



2017 Interim Results



- Executive Summary
- 2017 Interim Results/Cash flow
- Business Review
 - *Packaging Distribution*
 - *Manufacturing Operations*
- Pension Scheme Deficit
- 2017 H2 Key Actions
- Conclusions



Executive Summary

Profit before tax	H1 2017	H1 2016
	£2.5m	£2.0m

- Group sales £89.8m, 10% growth on 2016
- Distribution sales growth 12% of which 3% organic, 9% acquisition
- Distribution profit growth of 18% in H1 2017
- Manufacturing Operations sales (1%) profits ahead of 2016
- Pension deficit reduced by £1.1m to £13.4m
- Net bank debt £14.0m, down £1.3m reflecting reduced receivables
- Interim dividend increased by 9.1% to 0.60p per share payable 12-Oct-17, with a register date 22-Sep-17
- Confident that full year expectation will be met

Financial Summary – H1 2017

Revenue
and profit

Revenue

▲ 10%

Profit before tax

▲ 25%

EBITDA

▲ 18%

Returns and
balance sheet

Pre-tax ROCE H1

▲ 13%

Bank debt

▲ £14.0m

Pension Deficit

▲ £13.4m

EPS and
dividend

Diluted EPS

▲ 13%

EPS

▲ 1.52p

Dividend per share

▲ 0.60p



Results £m

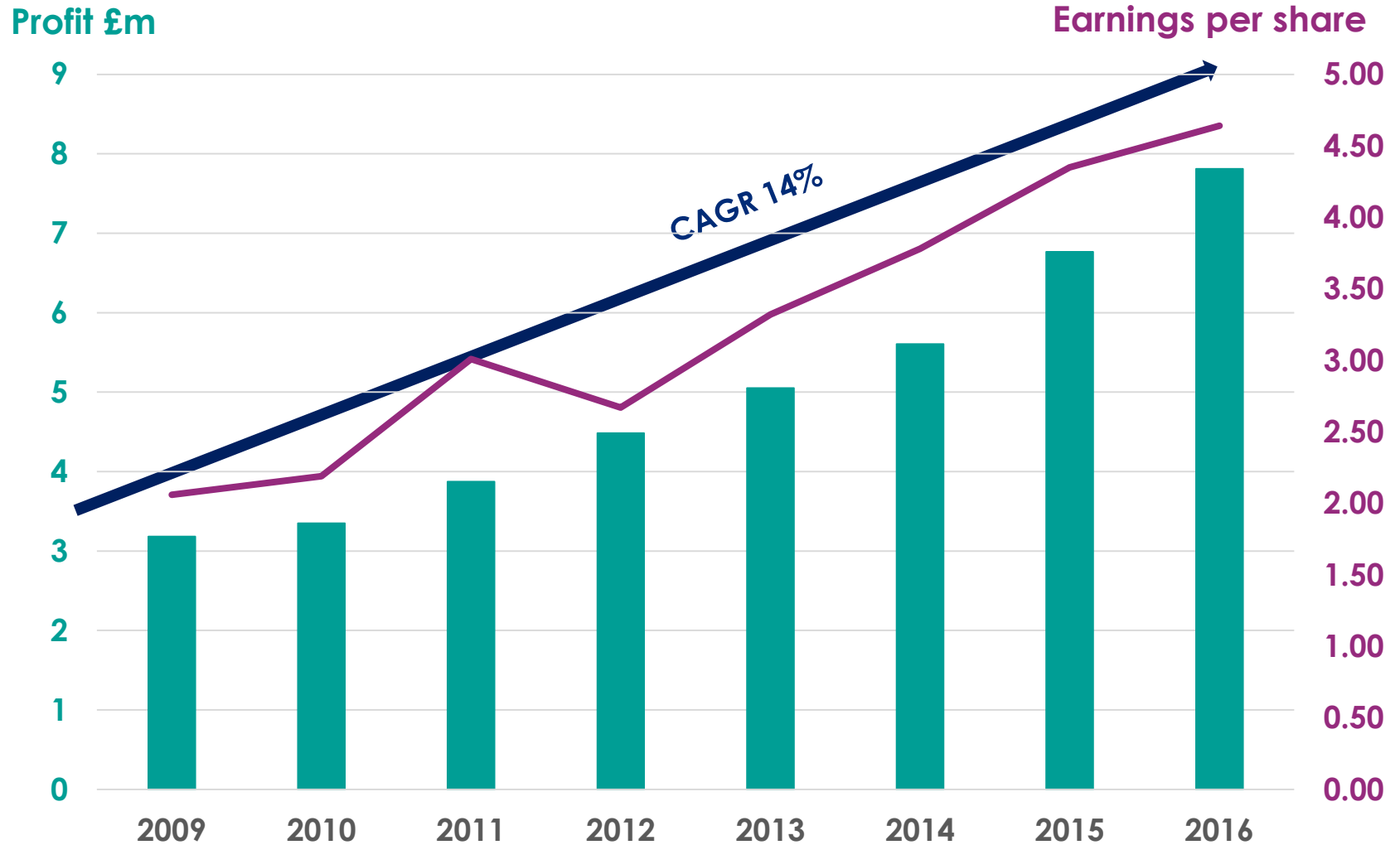
	H1 2017	H1 2016	H2 2016
Sales	<u>89.8</u>	<u>81.5</u>	<u>98.3</u>
Gross Profit	27.5	26.1	29.6
Overheads exc. DA	<u>23.3</u>	<u>22.5</u>	<u>22.1</u>
EBITDA	4.2	3.6	7.5
Depreciation/amortisation	<u>1.3</u>	<u>1.1</u>	<u>1.3</u>
Operating profit	2.9	2.5	6.2
Interest	<u>0.4</u>	<u>0.5</u>	<u>0.4</u>
Profit before tax	<u>2.5</u>	<u>2.0</u>	<u>5.8</u>
Diluted EPS	1.52p	1.34p	3.30p
Full year dividend	0.60p	0.55p	1.40p
Dividend cover	2.5	2.4	2.4



Cash Flow £m

	H1 2017	H1 2016	H2 2016
EBIT	2.9	2.5	6.2
DA	<u>1.3</u>	<u>1.1</u>	<u>1.3</u>
EBITDA	4.2	3.6	7.5
Working Capital	3.2	(0.1)	(2.7)
Interest	(0.4)	(0.5)	(0.4)
Acquisitions	(0.3)	(2.7)	(6.0)
Share placing	0.0	0.0	5.6
Tax	(0.7)	(0.6)	(0.7)
Capital expenditure	(0.8)	(0.8)	(0.3)
Pension	(1.8)	(1.4)	(1.5)
Dividend	<u>(1.9)</u>	<u>(1.6)</u>	<u>(0.7)</u>
Movement in Total debt	<u>1.5</u>	<u>(4.1)</u>	<u>0.8</u>

Profit Progression



Packaging Distribution

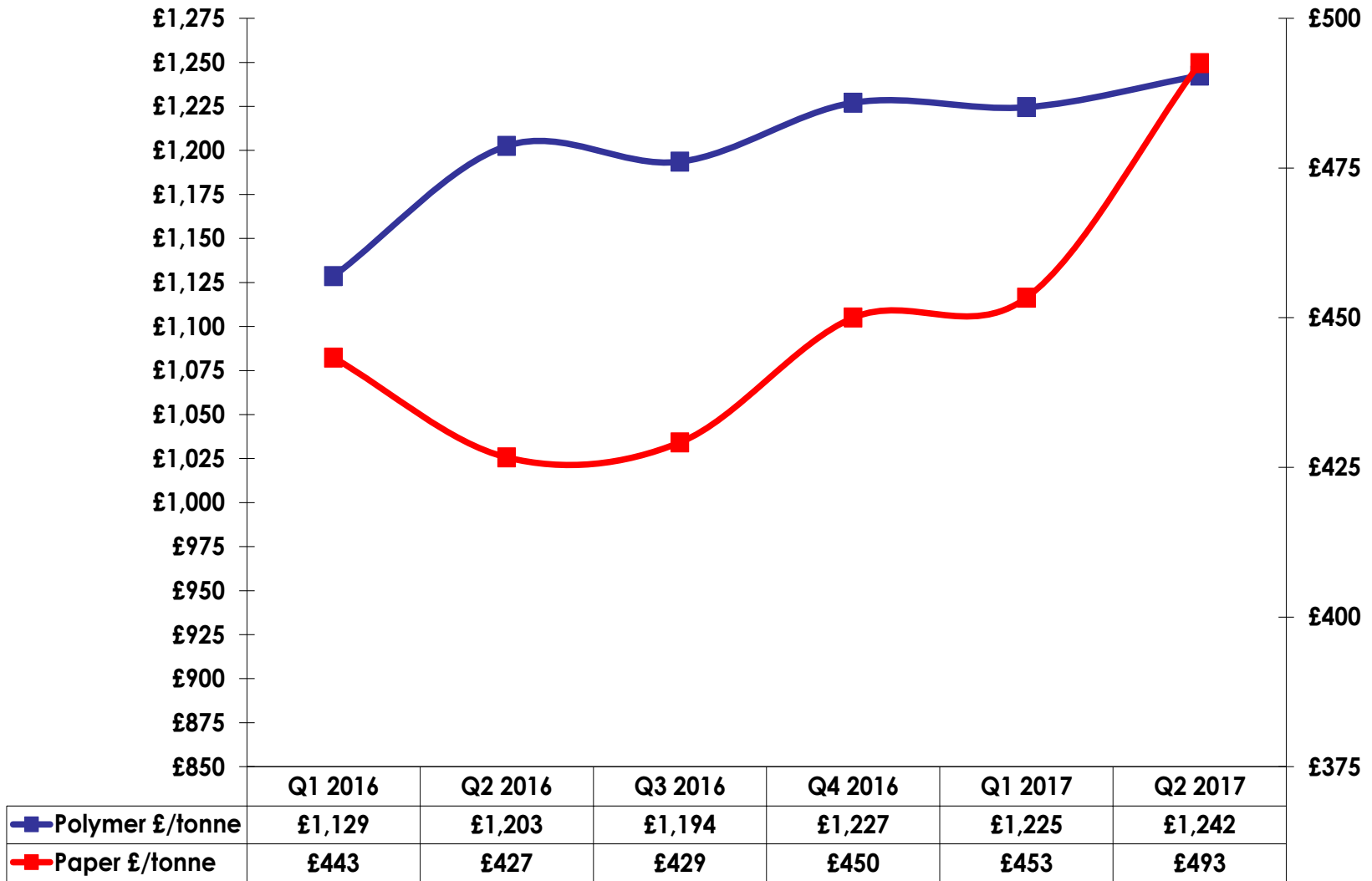


£m	H1 2017	H1 2016
Revenue	78.1	70.0
Gross margin	29.0%	29.2%
Overheads	19.9	18.2
Operating profit	2.7	2.3
OP Margin	5.0%	4.8%



- Sales increase 12%, 3% organic and 9% acquisition
- Gross margins 29.0%, down 0.2% reflecting cost price increases
- Majority of overhead increase is acquisition-related
- Net promoter score 47 (Dec-16: 53)

Packaging Distribution - upward trend in input costs



Packaging Distribution

- Revenue increases in H1 from internet retail wins of Bertrams Books £0.7m and Selfridges £0.3m
- Internet retail ca. 25% of Distribution revenue
- National Accounts growth up significantly with strong increase from Thermofisher £0.3m
- All acquisitions performing to plan, four of the six acquisitions made since 2014, now have people, IT and processes integrated
- Further pipeline of acquisitions being progressed
- New business pipeline for 2017 is strong supported by our Innovation Lab in Milton Keynes
- Demand increasing for European service from existing Macfarlane customers

ThermoFisher
SCIENTIFIC



SELFRIDGES&CO

LAKELAND

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 made**
- EBITDA multiple: 5x – 5.5x



Nelsons – July 2016

- Location: Leicester
- Sales: £9m, Price: £6.75m
- Earn out: £1.5m, **Year 1 ✓**
- **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 made**
- EBITDA multiple: 5x – 6x

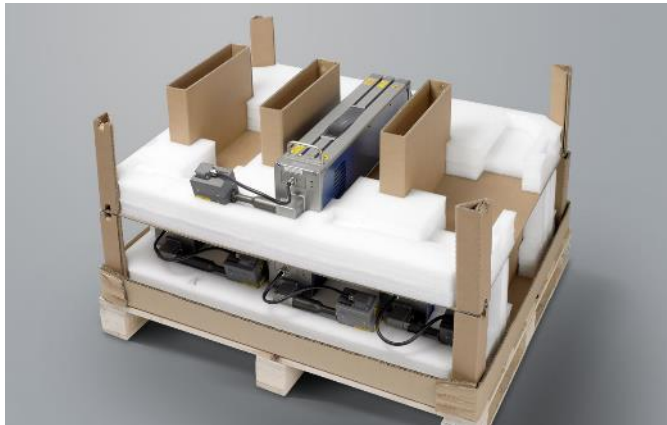


Acquisition of Colton Teesside and Edward McNeil, H1 2016

- Locations: Teesside & Glasgow
- Sales: £6.5m combined
- Price: £2.7m
- Earn out: £0.3m **paid H1 2017**
- EBITDA multiple: 5x – 6x



Macfarlane Design and Manufacture



£m	H1 2017	H1 2016
Revenue	6.0	6.1
Gross Margin	34.3%	35.2%
Operating profit	0.1	0.1
Sales to Distribution	24%	27%

- Weak demand from certain UK sectors in H1
- Existing customers relocating UK facilities e.g. Seagate
- Strong new business pipeline to benefit H2
- Focus on value-added products

Macfarlane Labels



£m	H1 2017	H1 2016
Revenue	7.6	7.6
Gross margin	38.1%	37.9%
Operating Profit	0.2	0.2
Self-Ad/Reseal-it %	56/44	60/40
Net Margin	2.6%	2.6%

- Re-sealable labels sales/machines up 9%
- Self-adhesive label sales down 8%
- Improved margin through better sales mix and operating efficiencies
- Encouraging sales momentum in the USA though the Printpack partnership



Pension Scheme Deficit £m

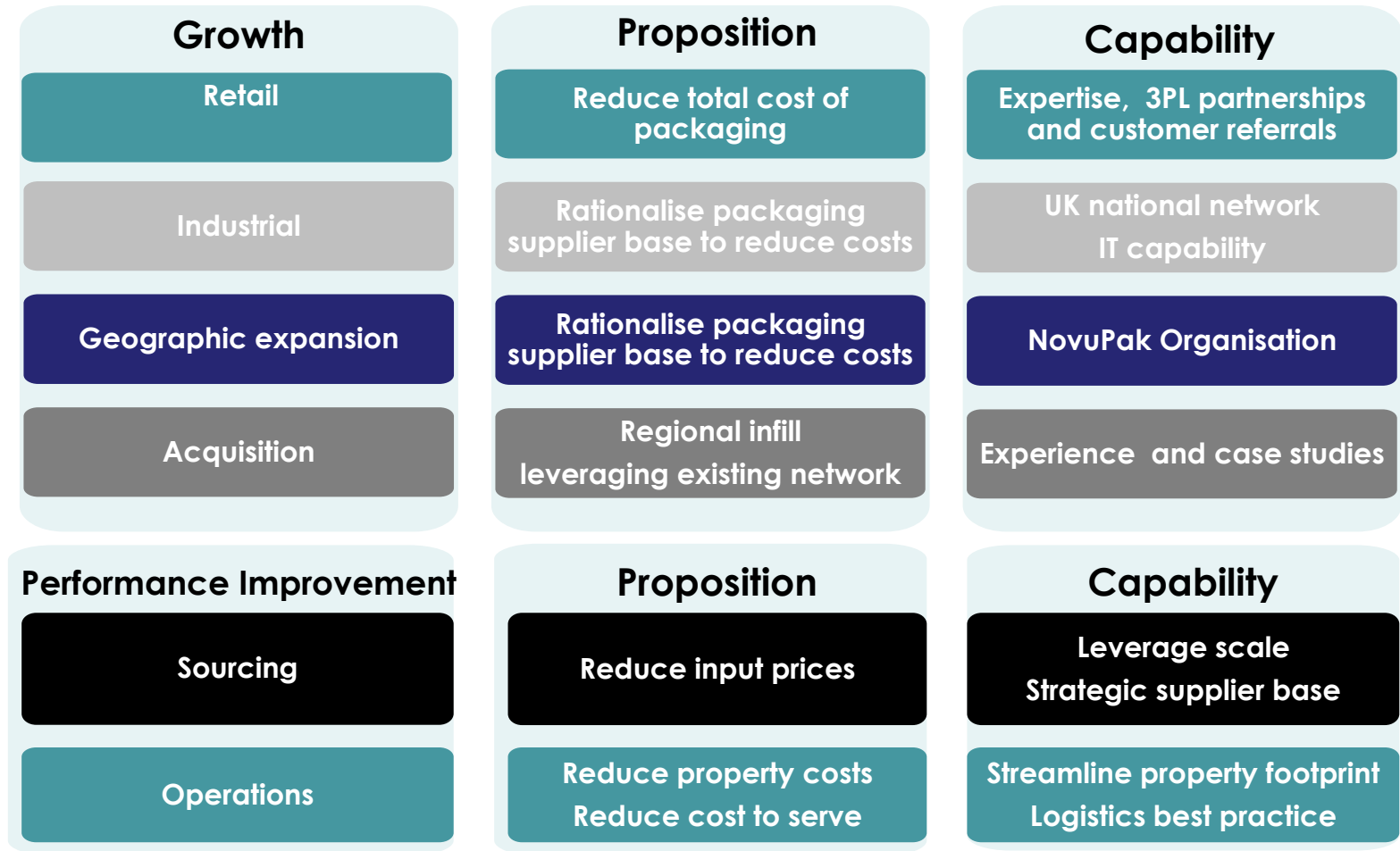
	H1 2017	2016
Opening deficit	(14.5)	(11.5)
Ongoing accrual/Interest cost	(0.3)	(0.5)
Contributions	1.9	3.0
Bond yield ↓ 0.1% to 2.6% (2016 ↓ 1.0%)	(1.6)	(14.8)
Investment returns	1.0	9.6
Net effect of other assumptions	0.1	(0.3)
Closing deficit	(13.4)	(14.5)

- Continued decrease in bond yields
- LDI provided ca. 65% hedge vs. liabilities
- Transfer values an increasing feature
- Deficit recovery contributions for 2017 £2.9m
- Next actuarial valuation 1-May-17 – will conclude in 2018

Pension Scheme details £m

Investments		H1 2017	2016
Growth assets	Invested H1		
Diversified Growth Funds		21.9	21.5
Equities	- £1.0m	17.5	17.1
European Loan Fund		6.5	6.4
Long-term Property Fund	+ £6.2m	6.3	
Matching assets			
Liability-driven Investments		26.5	26.5
Cash	-£5.2m	0.3	6.3
Total investments		79.0	77.8
Liabilities	Members		
Active members	17 (17)	4.8	4.8
Deferred members	250 (264)	33.1	35.4
Pensioners	346 (342)	54.5	52.1
Total liabilities	613 (623)	92.4	92.3

Profitable Growth in Packaging Distribution



Profitable Growth in Manufacturing

Growth

Aerospace, Medical,
Electronics

Re-sealable Labels

Proposition

Unique protection for high
value, fragile Items

Ease of opening, food waste
reduction and brand integrity

Capability

Leading-edge MOD
approved Packaging Design,
expertise

Proven Patented technology

Performance Improvement

Commercial Approach

Operations

Proposition

Margin protection against
volatile ordering patterns

Improved operational
efficiency

Capability

Activity-based pricing

Selective investment and
best practice focus



Conclusions

- H1 2017 demonstrates continuing progress in line with strategy
- Trading agenda:
 - Distribution focus on identified growth opportunities – Internet Retail, National Accounts and 3PL
 - Manufacturing focus on higher added value products and services
 - Ongoing focus on cost reduction
- Pipeline of further acquisition targets being pursued
- Balance sheet agenda:
 - Implement additional pension deficit reduction actions
 - Focus on cash generation
- Bank facilities in place to support growth plans



Macfarlane 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

Appendices



Macfarlane Group Structure

Macfarlane Group

87% of Group

Packaging Distribution

Nationwide distribution of protective packaging materials to business users



6% of Group

Packaging Design and Manufacture

Design/manufacture of packaging products for protection of high value articles



7% of Group

Macfarlane Labels

Design and printing of Self-adhesive & re-sealable labels for FMCG market

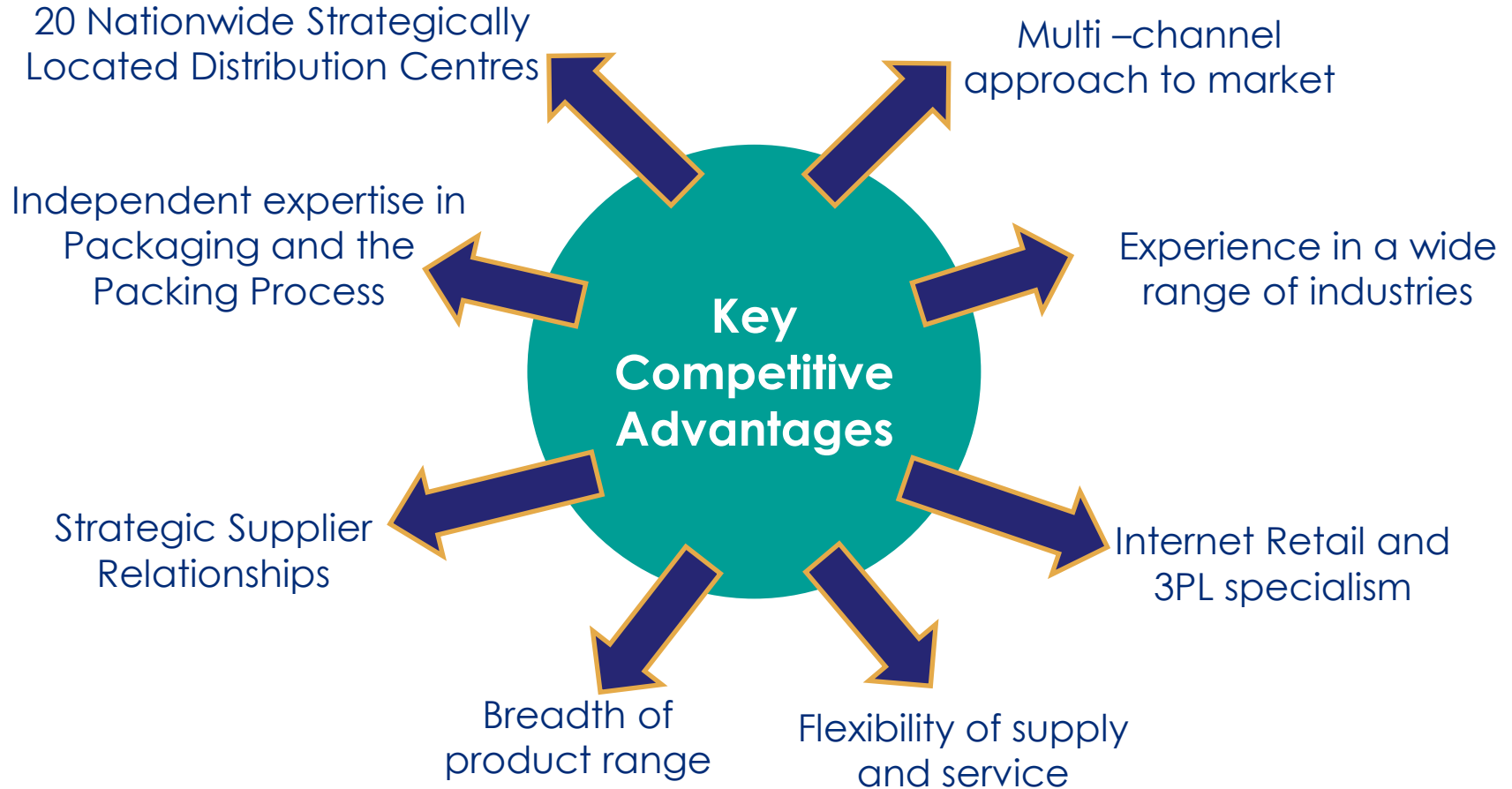


Packaging Distribution

- Supply of protective packaging materials in the UK
- UK Market leader with c 20% market share in fragmented market
- Nationwide coverage through
 - 20 Regional Distribution Centres/3 satellite sites
- 20,000+ customers
- Concentration on growth areas
 - Internet Retail – higher use of protective packaging
 - 3PL Sector – increasing role in packing products
 - National Accounts – our network is unrivalled
- Achieve market share gains – increasing sales
- Focus on improving returns – initial target 5%
- Infill acquisition opportunity



Key Competitive Advantages



Macfarlane Packaging Distribution Customers

Key Customers



FEELUNIQUE



LAKELAND



SELFRIDGES&CO

ThermoFisher
SCIENTIFIC



TESCO

THE WHITE COMPANY
LONDON

O₂



Labels

- Specialises in the design, printing and supply of high quality self-adhesive and re-sealable labels for FMCG manufacturers in the UK, Europe and USA
- Printing more than 2 billion labels each year
- Research & development facilities in Scotland and Sweden
- Manufacturing centres in Scotland and Ireland
- Manufacturing partners in Europe and the USA



Labels Customers



Packaging Design and Manufacture

- Design, manufacture and assembly of bespoke, custom-designed packaging to protect high value or fragile products in shipping and storage
- Target customers are in defence, aerospace, medical, electronic and industrial markets
- Design lead sales approach to major customers in target markets, utilising 3D design software and rigorous application testing methods
- Design and production facilities in Grantham and Westbury
- National coverage through the utilisation of the Packaging Distribution RDC network.



Design and Manufacturing Customers

MEGGITT



BOSCH

Invented for life

THALES

COBHAM

rotork®



Strategic Focus - Operational

- Packaging Distribution focus on key growth sectors
- Improve quality of earnings through internal actions
- Use acquisitions to fill geographic gaps or under-utilised RDCs
- Build market share from 20% towards 25%
- Medium-term potential for geographic expansion
- Labels transitioning to Reseal-it bias vs. self-adhesive labels
- Packaging Design and Manufacture focusing on higher design content composite packs
- Internal efficiencies and modest capital investment will improve returns



