MACFARLANE GROUP

2016 Results

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    - *Packaging Distribution*
    - *Manufacturing Operations*
- Pension Scheme Deficit
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Executive Summary

Profit before tax	2016	2015
	£7.8m	£6.8m

- Group sales £179.8m, 6% growth on 2015 - Distribution 9% Manufacturing (9%)
- Distribution sales growth 9% of which 1% organic, 8% acquisition, but strong H2 organic sales growth in 2016 of 3.2%
- All acquisitions performing to plan, four of six now integrated
- Manufacturing Operations trading at similar levels to 2015
- Pension deficit up by £3.0m to £14.5m
- Net bank debt of £15.3m up £3.7m reflecting acquisitions and strong close
- Final dividend increased to 1.40p per share payable 8-Jun-17, with a register date 12-May-17, giving full year dividend increase of 7% per share

Financial Summary

Revenue and profit	Revenue ▲ 6%	Profit before tax ▲ 15%	EBITDA ▲ £11m
Returns and balance sheet	Pre-tax ROCE ▲ 21%	Bank debt ▲ £15.3m	Pension Deficit ▲ £14.5m
EPS and dividend	Diluted EPS ▲ 7%	EPS ▲ 4.64p	Dividend per share ▲ 1.95p

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Results £m

	2016		2015		2014	
Sales		**179.8**		169.1		***153.8***
Gross Profit	**31.0%**	**55.7**	31.5%	53.2	***30.9%***	***47.5***
Overheads exc. DA		**44.6**		43.5		***39.5***
EBITDA		**11.1**		9.7		***8.0***
Depreciation/amortisation		**2.4**		2.0		***1.4***
Operating profit		**8.7**		7.7		***6.6***
Interest		**0.9**		0.9		***1.0***
Profit before tax		**7.8**		6.8		***5.6***
Diluted EPS	**4.64p**		4.35p		***3.78p***	
Full year dividend	**1.95p**		1.82p		***1.65p***	
Dividend cover	**2.4**		2.4		***2.3***	

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Cash Flow £m

	2016	2015	***2014***
EBIT	**8.7**	7.7	***6.6***
DA	**2.4**	2.0	***1.4***
EBITDA	**11.1**	9.7	***8.0***
Working Capital	**(3.2)**	(0.3)	***(0.7)***
Interest	**(0.5)**	(0.5)	***(0.5)***
Acquisitions	**(8.7)**	(3.9)	***(5.1)***
Share placing	**5.6**	0.0	***2.8***
Tax	**(1.3)**	(0.7)	***(0.8)***
Capital expenditure	**(1.1)**	(1.5)	***(1.2)***
Pension (one-off £2.5m H1-14)	**(2.9)**	(2.7)	***(5.4)***
Dividend	**(2.3)**	(2.1)	***(1.9)***
Movement in Debt	**(3.3)**	(2.0)	***(4.8)***

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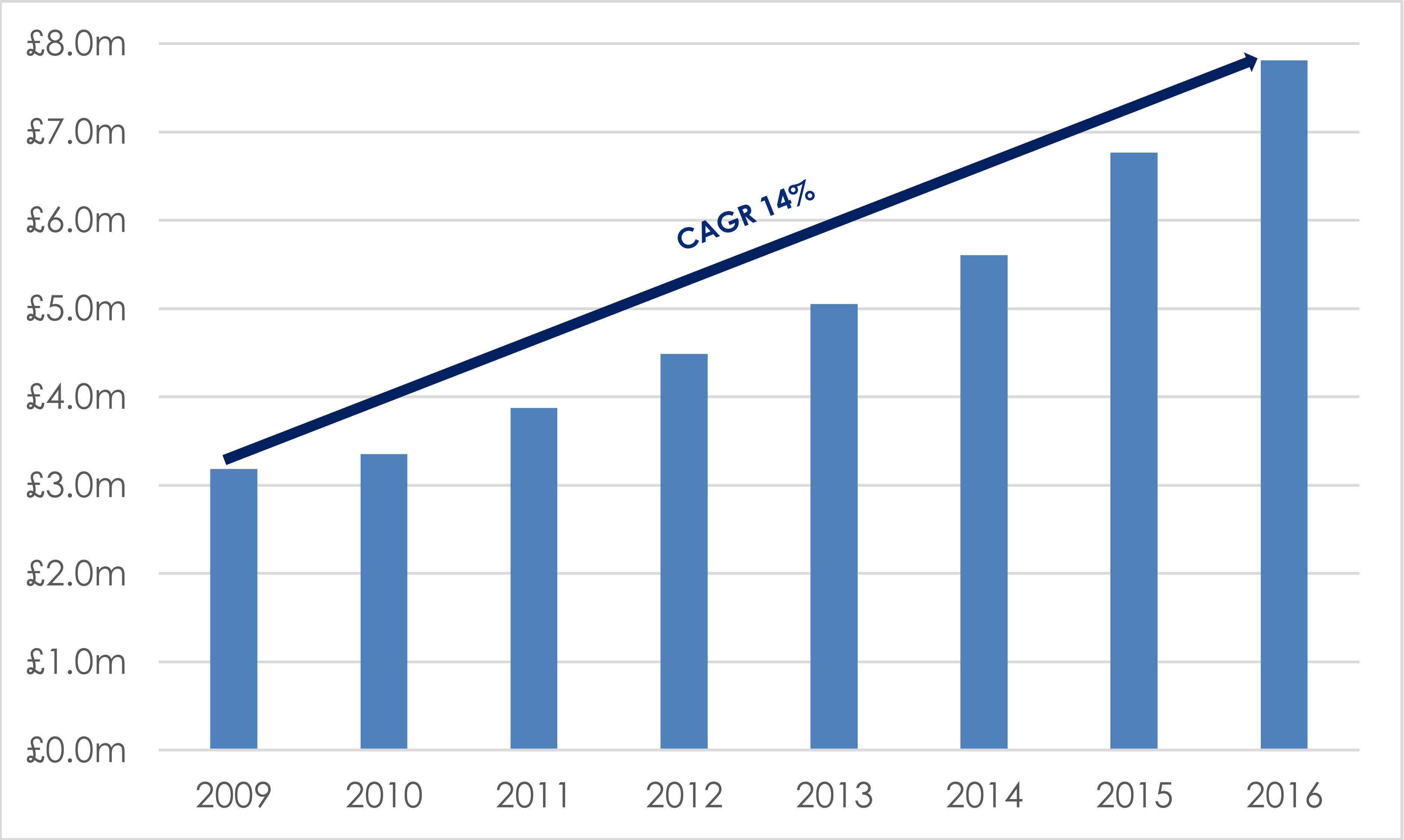
Profit Progression



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Packaging Distribution

£m	2016	2015
Revenue	**155.9**	143.0
Gross margin	**45.3**	42.2
Overheads	**37.5**	35.4
Operating profit	**7.8**	6.8
OP Margin	**5.0%**	4.8%

- Sales increase 9%, 1% organic & 8% acquisition
- H2 2016 sales growth is 3.2%, Jan-17 is 2.7%
- Gross margins 29.1%, down 0.4% with upward trends in Q4
- Good overhead cost control, most of increase acquisition-related
- Net promoter score at Dec-16 was 53 (2015 45)

Packaging Distribution

- Revenues increases from full year benefit of internet retail wins Boots £0.8m and Bertrams Books £0.7m
- Internet retail ca. 22% of Distribution revenue
- National Accounts growth up significantly with strong increases from Thermofisher £0.4m and Schneider £0.3m
- Acquisitions performing well and further acquisitions planned for 2017
- Strong new business pipeline for 2017 supported by our Innovation Lab introduced in Q2 2016
- Increase in reciprocal business from NovuPak – it is now > £2m and rising.

Member of NovuPak

INNOVATIONLAB

ThermoFisher SCIENTIFIC

HOME RETAIL GROUP

DHL

Wincanton

Boots

SELFRIDGES&CO

LAKELAND

Bertrams

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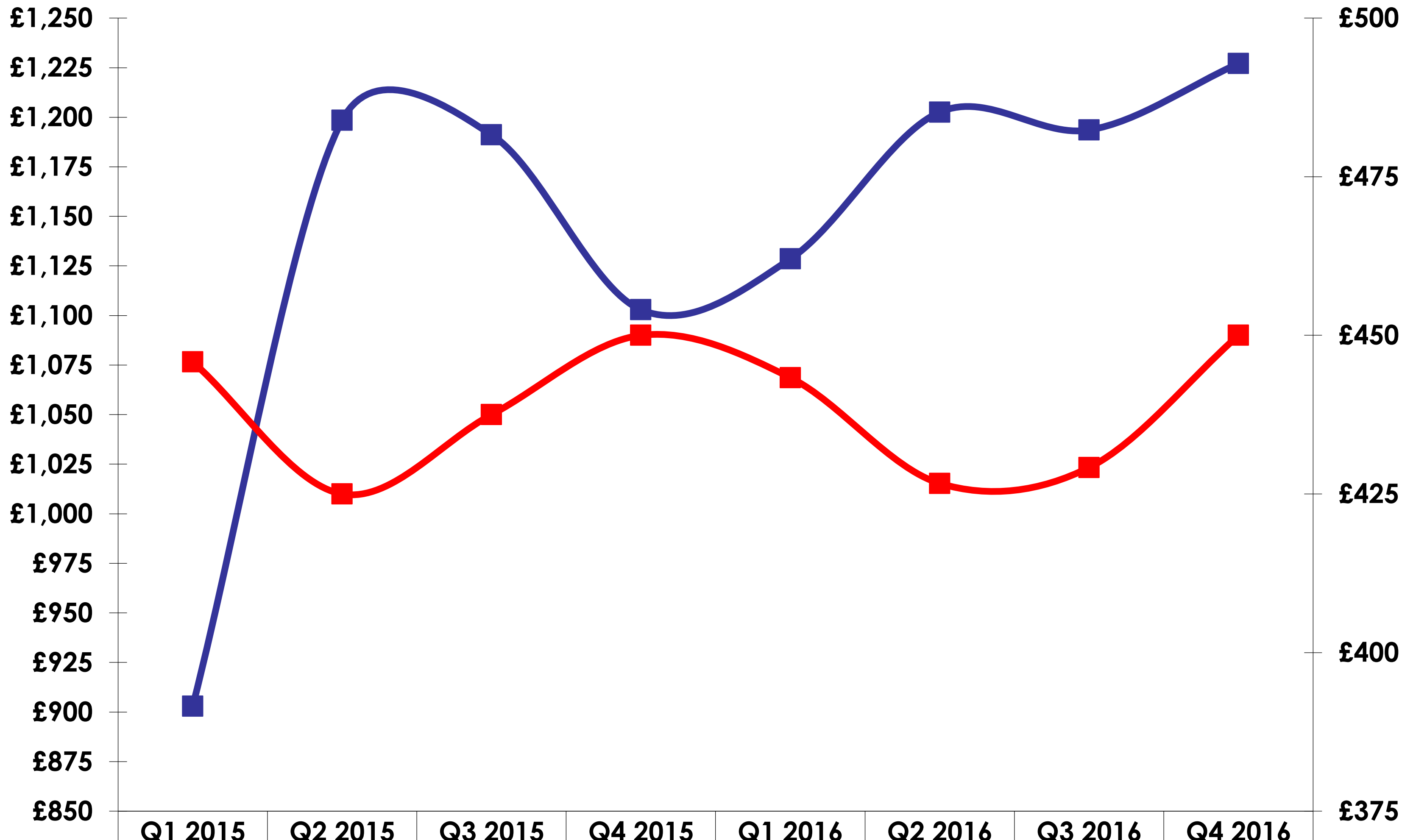
Upward trend in input costs



	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Polymer £/tonne	£903	£1,198	£1,191	£1,103	£1,129	£1,203	£1,194	£1,227
Paper £/tonne	£446	£425	£438	£450	£443	£427	£429	£450

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

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Macfarlane Design and Manufacture

£m	2016	2015
Revenue	**12.6**	12.5
Gross Margin	**36.5%**	38.1%
Operating profit	**0.4**	0.5
Sales to Distribution	**26%**	27%

- Weak demand from export-driven customers H1
- Operational issues in H1 2016 now resolved
- Strong new business pipeline will benefit 2017
- Focus on value-added products

Macfarlane Labels

MACFARLANE LABELS

Reseal-it®

£m	2016	2015
Revenue	**16.1**	18.1
Gross margin	**38.3%**	33.7%
Operating Profit	**0.7**	0.5
Self-Ad/Reseal-it %	**60/40**	68/32
Net Margin	**4.5%**	2.7%

- Programme to reduce lower margin business complete
- Improved margin through better sales mix and operating efficiencies
- Cussons new business win is progressing well
- Encouraging sales momentum in the USA though the Printpack partnership

Pension Scheme Deficit £m

	2016	2015
Opening deficit	**(11.5)**	(13.9)
Ongoing accrual/Interest cost	**(0.5)**	(0.6)
Contributions	**3.0**	2.8
Bond yield ↓1.0% to 2.7% (2015 ↑ 0.2% to 3.7%)	**(14.8)**	2.3
Investment returns	**9.6**	(1.7)
Net effect of other assumptions	**(0.3)**	(0.4)
Closing deficit	**(14.5)**	(11.5)

- Significant impact of decrease in bond yields during 2016
- Move into liability-driven investments in February 2014 mitigated this
- LDI/corporate bonds provided 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

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Pension Scheme details

Investments		2016	2015
Growth assets	Moved 2016		
Diversified Growth Funds	-£3.0m	**£21.5m**	£25.5m
Equities		**£17.1m**	£16.8m
European Loan Fund	+£6.0m	**£ 6.4m**	
Matching assets			
UK Corporate Bonds/Gilts	-£12.0m		£11.1m
Liability-driven investments	+£3.0m	**£26.5m**	£14.1m
Cash	+£6.0m	**£ 6.3m**	£ 0.3m
Total		**£77.8m**	£67.8m
Liabilities			
Active members	**17** (20)	**£ 4.8m**	£ 5.3m
Deferred members	**264** (280)	**£35.4m**	£32.4m
Pensioners	**342** (337)	**£52.1m**	£41.6m
Total	**623** (637)	**£92.3m**	£79.3m

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Growth	Proposition	Capability
Retail	Reduce total cost of packaging	Expertise, 3PL partnerships and customer referrals
Industrial	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
- 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

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Conclusions

- 2016 another year of good progress
- 2017 has started well
- 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
- Further acquisitions being targeted
- Balance sheet agenda:
  - Implement additional pension deficit reduction actions
  - Focus on cash generation
- Bank facilities in place to support growth plans

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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

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