27 August 2020

MACFARLANE GROUP'S INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2020

Financial Highlights	2020	2019	Year on Year Change
Group turnover £000	**105,572**	107,542	(1.8)%
Profit before tax £000	**3,622**	3,832	(5.5)%
Interim dividend	**0.70p**	0.69p	1.4%
Basic earnings per share	**1.83p**	1.99p	(8.0)%

Stuart Paterson, Chairman of Macfarlane Group PLC ("Macfarlane Group" or "the Group"), today said: -

"Macfarlane Group has achieved a resilient performance in the first half of 2020 despite the challenging market conditions due to the impact of Covid-19. The Board recognises this achievement is a testament to the exceptional contribution of our employees and wishes to take this opportunity to publicly thank the whole Macfarlane team for their hard work and commitment. All our sites have remained open and trading throughout, albeit adjusted to service reduced demand, with social distancing and hygiene measures in place to protect the health, safety and well-being of our staff and our customers. In addition, the majority of our office-based staff have been working successfully from home in accordance with our home working protocols.

Macfarlane Group sales decreased by 1.8% to £105.6m in the first half of 2020 (2019: £107.5m). Despite the impact of Covid-19 in the second quarter, our sales performance has been robust with the first half sales reduction versus the prior year comprising a 1.6% increase in sales in Q1 followed by a 5.2% fall in Q2. Profit before tax in the first half, at £3.6m, was 5.5% lower than in 2019 (2019: £3.8m) this excludes any benefit received from government support programmes as these have now been repaid. Incremental costs of £0.2m were incurred in the first half of the year as a direct consequence of Covid-19.

Packaging Distribution sales decreased by 1.7% in the first half of 2020 compared with 2019. Sales increased by 3.0% in Q1 and decreased by 6.3% in Q2 compared to the equivalent periods in 2019. Sales revenue was impacted by weaker demand from the automotive and high street retail sectors, although this was partially offset by underlying strength in the e-commerce, household and medical sectors. First half sales also benefited from the 2019 acquisitions as well as the January 2020 acquisition of the packaging trade and assets of Armagrip Limited, ("Armagrip"). First half operating profit in Packaging Distribution of £4.0m was £0.4m below the equivalent period in 2019.

Sales in our Manufacturing Operations were 5.8% below 2019, with Q1 sales decreasing by 8.7% and Q2 sales falling by 2.9%. Strong demand from the food, medical and household essentials sectors in the Labels business, particularly in the second quarter, was more than offset by weaker demand from the aerospace and automotive sectors in the Packaging Design and Manufacture business. First half operating profit of £0.2m in our Manufacturing Operations was £0.2m below that achieved in 2019.

Group interest costs have decreased by £0.4m due to lower levels of bank debt and finance leases and a lower pension deficit in the first half of 2020 compared to the same period in 2019.

Net bank debt at 30 June 2020 was £0.8m, £11.9m below its 31 December 2019 level of £12.7m. The improved cash position has been achieved through active management of working capital and reductions in the cost base. The net debt of £0.8m has benefited by £5.4m from the various government support and deferral programmes, all of which we have repaid since 30 June 2020. The Group is operating well within its existing bank facility of £30.0m. We expect to pay an estimated £0.8m in deferred consideration, in the second half of 2020, relating to the acquisition of Ecopac in 2019.

The pension scheme deficit reduced to £6.0m at 30 June 2020 from £6.5m at 31 December 2019, mainly due to our continued payment of deficit reduction contributions during the six month period. The reduction in the discount rate in the first six months was largely offset by strong investment returns, justifying the focus on liability-driven investments to match the scheme's liability profile.

There are still significant uncertainties and concerns over future economic conditions. However, the Board is confident that, given the resilience of the business in the second quarter, the expected seasonal uplift in the final quarter and actions being taken to reduce operating costs, the Group will continue to progress in the second half of 2020. The Board's current expectation for the full year in 2020 is largely dependent on: no further prolonged national or regional lockdowns; no abnormal bad debt exposure; and no significant reduction in consumer demand in the final quarter of the year, traditionally our busiest trading period.

As a key measure to conserve cash, the Board took the decision not to propose the 2019 final dividend of 1.76p per share, detailed in the preliminary announcement. The Board recognises the importance of recommencing the payment of dividends to our shareholders as soon as possible. Given the stronger than anticipated profit performance and cash position, the Board is recommending an interim dividend of 0.70p per share to be paid on 8 October 2020 to shareholders on the register as at 11 September 2020 (2019: 0.69p per share).

Despite the impact of Covid-19, our strategy remains the delivery of sustainable profit growth by focusing on added value products and services in our target market sectors, combined with the execution of value-enhancing acquisitions. Macfarlane Group's performance in the first half of 2020 demonstrates the robust nature of our strategy and business model and we are confident that the Group is strongly positioned to effectively manage the challenges it will face in the remainder of 2020 and well placed to benefit when the UK economy begins to recover."

<u>Further enquiries:</u>	**Macfarlane Group**		Tel: 0141 333 9666
	Stuart Paterson	Chairman	
	Peter Atkinson	Chief Executive	
	John Love	Finance Director	
	Spreng Thomson		
	Callum Spreng		Mob: 07803 970103

Legal Entity Identifier (LEI): 213800LVRYDERSJAAZ73

Notes to Editors:

- Macfarlane Group PLC is listed on the London Stock Exchange (LSE: MACF) in the Industrials Sector
- The company is headquartered in Glasgow, Scotland and has more than 70 years' experience in the UK packaging industry. Macfarlane Group's businesses are:
    - **Packaging Distribution** is the leading UK distributor of a comprehensive range of protective packaging products;
    - **Manufacturing Operations** which includes **Labels** who design and print high quality self-adhesive and resealable labels, principally for FMCG companies, and **Packaging Design and Manufacture** who design and produce protective packaging for high value, fragile products.
- Macfarlane Group employs over 900 people at 31 sites, principally in the UK, but also in Ireland and Sweden.
- The company has 15,000+ customers in the UK, Europe and the USA providing 600,000+ lines to a wide range of industry sectors including: consumer goods; food manufacturing; logistics; internet retail; mail order; electronics; defence and aerospace.

Interim Results - Management Report

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

Macfarlane's **Packaging Distribution** business is the UK's leading specialist distributor of protective packaging materials. Macfarlane operates a stock and serve supply model from 25 Regional Distribution Centres ("RDCs") and three satellite sites, supplying industrial and retail customers with a comprehensive range of protective packaging materials and services 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. In a fragmented market, 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 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 supports 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.

	2020	2019
	£000	£000
Sales	**91,496**	93,053
Cost of sales	**62,013**	65,103
Gross margin	**29,483**	27,950
Overheads	**25,450**	23,487
Operating profit	**4,033**	4,463

The main features of our first half performance in 2020 were:

- Despite the challenges of Covid-19, existing business has remained resilient with weaker demand from customers in the automotive and high street retail sectors being offset by strong demand in the e-commerce and medical sectors;
- New business growth was subdued due to limited engagement with new prospects through the Covid-19 challenges, nevertheless there were some important new business wins in the period;
- Increasing numbers of customers switching to buying online either through our www.macfarlanepackaging.com shop or using our new Simplicit-e electronic trading platform;
- Positive impact from acquiring quality packaging distribution businesses in 2019 and 2020;
- An improved gross margin at 32.2% (2019: 30.0%) achieved through effective management of input price changes on paper-based products in the second half of 2019 flowing through into the first half of 2020;
- Progress in our "Follow the Customer" programme in Europe; and
- Overhead increases, primarily due to the impact of acquisitions (£1.0m), an increase in bad debt provisioning (£0.5m) and incremental Covid-19 related costs.

Interim Results - Management Report (continued)

We expect sales to once again be weighted towards H2 reflecting the busiest trading period for internet retail customers, which will be a key contributor to our results in H2 2020. The key areas we will focus on in the second half are:

- Prioritise engagement with potential new customers in stable and growing sectors such as e-commerce, medical and third party logistics;
- Invest in new technology to allow our sales teams to demonstrate our ability to add value for customers through ongoing implementation of our "Significant Six" sales approach to optimise their "Total Cost of Packaging" in both face-to-face and virtual environments;
- Accelerate implementation of our web-based solutions to allow customers access to our full range of products and services;
- Continue the good progress we have made in our "Follow the Customer" programme in Europe;
- Reduce operating costs through efficiency programmes in sales, logistics and administration;
- Maintain the focus on working capital management to facilitate future investment and manage effectively the bad debt risk which has increased in the current economic environment; and
- Supplement organic growth through progressing further suitable quality acquisitions.

Macfarlane's **Manufacturing Operations** comprises Packaging Design & Manufacture and Labels.

	2020	2019
	£000	£000
Sales	**16,379**	17,390
Cost of sales	**11,043**	12,099
Gross margin	**5,336**	5,291
Overheads	**5,105**	4,881
Operating profit	**231**	410

The principal activity of the Packaging Design and Manufacture business is the design, manufacture and assembly of custom-designed packaging solutions for customers requiring cost-effective methods of protecting high value products in storage and transit. The business operates from sites in Grantham and Westbury, supplying both directly to customers and also through Packaging Distribution's RDC network.

Key market sectors are defence, aerospace, medical equipment, electronics and automotive. The markets in which we operate 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 Macfarlane Packaging Distribution.

Packaging Design & Manufacture sales in H1 2020 decreased by 19.0% from the equivalent period in 2019 due to significantly weaker demand in the aerospace and automotive sectors. As a result of the lower sales profit in H1 2020 is below the same period in 2019 and actions are in progress to realign the cost base.

Our Labels business designs and prints self-adhesive labels for major fast-moving consumer goods ("FMCG") customers in the UK and Europe and resealable labels for major customers in the UK, Europe and the USA. The business operates from production sites in Kilmarnock and Wicklow and a sales and design office in Sweden, which focuses on the development and growth of our resealable labels business, Reseal-it. The Labels business has a high level of dependence on a small number of major customers. We have worked closely with these key customers over a long period to ensure high levels of service and to introduce product and service development initiatives to maintain competitive differentiation.

In H1 2020, sales at Macfarlane Labels were 6.7% higher than in 2019, mainly due to an increase in demand from existing customers in the food, household essentials and hygiene sectors. Overhead costs have increased due to higher transportation costs servicing overseas customers. Profit in H1 2020 is ahead of the same period in 2019.

The priorities for the Manufacturing Operations in the second half of 2020 are to:

- Reduce the operating costs of the Design and Manufacture business in line with lower sales;
- Focus the Design & Manufacture sales team on growth sectors like Medical and Defence;
- Prioritise new sales activity on our higher added value bespoke composite pack product range;
- Continue to strengthen the relationship between our Design & Manufacture operations and our Packaging Distribution business to create both sales and cost synergies;
- Accelerate the Reseal-it growth momentum through improved geographic penetration, extending the product range and introducing Reseal-it to new product sectors; and
- Secure efficiency benefits from the installation of additional printing capacity in our Kilmarnock site in July 2020 to improve gross margins.

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 a clear strategic plan, being effectively implemented, which is reflected in consistent, profit and cash generation over a sustainable period.

Our future performance is largely dependent on our own efforts to grow sales, increase efficiencies and bring high quality acquisitions into the Group. Whilst we have experienced significant challenges from the Covid-19 pandemic and there are still uncertainties ahead, our strategy and business model have proved resilient and robust. We expect to deliver a solid sales and profit performance in 2020 and are well positioned to benefit as the economy recovers.

Interim Results - Management Report (continued)

Risks and Uncertainties

The principal risks and uncertainties, which could impact on the performance of the Group, were outlined on pages 18 and 19 in our Annual Report and Accounts for 2019 (available on our website at www.macfarlanegroup.com) together with the mitigating actions. These remain substantially the same for the remaining six months of the current financial year and are summarised below with the impact of the recent Covid-19 pandemic set out immediately underneath the table of risks:

- The Group's businesses are impacted by commodity-based raw material prices and manufacturer energy costs, with profitability sensitive to supplier price changes including currency fluctuations. The Group works closely with its supplier and customer base to manage effectively the scale and timing of these price changes and any resultant impact on profit;
- Given the multi-site nature of its business the Group has an extensive property portfolio comprising 3 owned sites and 36 leased sites, 3 of which are sub-let. The portfolio can give 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;
- The Group has a significant investment in working capital in trade receivables and inventories. There is a risk that this investment is not fully recovered. Rigour is applied to the management of trade receivables and inventories throughout the Group to mitigate these risks;
- The Group needs continued access to funding to meet its trading obligations and to support organic growth and acquisitions. Although the current facility is only partly utilised, there is a risk that the Group may be unable to obtain funds or that such funds will only be available on unfavourable terms. The Group's borrowing facility comprises a committed facility of £30 million with Lloyds Bank PLC, available until June 2022, which finances our trading requirements and supports controlled expansion, providing a medium-term funding platform for growth;
- The Group's defined benefit pension scheme is sensitive to a number of key factors; investment returns, discount rates used to calculate the scheme's liabilities and mortality assumptions. Small changes in these assumptions could cause significant movements in the pension deficit. The Group has sought to manage the volatility of the pension scheme deficit caused by these factors by undertaking exercises to reduce liabilities, more effectively match the investment profile with the liability profile and making contributions to reduce the deficit;
- In Packaging Distribution, the business model reflects a decentralised approach with a high dependency on effective local decision-making. There is a risk that local decisions may not always meet overall corporate objectives. This is closely monitored using the Group's management information system, with regular reviews of performance for all locations; and
- The Group's growth strategy includes acquisitions as a key component. There are risks that the availability of acquisitions may reduce, or that acquisitions may not perform as expected either immediately after acquisition or on subsequent integration. Having made twelve acquisitions since 2014, the Group has well-established due diligence and integration processes and procedures and seeks to acquire quality businesses which will perform well in the Group.

Macfarlane Group has carried out scenario planning for the continuing effects of the Covid-19 pandemic considering impacts on sales, profitability, cash flow, bad debt risk and the health, safety and well-being of its employees. These scenarios also assumed no further acquisition activity. This is constantly under review and based on our experience to date we are confident the Group is robust enough to operate safely, profitably and within its borrowing facilities under all reasonable scenarios.

Macfarlane Group has also carried out an impact analysis and evaluated the potential short to medium-term implications of a no-deal Brexit including reversion to World Trade Organisation tariffs. Where practical, we have put in place contingency measures to try to mitigate any immediate effects on our supply chain and these measures are being reviewed at regular intervals.

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.

Interim Results - Management Report (continued)

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 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 2020 were

S.R. Paterson	Chairman
P.D. Atkinson	Chief Executive
J. Love	Finance Director
R. McLellan	Non-Executive Director/Senior Independent Director
J.W.F. Baird	Non-Executive Director
A.M. Dunstan	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 27 August 2020 and signed on its behalf by

…………………………..	……………………..
Peter D. Atkinson	**John Love**
Chief Executive	**Finance Director**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	**Six months to 30 June 2020 £000**	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Continuing operations				
Revenue	3	**105,572**	107,542	225,389
Cost of sales		**(70,753)**	(74,301)	(153,256)
Gross profit		**34,819**	33,241	72,133
Distribution costs		**(4,171)**	(4,204)	(8,441)
Administrative expenses		**(26,384)**	(24,164)	(50,062)
Operating profit	3	**4,264**	4,873	13,630
Finance costs	4	**(642)**	(1,041)	(1,606)
Profit before tax		**3,622**	3,832	12,024
Tax	5	**(736)**	(693)	(2,293)
Profit for the period	3	**2,886**	3,139	9,731
Earnings per share	7			
Basic		**1.83p**	1.99p	6.17p
Diluted		**1.82p**	1.99p	6.16p

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	**Six months to 30 June 2020 £000**	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Items that may be reclassified to profit or loss				
Foreign currency translation differences		**67**	(17)	(62)
Items that will not be reclassified to profit or loss				
Remeasurement of pension scheme liability	10	**(1,038)**	(809)	537
Tax recognised in other comprehensive income				
Tax on remeasurement of pension scheme liability	11	**197**	138	(92)
Long-term corporation tax rate change on deferred tax	11	**129**	-	-
Other comprehensive (expense)/income for the period, net of tax		**(645)**	(688)	383
Profit for the period		**2,886**	3,139	9,731
Total comprehensive income for the period		**2,241**	2,451	10,114

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Retained Earnings £000	**Total £000**
At 1 January 2020		39,453	13,148	70	231	16,369	**69,271**
Comprehensive income							
Profit for the period		-	-	-		2,886	**2,886**
Foreign currency translation differences		-	-	-	67	-	**67**
Remeasurement of pension scheme liability	10	-	-	-	-	(1,038)	**(1,038)**
Tax on remeasurement of pension scheme liability	11	-	-	-	-	197	**197**
Long-term corporation tax rate change on deferred tax	11	-	-	-	-	129	**129**
Total comprehensive income		**-**	**-**	**-**	**67**	**2,174**	**2,241**
Transactions with shareholders							
Share-based payments		-	-	-	-	90	**90**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**90**	**90**
At 30 June 2020		**39,453**	**13,148**	**70**	**298**	**18,633**	**71,602**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Retained Earnings £000	**Total £000**
At 1 January 2019		39,387	12,975	70	293	9,807	**62,532**
Comprehensive income							
Profit for the period		-	-	-	-	3,139	**3,139**
Foreign currency translation differences		-	-	-	(17)	-	**(17)**
Remeasurement of pension scheme liability	10	-	-	-	-	(809)	**(809)**
Tax on remeasurement of pension scheme liability	11	-	-	-	-	138	**138**
Total comprehensive income		**-**	**-**	**-**	**(17)**	**2,468**	**2,451**
Transactions with shareholders							
Dividends	6	-	-	-	-	(2,600)	**(2,600)**
Share-based payments		-	-	-	-	10	**10**
Total transactions with shareholders		**-**	**-**	**-**	**-**	**(2,590)**	**(2,590)**
At 30 June 2019		**39,387**	**12,975**	**70**	**276**	**9,685**	**62,393**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share Capital £000	Share Premium £000	Revaluation Reserve £000	Translation Reserve £000	Retained Earnings £000	**Total £000**
At 1 January 2019		39,387	12,975	70	293	9,807	**62,532**
Comprehensive income							
Profit for the year		-	-	-	-	9,731	**9,731**
Foreign currency translation differences		-	-	-	(62)	-	**(62)**
Remeasurement of pension scheme liability	10	-	-	-	-	537	**537**
Tax on remeasurement of pension scheme liability	11	-	-	-	-	(92)	**(92)**
Total comprehensive income		**-**	**-**	**-**	**(62)**	**10,176**	**10,114**
Transactions with shareholders							
Dividends	6	-	-	-	-	(3,689)	**(3,689)**
Share-based payments		-	-	-	-	75	**75**
Issue of share capital		66	173	-	-	-	**239**
Total transactions with shareholders		**66**	**173**	**-**	**-**	**(3,614)**	**(3,375)**
At 31 December 2019		**39,453**	**13,148**	**70**	**231**	**16,369**	**69,271**

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) AT 30 JUNE 2020

	Note	30 June 2020 £000	30 June 2019 £000	31 December 2019 £000
Non-current assets				
Goodwill and other intangible assets		**61,857**	60,795	62,663
Property, plant and equipment		**9,248**	9,221	9,621
Right of use assets		**23,078**	30,293	25,855
Trade and other receivables		**35**	56	35
Deferred tax assets	11	**1,274**	1,726	1,224
Total non-current assets		**95,492**	102,091	99,398
Current assets				
Inventories		**15,014**	16,171	15,813
Trade and other receivables		**44,641**	48,867	52,044
Cash and cash equivalents	9	**4,726**	3,863	3,310
Total current assets		**64,381**	68,901	71,167
Total assets	3	**159,873**	170,992	170,565
Current liabilities				
Trade and other payables		**49,484**	46,946	48,530
Current tax liabilities		**756**	860	1,084
Lease liabilities		**5,384**	6,249	6,321
Bank borrowings	9	**5,542**	18,811	15,984
Total current liabilities		**61,166**	72,866	71,919
Net current assets/(liabilities)		**3,215**	(3,965)	(752)
Non-current liabilities				
Retirement benefit obligations	10	**6,048**	9,029	6,465
Deferred tax liabilities	11	**3,256**	3,119	3,242
Trade and other payables		**22**	24	22
Lease liabilities		**17,779**	23,561	19,646
Total non-current liabilities		**27,105**	35,733	29,375
Total liabilities		**88,271**	108,599	101,294
Net assets	3	**71,602**	62,393	69,271
Equity				
Share capital		**39,453**	39,387	39,453
Share premium		**13,148**	12,975	13,148
Revaluation reserve		**70**	70	70
Translation reserve		**298**	276	231
Retained earnings		**18,633**	9,685	16,369
Total equity		**71,602**	62,393	69,271

MACFARLANE GROUP PLC

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	**Six months to 30 June 2020 £000**	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Profit before tax		**3,622**	3,832	12,024
Adjustments for:				
Amortisation of intangible assets		**1,262**	1,142	2,391
Depreciation of property, plant and equipment		**4,121**	4,242	7,816
Loss/(gain) on disposal of property, plant and equipment		**32**	(4)	5
Share-based payments		**90**	-	75
Finance costs		**642**	1,041	1,606
Operating cash flows before movements in working capital		**9,769**	10,253	23,917
Decrease in inventories		**1,080**	1,164	2,006
Decrease in receivables		**7,609**	3,003	1,178
Increase/(decrease) in payables		**1,021**	(2,726)	(947)
Pension contributions less current service costs		**(1,512)**	(1,670)	(2,994)
Cash generated from operations		**17,967**	10,024	23,160
Income taxes paid		**(830)**	(875)	(2,288)
Interest paid		**(585)**	(916)	(1,375)
Net cash inflow from operating activities		**16,552**	8,233	19,497
Investing activities				
Acquisitions	8	**(888)**	(2,840)	(6,162)
Proceeds on disposal of property, plant and equipment		**28**	12	185
Purchases of property, plant and equipment		**(627)**	(1,295)	(2,648)
Net cash used in investing activities		**(1,487)**	(4,123)	(8,625)
Financing activities				
Dividends paid	6	**-**	(2,600)	(3,689)
(Repayment)/drawdown of bank borrowings		**(10,442)**	1,042	(1,785)
Repayment of lease obligations		**(3,207)**	(3,300)	(6,699)
Net cash used in financing activities		**(13,649)**	(4,858)	(12,173)
Net increase/(decrease) in cash and cash equivalents		**1,416**	(748)	(1,301)
Cash and cash equivalents at beginning of period		**3,310**	4,611	4,611
Cash and cash equivalents at end of period	9	**4,726**	3,863	3,310

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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 are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

This condensed set of 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 2019. There were no major changes from the adoption of new IFRS's in 2020.

Judgements, assumptions and estimation uncertainties

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. No significant judgements have been made in the current or prior period. 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 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 10. The directors consider that those sensitivities represent reasonable sensitivities which could occur in the next financial period.

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.

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 on pages 1 to 7.

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 Lloyds Bank PLC comprises a committed facility of £30 million, expiring in June 2022, secured over part of Macfarlane Group's trade receivables 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 revenue 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 including the impact of the ongoing Covid-19 pandemic. 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, despite the current uncertain economic environment, 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.

1. Basis of preparation

Approval and review of condensed financial statements

These condensed financial statements were approved by the Board of Directors on 27 August 2020. As in previous years, the condensed set of financial statements for the half-year is unaudited.

2. General information

Comparative figures for the year ended 31 December 2019 are extracted from Macfarlane Group's statutory accounts for 2019. The information for the year ended 31 December 2019 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 27 February 2020 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.

3. 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. Other operations for the manufacture and supply of self-adhesive and resealable labels to a variety of FMCG customers in the UK, Europe and USA and the design, manufacture and assembly of timber, corrugated and foam-based packaging materials in the UK comprise one segment headed **Manufacturing Operations**. None of the business segments within Manufacturing Operations represents more than 10% of Group revenue or profit.

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Group segment – total revenue			
Packaging Distribution	**91,496**	93,053	196,706
Manufacturing Operations	**16,379**	17,390	34,016
Inter-segment revenue	**(2,303)**	(2,901)	(5,333)
Revenue	**105,572**	107,542	225,389
Trading results - continuing operations			
<u>Packaging Distribution</u>			
Revenue	**91,496**	93,053	196,706
Cost of sales	**(62,013)**	(65,103)	(135,525)
Gross profit	**29,483**	27,950	61,181
Net operating expenses	**(25,450)**	(23,487)	(48,775)
Operating profit	**4,033**	4,463	12,406
<u>Manufacturing Operations</u>			
Revenue	**16,379**	17,390	34,016
Cost of sales	**(11,043)**	(12,099)	(23,064)
Gross profit	**5,336**	5,291	10,952
Net operating expenses	**(5,105)**	(4,881)	(9,728)
Operating profit	**231**	410	1,224

3. Segmental information (continued)

		Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Operating profit - continuing operations				
Packaging Distribution		**4,033**	4,463	12,406
Manufacturing Operations		**231**	410	1,224
Operating profit		**4,264**	4,873	13,630
Finance costs	(note 4)	**(642)**	(1,041)	(1,606)
Profit before tax		**3,622**	3,832	12,024
Tax	(note 5)	**(736)**	(693)	(2,293)
Profit for the period		**2,886**	3,139	9,731

The Packaging Distribution business has historically benefited from additional demand in the final months of the year, resulting in revenue and profitability at higher levels in the second half of the year.

	30 June 2020 £000	30 June 2019 £000	31 December 2019 £000
Total assets			
Packaging Distribution	**140,145**	150,838	151,115
Manufacturing Operations	**19,728**	20,154	19,450
Total assets	**159,873**	170,992	170,565
Net assets			
Packaging Distribution	**63,235**	54,276	60,607
Manufacturing Operations	**8,367**	8,117	8,664
Net assets	**71,602**	62,393	69,271

4. Finance costs

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Interest on bank borrowings	**228**	293	573
Interest on leases	**357**	623	802
Finance cost relating to defined benefit pension scheme (note 10)	**57**	125	231
Total finance costs	**642**	1,041	1,606

5. Tax

		Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Current tax				
UK corporation tax		**529**	611	2,057
Foreign tax		**32**	68	104
Prior year adjustments		**(58)**	(64)	(53)
Total current tax		**503**	615	2,108
Deferred tax	current year	**(132)**	78	185
	Long-term corporation tax rate change	**365**	-	-
Total deferred tax	(note 11)	**233**	78	185
Total tax		**736**	693	2,293

Tax for the six months ended 30 June 2020 has been charged at 19.00% (2019 – 19.00%) representing the best estimate of the effective tax charge for the full year.

6. Dividends

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Amounts recognised as distributions to equity holders in the period			
Final dividend (Nil per share) (2018 1.65p per share)	**-**	2,600	2,600
Interim dividend (2019 0.69p per share)	**-**	-	1,089
Distributions in the period	**-**	2,600	3,689

An interim dividend of 0.70p per share, payable on 8 October 2020 was declared on 27 August 2020 and has therefore not been included as a liability in these condensed financial statements.

7. Earnings per share

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Earnings			
Profit for the period from continuing operations	**2,886**	3,139	9,731

Number of shares ’000	**30 June 2020**	30 June 2019	31 December 2019
Weighted average number of shares in issue for the purposes of basic earnings per share	**157,812**	157,548	157,636
Effect of Long-Term Incentive Plan awards in issue	**358**	114	393
Weighted average number of shares in issue for the purposes of diluted earnings per share	**158,170**	157,662	158,029
Basic earnings per share	**1.83p**	1.99p	6.17p
Diluted earnings per share	**1.82p**	1.99p	6.16p

8. Acquisitions

On 6 January 2020, the Group's subsidiary, Macfarlane Group UK Limited ("MGUK") acquired the trade, selected assets and goodwill of the packaging distribution business of Armagrip for a cash consideration of £0.9m.

On 2 May 2019, MGUK acquired 100% of of Ecopac (UK) Limited, for a maximum consideration of £3.9 million. £3.1 million was paid in cash on acquisition and the deferred consideration of £0.8 million will be paid in 2020, as trading targets have been met in an agreed 12 month period after acquisition. On 30 August 2019, Macfarlane Group PLC acquired 100% of Leyland Packaging Company (Lancs) Limited, for a maximum consideration estimated at £3.05 million. £2.00 million was paid in cash and shares to the value of £0.25m issued to the Vendors on acquisition. Deferred consideration of £0.8 million is payable in 2020, subject to certain trading targets being met in an agreed 12 month period after acquisition.

Contingent considerations are recognised as a liability in trade and other payables and are remeasured to fair value of £1.6 million at the balance sheet date based on a range of outcomes between £Nil and £1.8 million. Trading in the post-acquisition periods supports the remeasured value of £1.6m.

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

Net assets acquired		**Six months to 30 June 2020 £000**	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Other intangible assets		**298**	1,701	3,313
Property, plant and equipment		**-**	701	1,194
Inventories		**206**	395	879
Trade and other receivables		**282**	1,170	1,797
Cash and bank balances		**-**	211	249
Bank borrowings		**-**	-	(149)
Trade and other payables		**-**	(974)	(1,658)
Current tax liabilities		**-**	(91)	(235)
Lease liabilities		**-**	(539)	(979)
Deferred tax liabilities		**(57)**	(311)	(599)
Net assets acquired		**729**	2,263	3,812
Goodwill		**159**	1,588	3,093
Total consideration		**888**	3,851	6,905
Contingent consideration on acquisitions	Current year	**-**	(800)	(1,600)
	Prior years	**-**	-	1,207
Shares issued for non-cash consideration		**-**	-	(250)
Total cash consideration		**888**	3,051	6,262
Net cash outflow arising on acquisition				
Cash consideration		**(888)**	(3,051)	(6,262)
Cash and bank borrowings acquired		**-**	211	100
Net cash outflow		**(888)**	(2,840)	(6,162)

9. Notes to the cash flow statement

	Cash and cash equivalents £000	Bank borrowing £000	Lease liabilities £000	**Total debt £000**
Total debt				
At 1 January 2019	4,611	(17,769)	(101)	**(13,259)**
Non-cash movements				
IFRS 16 transition on 1 January 2019	-	-	(29,701)	**(29,701)**
New leases	-	-	(2,769)	**(2,769)**
Acquisitions	-	-	(539)	**(539)**
Cash movements	(748)	(1,042)	3,300	**1,510**
At 30 June 2019	3,863	(18,811)	(29,810)	**(44,758)**
Non-cash movements				
Adjustments to IFRS 16 transition	-	-	1,738	**1,738**
New leases	-	-	(854)	**(854)**
Acquisitions	-	-	(440)	**(440)**
Cash movements	(553)	2,827	3,399	**5,673**
At 31 December 2019	3,310	(15,984)	(25,967)	**(38,641)**
Non-cash movements				
New leases	-	-	(403)	**(403)**
Cash movements	1,416	10,442	3,207	**15,065**
At 30 June 2020	**4,726**	**(5,542)**	**(23,163)**	**(23,979)**
Total cash movements for 2019	(1,301)	1,785	6,699	7,183

Net bank debt			**Net bank Debt £000**
At 30 June 2020	**4,726**	**(5,542)**	**(816)**
At 31 December 2019	3,310	(15,984)	(12,674)

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.

10. Retirement benefit obligations

The figures below have been prepared by Aon Hewitt based on the results of the triennial actuarial valuation as at 1 May 2017, updated to 30 June 2020, 31 December 2019 and 30 June 2019. The scheme investments and the scheme's net liability position as calculated under IAS 19 are as follows:

Investment class	**30 June 2020 £000**	30 June 2019 £000	31 December 2019 £000
Equities			
UK equity funds	**7,520**	7,330	8,913
Overseas equity funds	**12,541**	11,288	13,226
Multi-asset diversified growth funds	**23,976**	19,220	25,382
Bonds			
Liability-driven Investment funds	**32,694**	33,601	27,688
Other investments			
European loan fund	**6,092**	6,264	6,379
Secured property income fund	**6,095**	6,020	6,192
Cash	**6,798**	1,686	281
Fair value of Scheme investments	**95,716**	85,409	88,061
Present value of Scheme liabilities	**(101,764)**	(94,438)	(94,526)
Pension scheme deficit	**(6,048)**	(9,029)	(6,465)

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

Assumptions	**30 June 2020**	30 June 2019	31 December 2019
Discount rate	**1.50%**	2.20%	2.00%
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 2.85% for LPI**	3% or 5% for fixed increases or 3.10% for LPI	3% or 5% for fixed increases or 2.95% for LPI
PIE take up rate	**45%**	45%	45%
Inflation assumption (RPI)	**2.90%**	3.20%	3.00%
Inflation assumption (CPI)	**2.20%**	2.20%	2.10%
Life expectancy beyond normal retirement age of 65			
Male	**23.4 years**	23.6 years	23.3 years
Female	**25.5 years**	25.7 years	25.5 years
Average uplift for GMP service	**0.40%**	0.40%	0.40%

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Movement in scheme deficit in the period			
At start of period	**(6,465)**	(9,765)	(9,765)
Current service cost	**(62)**	(62)	(112)
Employer contributions	**1,574**	1,732	3,106
Net finance cost	**(57)**	(125)	(231)
Re-measurement of pension scheme liability in the period	**(1,038)**	(809)	537
At end of period	**(6,048)**	(9,029)	(6,465)

10. Retirement benefit obligations (continued)

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 deficit. 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	**30 June 2020 £000**	30 June 2019 £000	31 December 2019 £000
Discount rate movement of +0.4%	**6,513**	6,044	6,048
Inflation rate movement of +0.1%	**(407)**	(378)	(482)
Mortality movement of +0.1 year in age rating	**305**	283	284

Positive figures reflect a reduction in scheme liabilities and therefore a reduction in the scheme deficit.

	Six months to 30 June 2020 £000	Six months to 30 June 2019 £000	Year to 31 December 2019 £000
Movement in fair value of Scheme investments			
Scheme investments at start of period	**88,061**	75,827	75,827
Interest income	**879**	1,062	2,109
Return on scheme assets (exc. amount shown in interest income)	**7,021**	8,525	11,154
Contributions from sponsoring companies	**1,574**	1,732	3,106
Contribution from scheme members	**34**	36	70
Benefits paid	**(1,853)**	(1,773)	(4,205)
Scheme investments at end of period	**95,716**	85,409	88,061
Movement in present value of Scheme liabilities			
Scheme liabilities at start of period	**(94,526)**	(85,592)	(85,592)
Normal service costs	**(62)**	(62)	(112)
Interest cost	**(936)**	(1,187)	(2,340)
Contribution from scheme members	**(34)**	(36)	(70)
Actuarial loss due to the changes in financial and experience	**(8,059)**	(9,334)	(11,495)
Actuarial gain due to change in demographic assumptions	**-**	-	878
Benefits paid	**1,853**	1,773	4,205
Scheme liabilities at end of period	**(101,764)**	(94,438)	(94,526)

Investments

The Trustees review the scheme investments regularly and consult with the Company regarding any changes. In the first half of 2020, surplus cash generated from the Liability-driven investment funds was held in cash funds at 30 June 2020, pending investment into the existing Multi-asset diversified growth funds in the second half of 2020.

Funding

Following the completion of the triennial actuarial valuation at 1 May 2017, Macfarlane Group PLC is paying deficit reduction contributions with a deficit recovery period of 7 years. Contributions in 2020, inclusive of service costs and interest of £0.24 million, are expected to be £3.15 million.

The triennial actuarial valuation at 1 May 2020 has commenced and is likely to conclude in the first quarter of 2021.

11. Deferred tax

	Tax losses less accelerated capital allowances £000	Other intangible assets £000	Retirement Benefit Obligations £000	**Total £000**
At 1 January 2019	(8)	(2,794)	1,660	**(1,142)**
Acquisitions	(22)	(289)	-	**(311)**
(Charged)/credited in income statement				
Current period	(10)	193	(261)	**(78)**
Credited in other comprehensive income	-	-	138	**138**
At 30 June 2019	**(40)**	**(2,890)**	**1,537**	**(1,393)**
Acquisitions	(15)	(273)	-	**(288)**
(Charged)/credited in income statement				
Current period	(111)	212	(208)	**(107)**
Charged in other comprehensive income	-	-	(230)	**(230)**
At 1 January 2020	**(166)**	**(2,951)**	**1,099**	**(2,018)**
Acquisitions	-	(57)	-	**(57)**
Credited/(charged) in income statement				
Current period	150	(107)	(276)	**(233)**
Credited in other comprehensive income	-	-	326	**326**
At 30 June 2020	**(16)**	**(3,115)**	**1,149**	**(1,982)**
Deferred tax assets	125	-	1,149	**1,274**
Deferred tax liabilities	(141)	(3,115)	-	**(3,256)**
At 30 June 2020	**(16)**	**(3,115)**	**1,149**	**(1,982)**

12. Related party transactions

Related party transactions for 2019 are disclosed in note 28 of the 2019 Annual Report. The directors are satisfied that other than the changes in the Retirement Benefit Obligations disclosed in note 10 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 2020 will be disclosed in the Group's 2020 Annual Report. Peter Atkinson and John Love hold option awards over 330,123 and 163,525 ordinary shares respectively under the Macfarlane Group PLC Long Term Incentive Plan awarded in 2019.

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

13. Post balance sheet events

There are no post balance sheet events requiring disclosure.

14. Interim Report

The interim report will be posted to shareholders on 11 September 2020. 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.