is an employee of the Investment Adviser and would have been its nominated board representative