



2018 Interim Results



Overview

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 - Packaging Distribution
 - Manufacturing Operations
- Pension Scheme Deficit
- 2018 H2 Key Actions
- Conclusions



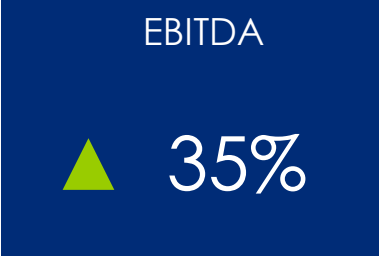
Executive Summary

	H1 2018	H1 2017
Profit before tax	£3.5m	£2.5m

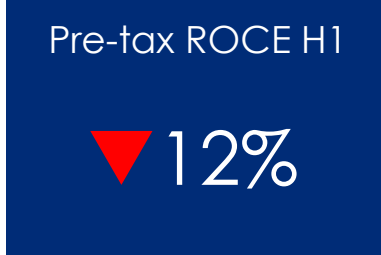
- Group sales £102m, 14% growth on 2017
- Distribution sales growth 14% of which 5% organic, 9% acquisition
- Distribution profit growth of 39% in H1 2018
- Manufacturing Operations sales growth 11%, profits just below 2017
- Pension deficit has reduced by £2.4m to £9.4m
- Net bank debt £10.9m, down £3.4m in the six months
- Two acquisitions within Packaging Distribution
- Interim dividend increased by 8% to 0.65p per share payable 11-Oct-18, with a register date 21-Sep-18
- Board is confident that full year expectation will be met

Financial Summary – H1 2018

Revenue and profit



Returns and balance sheet



EPS and dividend



Results £m

	H1 2018	H1 2017	H2 2017
Sales	<u>102.0</u>	<u>89.8</u>	<u>106.2</u>
Gross Profit	31.1	27.5	32.8
Overheads exc. DA	<u>25.4</u>	<u>23.3</u>	<u>23.9</u>
EBITDA	5.7	4.2	8.9
Depreciation/amortisation	<u>1.8</u>	<u>1.3</u>	<u>1.7</u>
Operating profit	3.9	2.9	7.2
Interest	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Profit before tax	<u>3.5</u>	<u>2.5</u>	<u>6.8</u>
Diluted EPS	1.81p	1.52p	3.70p
Dividend	0.65p	0.60p	1.50p
Dividend cover	2.8	2.5	2.5

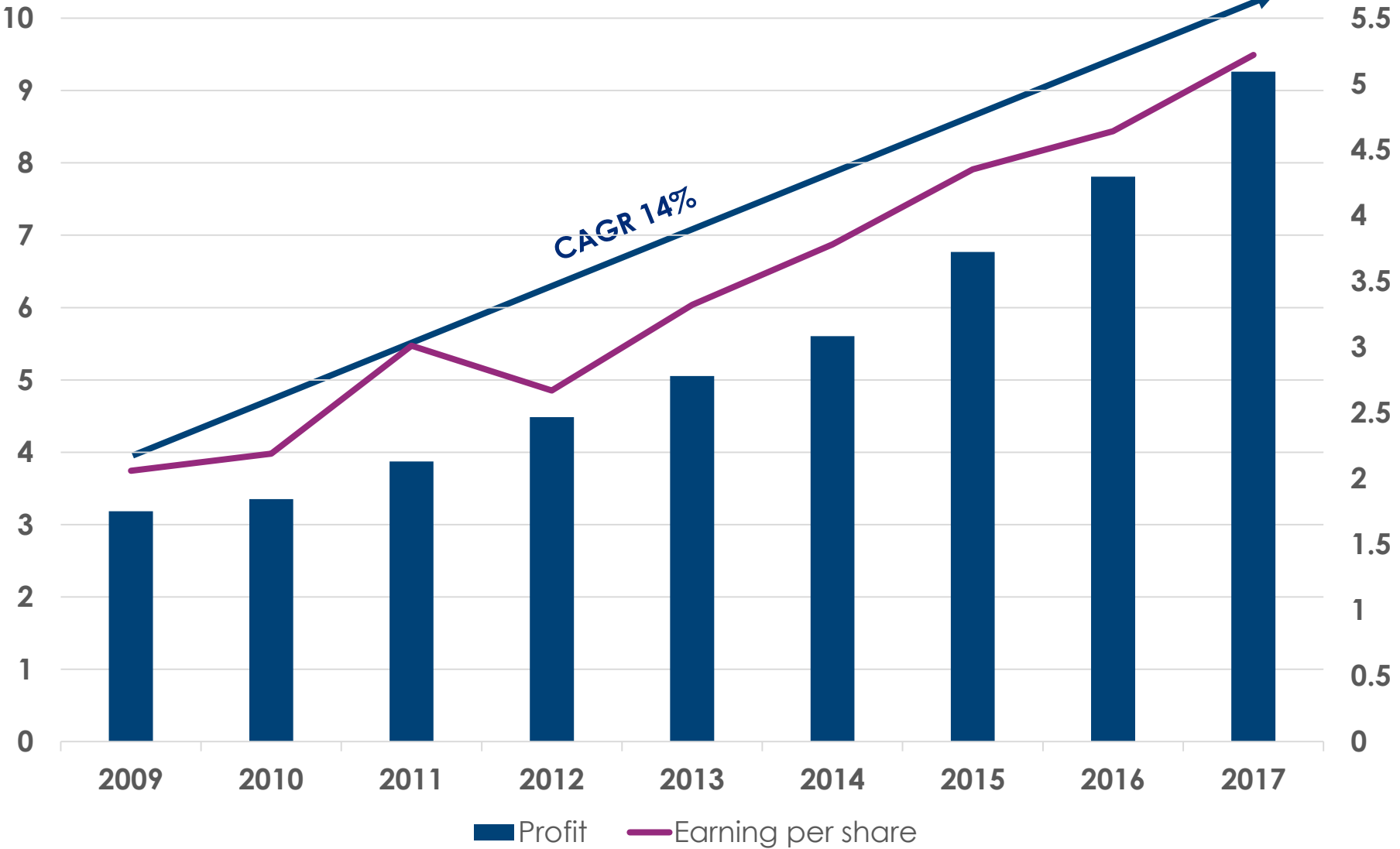


Cash Flow £m

	H1 2018	H1 2017	H2 2017
EBIT	3.9	2.9	7.2
DA	<u>1.8</u>	<u>1.3</u>	<u>1.7</u>
EBITDA	5.7	4.2	8.9
Working Capital	3.6	3.2	(4.0)
Interest	(0.3)	(0.4)	(0.1)
Acquisitions	0.0	(0.3)	(8.0)
Share placing	0.0	0.0	7.6
Tax	(0.7)	(0.7)	(1.2)
Capital expenditure	(0.7)	(0.8)	(0.9)
Pension	(1.6)	(1.8)	(1.5)
Dividend	<u>(2.4)</u>	<u>(1.9)</u>	<u>(0.9)</u>
Movement in Total debt	<u>3.6</u>	<u>1.5</u>	<u>(0.1)</u>

Profit Progression

Profit before tax



Packaging Distribution

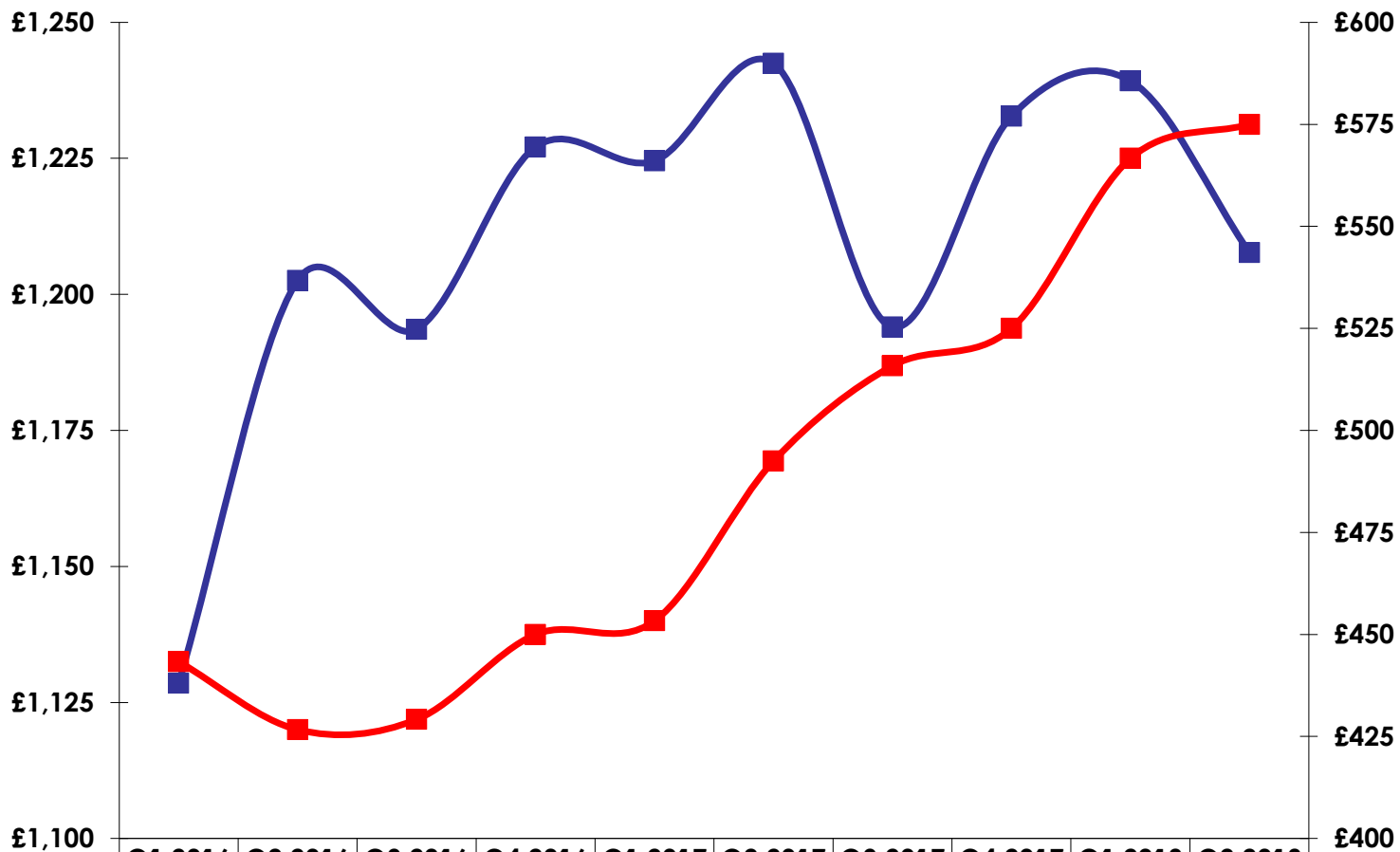


£m	H1 2018	H1 2017
Revenue	89.1	78.1
Gross margin	29.3%	29.0%
Overheads	22.4	19.9
Operating profit	3.7	2.7
OP Margin	4.2%	3.5%

- Sales increase 14%, 5% organic and 9% acquisition
- Sales split 71% Industrial 29% Retail
- Gross margin 29.3%, reflects 2017 acquisition benefit and recovery of corrugated price increases 5% in Q2
- Majority of overhead increase is acquisition-related
- Net promoter score 48 (Dec-17: 48)



Packaging Distribution – raw material movements



■ Polymer £/tonne

■ Paper £/tonne

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Polymer £/tonne	£1,129	£1,203	£1,194	£1,227	£1,225	£1,242	£1,194	£1,233	£1,239	£1,208
Paper £/tonne	£443	£427	£429	£450	£453	£493	£516	£525	£567	£575



Packaging Distribution







- Revenue increases in H1 from internet retail upspend from Dixons/Carphone £0.2m, TK Maxx £0.2m
- Internet retail ca. 20% of Distribution revenue
- National Accounts growth up significantly with strong increase from Rittal £0.3m, Keter £300k and Thermofisher £0.3m
- Acquisitions performing well
- Two further acquisitions completed since half-year
- New business pipeline for 2018 is strong supported by our Innovation Lab in Milton Keynes
- Demand increasing for European service from existing Macfarlane customers



INNOVATIONLAB *Johnson & Johnson*



Packaging Distribution – Acquisitions 2014 to 2017

Acquisition	Location	Sales	EBITDA multiple	Placing price	Integrated
	Reading	£3m	5-6 x	N/A	✓
	Wolverhampton	£9m	5-6 x	Sep-14 37.5p	Q1 2019
	Bingham	£5m	5 x	N/A	✓
	Teesside	£3m	5 x	N/A	✓
	Glasgow	£3m	5 x	N/A	✓
	Leicester	£9m	5-6 x	Jul-16 58.0p	TBD
	Nottingham	£15m	5 x	Sep-17 66.0p	H2 2019

Packaging Distribution – Acquisitions 2018



Leicester
Sales £2.5m EBITDA 5x



Leyland, Lancashire
Sales £3.5m EBITDA 5x



Tyler Packaging (Leicester) Limited

- Quality cash-generative packaging distributor
- Access to good quality customer relationships
- Same supplier base as Macfarlane
- Net assets acquired ca £0.9m
- Should integrate well

Harrison's Packaging Limited

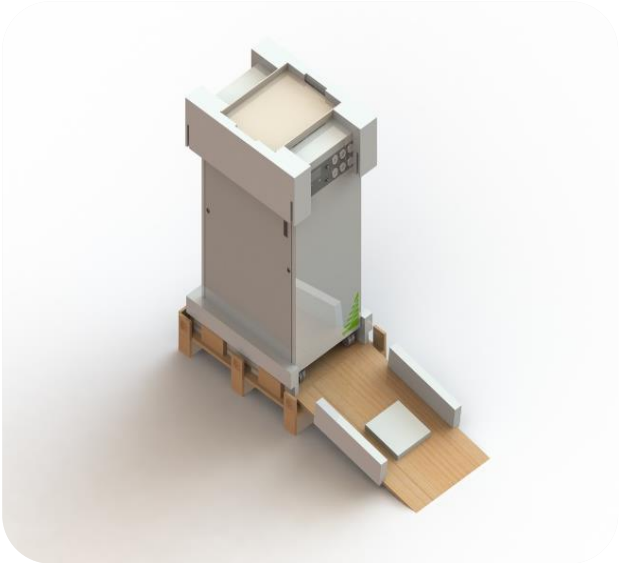
- Quality cash-generative packaging distributor
- Access to food packaging product range
- Similar supplier base to Macfarlane
- Net assets acquired ca £0.9m
- Should integrate well



Macfarlane Design and Manufacture



£m	H1 2018	H1 2017
Revenue	7.0	6.0
Gross Margin	35.1%	36.8%
Operating profit	0.1	0.1
Sales to Distribution	23%	24%



- Strong sales demand from exporters
- Amended shift system to reduce costs from Q2 to improve manufacturing workflows when absorbing new business wins
- Strong new business pipeline to benefit H2
- Focus on value-added products



Macfarlane Labels



£m	H1 2018	H1 2017
Revenue	8.0	7.6
Gross margin	33.6%	38.1%
Operating Profit	0.1	0.2
Self-Ad/Reseal-it %	53/47	56/44
Net Margin	1.2%	2.6%

- Re-sealable labels sales/machines up 7%
- Self-adhesive label sales up 6%
- Adverse sales mix with reseal-it pre-applied / self-adhesive labels impacted gross margin
- Strong reseal-it machine sales
- Reorganised Kilmarnock operation £0.1m cost



Pension Scheme Deficit £m

	H1 2018	2017
Opening deficit	(11.8)	(14.5)
Ongoing accrual/Interest cost	(0.2)	(0.5)
Contributions	1.6	3.4
Bond yield ↑ 0.1% to 2.6% (2017 ↓ 0.2%)	1.4	(2.9)
Investment returns	(0.9)	3.7
Net effect of other assumptions	0.5	(1.0)
Closing deficit	(9.4)	(11.8)

- Continued decrease in bond yields
- LDI provided ca. 80% hedge vs. liabilities
- Transfer values an increasing feature
- Deficit recovery contributions for 2018 £2.95m
- Next actuarial valuation 1-May-20

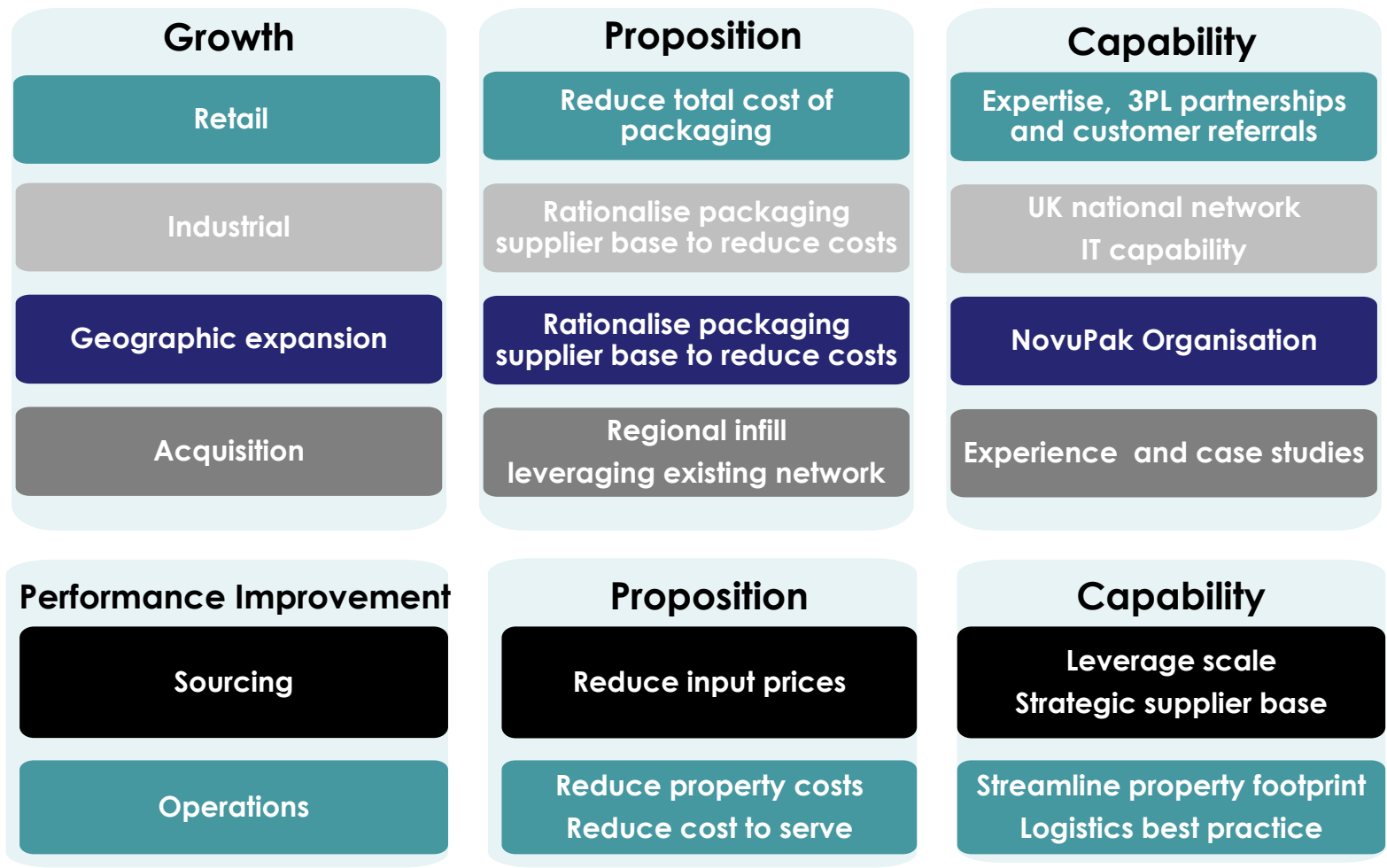


Pension Scheme Details £m

Investments		H1 2018	2017
Growth assets	Disinvested H1		
Diversified Growth Funds	- £1.1m	19.9	21.5
Equities		17.9	17.7
European Loan Fund		6.6	6.6
Long-term Property Fund		6.8	6.6
Matching assets			
Liability-driven Investments		28.7	28.5
Cash		0.3	0.1
Total investments		80.2	81.0
Liabilities	Members		
Active members	16 (17)	4.7	5.0
Deferred members	223 (241)	30.5	34.3
Pensioners	355 (347)	54.4	53.5
Total liabilities	594 (605)	89.6	92.8



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 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 2018 demonstrates continuing progress in line with strategy
- Trading agenda:
 - Distribution focus on identified growth opportunities – Internet Retail, National Accounts (mainly industrial customers) and 3PL
 - Manufacturing focus on higher added value products and services
 - Ongoing focus on cost reduction/integration initiatives
- 2 acquisitions completed, pipeline of further targets being pursued for 2019
- Balance sheet agenda:
 - Implement additional pension deficit reduction actions
 - Focus on cash generation
- Bank facilities in place to support growth plans
- Non-executive director changes



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

