



2016 Interim Results

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Executive Summary

| | H1 2016 | H1 2015 | |
|-------------------|---------|---------|-------|
| Profit before tax | £2.00m | £1.85m | +8.1% |

- Group sales £81.5m, 3.7% up – Distribution 5.5% Manufacturing (9.1%)
- Distribution sales growth is substantially acquisition driven
- Acquisitions all performing to plan – Colton/McNeil now integrated
- Organic growth from internet retail sector and National Accounts
- Gross margin improvement 1.3% through improved Labels customer mix
- Profit growth in Distribution £0.20m, reduction on Manufacturing £0.05m
- Pension deficit increases by £1.1m to £12.6m, due to low bond yields
- Net debt of £16.9m primarily reflecting acquisitions
- Dividend up 3.8% to 0.55p per share payable 13-Oct-16 – register date 23-Sep-16

Financial Summary H1 2016

| | | | |
|--|---|---|---|
| Revenue and Operating Profit | Revenue  4% | Profit before tax  8% | EBITDA Margin 4.4% |
| Balance sheet Management and Cash Flow | Pre-tax ROCE 12.3% | Bank debt  £3.6m | Pension Deficit  £1.1m |
| EPS and Dividend | Diluted EPS  6% | EPS 1.35p | Dividend per share  0.55p |

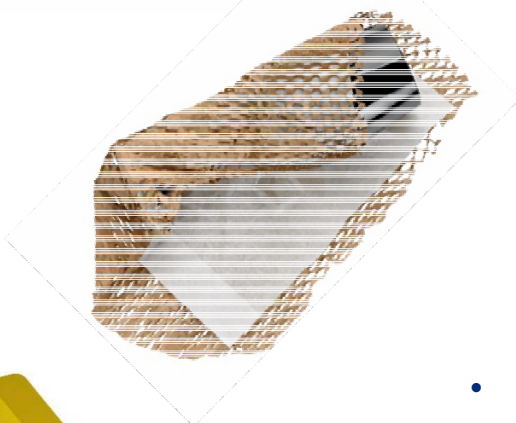
Results £m

| | H1 2016 | | H1 2015 | | <i>H2 2015</i> | |
|---------------------------|---------|-------------|---------|-------------|----------------|-------------|
| Sales | | <u>81.5</u> | | <u>78.6</u> | | <u>90.5</u> |
| Gross Profit | 32.0% | 26.1 | 31.3% | 24.6 | 31.6% | 28.6 |
| Overheads exc. DA | | <u>22.6</u> | | <u>21.4</u> | | <u>22.1</u> |
| EBITDA | | 3.5 | | 3.2 | | 6.5 |
| Depreciation/amortisation | | <u>1.0</u> | | <u>0.9</u> | | <u>1.1</u> |
| Operating profit | | 2.5 | | 2.3 | | 5.4 |
| Interest | | <u>0.5</u> | | <u>0.4</u> | | <u>0.5</u> |
| Profit before tax | | <u>2.0</u> | | <u>1.9</u> | | <u>4.9</u> |
| Diluted EPS | | 1.34p | | 1.26p | | 3.09p |

Cash flow £m

| | H1 2016 | H1 2015 | H2 2015 |
|---------------------|--------------|--------------|--------------|
| EBIT | 2.5 | 2.3 | 5.4 |
| DA | <u>1.0</u> | <u>0.9</u> | <u>1.1</u> |
| EBITDA | 3.5 | 3.2 | 6.5 |
| Working Capital | (0.0) | (0.4) | (0.5) |
| Interest | (0.5) | (0.4) | (0.5) |
| Acquisitions | (2.7) | (0.2) | (3.7) |
| Share placing | 0.0 | 0.0 | 0.0 |
| Tax | (0.6) | (0.1) | (0.6) |
| Capital expenditure | (0.8) | (0.4) | (0.1) |
| Pension | (1.4) | (1.4) | (1.3) |
| Dividend | <u>(1.6)</u> | <u>(1.4)</u> | <u>(0.7)</u> |
| Movement in Debt | <u>(4.1)</u> | <u>(1.1)</u> | <u>(0.9)</u> |

Packaging Distribution



| £m | H1 2016 | H1 2015 | H2 2015 |
|------------------|------------|------------|------------|
| Revenue | 70.0 | 66.3 | 77.0 |
| Gross margin | 29.2% | 29.3% | 29.6% |
| Overheads | 18.2 | 17.4 | 18.1 |
| Operating profit | 2.3 | 2.1 | 4.7 |
| OP Margin | 3.2% | 3.1% | 6.1% |

- Sales increase 6%, 1% volume, 0% price & 5% acquisition
- H2 sales levels in Aug show base business revenue ↑ 2%
- Gross margins 29.2%, improvements in H2 targeted
- Good overhead cost control, all of increase acquisition-related, reduction in overheads in base business
- Net promoter score increased from 48 to 49 in Q3 2016

Packaging Distribution

- 6% sales growth, 1% organic, 5% acquisitions
- Acquisitions all performing well
- Internet retail ca. 22% of Distribution revenue
- Revenues increasing from Internet retail customers Selfridges and Feel Unique. New customer for H2 – Bertrams Books
- National Accounts growth up significantly with strong growth from Thermofisher and Schneider
- 3PL progress continues with DHL, Wincanton and XPO
- Investment in Innovation Lab delivering early successes



XPOLogistics

ThermoFisher
S C I E N T I F I C

feelunique.com
The Destination for Beauty...

SELFRIDGES&C^o

Bertrams

INNOVATIONLAB

Recent Acquisitions in Packaging Distribution

Acquisition of Lane, May 2014

- Location: Reading
- Sales: £3m
- Price: £1.4m
- Earn out: £0.2m – *Full payment*
- EBITDA multiple: 5x – 6x



Acquisition of One, Aug 2015

- Location: Nottingham
- Sales: £5m
- Price: £2.7m
- Earn out: £0.7m, *Full payment due*
- EBITDA multiple: 5x – 5.5x



Nelsons – July 2016

- Location: Leicester
- Sales: £9m, Price: £6.75m
- Earn out: £1.5m
- **Placing 10m shares at 58p**
- EBITDA multiple: 5x – 6x

Dec-13

Jun-14

Dec-14

Jun-15

Dec-15

Jun-16

Acquisition of Network, Sep 2014

- Location: Wolverhampton
- Sales: £10m
- Price: £7.5m
- **Placing 8m shares at 37.5p**
- Earn out: £2.6m – *Full payment due*
- EBITDA multiple: 5x – 6x

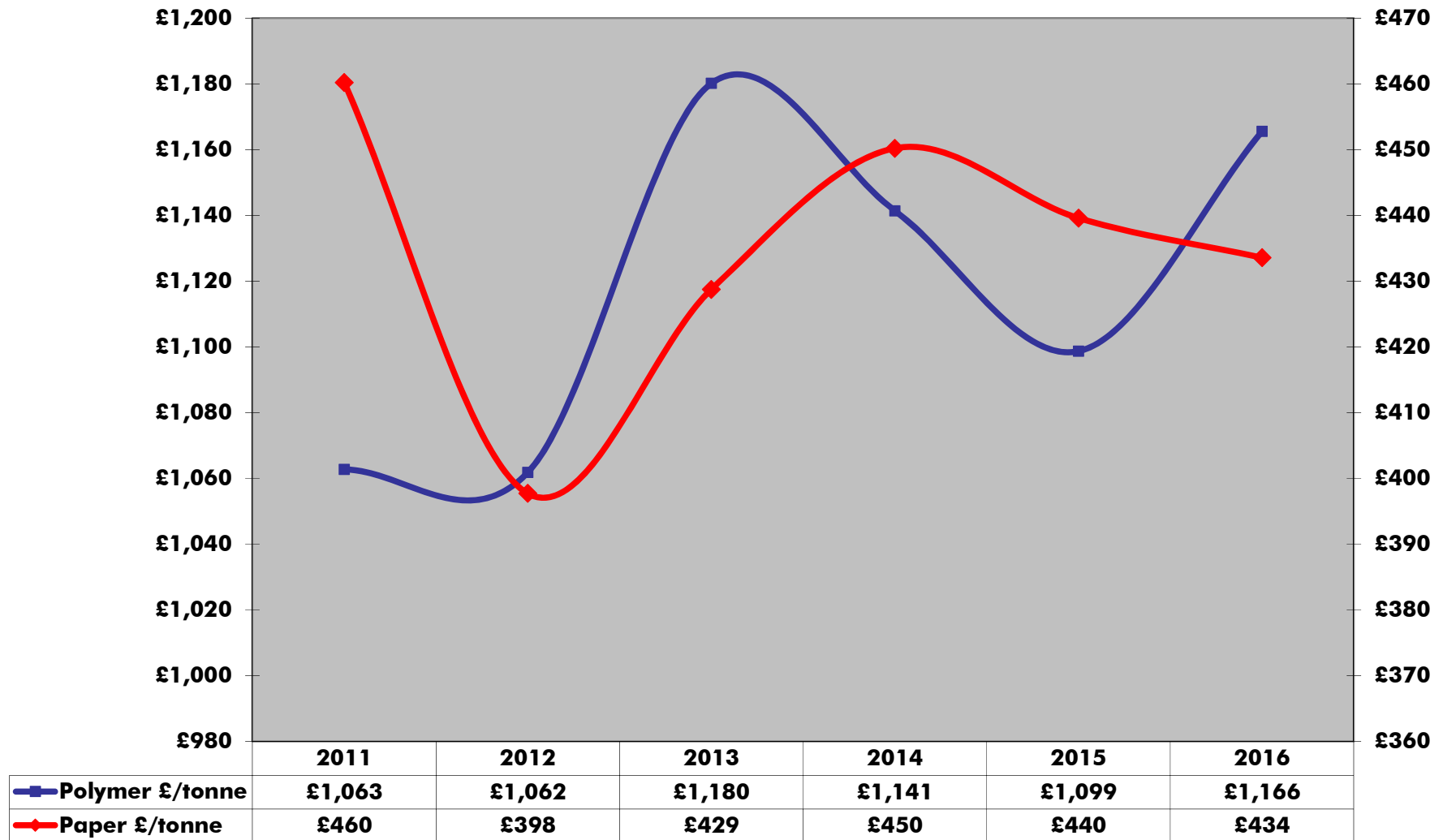


Acquisition of Colton Teesside and Edward McNeil, H1 2016

- Locations: Teesside & Glasgow
- Sales: £6.5m combined
- Price: £2.7m
- Earn out: £0.3m *payable 2017*
- EBITDA multiple: 5x – 6x



Raw material movements



Macfarlane Design and Manufacture



| £m | H1 2016 | H1 2015 | H2 2015 |
|------------------|------------|------------|------------|
| Revenue | 6.1 | 6.0 | 6.4 |
| Gross Margin | 35.2% | 38.4% | 37.8% |
| Operating profit | 0.1 | 0.2 | 0.3 |

- Slower demand from export-driven customers
- Strong new business pipeline will benefit H2 2016
- Improved operational performance at Grantham targeted
- Focus on value-added products maintaining good margin

Macfarlane Labels



| £m | H1 2016 | H1 2015 | H2 2015 |
|------------------|---------|---------|---------|
| Revenue | 7.6 | 9.0 | 8.9 |
| Gross margin % | 37.9% | 34.8% | 32.9% |
| Operating Profit | 0.2 | 0.1 | 0.4 |
| SA/Reseal-it % | 60/40 | 65/35 | 69/31 |
| Net Margin | 2.6% | 1.1% | 4.5% |

- Reseal-it label sales up by 10%
- Self-adhesive sales down by 23%
- Exited poor margin business, rebalancing in favour of Reseal-it
- Improving margin through production efficiencies, improved sourcing and selective price increases

Pension Scheme Deficit

| £m | <u>H1 2016</u> | <u>2015</u> |
|--|----------------|---------------|
| Opening deficit | (11.5) | (13.9) |
| Ongoing accrual/Interest cost | (0.1) | (0.6) |
| Contributions | 1.4 | 2.8 |
| Bond yield ↓ 0.8% to 2.9% (2015 ↑ 0.2% to 3.7%) | (10.2) | 2.3 |
| Investment returns | 8.3 | (1.7) |
| Net effect of other assumptions | <u>(0.5)</u> | <u>(0.4)</u> |
| Closing deficit | <u>(12.6)</u> | <u>(11.5)</u> |

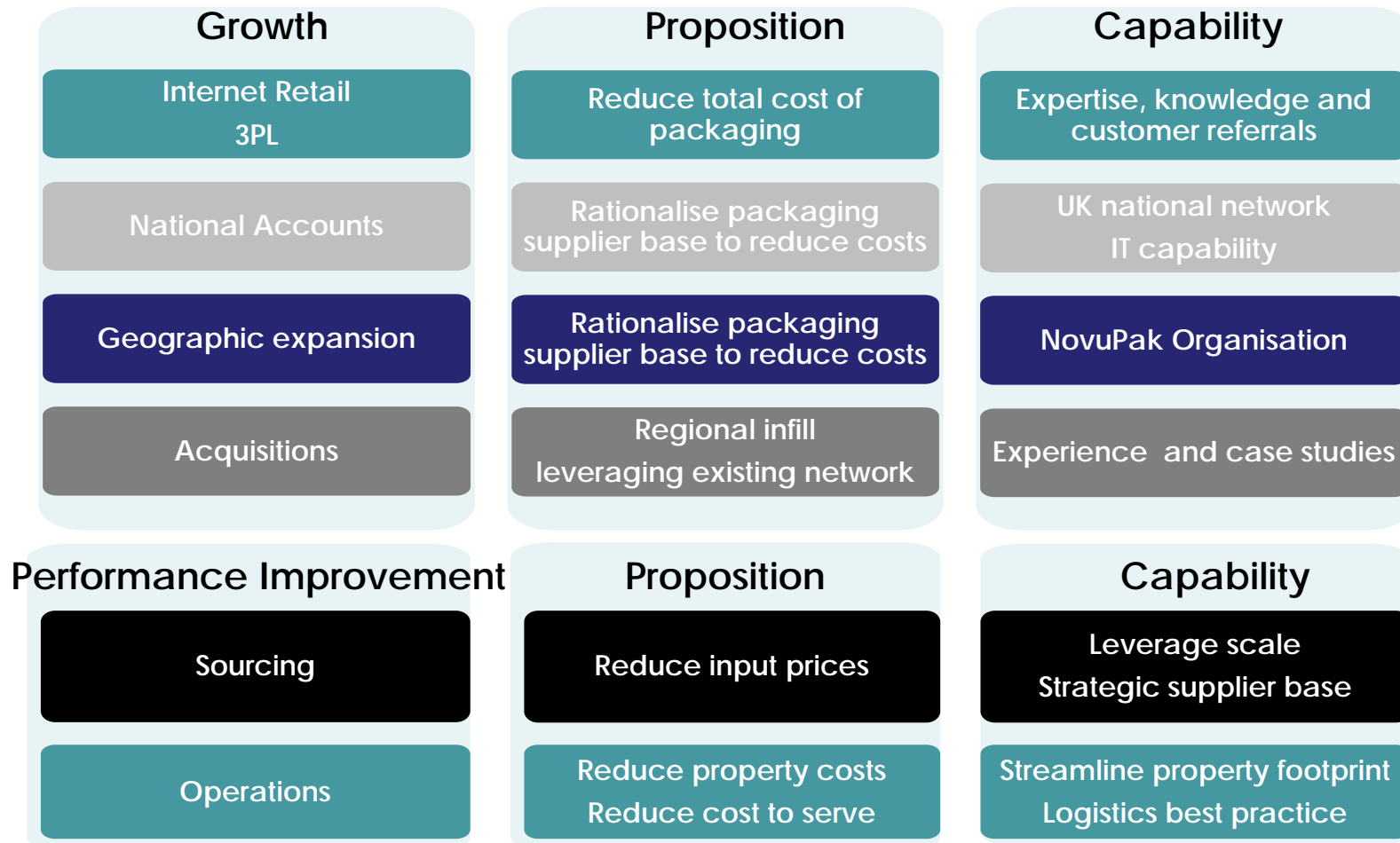
Features

- Impact of continued reduction in bond yields
- Move into liability-driven investments in February 2014
- LDI/corporate bonds providing 75% hedge vs. liabilities
- Transfer values are an increasing feature
- Deficit recovery plan 10 years – next triennial valuation 1 May 2017
- Deficit recovery contributions currently increase in line with CPI

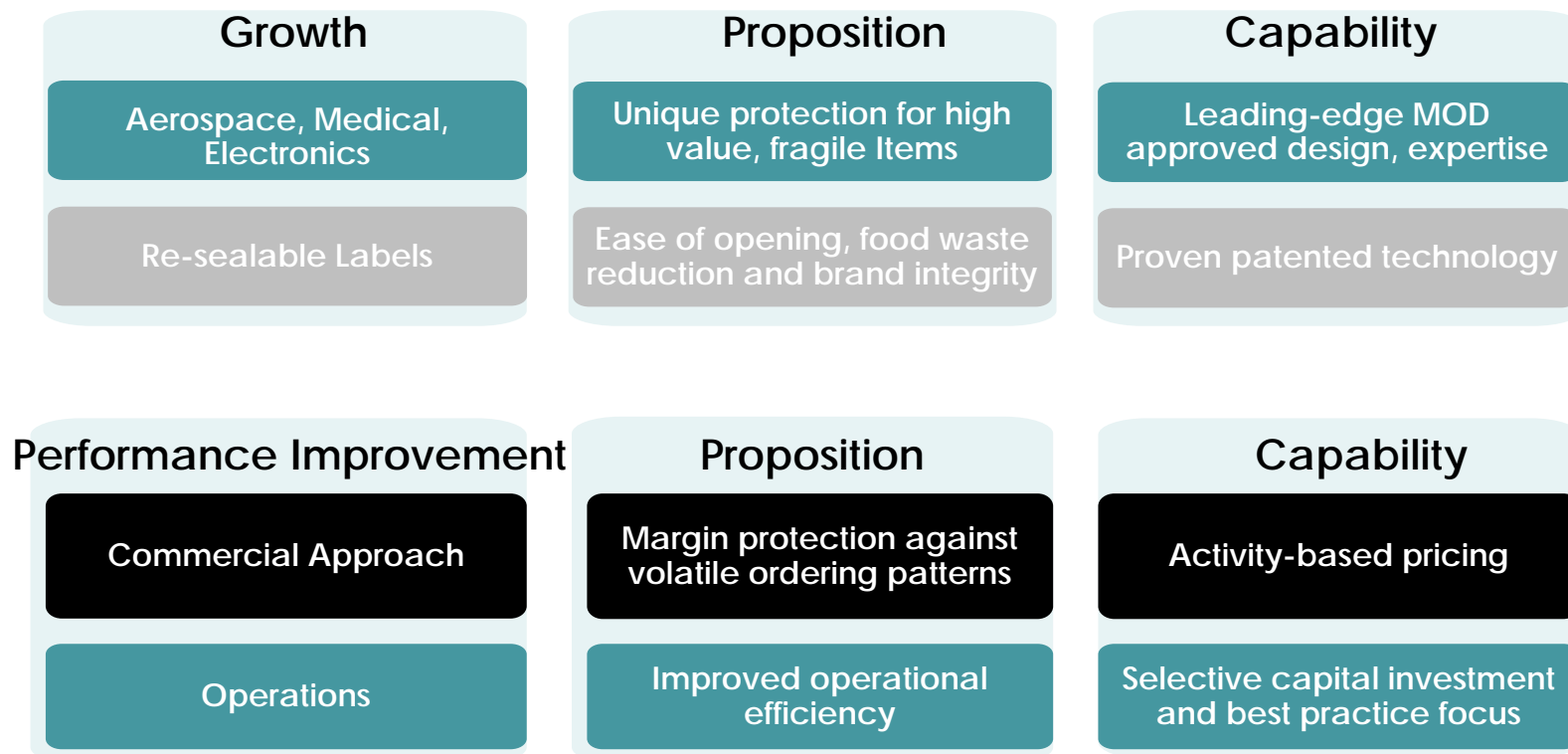
Pension Scheme Details

| Investments | | H1 2016 | 2015 |
|------------------------------|-------------------------|----------------------|----------------------|
| Growth assets | | | |
| Diversified Growth Funds | | £25.5m | £25.5m |
| Equities | | £16.1m | £16.8m |
| Matching assets | | | |
| Corporate Bonds/Loan Fund | | £ 7.1m | £11.1m |
| Liability-driven investments | | £26.7m | £14.1m |
| Cash | | <u>£ 0.8m</u> | <u>£ 0.3m</u> |
| Total | | <u>£76.2m</u> | <u>£67.8m</u> |
| | | | |
| Liabilities | | | |
| Active members | 19 (20) | £ 5.1m | £ 5.3m |
| Deferred members | 264 (280) | £33.6m | £32.4m |
| Pensioners | <u>343 (337)</u> | <u>£50.1m</u> | <u>£41.6m</u> |
| Total | <u>626 (637)</u> | <u>£88.8m</u> | <u>£79.3m</u> |

Profitable Growth in Packaging Distribution



Profitable Growth in Manufacturing Operations



Conclusions

- We are not assuming demand will significantly increase or decrease
- Trading agenda:
 - Distribution focus on identified growth opportunities – Internet Retail, 3PL and National Accounts
 - Manufacturing focus on higher added value products and services
 - Ongoing focus on cost reduction
- Further acquisitions being targeted
- Balance sheet agenda:
 - Implement additional pension deficit reduction actions
 - Focus on cash generation
- Bank facilities of £25m provide additional resources to accelerate growth of the business



Macfarlane Group Business Case

A simple and
flexible
business model

Strong
operating
companies
with
differentiated
propositions

Good market
positions with
growth
potential

Clear plans
and a track
record of
performance

Questions and Answers