MACFARLANE GROUP

2017 Results

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Executive Summary

Profit before tax	2017	2016
	£9.3m	£7.8m

- Group sales £196.0m, 9% growth on 2016 - Distribution 10% Manufacturing 1%
- Distribution sales growth 10% of which 3% organic, 7% acquisition
- All acquisitions performing to plan, four of seven since 2014 now integrated
- Manufacturing Operations trading below 2016 levels, operational issues at Design & Manufacture and exchange losses at Labels
- Pension deficit reduced by £2.7m to £11.8m in 2017
- Net bank debt of £14.3m, down £1.0m in the year
- Final dividend increased to 1.50p per share payable 7-Jun-18, with a register date 18-May-18, giving full year dividend increase of 8% per share

Financial Summary

Revenue and profit	Revenue ▲ 10%	Profit before tax ▲ 19%	EBITDA ▲ 18%
Returns and balance sheet	Pre-tax ROCE ▲ 19%	Bank debt ▲ £14.3m	Pension Deficit ▲ £11.8m
EPS and dividend	Diluted EPS ▲ 8%	EPS ▲ 5.22p	Dividend per share ▲ 2.10p

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Results £m

	2017		2016		2015	
Sales		**196.0**		179.8		***169.1***
Gross Profit	**30.8%**	**60.3**	31.0%	55.7	***31.5%***	***53.2***
Overheads exc. DA		**47.2**		44.6		***43.5***
EBITDA		**13.1**		11.1		***9.7***
Depreciation/amortisation		**3.0**		2.4		***2.0***
Operating profit		**10.1**		8.7		***7.7***
Interest		**0.8**		0.9		***0.9***
Profit before tax		**9.3**		7.8		***6.8***
Diluted EPS	**5.22p**		4.64p		***4.35p***	
Full year dividend	**2.10p**		1.95p		***1.82p***	
Dividend cover	**2.5**		2.4		***2.4***	

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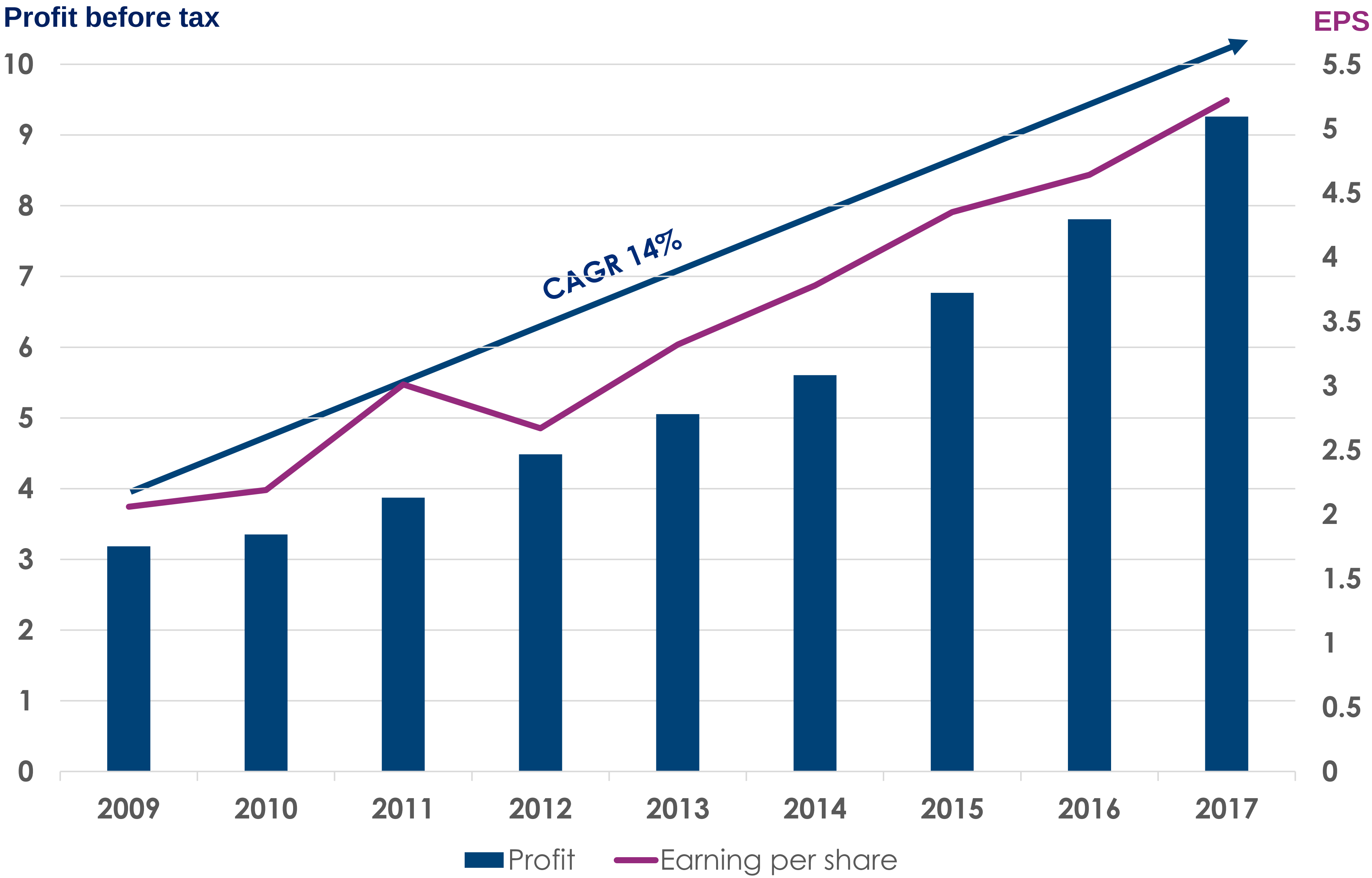
Cash flow £m

	2017	2016	2015
EBIT	**10.1**	8.7	***7.7***
DA	**3.0**	2.4	***2.0***
EBITDA	**13.1**	11.1	***9.7***
Working Capital	**(0.8)**	(3.2)	***(0.3)***
Interest	**(0.5)**	(0.5)	***(0.5)***
Acquisitions	**(8.3)**	(8.7)	***(3.9)***
Share placing	**7.6**	5.6	***0.0***
Tax	**(1.9)**	(1.3)	***(0.7)***
Capital expenditure	**(1.7)**	(1.1)	***(1.5)***
Pension	**(3.3)**	(2.9)	***(2.7)***
Dividend	**(2.8)**	(2.3)	***(2.1)***
Movement in Debt	**1.4**	(3.3)	***(2.0)***

Profit Progression



Packaging Distribution - Summary

£m	2017	2016
Revenue	**171.7**	155.9
Gross margin	**50.4**	45.3
Overheads	**41.0**	37.5
Operating profit	**9.4**	7.8
OP Margin	**5.5%**	5.0%

- Sales increase 10%, 3% organic & 7% acquisition
- New business generation £11.1m (2016: £9.6m)
- Gross margin 29.4%, up 0.3% - upward trend in Q4, management of price increases and the benefit of Greenwood acquisition
- Good overhead cost control, £2.4m of increase is acquisition-related
- Net promoter score at Dec-17 was 48 (2016 53)

Packaging Distribution - Customers

- Revenues increase from full year benefit of internet customers

Selfridges	ASOS
Bertrams	Dunelm

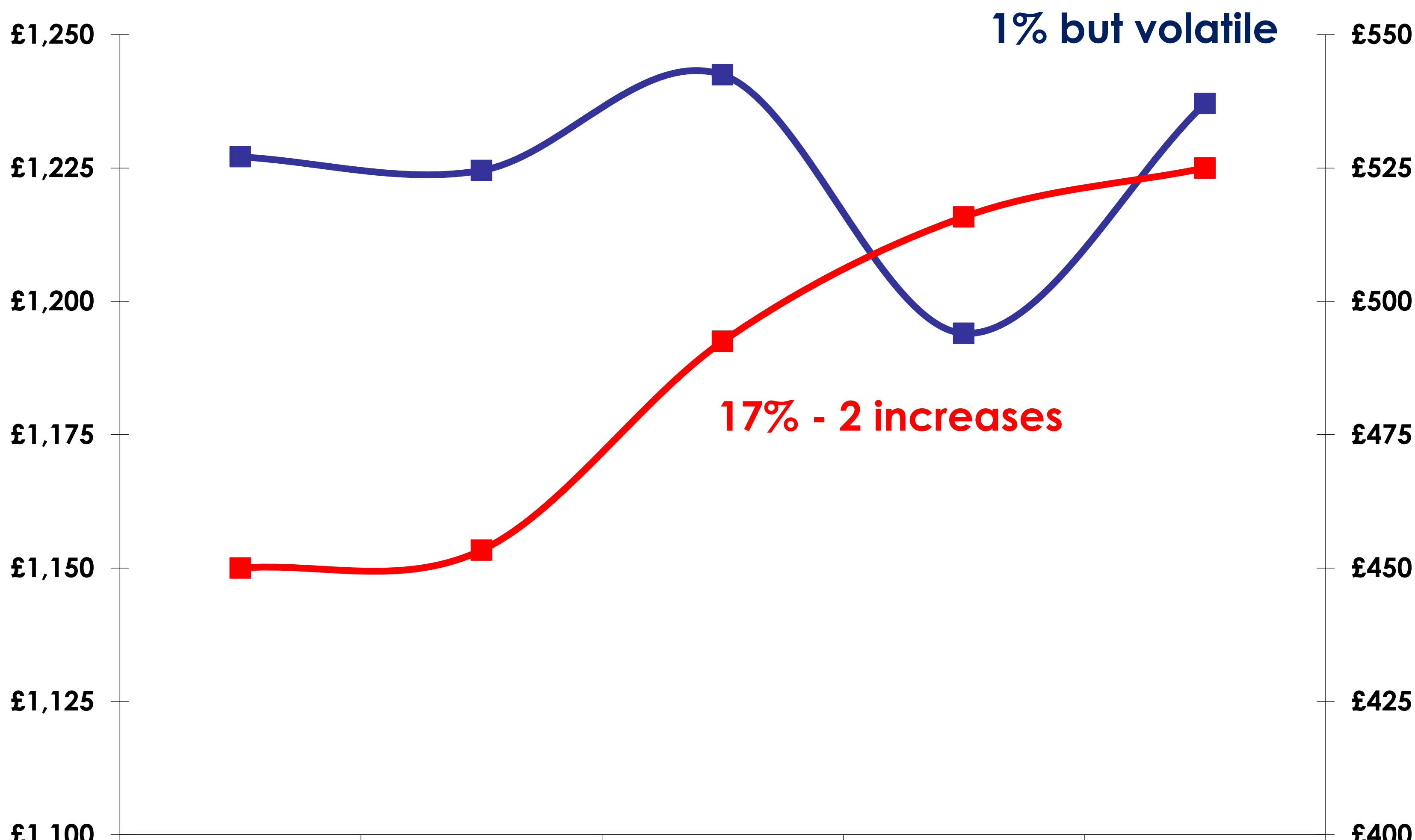
- Internet retail ca. 22% of Distribution revenue
- Industrial growth up with strong increases from

Thermofisher	Peak Scientific
Herman Miller	Vi-Spring

- Acquisitions performing well and further acquisitions planned for 2018
- Strong new business pipeline for 2018 supported by our Innovation Lab – particularly good industrial pipeline

Member of

Packaging Distribution - Upward trend in input costs



	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Polymer £/tonne	£1,227	£1,225	£1,242	£1,194	£1,237
Paper £/tonne	£450	£453	£493	£516	£525

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Packaging Distribution - Acquisitions 2014 to 2017

Reading Sales £3m EBITDA 5x-6x	Nottingham Sales £5m EBITDA 5.5x	Leicester Sales £9m EBITDA 5x-6x

Dec-13 | Jun-14 | Dec-14 | Jun-15 | Dec-15 | Jun-16 | Dec - 16 | Jun - 17 | Dec -17

37.5p placing | 58p placing | 66p placing

Wolverhampton Sales £9m EBITDA 5x-6x	Teesside & Glasgow Sales £6m EBITDA 5x-6x	Greenwoods Nottingham Sales £15m EBITDA 5.1x

Acquisitions since 2014 will generate over £50m sales in 2018

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Macfarlane Design and Manufacture - Summary

£m	2017	2016
Revenue	**12.3**	12.6
Gross Margin	**36.0%**	36.5%
Operating profit	**0.2**	0.4
Sales to Distribution	**23%**	26%

- Solid demand from export-driven customers
- Operational issues in 2017 being resolved
- Strong new business pipeline will benefit 2018
- Focus on value-added products

Macfarlane Labels - Summary

£m	**2017**	2016
Revenue	**15.9**	15.6
Gross margin	**37.7%**	38.7%
Operating Profit	**0.5**	0.5
Self-Ad/Reseal-it %	**53/47**	60/40

- Focusing new business teams on Reseal-it prospects
- Holding gross margin through better sales mix
- PZ Cussons new business win is progressing well
- Re-energising sales momentum in the USA though the Printpack partnership
- Exchange rate – adverse impact

Macfarlane Group – Pension Deficit £m

	2017	2016
Opening deficit	**(14.5)**	(11.5)
Ongoing accrual/Interest cost	**(0.5)**	(0.5)
Contributions	**3.4**	3.0
Bond yield ↓0.2% to 2.5% (2016 ↓1.0% to 2.7%)	**(2.9)**	(14.8)
Investment returns	**3.7**	9.6
Net effect of other assumptions	**(1.0)**	(0.3)
Closing deficit	**(11.8)**	(14.5)

- Continued impact of decrease in bond yields during 2017
- Move into liability-driven investments in February 2014 mitigated this
- LDI/corporate bonds provided 80% hedge vs. inflation/interest rate liabilities
- Transfer values an increasing feature and contributions in 2017 reflect this
- Deficit recovery contributions for 2018 £2.95m
- Latest actuarial valuation 1-May-17 – will conclude in H1 2018

Macfarlane Group - Pension scheme details

Investments		**2017**	2016
Growth assets	Moved 2017		
Diversified Growth Funds		**£21.5m**	£21.5m
Equities		**£17.7m**	£17.1m
Secured Property Inc. Fund	+£6.1m	**£6.6m**	-
European Loan Fund		**£ 6.6m**	£ 6.4m
Matching assets			
UK Corporate Bonds/Gilts			
Liability-driven investments		**£28.5m**	£26.5m
Cash	-£6.1m	**£ 0.1m**	£ 6.3m
Total		**£81.0m**	£77.8m
Liabilities			
Active members	**17** (17)	**£ 5.0m**	£ 4.8m
Deferred members	**241** (264)	**£34.3m**	£35.4m
Pensioners	**347** (342)	**£53.5m**	£52.1m
Total	**605** (623)	**£92.8m**	£92.3m

Profitable Growth in Packaging Distribution

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

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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

Conclusions

- 2017 another year of good progress
- 2018 has started ahead of last year
- Trading agenda:
  - Distribution focus on identified growth opportunities – Internet Retail, Industrial, National Accounts, 3PL and expansion of capability in Europe
  - Manufacturing focus on operational improvements and higher added value products and services
  - Ongoing focus on cost reduction / property consolidation/ acquisition integration
- Further acquisitions being targeted
- Balance sheet agenda:
  - Reduction in pension deficit
  - Focus on cash generation, despite reduction in debt
- Bank facilities in place to support growth plans – will renew/extend in 2018
- Seamless transition on Board changes – New Chairman and Non-Exec Director

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