2015 Results

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MACFARLANE GROUP

Executive Summary

Profit before tax	2015	2014
	£6.8m	£5.6m

- Group sales £169.1m, 10% up on 2014 - Distribution 13% Manufacturing (3%)
- Distribution sales growth 13% of which 6% organic, 7% acquisition
- Organic growth from internet retail sector and national accounts of 14%
- 2014 and 2015 acquisitions all performing to plan, with Lane now integrated
- Manufacturing Operations trading at similar levels to 2014
- Pension deficit down by £2.4m to £11.5m
- Net bank debt of £11.6m reflecting acquisitions and seasonal working capital
- Final dividend increased to 1.29p per share payable 9-Jun-16, with a register date 13-May-16

Financial Summary

Revenue and profit	Revenue ▲ 10%	Profit before tax ▲ 21%	EBITDA £9.7m
Returns and balance sheet	Pre-tax ROCE ▲ 22%	Bank debt ▲ £1.5m	Pension Deficit ▼ £2.4m
EPS and dividend	Diluted EPS ▲ 15%	EPS ▲ 4.35p	Dividend per share ▲ 1.82p

Results £m

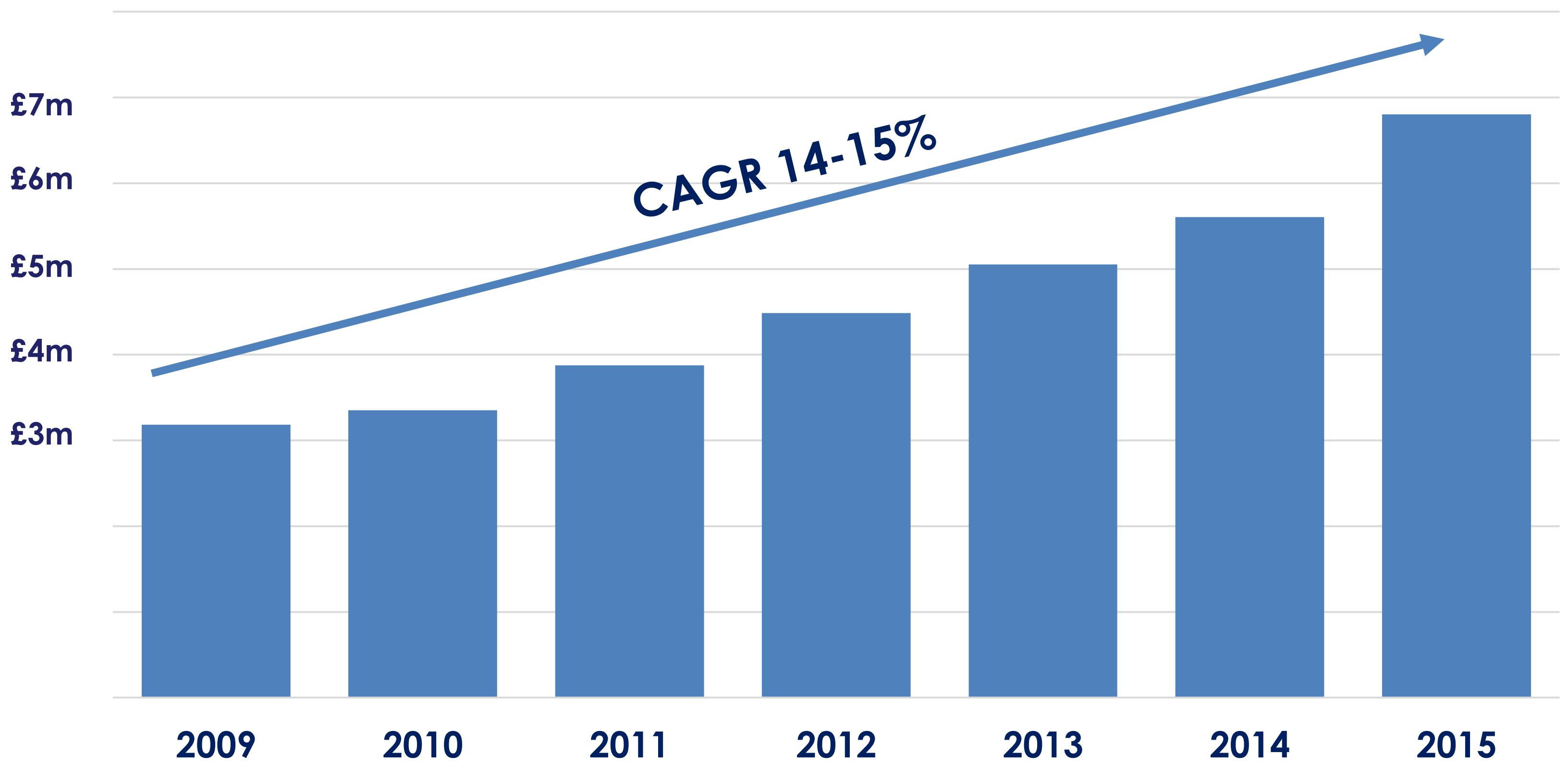
	2015		2014		2013	
Sales		**169.1**		153.8		***143.8***
Gross Profit	**31.5%**	**53.2**	30.9%	47.5	***31.2%***	***44.9***
Overheads exc. DA		**43.5**		39.5		***38.5***
EBITDA		**9.7**		8.0		***6.4***
Depreciation/amortisation		**2.0**		1.4		***1.3***
Operating profit		**7.7**		6.6		***5.1***
Interest		**0.9**		1.0		***1.3***
Profit before tax		**6.8**		5.6		***3.8***
Diluted EPS	**4.35p**		3.78p		***3.31p***	
Full year dividend	**1.82p**		1.65p		***1.60p***	
Dividend cover	**2.4**		2.3		***2.1***	

Cash Flow £m

	2015	2014	***2013***
EBIT	**7.7**	6.6	***5.1***
DA	**2.0**	1.4	***1.3***
EBITDA	**9.7**	8.0	***6.4***
Working Capital	**(0.3)**	(0.7)	***(0.0)***
Interest	**(0.5)**	(0.5)	***(0.6)***
Acquisitions	**(3.9)**	(5.1)	***(0.0)***
Share placing	**0.0**	2.8	***0.0***
Tax	**(0.7)**	(0.8)	***(0.7)***
Capital expenditure	**(1.5)**	(1.2)	***(0.8)***
Pension (one-off £2.5m H1-14)	**(2.7)**	(5.4)	***(2.5)***
Dividend	**(2.1)**	(1.9)	***(1.8)***
Movement in Debt	**(2.0)**	(4.8)	***0.0***

Profit Progression

Profit before exceptional items £000



Packaging Distribution

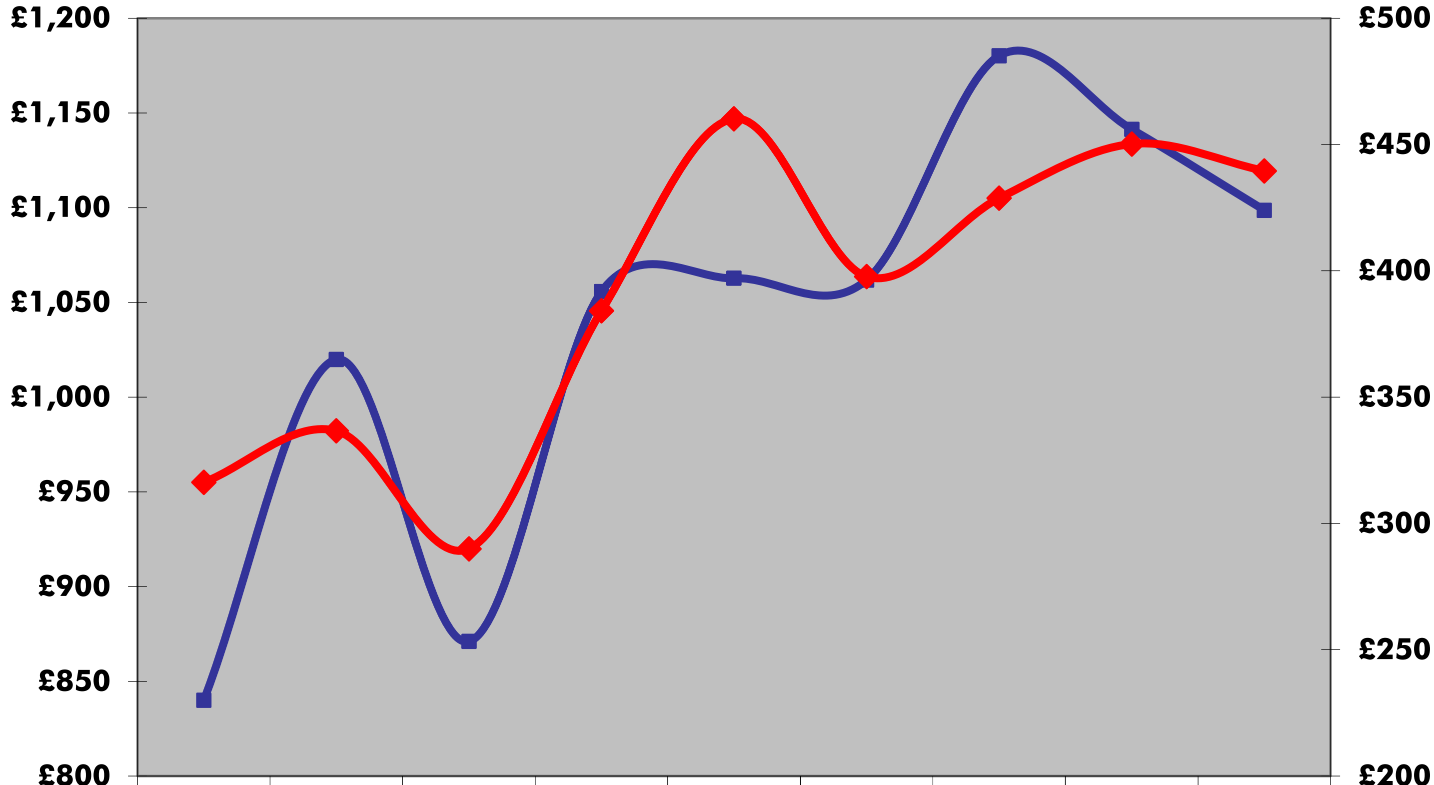
£m	2015	2014
Revenue	**143.0**	126.9
Gross margin	**42.2**	36.5
Overheads	**35.4**	30.7
Operating profit	**6.8**	5.8
OP Margin	**4.8%**	4.6%

- Sales increase 13%, 6% organic & 7% acquisition
- Organic sales increase 7% volume, (1%) price
- Gross margins 29.5%, improved by 0.7% through better sourcing
- Good overhead cost control, most of increase acquisition-related
- Closure of Hayes site – will improve returns H2 2016

Packaging Distribution

- Revenues increases from full year benefit of internet retail wins in 2014, Home Retail Group £1.0m and Selfridges £0.4m
- 2015 major internet retail win - Boots.com £0.8m
- Internet retail ca. 21% of Distribution revenue
- National Accounts growth up significantly with strong increases from The Hut £1.4m and Thermofisher £0.8m
- 3PL progress continues with DHL, Wincanton, XPO and more recently Clipper all trading well
- Acquisitions performing well and further acquisitions planned for 2016
- Strong new business pipeline for 2016

Raw Material Movements



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Polymer £/tonne	£840	£1,020	£871	£1,056	£1,063	£1,062	£1,180	£1,141	£1,099
Paper £/tonne	£316	£337	£290	£384	£460	£398	£429	£450	£440

Macfarlane Design and Manufacture

MACFARLANE PACKAGING
DESIGN AND MANUFACTURE

£m	**2015**	2014
Revenue	**12.5**	13.0
Gross Margin	**38.1%**	40.3%
Operating profit	**0.5**	0.8
Sales to Distribution	**27%**	26%

- Weak demand from export-driven customers
- Strong new business pipeline will benefit 2016
- Focus on value-added products
- Evaluating acquisition options

Macfarlane Labels

MACFARLANE LABELS

Reseal-it®

£m	2015	2014
Revenue	**18.5**	19.3
Gross margin	**33.7%**	29.5%
Operating Profit	**0.5**	0.1
Self-Ad/Reseal-it %	**68/32**	65/35
Net Margin	**2.7%**	0.0%

- Programme to reduce lower margin business
- Improved margin through better sales mix and operating efficiencies
- Cussons new business win is progressing well
- 2015 labour cost reductions will benefit 2016

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Pension Scheme Deficit £m

	2015	2014
Opening deficit	**(13.9)**	(15.9)
Ongoing accrual/Interest cost	**(0.6)**	(0.7)
Contributions (one off contribution £2.5m in 2014)	**2.8**	5.4
Bond yield ↑ 0.2% to 3.7% (2013 ↓1.0% to 3.5%)	**2.3**	(11.0)
Investment returns	**(1.7)**	9.2
Net effect of other assumptions	**(0.4)**	(0.9)
Closing deficit	**(11.5)**	(13.9)

- Benefit of increases in bond yields during 2015
- Move into liability-driven investments in February 2014 has helped
- LDI/corporate bonds provided 70% hedge vs. liabilities
- 1-May-14 actuarial valuation concluded - Deficit recovery plan 10 years
- Deficit recovery contributions for 2016 static at £2.8m

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Pension Scheme details

Investments		**2015**	2014
Growth assets	Moved 2015		
Diversified Growth Funds	+£6.0m	**£25.5m**	£18.5m
Equities		**£16.8m**	£15.9m
Matching assets			
UK Corporate Bonds/Gilts		**£11.1m**	£11.3m
Liability-driven investments	-£7.0m	**£14.1m**	£22.2m
Cash	+£1.0m	**£ 0.3m**	£ 0.1m
Total		**£67.8m**	£68.0m
Liabilities			
Active members	**20** (22)	**£ 5.3m**	£ 6.0m
Deferred members	**280** (300)	**£32.4m**	£33.9m
Pensioners	**337** (330)	**£41.6m**	£41.9m
Total	**637** (652)	**£79.3m**	£81.8m

Profitable Growth in Packaging Distribution

Growth	Proposition	Capability
Internet Retail 3PL	Reduce total cost of packaging	Expertise, knowledge and customer referrals
National Accounts	Rationalise packaging supplier base to reduce costs	UK national network IT capability
Geographic expansion	Rationalise packaging supplier base to reduce costs	NovuPak Organisation
Acquisition	Regional infill leveraging existing network	Experience and case studies

Performance Improvement	Proposition	Capability
Sourcing	Reduce input prices	Leverage scale Strategic supplier base
Operations	Reduce property costs Reduce cost to serve	Streamline property footprint Logistics best practice

Profitable Growth in Manufacturing

Growth	Proposition	Capability
Aerospace, Medical, Electronics	Unique protection for high value, fragile Items	Leading-edge MOD approved Packaging Design, expertise
Re-sealable Labels	Ease of opening, food waste reduction and brand integrity	Proven Patented technology

Performance Improvement	Proposition	Capability
Commercial Approach	Margin protection against volatile ordering patterns	Activity-based pricing
Operations	Improved operational efficiency	Selective investment and best practice focus

Acquisitions in Packaging Distribution

2014 acquisitions
- May-14 - Lane based in Reading, sales £3m
- Sep-14 - Network based in Wolverhampton sales £10m
- Prices of £1.4m and £7.5m respectively
- Earn-outs £0.2m and £2.6m respectively within the price
- EBITDA multiple of 5.5 – 6.0

2015 acquisition
- Aug-15 – One, distributor based near Nottingham
- Sales £5m, 60% Industrial and 40% food-related
- Price of £2.7m
- Earn-out of £0.7m within the price
- EBITDA multiple of 5.0 - 5.5

Profile
- Acquiring between £3m and £10m turnover
- Fill geographic gaps
- Infill to increase utilisation levels at other sites
- EBITDA multiples relatively constant

Conclusions

- 2016 has started well
- 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 recently increased to £25m (with further option to £30m) and extended to June 2019 to provide additional resources to accelerate growth of the business

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