MACFARLANE GROUP

**27 February 2020**

**ANNUAL RESULTS 2019**

| **Financial Highlights** | **2019** | **2018** | **Increase** |
|---|---|---|---|
| Turnover | £225.4m | £217.3m | +4% |
| Profit before tax | £12.0m | £10.9m | +10% |
| Proposed full year dividend | 2.45p | 2.30p | +7% |
| Basic earnings per share | 6.17p | 5.55p | +11% |

Macfarlane Group PLC achieved sales of £225.4m in 2019, (2018: £217.3m) a 4% increase on 2018, with 2019 profit before tax growing to £12.0m (2018: £10.9m), 10% ahead of 2018. This marks the tenth consecutive year of profit growth. The performance in 2019 was in line with market expectations and was achieved against a well-publicised backdrop of economic uncertainty resulting in weaker demand.

Packaging Distribution increased sales by 4% in 2019 to £196.7m (2018: £189.8m). Sales revenue from existing customers was impacted by both weaker demand and sales price deflation during 2019 but this was offset by good growth in new business and the benefit of £5.7m from acquisitions. The 2019 acquisitions of Ecopac (U.K.) Limited ("Ecopac") and Leyland Packaging Company (Lancs) Limited ("Leyland") have both performed well since acquisition. Gross margin in Packaging Distribution at 31.1% showed improvement on the prior year (2018: 29.4%) and reflected effective management of input price movements. The growth in sales and gross margin, combined with good cost control, resulted in Packaging Distribution achieving an 11% increase in operating profit before exceptional items to £12.4m (2018: £11.2m) after the impact of IFRS 16 *"Leases"*.

Sales in Manufacturing Operations at £28.7m (2018: £27.5m) grew by 4% on the previous year. Gross margin increased to 39.8% in 2018 compared to 38.4% in 2018 and operating profit before exceptional items in 2019 increased to £1.2m (2018: £0.8m) after the impact of IFRS 16 *"Leases"*.

After net finance costs of £1.6m (2018: £0.8m), Group profit before tax totalled £12.0m, an increase of 10% on 2018. Basic and diluted earnings per share for 2019 were 6.17p (2018: 5.55p) and 6.16p (2018: 5.55p) respectively.

**IFRS 16 *"Leases"***

IFRS 16 *'Leases'* requires the Group to recognise right-of-use assets and lease liabilities on the balance sheet and depreciation on the assets and interest on the lease liabilities in the income statement. Previously, operating leases were off balance sheet and leasing costs were reported in overheads. IFRS 16 has been applied from 1 January 2019, with no requirement to restate comparative figures. Whilst there was no major impact on profit before tax, net assets or cash flows from applying the new standard, there are changes in classifications indicated in note 1.

**Dividend**

The Board is proposing a final dividend of 1.76 pence per share, amounting to a full year dividend of 2.45 pence per share, a 7% increase on the prior year's dividend of 2.30 pence per share. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 12 May 2020, this dividend will be paid on Thursday 4 June 2020 to those shareholders on the register at Friday 15 May 2020.

**Net Bank Debt**

The Group's net bank borrowing at 31 December 2019 decreased by £0.5m to £12.7m from £13.2m at the previous year-end. The Group's bank facility of £30.0 million with Lloyds Banking Group is available until June 2022 and accommodates normal working capital requirements as well as supporting acquisition funding.

**Pension Scheme**

The Group's pension deficit at 31 December 2019 decreased by £3.3m to £6.5m (2018: £9.8m). Although the discount rate decreased, which increased the value of the pension liabilities, this was offset by increases in the value of the scheme's holding in liability-driven investments and its other investments.

Following the High Court judgement involving Lloyds Banking Group pension schemes on 26 October 2018, a charge of £0.3m was made in 2018 as an exceptional item. This represented past service cost in respect of the equalisation of Guaranteed Minimum Pensions ("GMP") benefits between 1990 and 1997. When we refer to items before exceptional items, it excludes these charges, which we believe provides a more meaningful basis for measuring our financial performance in 2018.

**Outlook**

Commenting on the 2019 results, Stuart Paterson, Chairman, said:

"Continued profit growth over a ten year period confirms the Board's confidence that its consistent strategy of positioning the business to serve key growth markets in the protective packaging sector remains appropriate and continues to be effective.

2020 has started well and profitability in the year to date is ahead of the same period in 2019.

The business will remain focused on the delivery of continued profit growth through the provision for our customers of added-value protective packaging products and services in target market sectors, combined with efficiency improvements and the completion of value-enhancing acquisitions. We will also focus on ensuring that we support our customers in achievement of their sustainability objectives.

Macfarlane Group's performance in 2019 reflects the successful implementation of our strategy and we are confident that the Group will deliver further progress in 2020."

| **Further enquiries:** | **Macfarlane Group** | | Tel: 0141 333 9666 |
|---|---|---|---|
| | Stuart Paterson | Chairman | |
| | Peter Atkinson | Chief Executive | |
| | John Love | Finance Director | |
| | | | |
| | **Spreng Thomson** | | Tel: 0141 548 5191 |
| | Callum Spreng | | Mob: 07803 970103 |

**Legal Entity Identifier (LEI): 213800LVRYDERSJAAZ73**

**Notes to Editors:**

- Macfarlane Group PLC is listed on the London Stock Exchange (LSE: MACF) in the Industrials Sector
- The company is headquartered in Glasgow, Scotland and has more than 60 years' experience in the UK packaging industry
- Macfarlane Group's businesses are:
  - **Macfarlane Packaging** is the leading UK distributor of a comprehensive range of protective packaging products
  - **Labels** designs and prints high quality self-adhesive and resealable labels, principally for FMCG companies
  - **Packaging Design and Manufacture** designs and produces protective packaging for high value, fragile products
- Macfarlane Group employs over 925 people at 31 sites, principally in the UK, but also in Ireland and Sweden.
- The company has 20,000+ customers in the UK, Europe and the USA providing 600,000+ lines to a wide range of industry sectors including: consumer goods; food manufacturing; logistics; internet retail; mail order; electronics; defence and aerospace.

**Business Review**

| Group performance Segment | Revenue 2019 £000 | Operating profit 2019 £000 | Revenue 2018 £000 | Operating profit 2018 £000 |
|---|---|---|---|---|
| Packaging Distribution | **196,706** | **12,406** | 189,835 | 11,172 |
| Manufacturing Operations | **28,683** | **1,224** | 27,455 | 853 |
| **Revenue** | **225,389** | | 217,290 | |
| **Operating profit before exceptional item** | **6.0%** | **13,630** | 5.5% | 12,025 |
| Exceptional item | | **-** | | (330) |
| **Operating profit** | | **13,630** | | 11,695 |

**Macfarlane Packaging Distribution** is the leading UK specialist distributor of protective packaging materials. Macfarlane operates a Stock and Serve supply model from 25 Regional Distribution Centres (RDCs) and 3 satellite sites, supplying industrial and retail customers with a comprehensive range of protective packaging materials on a local, regional and national basis.

Competition in the packaging distribution market is from local and regional protective packaging specialist companies as well as national/international distribution generalists who supply a range of products, including protective packaging materials. Macfarlane competes effectively on a local basis through its strong focus on and regular monitoring of customer service, its breadth and depth of product offer and through the recruitment and retention of high-quality staff with good local market knowledge. On a national basis Macfarlane has focus, expertise and a breadth of product and service knowledge, all of which enables it to compete effectively against non-specialist packaging distributors.

Macfarlane benefits its customers by enabling them to ensure their products are cost-effectively protected in transit and storage through the supply of a comprehensive product range, single source Stock and Serve supply, Just In Time delivery, tailored stock management programmes, electronic trading and independent advice on both packaging materials and packing processes.

| **Packaging Distribution** | Base Business £000 | Impact of 2019 Acquisitions £000 | **2019 £000** | 2018 £000 | **2019 Growth** |
|---|---|---|---|---|---|
| **Sales** | 190,976 | 5,730 | **196,706** | 189,835 | **3.6%** |
| Cost of sales | | | **(135,525)** | (133,843) | |
| **Gross margin** | | | **61,181** | 55,992 | **9.2%** |
| Net operating expenses | | | **(48,775)** | (44,820) | **8.8%** |
| **Operating profit before exceptional item** | 11,771 | 635 | **12,406** | 11,172 | **11.0%** |
| Exceptional item | | | **-** | (270) | |
| **Operating profit** | | | **12,406** | 10,902 | **13.8%** |

**Macfarlane Packaging Distribution** grew sales by 3.6% in 2019. Whilst existing business was impacted by weaker demand conditions and sales price deflation, this was partly compensated for by good new business growth, 11% ahead of levels achieved in 2018. Gross margin in Packaging Distribution was 31.1%, (2018: 29.4%) with the improvement demonstrating our ability to effectively manage input price changes on paper-based products with our customers.

We also continued to deliver the benefit from acquiring high quality packaging distribution businesses - the acquisitions of Ecopac at the start of May 2019 and Leyland at the end of August 2019 both performed well and we benefited from a full year contribution from the 2018 acquisitions.

During 2019 we continued to make steady progress in extending our service into Europe to support a number of our pan-European customers. We also successfully transitioned our business in London from a high cost site in Enfield to a new lower cost facility in Harlow, supported by additional space in Sudbury.

Cost control remained strong and operating profit for Packaging Distribution at £12.4m grew 13.8% versus 2018, representing a return on sales of 6.3% (2018: 5.9%).

**Business Review (continued)**

**Future Plans**

2020 plans are focused on continuing to grow sales and improving profitability by the following actions:

- Prioritising our sales activity on the growth potential for protective packaging in key markets – National Accounts in the industrial sector, the e-commerce sector in the retail space and Third Party Logistics ("3PL") operators;
- Demonstrating our ability to add value for customers through further development of our "Significant Six" sales approach to reduce their "Total Cost of Packaging" and support their sustainability objectives;
- Continuing to effectively manage the impact of input price changes on paper-based products;
- Rolling out our new web-based solutions to allow customers access to our full range of products and services;
- Accelerating our "Follow the Customer" programme in Europe;
- Improving our sourcing through strengthening our relationships with key strategic suppliers;
- Implementing further operational savings in logistics by expanding the use of the Paragon vehicle management system and extending our warehouse best practice programme;
- Reducing operating costs by consolidating our property footprint;
- Maintaining the focus on working capital management to facilitate future growth; and
- Supplementing organic growth through completion of further suitable quality acquisitions.

**Manufacturing Operations** comprises our Packaging Design and Manufacture and our Labels business.

The principal activity of the **Packaging Design and Manufacture** business is the design, manufacture and assembly of custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The primary raw materials are corrugate, timber and foam. The business operates from two manufacturing sites in Grantham and Westbury, supplying both directly to customers and also through the RDC network of the Packaging Distribution business.

Key market sectors are defence, aerospace, medical equipment, electronics and automotive. The markets in which we operate are highly fragmented with a range of locally based competitors. We differentiate our market offering through technical expertise, design capability, industry accreditations and national coverage through the Packaging Distribution business.

Our **Labels** business designs and prints self-adhesive labels for major Fast-moving Consumer Goods ("FMCG") customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The business operates from production sites in Kilmarnock and Wicklow and a sales and design office in Sweden, which focuses on the development and growth of our resealable labels business, Reseal-it.

The Labels business has a high level of dependence on a small number of major customers. Management works closely with these key customers to ensure high levels of service and to introduce product and service development initiatives to achieve competitive differentiation.

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Sales** | **28,683** | 27,455 |
| Cost of sales | **(17,731)** | (16,906) |
| **Gross margin** | **10,952** | 10,549 |
| Operating expenses (recurring) | **(9,728)** | (9,696) |
| **Operating profit before exceptional item** | **1,224** | 853 |
| Operating expenses (exceptional) | **-** | (60) |
| **Operating profit** | **1,224** | 793 |

**Business Review (continued)**

**Packaging Design and Manufacture (continued)**

2019 sales for Packaging Design and Manufacture were 2% below 2018 due to demand weakness particularly in the automotive sector. However actions to improve operational performance and margins resulted in profitability in 2019 being well above that in 2018. Our sales team has continued to develop a strong pipeline of new customer relationships, which should benefit the business in 2020.

Labels' sales increased by 8% in the year as penetration of our resealable range improved and a number of new business wins were achieved. Despite margin being impacted by the increasingly competitive conditions in the retail sector, profits in the Labels business were similar to 2018.

**Future Plans**

Priorities for the Manufacturing Operations in 2020 are to:

- Restore Design & Manufacture sales growth in target sectors, Defence, Aerospace and Medical;
- Continue to improve operational efficiency at both Design & Manufacture sites;
- Prioritise new sales activity on our higher added-value bespoke composite pack product range;
- Continue to strengthen the relationship between our Design & Manufacture operations and our Packaging Distribution business to create both sales and cost synergies;
- Accelerate the Reseal-it growth momentum for resealable labels through improved geographic penetration, extending the product range and introducing Reseal-it to new product sectors; and
- Achieve efficiency benefits from recent investments in additional printing capacity and digital printing capability to improve Labels' gross margins.

**2020 Outlook**

Our sales efforts in 2020 will focus on those segments of the protective packaging market, such as e-commerce, which are forecast to show above average growth rates and those industrial markets where customers recognise the added value brought to their operations by a specialist national protective packaging distributor.

We will continue to add value for customers through our Significant Six Sales Approach and support them in achieving their sustainability objectives.

In 2020 we plan to acquire further good quality protective packaging businesses, improve our geographic coverage, develop new products introduced by recent acquisitions, work more closely with strategic suppliers and improve operational efficiency by leveraging our property and logistics footprint.

Macfarlane businesses all have strong market positions with differentiated product and service offerings. We have a flexible business model and a clear strategic plan incorporating a range of actions, which are being effectively implemented and reflected in our consistent, profitable growth over a ten-year period.

Our future performance is largely dependent on the successful execution of actions to grow sales, increase efficiencies and bring high-quality acquisitions into the Group. We expect 2020 to be another year of progress for Macfarlane Group.

**Business Review (continued)**

The principal risks and uncertainties faced by Macfarlane Group and factors mitigating these risks are detailed below. These risks are complemented by an overall governance framework including clear and delegated authorities, business performance monitoring and appropriate insurance cover for a wide range of potential risks. There is a dependence on good quality local management, which is supported by an investment in training and development and ongoing performance evaluation.

| Risk Description | Mitigating Factors |
|---|---|
| **Raw material prices ←→**<br>The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes including currency fluctuations. The principal components are corrugated paper, polythene films, timber and foam, with changes to paper and oil prices having a direct impact on the price we pay to our suppliers. | The Group works closely with suppliers to manage the scale and timing of supplier price movements to end-users effectively. Our IT systems monitor and measure effectiveness in recovering these changes. Where possible, alternative supplier relationships are maintained to minimise supplier dependency. We work with customers to redesign packs and reduce packing cost to mitigate the impact of cost increases. |
| **Property ←→**<br>Given the multi-site nature of its business, the Group has a property portfolio comprising 3 owned sites and 37 leased sites of which 3 are sublet. This portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value. | Where a site is non-operational the Group seeks to assign, sell or sub-lease the building to mitigate the financial impact. If this is not possible, rental voids are provided on vacant properties taking into consideration the likely period of vacancy and incentives to re-let. |
| **Working capital ←→**<br>The Group has a significant investment in working capital in the form of trade receivables and inventories. There is a risk that this investment is not fully recovered. | Credit risk is controlled by applying rigour to the management of trade receivables by the Credit manager and the credit control team, and is subject to additional scrutiny from the Group Finance Director.<br>Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers. |
| **Financial liquidity, debt covenants, interest rates ←→**<br>The Group needs continuous access to funding to meet its trading obligations and to support organic growth and acquisitions. There is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms.<br>The Group's borrowing facility comprises a committed facility of up to £30m. This includes requirements to comply with specified covenants, with a breach potentially resulting in borrowings being subject to more onerous conditions. | The Group seeks to maintain an appropriate level of committed bank facilities that provide sufficient headroom above peak projected borrowing requirements. The existing facility is in place until June 2022.<br><br>The Group regularly monitors net debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. Compliance with debt covenants is monitored on a monthly basis and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance. |

| Risk Description | Mitigating Factors |
|---|---|
| **Defined benefit pension scheme** 🡻<br>The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns and the discount rates as well as mortality assumptions used to calculate scheme liabilities. The IAS 19 valuation of the Group's defined benefit pension scheme as at 31 December 2019 estimated the scheme deficit to be £6.5m, a decrease of £3.3m during 2019. Small changes in these assumptions could mean that the deficit increases. | The scheme was closed to new members in 2002.<br>Benefits for active members were amended by freezing pensionable salaries at 30 April 2009 levels.<br>A Pension Increase Exchange option is available to offer flexibility to new pensioners in the current level of pension benefits and the rate of future increases.<br>The Group makes Deficit Reduction Contributions each year.<br>The investment profile is constantly reviewed to ensure continued matching of investments with the liability profile of the scheme. |
| **Decentralised structure** 🡸🡺<br>The Packaging Distribution business model reflects a decentralised approach with a dependency on effective local decision-making. There is a risk that the decentralised management control is less effective and local decisions do not meet corporate objectives. | The Group ensures that our staff have the right working environment, information and sales tools to enable them to meet corporate objectives. A comprehensive management information system is maintained with key performance indicators monitored and actions taken when required. |
| **Acquisitions** 🡸🡺<br>The Group's growth strategy includes acquisitions as demonstrated in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future.<br>It is also possible that acquisitions will not succeed due to the loss of key people or customers following acquisition or the acquired business not performing at the level expected. This could potentially lead to impairment in the carrying value of the related intangible assets.<br>Execution risks around the failure to successfully integrate the acquired business after the conclusion of the earn-out period also exist. | The Group carefully reviews potential acquisition targets, ensuring that the focus is on high-quality businesses which complement the existing Group profile and provide opportunities for growth. Having completed a number of acquisitions in recent years, the Group has well-established due diligence and integration processes and procedures.<br>The Group has a comprehensive management information system to enable effective monitoring of post-acquisition performance. Earn-out mechanisms also mitigate risk in the post-acquisition period.<br>Goodwill and other intangible assets are tested annually for impairment as set out in the Annual Report. |

For highlighted risks shown as 🡸🡺 the risk level has remained broadly similar between 2018 and 2019. In respect of the pension scheme which is marked 🡻 the risk is considered to have reduced in the year, given the balanced structure of the investment profile and recent changes in mortality tables.

Macfarlane Group has carried out an impact analysis and evaluated the potential short to medium-term implications of a no-deal Brexit including reversion to World Trade Organisation tariffs at 31 December 2020. Where practical, we would put in place contingency measures to try to mitigate any immediate effects on the supply chain. As a business with the majority of its trade in the UK, the principal impact on Macfarlane Group of a no-deal Brexit would be reduced levels of business caused by any significant downturn in the UK economy.

There are a number of other risks that we manage which are not considered key risks. The Group is subject to the impact of general economic conditions, including any economic uncertainty the competitive environment and risks associated with business continuity including cyber-security. These are mitigated in ways common to all businesses and not specific to Macfarlane Group.

### Viability statement

The Board has considered the Group's viability as part of the ongoing programme to manage risk. Each year the Board reviews the Group's strategic plan for the forthcoming three-year period and challenges the Executive team on the plan's risks. The strategic plan reflects the Group's businesses, which have a broad spread of customers across a range of different sectors with some longer term contracts in place. The assessment period of three years is consistent with the Board's review of Group strategy, including assumptions regarding future growth rates for our business and acceptable levels of performance.

A detailed financial model covering a three year period is maintained and regularly updated. The model is subject to sensitivity analysis which flexes a number of the main assumptions, including future revenue growth, gross margins, operating costs, finance costs and working capital management. The results of flexing these assumptions, both individually and in aggregate, are used to determine whether additional bank facilities will be required during the three year period. The results of the exercise indicated that no additional facilities should be required.

The Board has carried out a thorough assessment of the principal risks facing the Group and how these risks affect the Groups' prospects and the strategic plan. The review includes consideration of the principal risks facing the Group as described on the current and previous page, which could prevent the Group from achieving its strategic plan and the potential impact these risks could have on the Group's business model, future performance, solvency and liquidity over the next three years.

The Directors' assessment has been made with reference to the resilience of the Group and the strength of its financial position, the Group's current strategy, the Board's risk appetite and the Group's principal risks including how these are managed. The Board is confident that the Group's major banking facility which runs until 30 June 2022 would be renewed on terms similar to those currently in place.

### Going Concern

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and profit projections, which are based on the Directors' past experience and their assessment of the current market outlook for the business. The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the Chairman's Statement and Business Review on pages 1 to 8.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively, despite any economic uncertainty.

The Group's principal banking facility is in place until June 2022. The Directors are of the opinion that the Group's cash forecasts and revenue projections, taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within its current facilities and comply with its banking covenants.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**Cautionary Statement**

The Chairman's Statement and the Business Review on pages 1 to 8 have been prepared to provide additional information to members of the Company to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

This report and the financial statements contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report. Nothing in this Preliminary Announcement should be construed as a profit forecast or an invitation to deal in the securities of the Group.

**Responsibility Statement of the Directors**

The responsibility statement below has been prepared in connection with the company's full annual report for the year ending 31 December 2019. Certain parts of the full Annual Report are not included within this announcement.

The Directors of Macfarlane Group PLC are

| | |
|---|---|
| S.R. Paterson | Chairman |
| P.D. Atkinson | Chief Executive |
| J. Love | Finance Director |
| R. McLellan | Non-Executive Director and Senior Independent Director |
| J.W.F. Baird | Non-Executive Director |
| A.M. Dunstan | Non-Executive Director |

To the best of the knowledge of the Directors (whose names and functions are set out above), the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation taken as a whole;

The Strategic Report, incorporated into the Directors' Report in the Annual Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

Pursuant to Disclosure and Transparency Rules, Chapter 4, the directors consider that the Company's annual report and financial statement, taken as a whole, are fair, balanced and understandable and provide information necessary for the shareholders to assess the Company's and the Group's position and performance, business model and strategy.

| | |
|---|---|
| Peter Atkinson | John Love |
| Chief Executive | Finance Director |
| 27 February 2020 | 27 February 2020 |

## Macfarlane Group PLC

## Consolidated income statement

## For the year ended 31 December 2019

| | Note | 2019 £000 | Before Exceptional Items £000 | Exceptional Items £000 | 2018 £000 |
|---|---|---|---|---|---|
| Revenue | 3 | **225,389** | 217,290 | - | 217,290 |
| Cost of sales | | **(153,256)** | (150,749) | - | (150,749) |
| **Gross profit** | | **72,133** | 66,541 | - | 66,541 |
| Distribution costs | | **(8,441)** | (8,604) | - | (8,604) |
| Administrative expenses | | **(50,062)** | (45,912) | (330) | (46,242) |
| **Operating profit** | 3 | **13,630** | 12,025 | (330) | 11,695 |
| Finance costs | 4 | **(1,606)** | (809) | - | (809) |
| **Profit before tax** | | **12,024** | 11,216 | (330) | 10,886 |
| Tax | 5 | **(2,293)** | (2,201) | 56 | (2,145) |
| **Profit for the year** | 7 | **9,731** | 9,015 | (274) | 8,741 |
| **Earnings per share** | | | | | |
| Basic | 7 | **6.17p** | 5.72p | (0.17p) | 5.55p |
| Diluted | 7 | **6.16p** | 5.72p | (0.17p) | 5.55p |

## Consolidated statement of comprehensive income

## For the year ended 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| ***Items that may be reclassified to profit or loss*** | | | |
| Foreign currency translation differences - foreign operations | | **(62)** | (6) |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Remeasurement of pension scheme liability | 10 | **537** | (32) |
| Tax recognised in other comprehensive income | | | |
| Tax on remeasurement of pension scheme liability | 11 | **(92)** | 6 |
| **Other comprehensive income/(expense) for the year, net of tax** | | **383** | (32) |
| Profit for the year | | **9,731** | 8,741 |
| **Total comprehensive income for the year** | | **10,114** | 8,709 |

**Macfarlane Group PLC**

**Consolidated statement of changes in equity**

**For the year ended 31 December 2019**

| | **Note** | Share Capital £000 | Share Premium £000 | Revaluation Reserve £000 | Translation Reserve £000 | Retained Earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2018 | | 39,387 | 12,975 | 70 | 299 | 4,479 | 57,210 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | - | - | - | - | 8,741 | 8,741 |
| Foreign currency translation differences | | - | - | - | (6) | - | (6) |
| Remeasurement of pension liability | 10 | - | - | - | - | (32) | (32) |
| Tax on remeasurement of pension liability | 11 | - | - | - | - | 6 | 6 |
| **Total comprehensive income** | | - | - | - | (6) | 8,715 | 8,709 |
| **Transactions with shareholders** | | | | | | | |
| Dividends | 6 | - | - | - | - | (3,387) | (3,387) |
| **Total transactions with shareholders** | | - | - | - | - | (3,387) | (3,387) |
| **At 31 December 2018** | | **39,387** | **12,975** | **70** | **293** | **9,807** | **62,532** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | **-** | **-** | **-** | **-** | **9,731** | **9,731** |
| Foreign currency translation differences | | **-** | **-** | **-** | **(62)** | **-** | **(62)** |
| Remeasurement of pension liability | 10 | **-** | **-** | **-** | **-** | **537** | **537** |
| Tax on remeasurement of pension liability | 11 | **-** | **-** | **-** | **-** | **(92)** | **(92)** |
| **Total comprehensive income** | | **-** | **-** | **-** | **(62)** | **10,176** | **10,114** |
| **Transactions with shareholders** | | | | | | | |
| Dividends | 6 | **-** | **-** | **-** | **-** | **(3,689)** | **(3,689)** |
| Credit for share-based payments | | **-** | **-** | **-** | **-** | **75** | **75** |
| Issue of share capital | 12 | **66** | **173** | **-** | **-** | **-** | **239** |
| **Total transactions with shareholders** | | **66** | **173** | **-** | **-** | **(3,614)** | **(3,375)** |
| **At 31 December 2019** | | **39,453** | **13,148** | **70** | **231** | **16,369** | **69,271** |

## Macfarlane Group PLC

## Consolidated balance sheet at 31 December 2019

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill and other intangible assets | | **62,663** | 58,648 |
| Property, plant and equipment | | **9,621** | 8,533 |
| Right of Use assets | | **25,855** | - |
| Other receivables | | **35** | 162 |
| Deferred tax assets | 11 | **1,224** | 1,851 |
| **Total non-current assets** | | **99,398** | 69,194 |
| **Current assets** | | | |
| Inventories | | **15,813** | 16,940 |
| Trade and other receivables | | **52,044** | 51,360 |
| Cash and cash equivalents | 9 | **3,310** | 4,611 |
| **Total current assets** | | **71,167** | 72,911 |
| **Total assets** | 3 | **170,565** | 142,105 |
| **Current liabilities** | | | |
| Trade and other payables | | **48,530** | 47,891 |
| Current tax payable | | **1,084** | 1,029 |
| Lease liabilities | 9 | **6,321** | 101 |
| Bank borrowings | 9 | **15,984** | 17,769 |
| **Total current liabilities** | | **71,919** | 66,790 |
| **Net current assets** | | **(752)** | 6,121 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 10 | **6,465** | 9,765 |
| Deferred tax liabilities | 11 | **3,242** | 2,993 |
| Trade and other payables | | **22** | 25 |
| Lease liabilities | 9 | **19,646** | - |
| **Total non-current liabilities** | | **29,375** | 12,783 |
| **Total liabilities** | 3 | **101,294** | 79,573 |
| **Net assets** | | **69,271** | 62,532 |
| **Equity** | | | |
| Share capital | 12 | **39,453** | 39,387 |
| Share premium | 12 | **13,148** | 12,975 |
| Revaluation reserve | | **70** | 70 |
| Translation reserve | | **231** | 293 |
| Retained earnings | | **16,369** | 9,807 |
| **Total equity** | 3 | **69,271** | 62,532 |

**Macfarlane Group PLC**

**Consolidated cash flow statement**

**For the year ended 31 December 2019**

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| **Cash inflow from operating activities** | 9 | **19,497** | 11,832 |
| **Investing activities** | | | |
| Acquisitions, net of cash acquired | 8 | **(6,162)** | (5,638) |
| Proceeds on disposal of property, plant and equipment | | **185** | 73 |
| Purchases of property, plant and equipment | | **(2,648)** | (1,452) |
| **Cash outflow from investing activities** | | **(8,625)** | (7,017) |
| **Financing activities** | | | |
| Dividends paid | 6 | **(3,689)** | (3,387) |
| (Repayment)/drawdown on bank borrowing facility | | **(1,785)** | 1,423 |
| Repayments of leases | 9 | **(6,699)** | (253) |
| **Cash outflow from financing activities** | | **(12,173)** | (2,217) |
| **Net (decrease)/increase in cash and cash equivalents** | 9 | **(1,301)** | 2,598 |
| Cash and cash equivalents at beginning of year | | **4,611** | 2,013 |
| **Cash and cash equivalents at end of year** | 9 | **3,310** | 4,611 |

**Macfarlane Group PLC**

**Notes to the financial information**

**For the year ended 31 December 2019**

## 1. General information

The financial information set out herein does not constitute the Company's statutory accounts as defined in Section 435 of the Companies Act 2006 and has been extracted from the full statutory accounts for the years for the years ended 31 December 2019 and 2018.

The financial statements for 2019 were approved by the Board of Directors on 27 February 2020. The auditor's report on the statutory financial statements for the year ended 31 December 2019 was unqualified pursuant to Section 498 of the Companies Act 2006 and did not contain a statement under sub-section 498 (2) or (3) of that Act.

The financial information for 2018 is derived from the statutory accounts for 2018 which have been delivered to the registrar of companies. The previous auditor has reported on the 2018 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

### Adoption of new IFRSs

The only major change from the adoption of new IFRS's in 2019 is in respect of the adoption of IFRS 16 'Leases'. This is the first set of Group financial statements where IFRS 16 *'Leases'* has been applied, with an initial application date of 1 January 2019. IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The Group has a large number of property and equipment leases. Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

***Accounting policies under IFRS 16 'Leases'***

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these short-term or low value leases, the Group recognises the lease payments as an operating expense disclosed in administrative expenses on a straight-line basis over the term of the lease.

For all other leases, the lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease liabilities are presented on two separate lines in the consolidated balance sheet for liabilities due within one year and liabilities due after more than one year. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the liability by payments made. The Group remeasures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the lease modification is not accounted for as a separate lease. The Group did not make any such adjustments during the period presented.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at, or before, the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

## 1. General information (continued)

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient and has separated out the non-lease components for its leases. These non-lease components, typically servicing and maintenance costs, have been recognised as an expense on a straight-line basis and disclosed in administrative expenses in the consolidated income statement.

***Approach to transition***

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. For leases previously treated as operating leases, the Group has elected to follow the approach in IFRS 16.C8(b)(ii), whereby right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

The Group's incremental borrowing rates applied to lease liabilities as at 1 January 2019 range between 2.75% and 4.0%.

***Practical expedients adopted on transition***

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group elected to use the following practical expedients:

- a single discount rate has been applied to assets with reasonably similar characteristics; and
- hindsight has been used in determining the lease term.

***Impact on disclosures***

*Former operating leases*

IFRS 16 changes accounting for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16, for all leases, the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured as described above. Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis.

Right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas operating leases previously gave rise to leasing costs in administrative expenses.

The Group now separates the total cash paid for on balance sheet leases into a principal portion (part of financing activities) and interest (part of operating activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

*Former finance leases*

This change has not had a material effect on the Group's consolidated financial statements.

## 1. General information (continued)

***Financial impact of IFRS 16 'Leases'***

The table below sets out the adjustments recognised at 1 January 2019, the date of initial application.

| £000 | As previously reported 31 December 2018 £000 | Impact of IFRS 16 £000 | At 1 January 2019 £000 |
|---|---|---|---|
| **Assets** | | | |
| ROU Assets | - | 27,476 | 27,476 |
| Trade and other receivables | 51,360 | 487 | 52,009 |
| **Impact on total assets** | | 27,963 | |
| **Liabilities** | | | |
| Finance lease liabilities | 101 | (27,963) | (28,064) |
| **Impact on total liabilities** | | (27,963) | |
| **Net assets/Shareholders' funds** | 62,532 | - | 62,532 |

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

| | £000 |
|---|---|
| Operating lease commitments disclosed at 31 December 2018 under IAS 17 | (35,575) |
| Non-lease components expensed under IFRS 16 | 2,805 |
| Short-term and low value leases | 942 |
| Effect of discounting | 3,865 |
| Lease liabilities recognised at 31 December 2018 | (101) |
| Total lease liabilities recognised at 1 January 2019 | **(28,064)** |

Movements in lease liabilities are set out in note 9.

The application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During 2019, for all leases the Group recognised the following amounts in the consolidated income statement.

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Depreciation | **6,223** | - |
| Interest expense | **810** | - |
| Operating lease payments made in 2019 | **6,806** | - |
| Decrease in profit from applying IFRS 16 in 2019 | **227** | |

## 2. Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out on pages 1 to 9.

The Group's principal financial risks in the medium term relate to liquidity and credit risk. Liquidity risk is managed by ensuring that the Group's day-to-day working capital requirements are met by having access to committed banking facilities with suitable terms and conditions to accommodate the requirements of the Group's operations. Credit risk is managed by applying considerable rigour in managing the Group's trade receivables. The Directors believe that the Group is adequately placed to manage its financial risks effectively, despite any economic uncertainty.

The Group's has a committed borrowing facility of £30 million with Lloyds Banking Group PLC in place until June 2022. The facility bears interest at normal commercial rates and carries standard financial covenants in relation to interest cover and levels of headroom over certain trade receivables of the Group.

The Directors are of the opinion that the Group's cash forecasts and revenue projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions, show that the Group should be able to operate within the current facility and comply with its banking covenants.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next twelve months. For this reason they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2019.

### Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Due to the nature of estimation, the actual outcomes may well differ from these estimates. No significant judgements have been made in the current or prior year.

The key sources of estimation uncertainty that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

### Retirement benefit obligations

The determination of any defined benefit pension scheme liability is based on assumptions determined with independent actuarial advice. The key assumptions used include discount rate, inflation rate and mortality assumptions, for which a sensitivity analysis is provided in Note 10. The directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial year.

### Valuation of trade receivables

The provision held against trade receivables is based on applying an expected credit loss model and related estimates of recoverable amounts. Whilst every attempt is made to ensure that the provision held against doubtful trade receivables is as accurate as possible, there remains a risk that the provision may not match the level of debt, which ultimately proves uncollectable. An increase in the average default rate of trade receivables beyond terms from 1.04% to 3.12% above the historic loss rates observed would lead to an increase in the provision recognised of £600,000.

## 3. Segmental information

The Group's principal business segment is **Packaging Distribution,** comprising the distribution of packaging materials and supply of storage and warehousing services in the UK. This comprises over 85% of Group revenue and profit. The Group's **Manufacturing Operations** segment comprises the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK, the design, manufacture and supply of self-adhesive labels to a variety of FMCG customers in the UK & Europe and the design, manufacture and supply of resealable labels to a variety of FMCG customers in the UK, Europe and the USA. None of the individual business segments within Manufacturing Operations represents more than 10% of Group revenue or profit.

| | | **2019** | 2018 |
|---|---|---|---|
| | | **£000** | £000 |
| **Group segment – total revenue** | | | |
| Packaging Distribution | | **196,706** | 190,227 |
| Manufacturing Operations | | **34,016** | 32,189 |
| Inter-segment revenue | Packaging Distribution | **-** | (392) |
| | Manufacturing Operations | **(5,333)** | (4,734) |
| **External revenue** | | **225,389** | 217,290 |
| **Operating profit** | | | |
| Packaging Distribution | | **12,406** | 10,902 |
| Manufacturing Operations | | **1,224** | 793 |
| **Operating profit** | | **13,630** | 10,089 |
| Finance costs | | **(1,606)** | (809) |
| **Profit before tax** | | **12,024** | 10,886 |
| Tax | | **(2,293)** | (2,145) |
| **Profit for the year** | | **9,731** | 8,741 |

| | **Assets** | **Liabilities** | **Net assets** |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| **Group segments** | | | |
| Packaging Distribution | **151,115** | **90,508** | **60,607** |
| Manufacturing Operations | **19,450** | **10,786** | **8,664** |
| **Net assets 2019** | **170,565** | **101,294** | **69,271** |
| Packaging Distribution | 125,060 | 71,173 | 53,887 |
| Manufacturing Operations | 17,045 | 8,400 | 8,645 |
| Net assets 2018 | 142,105 | 79,573 | 62,532 |

## 3. Segmental information (continued)

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Packaging Distribution** | | |
| Revenue | **196,706** | 190,227 |
| Cost of sales | **(135,525)** | (134,235) |
| Gross profit | **61,181** | 55,992 |
| Net operating expenses | **(48,775)** | (44,820) |
| Operating profit before exceptional item | **12,406** | 11,172 |
| Exceptional item | **-** | (270) |
| Operating profit | **12,406** | 10,902 |
| **Manufacturing Operations** | | |
| Revenue | **34,016** | 32,189 |
| Cost of sales | **(23,064)** | (21,640) |
| Gross profit | **10,952** | 10,549 |
| Net operating expenses | **(9,728)** | (9,696) |
| Operating profit before exceptional item | **1,224** | 853 |
| Exceptional item | **-** | (60) |
| Operating profit | **1,224** | 793 |

**Exceptional item** **Guaranteed Minimum Pension ("GMP") equalisation**

As reported in the 2018 Annual Report, following the High Court judgement involving Lloyds Banking Group in October 2018, the Directors made the judgement that the estimated effect of Guaranteed Minimum Pension ("GMP") equalisation on the Group's pension liabilities was a past service cost for pensionable service between 1990 and 1997 that should be reflected as an exceptional item. Any subsequent change in estimate will be recognised in other comprehensive income. The judgement was based on the fact that pension liabilities for the Group's pension scheme at 31 December 2017 did not include any amounts for GMP equalisation.

Accordingly, an exceptional cost of £330,000 was recognised in the 2018 financial statements as a past service cost in respect of the equalisation of GMP benefits. We believe that this classification as an exceptional cost provides a more meaningful basis for measuring the 2018 financial performance.

## 4. Finance costs

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Interest on bank borrowings | **573** | 530 |
| Interest on leases | **802** | 17 |
| Net interest expense on retirement benefit obligation (see note 10) | **231** | 262 |
| **Total finance costs** | **1,606** | 809 |

Interest on leases in 2019 includes the interest on all leases following the transition to IFRS 16 'Leases'. Interest in 2018 only includes the interest on finance leases under IAS 17 *'Leases'*.

## 5. Tax

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Current tax** | | |
| United Kingdom corporation tax at 19.0% | **2,057** | 1,953 |
| Foreign tax | **104** | 98 |
| Adjustments in respect of prior years | **(53)** | (42) |
| **Total current tax** | **2,108** | 2,009 |
| **Deferred tax** | | |
| Current year | **185** | 136 |
| **Total deferred tax** (see note 11) | **185** | 136 |
| **Total tax charge** | **2,293** | 2,145 |

The standard rate of tax based on the UK average rate of corporation tax is 19.0%. Taxation for other jurisdictions is calculated at the rates prevailing in these jurisdictions.

The actual tax charge for the current and previous year varies from the standard rate of tax on the results in the consolidated income statement for the reasons set out in the following reconciliation:-

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Profit before tax** | **12,024** | 10,886 |
| **Tax on profit at 19.0%** | **2,285** | 2,068 |
| Factors affecting tax charge for the year:- | | |
| Non-deductible expenses | **47** | 107 |
| Difference on overseas tax rates | **14** | 12 |
| Changes in estimates related to prior years | **(53)** | (42) |
| **Tax charge for the year** | **2,293** | 2,145 |
| Effective rate of tax for the year | **19.1%** | 19.7% |

## 6. Dividends

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2018 of 1.65p per share (2017 – 1.50p per share) | **2,600** | 2,363 |
| Interim dividend for the year ended 31 December 2019 of 0.69p per share (2018 – 0.65p per share) | **1,089** | 1,024 |
| | **3,689** | 3,387 |

A proposed dividend of 1.76p per share will be paid on 4 June 2020 to those shareholders on the register at 15 May 2020. This is subject to approval by shareholders at the Annual General Meeting on 12 May 2020 and therefore has not been included as a liability in these financial statements.

## 7. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Earnings for the purposes of earnings per share** | | |
| Profit for the year before exceptional items | **9,731** | 9,015 |
| Profit for the year | **9,731** | 8,741 |
| **Number of shares in issue for the purposes of calculating basic and diluted earnings per share** | **2019 No. of shares '000** | 2018 No. of shares '000 |
| **Weighted average number of shares in issue for the purposes of basic earnings per share** | | |
| Weighted average number of shares in issue | **157,636** | 157,548 |
| Effect of Long-Term Incentive Plan awards in issue | **393** | - |
| **Weighted average number of shares in issue for the purposes of calculating diluted earnings per share** | **158,029** | 157,548 |
| **Earnings per share before exceptional item** | **6.17p** | 5.72p |
| **Earnings per share after exceptional item** | **6.16p** | 5.55p |

## 8. Acquisitions

On 2 May 2019, the Group's subsidiary, Macfarlane Group UK Limited acquired 100% of the issued share capital of Carnweather Limited, the parent company of Ecopac, for a maximum consideration of approximately £3.9 million. £3.1 million was paid in cash on acquisition. The deferred consideration of £0.8 million is payable in 2020, subject to certain trading targets being met in the twelve month period ending on 30 April 2020.

On 30 August 2019, Macfarlane Group PLC acquired 100% of the issued share capital of Leyland, for a maximum consideration of approximately £3.05 million. £2.00 million was paid in cash on acquisition with shares to the value of £0.25m issued to the Vendors on acquisition. Deferred consideration of £0.8 million is payable 2020, subject to certain trading targets being met in the twelve month period ending on 31 August 2020.

**8. Acquisitions (continued)**

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £1.6 million at the balance sheet date based on a range of outcomes between £Nil and £1.6 million. Trading in the post-acquisition periods to 31 December 2019 supports the remeasured value of £1.6m.

In 2018, Macfarlane Group UK Limited acquired 100% of Tyler Packaging (Leicester) Limited for a consideration of approximately £2.1 million. £1.5 million was paid in cash on acquisition, with the deferred consideration of £0.6 million paid in 2019, as trading targets were met in full. In 2018 Macfarlane Group UK Limited also acquired 100% of Harrisons Packaging Limited for a maximum consideration of approximately £2.8 million. £1.8 million was paid in cash on acquisition. Of the maximum deferred consideration of £1.0 million, £0.6 million was paid in 2019, reflecting the results in the trading year after acquisition and £0.4 million was released to the income statement.

The impact of the acquisitions on the 2019 results is set out in the Strategic Report on page 3.

All the businesses detailed above are part of the Packaging Distribution segment. Goodwill arising on the acquisitions is attributable to the anticipated future profitability of the distribution of Group product ranges and anticipated operating synergies from future combinations of activities in the Packaging Distribution network.

Fair values assigned to net assets acquired and consideration paid and payable are set out below:-

| | **Carnweather (inc Ecopac) £000** | **Leyland Packaging Company £000** | **Previous Years' Acquisitions £000** | **2019 £000** | 2018 £000 |
|---|---|---|---|---|---|
| **Net assets acquired** | | | | | |
| Other intangible assets | **1,561** | **1,752** | **-** | **3,313** | 2,112 |
| Property, plant and equipment | **685** | **509** | **-** | **1,194** | 85 |
| Inventories | **395** | **484** | **-** | **879** | 283 |
| Trade and other receivables | **1,196** | **601** | **-** | **1,797** | 831 |
| Cash and bank balances | **211** | **(111)** | **-** | **100** | 1,733 |
| Trade and other payables | **(974)** | **(684)** | **-** | **(1,658)** | (1,075) |
| Current tax liabilities | **(91)** | **(144)** | **-** | **(235)** | (161) |
| Lease liabilities | **(549)** | **(430)** | **-** | **(979)** | (12) |
| Deferred tax liabilities | **(287)** | **(312)** | **-** | **(599)** | (371) |
| **Net assets acquired** | **2,147** | **1,665** | **-** | **3,812** | 3,425 |
| Goodwill arising on acquisition | **1,704** | **1,389** | **-** | **3,093** | 1,546 |
| **Total consideration** | **3,851** | **3,054** | **-** | **6,905** | 4,971 |
| **Contingent consideration on acquisitions** | | | | | |
| Current year | **(800)** | **(800)** | **-** | **(1,600)** | (1,600) |
| Prior years | **-** | **-** | **1,207** | **1,207** | 4,000 |
| **Shares issued** | **-** | **(250)** | **-** | **(250)** | - |
| **Cash consideration** | **3,051** | **2,004** | **1,207** | **6,262** | 7,371 |
| **Net cash outflow arising on acquisition** | | | | | |
| Cash consideration | **(3,051)** | **(2,004)** | **(1,207)** | **(6,262)** | (7,371) |
| Cash and bank balances acquired | **211** | **(111)** | **-** | **100** | 1,733 |
| **Net cash outflow** | **(2,840)** | **(2,115)** | **(1,207)** | **(6,162)** | (5,638) |

## 9. Notes to the cash flow statement

| | **2019** | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Profit before tax** | **12,024** | 10,886 |
| Adjustments for: | | |
| Amortisation of intangible assets | **2,391** | 2,244 |
| Depreciation of property, plant and equipment (inc. ROU assets) | **7,816** | 1,593 |
| Loss/(gain) on disposal of property, plant and equipment | **5** | (32) |
| Share-based payments | **75** | - |
| Finance costs | **1,606** | 809 |
| **Operating cash flows before movements in working capital** | **23,917** | 15,500 |
| Decrease/(increase) in inventories | **2,006** | (1,192) |
| Decrease in receivables | **1,718** | 2,183 |
| (Decrease)/increase in payables | **(1,487)** | 122 |
| Adjustment for pension scheme funding | **(2,994)** | (2,352) |
| **Cash generated by operations** | **23,160** | 14,261 |
| Income taxes paid | **(2,288)** | (1,882) |
| Interest paid | **(1,375)** | (547) |
| **Cash inflow from operating activities** | **19,497** | 11,832 |

| | **Cash and Cash equivalents £000** | **Bank borrowing £000** | **Lease Liabilities £000** | **Total Debt £000** |
|---|---|---|---|---|
| At 1 January 2018 | 2,013 | (16,346) | (342) | (14,675) |
| Cash movements | 2,598 | (1,423) | 253 | 1,428 |
| Non-cash movements | | | | |
| Acquisitions | - | - | (12) | (12) |
| At 31 December 2018 | 4,611 | (17,769) | (101) | **(13,259)** |
| Cash movements | (1,301) | 1,785 | 6,699 | **7,183** |
| Non-cash movements | | | | |
| IFRS 16 transition on 1 January 2019 | - | - | (27,963) | **(27,963)** |
| New leases | - | - | (3,623) | **(3,623)** |
| Acquisitions | - | - | (979) | **(979)** |
| At 31 December 2019 | **3,310** | **(15,984)** | **(25,967)** | **(38,641)** |
| | | | | |
| **Net bank debt 2019** | **3,310** | **(15,984)** | | **(12,674)** |
| Net bank debt 2018 | 4,611 | (17,769) | | (13,158) |

Cash and cash equivalents (which are presented as a single class of asset on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

## 10. Pension scheme

Macfarlane Group PLC sponsors a defined benefit pension scheme for certain active and former UK employees – the Macfarlane Group PLC Pension & Life Assurance Scheme (1974) ("the scheme").

The scheme is administered by a separate Board of Trustees composed of employer nominated representatives and member nominated Trustees and is legally separate from the Group. The assets of the scheme are held separately from those of the Group in managed funds under the supervision of the Trustees. The Trustees are required by law to act in the interest of all classes of beneficiary in the scheme and are responsible for investment policy and the day-to-day administration of benefits. The scheme was closed to new entrants during 2002.

The scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed year's service on attainment of a normal retirement age of 65. Pensionable salaries were frozen for the remaining active members at the levels current at 30 April 2009 with the change taking effect from 30 April 2010 and as a result no further salary inflation applies for active members who remained in the scheme. Active members' benefits also include life assurance cover, albeit the payment of these benefits is at the discretion of the scheme's Trustees.

On withdrawing from active service a deferred member's pension is revalued from the time of withdrawal until the pension is drawn. Revaluation in deferment is statutory and since 2010 has been revalued on the Consumer Price Index ("CPI") measure of inflation. Revaluation of pensions in payment is a blend of fixed increases and inflationary increases depending on the relevant periods of accrual of benefit. For pensions in payment, the inflationary increase is currently based on the Retail Price Index ("RPI") measure of inflation or based on Limited Price Indexation ("LPI") for certain defined periods of service.

During 2012, Macfarlane Group PLC agreed with the Board of Trustees to amend benefits for pensioner, deferred and active members in the defined benefit pension scheme by offering a Pension Increase Exchange ("PIE") option for deferred and active members at retirement after 1 May 2012.

### Balance sheet disclosures

The fair value of scheme investments, the present value of scheme liabilities and expected rates of return are based on the results of the actuarial valuation as at 1 May 2017, updated to the year-end.

| | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | **£000** | £000 | £000 | £000 | £000 |
| **Investment class** | | | | | |
| Equities | **22,139** | 16,025 | 17,694 | 17,112 | 16,788 |
| Multi-asset diversified funds | **25,382** | 17,512 | 21,533 | 21,509 | 25,476 |
| Liability-driven investment funds | **27,688** | 28,379 | 28,534 | 26,532 | 14,107 |
| Bonds | **-** | - | - | - | 11,119 |
| Secured property income fund | **6,192** | 7,112 | 6,606 | - | - |
| European loan fund | **6,379** | 6,645 | 6,562 | 6,334 | - |
| Other (cash and similar assets) | **281** | 154 | 31 | 6,321 | 303 |
| Fair value of scheme investments | **88,061** | 75,827 | 80,960 | 77,808 | 67,793 |
| Present value of scheme liabilities | **(94,526)** | (85,592) | (92,783) | (92,345) | (79,311) |
| Scheme deficit | **(6,465)** | (9,765) | (11,823) | (14,537) | (11,518) |

## 10. Pension scheme (continued)

The Trustees review the investments of the scheme on a regular basis and consult with the Company regarding any proposed changes to the investment profile. Liability-Driven Investment Funds are intended to provide a match of 100% against the impact of movements in inflation on pension liabilities and a match of 80% against the impact of movements in interest-rates on pension liabilities. During 2019 adjustments were made between investments to bring the overall allocations into line with the Trustees' strategic asset allocation.

The ability to realise the Scheme's investments at, or close to, fair value was considered when setting the investment strategy. 86% of the Scheme's investments can be realised at fair value on a daily or weekly basis. The remaining assets have monthly or quarterly liquidity, however, whilst the income from these helps to meet the Scheme's cash flow needs, they are not expected to require to be realised at short notice.

The present value of the scheme liabilities is derived from cash flow projections over a long period of time and is thus inherently uncertain.

The scheme's liabilities were calculated on the following bases as required under IAS 19:

| **Assumptions** | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Discount rate | **2.00%** | 2.80% | 2.50% | 2.70% | 3.70% |
| Rate of increase in salaries | **0.00%** | 0.00% | 0.00% | 0.00% | 0.00% |
| Inflation assumption (RPI) | **3.00%** | 3.30% | 3.30% | 3.30% | 3.10% |
| Inflation assumption (CPI) | **2.10%** | 2.30% | 2.30% | 2.30% | 2.10% |
| Life expectancy beyond normal retirement date of 65 | | | | | |
| Male | **23.3 years** | 23.7 years | 22.8 years | 22.7 years | 22.7 years |
| Female | **25.5 years** | 25.7 years | 25.3 years | 25.3 years | 25.1 years |

In 2018, the Directors have made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost in respect of pensionable service between 1990 and 1997. The average uplift for GMP service for impacted members has been reflected through the consolidated income statement as an exceptional item as set out in note 3, with any subsequent changes in the estimate to be recognised in other comprehensive income. This treatment is based on the fact that the reported pension liabilities for the scheme as at 31 December 2017 did not include any amount in respect of GMP equalisation.

| | **2019** | 20187 | 2016 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Movement in scheme deficit** | **£000** | £000 | £000 | £000 | £000 |
| At 1 January | **(9,765)** | (11,823) | (14,537) | (11,518) | (13,873) |
| Current service costs | **(112)** | (120) | (105) | (95) | (152) |
| Past service costs for GMP equalisation | **-** | (330) | - | - | - |
| Employer contributions | **3,106** | 2,802 | 3,390 | 3,001 | 2,834 |
| Net finance cost | **(231)** | (262) | (348) | (373) | (438) |
| Remeasurement of pension scheme liability | **537** | (32) | (223) | (5,552) | 111 |
| **At 31 December** | **(6,465)** | (9,765) | (11,823) | (14,537) | (11,518) |

### Funding

UK pension legislation requires that pension schemes are funded prudently. Following the triennial actuarial valuation of the scheme at 1 May 2017, the Company agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 7 years. The next triennial actuarial valuation is due at 1 May 2020.

## 10. Pension scheme (continued)

| **Movement in fair value of scheme investments** | **2019 £000** | 2018 £000 |
|---|---|---|
| Scheme investments at start of period | **75,827** | 80,960 |
| Interest income | **2,109** | 1,987 |
| Return on scheme investments (excluding interest income) | **11,154** | (4,143) |
| Contributions from sponsoring companies | **3,106** | 2,802 |
| Contribution from scheme members | **70** | 72 |
| Benefits paid | **(4,205)** | (5,851) |
| **Scheme investments at end of period** | **88,061** | 75,827 |

| **Movement in present value of scheme liabilities** | **2019 £000** | 2018 £000 |
|---|---|---|
| Scheme liabilities at start of period | **(85,592)** | (92,783) |
| Current service cost | **(112)** | (120) |
| Past service costs for GMP equalisation | **-** | (330) |
| Interest cost | **(2,340)** | (2,249) |
| Contribution from scheme members | **(70)** | (72) |
| Changes in assumptions underlying the scheme liabilities | **(10,617)** | 4,111 |
| Benefits paid | **4,205** | 5,851 |
| **Scheme liabilities at end of period** | **(94,526)** | (85,592) |

**Sensitivity to key assumptions**

The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, then this could have a material effect on the results disclosed. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the deficit as shown below:-

| **Assumptions** | **2019 £000** | 2018 £000 |
|---|---|---|
| Discount rate movement of +0.4% | **6,048** | 5,476 |
| Inflation rate movement of +0.1% | **(482)** | (436) |
| Mortality movement of +0.1 year in age rating | **284** | 257 |

Positive figures reflect a reduction in the scheme liabilities and therefore a reduction in the scheme deficit. The sensitivity information has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date and is consistent with the approach adopted in previous years. The level of sensitivities shown reflect average movements in the assumptions in the last three years.

All sensitivity information assumes that the average duration of Scheme liabilities is seventeen years.

## 11. Deferred tax

| | | 2019 | 2018 |
|---|---|---|---|
| | | **£000** | £000 |
| At 1 January | | **(1,142)** | (641) |
| Acquisitions | | **(599)** | (371) |
| Charged in income statement | (see note 5) | **(185)** | (136) |
| (Charged)/credited in other comprehensive income | | | |
| Remeasurement of pension scheme liability | | **(92)** | 6 |
| At 31 December | | **(2,018)** | (1,142) |
| **Deferred tax assets** | | | |
| On retirement benefit obligations | | **1,099** | 1,660 |
| Corporation tax losses | | **125** | 191 |
| **Disclosed as deferred tax assets** | | **1,224** | 1,851 |
| **Deferred tax liabilities** | | | |
| On accelerated capital allowances | | **(291)** | (199) |
| On other intangible assets | | **(2,951)** | (2,794) |
| **Disclosed as deferred tax liabilities** | | **(3,242)** | (2,993) |
| At 31 December | | **(2,018)** | (1,142) |

A reduction in the UK corporation tax rate to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge. Deferred tax assets and liabilities have been calculated based on this rate.

## 12. Share capital

| | 2019 | 2018 |
|---|---|---|
| | **£000** | £000 |
| **Allotted, issued and fully paid:** | | |
| At 1 January | **39,387** | 39,387 |
| Issued during the year | **66** | - |
| At 31 December | **39,453** | 39,387 |
| **Share premium** | | |
| At 1 January | **12,975** | 12,975 |
| Issue of new shares during the year | **184** | - |
| Expenses of share issue | **(11)** | - |
| At 31 December | **13,148** | 12,975 |

The Company has one class of ordinary shares of 25p each, which carry no right to fixed income. Each ordinary share carries one vote in any General Meeting of the Company.

On 5 September 2019, the Company issued 264,382 ordinary shares of 25p each at a value of 94.56p per share as non-cash consideration to the Vendors of Leyland Packaging Company (Lancs) Limited, an effective value of £250,000. The shares were admitted to the Official List of the London Stock Exchange on 5 September 2019.

## 13. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Details of individual and collective remuneration of the Company's Directors and dividends received by the Directors for calendar year 2019 will be disclosed in the Group's 2019 Annual Report and Accounts.

The directors are satisfied that there are no other related party transactions occurring during the year which require disclosure.

## 14. Post balance sheet events

On 6 January 2020, the Company's subsidiary, Macfarlane Group UK Limited acquired the business, goodwill and selected assets of the packaging distribution business of Armagrip Limited, based in County Durham for a consideration of £0.9m. The net assets acquired amounted to £0.5m.

## 15. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Tuesday 31 March 2020 and will be available to members of the public at the Company's Registered Office from Friday 3 April 2020.

The Annual General Meeting will take place at the Double Tree by Hilton Hotel, Cambridge Street Glasgow G2 3HN at 12 noon on Tuesday 12 May 2020.