2019 Interim Results

Overview

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  - Packaging Distribution
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Executive Summary

Profit before tax	**H1 2019**	H1 2018
	£3.8m	£3.5m

- Group sales £108m, 5.4% growth / profit before tax £3.8m, 8.7% growth
- Distribution sales growth of 4.4% vs. 2018 reflects new business wins compensating for weaker demand and sales price deflation
- Manufacturing Operations sales up by 16.0%, with good profit growth
- Introduction of IFRS 16 'Leases' – impacts "shape" of results and balance sheet
- Pension deficit has reduced by £0.8m to £9.0m at 30 June 2019
- Net bank debt £15.0m, up £1.8m – acquisition spend on Ecopac £2.8m
- Interim dividend increased by 6.2% to 0.69p per share payable 10-Oct-19, with a register date 20-Sep-19

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Financial Summary – H1 2019

Revenue and profit	Revenue ▲ 5.4%	Profit before tax ▲ 8.7%	EBITDA ▲ 7.4%
Returns and balance sheet	Pre-tax ROCE ► 12.2%	Bank debt ▲ £15.0m	Pension deficit ▼ £9.0m
EPS and dividend	Diluted EPS ▲ 10%	EPS ▲ 1.99p	Dividend per share ▲ 6.2%

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Results £m

	IFRS 16 impact	H1 2019		H1 2018		H2 2018	
Sales			**107.5**		102.0		***115.3***
Gross Profit		**30.9%**	**33.2**	30.5%	31.1	***30.7%***	***35.4***
Overheads exc. DA	(4.0)		**23.0**		25.4		***25.6***
EBITDA			**10.2**		5.7		***9.8***
DA	3.4		**5.4**		1.8		***2.0***
Operating profit			**4.8**		3.9		***7.8***
Interest	0.6		**1.0**		0.4		***0.4***
Profit before tax	0.0		**3.8**		3.5		***7.4***
Diluted EPS		**1.99p**		1.81p		***3.64p***	
Dividend		**0.69p**		0.65p		***1.65p***	
Dividend cover		**2.9**		2.8		***2.2***	

Cash Flow £m

	IFRS 16 impact	**H1 2019**	H1 2018	***H2 2018***
EBIT	0.6	**4.8**	3.9	***7.8***
DA	3.4	**5.4**	1.8	***2.0***
EBITDA	4.0	**10.2**	5.7	***9.8***
Working Capital	(3.4)	**(1.7)**	3.6	***(2.2)***
Interest	(0.6)	**(1.0)**	(0.3)	***(0.2)***
Acquisitions		**(2.8)**	0.0	***(5.6)***
Tax		**(0.9)**	(0.7)	***(1.2)***
Capital expenditure		**(1.3)**	(0.7)	***(0.7)***
Pension		**(1.7)**	(1.6)	***(1.1)***
Dividend		**(2.6)**	(2.4)	***(1.0)***
Movement in bank debt		**(1.8)**	3.6	***(2.2)***

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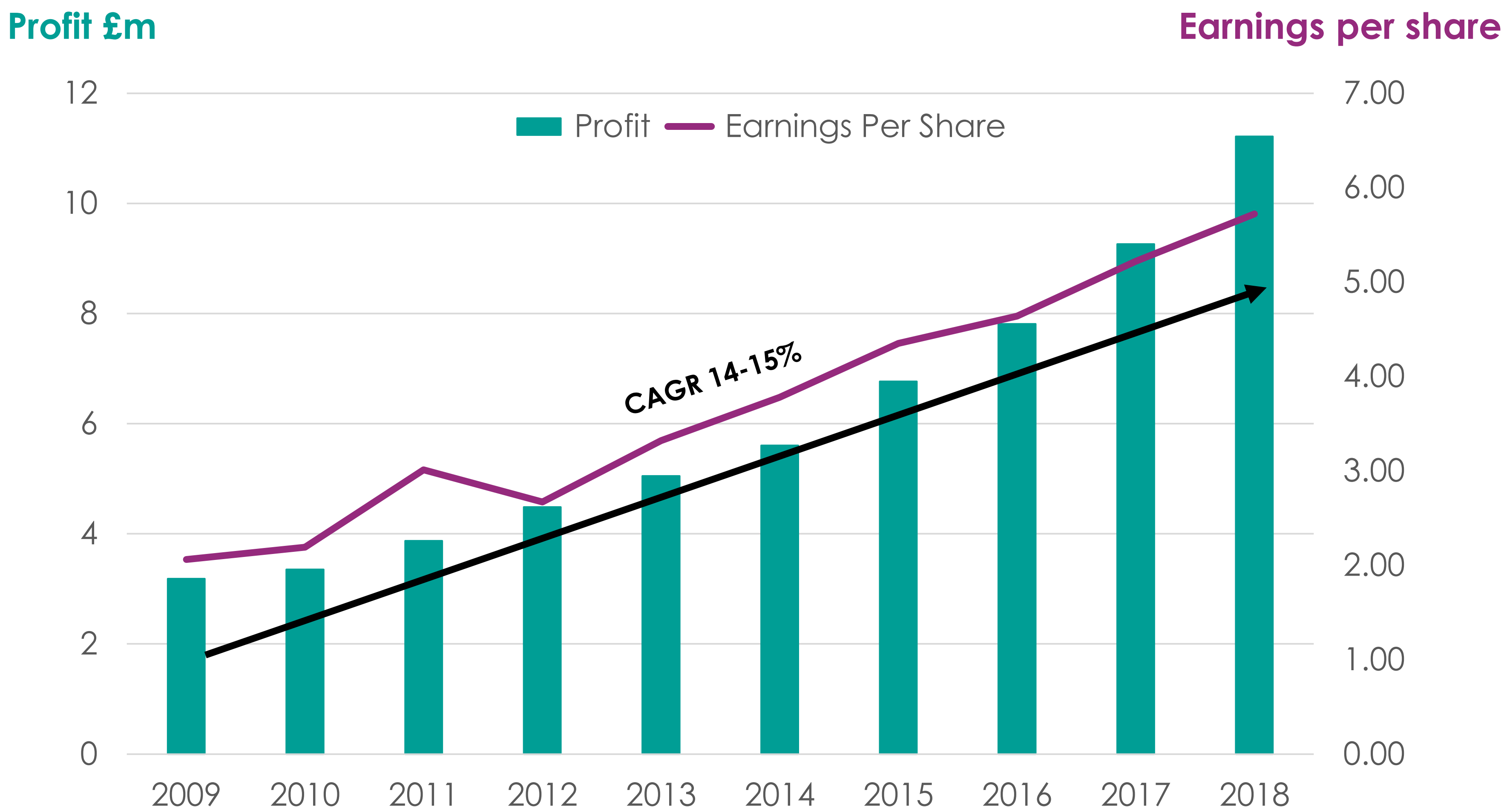
Profit Progression

Profit before tax



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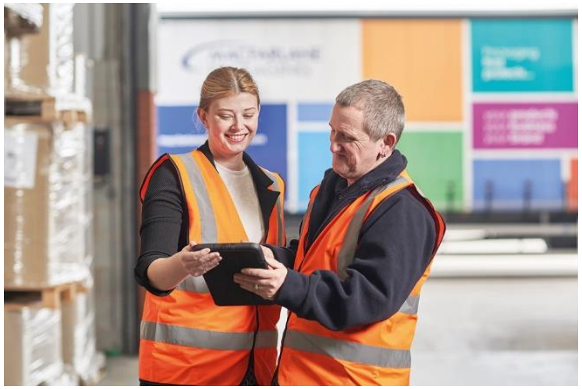
Packaging Distribution



£m	H1 2019	H1 2018
Revenue	**93.1**	89.1
Gross Margin	**30.0%**	29.3%
Overheads *	**23.5**	22.4
Operating Profit *	**4.5**	3.7
OP Margin *	**4.8%**	4.2%

- Sales increase 4.5% vs. 2018
- New business growth of £4.0m offset weaker sales demand and sales price deflation
- Sales split 72% Industrial 28% Retail
- Gross margin reflects lower input pricing on paper based products
- Majority of overhead increase is acquisition-related
- Net promoter score 47 (2018: 48)

* If IFRS 16 impact extracted £24.0m, £4.0m and 4.2% respectively

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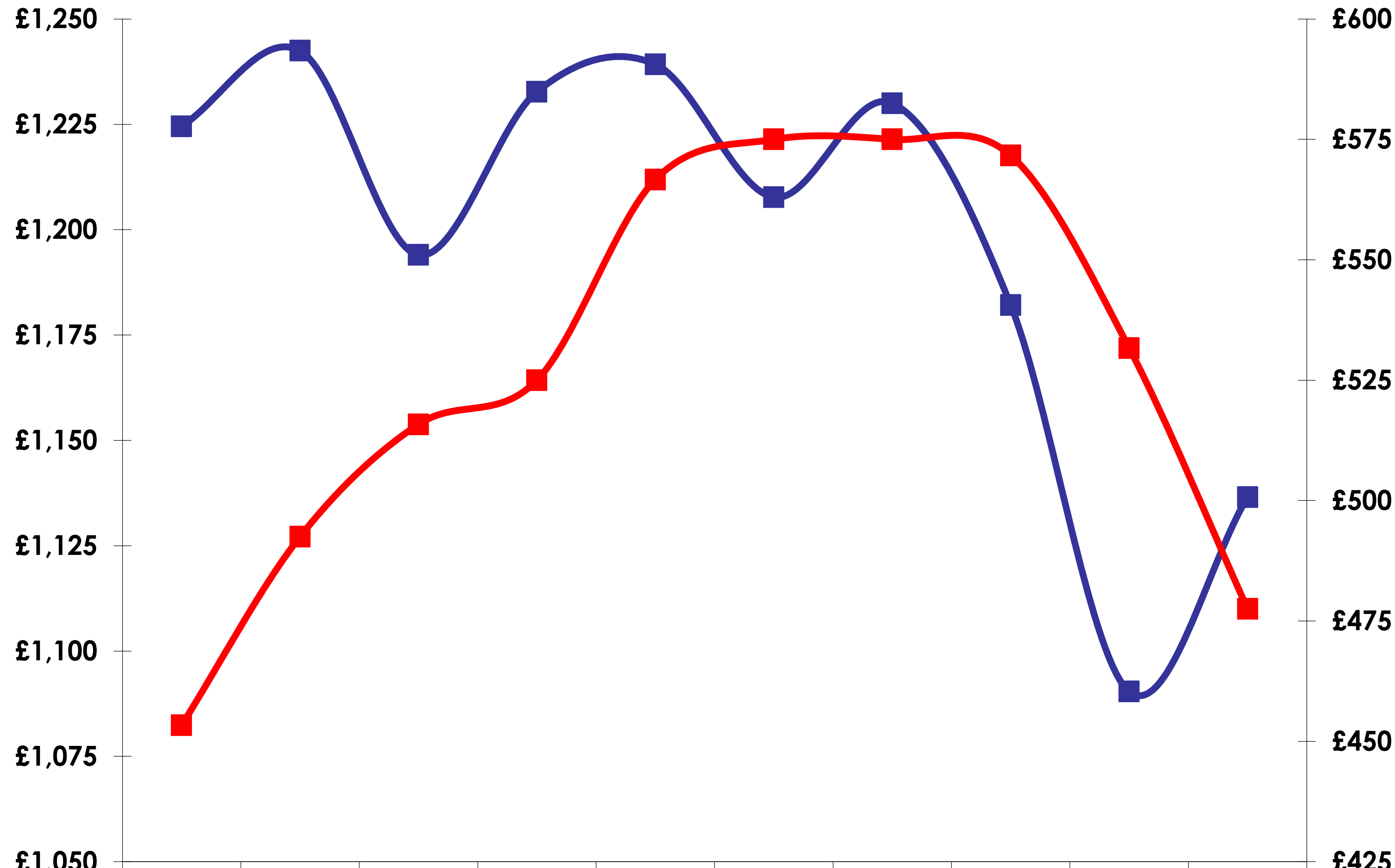
Packaging Distribution – Raw Material Movements



	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Polymer £/tonne	£1,225	£1,242	£1,194	£1,233	£1,239	£1,208	£1,230	£1,182	£1,090	£1,137
Paper £/tonne	£453	£493	£516	£525	£567	£575	£575	£572	£532	£478

Packaging Distribution

- New business wins in H1 2019 – Dunelm, Hobbycraft, Ideal Shopping, Body Shop and Arvato
- Existing business flat due to weaker general demand, sales price deflation and sector pressures in UK automotive and general retail
- Internet retail ca. 21% of Distribution revenue
- National Accounts growth with increases from TVS Johnsons Apparel and Thermofisher
- Acquisitions including Ecopac performing well
- Further acquisitions being progressed
- Discussions advanced with a number of existing customers to provide them with a European service – "Follow the Customer" programme

Packaging Distribution – Acquisitions 2014 to 2019

Acquisition	Location	Sales	EBITDA multiple	Placing price	Integrated
lane packaging	Reading	£3m	5-6 x	N/A	✓
Network Packaging	Wolverhampton	£9m	5-6 x	Sep-14 **37.5p**	✓
OnePackaging	Bingham	£5m	5 x	N/A	✓
Colton Packaging Teesside	Teesside	£3m	5 x	N/A	✓
Edward McNeil Ltd	Glasgow	£3m	5 x	N/A	✓
Nelsons for Cartons & Packaging	Leicester	£9m	5-6 x	Jul-16 **58.0p**	TBD
www.boxesdirect.co.uk	Nottingham	£15m	5 x	Sep-17 **66.0p**	H1 2020
Tyler Packaging Leicester Ltd	Leicester	£3m	5x	N/A	✓
Harrison's Packaging Ltd	Leyland	£4m	5x	N/A	H1 2020
ECOPAC	Aylesbury	£6m	5-6x	N/A	TBD

Macfarlane Design and Manufacture

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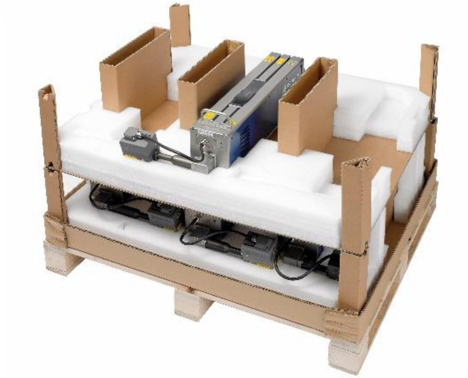
DESIGN AND MANUFACTURE



£m	H1 2019	H1 2018
Revenue	**6.9**	7.0
Gross Margin	**36.3%**	35.1%
Operating Profit	**0.2**	0.1
Sales to Distribution	**20%**	23%

- Good sales demand from exporters, weaker demand from UK automotive sector
- Operational changes implemented are reducing costs and improve manufacturing workflows
- Strong new business pipeline through Daher and Cobham for H2 2019
- Focus on value-added products

Macfarlane Labels

£m	H1 2019	H1 2018
Revenue	**9.7**	8.0
Gross Margin	**30.4%**	33.6%
Operating Profit	**0.2**	0.1
Self-Ad/Reseal-it %	**50/50**	53/47

- Re-sealable labels sales/machines up 28%
- Self-adhesive label sales up 14%
- Investment in new printing press in Ireland will improve margin in H2 2019
- Some good early successes with digital printing in Kilmarnock
- US sales recovered and strong new business pipeline

Pension Scheme Deficit £m

	H1 2019	FY 2018
Opening deficit	**(9.8)**	(11.8)
Ongoing accrual/Interest cost	**(0.2)**	(0.4)
GMP equalisation – exceptional items	**-**	(0.3)
Contributions	**1.7**	2.8
Bond yield ↓ 0.6% to 2.2% (2018 ↑ 0.3%)	**(9.1)**	4.1
Investment returns	**8.5**	(4.1)
Net effect of other assumptions	**(0.1)**	(0.1)
Closing deficit	**(9.0)**	(9.8)

- Significant decrease in bond yields increases liabilities by £9.1m
- LDIs and other investments helped offset this considerably
- Investments intended to provide a minimum 85% hedge vs. liabilities
- Transfer values continue to be a key feature, despite GMP
- Deficit recovery contributions for 2019 £3.0m (inc. interest of £0.4m)
- Next actuarial valuation 1-May-20

Pension Scheme Details £m

Investments		**H1 2019**	FY 2018
Growth assets	Movements		
Diversified Growth Funds	£0.6m	**19.2**	17.5
Equities		**18.6**	16.0
European Loan Fund	(£0.6m)	**6.3**	6.6
Long-term Property Fund	(£1.3m)	**6.0**	7.1
Matching assets			
Liability-driven Investments		**33.6**	28.4
Cash	£1.3m	**1.7**	0.2
Total investments	£0.0m	**85.4**	75.8
Liabilities	Members		
Active members	**15** (16)	**5.4**	5.0
Deferred members	**206** (216)	**32.3**	29.5
Pensioners	**365** (358)	**56.7**	51.1
Total liabilities	**586** (590)	**94.4**	85.6

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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	"Follow the Customer" programme
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 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

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Brexit impact

- Risk assessment commenced in 2018
- Concentration on potential impact of "No-deal" Brexit
- Principal areas of impact

  Maintain robust supply chain for customers given 8% purchases from Europe and 5% from Rest of the World
  Currency fluctuations - Euro purchases 6m, Dollar purchases $3m
  Higher tariffs under WTO rules – knowledge of customs processes
  Labour risk – 33 staff are EU nationals
- Impact and response

  Potential stock build at end of Q3 2019 of £550k of product
  Stock build in Germany for specific customers in March (may repeat in October)
  1% movement in currency costs £50k – effectively price movement
  WTO tariff rates – additional £420k – training requirement for staff
  Support EU staff with documentation / employment confirmations
- We are working with customers, suppliers and staff to provide effective support through a period of uncertainty

Conclusions

- H1 2019 was challenging with weak demand and price deflation, but we continued to make progress
- Trading agenda:
  - Distribution focus on identified growth opportunities – National Accounts (mainly industrial customers), Internet retail and 3PL
  - Effective management of input price movements of paper-based products with customers
  - Some traction with "Follow the Customer" programme in Europe
  - Manufacturing focus on operational improvements and higher added value products and services
  - Focus on cost reduction/site consolidation/integration initiatives
- Pipeline of further acquisition targets being pursued for 2019/2020
- Balance sheet agenda:
  - Implement additional pension deficit reduction actions
  - Focus on cash generation
- Bank facilities in place until June 2022 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