MACFARLANE GROUP

2015 Interim Results

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Executive Summary

Profit before exceptional items	H1 2015	H1 2014
	£1.85m	£1.22m

- Group sales £78.6m, 12% up – Distribution 16% Manufacturing (5%)
- Distribution sales growth 16% of which 6% organic, 10% acquisition
- Acquisitions both performing to plan – Lane now being integrated
- Organic growth from internet retail sector and national accounts
- Manufacturing Operations trading at similar levels to 2014
- Pension deficit down by £1.8m to £12.1m
- Net debt of £11.9m reflecting acquisitions and seasonal working capital
- Dividend increased to 0.53p per share payable 15-Oct-15 – register date 9-Oct-15

Financial Summary

Revenue and Operating Profit	Revenue ▲ 12%	Profit before tax ▲ 52%	EBITDA Margin 4.1%
Balance sheet Management and Cash Flow	Pre-tax ROCE 21.2%	Bank debt ▲ £0.8m	Pension Deficit ▼ £1.8m
EPS and Dividend	Diluted EPS ▲ 50%	EPS ▲ 1.26p	Dividend per share 0.53p

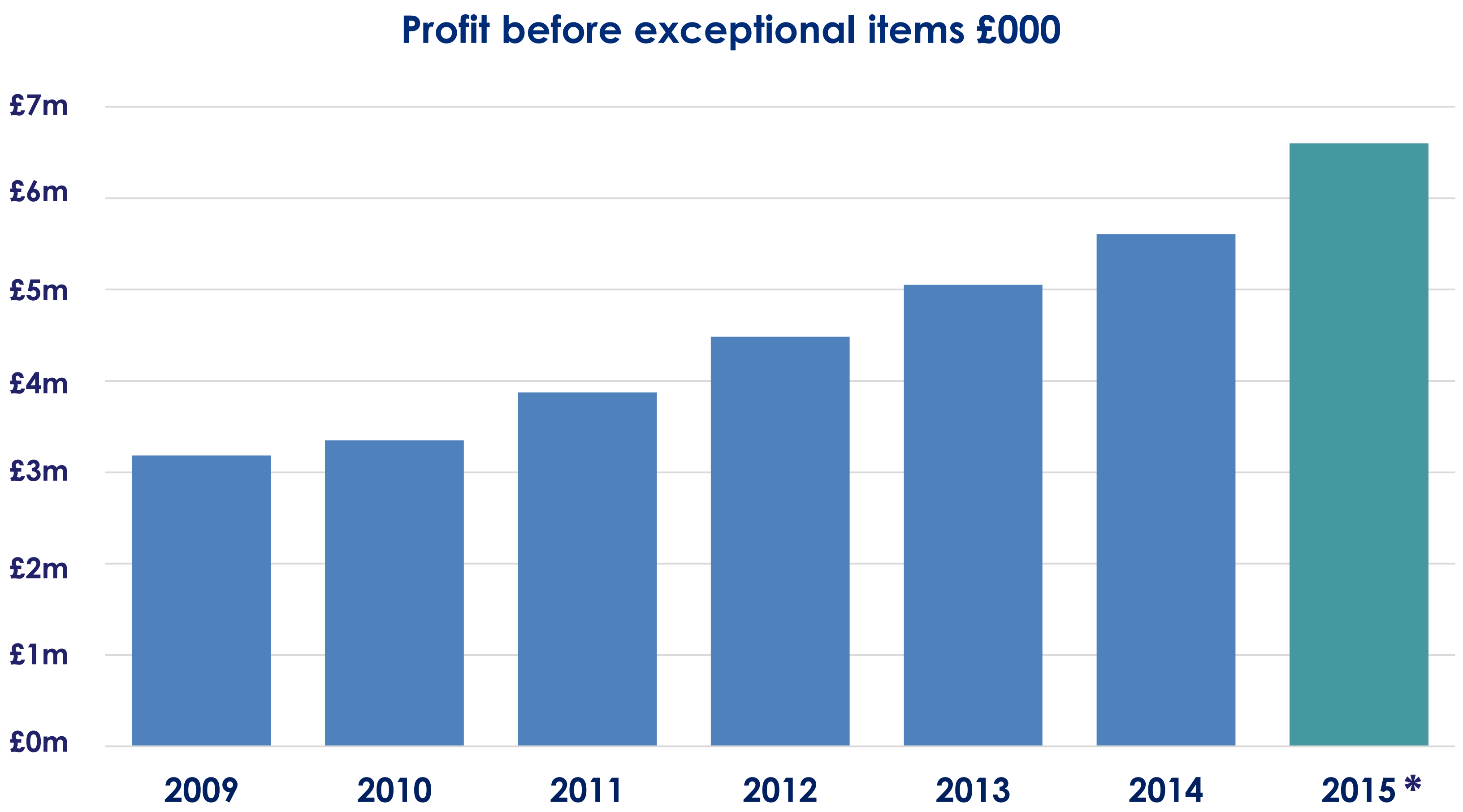
Results £m

	H1 2015		H1 2014		H2 2014	
Sales		**78.6**		70.1		***83.7***
Gross Profit	**31.3%**	**24.6**	30.6%	21.4	***31.1%***	***26.1***
Overheads exc. DA		**21.4**		19.1		***20.3***
EBITDA		**3.2**		2.3		***5.8***
Depreciation/amortisation		**0.9**		0.6		***0.9***
Operating profit		**2.3**		1.7		***4.9***
Interest		**0.4**		0.5		***0.5***
Profit before tax		**1.9**		1.2		***4.4***
EPS		**1.26p**		0.84p		***2.87p***

Cash Flow £m

	H1 2015	H1 2014	***H2 2014***
EBIT	**2.3**	1.7	***4.9***
DA	**0.9**	0.6	***0.9***
EBITDA	**3.2**	2.3	***5.8***
Working Capital	**(0.4)**	(0.5)	***(0.5)***
Interest	**(0.4)**	(0.5)	***(0.6)***
Acquisitions	**(0.2)**	(1.2)	***(3.8)***
Share placing	**0.0**	0.0	***2.8***
Tax	**(0.1)**	(0.4)	***(0.4)***
Capital expenditure	**(0.4)**	(0.2)	***(0.3)***
Pension (one-off £2.5m H1-14)	**(1.4)**	(3.9)	***(1.5)***
Dividend	**(1.4)**	(1.3)	***(0.6)***
Movement in Debt	**(1.1)**	(5.7)	***0.9***

Profit Progression



* 2015 - Arden Broker Estimate

Packaging Distribution

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£m	**H1 2015**	H1 2014	***H2 2014***
Revenue	**66.3**	57.0	***69.9***
Gross margin	**29.3%**	28.6%	***28.9%***
Overheads	**17.4**	14.8	***16.0***
Operating profit	**2.1**	1.5	***4.3***
OP Margin	**3.1%**	2.7%	***6.2%***

- Sales increase 16%, 6% volume, 1% price & 9% acquisition
- H2 sales levels for Jul/Aug show base business revenue ⇧ 5%
- Gross margins 29.3%, improvement through better sourcing
- Good overhead cost control, most of increase acquisition-related

Packaging Distribution

- 16% sales growth, 7% organic, 9% acquisitions
- Acquisitions performing well
- Internet retail ca. 19% of Distribution revenue
- Revenues increasing from recent Internet retail wins Home Retail Group £0.5m & Selfridges £0.2m
- National Accounts growth up significantly with strong growth from The Hut and Clipper
- 3PL progress continues with DHL, Wincanton and Norbert Dentressangle
- Specialist sales teams for all these areas

Raw Material Movements

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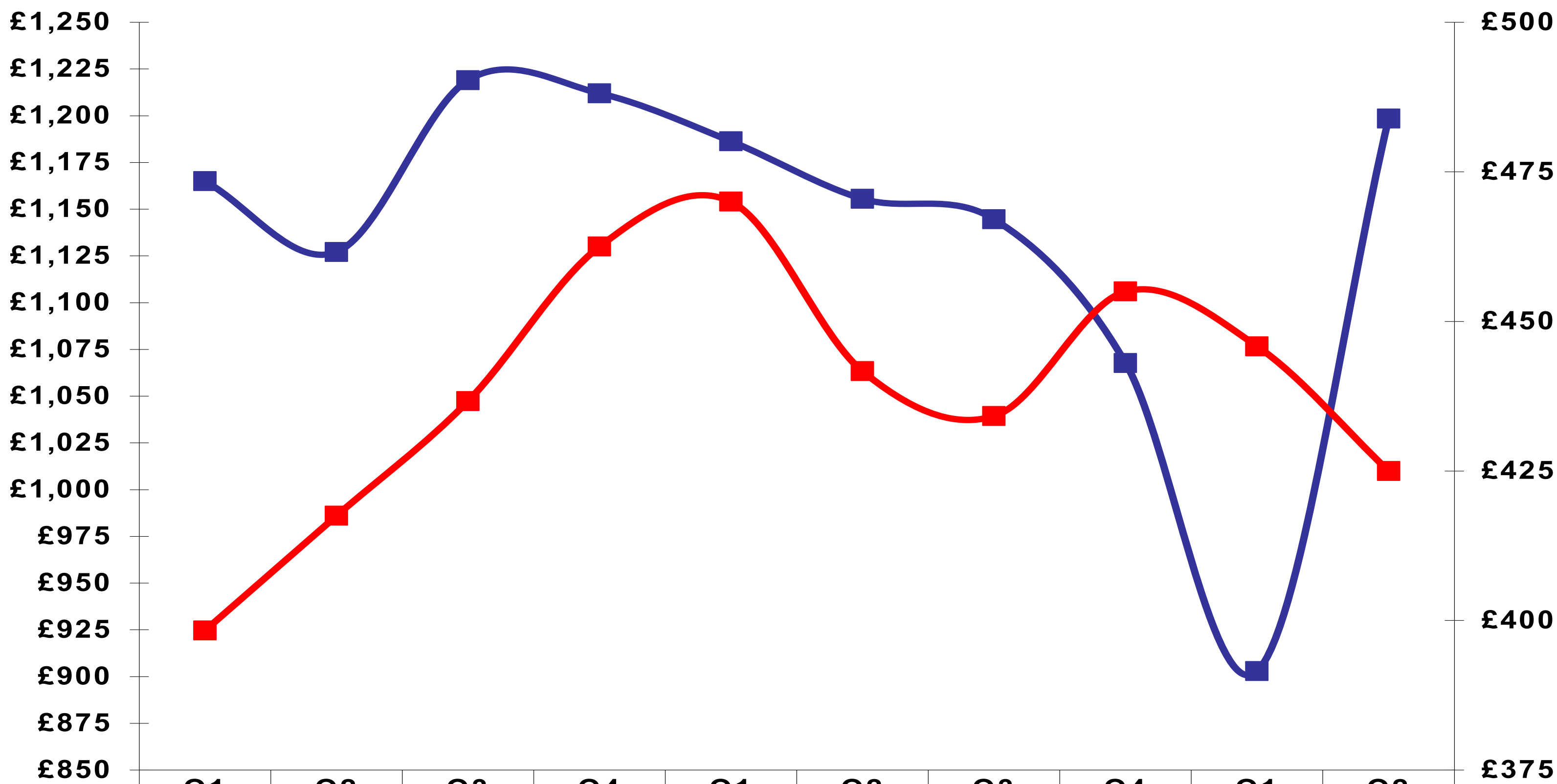

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Polymer £/tonne	£1,165	£1,127	£1,219	£1,212	£1,186	£1,156	£1,145	£1,068	£903	£1,198
Paper £/tonne	£398	£418	£437	£463	£470	£442	£434	£455	£446	£425

Macfarlane Design and Manufacture

MACFARLANE PACKAGING
DESIGN AND MANUFACTURE

£m	**H1 2015**	H1 2014	***H2 2014***
Revenue	**6.1**	6.2	***6.8***
Gross Margin	**38.4%**	38.9%	***42.5%***
Operating profit	**0.2**	0.2	***0.6***

- Strong new business pipeline will benefit H2 2015
- Focus on value-added products maintaining good margin
- Slower demand from export-driven customers
- Evaluating acquisition options

Macfarlane Labels

£m	**H1 2015**	H1 2014	***H2 2014***
Revenue	**9.6**	9.7	***8.8***
Operating Profit	**0.1**	0.0	***0.1***
SA/Reseal-it %	**65/35**	62/38	***59/41***
Net Margin	**1.0%**	0.0%	***1.1%***

- Reseal-it label sales up by 4%
- Resealable systems sales down 20% vs strong H1 2014
- Self-adhesive sales down by 3%
- Key self-adhesive customers losing market share
- Improving margin through production efficiencies, improved sourcing and selective price increases

Pension Scheme Deficit £m

	H1 2015	2014
Opening deficit	**(13.9)**	(15.9)
Ongoing accrual/Interest cost	**(0.2)**	(0.7)
Contributions	**1.5**	5.4
Bond yield ↑ 0.1% to 3.6% (2013 ↓1.0% to 3.5%)	**1.1**	(11.0)
Investment returns	**(0.9)**	9.2
Net effect of other assumptions	**0.3**	(0.9)
Closing deficit	**(12.1)**	(13.9)

Features

- Cost of continued reduction in bond yields
- Move into liability-driven investments in February 2014
- LDI/corporate bonds provided 70% hedge vs. liabilities
- One off contribution of £2.5m in 2014
- 1-May-14 actuarial valuation concluded - Deficit recovery plan 10 years
- Deficit recovery contributions reduced to £2.7m (£2.8m)

Pension Scheme details

Investments		H1 2015	2014
Growth assets			
Diversified Growth Funds		£25.5m	£18.5m
Equities		£16.9m	£15.9m
Matching assets			
UK Corporate Bonds/Gilts		£11.0m	£11.3m
Liability-driven investments		£13.8m	£22.2m
Cash		£ 0.8m	£ 0.1m
Total		£68.0m	£68.0m
Liabilities			
Active members	21 (22)	£ 5.6m	£ 6.0m
Deferred members	295 (300)	£33.0m	£33.9m
Pensioners	330 (330)	£41.5m	£41.9m
Total	645 (652)	£80.1m	£81.8m

Profitable Growth in Packaging Distribution

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Growth	Proposition	Capability
Internet Retail 3PL	Reduce total cost of packaging	Expertise, knowledge and customer referrals
National Accounts	Rationalise packaging supplier base to reduce costs	UK national network IT capability
Geographic expansion	Rationalise packaging supplier base to reduce costs	NovuPak Organisation
Acquisition	Regional infill leveraging existing network	Experience and case studies

Performance Improvement	Proposition	Capability
Sourcing	Reduce input prices	Leverage scale Strategic supplier base
Operations	Reduce property costs Reduce cost to serve	Streamline property footprint Logistics best practice

Profitable Growth in Manufacturing

Growth	Proposition	Capability
Aerospace, Medical, Electronics	Unique protection for high value, fragile Items	Leading-edge MOD approved Packaging Design, expertise
Re-sealable Labels	Ease of opening, food waste reduction and brand integrity	Proven Patented technology

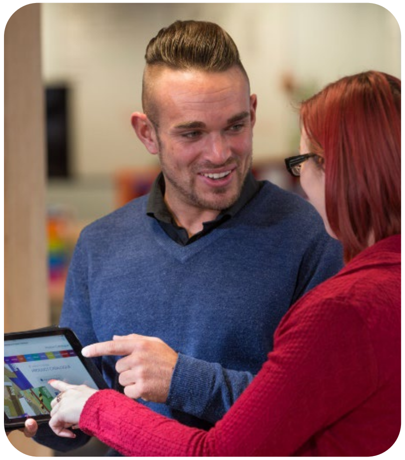
Performance Improvement	Proposition	Capability
Commercial Approach	Margin protection against volatile ordering patterns	Activity-based pricing
Operations	Improved operational efficiency	Selective investment and best practice focus

Acquisitions in Packaging Distribution

2014 acquisitions
- May-14 - Lane based in Reading, sales £3m
- Sep-14 - Network based in Wolverhampton sales £10m
- Prices of £1.4m and £7.5m respectively
- Earn-out mechanisms £0.2m and £2.5m within the price
- EBITDA multiple of 5.5 – 6.0

2015 acquisitions in H2
- Aug-15 – One, distributor based near Nottingham
- Sales £5m, 60% Industrial and 40% food-related
- Price of £2.7m
- Earn-out mechanism of £0.7m within the price
- EBITDA multiple of 5.0 - 5.5

Profile
- Acquiring between £3m and £10m turnover
- Fill geographic gaps
- Infill to increase utilisation levels at other sites
- EBITDA multiples relatively constant



Conclusions

- We are not assuming demand will significantly improve in the short term
- Trading agenda:
  - Distribution focus on identified growth opportunities – Internet Retail, 3PL and National Accounts
  - Manufacturing focus on higher added value products and services
  - Ongoing focus on cost reduction
- Further acquisitions being targeted
- Balance sheet agenda:
  - Implement additional pension deficit reduction actions
  - Focus on cash generation
- Bank facilities of £20m provide additional resources to accelerate growth of the business

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