2014 Interim Results

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Executive Summary

MACFARLANE GROUP

Profit before exceptional items	**2014**	2013
	£1.2m	£1.6m

- Group sales 3% ahead of 2013 with improving trend
- Highly competitive market place caused margin pressure in Distribution
- Internet retailer volume loaded towards H2
- UK economy recovering but retail market turbulence affecting Labels business
- Acquisition programme commenced in May 2014 with Lane Packaging at an initial cost of £1.2m
- Encouraging start to H2 2014 – full year expectation unchanged
- Pension deficit down by £2.7m to £13.2m – one off contribution £2.5m
- Net debt increased by £5.7m to £11.6m
- Bank facilities of up to £20.0m
- Dividend maintained at 0.50p per share payable October 2014 - register date 10 October 2014

2014 Results £m

£m	2014 H1		2013 H1		2013 H2	
Sales		70.2		68.1		75.8
Gross Profit	30.6%	21.5	31.9%	21.7	30.6%	23.2
Overheads		19.8		19.5		19.1
EBIT	2.4%	1.7	3.2%	2.2	5.2%	4.1
Interest		0.5		0.6		0.6
Profit before exceptionals		1.2		1.6		3.5
Exceptional charges		0.0		0.2		0.2
PBT		1.2		1.4		3.3
Tax		0.2		0.4		0.9
Profit for the year		1.0		1.0		2.4
EPS		0.84p		0.88p		2.15p

2014 Cash Flow £m

£m		2014 H1	2013 H1	2013 H2
EBIT		**1.7**	2.2	***4.1***
DA		**0.6**	0.7	***0.6***
EBITDA		**2.3**	2.9	***4.7***
Working Capital	(0.7)	**(0.9)**	0.4	***(1.0)***
Interest		**(0.2)**	(0.2)	***(0.2)***
Tax		**(0.4)**	(0.3)	***(0.4)***
Capex		**(0.2)**	(0.4)	***(0.3)***
Acquisition	(1.2)	**(1.2)**		
Pensions	(2.5)	**(3.9)**	(1.5)	***(1.0)***
Dividend		**(1.2)**	(1.2)	***(0.6)***
Movement in Net Debt		**(5.7)**	(0.3)	***1.2***
Opening bank debt		**(5.9)**	(7.1)	***(7.1)***
Closing net debt		**(11.6)**	(7.4)	***(5.9)***

Packaging Distribution

£m	H1 2014	H1 2013	Growth % Volume	Growth % Price	H2 2013
Revenue	**57.0**	54.9	2.9	0.9	61.4
Gross margin	**28.6%**	29.8%			28.5%
Operating Profit*	**1.5**	1.6			3.4
Margin*	**2.7%**	2.9%			5.5%

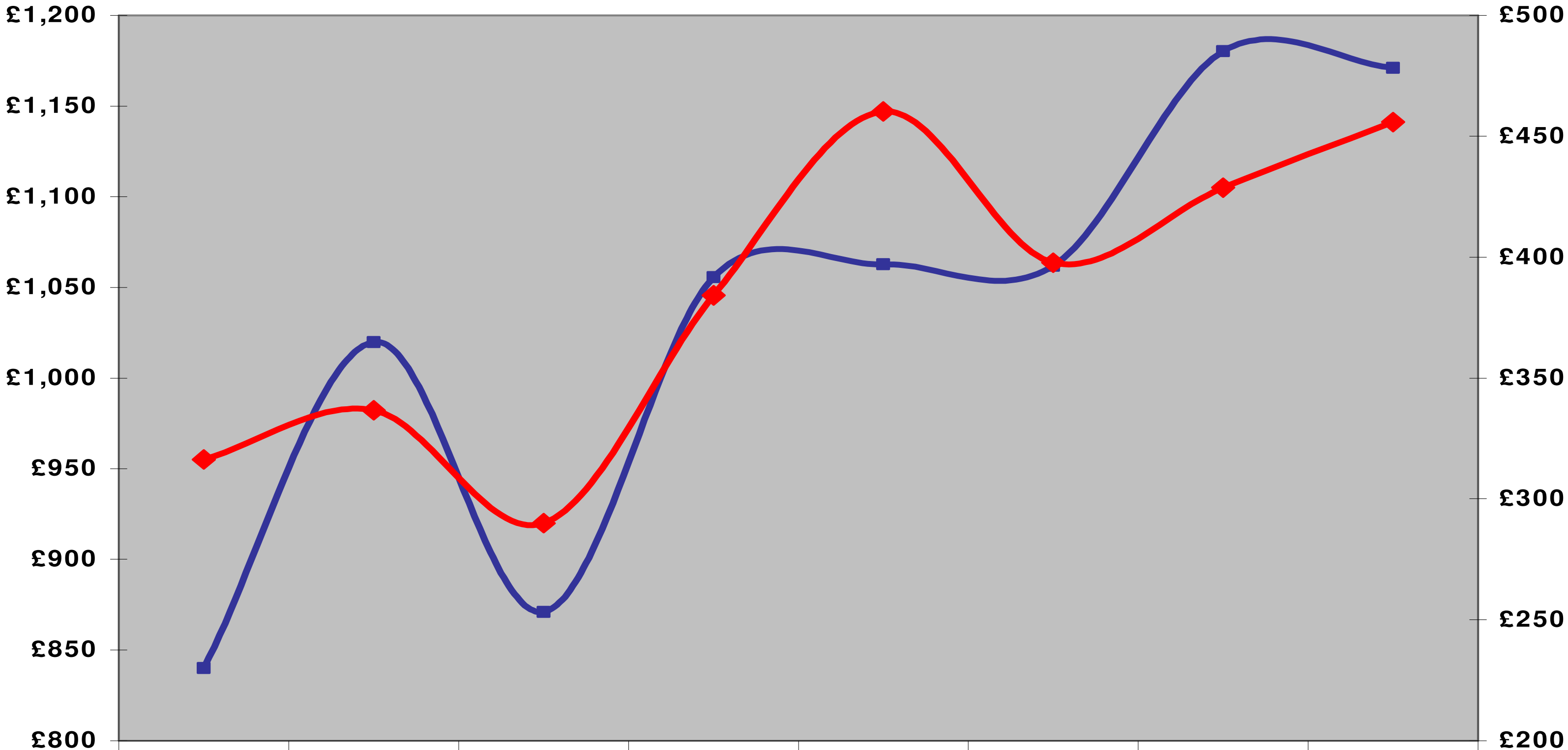
- Sales increase in 2014 of 3.8%
- Jan-Apr sales ⇧ 2.5%, May-Jun sales ⇧ 5.2%, >5% sales growth being maintained
- Gross margins impacted by price competition and customer mix
- Jan-Apr margin ⇧ 28.5%, May-Jun margin ⇧ 28.8%, rebuilding margin in H2
- Strong overhead control

* Before exceptional items

Packaging Distribution

- Some demand increases – but offset by competitive pricing
- 3PL sales down 2% (2013 +6%)
- National Accounts growth 7% (2013 +7%)
- Internet retail ca. 16% of Distribution business but H2 loaded. Full year > 20%
- Good new business increase of £2.3m and strong pipeline of opportunities
- Focus on margin recovery in H2 2014
- Acquisition of Lane in May-14 – performing well
- Further acquisition discussions in progress

Raw Material Movements



	2007	2008	2009	2010	2011	2012	2013	2014
Polymer £/tonne	£840	£1,020	£871	£1,056	£1,063	£1,062	£1,180	£1,171
Paper £/tonne	£316	£337	£290	£384	£460	£398	£429	£456

Packaging Design and Manufacture

MACFARLANE GROUP

MACFARLANE PACKAGING
DESIGN AND MANUFACTURE

£m	H1 2014	H1 2013	Distribution Sales		H2 2013
			2014	2013	
Revenue	**6.2**	6.6	**26%**	23%	6.5
Gross Margin	**38.9%**	39.3%			36.9%
Operating profit	**0.2**	0.3			0.3

- Sales impacted by one-off projects in H1 2013 and a significant customer moving offshore
- Focus on value-added products maintaining margin
- Partnership with Distribution strengthening
- Business steadier and more predictable

Macfarlane Labels

£m	**H1 2014**	H1 2013	**Self Adhesive**	**Reseal-It**	H2 2013
Revenue	**8.6**	8.2	59%	41%	8.9
Operating Profit*	**0.0**	0.3			0.4
Net Margin	**0.0%**	3.7%			

* Before exceptional items

- Good Reseal-it growth of 13%
- Self-adhesive sales down by 9% and market is intensely competitive
- Strong resealable systems sales in Europe
- Additional property and people costs of £0.3m

Pension Scheme Deficit £m

	H1 2014	2013
Deficit at 1 January	**(15.9)**	(18.9)
Ongoing accrual/Interest cost	**(0.4)**	(0.9)
Contributions	**4.0**	2.7
Bond yield ↓ 0.2% to 4.3% (2013 ↑ 0.1% to 4.5%)	**(2.4)**	1.2
Investment performance	**1.2**	1.5
Net effect of other assumptions	**0.3**	(1.5)
Deficit at 30 June (2013 - 31 December)	**(13.2)**	(15.9)

Features to date

- Deficit has reduced from £20.5m at Dec-11 to £13.2m now
- Several liability reduction exercises in recent years
- Minimal benefit from reduction in bond yields
- Investments providing a better match for liabilities

Actions 2014

- Trivial commutations/enhanced TVs following budget

Pension Scheme details

Investments		H1 2014	2013
Diversified Growth Funds		**£15.5m**	£16.4m
UK Corporate Bonds/Gilts		**£10.1m**	£22.5m
Liability-driven Investments		**£18.0m**	£ 0.0m
UK Equities		**£ 5.5m**	£ 5.7m
Overseas Equities		**£ 9.6m**	£ 9.4m
Cash		**£ 0.2m**	£ 0.2m
Total		**£58.9m**	£54.2m
Liabilities			
Active members	23	**£ 5.5m**	£ 5.6m
Deferred members	307	**£30.0m**	£29.6m
Pensioners	326	**£36.6m**	£34.9m
Total	656	**£72.1m**	£70.1m

Manufacturing 2014 Key Actions

LABELS

- Focus on higher added value products and services
- Continue to improve operational efficiencies
- Increase Reseal-it penetration in key markets through improved retailer focus
- Strengthen position in Ireland through new facility

PACKAGING DESIGN AND MANUFACTURE

- Focus on design led activity
- Increase penetration of aerospace and medical markets
- Improve operating margins at both sites
- Further strengthen partnership with Distribution

Distribution 2014 Key Actions

- Improve customer retention, product penetration & new business, through tailored approaches to key customer segments
- Focus on growth opportunities in Internet Retail, 3PL, and National Accounts
- Improve on line visibility and capability through www.macfarlanepackaging.com
- Implement new cost reduction initiatives
- Increase awareness of NovuPak to extend reach beyond UK
- Further improve cash management, esp. inventories
- Enhance organic growth with suitable acquisitions

Acquisitions

Recent history

- 2006-2008 Three acquisitions in Packaging Distribution
- Sales of £20m Acquisition prices totalled £11m
- Average EBITDA multiple of 6.0
- Gloucester, Hayes, Wakefield
- Efficient integration process

Lane Packaging

- May 2014 acquisition of Lane Packaging
- Based in Reading with sales of £2.7m
- Acquisition price £1.2m potentially rising to £1.4m – debt-funded
- EBITDA multiple of 5.5

Profile

- Acquiring between £2m and £10m turnover
- Fill geographic gaps
- Infill to increase utilisation levels at other sites
- EBITDA multiples relatively constant
- Flexibility to use debt or shares

Conclusions

- Some improvement in demand
- Competitor price focus impacting margins
- 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
    - Outlook for 2014 reflects higher seasonal peak in H2 2014
    - 2014 outlook remains in line with full year expectations
- Balance sheet agenda:
    - Implement additional pension deficit reduction actions
    - Focus on cash generation
- New bank facilities of £20m will provide additional resources to accelerate growth of the business
- Discussions with potential acquisition targets progressing positively