MACFARLANE GROUP

Interim Report 2023

Investing to deliver sustainable protective packaging solutions

Contents

View our Annual Report and Accounts and other information about Macfarlane Group at **www.macfarlanegroup.com**

Financial highlights

	H1 2023 £000	H1 2022 £000	Increase %
Revenue	**141,612**	139,209	2%
Operating profit before amortisation*	**12,839**	11,384	13%
Operating profit	**10,800**	9,604	12%
Profit before tax	**9,987**	8,857	13%
Profit for the period	**7,510**	6,888	9%
Interim dividend (pence)	**0.94p**	0.90p	4%
Basic earnings per share (pence)	**4.74p**	4.36p	9%

* See note 2 for reconciliation of alternative performance measure, operating profit before amortisation, to operating profit.

Macfarlane Group PLC ('Macfarlane Group', 'Macfarlane', 'Group', 'Company') sets out its financial highlights for the six months ended 30 June 2023.

Key highlights

- Revenue grew by 2% versus H1 2022 to £141.6m.
- Profit before tax at £10.0m increased by 13%.
- Basic and diluted earnings per share were 4.74p per share (H1 2022: 4.36p per share) and 4.70p per share (H1 2022: 4.31p per share) respectively.
- Profit in line with expectations for the full year.

Packaging Distribution

- Packaging Distribution grew revenue by £0.4m to £124.0m in H1 2023.
- A good contribution from the acquisitions of PackMann in May 2022 and Gottlieb in April 2023, combined with organic growth in Europe and new business wins, offset lower demand from customers in the UK and Ireland.
- Operating profit before amortisation increased by 6% to £9.4m (H1 2022: £8.9m) through effective management of input pricing which offset inflation in operating costs.

Manufacturing Operations

- Manufacturing Operations delivered strong revenue growth of 13% to £17.7m (H1 2022: £15.7m).
- A good contribution from Suttons, acquired in February 2023, offset the slower demand in certain industrial markets.
- Operating profit before amortisation increased 36% to £3.4m (H1 2022: £2.5m).

Group

- Effective management of working capital resulted in net cash inflow from operating activities of £20.3m (H1 2022: £6.5m).
- Net bank debt on 30 June 2023 was £3.3m – a cash inflow of £0.1m from 31 December 2022, after £11.4m of investment in acquisitions and £1.4m of capital expenditure. The Group is operating well within its bank facility of £35.0m, increased from £30.0m at 31 December 2022, which runs until 31 December 2025.
- Pension scheme surplus increased to £12.8m at 30 June 2023 (31 December 2022: £10.2m). The improvement is due to continued contributions from the Group and an increase in the discount rate, offset by lower investment returns in H1 2023.
- Interim dividend increased to 0.94p per share (H1 2022: 0.90p per share) – to be paid on 12 October 2023 to shareholders on the register as at 15 September 2023 (ex-dividend date 14 September 2023).

Chair's statement

The Group has demonstrated resilience in the first half of 2023, against the backdrop of a slowdown in customer demand.

Aleen Gulvanessian

We have executed two high quality acquisitions which are both performing well, we continue to make good progress in Europe and have positive new business momentum. The inflationary impact of operating cost increases has been offset by effective input price management. We opened our new Northern Innovation Lab in March 2023 which is already having early success in helping our customers reduce their total cost of packaging and carbon footprint.

Outlook

Whilst we expect the second half of 2023 to remain challenging, our good progress in Europe, diverse customer base, strong new business momentum and effective management of pricing and costs mean that our profit expectations for the full year remain unchanged.

Aleen Gulvanessian
Chair

24 August 2023

Interim results – management report

Macfarlane Group's trading activities comprise Packaging Distribution and Manufacturing Operations.

Packaging Distribution

Macfarlane's Packaging Distribution business is the UK's leading specialist distributor of protective packaging materials, with a growing presence in Europe. Macfarlane operates a stock and serve supply model in the UK, Ireland, the Netherlands, and Germany from 27 Regional Distribution Centres ('RDCs') and three 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 offering and through the recruitment and retention of high-quality staff with good local market knowledge. On a national and international basis, Macfarlane has market focus, expertise and a breadth of product and service knowledge, all of which enable 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 effective packaging solutions, optimising warehousing and transportation, reducing damages and returns, and improving packaging efficiency.

	H1 2023 £000	H1 2022 £000
Revenue	**123,955**	123,533
Cost of sales	**(81,563)**	(83,627)
Gross margin	**42,392**	39,906
Overheads	**(32,954)**	(31,022)
Operating profit before amortisation	**9,438**	8,884
Amortisation	**(1,461)**	(1,379)
Operating profit	**7,977**	7,505

The main features of Packaging Distribution performance in H1 2023 were:

- Some weakening of demand from customers in the UK and Ireland.
- Good organic growth in Europe through our 'Follow the Customer' strategy.
- Revenue growth of £6.3m achieved from the acquisition of Gottlieb in April 2023 and PackMann in May 2022.
- New business in H1 2023 24% higher than H1 2022, with early success from our new Northern Innovation Lab.
- Effective management of input prices which has offset the impact of inflationary increases in operating costs, particularly energy and labour.
- Increase in operating profit before amortisation of 6%.
- Improvement in operating profit before amortisation as a percentage of revenue to 7.6% (H1 2022: 7.2%).

* 'Significant Six' represents the six key costs in a customer's packing process being transport, warehousing, administration, damages and returns, productivity and customer experience.

Interim results – management report (continued)

The key areas we will focus on in H2 2023 are to:

- Accelerate new business momentum through effective use of our leading sales tools and processes – 'Packaging Optimiser'*, Significant Six and our Innovation Labs.
- Support our customers to reduce their carbon footprint through offering more sustainable packaging solutions.
- Continue to effectively manage input price changes.
- Achieve benefits from our information technology investments in Microsoft Dynamics, Slimstock, and Warehouse Management.
- Introduce improvements to our web-based solutions to provide customers with access to our full range of products and services more easily.
- Accelerate the progress we have made in Europe through our 'Follow the Customer' programme and PackMann, acquired in H1 2022.
- Reduce operating costs through efficiency programmes in sales, logistics and administration.
- Plan our second major site consolidation in the East Midlands.
- Maintain our focus on working capital management to facilitate future investment and manage effectively the ongoing bad debt risk within the current economic environment.
- Supplement organic growth through progressing further high-quality acquisitions in the UK and Europe.

Manufacturing Operations

Manufacturing Operations comprises our Packaging Design and Manufacture business as well as GWP, acquired in February 2021, and Suttons acquired in March 2023.

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 five manufacturing sites, in Grantham, Westbury, Swindon, Salisbury and Chatteris, 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.

	H1 2023 £000	H1 2022 £000
Revenue	**17,657**	15,676
Cost of sales	**(8,729)**	(8,486)
Gross margin	**8,928**	7,190
Overheads	**(5,527)**	(4,690)
Operating profit before amortisation	**3,401**	2,500
Amortisation	**(578)**	(401)
Operating profit	**2,823**	2,099

* Packaging Optimiser is a Macfarlane developed software tool that measures the financial and carbon benefits of the Significant Six selling approach.

Good growth in operating profit of 34% has been achieved, despite slowing demand in certain industrial sectors, by:

- A strong contribution from the acquisition of Suttons in February 2023.
- Effective management of input pricing to offset increasing operating costs, particularly energy and labour.

The priorities for Manufacturing Operations in the second half of 2023 are to:

- Increase momentum of new business growth in target sectors e.g. medical and defence.
- Prioritise new sales activity of our higher added-value bespoke composite pack product range.
- Work with our customers to effectively manage material price changes.
- Continue to strengthen the relationship with our Packaging Distribution businesses to create both sales and cost synergies.
- Supplement organic growth through progressing further high-quality acquisitions in the UK.

Summary and future prospects

Macfarlane Group's businesses all have strong market positions with differentiated product and service offerings. We have a flexible business model and we effectively implement our strategic plan, which is reflected in consistent profit growth and cash generation over a sustained period.

Our future performance continues to depend on our effectiveness in growing sales and managing input prices, increasing efficiencies and bringing high quality acquisitions into the Group. There will continue to be challenges in 2023, with rising costs and weak demand. However, our strategy and business model have proved to be resilient and we expect to deliver further growth in 2023 and beyond.

Interim results – management report
(continued)

Risks and uncertainties

The Group operates a formal framework for the identification and evaluation of the major business risks faced by each business and determines an appropriate course of action to manage these risks.

The principal risks and uncertainties which could impact on the performance of the Group, together with the mitigating actions, were outlined on pages 24 to 28 in our Annual Report and Accounts for 2022 (available on our website at **www.macfarlanegroup.com**). These remain the same for the remaining six months of the current financial year and are summarised below:

- Due to a range of prolonged geopolitical and economic uncertainties within the UK and other markets, there is an increased risk that we are entering into a challenging trading environment. If this materialises, the length and depth of such an environment is unknown and may adversely affect our ability to deliver upon agreed strategic initiatives. We may also need to adapt our business quickly in order to limit the impact upon the Group's results, prospects and reputation.
- 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.
- Customers are increasingly focused on the environmental impacts of packaging, changing their buying behaviours in response to climate and sustainability concerns. Some investors are looking to invest in companies that demonstrate strong ESG credentials. There is increasing regulatory focus around reporting disclosures and new requirements, such as the Plastic Tax introduced from April 2022. This cost is recharged directly onto our customers. 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 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.
- 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 has a property portfolio comprising one owned site and 52 leased sites. This multi-site portfolio gives rise to risks in relation to ongoing lease costs, dilapidations and fluctuations in value.
- 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 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 £35m (£5m increase from 31 December 2022). 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 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.

Cautionary statement

This announcement has been prepared solely to provide additional information to shareholders 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 condensed 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 Interim Results Statement should be construed as a profit forecast or an invitation to deal in the securities of the Group.

Responsibility statement

The Directors of Macfarlane Group PLC during the first six months of 2023 were:

A. Gulvanessian	Chair
P.D. Atkinson	Chief Executive
I. Gray	Finance Director
R. McLellan	Non-Executive Director/ Senior Independent Director
J.W.F. Baird	Non-Executive Director
L.D. Whyte	Non-Executive Director

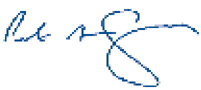
The Directors confirm that, to the best of their knowledge:

(i) the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;

(ii) the interim management report includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(iii) the interim management report includes a fair review of the information required by DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Approved by the Board of Directors on 24 August 2023 and signed on its behalf by:



Peter D. Atkinson
Chief Executive

Ivor Gray
Finance Director

Condensed consolidated income statement (unaudited) For the six months ended 30 June 2023

	Note	**Six months to 30 June 2023 £000**	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Continuing operations				
Revenue	4	**141,612**	139,209	290,431
Cost of sales		**(90,292)**	(92,113)	(192,374)
Gross profit		**51,320**	47,096	98,057
Distribution costs		**(5,265)**	(5,169)	(10,736)
Administrative expenses		**(35,255)**	(32,323)	(65,825)
Operating profit	4	**10,800**	9,604	21,496
Finance costs	5	**(813)**	(747)	(1,562)
Profit before tax		**9,987**	8,857	19,934
Tax	6	**(2,477)**	(1,882)	(4,210)
Profit for the period from continuing operations	4	**7,510**	6,975	15,724
Discontinued operations				
Loss for the period from discontinued operations		**–**	(87)	(87)
Profit for the period		**7,510**	6,888	15,637
Earnings per share from continuing operations	8			
Basic		**4.74p**	4.41p	9.94p
Diluted		**4.70p**	4.36p	9.84p
Earnings per share from continuing and discontinued operations	8			
Basic		**4.74p**	4.36p	9.89p
Diluted		**4.70p**	4.31p	9.78p

Condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 30 June 2023

	Note	**Six months to 30 June 2023 £000**	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Items that may be reclassified to profit or loss				
Foreign currency translation differences		**(64)**	5	45
Items that will not be reclassified to profit or loss				
Remeasurement of pension scheme liability	11	**1,700**	(825)	(82)
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	12	**(425)**	206	21
Other comprehensive income for the period, net of tax		**1,211**	(614)	(16)
Profit for the period		**7,510**	6,888	15,637
Total comprehensive income for the period		**8,721**	6,274	15,621

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2023

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000	**Total £000**
At 1 January 2023		39,584	13,573	70	(7)	216	52,584	**106,020**
Comprehensive income								
Profit for the period		–	–	–	–	–	7,510	**7,510**
Foreign currency translation differences		–	–	–	–	(64)	–	**(64)**
Remeasurement of pension scheme liability	11	–	–	–	–	–	1,700	**1,700**
Tax on remeasurement of pension scheme liability	12	–	–	–	–	–	(425)	**(425)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(64)**	**8,785**	**8,721**
Transactions with shareholders								
Dividends	7	–	–	–	–	–	(3,990)	**(3,990)**
Share-based payments		–	–	–	–	–	254	**254**
Total transactions with shareholders		**–**	**–**	**–**	**–**	**–**	**(3,736)**	**(3,736)**
At 30 June 2023		**39,584**	**13,573**	**70**	**(7)**	**152**	**57,633**	**111,005**

Condensed consolidated statement of changes in equity (unaudited)

For the six months ended 30 June 2022

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000	**Total £000**
At 1 January 2022		39,453	13,148	70	–	171	42,052	**94,894**
Comprehensive income								
Profit for the period		–	–	–	–	–	6,888	**6,888**
Foreign currency translation differences		–	–	–	–	5	–	**5**
Remeasurement of pension scheme liability	11	–	–	–	–	–	(825)	**(825)**
Tax on remeasurement of pension scheme liability	12	–	–	–	–	–	206	**206**
Total comprehensive income		**–**	**–**	**–**	**–**	**5**	**6,269**	**6,274**
Transactions with shareholders								
Dividends	7	–	–	–	–	–	(3,677)	**(3,677)**
New shares issued		131	425	–	(7)	–	(549)	**–**
Share-based payments		–	–	–	–	–	337	**337**
Total transactions with shareholders		**131**	**425**	**–**	**(7)**	**–**	**(3,889)**	**(3,340)**
At 30 June 2022		**39,584**	**13,573**	**70**	**(7)**	**176**	**44,432**	**97,828**

Condensed consolidated statement of changes in equity

For the year ended 31 December 2022

	Note	Share capital £000	Share premium £000	Revaluation reserve £000	Own shares £000	Translation reserve £000	Retained earnings £000	**Total £000**
At 1 January 2022		39,453	13,148	70	–	171	42,052	**94,894**
Comprehensive income								
Profit for the period		–	–	–	–	–	15,637	**15,637**
Foreign currency translation differences		–	–	–	–	45	–	**45**
Remeasurement of pension scheme liability	11	–	–	–	–	–	(82)	**(82)**
Tax on remeasurement of pension scheme liability	12	–	–	–	–	–	21	**21**
Total comprehensive income		**–**	**–**	**–**	**–**	**45**	**15,576**	**15,621**
Transactions with shareholders								
Dividends	7	–	–	–	–	–	(5,102)	**(5,102)**
New shares issued		131	425	–	(7)	–	(549)	**–**
Share-based payments		–	–	–	–	–	607	**607**
Total transactions with shareholders		**131**	**425**	**–**	**(7)**	**–**	**(5,044)**	**(4,495)**
At 31 December 2022		**39,584**	**13,573**	**70**	**(7)**	**216**	**52,584**	**106,020**

Condensed consolidated balance sheet (unaudited)

At 30 June 2023

	Note	30 June 2023 £000	30 June 2022 £000	31 December 2022 £000
Non-current assets				
Goodwill and other intangible assets		**86,531**	79,447	75,685
Property, plant and equipment		**9,076**	7,591	7,863
Right of use assets		**35,287**	33,807	33,938
Trade and other receivables		**35**	35	38
Deferred tax assets	12	**106**	19	105
Retirement benefit surplus	11	**12,771**	8,847	10,199
Total non-current assets		**143,806**	129,746	127,828
Current assets				
Inventories		**19,929**	25,150	22,608
Trade and other receivables		**54,878**	60,833	59,347
Current tax asset		**540**	–	675
Cash and cash equivalents	10	**5,863**	6,804	5,706
Total current assets		**81,210**	92,787	88,336
Total assets	4	**225,016**	222,533	216,164
Current liabilities				
Trade and other payables		**53,176**	61,184	54,577
Provisions		**723**	1,370	1,769
Current tax liabilities		**1,024**	524	304
Lease liabilities	10	**7,042**	6,139	6,641
Bank borrowings	10	**9,190**	16,473	9,143
Total current liabilities		**71,155**	85,690	72,434
Net current assets		**10,055**	7,097	15,902
Non-current liabilities				
Deferred tax liabilities	12	**10,517**	8,241	8,222
Trade and other payables		**1,576**	908	–
Provisions		**1,583**	1,848	1,560
Lease liabilities	10	**29,180**	28,018	27,928
Total non-current liabilities		**42,856**	39,015	37,710
Total liabilities		**114,011**	124,705	110,144
Net assets	4	**111,005**	97,828	106,020
Equity				
Share capital		**39,584**	39,584	39,584
Share premium		**13,573**	13,573	13,573
Revaluation reserve		**70**	70	70
Own shares		**(7)**	(7)	(7)
Translation reserve		**152**	176	216
Retained earnings		**57,633**	44,432	52,584
Total equity		**111,005**	97,828	106,020

Condensed consolidated cash flow statement (unaudited)

For the six months ended 30 June 2023

	Note	**Six months to 30 June 2023 £000**	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Profit/(loss) before tax from:				
Continuing operations		**9,987**	8,857	19,934
Discontinued operations		**–**	(87)	(87)
Total operations		**9,987**	8,770	19,847
Adjustments for:				
Amortisation of intangible assets		**2,039**	1,780	3,577
Depreciation of property, plant, equipment		**814**	693	1,498
Depreciation of right-of-use assets		**3,843**	3,768	7,542
(Gain)/loss on disposal of property, plant, equipment		**(4)**	132	71
Loss on disposal of subsidiaries		**–**	87	87
Share-based payment expense		**254**	337	607
Finance costs		**813**	747	1,562
Operating cash flows before movements in working capital		**17,746**	16,314	34,791
Decrease/(increase) in inventories		**3,253**	(1,517)	1,025
Decrease/(increase) in receivables		**5,994**	(586)	285
Decrease in payables		**(1,793)**	(2,923)	(9,027)
Decrease in provisions		**(1,023)**	(360)	(249)
Pension contributions less current service costs		**(625)**	(1,322)	(1,838)
Cash generated from operations		**23,552**	9,606	24,987
Income taxes paid		**(2,192)**	(2,322)	(5,251)
Interest paid		**(1,060)**	(830)	(1,738)
Net cash inflow from operating activities		**20,300**	6,454	17,998
Investing activities				
Acquisitions	9	**(11,370)**	(9,268)	(8,655)
Proceeds from sales of subsidiaries		**–**	166	166
Proceeds on disposal of property, plant and equipment		**60**	92	181
Purchases of property, plant and equipment		**(1,366)**	(2,271)	(3,285)
Net cash flows from investing activities		**(12,676)**	(11,281)	(11,593)
Financing activities				
Dividends paid	7	**(3,990)**	(3,677)	(5,102)
Drawdown of bank borrowings		**(316)**	5,957	(865)
Repayment of lease obligations	10	**(3,524)**	(3,640)	(7,215)
Net cash flows from financing activities		**(7,830)**	(1,360)	(13,182)
Net decrease in cash and cash equivalents		**(206)**	(6,187)	(6,777)
Cash and cash equivalents at beginning of period		**5,346**	12,123	12,123
Cash and cash equivalents at end of period		**5,140**	5,936	5,346

	Note	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Reconciliation to condensed consolidated cash flow statement				
Cash and cash equivalents per the balance sheet	10	**5,863**	6,804	5,706
Bank overdraft		**(723)**	(868)	(360)
Balances per the cash flow statement		**5,140**	5,936	5,346

Notes to the condensed financial statements (unaudited)

For the six months ended 30 June 2023

1. Basis of preparation

Macfarlane Group PLC is a public company listed on the London Stock Exchange, incorporated and domiciled in the United Kingdom and registered in Scotland.

The Group's annual financial statements for the year ended 31 December 2022 were prepared in accordance with United Kingdom adopted international accounting standards. This condensed set of interim financial statements has been prepared in accordance with United Kingdom adopted International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This condensed set of interim financial statements has been prepared applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2022. There were no major changes from the adoption of new IFRS's in 2023.

Critical judgements and 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 period. Due to the nature of estimation, the actual outcomes may well differ from these estimates.

Critical judgements

The Directors have assessed the impact of climate change and consider that this does not have a significant impact on these financial statements.

Property provisions of £2.3m have been recognised as at 30 June 2023 (31 December 2022: £3.3m), representing the Directors' best estimate of dilapidations on property leases. The Directors have made the judgement that no provision is required for certain property leases where there is no intention to exit, having considered a number of factors including the extent of modifications to the property, the terms of the lease agreement, and the condition of the property.

No other significant critical judgements have been made in the current or prior year.

Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

- The determination of any defined benefit pension scheme asset or liability is based on assumptions determined with independent actuarial advice. The key assumptions used include discount rate and inflation rate 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 period.
- The provision held against trade receivables considers 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.

Business activities, risks and financing

The Group's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Interim Management Report.

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. Although the current economic climate indicates an increased level of risk, the Directors believe that the Group is adequately placed to manage its financial risks effectively.

The Group's banking arrangement with Bank of Scotland PLC comprises a committed facility of £35m, expiring in December 2025, secured over the assets of Macfarlane Group UK Limited, GWP Group Limited and GWP Holdings Limited subsidiaries of Macfarlane Group PLC and bearing interest at commercial rates. The facility has financial covenants for interest cover and trade receivables headroom.

The Directors have reviewed the Group's cash and profit projections, which they believe are based on prudent market data and past experience taking account of reasonably possible changes in trading performance given current market and economic conditions. The Directors are of the opinion that these projections show that the Group should be able to operate within its current facilities and comply with its banking covenants.

In assessing the going concern basis, the Directors have considered the Group's business activities, the financial position of the Group and the Group's risks and uncertainties. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason, this condensed set of financial statements has been prepared on the going concern basis.

Approval and review of condensed financial statements

These condensed financial statements were approved by the Board of Directors on 24 August 2023. As in previous years, the set of condensed financial statements for the half-year is unaudited.

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2023

2. Alternative performance measure

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 performance 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

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Operating profit before amortisation	**12,839**	11,384	25,073
Customer relationships/brand values amortisation	**(2,039)**	(1,780)	(3,577)
Operating profit	**10,800**	9,604	21,496

3. General information

Comparative figures for the year ended 31 December 2022 are extracted from Macfarlane Group's statutory accounts for 2022. The information for the year ended 31 December 2022 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor on 23 February 2023 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.

4. Segmental information

The Group's principal business segment is **Packaging Distribution**, comprising the distribution of packaging materials and supply of storage services in the UK, Ireland and Europe. Other operations for the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK comprise one segment headed **Manufacturing Operations**.

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Group segment – total revenue			
Packaging Distribution	**123,955**	123,533	259,651
Manufacturing Operations	**20,194**	17,739	35,045
Inter-segment revenue	**(2,537)**	(2,063)	(4,265)
Revenue	**141,612**	139,209	290,431

Trading results – continuing operations

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Packaging Distribution			
Total and external revenue	**123,955**	123,533	259,651
Cost of sales	**(81,563)**	(83,627)	(176,193)
Gross profit	**42,392**	39,906	83,458
Net operating expenses	**(32,954)**	(31,022)	(63,590)
Operating profit before amortisation	**9,438**	8,884	19,868
Amortisation	**(1,461)**	(1,379)	(2,774)
Operating profit	**7,977**	7,505	17,094
Manufacturing Operations			
Total revenue	**20,194**	17,739	35,045
Inter-segment revenue	**(2,537)**	(2,063)	(4,265)
External revenue	**17,657**	15,676	30,780
Cost of sales	**(8,729)**	(8,486)	(16,181)
Gross profit	**8,928**	7,190	14,599
Net operating expenses	**(5,527)**	(4,690)	(9,394)
Operating profit before amortisation	**3,401**	2,500	5,205
Amortisation	**(578)**	(401)	(803)
Operating profit	**2,823**	2,099	4,402

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Operating profit – continuing operations			
Packaging Distribution	**7,977**	7,505	17,094
Manufacturing Operations	**2,823**	2,099	4,402
Operating profit	**10,800**	9,604	21,496
Finance costs (note 5)	**(813)**	(747)	(1,562)
Profit before tax	**9,987**	8,857	19,934
Tax (note 6)	**(2,477)**	(1,882)	(4,210)
Profit for the period from continuing operations	**7,510**	6,975	15,724
Loss for the period from discontinued operations	**–**	(87)	(87)
Profit for the period	**7,510**	6,888	15,637

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2023

4. Segmental information (continued)

	30 June 2023 £000	30 June 2022 £000	31 December 2022 £000
Total assets			
Packaging Distribution	**183,439**	192,221	188,866
Manufacturing Operations	**41,577**	30,312	27,298
Total assets	**225,016**	222,533	216,164
Net assets			
Packaging Distribution	**81,094**	77,718	85,929
Manufacturing Operations	**29,911**	20,110	20,091
Net assets	**111,005**	97,828	106,020

5. Finance costs

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Interest on bank borrowings	**399**	279	616
Interest on leases	**661**	551	1,122
Finance income relating to defined benefit pension scheme (note 11)	**(247)**	(83)	(176)
Total finance costs from continuing operations	**813**	747	1,562

6. Tax

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Current tax			
UK corporation tax	**2,376**	1,786	3,680
Foreign tax	**291**	113	253
Prior year adjustments	**24**	(21)	(21)
Total current tax	**2,691**	1,878	3,912
Deferred tax – Current year	**(214)**	4	207
– Prior year adjustments	**–**	–	91
Total deferred tax (note 12)	**(214)**	4	298
Total tax	**2,477**	1,882	4,210

Tax for the six months ended 30 June 2023 has been charged at 23.50% (2022: 19.00%) representing the best estimate of the effective tax charge for the full year. Deferred tax assets and liabilities at 30 June 2023 have been calculated based on the long-term corporation tax rate of 25%, which had been substantively enacted at that date.

7. Dividends

			Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Amounts recognised as distributions to equity holders in the period					
Final dividend	(2.52p per share)	(2022: 2.33p per share)	**3,990**	3,677	3,677
Interim dividend		(2022: 0.90p per share)	**–**	–	1,425
Distributions in the period			**3,990**	3,677	5,102

An interim dividend of 0.94p per share, payable on 12 October 2023, was declared on 24 August 2023 and has therefore not been included as a liability in these condensed financial statements.

8. Earnings per share

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Earnings			
Profit for the period from continuing operations	**7,510**	6,975	15,724
Loss for the period from discontinued operations	**–**	(87)	(87)
Profit for the period from continuing and discontinued operations	**7,510**	6,888	15,637

	30 June 2023	30 June 2022	31 December 2022
Number of shares '000			
Weighted average number of shares in issue for the purposes of basic earnings per share	**158,337**	157,987	158,162
Effect of Long-Term Incentive Plan awards in issue	**1,574**	1,834	1,661
Weighted average number of shares in issue for the purposes of diluted earnings per share	**159,911**	159,821	159,823
Basic earnings per share from continuing operations	**4.74p**	4.41p	9.94p
Diluted earnings per share from continuing operations	**4.70p**	4.36p	9.84p
Basic earnings per share from discontinued operations	**–p**	(0.06)p	(0.06)p
Diluted earnings per share from discontinued operations	**–p**	(0.05)p	(0.05)p
Basic earnings per share from continuing and discontinued operations	**4.74p**	4.36p	9.89p
Diluted earnings per share from continuing and discontinued operations	**4.70p**	4.31p	9.78p

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2023

9. Acquisitions

On 3 March 2023, Macfarlane Group UK Limited ('MGUK') acquired 100% of A.E. Sutton Limited, for a total consideration of £13.5m and inherited net cash/bank balances of £5.3m. Contingent consideration of £2.5m is payable in the second quarters of 2024 and 2025, subject to certain trading targets being met in the two twelve-month periods ending on 29 February 2024 and 28 February 2025 respectively.

On 28 April 2023, MGUK acquired 100% of A & G Holdings Limited, the parent company of Gottlieb Packaging Materials Limited, for a total consideration of £4.2m and inherited net cash/bank balances of £0.9m. Contingent consideration of £0.8m is payable in the second quarters of 2024 and 2025, subject to certain trading targets being met in the two twelve-month periods ending on 30 April 2024 and 2025 respectively.

£2.1m was paid in 2023 to the sellers of GWP Holdings Limited, acquired in 2021, as the profit target was met for the twelve-month period ending 28 February 2023. £0.8m was held back subject to conclusion of an outstanding warranty claim.

£0.8m was paid in 2023 to the sellers of Carters (Cornwall) Limited, acquired in 2021, as the profit target was met for the twelve-month period ending 31 March 2023.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £3.8m at the balance sheet date based on a range of outcomes between £Nil and £5.6m. Trading in the post-acquisition period supports the remeasured value of £3.8m.

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

		Six months to 30 June 2023 £000
Net assets acquired		
Other intangible assets		**7,838**
Property, plant and equipment		**2,241**
Inventories		**574**
Trade and other receivables		**1,522**
Cash and bank balances		**6,194**
Trade and other payables		**(1,817)**
Current tax liabilities		**(361)**
Lease liabilities		**(1,521)**
Deferred tax liabilities		**(2,083)**
Net assets acquired		**12,587**
Goodwill		**5,047**
Total consideration		**17,634**
Contingent consideration on acquisitions	– Current year	**(2,985)**
	– Prior years	**2,915**
Total cash consideration		**17,564**
Net cash outflow arising on acquisition		
Cash consideration		**(17,564)**
Cash and bank borrowings acquired		**6,194**
Net cash outflow		**(11,370)**

10. Analysis of changes in net debt

	Cash and cash equivalents £000	Bank borrowing £000	Lease liabilities £000	**Total debt £000**
Total debt				
At 1 January 2022	12,315	(9,840)	(34,942)	**(32,467)**
Non-cash movements				
Acquisitions	–	–	(739)	**(739)**
Disposals	–	–	163	**163**
New leases	–	–	(1,743)	**(1,743)**
Exchange movements	–	–	(4)	**(4)**
Lease modifications	–	–	(532)	**(532)**
Cash movements	(5,511)	(6,633)	3,640	**(8,504)**
At 30 June 2022	6,804	(16,473)	(34,157)	**(43,826)**
Non-cash movements				
Acquisitions	–	–	(895)	**(895)**
Disposals	–	–	74	**74**
New leases	–	–	(2,803)	**(2,803)**
Exchange movements	–	–	4	**4**
Lease modifications	–	–	(367)	**(367)**
Cash movements	(1,098)	7,330	3,575	**9,807**
At 31 December 2022	5,706	(9,143)	(34,569)	**(38,006)**
Non-cash movements				
Acquisitions	–	–	(1,521)	**(1,521)**
Disposals	–	–	52	**52**
New leases	–	–	(634)	**(634)**
Exchange movements	–	–	57	**57**
Lease modifications	–	–	(3,131)	**(3,131)**
Cash movements	157	(47)	3,524	**3,634**
At 30 June 2023	**5,863**	**(9,190)**	**(36,222)**	**(39,549)**
Total cash movements for 2022	(6,609)	697	7,215	1,303

Net bank debt

	Cash and cash equivalents £000	Bank borrowing £000	**Net bank debt £000**
At 30 June 2023	**5,863**	**(9,190)**	**(3,327)**
At 31 December 2022	5,706	(9,143)	(3,437)

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2023

11. Retirement benefit obligations

The figures below have been prepared by Aon based on the results of the triennial actuarial valuation as at 1 May 2020 updated to 30 June 2022, 31 December 2022 and 30 June 2023. The scheme investments and the scheme's net surplus position as calculated under IAS 19 are as follows:

Investment class	30 June 2023 £000	30 June 2022 £000	31 December 2022 £000
Equities			
UK equity funds	**6,005**	7,304	6,616
Overseas equity funds	**15,608**	13,234	13,671
Multi-asset diversified growth funds	**12,259**	27,061	12,674
Bonds			
Multi-asset credit fund	**1,024**	–	–
Liability-driven investment funds	**20,956**	14,314	23,352
Other investments			
European loan fund	**7,024**	6,332	6,546
Secured property income fund	**5,638**	7,293	5,670
Cash	**736**	1,010	1,957
Fair value of scheme investments	**69,250**	76,548	70,486
Present value of scheme liabilities	**(56,479)**	(67,701)	(60,287)
Pension scheme surplus	**12,771**	8,847	10,199

These amounts were calculated using the following principal assumptions as required under IAS 19:

Assumptions	30 June 2023	30 June 2022	31 December 2022
Discount rate	**5.30%**	3.80%	4.80%
Rate of increase in pensionable salaries	**0.00%**	0.00%	0.00%
Rate of increase in pensions in payment	**3% or 5% for fixed increases or 3.17% for LPI**	3% or 5% for fixed increases or 3.22% for LPI	3% or 5% for fixed increases or 3.17% for LPI
PIE take up rate	**65%**	65%	65%
Inflation assumption (RPI)	**3.40%**	3.30%	3.40%
Inflation assumption (CPI)	**2.80%**	2.80%	2.80%
Life expectancy beyond normal retirement age of 65			
Scheme member aged 55 – Male	**22.6 years**	22.9 years	22.6 years
– Female	**24.3 years**	24.5 years	24.2 years
Scheme member aged 65 – Male	**22.1 years**	22.3 years	22.0 years
– Female	**23.5 years**	23.7 years	23.4 years
Average uplift for GMP service	**0.40%**	0.40%	0.40%

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Movement in scheme surplus in the period			
At start of period	**10,199**	8,267	8,267
Current service cost	**–**	(24)	(42)
Employer contributions	**625**	1,346	1,991
Past service costs (curtailed due to closure of the scheme)	**–**	–	(111)
Net finance income	**247**	83	176
Remeasurement of pension scheme liability in the period	**1,700**	(825)	(82)
At end of period	**12,771**	8,847	10,199

Sensitivity to key assumptions

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 surplus. Assuming all other assumptions are held static then a movement in the following key assumptions would affect the level of the surplus as shown below:

Assumptions	30 June 2023 £000	30 June 2022 £000	31 December 2022 £000
Discount rate movement of +3.0%	**20,327**	32,495	21,698
Inflation rate movement of +0.25%	**(541)**	(848)	(577)
Mortality movement of +0.1 year in age rating	**127**	203	136

Positive figures reflect a reduction in scheme liabilities and therefore an increase in the scheme surplus.

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Movement in fair value of scheme investments			
Scheme investments at start of period	**70,486**	100,423	100,423
Interest income	**1,645**	947	1,886
Return on scheme assets (exc. amount shown in interest income)	**(1,800)**	(23,758)	(29,475)
Contributions from sponsoring companies	**625**	1,346	1,991
Contribution from scheme members	**–**	4	9
Benefits paid	**(1,706)**	(2,414)	(4,348)
Scheme investments at end of period	**69,250**	76,548	70,486

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2023

11. Retirement benefit obligations (continued)

	Six months to 30 June 2023 £000	Six months to 30 June 2022 £000	Year to 31 December 2022 £000
Movement in present value of scheme liabilities			
Scheme liabilities at start of period	**(60,287)**	(92,156)	(92,156)
Normal service costs	**–**	(24)	(42)
Past service costs (curtailed due to closure of the scheme)	**–**	–	(111)
Interest cost	**(1,398)**	(864)	(1,710)
Contribution from scheme members	**–**	(4)	(9)
Actuarial gain due to the changes in financial and experience	**3,500**	22,933	29,393
Benefits paid	**1,706**	2,414	4,348
Scheme liabilities at end of period	**(56,479)**	(67,701)	(60,287)

Basis of recognition of surplus

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 Macfarlane Group PLC Pension & Life Assurance Scheme (1974) (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.

Investments

The Trustees review the Scheme investments regularly and consult with the Company regarding any changes.

Funding

Following the completion of the triennial actuarial valuation at 1 May 2020, Macfarlane Group PLC is paying deficit reduction contributions of £1.25m per annum with a deficit recovery period of 4 years. The Group paid a further £0.7m into the Scheme in H1 2022 to satisfy the debt agreed with the trustees in relation to the cessation of Macfarlane Labels Limited as a sponsoring employer.

12. Deferred tax

	Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement benefit obligations £000	**Total £000**
At 1 January 2022	**(319)**	**(5,065)**	**(2,069)**	**(7,453)**
Acquisitions	–	(971)	–	**(971)**
Credited/(charged) in income statement				
Current period	4	341	(349)	**(4)**
Charged in other comprehensive income	–	–	206	**206**
At 30 June 2022	**(315)**	**(5,695)**	**(2,212)**	**(8,222)**
Acquisitions	–	584	–	**584**
(Charged)/credited in income statement				
Current period	(488)	348	(154)	**(294)**
Charged in other comprehensive income	–	–	(185)	**(185)**
At 1 January 2023	**(803)**	**(4,763)**	**(2,551)**	**(8,117)**
Acquisitions	(124)	(1,959)	–	**(2,083)**
Credited/(charged) in income statement				
Current period	(31)	462	(217)	**214**
Credited in other comprehensive income	–	–	(425)	**(425)**
At 30 June 2023	**(958)**	**(6,260)**	**(3,193)**	**10,411**
Deferred tax assets	106	–	–	**106**
Deferred tax liabilities	(1,064)	(6,260)	(3,193)	**(10,517)**
At 30 June 2023	**(958)**	**(6,260)**	**(3,193)**	**(10,411)**

13. Related party transactions

Related party transactions for 2022 are disclosed in note 27 of the 2022 Annual Report. The Directors are satisfied that, other than the changes in the Retirement Benefit Obligations disclosed in note 11 above, there have been no changes which could have a material effect on the financial position of the Group in the first six months of the financial year.

Transactions between the Company and its subsidiaries 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 2023 will be disclosed in the Group's 2023 Annual Report. Peter Atkinson and Ivor Gray hold option awards over 1,468,294 and 658,910 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan awarded in 2020, 2021, 2022 and 2023.

There are no other related party transactions during the six-month period which require disclosure.

Notes to the condensed financial statements (unaudited) (continued)

For the six months ended 30 June 2023

14. Post balance sheet events

There are no post balance sheet events requiring disclosure.

15. Interim Report

The interim report will be posted to shareholders on 11 September 2023. Copies will be available from the registered office, 3 Park Gardens, Glasgow G3 7YE and available on the Company's website, www.macfarlanegroup.com, from that date.

Designed and produced by Thunderbolt Projects

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