



2019 Results



Overview

- Executive Summary
- 2019 Results/Cash Flow
- Business Review
 - Packaging Distribution
 - Manufacturing Operations
- Pension Scheme Deficit
- 2020 Key Actions
- Conclusions



Executive Summary

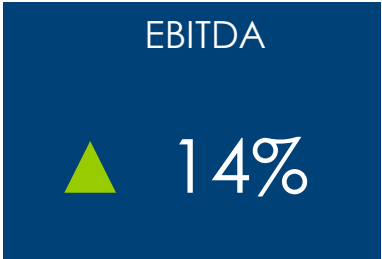
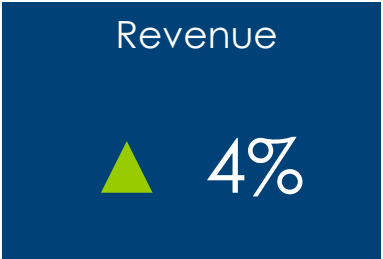
Profit before tax	2019	2018
	£12.0m	£10.9m

- Group sales £225m, 4% growth on 2018
- Profit before tax £12.0m, 10% growth on 2018
- Distribution sales growth 4% reflects new business wins compensating for weaker demand and sales price deflation
- Distribution profit growth of 14%
- Manufacturing Operations sales growth 4%, profits up 54%
- Pension deficit has reduced by £3.3m to £6.5m
- Net bank debt £12.7m, down £0.5m in 2019
- Two further acquisitions within Packaging Distribution
- Final dividend increased by 7% to 1.76p per share payable 04-Jun-20, with a register date 15-May-20

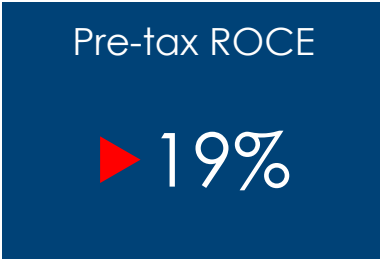


Financial Summary – 2019

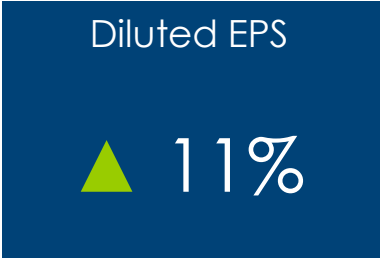
Revenue and profit



Returns and balance sheet



EPS and dividend



Results £m

	2019	2018	2017
Sales	<u>225.4</u>	<u>217.3</u>	<u>196.0</u>
Gross Profit	32.0% 72.1	30.6% 66.5	30.8% 60.3
Overheads exc. DA ①	<u>48.4</u>	<u>51.0</u>	<u>47.2</u>
Operating profit before DA	23.7	15.5	13.1
Depreciation/amortisation ②	<u>10.1</u>	<u>3.8</u>	<u>3.0</u>
Operating profit	13.6	11.7	10.1
Interest ③	<u>1.6</u>	<u>0.8</u>	<u>0.8</u>
Profit before tax	<u>12.0</u>	<u>10.9</u>	<u>9.3</u>
Diluted EPS	6.16p	5.55p	5.22p
Dividend	2.45p	2.30p	2.10p
Dividend cover	2.5	2.4	2.5

Impact of IFRS 16 ① - £6.7m, ②+£6.2m and ③+£0.8m respectively

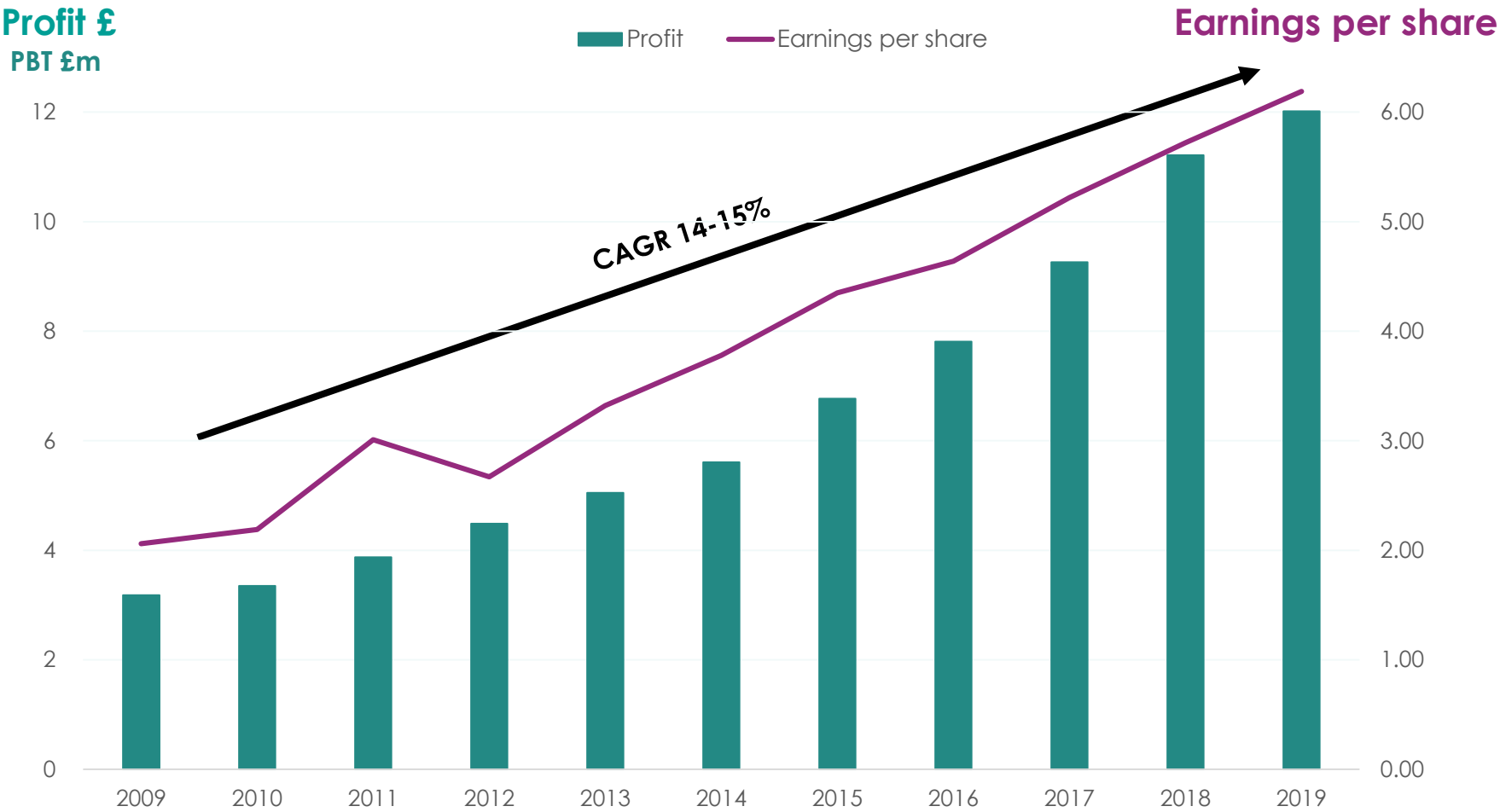


Cash Flow £m

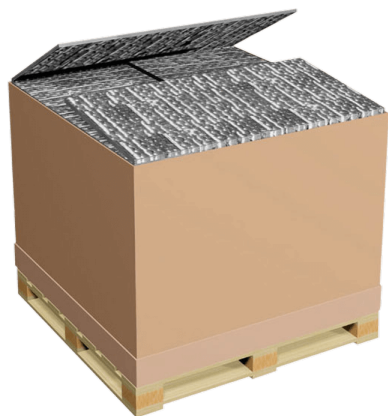
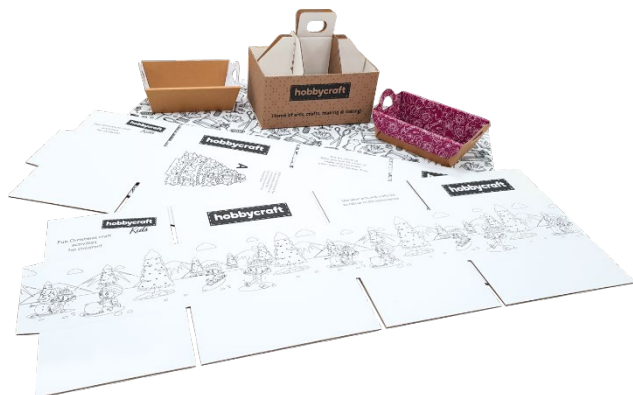
	2018	2018	2017
EBIT	13.6	11.7	10.1
DA	<u>10.1</u>	<u>3.8</u>	<u>3.0</u>
EBITDA	23.7	15.5	13.1
Working Capital/IFRS 16	(4.0)	1.4	(0.8)
Interest	(1.4)	(0.5)	(0.5)
Acquisitions	(6.2)	(5.6)	(8.3)
Share placing	-	-	7.6
Tax	(2.3)	(1.9)	(1.9)
Capital expenditure	(2.6)	(1.4)	(1.7)
Pension	(3.0)	(2.7)	(3.3)
Dividend	<u>(3.7)</u>	<u>(3.4)</u>	<u>(2.8)</u>
Movement in bank debt	<u>0.5</u>	<u>1.4</u>	<u>1.4</u>



Profit Progression



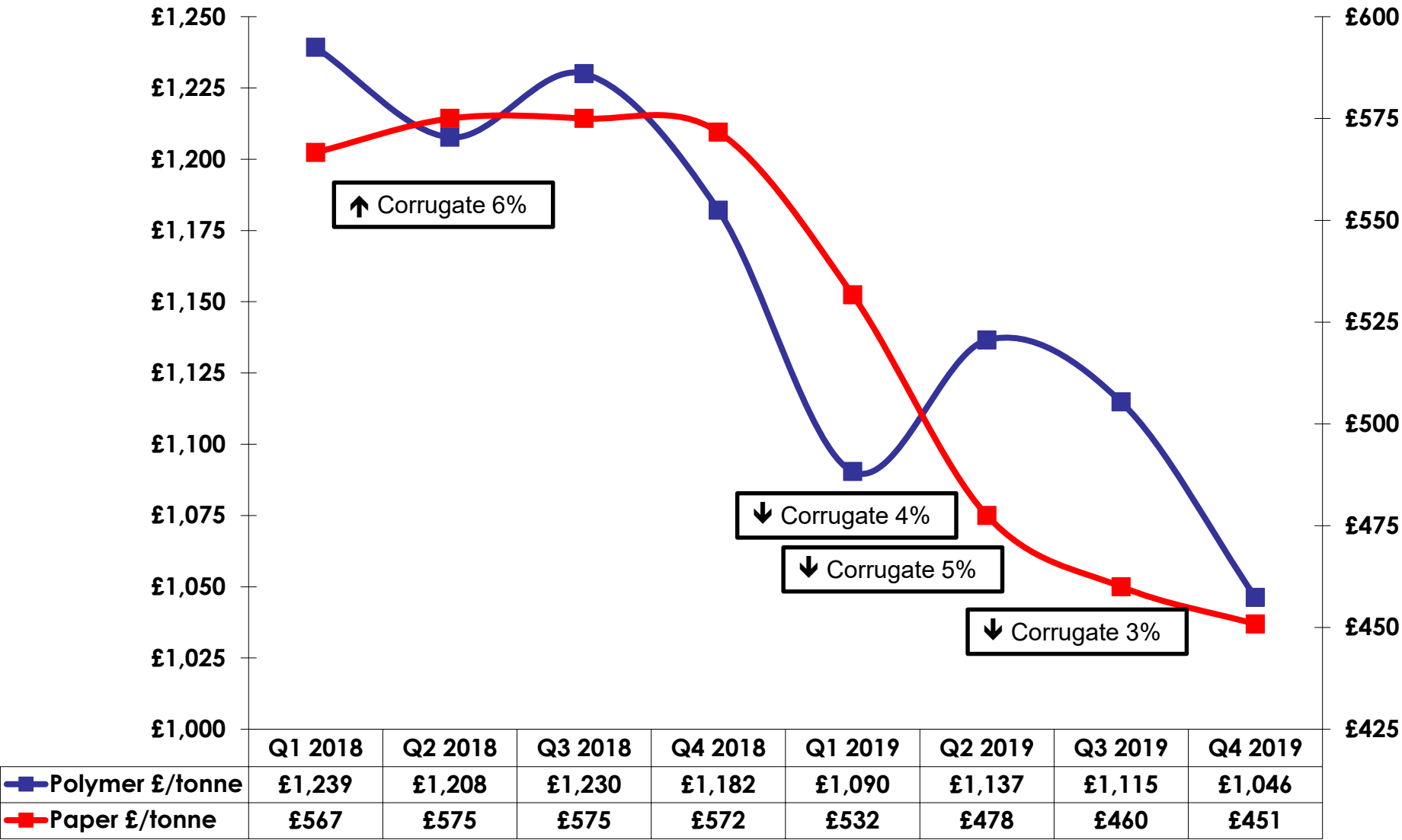
Packaging Distribution



£m	2019	2018
Revenue	196.7	189.8
Gross margin	61.2	56.0
Overheads	48.8	44.8
Operating profit	12.4	11.2
OP Margin	6.3%	5.9%

- Sales increase 3.6% vs. 2018
- New business growth of £1m offset weaker sales demand and sales price deflation
- Sales split 71% Industrial 29% Retail
- Gross margin reflects lower input pricing on paper based products
- Majority of overhead increase is acquisition-related
- Net promoter score 50 (2018: 48)

Packaging Distribution – Raw Material Movements



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. ●% of Distribution revenue
- National Accounts growth with increases from TVS Johnsons Apparel and Thermofisher
- Acquisitions Ecopac/Leyland 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



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Packaging Distribution – Acquisitions 2014 to 2019

Acquisition	Location	Sales	EBITDA multiple	Placing price	Integrated
	Reading	£3m	5-6 x	N/A	✓
	Wolverhampton	£9m	5-6 x	Sep-14 37.5p	✓
	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	H1 2020
	Leicester	£2.5m	5 x	N/A	✓
	Leyland	£3.5m	5 x	N/A	H2 2020
	Aylesbury	£6.5m	6 x	N/A	TBD
	Leyland	£4.0m	5 x	N/A	TBD



Macfarlane Design and Manufacture



£m	2019	2018
Revenue	13.6	13.9
Gross Margin	38.1%	35.5%
Operating profit	0.7	0.4
Sales to Distribution	21%	22%

- 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	2019	2018
Revenue	20.4	18.3
Gross margin	32.4%	33.1%
Operating Profit	0.5	0.5
Self-Ad/Reseal-it %	51/49	50/50

- 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

	2019	2018
Opening deficit	(9.8)	(11.8)
Ongoing accrual/Interest cost	(0.3)	(0.4)
GMP equalisation – exceptional items	-	(0.3)
Contributions	3.1	2.8
Bond yield ↓ 0.8% to 2.0% (2017 ↑ 0.3%)	(12.1)	4.1
Investment returns	11.1	(4.1)
Net effect of other assumptions	1.5	(0.1)
Closing deficit	(6.5)	(9.8)

- Significant reduction in bond yields helps but offset by LDIs; however
- LDI provided > 85% hedge vs. interest liabilities
- Other assumptions benefit from the most recent mortality tables
- Deficit recovery contributions for 2019 £3.2m (inc. ongoing costs £0.4m)
- Next actuarial valuation 1-May-20

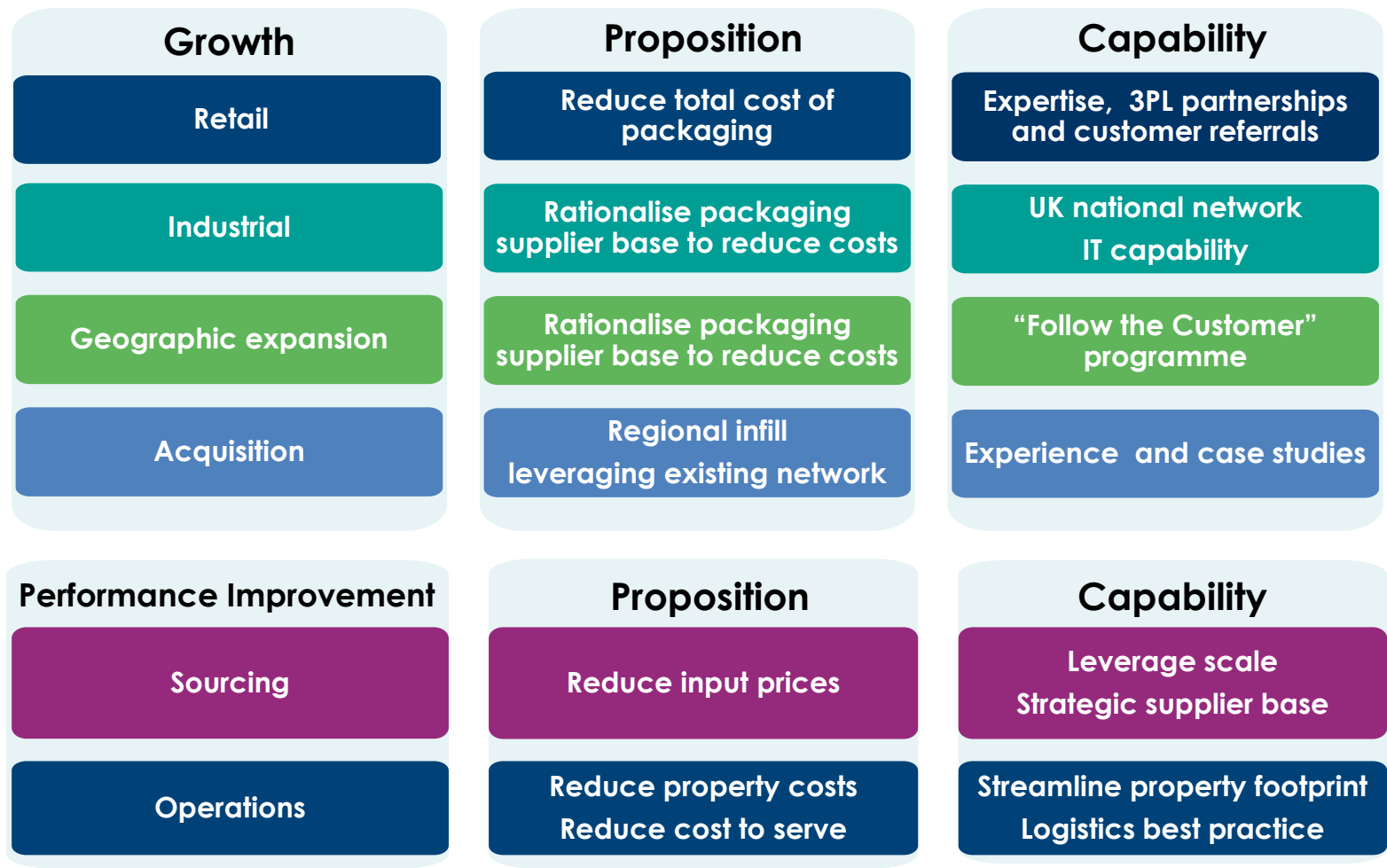


Pension Scheme Details £m

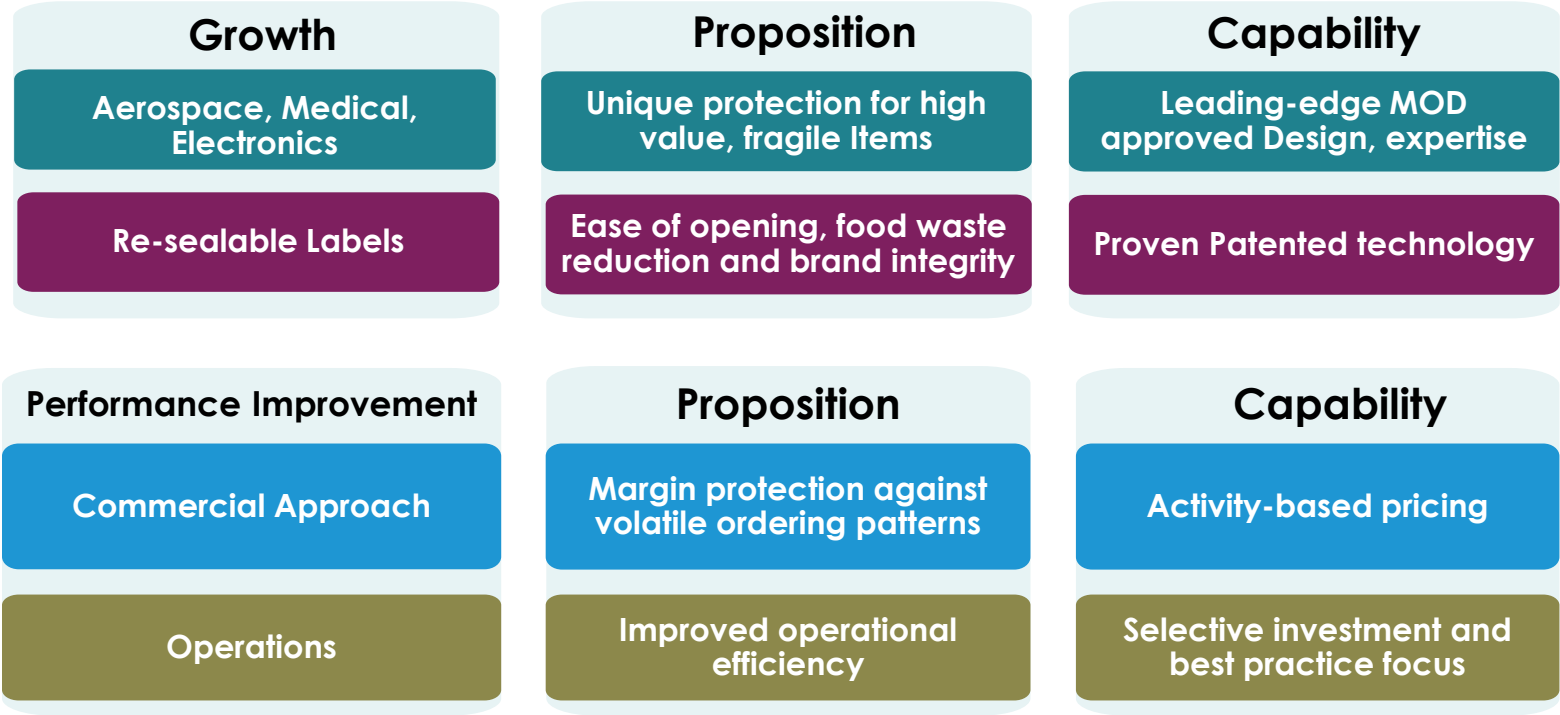
Investments		2018	2017
Growth assets			
Diversified Growth Funds		25.4	17.5
Equities		22.1	16.0
European Loan Fund		6.4	6.6
Long-term Property Fund		6.2	7.1
Matching assets			
Liability-driven Investments		27.7	28.4
Cash		0.3	0.2
Total investments		88.1	75.8
Liabilities	Members		
Active members	15 (16)	5.5	5.0
Deferred members	201 (216)	33.2	29.5
Pensioners	365 (358)	55.9	51.1
Total liabilities	581 (590)	94.6	85.6



Profitable Growth in Packaging Distribution



Profitable Growth in Manufacturing



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 6% purchases from Europe and 1% from Rest of the World
 - Currency fluctuations - Euro purchases €6m Dollar purchases \$2m
 - Higher tariffs under WTO rules – knowledge of customs processes
 - Labour risk – 32 staff are EU nationals
- Impact and response
 - Potential stock build March 2019, £500k of product and in October
 - Stock build in Germany for specific customers
 - 1% movement in currency costs £50k – effectively price movement
 - WTO tariff rates – additional £300k – 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 challenging period



Conclusions

- 2019 was another year of continuing progress in line with our strategy
- 2020 has started well
- Trading agenda:
 - Distribution focus on identified growth opportunities – Internet Retail, National Accounts (mainly industrial customers), 3PL and expansion of capability in Europe
 - Gross margin management
 - Add value for customers - support their sustainability objectives
 - Manufacturing focus on operational improvements and higher added value products and services
 - Focus on cost reduction/consolidation/integration initiatives
- Pipeline of further acquisition targets being pursued for 2020 – Armagrip acquired in early January 2020 – absorbed into North East network
- Balance sheet agenda:
 - Implement additional pension deficit reduction actions
 - Continued focus on cash generation - working capital efficiency
- Bank facilities in place until June 2022 to support growth plans



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**

Appendices



Macfarlane Group – History

- Macfarlane was **founded in 1949** by Lord Macfarlane of Bearsden and **listed** on the main LSE market **in 1973**
- **HQ in Glasgow**, annual sales c £225m, >900 employees operating from **32 sites plus 3 satellite sites**: UK, Ireland and Sweden
- **Customer base – 89% UK**, 6% Europe & 5% USA
- **Three key businesses**
 - the supply of protective packaging materials
 - the design/manufacture of bespoke protective packaging
 - the printing of resealable and self-adhesive labels
- **Principal customer sectors**: Internet Retail, Logistics, Electronics, Aerospace, Automotive, FMCG



Macfarlane Group at a Glance



Customers
17,000+



Orders
300,000+

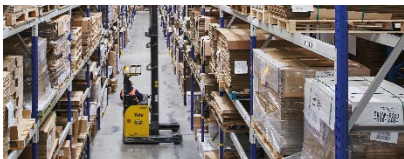


Suppliers
1,000+

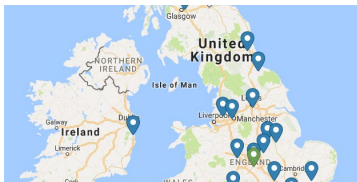


Deliveries
275,000

Delivery Miles
4 million +



Number of SKUs
20,000+



Locations
35



Labels Produced
2 billion



People
> 900



Macfarlane Group

Distribution

87% of Group

Packaging Distribution

Nationwide distribution of protective packaging materials to business users

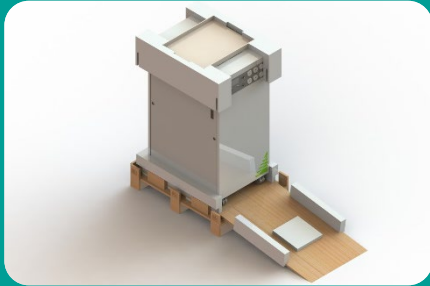


Manufacturing Operations

13% of Group

Packaging Design and Manufacture

Design/manufacture of packaging products for protection of high value items



Macfarlane Labels

Design and printing of self-adhesive & re-sealable labels for FMCG market



Packaging Distribution

- Supply of protective packaging materials in UK
- UK Market leader with > 20% market share in fragmented market
- Nationwide coverage through
 - 25 Regional Distribution Centres/3 satellite sites
- 17,000+ customers
- Solid Industrial/Manufacturing customer base
- Concentration on growth areas
 - Internet Retail – protective packaging needs
 - 3PL Sector – increasing role in packing products
 - National Accounts – our network is unrivalled
- Achieve market share gains – increasing sales
- Focus on improving returns, target 7.0% currently 6.3%
- Infill acquisition opportunity



Packaging Distribution

A selection of major customers

RETAIL



INDUSTRIAL



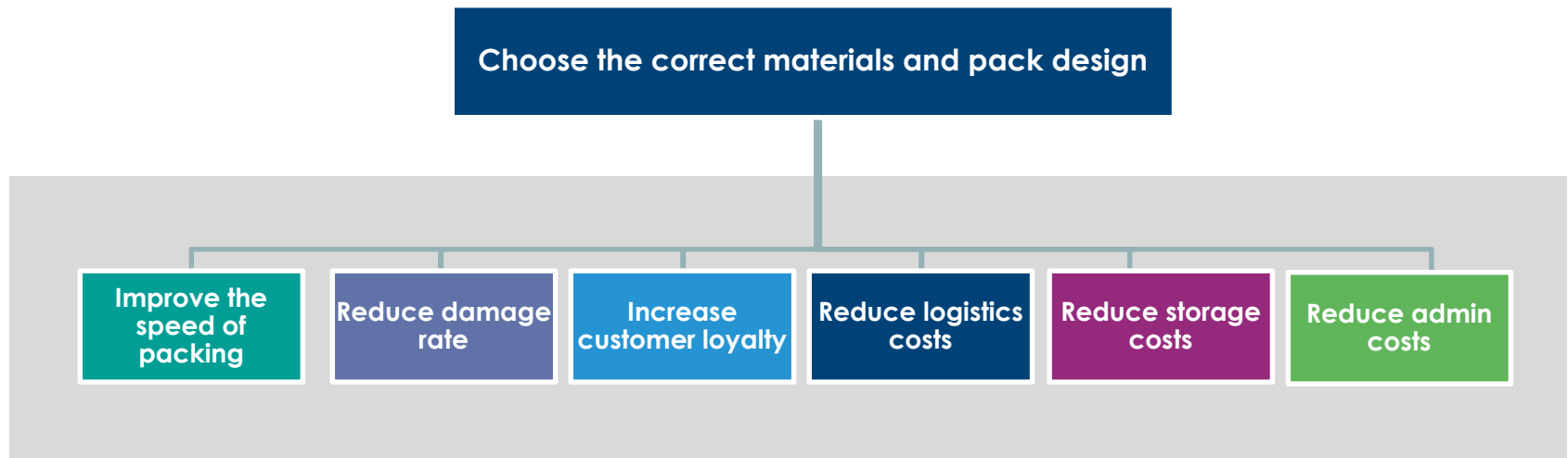
3PL



Packaging Distribution

Differentiation – Total Cost of Packaging

Only 10% of the total cost of packaging consists of materials and pack design



90% of the Costs are Hidden

Packaging Distribution

Role of the Packaging Distributor

MANUFACTURER PROPOSITION

- Narrow Product Range
- Product Specialism
- Manufacturing Expertise
- Minimum Order Volumes
- Competitive Pricing

DISTRIBUTOR PROPOSITION

- Comprehensive Product Range
- Standard and Bespoke Products
- Stock and Serve Model
- Sourcing Service
- Unbiased Advice

**Reducing the Total Cost of
Packaging**

Packaging Distribution



Packaging Distribution – RDC performance



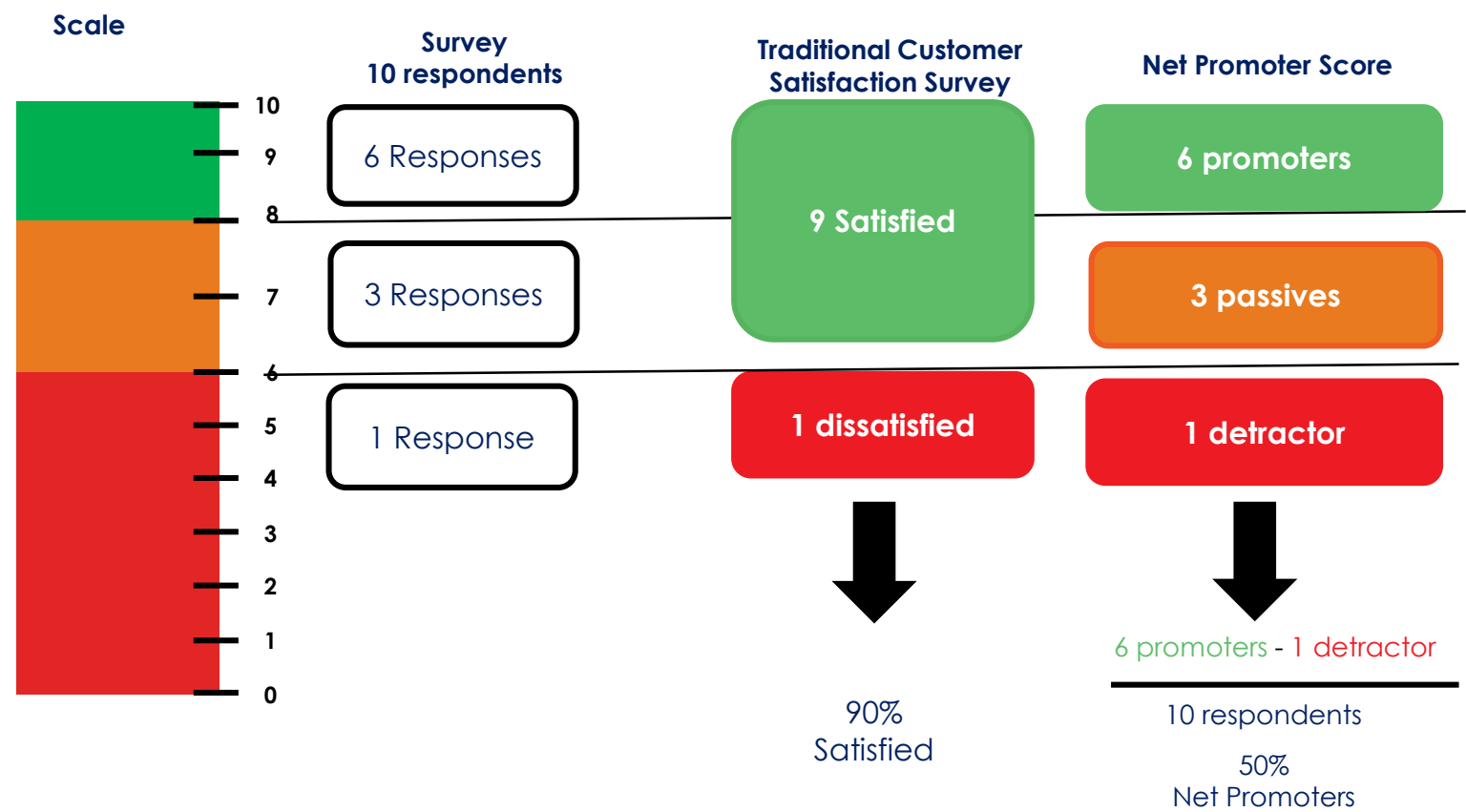
OP Margin	2019	2018	2017	2016	2015
>7.5%	16	10	9	10	8
5.0% - 7.5%	7	6	6	5	7
0.0% - 5.0%	2	7	6	4	2
Loss-making	0	0	0	1	1
	25	23	21	20	18

If 2 both made 5.0% then profit impact £0.2m

If 9 all made 7.5% then profit impact £1.0m

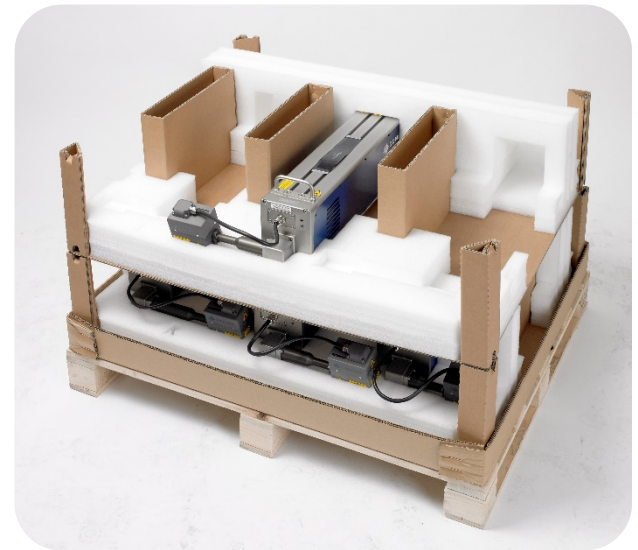
Packaging Distribution

Customer Experience – NPS v Customer Satisfaction



Packaging Design and Manufacture

- Design, manufacture and assembly of bespoke, custom-designed packaging to protect high value or fragile products in shipping and storage
- Target customers are in defence, aerospace, medical, electronic and industrial markets
- Design lead sales approach to major customers in target markets, utilising 3D design software and rigorous application testing methods
- Design and production facilities in Grantham and Westbury
- National coverage through the utilisation of the Packaging Distribution RDC network.



Packaging Design and Manufacture

A selection of major Customers

MEGGITT



THALES

COBHAM

rotork®



Labels

- Specialist design, printing and supply of high quality self-adhesive and re-sealable labels for FMCG businesses in the UK, Europe and USA
- Print >1.5 billion labels each year
- Research & development facilities in Scotland and Sweden
- Manufacturing Scotland/Ireland
- Manufacturing partners Europe & USA



Labels

A selection of major Customers



