MACFARLANE GROUP

24 February 2022

MACFARLANE GROUP PLC

("MACFARLANE GROUP", "THE COMPANY", "THE GROUP")

ANNUAL RESULTS 2021

Strong growth delivers results ahead of market expectations.

Financial Highlights	**2021 £000**	**Restated[1] 2020 £000**	**Increase %**
Continuing operations			
Revenue	264,465	210,227	26%
Operating profit before amortisation[2]	23,366	16,179	44%
Operating profit	20,055	13,659	47%
Profit before tax	18,665	12,433	50%
Continuing and discontinued[1] operations			
Profit for the year	12,598	10,171	24%
Proposed full year dividend	3.20p	2.55p	25%
Basic earnings per share	7.98p	6.45p	24%

I am pleased to report that Macfarlane Group has performed strongly in the year ended 31 December 2021. Our results are well ahead of the previous year and better than market expectations.

In the face of challenging market conditions our team has shown great commitment and dedication in servicing our customers and the Board wishes to place on record its thanks for their outstanding performance in helping the Group to continue its positive progress.

The **key highlights** of 2021 are set out below:

- Sales from continuing operations[1] grew by 26% versus 2020 to £264.5m.
- Operating profit at £20.1m and operating profit before amortisation[2] at £23.4m, both from continuing operations, increased by 47% and 44% respectively.
- Profit for the year of £12.6m increased £2.4m or 24% compared to 2020.
- Basic and diluted earnings per share were 7.98p per share (2020: 6.45p per share) and 7.90p per share (2020: 6.42p per share) respectively.
- Packaging Distribution achieved strong growth in sales and an improvement in operating profit before amortisation of 19% versus 2020.
- Manufacturing Operations delivered an encouraging recovery versus 2020 in both sales and operating profit before amortisation.
- GWP Holdings Limited ("GWP") and Carters Packaging (Cornwall) Limited ("Carters Packaging"), which were acquired in February and March 2021 respectively, have performed well.
- The Group sold its Labels[3] division in December 2021. Labels generated a loss before tax of £0.9m (2020: Profit of £0.6m) after charging goodwill impairment of £1.0m and costs of disposal of £0.3m. Labels has been treated as a discontinued operation in the year.
- Net cash inflow from operating activities of £23.8m (2020: £23.3m) reflects increased activity and continuing good management of working capital.
- Net bank funds[4] on 31 December 2021 was £2.5m, an increase of £3.0m from 31 December 2020, including £12.2m of investment in the acquisition of GWP and Carters Packaging and £5.2m[5] of net proceeds from the sale of Labels. The Group is operating well within its existing bank facility of £30.0m which runs until 31 December 2025.
- Pension scheme surplus of £8.3m at 31 December 2021 (31 December 2020 deficit of £1.5m). The improvement is due to continued contributions from Macfarlane Group, an increase in the discount rate and growth in investments during the year.
- The Board is proposing a final dividend of 2.33p per share (2020: 1.85p per share) which would take the total dividend for 2021 to 3.20p per share (2020: 2.55p per share) up 25% on 2020.

Trading

Macfarlane Group achieved good sales growth from continuing operations in 2021, benefiting from the ongoing structural shift to e-commerce retail, the recovery in certain industrial sectors which had been affected by Covid-19 in 2020 and the acquisitions of GWP and Carters Packaging. Despite ongoing difficult operating conditions due to Covid-19, significant inflationary pressure on input costs and supply shortages of some materials, the business has produced a strong profit performance.

Packaging Distribution has grown sales through strong demand from existing customers in the e-commerce retail and medical sectors and recovery in a number of industrial sectors. However, demand from the aerospace, high street retail and hospitality sectors has not yet recovered to pre-pandemic levels. New business activity has increased significantly compared with 2020 and Carters Packaging has traded well since its acquisition in March 2021.

Manufacturing Operations has benefited from the acquisition of GWP, which is performing ahead of expectations, and a strong recovery in the Packaging Design and Manufacture business which returned to profit following the restructuring actions that we took in H2 2020. The development of the partnership with our Packaging Distribution business has played a key part in the recovery of the Manufacturing Operations in 2021.

The Group sold its Labels business on 31 December 2021 to The Reflex Group Limited, a well-established, privately owned UK company focused on the manufacture of labels and flexible packaging. We believe the sale gives the best opportunity for the Labels business to develop and allows the Group to focus its resources on accelerating the growth of our protective packaging distribution and manufacturing businesses.

Our effective management of operating cash in 2021 has enabled the business to finance two good quality acquisitions through our existing bank facility. The sale of Labels provides the Group with additional cash resources to invest in the further development of the protective packaging businesses.

The pension scheme was in surplus at 31 December 2021 of £8.3m (2020: deficit £1.5m).

Covid-19 Response

Throughout 2021, the Covid-19 pandemic has continued to impact the Group and has presented significant challenges to the operations of the businesses. However, in supporting our customers we have continually adapted to the changing government guidance to ensure we provide a safe workplace for our teams with particular focus on their health and well-being.

Environment, Social and Governance ("ESG")

The Board has always recognised the importance of ensuring ESG is prioritised within the business and ESG is now a standing item on the Board agenda. A comprehensive ESG action plan has been approved by the Board which will clearly demonstrate our commitment to sustainability, effective customer, employee, supplier and community engagement and governance.

In September 2021 Andrea Dunstan, the Chair of the Remuneration Committee, retired from the Board and after an extensive search process we welcomed Aleen Gulvanessian as a new non-Executive director to the Board in October 2021. Aleen, who is the new Chair of the Remuneration Committee, has a strong governance background and brings extensive commercial and legal experience to the business.

In 2022 I will enter my 10th year of service on the Macfarlane Group Board and as such cease to be seen as independent under the Corporate Governance code. I have therefore given the Board notice of my intention to stand down this year once a new Chair has been identified and a smooth transition ensured. Plans for my succession are well advanced.

Proposed Dividend

The Board is proposing a final dividend of 2.33 pence per share, amounting to a full year dividend of 3.20 pence per share, compared to the prior year dividend of 2.55 pence per share. Subject to the approval of shareholders at the Annual General Meeting on Tuesday 10 May 2022, the final dividend will be paid on Thursday 2 June 2022 to those shareholders on the register at Friday 13 May 2022.

Outlook

We anticipate that 2022 will see ongoing inflationary pressure on input prices, continuing supply constraints on most raw materials and operating costs increasing due to staffing pressures. However, despite these challenges, trading in the early months has been encouraging and the Board is confident that, given the effectiveness of our strategy, the resilience of our business model and the experience and commitment of our people, Macfarlane Group will continue to deliver further growth in 2022.

Lord Macfarlane of Bearsden

It was with great sadness that we learned of the passing of our founder Lord Macfarlane of Bearsden in November last year. Lord Macfarlane was the driving force in building the Macfarlane Group between 1949 and 1999 when, as Chairman, he retired from the Board. Since then, he was a constant supportive presence and he is greatly missed.

(1) In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.
(2) See page 21 for reconciliation of Alternative Performance Measure operating profit before amortisation to operating profit.
(3) Macfarlane Labels Limited and its subsidiaries, Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively "Labels").
(4) Alternative Performance Measure as defined in note 10.
(5) Gross proceeds of £6.1m offset by £0.6m of cash retained within Labels at completion and £0.3m costs of disposal.

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Legal Entity Identifier (LEI): 213800LVRYDERSJAAZ73

Notes to Editors:

- Macfarlane Group PLC has been listed on the Premium segment of the Main Market of the London Stock Exchange (LSE: MACF) since 1973 with over 70 years' experience in the UK packaging industry.
- Through its two divisions Macfarlane Group services a broad range of business customers, supplying them high quality protective packaging which help customers reduce supply chain costs, improve their operational efficiencies and enhance their brand presentation. The divisions are:
  - **Packaging Distribution** – **Macfarlane Packaging Distribution** is the leading UK distributor of a comprehensive range of protective packaging products; and
  - **Manufacturing Operations - Macfarlane Design and Manufacture** who design and produce protective packaging for high value and fragile products.
- Headquartered in Glasgow, Scotland, Macfarlane Group employs over 900 people at 36 sites, principally in the UK, as well as in Ireland and the Netherlands.
- Macfarlane Group supplies more than 20,000 customers principally in the UK and Europe.
- In partnership with 1,700 suppliers, Macfarlane Group distributes and manufactures 600,000+ lines across a wide range of sectors, including: retail e-commerce; consumer goods; food; logistics; mail order; electronics; defence, automotive and aerospace.

BUSINESS REVIEW

Packaging Distribution is the UK's leading specialist distributor of protective packaging materials. Macfarlane operates a stock and serve supply model from 27 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 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 market focus, expertise and a breadth of product and service knowledge, all of which enables it to compete effectively against non-specialist packaging distributors.

Packaging Distribution 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. Through the "Significant Six" sales approach we reduce our customers' Total Cost of Packaging and their carbon footprint. This is achieved through supplying sustainable packaging solutions, optimising warehousing and transportation, reducing damages and returns and improving packaging efficiency.

Packaging Distribution	**2021 £000**	2020 £000	**2021 Growth**
Revenue	**239,508**	201,739	**19%**
Cost of sales	**161,896**	136,177	
Gross margin	**77,612**	65,562	**18%**
Operating expenses	**57,915**	49,054	**18%**
Operating profit before amortisation	**19,697**	16,508	**19%**
Amortisation	**2,642**	2,520	
Operating Profit	**17,055**	13,988	**22%**

Packaging Distribution grew sales by 19% in 2021 due to continued strong demand from customers in the e-commerce and medical sectors and some recovery in the home & garden, automotive and electronics sectors which were adversely impacted by Covid-19 in 2020. Sales to e-commerce retail companies in 2021 represented 30% of sales (2020: 28%).

We grew new business by 9% in 2021 due primarily to the impact of Covid-19 restrictions on 2020 performance. However, this performance compares favourably to the performance in 2019 pre Covid-19. Our customers increasingly see the benefits of transacting with us online and this has resulted in a growth in activity through our website: shop.macfarlanepackaging.com and through our Simplicit-e electronic trading platform. In 2021, 44% of our customers managed their transactions with us online.

The business has experienced significant increases in input prices in all product categories throughout 2021. Against this backdrop, the gross margin in Packaging Distribution has held up well at 32.4% (2020: 32.5%), through our effectiveness in working with our customers to manage these input price changes.

We continued to deliver the benefits from acquiring high quality packaging distribution businesses and in March 2021 we completed the acquisition of Carters Packaging based in Redruth, Cornwall.

During 2021 we made steady progress in extending our service into Europe to support a number of our pan-European customers. Through the Group's subsidiary company, based in the Netherlands, sales exited 2021 on an annual run-rate of c£5m with sales in 2021 of £2.3m (2020: £1.1m).

There were several factors behind the increase in operating expenses, the most significant being the impact of the acquisition, dilapidation costs related to the North West of England property consolidation planned for 2022 (see Future below), increased volumes of business, an increase in labour costs driven by wage inflation and higher level of incentive payments to reward employees for the strong performance of the business in 2021.

BUSINESS REVIEW

Packaging Distribution's operating profit at £17.1m grew 22% vs 2020 reflecting a 7.1% (2020: 6.9%) return on sales.

Future

Our plans for 2022 are focused on continuing to grow sales and improving profitability through the following actions:

- Prioritise engagement with potential new customers in stable and growing sectors such as e-commerce retail, medical, scientific, and third-party logistics;
- Effectively manage the significant input price increases and supply shortages being experienced across all product categories;
- Launch our new "Packaging Optimiser" to allow our sales teams to better demonstrate our ability to add value for customers through our "Significant Six" sales approach;
- Improve our engagement with existing and new customers with the introduction of Microsoft Dynamics as our new Customer Relationship Management platform;
- Refine and extend our product range to ensure we continue to offer our customers sustainable packaging solutions that reduce their carbon footprint;
- Introduce improvements to our web-based solutions to allow customers access to our full range of products and services more easily;
- Accelerate the progress we have made in our "Follow the Customer" programme in Europe;
- Reduce operating costs through efficiency programmes in sales, logistics and administration;
- Implement our first major site consolidation with the relocation of our Wigan and Manchester RDCs to a new site at Middleton, north of Manchester;
- Maintain the focus on working capital management to facilitate future investment and manage effectively the ongoing bad debt risk within the current economic environment; and
- Supplement organic growth through progressing further high-quality acquisitions.

Manufacturing Operations comprises our Packaging Design and Manufacture business and GWP, acquired in February 2021. The Labels division included in Manufacturing Operations in 2020 was sold in December 2021 and has been classified as a discontinued operation (see below).

Manufacturing Operations designs, manufactures, assembles and distributes bespoke 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 businesses operate from four manufacturing sites, in Grantham, Westbury, Swindon and Salisbury, supplying both directly to customers and through the national RDC network of the Packaging Distribution business.

Key market sectors are defence, aerospace, medical equipment, electronics, automotive, e-commerce retail and household equipment. The markets we serve 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.

Manufacturing Operations		Restated*	
	2021	2020	**2021**
	£000	£000	**Growth**
Revenue	**24,957**	8,488	**194%**
Cost of sales	**13,102**	4,223	
Gross margin	**11,855**	4,265	**178%**
Operating expenses	**8,186**	4,594	**78%**
Operating profit/(loss) before amortisation	**3,669**	(329)	
Amortisation	**669**	-	
Operating profit/(loss)	**3,000**	(329)	

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

BUSINESS REVIEW

Manufacturing Operations sales increased by 194% in 2021, including organic growth of 16% (£1.4m) following a strong recovery in the automotive and defence sectors supplemented by £15.1m of sales through the acquisition of GWP. Combining the benefit of the acquisition of GWP with effective management of the gross margin in the face of significant input price increases, and control of overheads, operating profit before amortisation in 2021 is significantly ahead of the same period in 2020.

Future

Priorities for Manufacturing Operations in 2022 are to:

- Focus the sales team on new business growth in target sectors e.g. medical and defence;
- Prioritise new sales activity on our higher added-value bespoke composite pack product range;
- Effectively manage the significant material price increases being experienced across all product categories to minimise the impact on gross margins;
- Continue to strengthen the relationship with our Packaging Distribution businesses to create both sales and cost synergies;
- Commence the process of GWP working more closely with the Macfarlane Packaging Design and Manufacture and Packaging Distribution businesses.

Discontinued Operations

On 31 December 2021, the Group sold its Labels businesses to Reflex for £6.3m. Labels realised a loss before tax of £0.9m in 2021 (2020: profit before tax £0.6m), after charging costs of disposal of £0.3m and goodwill impairment of £1.0m. Labels grew sales in 2021 by 7% but operating profit reduced by £0.3m due primarily to higher costs of serving customers outside the UK and lower gross margins impacted by higher input costs.

Labels has been a long-standing part of the Macfarlane Group but being part of Reflex, which is a £135m revenue business focused on the manufacturing of labels and flexible packaging, offers the best opportunity for Labels' future development. The proceeds from the sale will be strategically invested in the continuing growth of the Group's protective packaging businesses.

Group

The Group has performed well in the face of extremely challenging market conditions with the ongoing impact of the Covid-19 pandemic, significant increases in input prices and supply shortages of some raw materials. Despite these challenges the Group financial performance from continuing operations in 2021 has been resilient, with sales growth of 26% and an operating profit 47% ahead of 2020.

Group performance	**Revenue**	**Operating profit before amortisation**	**Operating profit**	Restated * Revenue	Restated * Operating profit/(loss) before amortisation	Restated * Operating profit/(loss)
	2021	**2021**	**2021**	2020	2020	2020
	£000	**£000**	**£000**	£000	£000	£000
Segment						
Packaging Distribution	**239,508**	**19,697**	**17,055**	201,739	16,508	13,988
Manufacturing Operations	**24,957**	**3,669**	**3,000**	8,488	(329)	(329)
Continuing operations	**264,465**	**23,366**	**20,055**	210,227	16,179	13,659
% of Revenue		**8.8%**	**7.6%**		7.7%	6.5%
Discontinued operations	**21,220**	**372**	**372**	19,802	710	710
Group Total	**285,685**	**23,738**	**20,427**	230,029	16,889	14,369

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

BUSINESS REVIEW

2022 Outlook

The Group has demonstrated in 2021 that it can deliver a strong financial performance despite challenging market conditions and the impact of Covid-19. With the sale of Labels, the Group is focused on the strategic growth of its protective packaging businesses in the UK and Northern Europe.

The Group's businesses all have strong market positions with low customer concentration and differentiated product and service offerings which give both value and sustainability to our customers. We have a flexible business model and proven effective implementation of our strategic plan, which is reflected in consistent profit and cash generation over a sustained period.

Our future performance continues to depend on our effectiveness in growing sales, increasing efficiencies and bringing high quality acquisitions into the Group. Whilst we have experienced significant challenges in 2021, and there remain uncertainties ahead, our strategy and business model have proved to be resilient. We expect to deliver further growth in sales and profit in 2022.

BUSINESS REVIEW

RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group and the 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.

We continue to evolve our risk management processes to ensure they are robust, effective and integrated within our decision-making processes. We have included a brief description of how we assess that each risk level has changed. For risks shown as [🡐 🡒] the risk level is broadly similar between 2021 and 2020. If the risk is shown as [🡑 🡓] the risk level has increased or decreased respectively during 2021 and is being addressed accordingly through mitigating actions by management.

The business has added Environmental Change as a new risk in 2021. This reflects the changing nature of the markets the Group operates in, with increased expectations from our stakeholders regarding how the Group mitigates the effect of its operations on the environment and responds to wider environmental concerns.

The business has also experienced continued impact from the Covid-19 pandemic and Brexit during 2021.

Response to Covid-19 pandemic ("Covid-19")

The Group continues to respond to Covid-19 with the focus being on the safety and wellbeing of our people, protecting our financial position and limiting the interruption of service to our customers. Covid-19 was not classified as a separate principal risk due to its pervasive effect across all the principal risks and uncertainties. These uncertainties will remain for some time and to date the Group has adapted well to the constantly changing conditions.

Response to Brexit

The new trading arrangement between the UK and the EU came into effect on 1 January 2021. Whilst there has been some disruption to the supply chain and an increased administration burden, the impact on the Group has not been significant - largely due to mitigation measures put in place. We continue to monitor the impact of ongoing negotiations over the Northern Ireland protocol and the full implementation of customs checks at ports which came into effect from January 2022.

Risk Description	Mitigating Factors	Change in Risk Level
Strategic changes in the market Failure to respond to strategic shifts in the market, including the impact of weaknesses in the economy as well as disruptive behaviour from competitors and changing customer needs (e.g. the move towards online retail) could limit the Group's ability to continue to grow revenues. We monitor this through Net Promoter Score, an annual customer satisfaction survey and interaction with customers at our Innovation Lab.	The Group has a well-diversified customer base giving protection from changes in specific industry sectors as well as a flexible business model with a strong value proposition to meet the changing needs of customers. The Group strives to maintain high service levels for customers ensuring that customer needs are met. The Group continues to invest in electronic trading platforms to further enhance its service offering. The Group maintains strong partnerships with key suppliers to ensure that a broad range of products is available to respond to customers' requirements, including any changes in their environmental and sustainability priorities.	No change 🡐 🡒 The Group's supply chain in 2021 has been stressed due to strong market demand for packaging resulting in a shortage of certain products and extended lead times from suppliers. With the support of strategic partners the Group has continued to provide a good service to its customers in challenging circumstances. We expect these supply chain difficulties to continue into 2022. During 2021 the Group has made a significant investment in a new Customer Relationship Management system to support customer service teams in managing the complex and changing needs of our customers in an increasingly competitive environment. The full benefit of this investment is expected to be realised from 2022 onwards.

Risk Description	Mitigating Factors	Change in Risk Level
Impact of environmental changes Customers are increasingly focused on the environmental impacts of packaging, changing their buying behaviours in response to climate and sustainability concerns. Investors are looking to invest in companies that demonstrate strong Environmental, Social and Governance (ESG) credentials. There is increasing regulatory focus around reporting disclosures and new requirements, such as the Plastic Tax being introduced from April 2022. If the Group is not proactive and transparent in how it is responding to environmental changes, this could lead to a loss of employees, customers and investors. The key measure the Group monitors is Scope 1 and 2 CO2 emissions.	The Group has implemented an ESG working group to examine specifically how we can reduce our impact on the environment. The working Group is focused on the measuring the CO2 footprint and setting reduction targets for TCFD (Taskforce for Climate-related Financial Disclosures). The Group has committed to the development of a transition plan towards net-zero, which is continually reviewed and adapted to latest demands and available technologies Regular reviews of our environmental strategy are to be carried out at Board level to challenge performance against key milestones, as well as to ensure that priorities are aligned with stakeholder objectives.	**Increased risk ↑** **New risk introduced in 2021.** The Group recognises the increased significance of our ESG obligations. Our plans include actions to reduce our own carbon footprint, including the introduction of electric trucks to our fleet in 2022, as well as actions to support our customers on how to reduce their CO2 emissions, including the roll-out of our new 'packaging optimiser' tool.
Raw material prices The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to input 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. This risk is monitored through our procurement teams interacting with key suppliers and management regularly reviewing gross margin by customer.	The Group works closely with its supplier and customer base to manage effectively the scale and timing of price changes and any resultant impact on profit. Our IT systems monitor and measure effectiveness in 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. The Group has a well-established supplier relationship management process which is subject to periodic management review and auditing.	**Increased risk ↑** Input prices have increased significantly and continuously throughout 2021 primarily due to rising timber, paper and polymer prices. The business has robustly managed these challenges and gross margins have remained strong throughout 2021, reflecting the effort of our teams to mitigate these increases. We expect upward pressure in input prices to continue into 2022. In addition, the Group is preparing for the introduction of the Plastics Tax in April 2022 with action plans being developed to minimise the impact on the Group and our customers through redesign, substitution or reduction in use of the affected products.

Risk Description	Mitigating Factors	Change in Risk Level
Acquisitions The Group's growth strategy has included a number of acquisitions in recent years. There is a risk that such acquisitions may not be available on acceptable terms in the future. It is possible that acquisitions will not be successful due to the loss of key people or customers following acquisition or acquired businesses not performing at the level expected. This could potentially lead to impairment of the carrying value of the related goodwill and other intangible assets. Execution risks around the failure to successfully integrate acquisitions following 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 Group's existing profile and provide good opportunities for growth. Having completed a number of acquisitions in recent years, the Group has well-established due diligence and integration processes and procedures. The Group's management information system enables effective monitoring of post-acquisition performance with earn-out mechanisms also mitigating risk in the post-acquisition period. Goodwill and other intangible assets are tested annually for impairment.	No change 🡐 🡒 The Group has made 14 acquisitions since 2014, including two in 2021, all of which continue to perform well. The Group has well-established due diligence and integration processes while only acquiring well established quality businesses which will perform well in the Group.
Property The Group has a property portfolio comprising 2 owned sites and 43 leased sites. This multi-site portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.	The Group adopts a proactive approach to managing property costs and exposures. 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. The Group engages with external property advisers to assess the level of provisioning required for dilapidations and negotiate to minimise the final costs.	**No change 🡐 🡒** Our property consolidation strategy has continued during 2021. Work is ongoing to finalise exit costs following the expiry of three leases and there are known future exits from another three existing operating sites. Provisions have been established to cover the anticipated exit costs. The Group currently has no vacant or sub-let properties.

Risk Description	Mitigating Factors	Change in Risk Level
Cyber-security The increasing frequency and sophistication of cyber-attacks is a risk which potentially threatens the confidentiality, integrity and availability of the Group's data and IT systems. These attacks could also cause reputational damage and fines in the event of personal data being compromised.	The Group continually invests in its IT infrastructure to protect against cyber-security threats. This includes regular testing of IT Disaster Recovery Plans. We engage the services of a cyber-security partner to perform regular penetration tests to assess potential vulnerabilities within our security arrangements. This is complemented by a program of cyber-security awareness training to ensure that all staff are aware of the potential threats caused by deliberate and unauthorised attempts to gain access to our systems and data.	**No change 🡐 🡒** Remote working practices introduced in response to Covid-19 have now become the norm, with the Group adopting hybrid home/office flexibility for its employees. This is a feature within the Group’s risk to cyber-security attacks. The Group has continued to invest in prevention/detection software and education programmes to mitigate the risks of a cyber-security attacks. The frequency and sophistication of cyber-attacks is anticipated to continue to evolve, and the Group is committed to continually investing in upgrading its infrastructure to respond to the changing threats.
Financial liquidity, debt covenants and interest rates 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 and that such funds will only be available on unfavourable terms. 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 Group borrowings being subject to more onerous conditions.	The Group's borrowing facility comprises a committed facility of £30 million with Lloyds Bank PLC, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth. The Group regularly monitors net bank debt and forecast cash flows to ensure that it will be able to meet its financial obligations as they fall due. Compliance with covenants is monitored monthly and sensitivity analysis is applied to forecasts to assess the impact on covenant compliance.	**Reduced risk 🡓** The Group has proved to be strongly cash generative in 2021 and has operated well within its existing bank facilities throughout the year. The Group’s £30m committed facility with Lloyds Banking Group PLC was extended until December 2025.

Risk Description	Mitigating Factors	Change in Risk Level
Working capital 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 our Credit Manager and the credit control team and is subject to additional scrutiny from the Group Finance Director. All aged debts are assessed, and appropriate provisions are made using the Expected Credit Loss model. Inventory levels and order patterns are regularly reviewed and risks arising from holding bespoke stocks are managed by obtaining order cover from customers.	**No change ← →** Bad debt write-offs in 2021 have reduced from 2020 and this is reflected in the Expected Credit Loss allowance being decreased accordingly. However, there continues to be uncertainty over the impact of the withdrawal of Covid-19 government support programmes and the ongoing effect of continuing Covid-19 restrictions on the wider economy and our customers. Aged stock over 6 months old has increased in 2021 due to challenging supply chain conditions. Extended manufacturing lead times and a shortage of some raw materials has required the Group to increase inventories to maintain good service to its customers.
Defined benefit pension scheme The Group's defined benefit pension scheme is sensitive to a number of key factors including investment returns, the discount rates used to calculate the scheme's liabilities and mortality assumptions. Small changes in these assumptions could cause significant movements in the pension surplus/deficit.	The scheme was closed to new members in 2002. Benefits for active members were amended by freezing pensionable salaries at April 2009 levels. A Pension Increase Exchange option is available to offer flexibility to new pensioners in both the level of pension at retirement and the rate of future increases. The investment profile is regularly reviewed to ensure continued matching of investments with the scheme’s liability profile.	**No change ← →** The IAS 19 valuation of the Group’s defined benefit pension scheme as at 31 December 2021 estimated the scheme surplus to be £8.3m, compared to a deficit of £1.5m at 31 December 2020. Deficit repair contributions reduced from £3.0m to £1.3m per annum following the triennial actuarial valuation at 1 May 2020. This reflects continued progress in reducing the deficit.

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

Viability statement

The Board is required to formally assess that the Group has adequate resources to continue in operational existence for the foreseeable future and as such can continue to adopt the going concern basis of accounting. The Board is also required to state that it has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due.

To support this statement, the Board is required to consider the Group's current financial position, its strategy, the market outlook and its principal risks. The Board's assessment of the principal risks facing the Group and how these risks affect the Group's prospects are set out on pages 8 to 13. The review also includes consideration of how these risks 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 Board considers the Group's viability as part of its 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 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 the Group strategy, including assumptions around future growth rates for our business and acceptable levels of performance.

Financial modelling and scenarios

The Group's existing bank facilities comprise a £30m committed facility with Lloyds Banking Group, which is available until December 2025. The Group has performed well during 2021, despite the ongoing Covid-19 pandemic and challenging market conditions, which gives confidence in the strength of the underlying business model. The Directors have also considered the longer-term economic outlook for the UK. Given the current uncertainty of the economic outlook we have modelled a 'severe but plausible downside' scenario as described below. In forming conclusions, the Directors have also considered potential mitigating actions that the Group could take to preserve liquidity and ensure compliance with its financial covenants.

A detailed financial model covering a three-year period is maintained and regularly updated. This model enables sensitivity analysis, which includes flexing 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 and whether the Group will remain in compliance with the covenants relating to the current facility.

We have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over the three-year horizon. The 'severe but plausible downside' scenario is conservative in assuming, compared to the central case, revenue reductions of 5% and gross margin reductions at the rate of 2% in each of the three years, with no reduction in costs. Even under this scenario, and before reflecting any mitigating actions available to Group management, the Group would forecast compliance with all financial covenants throughout the period and would not require any additional sources of financing.

The Group has also modelled a reverse stress test scenario. This models the decline in sales that the Group would be able to absorb before breaching any financial covenants. Such a scenario, and the sequence of events that could lead to it, is considered to be remote, as it requires sales reductions of c.15% per annum between 2022 and 2024, compared to the central case, before there is a breach in financial covenants in the period under review and is calculated before reflecting any mitigating actions.

Even in the severe but plausible scenario, Macfarlane Group is forecast to have sufficient liquidity to continue trading, comfortably meeting its financial covenants and operating within the level of its facilities for the foreseeable future. The reverse stress test modelling has shown that a c.30% reduction in sales in 2022 compared to 2021 could lead to a breach of covenants in the period under review. However, in this scenario, management would also be able to take mitigating actions to reduces its costs and conserve cash.

Conclusions

For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

The Board also has a reasonable expectation that the Group will continue in operation and meet its longer-term liabilities as they fall due.

Cautionary Statement

The Chairman's Statement and the Business Review on pages 1 to 14 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 2021. 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
I. Gray	Finance Director
R. McLellan	Non-Executive Director and Senior Independent Director
J.W.F. Baird	Non-Executive Director
A. Gulvanessian	Non-Executive Director (from 1 October 2021)

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, 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 statements, 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
Chief Executive

24 February 2022

Ivor Gray
Finance Director

24 February 2022

Macfarlane Group PLC

Consolidated income statement

For the year ended 31 December 2021

	Note	**2021 £000**	Restated* 2020 £000
Continuing operations			
Revenue	3	**264,465**	210,227
Cost of sales		**(174,998)**	(140,400)
Gross profit		**89,467**	69,827
Distribution costs		**(8,651)**	(7,162)
Administrative expenses		**(60,761)**	(49,006)
Operating profit	3	**20,055**	13,659
Finance costs	4	**(1,390)**	(1,226)
Profit before tax		**18,665**	12,433
Tax	5	**(4,917)**	(2,696)
Profit for the year from continuing operations	8	**13,748**	9,737
Discontinued operations			
(Loss)/Profit from discontinued operations	6	**(1,150)**	434
Profit for the year		**12,598**	10,171
Earnings per share from continuing operations			
Basic	8	**8.71p**	6.17p
Diluted	8	**8.62p**	6.14p
Earnings per share from continuing and discontinued operations			
Basic	8	**7.98p**	6.45p
Diluted	8	**7.90p**	6.42p

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	**2021 £000**	2020 £000
Items that may be reclassified to profit or loss			
Foreign currency translation differences - foreign operations		**(120)**	60
Items that will not be reclassified to profit or loss			
Remeasurement of pension scheme liability	11	**8,212**	2,112
Tax recognised in other comprehensive income			
Tax on remeasurement of pension scheme liability	12	**(2,054)**	(401)
Corporation tax rate change on deferred tax		**88**	129
Other comprehensive income for the year, net of tax		**6,126**	1,900
Profit for the year		**12,598**	10,171
Total comprehensive income for the year		**18,724**	12,071

Macfarlane Group PLC

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Restated* Retained Earnings £000	Restated* Total £000
At 1 January 2020		39,453	13,148	70	231	15,835	68,737
Comprehensive income							
Profit for the year		-	-	-	-	10,171	10,171
Foreign currency translation differences		-	-	-	60	-	60
Remeasurement of pension liability	11	-	-	-	-	2,112	2,112
Tax on remeasurement of pension liability	12	-	-	-	-	(401)	(401)
Corporation tax rate change on deferred tax	12	-	-	-	-	129	129
Total comprehensive income		-	-	-	60	12,011	12,071
Transactions with shareholders							
Dividends	7	-	-	-	-	(1,105)	(1,105)
Credit for share-based payments		-	-	-	-	75	75
Total transactions with shareholders		-	-	-	-	(1,030)	(1.030)
At 31 December 2020		**39,453**	**13,148**	**70**	**291**	**26,816**	**79,778**
Comprehensive income							
Profit for the year		**-**	**-**	**-**	**-**	**12,598**	**12,598**
Foreign currency translation differences		**-**	**-**	**-**	**(120)**	**-**	**(120)**
Remeasurement of pension liability	11	**-**	**-**	**-**	**-**	**8,212**	**8,212**
Tax on remeasurement of pension liability	12	**-**	**-**	**-**	**-**	**(2,054)**	**(2,054)**
Corporation tax rate change on deferred tax	12	**-**	**-**	**-**	**-**	**88**	**88**
Total comprehensive income		**-**	**-**	**-**	**(120)**	**18,844**	**18,724**
Transactions with shareholders							
Dividends	7	**-**	**-**	**-**	**-**	**(4,293)**	**(4,293)**
Credit for share-based payments		**-**	**-**	**-**	**-**	**685**	**685**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**(3,608)**	**(3,608)**
At 31 December 2021		**39,453**	**13,148**	**70**	**171**	**42,052**	**94,894**

Macfarlane Group PLC

Consolidated balance sheet at 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Goodwill and other intangible assets		**74,902**	60,598
Property, plant and equipment		**6,101**	8,640
Right of Use assets		**34,718**	28,584
Other receivables		**35**	35
Deferred tax assets	12	**19**	396
Retirement benefit obligations	11	**8,267**	-
Total non-current assets		**124,042**	98,253
Current assets			
Inventories		**21,269**	15,858
Trade and other receivables		**58,541**	51,371
Cash and cash equivalents	10	**12,315**	7,228
Total current assets		**92,125**	74,457
Total assets	3	**216,167**	172,710
Current liabilities			
Trade and other payables		**60,975**	47,755
Provisions		**1,730**	1,834
Current tax payable		**771**	1,731
Lease liabilities	10	**6,364**	5,784
Bank borrowings	10	**9,840**	7,766
Total current liabilities		**79,680**	64,870
Net current assets		**12,445**	9,587
Non-current liabilities			
Retirement benefit obligations	11	**-**	1,471
Deferred tax liabilities	12	**7,472**	3,072
Trade and other payables		**3,695**	19
Provisions		**1,848**	592
Lease liabilities	10	**28,578**	22,908
Total non-current liabilities		**41,593**	28,062
Total liabilities	3	**121,273**	92,932
Net assets		**94,894**	79,778
Equity			
Share capital	13	**39,453**	39,453
Share premium	13	**13,148**	13,148
Revaluation reserve		**70**	70
Translation reserve		**171**	291
Retained earnings		**42,052**	26,816
Total equity	3	**94,894**	79,778

Macfarlane Group PLC
Consolidated cash flow statement
For the year ended 31 December 2021

	Note	2021 £000	Restated* 2020 £000
Profit/(loss) before tax from:			
Continued operations		**18,665**	12,433
Discontinued operations		**(938)**	569
Total Operations		**17,727**	13,002
Adjustments for:			
Amortisation of intangible assets		**3,311**	2,520
Impairment of goodwill in discontinued operations		**987**	-
Depreciation of property, plant and equipment and ROU assets		**9,271**	8,459
Loss on disposal of property, plant and equipment		**43**	30
Loss on disposal of subsidiaries	6	**232**	-
Share-based payments		**685**	75
Finance costs		**1,390**	1,342
Operating cash flows before movements in working capital		**33,646**	25,428
(Increase)/decrease in inventories		**(4,848)**	161
(Increase)/decrease in receivables		**(7,892)**	955
Increase in payables		**8,905**	965
Increase in provisions		**1,884**	1,766
Adjustment for pension scheme funding		**(1,533)**	(2,981)
Cash generated by operations		**30,162**	26,294
Income taxes paid		**(4,975)**	(1,728)
Interest paid		**(1,383)**	(1,243)
Cash inflow from operating activities		**23,804**	23,323
Investing activities			
Acquisitions, net of cash acquired	9	**(12,238)**	(2,661)
Proceeds from sale of subsidiaries	6	**5,212**	-
Proceeds on disposal of property, plant and equipment		**199**	102
Purchases of property, plant and equipment		**(2,132)**	(804)
Cash outflow from investing activities		**(8,959)**	(3,363)
Financing activities			
Dividends paid	7	**(4,293)**	(1,105)
Repayment on bank borrowing facility		**3,889**	(10,225)
Repayments of leases		**(7,539)**	(6,719)
Cash outflow from financing activities		**(7,943)**	(18,049)
Net increase in cash and cash equivalents		**6,902**	1,911
Cash and cash equivalents at beginning of year		**5,221**	3,310
Cash and cash equivalents at end of year		**12,123**	5,221

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

		2021 £000	2020 £000
Reconciliation to consolidated cash flow statement			
Cash and cash equivalents per the consolidation balance sheet	10	**12,315**	7,228
Bank overdraft		**(192)**	(2,007)
Balances per consolidated cash flow statement		**12,123**	5,221

Bank overdrafts are included in cash and cash equivalents because they form an integral part of the Group's cash management.

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 ended 31 December 2021 and 2020.

The financial statements for 2021 were approved by the Board of Directors on 24 February 2022. The auditor's report on the statutory financial statements for the year ended 31 December 2021 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 2020 is derived from the statutory accounts for 2020 which have been delivered to the registrar of companies. The auditor has reported on the 2020 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.

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 15.

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 £30m with Lloyds Banking Group PLC in place until December 2025. 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 appropriate 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. The Directors have modelled a range of scenarios, including a central case, a downside scenario, a severe but plausible downside and a reverse stress test, over the three-year horizon, as set out in the Viability statement on page 14.

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 2021.

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.

2. Basis of preparation (continued)

Key sources of estimation uncertainty (continued)

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 11. 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. For illustration only, an increase in the average default rate of overdue trade receivables from 1.37% to 2.43% above the historic loss rates observed would lead to an increase of £560,000 in the provision required.

Alternative performance measures

In measuring the financial performance and position, the financial measures used in certain limited cases include those which have been derived from the reported results in order to eliminate factors which due to their unusual nature and size distort year-on-year comparisons to a material extent and/or provide useful information to stakeholders. Where such items arise, the directors will classify such items as separately disclosed non-recurring items and provide details of these items to enable users of the accounts to understand the impact on the financial statements.

To the extent that a measurement under Generally Accepted Accounting Principles ("GAAP") is adjusted for a separately disclosed non-recurring item, this is referred to as an Alternative Performance Measure ("APM"). We believe that the APM defined below, and the comparable GAAP measurement provides a useful basis for measuring the financial performance and position.

In addition to the various performance measures defined under IFRS the Group reports operating profit before amortisation as a measure to assist in understanding the underlying performance of the Group and its businesses when compared to similar companies. Operating profit before amortisation is not defined under IFRS and, as a result, does not comply with Generally Accepted Accounting Practice ("GAAP") and is therefore known as an alternative profit measure. Accordingly, this measure, which is not designed to be a substitute for any of the IFRS measures of performance, may not be directly comparable with other companies' alternative performance measures. Operating profit before amortisation is defined as operating profit before customer relationships and brand values amortisation reconciled in the table below.

Continuing operations	**Year to 31 December 2021 £000**	Restated * Year to 31 December 2020 £000
Operating profit before amortisation	**23,366**	16,179
Customer relationships/brand values amortisation	**(3,311)**	(2,520)
Operating profit	**20,055**	13,659

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

Net bank funds/(debt) also represents an Alternative Performance Measure as defined and reconciled to the statutory measure in note 10.

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 91% of Group revenue and 85% of Group operating profit. The Group's **Manufacturing Operations** segment comprises the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK.

Continuing operations		**2021** £000	Restated* 2020 £000
Group segment -Revenue			
Packaging Distribution		**239,508**	201,739
Manufacturing Operations		**28,527**	11,237
Inter-segment revenue	Manufacturing Operations	**(3,570)**	(2,749)
External revenue		**264,465**	210,227
Packaging Distribution		**19,697**	16,508
Manufacturing Operations		**3,669**	(329)
Operating profit before amortisation		**23,366**	16,179
Packaging Distribution		**17,055**	13,988
Manufacturing Operations		**3,000**	(329)
Operating profit		**20,055**	13,659
Finance costs		**(1,390)**	(1,226)
Profit before tax		**18,665**	12,433
Tax		**(4,917)**	(2,696)
Profit for the year from continuing operations		**13,748**	9,737
(Loss)/Profit for the year from discontinued operations		**(1,150)**	434
Profit for the year		**12,598**	10,171

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

	Assets £000	**Liabilities** £000	**Net assets** £000
Group segments			
Packaging Distribution	**185,111**	**(110,212)**	**74,899**
Manufacturing Operations	**31,056**	**(11,061)**	**19,995**
Net assets 2021	**216,167**	**(121,273)**	**94,894**

	Restated* Assets £000	Restated* Liabilities £000	Restated* Net assets £000
Packaging Distribution	152,272	(80,476)	71,796
Manufacturing Operations	5,482	(3,100)	2,382
Net assets 2020	157,754	(83,576)	74,178

3. Segmental information (continued)

	2021 £000	2020 £000
Packaging Distribution		
Revenue	**239,508**	201,739
Cost of sales	**(161,896)**	(136,177)
Gross profit	**77,612**	65,562
Net operating expenses	**(57,915)**	(49,054)
Operating profit before amortisation	**19,697**	16,508
Amortisation	**(2,642)**	(2,520)
Operating Profit	**17,055**	13,988

Manufacturing Operations	2021 £000	Restated* 2020 £000
Revenue	**24,957**	8,488
Cost of sales	**(13,102)**	(4,223)
Gross profit	**11,855**	4,265
Net operating expenses	**(8,186)**	(4,594)
Operating profit/(loss) before amortisation	**3,669**	(329)
Amortisation	**(669)**	-
Operating profit/(loss)	**3,000**	(329)

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

4. Finance costs

	2021 £000	Restated* 2020 £000
Interest on bank borrowings	**414**	455
Interest on leases	**969**	681
Net interest expense on retirement benefit obligation (see note 10)	**7**	90
Total finance costs from continuing operations	**1,390**	1,226

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

5. Tax

	2021	2020
	£000	£000
Current tax		
United Kingdom corporation tax at 19.0%	**3,672**	2,343
Foreign tax	**245**	121
Adjustments in respect of prior years	**72**	(90)
Total current tax	**3,989**	2,374
Deferred tax		
Current year	**1,140**	457
Total deferred tax (see note 11)	**1,140**	457
Total tax charge	**5,129**	2,831

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:-

	2021	2020
	£000	£000
Profit before tax from continuing operations	**18,665**	12,433
(Loss)/profit before tax from discontinued operations	**(938)**	569
Profit before tax from total operations	**17,727**	13,002
Tax on profit at 19.0%	**3,368**	2,470
Factors affecting tax charge for the year:-		
Change in rate for deferred tax from 19% to 25%	**1,282**	367
Non-deductible expenses	**408**	107
Difference on overseas tax rates	**(37)**	(18)
Utilisation of tax losses not previously recognised	**-**	(58)
Changes in estimates related to prior years	**108**	(37)
Tax charge for the year	**5,129**	2,831
Tax attributable to continuing operations	**4,917**	2,696
Tax attributable to discontinued operations	**212**	135
Tax charge for the year	**5,129**	2,831
Effective rate of tax for the year	**28.9%**	21.8%

6. Discontinued Operations

On 31 December 2021, the Group entered into a sale agreement to dispose of Macfarlane Labels Limited and its subsidiaries Macfarlane Group Ireland (Labels & Packaging) Limited and Macfarlane Group Sweden AB (collectively "Macfarlane Labels"). Macfarlane Labels designs and prints high quality self-adhesive and resealable labels, principally for FMCG companies. The proceeds from the sale will be strategically invested in the continuing growth of the Group's protective packaging businesses.

The results of the discontinued operations, which have been included as a single item of (loss)/profit from discontinued operations for the year, were as follows:

	2021	2020
	£000	£000
Revenue	**21,220**	19,802
Expenses	**(22,158)**	(19,233)
(Loss)/profit before tax	**(938)**	569
Attributable tax expense	**(212)**	(135)
(Loss)/profit after tax	**(1,150)**	434

During the year Macfarlane Labels consumed £3,000 (2020: contributed £84,000) of the Group's net operating cash flows, paid £512,000 (2020: £193,000) in respect of investing activities and received £40,000 (2020: £953,000) in respect of financing activities.

The loss for the year of £1,150,000 is after charging goodwill impairment of £987,000 and costs of disposal of £283,000.

£6,085,000 of the estimated total gross proceeds of £6,338,000 was received on 31 December 2021. The final total gross proceeds are subject to adjustment following finalisation and agreement of the net asset value of Macfarlane Labels at the completion date.

6. Discontinued Operations (continued)

Details of the disposal proceeds in the cash flow statement on page 19 are set out below:

	£000
Estimated total consideration	6,338
Estimated deferred consideration	(253)
Consideration received	6,085
Cash retained by acquirer	(590)
Costs of disposal	(283)
Proceeds from disposal	5,212
Goodwill	372
Tangible assets (inc ROU assets)	5,158
Inventories	1,402
Trade and other receivables	4,291
Cash and cash equivalents	590
Trade and other payables	(2,825)
Provisions	(732)
Current tax liabilities	(234)
Lease liabilities	(1,363)
Deferred tax liabilities	(372)
Net assets disposed	6,287
Estimated total consideration	6,338
Net assets disposed	(6,287)
Costs of disposal	(283)
Loss on disposal	(232)

7. Dividends

	2021	2020
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2020 of 1.85 per share (2019 – Nil p per share)	**2,920**	-
Interim dividend for the year ended 31 December 2021 of 0.87p per share (2020 – 0.70p per share)	**1,373**	**1,105**
	4,293	**1,105**

A proposed dividend of 2.33p per share will be paid on 2 June 2022 to those shareholders on the register at 13 May 2022. This is subject to approval by shareholders at the Annual General Meeting on 10 May 2022 and therefore has not been included as a liability in these financial statements.

8. Earnings per share

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

	2021	Restated* 2020
	£000	£000
Earnings for the purposes of earnings per share		
Profit for the year from continuing operations	**13,748**	9,737
(Loss)/Profit from discontinued operations	**(1,150)**	434
Profit for the year from continuing and discontinued operations	**12,598**	10,171

Number of shares in issue for the purposes of calculating basic and diluted earnings per share	**2021 No. of shares '000**	2020 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	**157,812**	157,812
Effect of Long-Term Incentive Plan awards in issue	**1,627**	703
Weighted average number of shares in issue for the purposes of calculating diluted earnings per share	**159,439**	158,515
Basic Earnings per share from continuing operations	**8.71p**	6.17p
Diluted Earnings per share from continuing operations	**8.62p**	6.14p
Basic Earnings per share from discontinued operations	**(0.73)p**	0.28p
Diluted Earnings per share from discontinued operations	**(0.72)p**	0.27p
Basic Earnings per share from continuing and discontinued operations	**7.98p**	6.45p
Diluted Earnings per share from continuing and discontinued operations	**7.90p**	6.42p

* In accordance with IFRS5 2020 has been restated to reflect the result of the Labels division, sold on 31 December 2021, as a discontinued operation.

9. Acquisitions

On 26 February 2021, Macfarlane Group UK Limited ("MGUK") acquired 100% of GWP Holdings Limited ("GWP"), for a maximum consideration, excluding cash and bank balances acquired, of £15.1m. £10.0m was paid in cash on acquisition, in addition to the cash and bank balances retained by MGUK, and the deferred consideration of £5.1m is payable in the first quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 28 February 2022 and 2023 respectively. On 31 March 2021, MGUK acquired 100% of Carters Packaging (Cornwall) Limited ("Carters Packaging"), for a maximum consideration of £4.5m, excluding cash and bank balances acquired. £3.0m was paid in cash on acquisition, in addition to the cash and bank balances retained by MGUK, and the deferred consideration of £1.5m is payable in the second quarters of 2022 and 2023, subject to certain trading targets being met in the two twelve-month periods ending on 31 March 2022 and 2023 respectively. On 6 January 2020, the Group's subsidiary, MGUK acquired the business, trade and assets of Armagrip, a packaging distributor in Durham, for a consideration of approximately £0.9m, paid in cash on acquisition.
Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £6.6m at the balance sheet date based on a range of outcomes between £Nil and £6.6m. Trading in the post-acquisition period supports the remeasured value of £6.6m.

The impact of the acquisition of GWP on 2021 results was revenue for the year of £15.1m and profit of £2.1m. If the GWP acquisition had been completed on the first day of 2021, revenues for the year would have been £18.1m and profit would have been £2.5m. The impact of the acquisition of Carters on 2021 results was revenue for the year of £5.1m and profit of £0.4m. If the Carters acquisition had been completed on the first day of 2021, revenues for the year would have been £6.8m and profit would have been £0.5m.

Carters Packaging and Armagrip are packaging distributors, accounted for in the Packaging Distribution segment. Goodwill arising is attributable to the anticipated future profitability of the distribution of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities with the existing Packaging Distribution network. GWP is a packaging manufacturer, accounted for in the Manufacturing Operations segment. Goodwill arising is attributable to the anticipated future profitability of the manufacture of the Group's product ranges in the UK and anticipated operating synergies from future combinations of activities within the existing Manufacturing Operations.

For the purposes of the Group financial statements, GWP and Carters converted from FRS 102 to IFRS, with the only change being the impact of IFRS 16 'Leases' on ROU assets and lease liabilities as incorporated into the fair values noted below.

9. Acquisitions (continued)

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

	GWP	Carters Packaging	2021	2020
	£000	**£000**	**£000**	£000
Net assets acquired				
Other intangible assets	**7,505**	**1,977**	**9,482**	291
Property, plant and equipment	**3,560**	**998**	**4,558**	-
Inventories	**1,125**	**840**	**1,965**	206
Trade and other receivables	**2,319**	**997**	**3,316**	282
Cash and bank balances	**3,751**	**126**	**3,877**	-
Trade and other payables	**(3,252)**	**(896)**	**(4,148)**	-
Current tax liabilities	**(302)**	**(125)**	**(427)**	-
Lease liabilities	**(2,562)**	**(938)**	**(3,500)**	-
Deferred tax liabilities (see note 11)	**(1,492)**	**(383)**	**(1,875)**	(55)
Net assets acquired	**10,652**	**2,596**	**13,248**	724
Goodwill arising on acquisition	**7,463**	**1,999**	**9,492**	164
Total consideration	**18,145**	**4,595**	**22,740**	888
Contingent consideration on acquisitions				
Current year	**(5,125)**	**(1,500)**	**(6,625)**	-
Prior years	**-**	**-**	**-**	1,773
Cash consideration	**13,020**	**3,095**	**16,115**	2,661
Net cash outflow arising on acquisition				
Cash consideration	**(13,020)**	**(3,095)**	**(16,115)**	(2,661)
Cash and bank balances acquired	**3,751**	**126**	**3,877**	-
Net cash outflow	**(9,269)**	**(2,969)**	**(12,238)**	(2,661)

10. Analysis of changes in net debt

	Cash &cash equivalents £000	Bank borrowing £000	Lease liabilities £000	Total debt £000
At 1 January 2021	7,228	(7,766)	(28,692)	(29,230)
Cash movements	5,087	(2,074)	7,539	**10,552**
Non-cash movements				
New leases	-	-	(9,103)	**(9,103)**
Acquisitions	-	-	(3,500)	**(3,500)**
Disposal	-	-	1,363	**1,363**
Exchange movements	-	-	126	**126**
Lease modifications	-	-	(2,675)	**(2,675)**
At 31 December 2021	**12,315**	**(9,840)**	**(34,942)**	**(32,467)**
Net bank funds 2021	**12,315**	**(9,840)**		**2,475**
Net bank debt 2020	7,228	(7,766)		(538)

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.

11. 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"). One of the trading subsidiaries, Macfarlane Group UK Limited is also a sponsoring employer of the Scheme. Macfarlane Labels Limited was a sponsoring employer until 31 December 2021 when the company was sold and ceased to be a sponsoring member. The Group is working with the trustees on a Flexible Apportionment Arrangement in relation to Macfarlane Labels Limited's cessation as a sponsoring employer.

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. Macfarlane Group PLC, based on legal opinion provided, has an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a wind up of the Scheme. Furthermore, in the ordinary course of business the trustees have no rights to unilaterally wind up the Scheme, or otherwise augment the benefits due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The Scheme provides qualifying employees with an annual pension of 1/60 of pensionable salary for each completed years' 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.

11. Pension scheme (continued)

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 provisional results of the actuarial valuation as at 1 May 2020, updated to the year-end.

	2021	2020
	£000	£000
Investment class		
Equities	**26,402**	22,936
Multi-asset diversified funds	**29,113**	31,559
Liability-driven investment funds	**30,531**	31,463
Secured property income fund	**6,995**	6,254
European loan fund	**6,778**	6,493
Other (cash and similar assets)	**604**	725
Fair value of Scheme investments	**100,423**	99,430
Present value of Scheme liabilities	**(92,156)**	(100,901)
Scheme surplus/(deficit)	**8,267**	(1,471)

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 85% against the impact of movements in interest-rates on pension liabilities. During 2021 adjustments were made between investments to maintain the overall allocations in 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% (2020: 87%) 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.

11. Pension scheme (continued)

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

Assumptions	**2021**	2020
Discount rate	**1.90%**	1.35%
Rate of increase in salaries	**0.00%**	0.00%
Inflation assumption (RPI)	**3.40%**	3.00%
Inflation assumption (CPI)	**2.90%**	2.50%
Life expectancy beyond normal retirement age of 65		
Male currently aged 55 (years)	**22.8**	22.8
Female currently aged 55 (years)	**24.4**	24.3
Male currently aged 65 (years)	**22.3**	22.2
Female currently aged 65 (years)	**23.6**	23.5

Movement in scheme surplus/(deficit)	**2021 £000**	2020 £000
At 1 January	**(1,471)**	(6,465)
Current service costs	**(126)**	(143)
Past service costs for GMP equalisation	**-**	(87)
Past service cost (curtailed due to disposal of business)	**(333)**	-
Employer contributions	**1,992**	3,211
Net finance cost (see note 4)	**(7)**	(99)
Remeasurement of pension scheme liability	**8,212**	2,112
At 31 December	**8,267**	(1,471)

Funding

UK pension legislation requires that pension schemes are funded prudently. Following the triennial actuarial valuation of the Scheme at 1 May 2020, the Company agreed a new schedule of contributions with the Pension Scheme Trustees, which assumed a recovery plan period of 4 years. The next triennial actuarial valuation is due at 1 May 2023.

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	**2021 £000**	2020 £000
Discount rate movement of +0.6%	**8,845**	9,684
Inflation rate movement of +0.1%	**(470)**	(515)
Mortality movement of +0.1 year in age rating	**277**	303

Positive figures reflect a reduction in the Scheme liabilities and therefore a reduction in the Scheme deficit or increase in the Scheme surplus. 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 sensitivities shown reflect average movements in the assumptions in the last three years. All information assumes that the average duration of Scheme liabilities is seventeen years.

12. Deferred tax

		2021	2020
		£000	£000
At 1 January		**(2,676)**	(1,892)
Transfer to Corporation Tax		**(168)**	(168)
Acquisitions		**(1,875)**	(55)
Disposals		**372**	-
Charged in income statement	(see note 5)	**(1,140)**	(457)
(Charged)/credited in other comprehensive income			
Remeasurement of pension scheme liability		**(2,054)**	(401)
Corporation tax rate change		**88**	129
At 31 December		**(7,453)**	(2,676)
Deferred tax assets			
On retirement benefit obligations		**-**	279
Corporation tax losses		**19**	117
Disclosed as deferred tax assets		**19**	396
Deferred tax liabilities			
On accelerated capital allowances/timing differences		**(338)**	(196)
On retirement benefit obligations		**(2,069)**	-
On other intangible assets		**(5,065)**	(2,876)
Disclosed as deferred tax liabilities		**(7,472)**	(3,072)
At 31 December		**(7,453)**	(2,676)

13. Share capital

	2021	2020
	£000	£000
Allotted, issued and fully paid:		
At 1 January	**39,453**	39,453
At 31 December	**39,453**	39,453
Share premium		
At 1 January	**13,148**	13,148
At 31 December	**13,148**	13,148

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.

14. 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 2021 will be disclosed in the Group's 2021 Annual Report and Accounts.

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

15. Post balance sheet events

There are no post balance sheet events to be disclosed.

16. Posting to shareholders and Annual General Meeting

The Annual Report and Accounts will be sent to shareholders on Friday 1 April 2022 and will be available to members of the public at the Company's Registered Office from Friday 22 April 2022.

The Annual General Meeting will take place at 12 noon on Tuesday 10 May 2022.