MACFARLANE GROUP

2020 Results

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Executive Summary

Profit before Tax	2020	2019 Restated*
	£13.0m	£11.9m

- Group sales £230m, 2% growth on 2019
- Profit before tax £13.0m, 10% growth on 2019
- Distribution sales growth of 3% and PBIT growth of 13% reflects resilient demand from customers, the benefit of 2019/20 acquisitions and strong gross margins
- Manufacturing Operations sales reduced by 1%, PBIT declined 65% with solid performance in Labels offset by weaker Design and Manufacture
- Pension deficit has reduced by £5.0m to £1.5m and reduced contributions agreed from May 2021
- Net bank debt £0.5m, versus £12.7m in 2019; £30m borrowing facility extended to 31 December 2025
- One further acquisition within Packaging Distribution in 2020
- Final dividend proposed of 1.85p per share payable 3 June 2021, with a register date 14 May 21

* 2019 restated to reflect the rectification of backdated duty on export transactions(previously 2019 Profit before Tax : £12.0m)

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Managing Covid-19 in 2020

Supporting Customers

- All Macfarlane sites remained operational throughout 2020
- Some sectors performed well-
    - E-commerce retail
    - Medical
    - Food
    - Hygiene
    - Household Essentials
- Certain sectors materially impacted
    - Automotive
    - Aerospace
    - Hospitality
- Higher bad debts than normal
- Increasing trend to electronic ordering
- Regular communication
- NPS 53 vs 51 in 2019

Prioritisation of Employee Health, Safety & Wellbeing

- All sites continued to operate through lockdowns
- Strict social distancing and hygiene measures in place at all locations
- Testing kits made available
- c250 staff working from home supported by additional technology
- Regular communication/motivation programmes
- 2020 Incentive Awards

Liquidity Actively Managed

- Net debt at 31 December 2020 was £0.5m, £12.2m below 2019 debt
- Reduction of working capital, cancellation of 2019 final dividend, pause in acquisition activity and control of capital expenditure
- Government support programmes- VAT/PAYE deferral £4.1m and CJRS £1.3m fully utilised
- All government support fully repaid in August 2020

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Financial Summary – 2020

Revenue and profit	Revenue ▲ 2%	Profit before tax ▲ 10%	EBITDA ▲ 7%
Returns and balance sheet	Pre-tax ROCE ► 18%	Bank debt ▼ £0.5m	Pension deficit ▼ £1.5m
EPS and dividend	Diluted EPS ▲ 6%	Dividend cover ► 2.5x	Dividend per share ▲ 2.55p

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Results £m

	2020	2019 Restated*	2018 Restated*
Sales	**230.0**	225.2	*217.1*
Gross Profit	**33.3% 76.5**	32.0% 72.0	*30.5% 66.3*
Overheads exc. DA	**51.1**	48.3	*51.0*
Operating profit before DA	**25.4**	23.7	*15.3*
Depreciation/amortisation	**11.0**	10.2	*3.8*
Operating profit	**14.4**	13.5	*11.5*
Interest	**1.4**	1.6	*0.8*
Profit before tax	**13.0**	11.9	*10.7*
Diluted EPS	**6.42p**	6.07p	*5.47p*
Dividend	**2.55p**	0.69p(1)	*2.30p*
Dividend cover	**2.5**	8.8	*2.4*

Note: 2020/2019 adjusted for IFRS 16

* 2019 restated to reflect the rectification of backdated customs duties on export business in the Manufacturing Operations (previously 2019 Profit before Tax : £12.0m; 2018 Profit before Tax £10.9m)

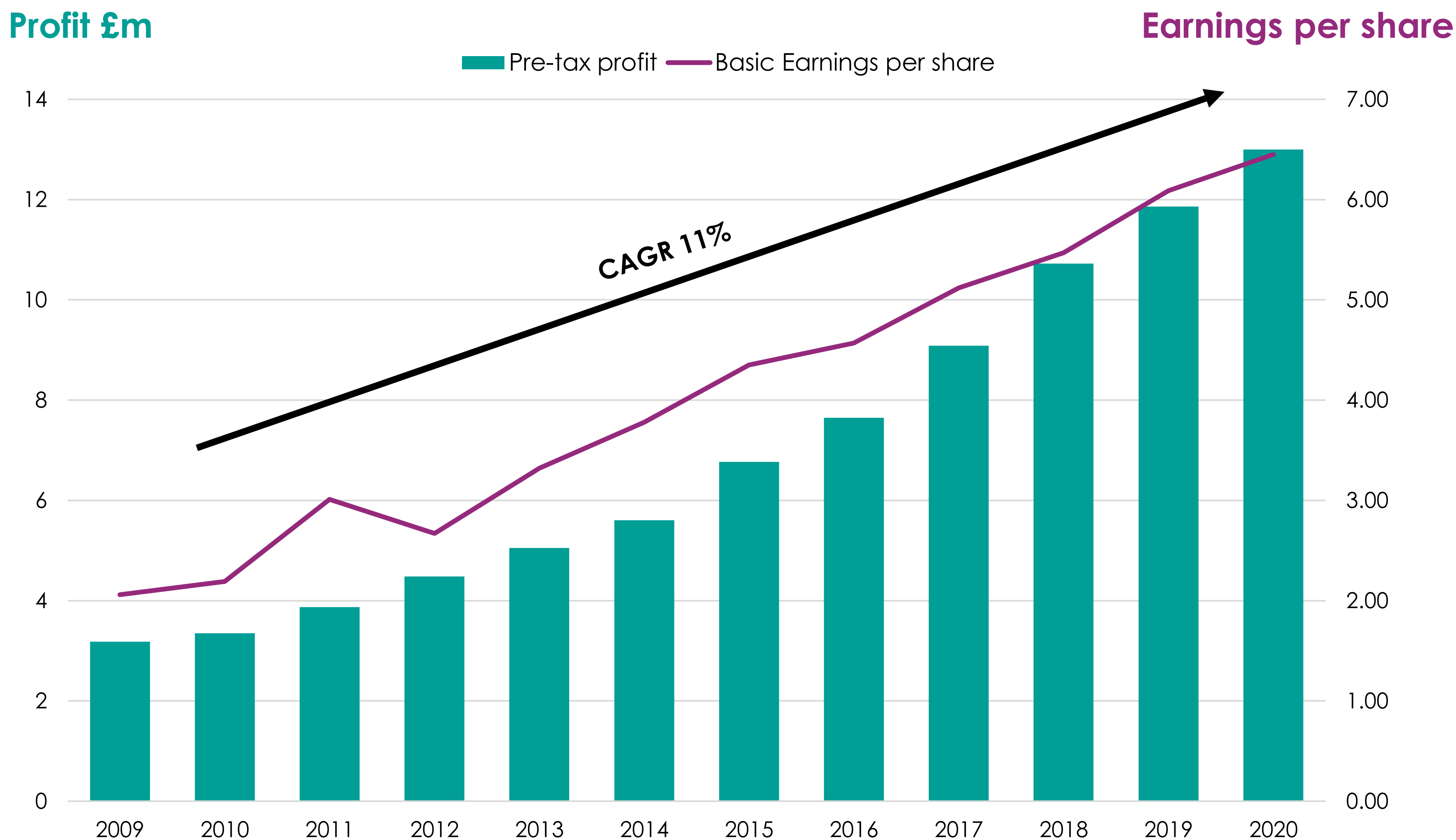
(1) 2019 final dividend of 1.76p cancelled

Cash Flow £m

	2020	2019 Restated*	*2018 Restated**
EBIT	**14.3**	13.5	*11.5*
DA	**11.0**	10.2	*3.8*
EBITDA	**25.3**	23.7	*15.3*
Working Capital	**4.1**	2.7	*1.6*
Lease Obligations	**(6.7)**	(6.7)	-
Interest	**(1.2)**	(1.4)	*(0.5)*
Acquisitions	**(2.7)**	(6.2)	*(5.6)*
Tax	**(1.7)**	(2.3)	*(1.9)*
Capital expenditure	**(0.8)**	(2.6)	*(1.4)*
Pension	**(3.0)**	(3.0)	*(2.7)*
Dividend	**(1.1)**	(3.7)	*(3.4)*
Movement in bank debt	**12.2**	0.5	*1.4*

Note: 2020/2019 adjusted for IFRS 16
* EBIT and working capital restated, no impact on movement in bank debt

Profit Progression



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Packaging Distribution

£m	2020	2019
Revenue	**201.7**	196.7
Gross margin	**32.5%**	31.1%
Overheads	**51.6**	48.8
Operating Profit	**14.0**	12.4
OP Margin	**6.9%**	6.3%
Net Promoter Score	**53**	50

- Sales increase of 2.6% versus 2019, driven by e-commerce retail
- New business growth of £11.3m, 10% below 2019, due to impact of Covid-19 on selling activity
- Gross margin reflects effective management of lower input pricing on paper and polymer based products
- Majority of overhead increase is acquisition-related and provisioning for working capital and end of lease property dilapidations

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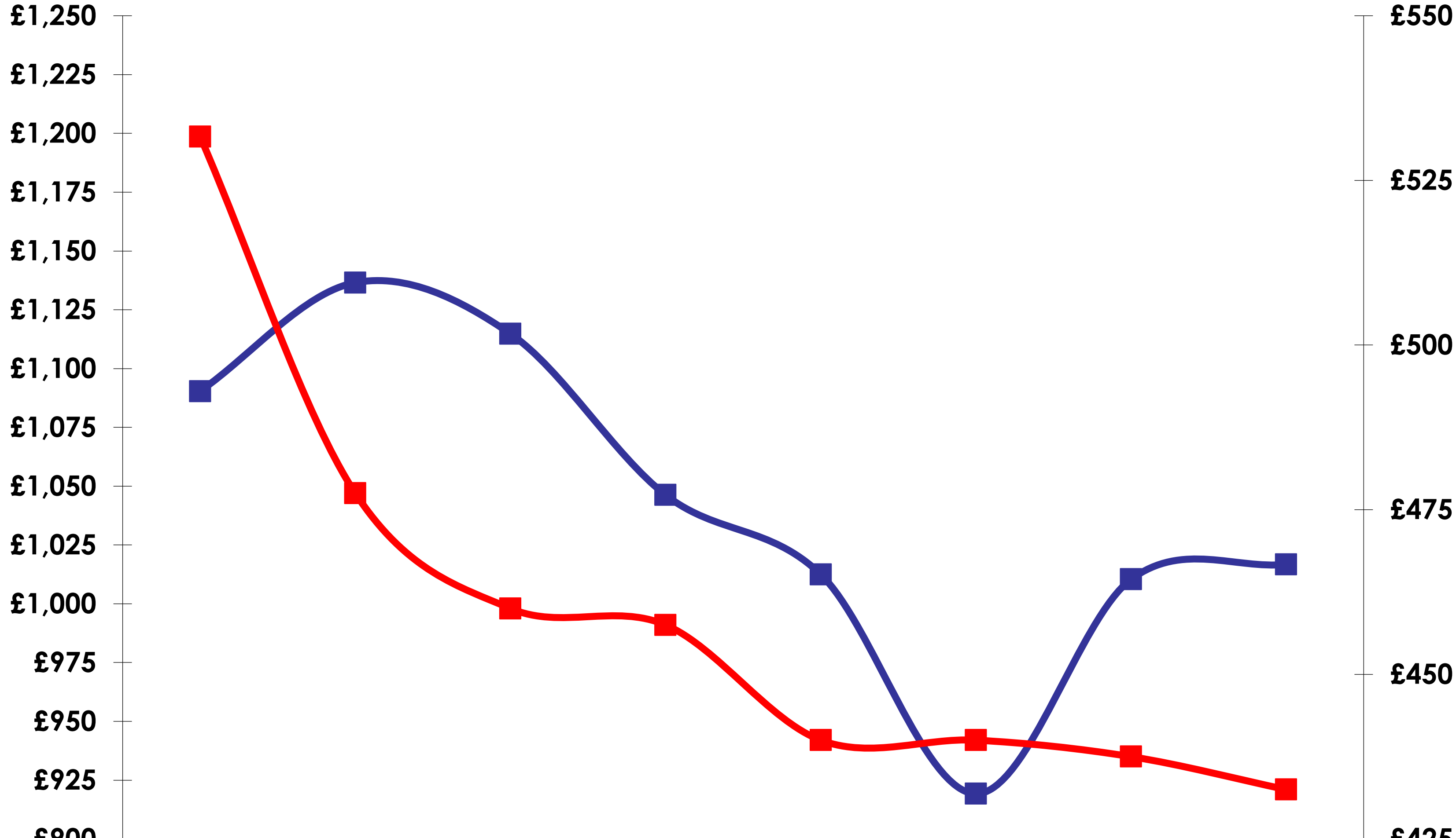
Packaging Distribution – Raw Material Movements



	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Polymer £/tonne	£1,090	£1,137	£1,115	£1,046	£1,013	£919	£1,010	£1,017
Paper £/tonne	£532	£478	£460	£458	£440	£440	£438	£433

Packaging Distribution

- Strong demand from e-commerce, household and medical sectors
- Weaker demand from automotive, high street retail and hospitality sectors
- Retail c28% (2019 c23%) of Distribution revenue as growing trend for on line purchasing
- Key new customer wins – Halfords, Missoma, Mountain Warehouse
- Further acquisitions being progressed with likely completion in H1 2021
- European "Follow the Customer" programme progressing with J&J, Farnell, Scholle, Flowtech

Packaging Distribution – Organic Growth

The Significant Six Approach

Reduce damage rate	Improve the speed of packing
Reduce logistics costs	Increase customer loyalty
Reduce storage costs	Reduce admin costs

Supported by our **Innovation Lab**

Recent **Customer wins**

Dunelm

hobbycraft

IKEA

halfords

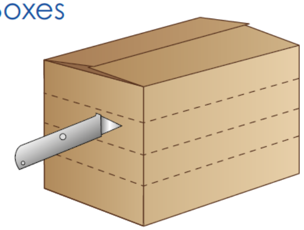
THE BODY SHOP

Environmental Action Plan

- We support our customers to make an "informed choice" about the packaging they use to reduce their environmental impact
- As a distributor we are ideally placed to provide that "informed choice"
- Key actions…………

Launched an Environmental Impact Rating providing clear visibility of the environmental credentials of our products

Double Wall Boxes



Trained our sales teams to support our customers to reduce material usage and waste

Expanded our range of packaging that is recyclable and made with recycled content

Over 80% of our product families are **recyclable**

Over 70% of our product families are made with some **recycled content**

** Based on weight of product families sold in 2019

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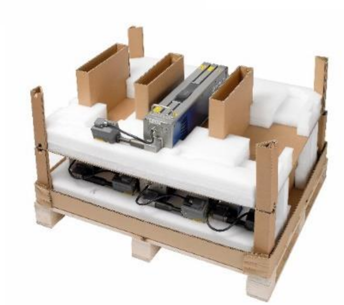
Packaging Distribution – Acquisitions 2014 to 2020

Acquisition	Location	Sales	EBITDA multiple	Placing price	Integrated
lane packaging	Reading	£3m	5-6 x	N/A	✓
Network Packaging	Wolverhampton	£9m	5-6 x	Sep-14 **37.5p**	✓
One Packaging	Bingham	£5m	5 x	N/A	✓
Colton Packaging Teesside	Teesside	£3m	5 x	N/A	✓
Edward McNeil Ltd	Glasgow	£3m	5 x	N/A	✓
Nelsons for Cartons & Packaging	Leicester	£9m	5-6 x	Jul-16 **58.0p**	SRP 2023 earliest
www.boxesdirect.co.uk	Nottingham	£15m	5 x	Sep-17 **66.0p**	H1 2022
Tyler Packaging Leicester Ltd	Leicester	£2.5m	5 x	N/A	✓
Harrison's Packaging Ltd	Leyland	£3.5m	5 x	N/A	H2 2021
ECOPAC	Aylesbury	£6.5m	6 x	N/A	H1 2022
Leyland Packaging Co. Ltd.	Leyland	£4.0m	5 x	N/A	H2 2021
Armagrip Industrial Supplies	Durham	£1.5m	5 x	N/A	✓

Macfarlane Design and Manufacture

MACFARLANE PACKAGING
DESIGN AND MANUFACTURE

£m	2020	2019 Restated
Revenue	**11.2**	13.5
Gross Margin	**38.0%**	38.1%
Operating (loss)/profit	**(0.2)**	0.6
Sales to Distribution	**24%**	21%



- Weak demand from aerospace and automotive sectors will take some time to recover
- New business development re-focused on growth sectors- medical, electronics and defence
- Partnership with Distribution strengthened
- Actions taken in H2 2020 to realign cost base to lower level of sales activity, profitable in Q4

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Macfarlane Labels

£m	2020	2019 Restated
Revenue	**19.8**	17.9
Gross margin	**33.9%**	31.8%
Operating Profit	**0.6**	0.5
Self-Ad/Reseal-it %	**52/48**	51/49

- Re-sealable labels revenue 18% ahead of 2019
- Self-adhesive label sales up 4% versus 2019
- Strong demand from household essentials and hygiene sectors
- Higher transport costs to overseas customers
- Investment in new printing press in Kilmarnock will further improve margins in 2021

Pension Scheme Deficit £m

	2020	2019
Opening deficit	**(6.5)**	(9.8)
Ongoing accrual/Interest cost	**(0.2)**	(0.3)
GMP equalisation	**(0.1)**	-
Contributions	**3.2**	3.1
Bond yield ↓ 0.65% to 1.35% (2019 ↓ 0.8%)	**(10.5)**	(12.1)
Investment returns	**10.7**	11.1
Net effect of other assumptions	**1.9**	1.5
Closing deficit	**(1.5)**	(6.5)

- Reduction in bond yields costs offset by LDIs
- LDI provided > 85% hedge vs. interest liabilities
- Other assumptions benefit from updated mortality tables
- Deficit recovery contributions for 2020 £3.2m (inc. ongoing costs £0.4m)
- Triennial actuarial valuation 1-May-20 complete with pension deficit contributions reducing from £3.0m per annum to £1.3m per annum from H2 2021 until 2024.

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Pension Scheme Details £m

Investments		**2020**	2019
Growth assets			
Diversified Growth Funds		**31.6**	25.4
Equities		**22.9**	22.1
European Loan Fund		**6.5**	6.4
Long-term Property Fund		**6.3**	6.2
Matching assets			
Liability-driven Investments		**31.4**	27.7
Cash		**0.7**	0.3
Total investments		**99.4**	88.1
Liabilities	Members		
Active members	**14** (15)	**5.7**	5.5
Deferred members	**183** (201)	**32.6**	33.2
Pensioners	**373** (365)	**62.6**	55.9
Total liabilities	**570** (581)	**100.9**	94.6

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Profitable Growth in Packaging Distribution

Growth	Proposition	Capability
Retail	Reduce total cost of packaging and improve sustainability	Expertise, 3PL partnerships and customer referrals
Industrial	Rationalise packaging supplier base to reduce costs and improve sustainability	UK national network IT capability
Geographic expansion	Rationalise packaging supplier base to reduce costs	"Follow the Customer" programme
Acquisition	Regional infill leveraging existing network	Experience and case studies

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

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Profitable Growth in Manufacturing

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

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

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Conclusions

- **Resilient performance in 2020** despite the impact of Covid-19
- **2021 has started well**
- **Trading Agenda**:
  - Use "Significant Six" Programme to add value for customers and drive **organic growth** in key market segments – E-Commerce Retail, National Accounts, 3PL
  - Management of **inflation in input prices**
  - Actions in place for **cost reduction** through site consolidation and integration
  - Manufacturing focus on **operational efficiency** and **sales focus on sustainable growth sectors**
  - Pipeline of further acquisition targets now being pursued for 2021
- **Balance Sheet Agenda**:
  - Lower **pension deficit contributions from H2 2021**
  - Continued focus on cash generation - **working capital efficiency**
- **Bank facilities in place until December 2025** 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