2023 Interim Results

Agenda

- Introducing Macfarlane Group
- Results H1 2023
- Q&A

Background

- Macfarlane was **founded almost 75 years ago** and listed on the Premium Segment of the Main market in 1973
- **HQ in Glasgow**, annual sales c£300m, >1,000 employees operating from 37 sites: UK, Ireland, Netherlands and Germany
- **Customer base** –
  - 92% UK; 8% Europe
  - 75% Industrial; 25% Retail
- **The Business -**
  - UK market leader in the sourcing/supply of protective packaging materials
  - One of UK leaders in the design/manufacture of bespoke protective packaging
- **Principal customer sectors**: E Commerce, Logistics, Electronics, Aerospace, Automotive

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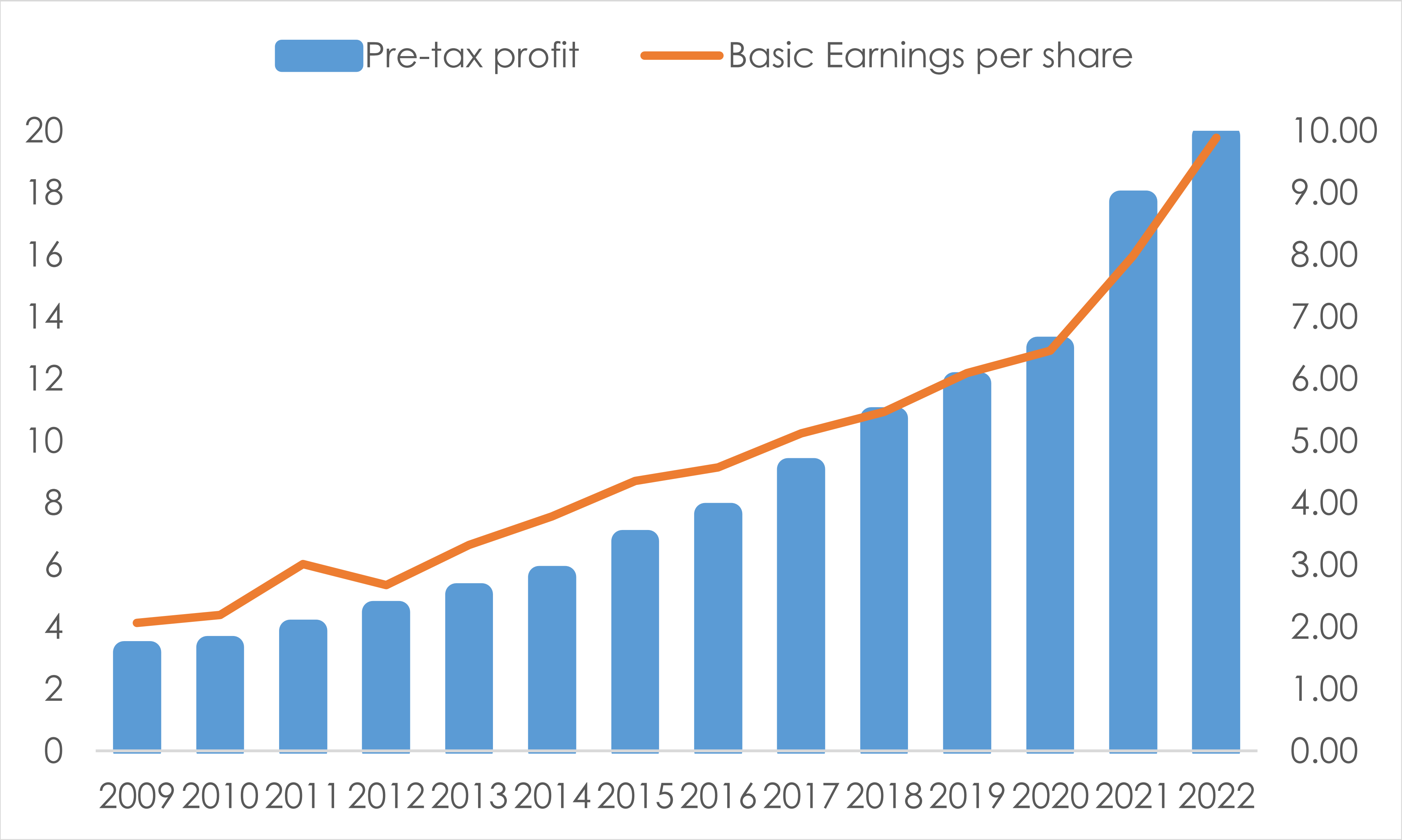
Profit Progression



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Growth Building Blocks

- UK Organic Growth
- Quality UK Acquisitions
- Input Price Management
- Streamline Property Footprint
- Organic Growth in Europe –"Follow the Customer"
- Quality European Acquisitions
- Invest in our People
- Strengthen Supplier Partnerships
- ESG Underpin

Executive Summary

£m	H1 2023 £m	H1 2022 £m
Operating profit before amortisation (PBITA)	**12.8**	11.4
Profit before tax	**10.0**	8.9

- Group sales £141.6m, 2% growth on H1 2022
- PBITA £12.8m, 13% growth on H1 2022; PBT £10.0m, 13% growth on H1 2022
- Distribution sales flat compared to H1 2022; PBITA increased by 6%
- Manufacturing Operations sales growth of 13%; PBITA increased by 36%
- Pension in £12.8m surplus, an improvement of £2.6m from 31 December 2022
- Net bank debt of £3.3m compared to £3.4m at 31 December 2022
- Interim dividend of 0.94p per share payable 12 October 2023, with a register date 15 September 2023
- Profit expectations for the full year remain unchanged

Resilience

- Breadth of customers and markets served
- Focus and depth of expertise in protective packaging
- Value added proposition….
- Range of long established supplier relationships
- Performance Driven Culture
- Bespoke product and service range

Financial Summary – H1 2023

	Revenue	Profit before tax	PBITA
Revenue and profit	▲ 2%	▲ 13%	▲ 13%

	Pre-tax ROCE	Bank debt	Pension surplus
Returns and balance sheet	► 18%	▼ £3.3m	▲ £12.8m

	Diluted EPS	Dividend cover	Dividend per share
EPS and dividend	▲ 9%	▲ 5.0x	▲ 0.94p

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Results

	H1 2023 £m	H1 2022 £m
Sales from continuing operations	**141.6**	139.2
Gross Profit	**51.3 [36.2%]**	47.1 [33.8%]
Overheads	**(38.5)**	(35.7)
Operating profit before amortisation	**12.8**	11.4
Amortisation	**(2.0)**	(1.8)
Operating profit	**10.8**	9.6
Interest	**(0.8)**	(0.7)
Profit before tax from continuing operations	**10.0**	8.9
Loss before tax from discontinued operations	**(0.0)**	(0.1)
Profit before tax from total operations	**10.0**	8.8
Diluted EPS	**4.70p**	4.31p
Dividend	**0.94p**	0.90p
Dividend cover	**5.0x**	4.8x

Cash Flow

	H1 2023 £m	H1 2022 £m
EBIT	**10.8**	9.6
DA	**6.7**	6.4
EBITDA	**17.5**	16.0
Working Capital	**6.4**	(5.4)
Lease Obligations	**(3.5)**	(3.6)
Interest	**(1.1)**	(0.8)
Acquisitions	**(11.4)**	(9.3)
Disposal	**-**	0.2
Tax	**(2.2)**	(2.3)
Net capital expenditure	**(1.3)**	(2.2)
Pension	**(0.6)**	(1.3)
LTIP adj.	**0.3**	0.3
Dividend	**(4.0)**	(3.7)
Movement in bank debt	**0.1**	(12.1)

Packaging Distribution

- Organic sales reduced by 5% versus H1 2022, with subdued demand in UK and Ireland being offset by good progress in Europe
- Strong performances from Gottlieb acquired in April 2023 and PackMann acquired in May 2022
- New business revenue of £4.2m; up 24% vs H1 2022
- Starting to benefit from new Innovation Lab
- Effective management of gross margin to offset increase in overheads due to acquisitions and inflation in energy/employee costs

£m	**H1 2023**	H1 2022
Revenue	**124.0**	123.5
Gross margin	**42.4 [34.2%]**	39.9 [32.3%]
Overheads	**33.0**	31.0
PBITA	**9.4**	8.9
PBITA Margin	**7.6%**	7.2%
Net Promoter Score	**56**	46

Packaging Distribution

	H1 2023		H1 2022	
	£m	**% of Sales**	£m	% of Sales
Employee costs	**17.0**	***13.7%***	16.5	*13.4%*
Transport (excluding employee costs)	**3.1**	***2.5%***	3.3	*2.7%*
Utility costs	**0.7**	***0.6%***	0.3	*0.2%*
Other	**8.8**	***7.1%***	8.6	*7.0%*
Overheads (pre-investments/start-up)	**29.6**	***23.9%***	28.7	*23.3%*
IT Investment	**1.3**	***1.0%***	1.5	*1.2%*
New NW RDC start-up	**-**	***-%***	0.5	*0.4%*
Acquisitions (Gottlieb/PackMann)	**2.1**	***1.7%***	0.3	*0.2%*
Overheads (investments/start-up)	**3.4**	***2.7%***	2.3	*1.8%*
Total Overheads	**33.0**	***26.6%***	31.0	*25.1%*

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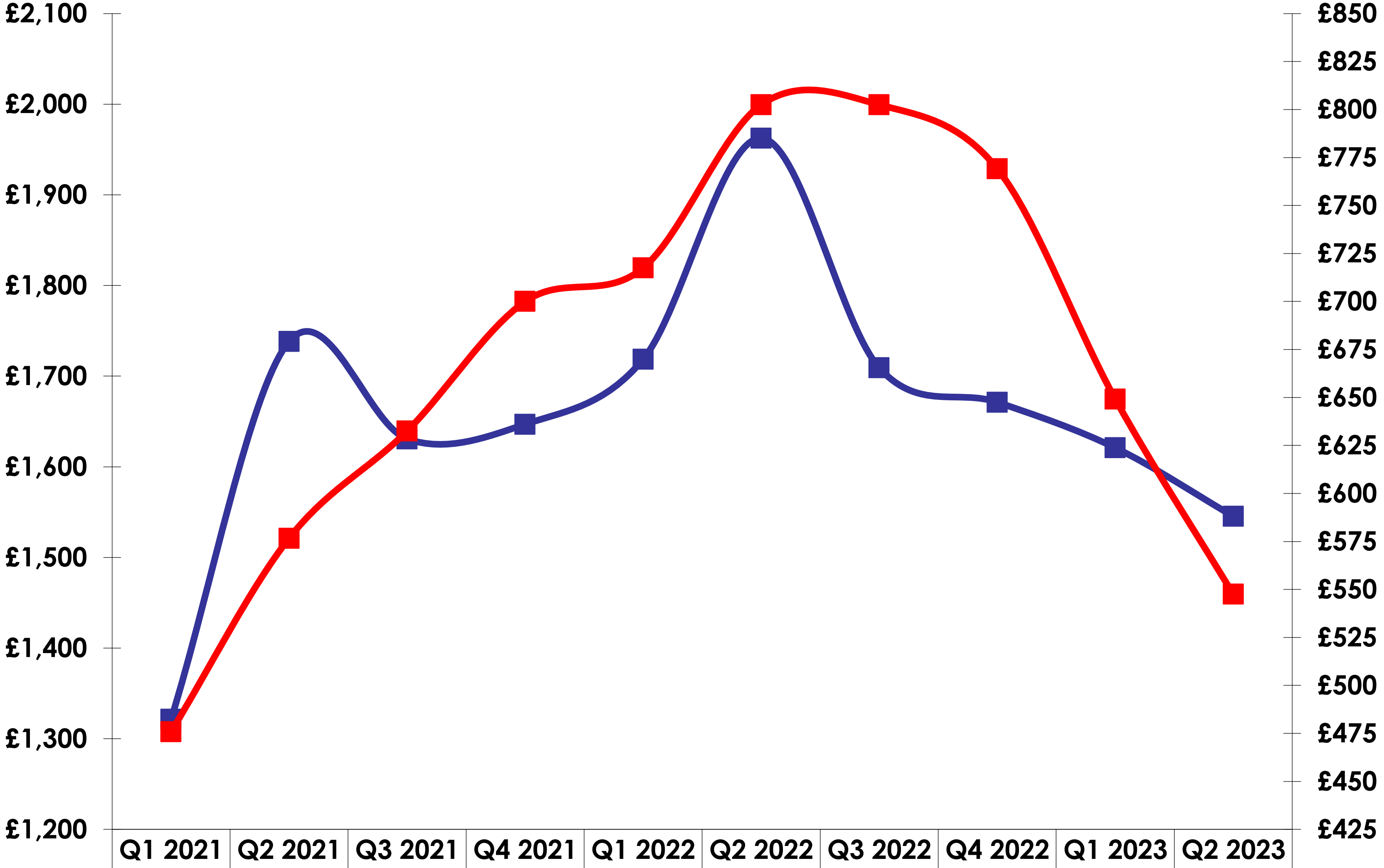
Packaging Distribution – Raw Material Movements



	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Polymer £/tonne	£1,322	£1,738	£1,631	£1,647	£1,719	£1,963	£1,709	£1,671	£1,621	£1,545
Paper £/tonne	£476	£577	£633	£700	£718	£803	£803	£769	£649	£548

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Packaging Distribution Action Plan for 2023-2025

Base Business Performance	Salary Inflation	Plastic Tax	Environmental Challenge	Recruitment and Working Flexibility	Delivering The Benefits of New Software Introductions
Sustain the Base Business performance particularly gross margin, as supply conditions return to normal, and we move into a deflationary cycle	Improve productivity to offset salary inflation in an increasingly competitive labour market	Manage the impact the new Plastic Tax will have on suppliers, pricing, customer and competitor behaviour	Demonstrate we are fully engaged in addressing the Environmental Challenge	Improve our retention, recruitment and working flexibility with staff at all levels in the business.	Deliver the benefits of new software introductions (Dynamics, WHM and Slimstock) at the same time as ensuring E7 integration programmes are completed

Online Capability	Execute UK Acquisitions	Pace of Progress In Europe	Penetration of New Packaging Products	Packing Automation	Property Footprint
Improve our online capability to become a more effective competitor in this market	Continue to successfully identify and execute quality UK acquisitions	Increase the pace of progress in Europe both through acquisitions and the Follow the Customer Programme	Improve our penetration of new packaging products particularly Shelf Ready, Presentational and Temperature Controlled.	Increase our capability to provide customers with expertise in the area of Packing Automation	Manage the property footprint to ensure our space is fully optimised and we achieve the benefits of property consolidation with no degradation of service to customers

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Manufacturing Operations

- Strong performance from Suttons acquired in February 2023
- Organic sales flat versus 2023 with strong growth in the aerospace sector offset by weakness in other sectors
- New business wins in H1 2023
- Partnership with Distribution continues to grow with sales of £2.5m in H1 2023 (H1 2022: £2.1m)
- Effective management of gross margin, offsetting inflation in overheads
- Overhead increase of 18% due to the acquisition (10%) and inflation in energy/employee costs (8%)

£m	H1 2023	H1 2022
Revenue*	**20.2**	17.7
Gross margin	**8.9 [44.2%]**	7.2 [40.5%]
Overheads	**5.5**	4.7
PBITA	**3.4**	2.5
PBITA Margin	**16.8%**	14.1%
Sales to Distribution (as % of revenue)	**13%**	12%

* Including inter-divisional sales to Distribution

GWPGroup

MACFARLANE PACKAGING DESIGN AND MANUFACTURE

Suttons PERFORMANCE PACKAGING

Manufacturing Operations Action Plan for 2023-2025

Business Performance	Salary Inflation	Plastic Tax	Environmental Challenge	Recruitment And Working Flexibility	GWP in-house Growth Opportunities
Sustain the business performance particularly gross margin, as supply conditions return to normal, and we move into a deflationary cycle	Improve productivity to offset salary inflation in an increasingly competitive labour market	Manage the impact the Plastic Tax will have on suppliers, pricing, customer and competitor behaviour	Demonstrate we are fully engaged in addressing the Environmental Challenge	Improve our retention, recruitment and working flexibility with staff at all levels in the business.	Build the potential for GWP as an in-house supplier to Macfarlane Distribution
GWP Integration	**Execute UK Acquisitions**	**Europe Opportunity**	**Improve Partnership with Packaging Distribution**	**Investment**	**New Software Tools**
Commence process of integrating Macfarlane PDM and GWP	Develop and execute further UK acquisitions in the specialist protective packaging space	Work with Distribution to support European Follow the Customer Programme	Increase penetration of PDM as a supplier to Packaging Distribution Industrial Customers	Make selective capital investments to reduce costs and improve customer service	Implement benefits from Dynamics and Paragon introductions

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Acquisitions Overview

Acquisition	Location	Year	Sales	EBITDAx	Placing price	Integrated
Distribution						
Lane	Reading	2014	£3m	5-6x	N/A	✓
Network	Wolverhampton	2014	£9m	5-6x	Sep-14 **37.5p**	✓
One	Bingham	2015	£5m	5x	N/A	✓
Colton	Teesside	2016	£3m	5x	N/A	✓
Edward McNeil	Glasgow	2016	£3m	5x	N/A	✓
Nelsons	Leicester	2016	£9m	5-6x	Jul-16 **58.0p**	No plans
Greenwoods	Nottingham	2017	£15m	5x	Sep-17 **66.0p**	H1 2023
Tyler	Leicester	2018	£2.5m	5x	N/A	✓
Harrisons	Leyland	2018	£3.5m	5x	N/A	✓
Ecopac	Aylesbury	2019	£6.5m	6x	N/A	✓
Leyland	Leyland	2019	£4.0m	5x	N/A	✓
Armagrip	Durham	2020	£1.5m	5x	N/A	✓
Carters	Redruth	2021	£5.3m	6x	N/A	Ongoing
PackMann	Germany	2022	£11.0m	6x	N/A	Ongoing
Gottlieb	Manchester	2023	£4.5m	5x	N/A	Ongoing
Manufacturing Operations						
GWP	Swindon/Salisbury	2021	£13.1m	5.5x	N/A	Ongoing
Suttons	Chatteris	2023	£7.4m	5x	N/A	Ongoing

H1 2023 ESG Progress

Reducing our Environmental Impact

* 5 fully electric trucks added to the fleet
* 90%+ energy sourced from renewables
* Independent energy efficiency audit started
* Undertaking full Scope 3 Mapping
* Sustainability training for colleagues

Supporting our Customers

* Northern Innovation Lab opened
* Extended sustainable packaging range
* Advice and support to customers on EPR regulations
* Reducing customer's carbon footprint
* Ecovadis silver rating/ second full disclosure to CDP

Supporting our Colleagues and Communities

* Diversity/inclusion training to all managers
* Supporting our strategic charity partner:Blue Cross
* Strengthened our partnership with MIND
* Embedded our annual engagement survey
* All staff have fully paid volunteering day

Governance - Doing things right

* Board 33% female
* Project started to better understand diversity across the Group
* Chair of ESG Committee reports directly to Board
* ESG standing item at all Board meetings
* All senior management have personal ESG objectives

Pension Scheme - £12.8m Surplus

£m	**H1 2023**	H1 2022	*2022*
Opening surplus	**10.2**	8.3	*8.3*
Ongoing accrual/interest income	**0.3**	0.1	*0.1*
Past service costs (H2 2022: Scheme Closure)	**-**	-	*(0.1)*
Contributions	**0.6**	1.3	*2.0*
Change in actuarial assumptions (Bond yield ↑ 0.50% to 5.30% (H1 2022 ↑ 1.90%: 2022 ↑ 2.90%)	**3.5**	22.9	*29.4*
Investment returns	**(1.8)**	(23.8)	*(29.5)*
Closing surplus	**12.8**	8.8	*10.2*

- Increase in bond yields partially offset by LDIs
- LDI provides hedge vs. movements in bond yields and inflation
- Commitment to pay contributions of £1.25m per annum to April 2024 (£0.625m H2 2022; £0.625m H1 2023)
- Next triennial actuarial valuation 1-May-23 to be completed by Feb-24 which will reassess company contributions going forward.

Pension Scheme Details £m

Investments (£m)	H1 2023	H1 2022	2022
Growth assets			
Equities	**21.6**	20.5	*20.3*
Multi-asset Diversified Fund	**12.3**	27.1	*12.7*
Multi-asset Credit Fund	**1.0**	-	-
European Loan Fund	**5.6**	6.3	*6.5*
Long-term Property Fund	**7.0**	7.3	*5.7*
Matching assets			
Liability-driven Investments	**21.0**	14.3	*23.3*
Cash	**0.8**	1.0	*2.0*
Total investments	**69.3**	76.5	*70.5*
Liabilities (£m)			
Total liabilities	**56.5**	*67.7*	*60.3*

Members	No.
Active	-
Deferred	168
Pensioners	367
	535

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Conclusions

- Resilient and flexible business with strong market positions:
  - **Solid performance in H1 2023** against backdrop of slowdown in certain customer demand
  - Executed **two high quality acquisitions-** Gottlieb (Distribution) & Suttons (Manufacturing Operations)
  - Continued **good progress in Europe**
  - Positive **new business momentum**
- **Inflation in operating costs** have been **offset** by **effective input price management**
- Demand continues to be challenging in H2 2023 but management has a proven track record of performance and our **full year profit expectations remains unchanged**
- Clear action plans in place for further growth including **a strong acquisition pipeline;** underpinned by excellent **cash generation** and increased bank facilities to £35m until December 2025
- **ESG Agenda** developed with actions well underway

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Macfarlane Business Case

- A simple, flexible and resilient business model
- Strongly focused operating companies with differentiated propositions
- Good market positions with growth potential
- A track record of performance and clear plans to sustain growth

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