MACFARLANE GROUP

2023 Results

Overview

- Executive Summary
- 2023 Results/Cash Flow
- Business Review
    - Packaging Distribution
    - Manufacturing Operations
- Pension Scheme
- Conclusions
- Appendix- Background Information

MACFARLANE GROUP

Executive Summary

£m	**2023 £m**	2022 £m	*Change*
Adjusted operating profit (AOP) *	**27.6**	25.1	*10%*
Adjusted profit before tax (APBT) *	**25.8**	23.5	*10%*
Profit before tax (PBT)	**20.3**	19.9	*2%*

* Before charging amortisation (2023: £4.0m; 2022: £3.6m) and deferred contingent consideration adjustments (2023: £1.5m; 2022: £nil)

- Challenging market conditions – weak demand and cost inflation
- Focus on "Self Help Programme"….
    - New Business Growth
    - Sales Momentum in Europe – "Follow the Customer"
    - More Effective Sourcing
    - Accelerate Acquisition Programme – Gottlieb/Suttons/B&D
    - Control Costs
- 2023 profit growth reflects a successful response to the challenging market conditions and the resilience of the Macfarlane business model

MACFARLANE GROUP

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 – 2023

Revenue and profit	Revenue ▼ 3%	APBT* ▲ 10%	AOP* ▲ 10%
Returns and balance sheet	Pre-tax ROCE ▼ 18%	Bank funds ▲ £0.5m	Pension surplus ▼ £9.9m
EPS and dividend	Diluted EPS** ▼ 5%	Dividend cover ▲ 2.6x	Dividend per share ▲ 3.59p

* Before charging amortisation (2023: £4.0m; 2022: £3.6m) and deferred contingent consideration adjustments (2023: £1.5m; 2022: £nil)

** Increase in average corporation tax rate to 23.5% (2022: 19.0%)

MACFARLANE GROUP

Income Statement

	2023 £m	2022 £m
Revenue	**280.7**	290.4
Gross Profit	**105.7 [37.6%]**	98.1 [33.8%]
Operating expenses	**(78.1)**	(73.0)
Adjusted operating profit	**27.6**	25.1
Amortisation and Deferred Contingent Consideration Adj.	**(5.5)**	(3.6)
Operating profit	**22.1**	21.5
Interest	**(1.8)**	(1.6)
Profit before tax	**20.3**	19.9
Diluted EPS	**9.34p**	9.84p
Dividend	**3.59p**	3.42p
Dividend cover	**2.6x**	2.9x

Cash Flow

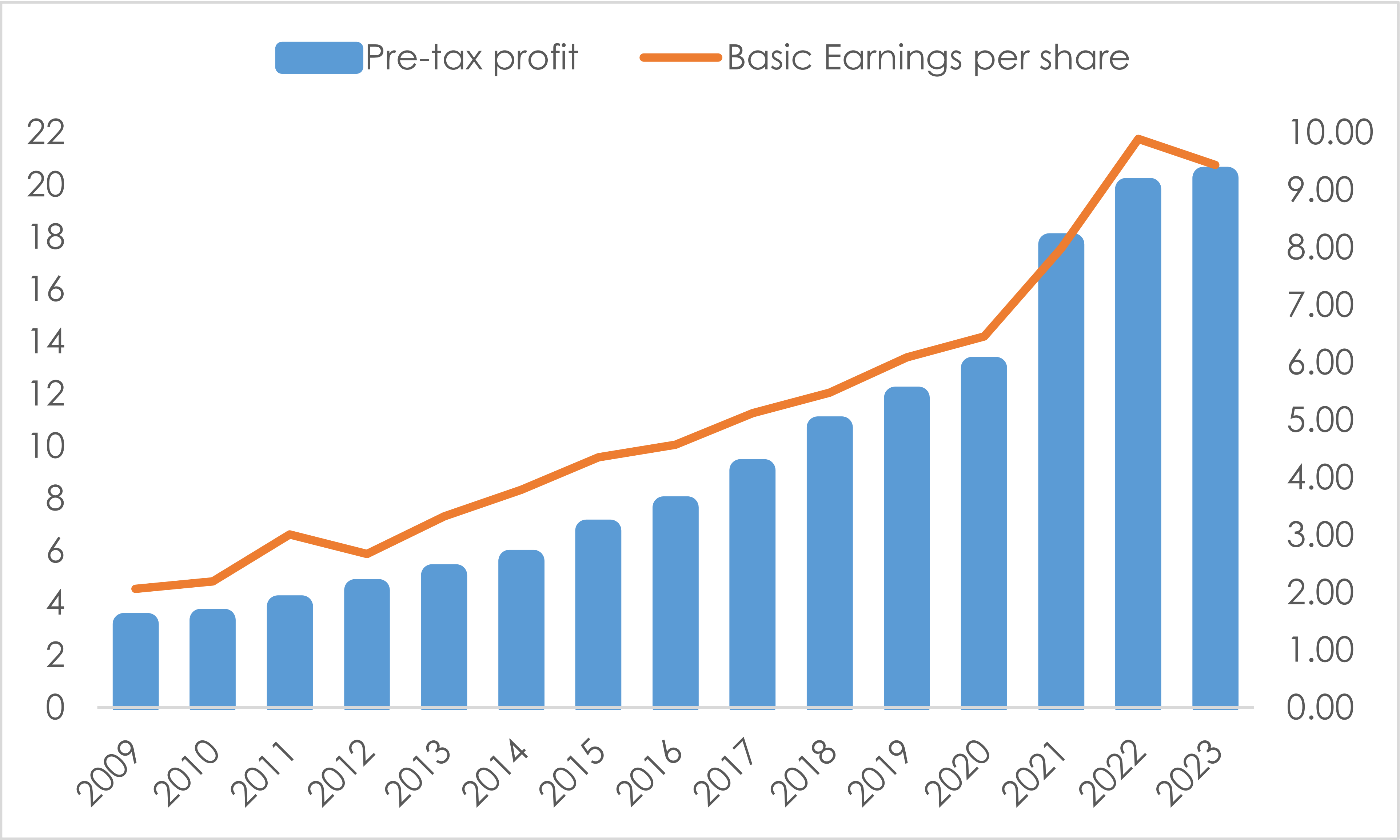
	2023 £m	2022 £m
EBIT	**22.1**	21.4
DA	**15.2**	12.8
EBITDA	**37.3**	34.2
Working Capital	**4.6**	(8.0)
Lease Obligations	**(7.5)**	(7.2)
Interest	**(2.3)**	(1.7)
Acquisitions	**(14.5)**	(8.7)
Disposal	**-**	0.2
Tax	**(5.4)**	(5.3)
Net capital expenditure	**(2.1)**	(3.1)
Pension	**(1.2)**	(1.8)
LTIP adj.	**0.6**	0.6
Dividend	**(5.5)**	(5.1)
Movement in bank debt	**4.0**	(5.9)

MACFARLANE GROUP

Capital Allocation

	Priorities	Approach	2023 Outcomes
1	Management of working capital and investment in capital expenditure to support organic growth	Working capital managed against benchmark number of days. Capital expenditure prioritised (i) essential/ replacement (ii) by investment returns	Cash inflow - £33.5m Capital expenditure - £2.2m
2	Earnings enhancing acquisitions	Based on investment returns and within a disciplined multiple to EBITDA range	£14.5m acquisition investment: • £11.6m on 2023 acquisitions • £2.9m deferred consideration
3	Sustainable and progressive dividend	Based on business performance and appropriate dividend cover	2023 dividend 3.59p per share Dividend cover 2.6 times
4	Return surplus cash to shareholders	Through share buybacks or enhanced dividends	None in 2023

Profit Progression



MACFARLANE GROUP

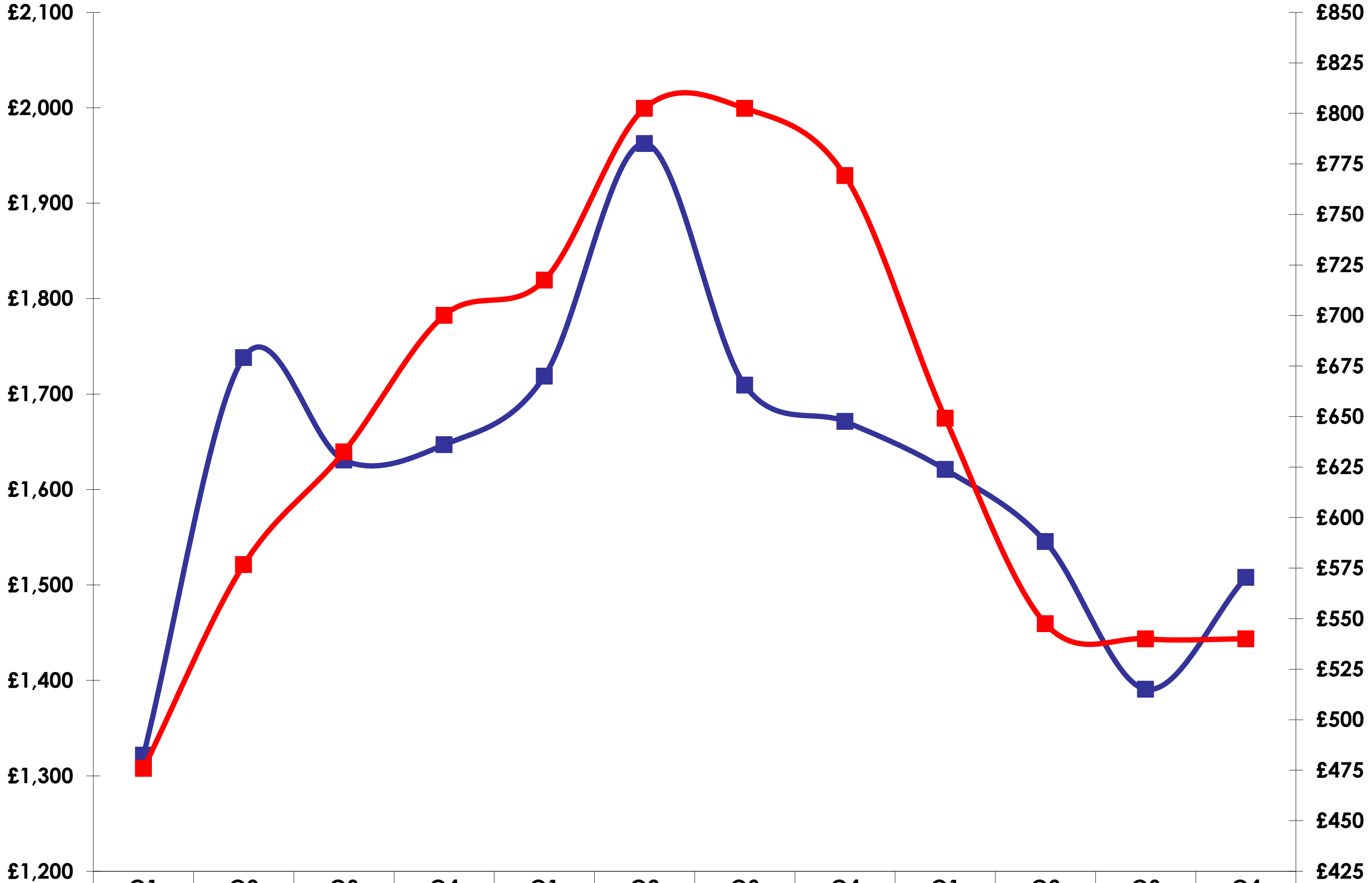
Packaging Distribution

- Organic revenue reduced by 9% versus 2022, with weak demand in the 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 £11.1m; up 24% vs 2022
- Improvement in NPS from 50 to 60
- Starting to benefit from new Innovation Lab
- Effective management of gross margin to offset increase in overheads due to inflation in energy/employee costs

£m	**2023**	2022
Revenue	**244.9**	259.7
Gross margin	**87.5 [35.7%]**	83.5 [32.1%]
Operating expenses	**66.5**	63.6
Adjusted operating profit	**21.0**	19.9
Adjusted operating profit margin	**8.6%**	7.7%
Net Promoter Score	**60**	50

MACFARLANE GROUP

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	Q3 2023	Q4 2023
Polymer £/tonne	£1,322	£1,738	£1,631	£1,647	£1,719	£1,963	£1,709	£1,671	£1,621	£1,545	£1,391	£1,508
Paper £/tonne	£476	£577	£633	£700	£718	£803	£803	£769	£649	£548	£540	£540

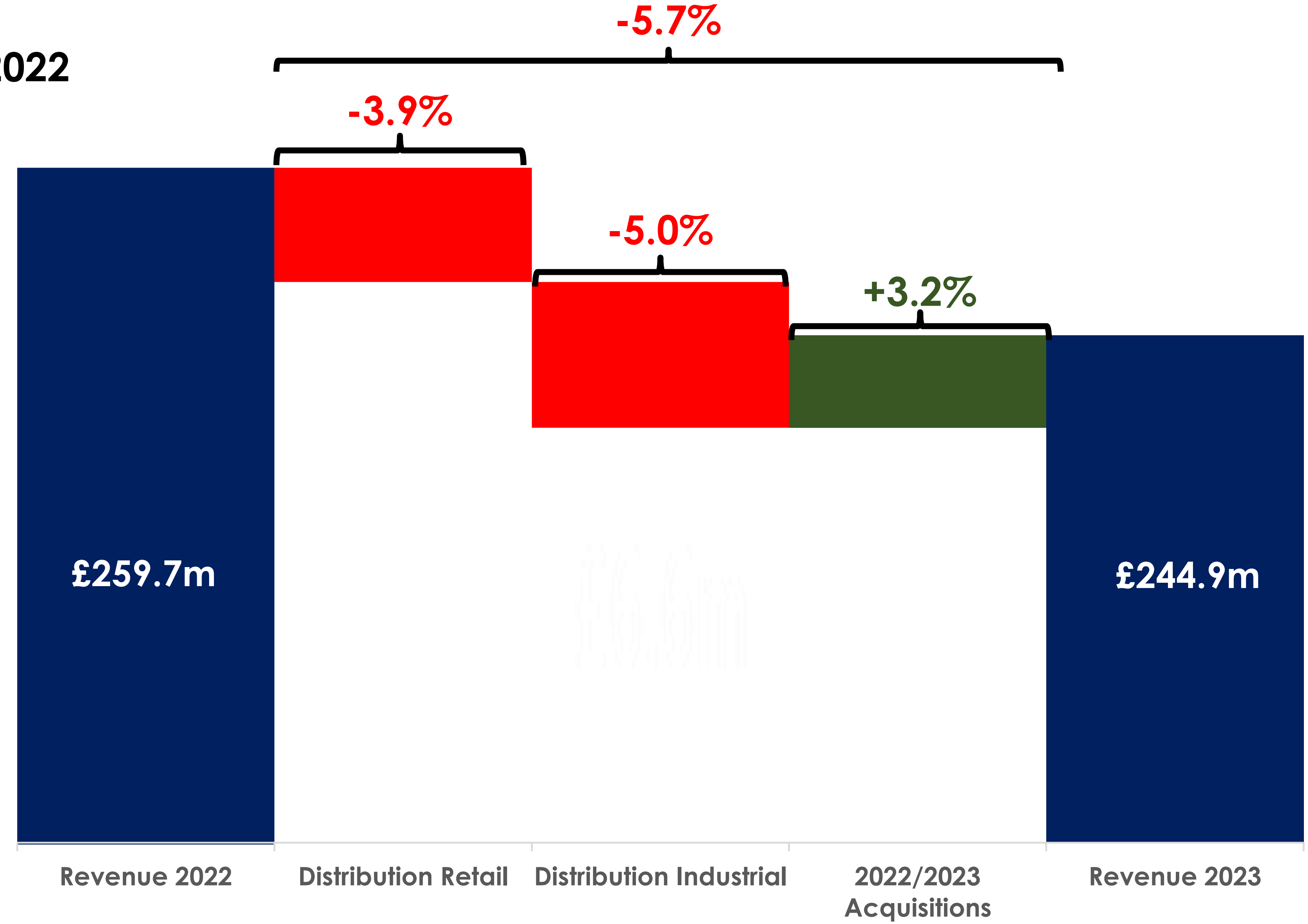
MACFARLANE GROUP

Packaging Distribution
Revenue Change 2023 vs 2022

Revenue reduced in 2023 vs 2022
-5.7%

Organic contraction
- 8.9% :
- Weak demand
- E.comm retail slow
- Customer churn
- Price deflation

Acquisitions **3.2%** positive contribution to revenue change:
- PackMann
- Gottlieb



Packaging Distribution
Operating expenses change 2023 vs 2022

	2023		2022	
	£m	**% of Revenue**	£m	% of Revenue
Employee costs	**36.6**	***15.0%***	35.3	*13.6%*
Transport (excluding employee costs)	**6.0**	***2.4%***	6.6	*2.5%*
Utility costs	**1.2**	***0.5%***	0.8	*0.3%*
IT	**2.8**	***1.1%***	2.9	*1.1%*
Other	**15.6**	***6.3%***	15.4	*6.0%*
Operating expenses (pre-investments)	**62.2**	***25.3%***	61.0	*23.5%*
New NW RDC start-up	**-**	***-%***	0.5	*0.2%*
Acquisitions (Gottlieb/PackMann)	**4.3**	***1.8%***	2.1	*0.8%*
Operating expenses (investments)	**4.3**	***1.8%***	2.6	*1.0%*
Total operating expenses	**66.5**	***27.1%***	63.6	*24.5%*

Packaging Distribution
Acquisitions

Acquisition	Location	Year	Sales	EBITDAx	Placing price	Integrated
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**	✓
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

Packaging Distribution Action Plan for 2024-2026

New Business Growth	Cost Inflation	Sourcing	Environmental Challenge	Pricing
Fully utilise benefits of Significant Six Programme and Innovation Labs Leverage benefits of Microsoft Dynamics Implement World Class Sales Programme	Improve productivity to offset salary inflation in an increasingly competitive labour market	Strengthen partnerships with key suppliers Improve utilisation of in-house supply opportunities	Leverage skills/ knowledge/ tools to support the sustainability goals of our customers	Maintain close management of sales pricing in line with input pricing changes

Online Capability	UK Acquisitions	Europe	Property
Re-launch website to improve online presence and visibility	Continue to successfully identify and execute quality UK acquisitions	Increase the pace of progress in Europe through Follow the Customer Programme Identify and execute quality European acquisitions	Manage the property footprint to ensure space is fully optimized: 2024 - E Midlands - National DC

Manufacturing Operations

- Strong performance from Suttons acquired in February 2023 and B&D acquired in September 2023
- Organic revenue 3% below 2022 with weaker demand from existing customers and price deflation
- New business revenue 11% above 2022
- Partnership with Distribution continues to grow with revenue of £5.2m in 2023 (2022: £4.3m)
- Effective management of gross margin, offsetting inflation in overheads
- Overhead increase of 24% due to the acquisitions (15%) and inflation in energy/employee costs (9%)

£m	**2023**	2022
Revenue*	**40.9**	35.0
Gross margin	**18.2 [44.5%]**	14.6 [41.7%]
Operating expenses	**11.6**	9.4
Adjusted operating profit	**6.6**	5.2
Adjusted operating profit margin	**16.1%**	14.9%
Sales to Distribution (as % of revenue)	**13%**	12%

* Including inter-segment sales to Distribution

GWPGroup

MACFARLANE PACKAGING DESIGN AND MANUFACTURE

Suttons PERFORMANCE PACKAGING

Barum & Dewar

MACFARLANE GROUP

Manufacturing Operations
Acquisitions

Acquisition	Location	Year	Sales	EBITDAx	Placing price	Integrated
GWP GWPGroup	Swindon/Salisbury	2021	£13.1m	5.5x	N/A	Ongoing
Suttons Suttons PERFORMANCE PACKAGING	Chatteris	2023	£7.4m	5x	N/A	Ongoing
B&D Barum & Dewar	Southampton	2023	£2.6m	5.5x	N/A	Ongoing

Manufacturing Operations Action Plan for 2024-2026

New Business	Salary Inflation	In House Supply	Environmental Challenge
Targeted sector growth: • Medical • Electronics • Aerospace • Space	Improve productivity to offset salary inflation in an increasingly competitive labour market	Strengthen in-house supply relationship with Distribution	Support our customers in achieving their sustainability goals
Integration	**Execute UK Acquisitions**	**Pricing**	**Investment**
Commence process of integrating : • Macfarlane PDM • GWP • Suttons • B&D	Develop and execute further UK acquisitions in the specialist protective packaging space	Maintain close management of sales prices in line with cost price changes	Make selective capital investments to reduce costs and improve customer service

MACFARLANE GROUP

Reducing our Impact

* 37% reduction in carbon intensity since 2019
* 22% absolute reduction in our carbon footprint since 2019
* 5 trucks and 32% of company cars now fully electric
* Solar panels installed at our Grantham manufacturing site
* 89% of electricity sourced from renewables
* 417 tonnes of carbon avoided through driver efficiencies
* Commenced Scope 3 baseline mapping

Supporting our Customers

* Over 100 customer visits to our Innovation Labs – supporting the achievement of their sustainability goals
* Extended our range of sustainable packaging products
* Launched our most sustainable stock box range
* 88% of Distribution packaging is recyclable
* Achieved a customer Net Promoter Score of 60
* Dedicated support to customers on forthcoming government regulation

Our Colleagues & the Community

* 66% reduction in accident frequency since our baseline year
* 80% of managers completing our diversity and inclusion training
* Supporting our lowest paid and achieved a 0% gender pay gap
* 1/3 females in leadership positions
* Complimentary storage and over 200 deliveries to our charity partner Blue Cross
* Over 750 of volunteering hours donated to a range of good causes

Doing business the right way

* Achieved Ecovadis Gold Award
* Strengthened our TCFD
* Completed our second full disclosure to CDP
* ESG committee well established with senior leaders and direct reporting line to the Board
* Majority of senior management have personal performance objectives on ESG
* Supplier Code of Conduct launched in 2023

MACFARLANE GROUP

Pension Scheme - £9.9m Surplus

£m	2023	*2022*
Opening surplus	**10.2**	8.3
Service costs/admin. costs/interest income	**0.4**	-
Contributions	**1.3**	2.0
Change in actuarial assumptions (Discount rate ↓ 0.3% to 4.50% (2022 ↑ 2.70%)	**(3.5)**	29.4
Investment returns	**1.5**	(29.5)
Closing surplus	**9.9**	10.2

Investments (£m)	2023	*2022*
Multi-asset Diversified Fund	**10.2**	20.3
Securitised Credit Funds	**13.0**	-
Multi-asset Credit Funds	**9.8**	-
Liability-driven Investments	**32.1**	23.3
Equities	**-**	12.7
European Loan Fund	**-**	6.5
Long-term Property Fund	**-**	5.7
Cash	**7.4**	2.0
Total investments	**72.5**	*70.5*
Liabilities (£m)		
Total liabilities	**62.6**	*60.3*

- Increase in bond yields offset by LDIs which provide hedge vs. movements in bond yields and inflation
- Triennial actuarial valuation 1-May-23 completed in Feb-24 with no company contributions required going forward
- Reallocation of assets in 2023 to reduce volatility and increase liquidity
- Working with trustees and advisers to prepare scheme for buy-out

Conclusions

- Resilient and flexible business with strong market positions:
  - **Solid performance in 2023** against backdrop of weakening customer demand
  - Executed **three high quality acquisitions-** one in Distribution & two in Manufacturing
  - Continued **good progress in Europe**
  - Positive **new business momentum**
- **Inflation in operating costs** have been **offset** by **effective input price management**
- Good progress against our **ESG objectives**
- 2024 will remain challenging due to **uncertainty over customer demand**.
- However, with **strong new business momentum, a well–developed pipeline of potential acquisitions, the continued effective management of input prices and operational efficiencies** we expect to make progress in 2024
- Plans underpinned by excellent **cash generation** and increased bank facilities to £35m until December 2025

Macfarlane Business Case

A simple, flexible and resilient business model

Strongly focused operating companies with differentiated propositions in the protective packaging market

Good market positions with growth potential in UK and Europe

A track record of performance and clear plans to sustain growth

MACFARLANE GROUP