impactful innovation

Mpac Group plc

2020 Half Year Results
September 2020

Mpac

Agenda

Tony Steels

Chief Executive

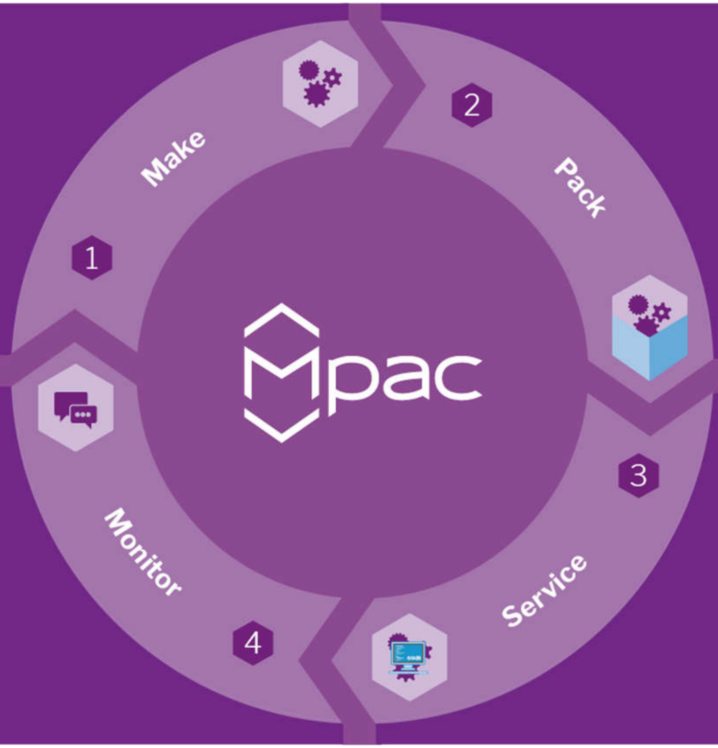
Overview
2020 Half Year Summary

- Resilient performance and strong cash generation in headwind of the pandemic
- Order intake 6% below prior year with several projects deferred due to COVID-19 pandemic
- Order book at 30 June 2020 14% above the June 2019 order book to £45.4m (HY 2019: £39.3m)
- Group revenue of £36.8m (2019: £45.8m)
- Underlying profit before tax of £2.5m (2019: £4.5m)
- Focused working capital management leading to an increase in net cash to £22m (Dec 2019: £18m)
- Agility and ingenuity demonstrated by the global leadership to provide essential service support
- Digital service solutions deployment accelerated
- Prior investment in One Mpac enabled good progress in growing Service business, despite travel restrictions

Overview
What we do

1

Creating and enabling new ideas that give a competitive advantage and keep customers at the forefront of their markets



2

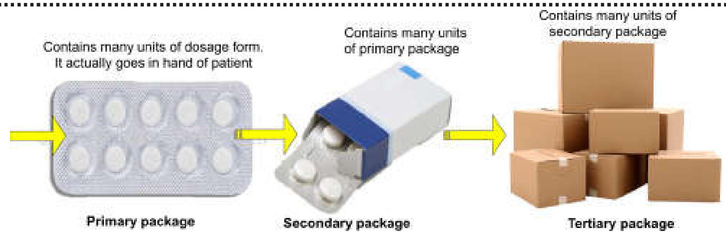
Provider of high speed processing and packing technologies that drive business performance and long-term value

4

Condition monitoring technologies are incorporated into the solutions we provide to ensure product quality and compliance. Industry 4.0 enabled

3

Providing lifetime service and sustaining excellence, globally, quickly and efficiently



Overview
Key Markets

Mpac has a highly skilled and experienced team dedicated to finding practical solutions for our customers.

Operating in the Pharmaceutical, Healthcare and Food and Beverage sectors, we meet the ever-increasing demand of our customers' manufacturing processes and operational objectives.

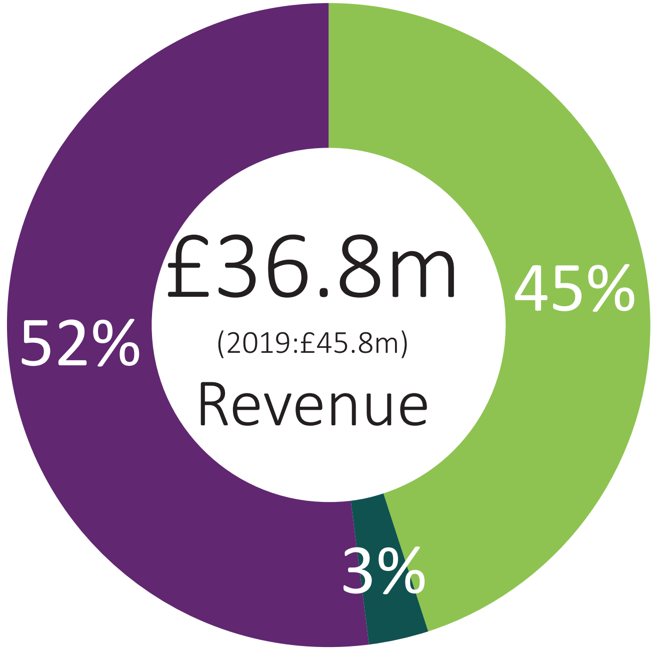
Cross industry experience and expertise means that customers benefit from the diversity of ideas and concepts.

Healthcare

Food and Beverage

Pharmaceutical

Half Year 2020 Sales by Sector (%)



Overview

Global Reach

Manufacturing

Sales

Customer Support

- 10,000 machines in service
- 80 countries served

Operational and COVID-19 Update

Rapid Initial Assessment

	Initial Steps	Pivot to Adapt
Global Business Assessment	• Understand issues faced • Address health and wellness of employees • Maintaining business • Customer situation and supply chain	• COVID secure facilities and business as normal • Flexible working practices and furlough process • Supply chain secured • Transition to recovery plan
Communication Plan	• Employees • Customers • Stakeholders • Suppliers	• Proactive customer engagement • Video conferencing and remote FAT • Digital marketing • Creative service offerings
Liquidity	• Stress test of financial resources • Deferral of discretionary spend • Optimise access to government support	• Focus on cash and liquidity • Assessment of non-committed spend • Working capital management

Minimise impact and smooth transition to new norm

Continue to secure new business and encouraging enquiries in COVID related applications

Operational and COVID-19 Update

Fast Recovery and Gaining Competitive Advantage

Responsiveness

Significantly reduced quote and lead times

Refocussed Marketing Strategy

New website

Pioneering virtual exhibition

Customer Focus

Prospect review

C-19 related opportunities

Service

Promote upgrades and security

R&D

Accelerate product development programmes

Gaining Competitive Advantage – Think Digital and Focus on Service

ERP Implementation - One Mpac

Sustainability vision

Our sustainability vision is broadening and growing with us.

We promise to do our part in protecting the planet's future; partnering with our customers to support their reduction in packaging materials usage and the effective adoption of biodegradable and recyclable materials.

Mpac develops flexible and innovative solutions to support our customers to achieve their sustainability goals.

Mpac encourages internal activities which support the culture and adoption of continuous improvement in sustainability.

2020
Financial Highlights

Will Wilkins

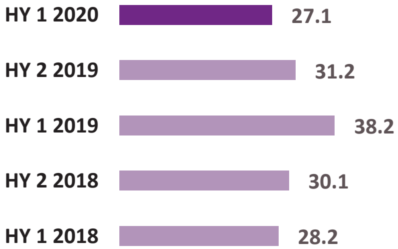
Group Finance Director

2020 Half Year
Financial highlights

- Group order intake of **£30.5m** (2019: £32.6m)
- Closing order book of **£45.4m** (2019: £39.9m)
- Decrease in Group sales of **£9.0m** (20%) to **£36.8m** (2019: £45.8m)
- Continued growth in gross profit margin to **30.7%** (2019: 28.6%)
- Underlying PBT **£2.5m** and underlying operating profit of **£2.6m** (2019: £4.6m)
- Closing net cash of **£22.5m** (Dec 2019: £18.0m)
- Underlying earnings per share of **11.0p** (2019: 21.3p)
- No interim dividend proposed

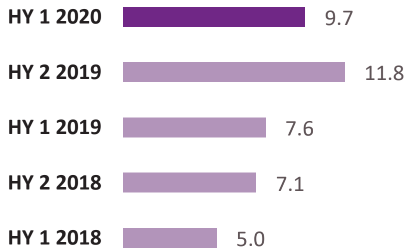
OE Revenue (£m)

£27.1m



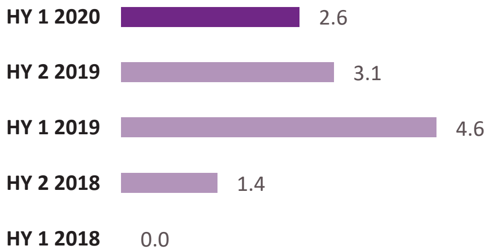
Service Revenue (£m)

£9.7m



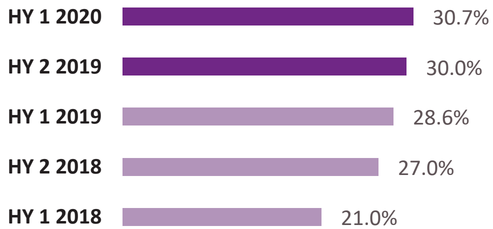
Underlying operating profit (£m)

£2.6m



Gross profit (%)

30.7%



Group Income Statement

For the six months to 30 June 2020

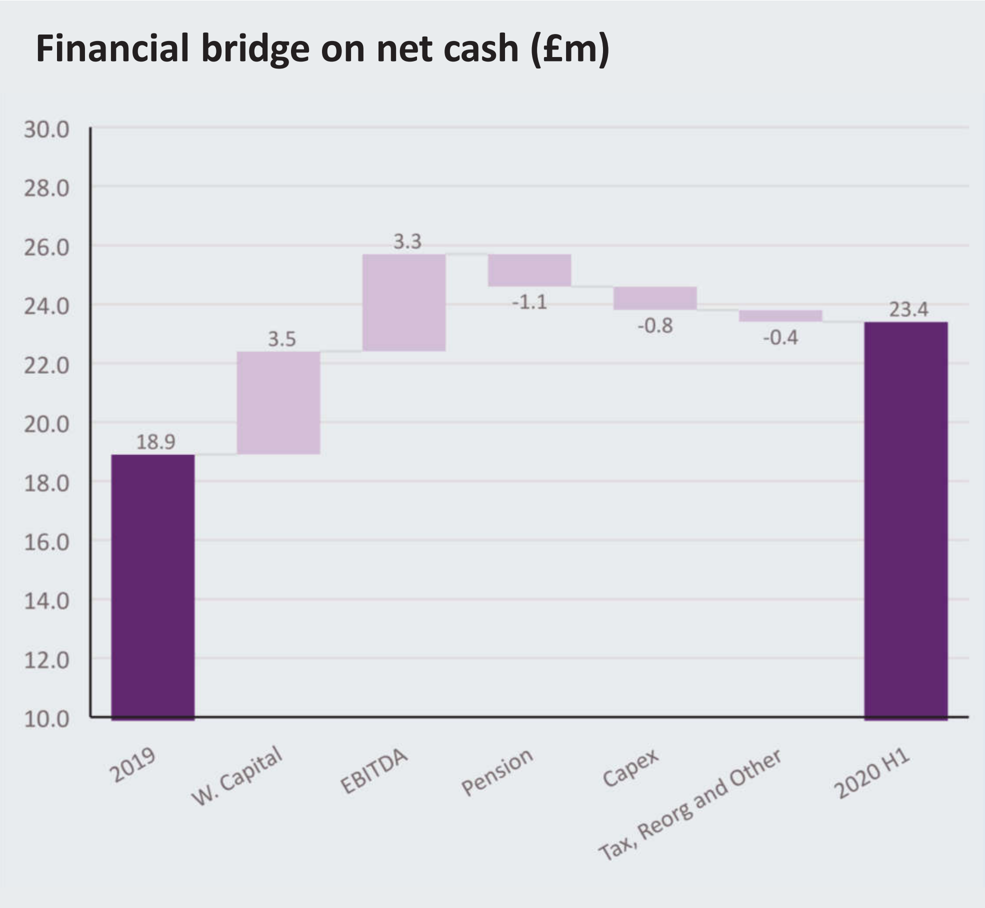
	H1 2020 (£'m)	H1 2019 (£'m)	change
Revenue	**36.8**	**45.8**	**-20%**
Original Equipment	*27.1*	*37.1*	*-27%*
Services	*9.7*	*8.7*	*11%*
Gross profit	**11.3**	**13.1**	**-14%**
Gross profit margin	*31%*	*29%*	*+2%*
Sales, marketing and distribution	(3.3)	(3.1)	
Administration expenses	(4.9)	(5.0)	
Other operating expenses	(0.5)	(0.4)	
Underlying operating profit	**2.6**	**4.6**	**-2.0m**
Underlying operating profit margin	*7.1%*	*10%*	*-2.9%*
Net financing income	0.1	0.1	
Non-underlying items	(1.3)	(1.8)	
Taxation	(0.2)	(0.3)	
Profit after tax for the period	1.2	2.6	
Underlying earning per share	**11.0p**	**21.3p**	

Key highlights:

- Remained profitable and cash generative in challenging period
- Rephasing of project execution into HY2 resulted in lower HY1 revenue
- Performance underpinned by tight cost control and investment in future return to growth
- Growing order book demonstrates strength in outlook once access to customer sites normalised
- Non-underlying items include amortization of acquired intangibles and pension administration charges
- £10m borrowing facility entered into in June 2019 committed until June 2022
- Underlying tax rate of 11%

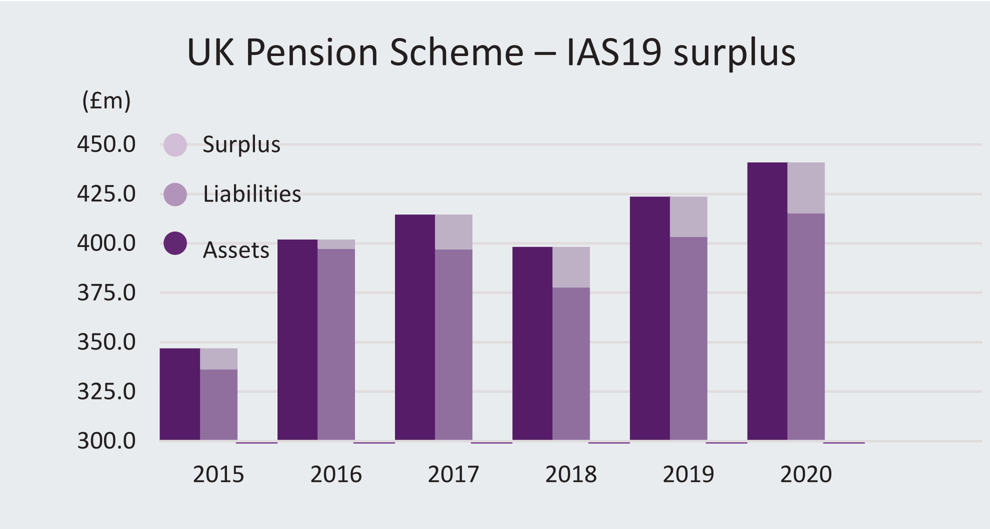
2020 Half Year

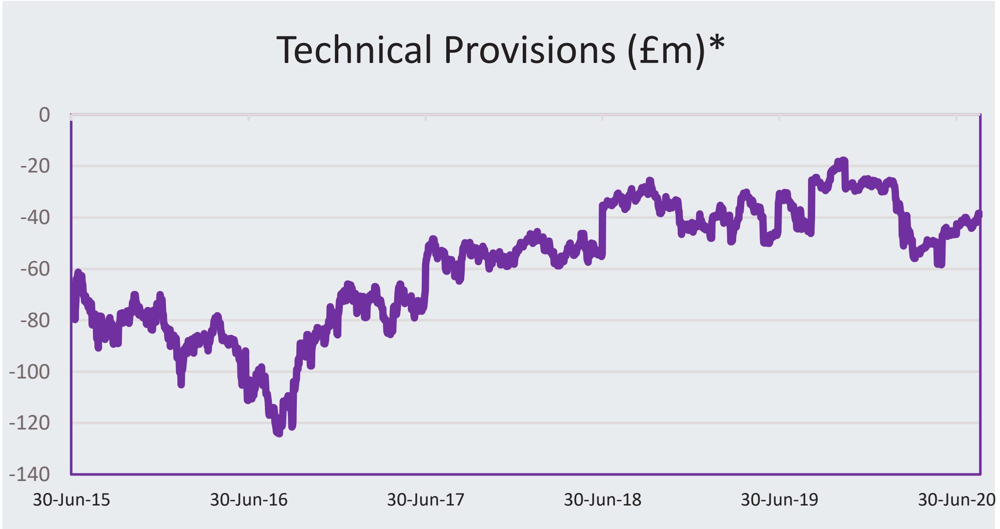
Cash bridge and working capital



Working capital		
Inventories	+£0.7m	Expected trend in inventory values reflecting project lifecycles
Trade debtors	+£5.3m	Focus during HY1 on debtor management and reduction in debtor days
Contract assets/liabilities	-£0.5m	Expected trend in contract balance values reflecting project lifecycles
Trade creditors	-£1.9m	Decrease reflects lower activity in Q2 2020
Other	-£0.1m	

2020
UK pension scheme





Accounting Valuation

- UK IAS 19 surplus increase to £25.7m (Dec 19: £20.4m)
- US IAS19 deficit increase to £4.9m (Dec 19: £3.1m)

Investment Strategy

- Migration of scheme assets to Liability Driven Investment ("LDI") to hedge risk continuing where cost effective
- Leveraged LDI assets providing 100% cover against liability inflation risk and 70% cover against discount rates
- Equity account for <10% of the fund assets

Technical Provisions / Actuarial basis

- Scheme status remains in sound position with investment strategy providing a shield from recent market volatility
- Technical Provisions funding level broadly unchanged as at 30 June 2020 based upon June 18 valuation updated for current conditions
- Recovery period until July 2024 remains valid
- Impact of reduction in discount rates largely mitigated by LDI strategy
- Growth assets continued to outperform prudent expectations.
- Long term strategy to decouple from company

*Technical provisions subject to validation every 3 years. Next cycle effective June 2021

Tony Steels

Chief Executive

Agile and adapted during COVID by utilising Digital technology

Challenge

Following the outbreak of COVID 19 globally, travel for specialist engineers has become limited and unpredictable. This creates challenges in fulfilling factory acceptance, site installation and service contracts.

Example: Project to complete machine move and recommissioning of state of the art Assembly and Packaging System from UK to Netherlands.

Results

Remote Support Engineers within UK are effectively onsite and able to provide specialist service to complete contract in an effective, timely way.

"The onsite commissioning is going very smoothly with good communication. Our working relationship is very good through this and Philips are very satisfied"

K.A Visser - Senior Engineer - Philips

Our Solution

Utilise local our global engineering resource in Netherlands supported digitally with specialist engineers (Mechanical, Process and Software) based at the UK facility.

A wearable (Realwear) device consisting of a head mounted camera, microphone and user display screen utilising in our in-house video conferencing solution (Lifesize).

Remote factory acceptance testing solutions provided to customers to navigate around travel restrictions utilizing 7 active cameras.

Strategic update
Addressable growth markets

Sector	Solutions	Market value	CAGR
Healthcare	• Ostomy • Contact Lens • Personal Care • Other	$7.5bn*	5%
Pharmaceuticals	• Dry Powder Inhaler • First of a kind • Test and Measurement	$8.5bn*	4%
Food & Beverage	• Bakery • Chilled & Frozen Foods • Spirits • Target Applications	$32.4bn*	3%

Drivers

- Premiumisation
- Recycling
- Increasing Income
- Health
- Convenience
- Urbanization

* PMMI – Period 2017 – 2021 & Fairgrove Report

Leadership in higher margin segments in long-term growth markets

Strategic update

Strategic priorities

	During HY1 2020	Future plans
Going for Growth	• New web-site & digital marketing platform • Sales Director EMEA • Platform development launched, virtually • Pivot to essential Healthcare, Food & Bev	• Full solutions offering to Healthcare customers • Fuller solutions to Food & Beverage market • Customer focused marketing • Global Commercial management
Make Service a Business	• Upgrade programmes • Pivot to remote support • Adapt to digital solutions • Extend Lambert Service offering	• Upgrade programmes • Further developed regional focus • Service systems enhancements • Accelerate digital transformation process
Operational Efficiency	• Global supply chain extended • Engineering systems platform complete • ERP implementation on track • Cross business resource utilisation	• Merge activities Tadcaster and Coventry sites • Phased ERP launch • Supply chain efficiency • Talent development and retention

Building One Mpac - Functional Excellence and Cross Functional Alignment

Strategic update
Outlook

- Mpac seeks to accelerate strategic development during period of uncertainty due to COVID-19
- Well placed to take advantage with strong pipeline of prospects in essential healthcare, food & beverage
- Prior investment in One Mpac has enabled resilient performance and platform for growth
- Vibrant innovation roadmap will deliver further new products to be commercialised in HY2 2020
- Adequate liquidity under stress test scenarios
- £10m secured committed borrowing facility plus £1.0m overdraft available to drive growth
- Focus remains on organic growth but with active assessment on further acquisition opportunities
- Strong and diverse closing order book in June 2020 gives confidence for HY2 2020

Appendices

Appendices
Income Statement

	H1 2020 £m	H1 2019 £m
Sales	36.8	45.8
Underlying operating profit*	**2.6**	**4.6**
Non-underlying operating loss	(1.3)	(1.8)
Operating profit	1.3	2.8
Net Interest receivable/(payable)	0.1	0.1
Profit before tax	1.4	2.9
Tax charge	(0.2)	(0.3)
Profit for the period	1.2	2.6
Underlying EPS*	11.0p	21.3p
Basic EPS	6.2p	12.7p

* before non-underlying items

- Revenue decrease of 20% over 2019
- Non underlying items of £1.3m include:
  - Amortisation £0.8m
  - Pension admin costs £0.5m
- Underlying tax rate of 12% reflects utilisation of historic tax losses
- Net financing income of £0.1m is pension related (2019: £0.1m)
- Decrease in underlying operating profit to £2.6m (2019: £4.6m), but remains significantly ahead of 2018 (£nil)

Appendices
Segmental Information

	H1 2020 £m	H1 2019 £m
Sales		
Original Equipment		
Americas	12.8	27.2
EMEA	12.0	7.9
Asia Pacific	2.3	3.1
Total Original Equipment	**27.1**	**38.2**
Service		
Americas	5.4	3.9
EMEA	3.4	3.1
Asia Pacific	0.9	0.6
Total Service	**9.7**	**7.6**
Total sales		
Americas	18.2	31.1
EMEA	15.4	11.0
Asia Pacific	3.2	3.7
Total sales by region	**36.8**	**45.8**
Gross Profit	11.3	13.1
Selling, Distribution and Admin cost	(8.7)	(8.5)
Underlying operating profit	**2.6**	**4.6**

Original Equipment 'OE'

- OE revenue decrease of 29% 2019
- Growth in EMEA reflecting additional Lambert revenue

Services

- Services revenue increase of 30% over 2019
- Significant revenue growth in Americas

Sector Analysis

- Qtr 4 2018 included significant repeat line orders for one customer in the Americas which generated windfall revenue in HY1 2019
- Strong order intake in Americas in HY1 2020 will increase revenue generation in HY2 2020

Appendices
Cash Flows

	H1 2020 £m	H1 2019 £m
Cash flows from operating activities	5.9	(5.1)
Cash flows from investing activities	(1.1)	(12.4)
Cash flows from financing activities	(0.5)	(0.1)
Net cash flows	**4.3**	**(17.6)**
Opening net funds	18.9	27.9
Exchange	0.2	0.2
Closing net funds	**23.4**	**10.5**

- Cash flows from operating activities in 2020 include:
  - £3.5m working capital decrease
  - £1.1m of pension payments
- Cash flows from investing activities include:
  - New product development of £0.5m
  - Capex of £0.8m primarily related to the new engineering and business systems

Appendices
Working Capital

	H1 2020 £m	H1 2019 £m
Decrease / (Increase) in inventories	0.7	(3.2)
(Increase) in contract assets	(5.4)	(3.2)
Decrease / (increase) in trade receivables	5.3	(1.3)
(Decrease) / Increase in trade payables	(1.9)	8.0
(Decrease) / Increase in provisions	(0.1)	0.3
Increase / (Decrease) in contract liabilities	4.9	(9.6)
Net working capital decrease/(increase)	**3.5**	**(9.0)**

- Decrease in working capital reflects the build phasing of long term projects alongside project cash flows and debtor management
- Inventory decrease mainly relates to current OE projects due to be completed in second half of 2020 being at differing stage of completion compared to projects for completion in HY 1 2020
- Contract liabilities movement reflects the accounting for OE orders HY1 2020 compared to HY2 2019

Appendices
Balance Sheet

	H1 2020 £m	H1 2019 £m
Intangible assets	17.1	17.1
Investment property	0.8	0.8
Property, plant & equipment (including leased)	9.8	11.3
Net working capital (excl. pension & tax)	(4.5)	5.2
Pension schemes (after tax)	12.0	12.8
Current and deferred tax (excl. pensions)	(0.2)	0.4
Lease liabilities (IFRS16)	(4.6)	(5.1)
Deferred consideration	(2.7)	(2.6)
Net cash	22.5	9.6
Equity	**50.2**	**49.5**

- UK and US pension scheme surplus broadly unchanged as scheme assets outperformed increase in liabilities
- Main equity movements include the following:
  - £1.2m retained profit for the period
  - £0.3m unfavourable movement in hedging reserve

Mpac Group plc
13 Westwood Way
Westwood Business Park
Coventry CV4 8HS
Tel: +44 (0)2476 421100

Email: ho@mpac-group.com

mpac-group.com