30 March 2021

AIM: MPAC

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Mpac Group plc

("Mpac", "the Company" or "the Group")

Mpac, the global packaging and automation solutions Group, today announces its results for the 12 months to 31 December 2020

Resilient financial performance, successful acquisition and strong year end order book

Financial Highlights

- Robust 2020 financial performance given the pandemic which demonstrates the resilient nature of Mpac's business
- H2 order intake £53.4m (H1: £30.5m) contributing to strong closing order book of £55.5m (2019: £52.2m)
- Group full year revenue £83.7m (2019: £88.8m)
- 2020 H2 revenue 27% above H1 as customer investment returned to pre-pandemic levels
- Underlying profit before tax of £6.3m (2019: £7.5m)
- Underlying earnings per share of 31.4p (2019: 39.5p)
- Statutory profit before tax of £2.9m (2019: £5.4m)
- Basic earnings per share of 16.3p (2019: 29.7p)
- Cash of £15.5m (2019: £18.9m)
- The Board has decided not to recommend payment of a final dividend (2019: nil)

Operational and Strategic Highlights

- Covid-19 resilience, agility and flexibility demonstrated by all employees ensured Mpac continued to provide essential customer service support
- H2 Original Equipment quote activity, prospect pipeline and order intake returned to growth compared to pre-pandemic levels
- Prior investment in expansion of commercial sales and marketing footprint in the Americas leveraged market strength
- Successful acquisition of Switchback Group, Inc. - continues to trade ahead of management expectations and integration progressing well
- Implementation of common business processes and successful initial roll out of Group ERP system enabling effective operations under 'One Mpac', our single entity business model
- Agility to adapt, use of remote servicing technology and development of digital service solutions delivered good strategic progress in the Service business
- Exciting portfolio of new products launched in the year – platform based full solution for healthcare sector and case packing range for food and beverage sector
- Restructuring and integration of the Coventry operations into the Tadcaster site

Tony Steels, Chief Executive, commented:

"2020 has been a year like no other with the whole of society facing unprecedented challenges. Our priorities in the period were to ensure our facilities were made Covid-19 secure and to develop remote solutions to support our customers, while driving forward on our strategic aims with a full agenda, including the successful acquisition of Switchback. I am extremely pleased with the way in which the business responded to the pandemic. All employees and leadership deserve recognition for demonstrating agility, ingenuity, and proactivity, which helped to deliver another year of good progress on our strategy, sound financial performance, excellent cash generation and the strong, high quality, closing order book which we take into 2021.

Mpac is positioned to serve resilient end markets with long term growth potential leading to continuous customer demand. Supported by our sizeable and increasingly diverse order book we remain well placed, serving Covid-19 resilient markets which have good underlying demand. 2021 has started well across all regions and after taking into consideration the challenge of predicting the impact of the pandemic the Board believes that the Group's long-term prospects remain positive''.

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OPERATING REVIEW
Tony Steels

I am pleased to present my report as Chief Executive of Mpac Group plc. I am sure that 2020 will be remembered as an extremely challenging year for the whole of society. When I reflect on how Mpac collectively, and our employees individually, responded to the pandemic, the speed and agility with which the Group pivoted to supporting our customers alongside the actions taken to ensure that the business continued to operate efficiently, with minimal disruption, I am proud to say that I consider 2020 a successful year for Mpac.

As we reported at the half year, the wellbeing of our employees and their families is our primary concern. Throughout the year, travel and social distancing restrictions have limited the opportunity for business development, to complete on-site service work and to install and commission equipment, the impact of which was mitigated by our investment in enabling technologies to provide remote customer support. While all sites have continued to operate, there have been periods of reduced operational levels to protect the wellbeing of our employees, resulting in full-year revenue and operating profit falling below that achieved in 2019.

In the second half of 2020, business development of Original Equipment ("OE") improved significantly, with revenue 19% above the comparable period in 2019. This return to growth contributed towards the good quality and diverse closing order book of 2020 (£55.5m), 6% above the opening 2020 order book (£52.2m). Service revenues grew to £19.6m (2019: £19.4m), a particularly pleasing performance given on-going travel restrictions hampering the development of our field service and installation revenue streams.

We made significant progress in our key strategic initiatives, with the broadening of our product portfolio, which included the launch of full-line solutions for customers in the healthcare sector, and the implementation of new operating business systems. This contributed to the Group producing a robust financial performance and cash generation, underpinned by a high-quality order book.

The successful acquisition of Switchback Group, Inc. (“Switchback”) in September 2020 was a further significant milestone for the Group. The acquisition represents a compelling fit with Mpac’s strategic intent of being a market leader in the provision of full-line packaging solutions for the pharmaceutical, healthcare and food and beverage sectors. Switchback, based near Cleveland, Ohio, USA is a market leader in the supply of packaging machinery to the high-growth craft beverage industry. It is benefiting from the shift towards recyclables, aluminium cans, and cardboard packaging. Critically, the acquisition also accelerates our expansion into the Americas market and provides a physical location in the USA for the Group to further leverage our Langen and Lambert brands in the region. Despite the ongoing travel restrictions good progress has been made with the integration of Switchback into the Group, with the rebranding to Mpac Switchback complete, the first commercial synergies with other Group businesses have been secured and the business is performing ahead of management expectations.

The unprecedented impact of the Covid-19 pandemic during 2020 resulted in a pause to the progress that we were making in our growth strategy, however we demonstrated our continued ability to execute acquisitions alongside our agility to adapt our resources to accelerate the use of digital technologies to engage with our customers and ensure we continued to provide high levels of support and service. The fundamentals remain unchanged and we believe that Mpac is on track to meet our long-term goals by leveraging the resilient pharmaceutical, healthcare and food and beverage sectors with our full-line solution offering and delivering an enhanced service proposition with our Industry 4.0 suite of products.

Further progress has been made in developing our range of Industry 4.0 solutions which are designed to offer customers opportunities to increase their Overall Equipment Effectiveness (OEE) through automatic control of the production process. Our innovation roadmap was designed to deliver an extensive range of features and solutions, including OEE monitoring, predictive maintenance, video instructions and facilitating connectivity via multiple devices through an enhanced Human Machine Interface. In the absence of physical trade shows to demonstrate these solutions, in 2020 we initiated a series of virtual trade shows, supported by media campaigns which have been very well received and allowed us to connect with a larger number of customers in a more targeted way.

Management’s focus remains on delivering organic growth, extending our commercial reach to new customers with new products and services, supported by a comprehensive market-led development roadmap. Alongside this, our search for further complementary acquisition targets continues. The acquisition of Switchback and a greater physical presence in the critical US market represents another important step in delivering our strategy, augmented by deploying our innovation initiatives, which are focused on developing full solution product lines with a wider range of standard modules, for our target sectors of pharmaceutical, healthcare, and food and beverage.

I am excited about the next phase for the Group and am extremely pleased with our accomplishments so far. Despite the challenging investment cycle caused by the pandemic, I believe that we are firmly on track to deliver our long-term strategic plans and to take advantage of our enhanced position in growth markets.

Trading

The trading performance in 2020 was resilient given the backdrop of wider market uncertainty and travel restrictions. Overall order intake for the Group of £83.9m was down 4% on 2019, a 14% reduction on a like-for-like basis which excludes the impact of the Switchback acquisition. The Group experienced a significant upturn in order intake in the second half of the year when travel restrictions began to be eased prior to the second wave of the pandemic.

The Group enters 2021 with a customer diverse order book of £55.5m, £3.3m above the opening order book for 2020. We remain vigilant to project execution risk and are confident that the 2020 closing order book can be delivered at forecast margins. The timing of conversion of prospects into orders continues to vary based on our customers' investment plans and thus remains difficult to predict. Conversion rates were stronger in the second half of the year providing increased confidence that the impact of delayed customer investment on the Group has eased, resulting in the encouraging order book entering 2021.

Group revenues of £83.7m were down 6% compared with the previous year (10% below 2019 on a like-for-like basis). Original Equipment revenue of £64.1m (2019: £69.4m), supported by a robust performance in the Americas and growth in EMEA and the food and beverage sector, was down 8% compared to the prior year. Service revenue grew marginally by 1% to £19.6m, which is encouraging given the circumstances.

I am pleased to report underlying profit before tax for the year of £6.3m (2019: £7.5m), with a statutory profit before tax of £2.9m (2019: £5.4m).

Following the acquisition of Switchback and continued investment in new product development to support future growth, the Group retained a cash position of £15.5m (2019: £18.9m), providing the financial resources required to invest in the strategic initiatives which will deliver profitable growth in future years.

Strategic developments

Further progress has been made during 2020 to deliver our five-year strategic plan. The global pandemic caused a pause in the progress we had made delivering our growth plan. However, we believe an extension of our US presence and access to new markets in the region following the Switchback acquisition, plus the exciting roll-out of new products and good progress on our integrated business systems project, means Mpac remains on track to meet our broader strategic objectives. Furthermore, the growth opportunities from the markets in which we operate are aligned to our long-term goals.

I believe that it is due to the implementation of our strategic plans and continued focus on increasing the scale and diversity of the Group that the business was able to deliver a robust level of order intake, revenue, and underlying profitability during a challenging year in which customers in most regions and markets were re-evaluating their investment decisions.

Restructuring

During the year, the Group took the necessary restructuring actions associated with the integration of the business activities of our Coventry operation into our Tadcaster site. This move will deliver annual savings going forward and improve our customer experience. The enlarged site has the greater scale, scope, depth of knowledge and know-how to support customers and will help to deliver profitable growth as we ensure financial performance across the Group meets or exceeds expectations. The Group is committed to ensuring that all aspects of the organisation support the future growth of the business and targets continue to be met.

Acquisition strategy

The Board continues to actively seek and evaluate potential acquisition opportunities. The focus is finding businesses that will enhance our customer proposition in automation and packaging solutions, by extending our product range and our access to a broader range of customers in our target markets, adding value to the Group.

Moving forward

We continue to pursue our strategic goals, which were recalibrated during the year, and build on the strong foundations made towards achieving the three strategic priorities: Going for Growth, Make Service a Business and Operational Efficiency. Further information on these strategic priorities is provided in the Strategic Update.

Purpose and sustainability

The senior leadership team developed a purpose statement for Mpac:

‘To create automation ecosystems that enhance manufacturing, to help businesses adapt and grow. Advancing the world with manufacturing solutions that make a real difference’.

This statement, together with our sustainability vision, where 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, will form an integral part of our strategy in the future. Mpac’s evolving innovative solutions offer our customers opportunities to achieve their sustainability goals. Mpac encourages internal activities which support the culture and adoption of continuous improvement in sustainability.

Business review

The Group aims to achieve annual double-digit percentage revenue growth over the medium-term, culminating in delivering an improved return on sales, targeted at 10%. To support this intent, we manage the business in two parts; Original Equipment and Service, and across three regions; Americas, EMEA and Asia.

Revenue by region was split as follows; Americas £46.7m (2019: £56.8m), EMEA £31.3m (2019: £24.8m) and Asia £5.7m (2019: £7.2m).

Revenue by sector was split as follows: food and beverage £34.8m (2019: £19.8m), healthcare £45.0m (2019: £66.1m) and pharmaceutical £3.9m (2019: £2.9m).

Individual OE contracts, and to a lesser extent in the Service business, can be large. Accordingly, a few significant orders can have a disproportionate impact on the growth rates seen in individual sectors from year to year.

<u>Original Equipment</u>

OE order intake of £62.4m (2019: £66.2m) was down 6% compared with the prior year (18% lower on a like-for-like basis). OE revenues of £64.1m (2019: £69.4m) were down 8% compared with the prior year (12% on a like-for-like basis).

Mpac’s focus on the Covid-19 resilient pharmaceutical, healthcare and food and beverage sectors continued to drive our success, with a strong performance in the food and beverage sector and growth over 2019 in EMEA regions. Revenue generated in the Americas was £36.2m (2019: £45.8m). In the prior year Americas revenue included the impact of a one-off repeat line order received in 2018 from a customer in the healthcare sector. Order intake and revenue in the region in 2020 was generated from a more diverse and sustainable customer base.

EMEA revenue in the period was £23.7m (2019: £17.6m). Revenue in the region is generated by our Lambert and Langen product ranges, which reported growth over the prior year.

Asia revenue, predominantly associated with orders from customers in the food and beverage sector, was £4.2m (2019: £6.0m). The region was the first to be impacted by the pandemic and retained travel restrictions for the majority of the calendar year, reducing opportunities for business development.

Overall order prospects remain strong, especially from customers in the healthcare sector, and activity levels across the OE business remain high and the business is well positioned moving into 2021.

<u>Service</u>

Order intake for the Service division was broadly unchanged in 2020 at £21.5m (2019: £22.6m). Growth in order intake in the EMEA region offset a reduction in order intake in the Americas.

Revenue in 2020 of £19.6m, was up £0.2m on the prior year, again driven by growth in EMEA. As with the trend for OE, Service revenue in the Americas in 2019 benefited from activity with one large customer in the healthcare sector whereas 2020 revenue has been generated from a diverse customer base.

Americas revenue in the year was £10.5m compared to £11.0m in 2019. EMEA revenue in the year was £7.6m, up £0.4m (2019: £7.2m). Asia revenue in the year was £1.5m (2019: £1.2m).

Coronavirus

Since the outbreak of the pandemic and throughout the year, the priority for Mpac was to secure the health, safety and wellbeing of our employees while continuing to provide essential support for our customers.

The implementation of global travel restrictions had an impact on the timing of closing of new OE orders, on project execution and on-site service revenue generation. However, this impact has been partially mitigated through the ingenuity of our employees in the use of digital technology which contributed to Service revenue growth over the prior year. Throughout the crisis we continued to secure new orders and no orders were cancelled as a result of the pandemic.

It continues to be difficult to predict the length and depth of the impact of the pandemic and therefore management continue to critically appraise discretionary spend and investment plans, while seeking to protect our talented workforce and being careful not to compromise the long-term prospects of the Group. Early in the pandemic, a 'Fast Recovery' plan was implemented which helped to ensure that Mpac was well positioned to take advantage of opportunities when the market returns to pre-pandemic levels of activity. This plan included the launch of a new website, virtual exhibitions for customers to demonstrate the range of newly developed products and offering customers digital solutions for remote machine acceptance and servicing. Cash preservation remained our primary focus, which helped to fund the acquisition of Switchback and to deliver year end cash of £15.5m, significantly above earlier management expectations.

Looking forward, we have identified three risks associated with the pandemic and with the emergence of new variants of the virus for which we believe we have mitigations in place. First is the risk associated with weakening customer confidence leading to delayed OE order intake. This is mitigated by our presence in resilient sectors, across a wide geographic range and a diverse customer base. The second risk identified is an outbreak of infection of the virus at a Group facility, resulting in production delays while the facility is deep cleaned, and employees quarantined. Our strict employee and visitor monitoring protocols alongside social distancing and cleaning practices provide confidence that the impact is sufficiently mitigated and, due to the nature of our business, project execution status can be recovered. The third risk is a disruption to our supply chain with demand exceeding supply, coupled with disruption to transportation. Our global supply chain strategy ensures secure alternative means of supply have been established for all critical parts.

The Board of Mpac continues to monitor the situation carefully across our customer, supplier, and employee base.

Strategic update

Our strategy focuses on three key initiatives to drive growth:

Going for Growth – Offering customers comprehensive "Automation Ecosystems" solutions in our target markets.

Make Service a Business – Providing customers with a comprehensive portfolio of service products to ensure they maximise their return on investment.

Operational Efficiency – Operational excellence and flexibility of supply chain to increase responsiveness to investment cycles.

<u>Going for Growth</u>

Our five-year strategic plan is to develop the business through organic growth in our target growth sectors of pharmaceutical, healthcare and food and beverage. To enable this, we created a global sales approach under our single entity model, 'One Mpac', offering innovative automation and packaging machinery solutions from our extensive portfolio of engineered modules. In 2019, at the 'mid-point' of the strategic period, the objectives were validated with the support of a third-party assessment of our approach. At the time, the overall growth targets were considered to be accessible and, underpinned by the execution of our technology and innovation roadmap, were expected to accelerate progress in achieving our strategic aims in the growth sectors of pharmaceutical, healthcare and food and beverage. While the impact from the spread of Covid-19 has resulted in a pause to the previous growth trajectory, the medium-term fundamentals of the markets in which we operate remain valid.

The acquisition of Switchback adds both immediate opportunities for commercial synergies and provides the Group with a facility in the US from which Mpac can leverage the Lambert, Langen and Switchback product range to local customers. The Switchback and Lambert acquisitions provide opportunities to cross sell automation and packaging solutions to common customers, and our commercial teams from across the Group are generating qualified opportunities to leverage the Group's extended product, solutions and technology offering. Cross selling of the existing product and Service offering to new and existing customers is a clear target, ensuring we better understand their evolving needs and extend our customer proposition with a broader solution approach. During 2020 we recruited a Chief Commercial Officer to lead this process on a global basis. Deployment of our commercial excellence programme to our sales team will assist in delivering the commercial synergies and further training modules aimed at increasing our win ratio and expanding our customer base through our geographic reach.

The Group has undertaken a review of our market approach and digital platform customer proposition and as a result, Mpac launched a new Group branded website (www.mpac-group.com) and aligned its commercial approach to the wider Mpac brand websites. Further investment in our online presence will continue in 2021. Resources have also been deployed into social media platforms, resulting in a significant uptick in followers and lead generation.

Innovation remains the key to long term sustainable growth. During the year we developed and launched a full-line solution for automation and packaging in the healthcare sector, which is already generating orders. In the food and beverage sector we developed equipment to expand our end of line packaging offering, alongside innovations focused on improved machine performance together with the Industry 4.0 enabled technology.

Make Service a Business

Our customers have an extensive, globally installed base which they expect to run continuously at high levels of overall equipment effectiveness. This requirement increased during the pandemic as the need for equipment to run with less user intervention became more critical. The trends towards Industry 4.0 and its enabling technological platforms support our strategy to work with our customers to ensure they maximise their return on investment throughout the life cycle of the equipment. We offer comprehensive Service, monitoring and maintenance programmes to maximise uptime and minimise cost of production through our global Service business.

In 2020 and due to the pandemic, the requirement from customers for digital technology and remote support offerings increased significantly and Mpac was able to address this requirement and offer solutions for customers which ensured that any lost 'on site' Service revenues were mitigated with alternative remote revenue streams. Investment in enabling technologies to facilitate remote service support for our customers ensured that Mpac was well positioned to respond and adapt quickly to the pandemic.

The focus remains to ensure that the Service business teams work closely with every customer to understand their current and future needs and to tailor contracted service programme agreements aimed at customer productivity improvements. Working across our strategic lines, our Excellence in Service programme is an initiative focused on quick response and high spare part availability for our global customers, which has already increased Service revenue.

Growth of our Service business will be supported by new OE product launches during the year, the technology within which will enable customers to optimise their production processes and improve product quality through greater equipment connectivity, data extraction and interpretation, as well as enable Mpac to deliver a wider range of more planned service.

Operational Efficiency

Our consistent aim is to be a customer focused, responsive and flexible Group achieved through organisational excellence, underpinned by a global supply chain and supported by a single business model, 'One Mpac'. The cross utilisation of resources is now the norm as opposed to the exception.

In October 2020, we completed the first significant milestone of our project to harmonise our global Enterprise Resource Planning (ERP) landscape and to leverage the work previously completed in deploying common engineering design platforms to our manufacturing sites with the successful deployment at our facility in the Netherlands. This was followed by deployment to our facility in Canada in early 2021.

Mpac business model 'One Mpac'

We have operations around the world and industry-leading technologies. None of that is possible, of course, without the abilities and commitment of our people. Having a highly skilled, technical workforce in place and ensuring everyone can contribute at their highest level and grow in their position over the long term enables us to win as a team. Through 'One Mpac', we are developing leaders, while engaging and empowering our global workforce. With strong leaders, engaged people and common processes, we strengthen the organisation and create value for our customers and shareholders.

Outlook

Despite the challenges of 2020, we continued to make significant progress in the execution of our strategy, and we remain well positioned, serving the Covid-19 resilient end markets with long-term growth potential. The pandemic will take time to be brought under control and while this process continues investment decisions will inevitably come under more scrutiny as businesses assess the economic impact.

The prior investments in innovation and operational excellence combined with the group's agility to adapt ensures we are well placed to continue our positive progress.

The Group has both the financial and managerial resource available to continue to develop the business, with the prime focus being on organic growth, leveraged with our global manufacturing and service reach and the continued development of new technology and products alongside an expanded Service offering to our customers. We continue to evaluate potential complementary acquisition opportunities.

Our rich history of innovative packaging machinery and automation solutions align well with customer demand and we are in an enviable position to serve our customers with efficient, connected, and reliable solutions, delivered via our 'One Mpac' business model.

We entered 2021 with a stronger order book compared to the previous year and have been successful in further extending the diversity of customers and product ranges. 2021 has started well across all regions and the Group's future prospects remain positive.

Tony Steels

Chief Executive

FINANCIAL REVIEW

Will Wilkins

Revenue and operating results

Group revenue in the year was £83.7m (2019: £88.8m). Revenue in the Original Equipment (''OE'') division was £64.1m (2019: £69.4m) and revenue in the Service division was £19.6m (2019: £19.4m). Gross profit was £24.3m (2019: £26.0m) and underlying selling, distribution and administration costs were £17.8m (2019: £18.3m).

Underlying operating profit was £6.5m (2019: £7.7m). Underlying profit after tax was £6.3m (2019: £7.8m) and statutory profit for the period was £3.3m (2019: £5.9m).

Non-underlying items

Non-underlying items merit separate presentation in the consolidated income statement to allow a better understanding of the Group's financial performance, by facilitating comparisons with prior periods and assessments of trends in financial performance. Pension costs, restructuring costs and acquisition related charges are considered non-underlying items as they are not representative of the core trading activities of the Group and are not included in the underlying profit before tax measure reviewed by key stakeholders.

Reconciliation of underlying profit before tax to profit before tax

	2020	2020	2019	2019
	£m	£m	£m	£m
Underlying profit before tax		**6.3**		7.5
Non-underlying items				
Defined benefit pension scheme – past service cost GMP equalisation	**(0.2)**		-	
Defined benefit pension scheme – US pension past service gain	**-**		1.1	
Defined benefit pension scheme – other costs and interest	**(0.6)**		(0.8)	
Reorganisation costs	**(0.5)**		(0.3)	
Acquisition costs and acquired intangible asset amortisation - Lambert	**(1.4)**		(1.9)	
Acquisition costs and acquired intangible asset amortisation – Switchback	**(0.7)**		-	
Provision in respect of discontinued operations	**-**		(0.2)	
Non-underlying items total		**(3.4)**		(2.1)
Profit before tax		**2.9**		5.4

Restructuring

The Group undertook a limited number of restructuring initiatives during the year, which were primarily focused on reshaping and integrating the UK operations into one facility with the aim of improving operational efficiency and reducing overheads.

Interest and taxation

Net finance income was £nil (2019: £0.1m). Tax on underlying profit before tax was £nil (2019: £0.3m credit) due to utilisation of unrecognised deferred tax balances. The tax credit on the Group's profit before tax was £0.4m (2019: £0.5m).

Dividends

Having considered the trading results for 2020 and the opportunities for investment in the growth of the Group, together with the continued uncertainty surrounding the impact of the pandemic, the Board has decided that it is not appropriate to pay a final dividend. No interim dividend was paid in 2020. Future dividend payments will be considered by the Board in the context of 2021 trading performance and when the Board believes it is prudent to do so.

Cash, treasury and funding activities

Cash at the end of the year was £15.5m (2019: £18.9m). Net cash inflow before reorganisation was £12.8m (2019: £5.1m), after a decrease in working capital of £7.5m (2019: £2.1m increase) and defined benefit pension payments of £3.0m (2019: £2.9m). Reorganisation and acquisition costs of £0.9m (2019: £1.0m) were paid in the year. Net taxation payments were £0.7m

(2019: £1.0m received). Capital expenditure on property, plant and equipment was £1.2m (2019: £1.4m), capital expenditure on assets under construction was £nil (2019: £0.6m) and capitalised product development expenditure was £1.8m (2019: £0.3m).

The acquisition of Switchback resulted in an immediate net cash outflow of £9.8m. Deferred consideration of up to £1.1m is expected to fall due in equal sums over the next two years. It is pleasing to report that the acquired business has performed well in 2021 and at a run-rate ahead of the criteria required for full payment of the deferred consideration.

The Group entered into a three-year funding agreement with HSBC in 2019, which provided the Group with a £10.0m revolving credit facility to support future growth. This facility also provides a number of other opportunities to more proactively manage the Group's cash and ensure that the Group is well placed to react to opportunities, both organic and acquisition related, as they arise.

The risk associated with the pandemic and the spread of Covid-19 was the primary new significant risk that the Group is exposed to. There were no other significant changes during the year in the financial risks, principally currency risks and interest rate movements, to which the business is exposed, and the Group treasury policy has remained unchanged. The Group does not trade in financial instruments and enters into derivatives (mainly forward foreign exchange contracts) solely for the purpose of minimising currency exposures on sales or purchases in other than the functional currencies of its various operations.

Prior year adjustments

Following an internal review of Mpac's compliance with IFRS 15 and the FRC's third thematic review of IFRS 15, published 24 September 2020, the Group has restated certain balances previously reported, in accordance with IAS 8, to align the treatment of contract assets, contract liabilities, contract fulfilment assets and work in progress recognised in relation to contracts, more closely to the demands of IFRS 15. These balances do not change any of the key metrics used by the Group, with gross profit, operating profit, profit before and after tax, earnings per share, net current assets and retained earnings remaining unchanged. These adjustments do not affect the future anticipated performance of the Group.

Pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members.

The IAS 19 valuation of the UK scheme's assets and liabilities was undertaken as at 31 December 2020 and was based on the information used for the funding valuation work as at 30 June 2018, updated to reflect both conditions at the 2020 year end and the specific requirements of IAS 19. The smaller US defined benefit schemes were valued as at 31 December 2020, using actuarial data as of 1 January 2020, updated for conditions existing at the year end. Under IAS 19, the Group has elected to recognise all actuarial gains and losses outside of the income statement.

The IAS 19 valuation of the UK scheme resulted in a net surplus at the end of the year of £14.0m (2019: £20.4m), which is included within the Group's and Company's assets. The value of the scheme's assets at 31 December 2020 was £440.9m (2019: £423.6m) and the value of the scheme's liabilities was £426.9m (2019: £403.2m). The scheme was largely protected from the sharp reduction in the main discount rate by the liability matching strategy agreed between the trustee and the Company, which was implemented early in 2019 and continues to evolve as the scheme matures.

The IAS 19 valuations of the US pension schemes showed an aggregated net deficit of £3.0m (2019: £3.1m), with total assets of £10.1m (2019: £10.4m).

During the year, the Company made payments to the UK defined benefit scheme of £1.9m (2019: £1.9m) in respect of the deficit recovery plan. A contribution of £0.8m (2019: £nil), in accordance with the profit-sharing arrangement in the schedule of contributions, was also paid. In 2019 £0.1m was paid following the receipt of proceeds from the disposal of the I&TM business, being 10% of net proceeds. Payments of £0.3m (2019: £0.9m) were made to the US schemes in the year.

In 2019, the UK scheme's triennial valuation as at 30 June 2018 was completed, with the reported deficit reducing to £35.2m (30 June 2015: £69.6m). The contributions remained at the same level, but the recovery period reduced to six years and one month (30 June 2015: 14 years and 2 months). Further details are shown in note 4.

Equity

Group equity at 31 December 2020 was £44.4m (2019: £47.5m). The movement arises mainly from the profit for the period of £3.3m, a net actuarial loss in respect of the Group's defined benefit pension schemes of £6.6m and currency translation losses on foreign currency net investments of £0.2m, all figures are stated net of tax where applicable.

Will Wilkins

Group Finance Director

CONSOLIDATED INCOME STATEMENT

		2020			2019		
	Note	**Underlying £m**	**Non-underlying (note 3) £m**	**Total £m**	Underlying £m	Non-underlying (note 3) £m	Total £m
Revenue	2	**83.7**	**-**	**83.7**	88.8	-	88.8
Cost of sales		**(59.4)**	**-**	**(59.4)**	(62.8)	-	(62.8)
Gross profit		**24.3**	**-**	**24.3**	26.0	-	26.0
Distribution expenses		**(6.8)**	**-**	**(6.8)**	(7.2)	-	(7.2)
Administrative expenses		**(9.9)**	**(3.6)**	**(13.5)**	(10.3)	(2.4)	(12.7)
Other operating expenses		**(1.1)**	**-**	**(1.1)**	(0.8)	-	(0.8)
Operating profit	2, 3	**6.5**	**(3.6)**	**2.9**	7.7	(2.4)	5.3
Financial income		**-**	**0.3**	**0.3**	-	0.4	0.4
Financial expenses		**(0.2)**	**(0.1)**	**(0.3)**	(0.2)	(0.1)	(0.3)
Net financing (expense)/income		**(0.2)**	**0.2**	**-**	(0.2)	0.3	0.1
Profit before tax		**6.3**	**(3.4)**	**2.9**	7.5	(2.1)	5.4
Taxation		**-**	**0.4**	**0.4**	0.3	0.2	0.5
Profit for the period		**6.3**	**(3.0)**	**3.3**	7.8	(1.9)	5.9
Earnings per ordinary share							
Basic	5			**16.3p**			29.7p
Diluted	5			**16.2p**			29.4p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020 £m	2019 £m
Profit for the period	**3.3**	5.9
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains	**(8.8)**	(0.3)
Tax on items that will not be reclassified to profit or loss	**2.2**	0.1
	(6.6)	(0.2)
Items that may be reclassified subsequently to profit or loss		
Currency translation movements arising on foreign currency net investments	**(0.5)**	(0.1)
Effective portion of changes in fair value of cash flow hedges	**0.5**	1.1
	-	1.0
Other comprehensive (expense)/income for the period	**(6.6)**	0.8
Total comprehensive (expense)/income for the period	**(3.3)**	6.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	5.0	26.0	1.1	3.9	(0.8)	5.4	40.6
Profit for the period	-	-	-	-	-	5.9	5.9
Other comprehensive (expense)/income for the period	-	-	(0.1)	-	1.1	(0.2)	0.8
Total comprehensive (expense)/income for the period	-	-	(0.1)	-	1.1	5.7	6.7
Equity-settled share based transactions	-	-	-	-	-	0.3	0.3
Purchase of own shares						(0.1)	(0.1)
Total transactions with owners, recorded directly in equity	-	-	-	-	-	0.2	0.2
Balance at 31 December 2019	5.0	26.0	1.0	3.9	0.3	11.3	47.5
Profit for the period	**-**	**-**	**-**	**-**	**-**	**3.3**	**3.3**
Other comprehensive (expense)/income for the period	**-**	**-**	**(0.5)**	**-**	**0.5**	**(6.6)**	**(6.6)**
Total comprehensive (expense)/income for the period	**-**	**-**	**(0.5)**	**-**	**0.5**	**(3.3)**	**(3.3)**
Equity-settled share based transactions	-	-	-	-	-	**0.4**	**0.4**
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Total transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Balance at 31 December 2020	**5.0**	**26.0**	**0.5**	**3.9**	**0.8**	**8.2**	**44.4**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2020 £m	2019 - Restated £m
Non-current assets			
Intangible assets		**27.4**	16.9
Property, plant and equipment		**5.1**	5.6
Investment property		**0.8**	0.8
Right of use assets		**4.0**	4.7
Employee benefits		**14.0**	20.4
Deferred tax assets		**1.8**	1.7
		53.1	50.1
Current assets			
Inventories		**3.5**	3.2
Trade and other receivables		**32.2**	28.0
Current tax assets		**0.8**	0.4
Cash and cash equivalents		**15.5**	18.9
		52.0	50.5
Current liabilities			
Lease liabilities		**(0.8)**	(0.9)
Trade and other payables		**(41.1)**	(30.9)
Current tax liabilities		**(0.4)**	(0.7)
Provisions		**(1.4)**	(1.3)
		(43.7)	(33.8)
Net current assets		**8.3**	16.7
Total assets less current liabilities		**61.4**	66.8
Non-current liabilities			
Interest-bearing loans and borrowings	7	**(0.9)**	(0.9)
Employee benefits	4	**(3.0)**	(3.1)
Deferred tax liabilities		**(6.8)**	(8.8)
Lease liabilities		**(3.4)**	(3.9)
Deferred contingent consideration		**(2.9)**	(2.6)
		(17.0)	(19.3)
Net assets		**44.4**	47.5
Equity			
Issued capital		**5.0**	5.0
Share premium		**26.0**	26.0
Reserves		**5.2**	5.2
Retained earnings		**8.2**	11.3
Total equity		**44.4**	47.5

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	**2020 £m**	2019 - Restated £m
Operating activities			
Operating profit		**2.9**	5.3
Non-underlying items included in operating profit		**3.6**	2.4
Amortisation		**0.3**	0.2
Depreciation		**1.1**	1.9
Other non-cash items		**0.4**	0.3
Pension payments		**(3.0)**	(2.9)
Working capital movements:			
- (increase)/decrease in inventories		**0.2**	(0.2)
- (increase) in contract assets		**(1.7)**	(2.4)
- (increase)/decrease in trade and other receivables		**(0.6)**	4.7
- increase in trade and other payables		**4.1**	2.8
- increase in provisions		**0.1**	0.4
- increase/(decrease) in contract liabilities		**5.4**	(7.4)
Cash flows from continuing operations before reorganisation		**12.8**	5.1
Acquisition and reorganisation costs paid		**(0.9)**	(1.0)
Cash flows from operations		**11.9**	4.1
Taxation (paid)/received		**(0.7)**	1.0
Cash flows from operating activities		**11.2**	5.1
Investing activities			
Proceeds from sale of property, plant and equipment		**0.2**	0.2
Capitalised development expenditure		**(1.8)**	(0.3)
Acquisition of assets under construction		**-**	(0.6)
Acquisition of property, plant and equipment		**(1.2)**	(1.4)
Net cash flow on acquisition/payment of deferred consideration		**(10.3)**	(10.6)
Cash flows used in investing activities		**(13.1)**	(12.7)
Financing activities			
Interest paid		**(0.2)**	(0.1)
Purchase of own shares		**(0.2)**	(0.1)
Principal elements of lease payments		**(0.9)**	(1.0)
Cash flows used in financing activities		**(1.3)**	(1.2)
Net decrease in cash and cash equivalents	6	**(3.2)**	(8.8)
Cash and cash equivalents at 1 January		**18.9**	27.9
Effect of exchange rate fluctuations on cash held		**(0.2)**	(0.2)
Cash and cash equivalents at 31 December 2020		**15.5**	18.9

NOTES TO ANNOUNCEMENT

1. General information

The Group's accounts have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 that were effective at 31 December 2020.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019. Statutory accounts for 2019 have been delivered to the Registrar of Companies. The auditors have reported on the 2020 and 2019 statutory accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

2. Operating segments

Segment information

	12 months to 31 Dec 2020			12 months to 31 Dec 2019		
	OE £m	**Service £m**	**Total £m**	OE £m	Service £m	Total £m
Revenue						
Americas	**36.2**	**10.5**	**46.7**	45.8	11.0	56.8
EMEA	**23.7**	**7.6**	**31.3**	17.6	7.2	24.8
Asia Pacific	**4.2**	**1.5**	**5.7**	6.0	1.2	7.2
Total	**64.1**	**19.6**	**83.7**	69.4	19.4	88.8
Gross profit			**24.3**			26.0
Selling, distribution & administration			**(17.8)**			(18.3)
Underlying operating profit			**6.5**			7.7
Unallocated non-underlying items included in operating profit			**(3.6)**			(2.4)
Operating profit/(loss)			**2.9**			5.3
Net financing income			**-**			0.1
Profit before tax			**2.9**			5.4

Geographical information

	Revenue (by location of customer)			
	2020	**2020**	2019	2019
	£m	**%**	£m	%
UK	**9.7**	**12**	10.1	11
Europe (excl. UK)	**19.2**	**23**	13.7	16
Africa & Middle East	**2.8**	**3**	1.1	1
USA	**34.5**	**41**	52.0	59
Americas (excl. USA)	**12.3**	**15**	4.6	5
Asia Pacific	**5.2**	**6**	7.3	8
	83.7	**100**	88.8	100

3. Non-underlying items

	2020	2019
	£m	£m
Acquisition costs and deferred consideration interest	**(0.5)**	(1.0)
Amortisation of acquired intangible assets	**(1.6)**	(0.9)
Provision in respect of discontinued operations	**-**	(0.2)
US defined benefit pension scheme – past service gain from options exercise	**-**	1.1
UK defined benefit pension scheme – Past service cost for GMP equalisation	**(0.2)**	-
Defined benefit pension scheme administration costs and interest	**(0.6)**	(0.8)
Reorganisation costs	**(0.5)**	(0.3)
Total non-underlying expense before tax	**(3.4)**	(2.1)

4. Employee benefits

The Group accounts for pensions under IAS 19 Employee benefits. A formal valuation of the UK defined benefit pension scheme (Fund) was carried out as at 30 June 2018. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 July 2024, but, is subject to reassessment every 3 years are as follows:

- the Company will continue to pay a sum of £1.9m per annum to the Fund (increasing at 2.1% per annum) in deficit recovery payments;
- if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the Fund an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10.0m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is above certain levels; and
- payments of dividends by Mpac Group plc will not exceed the value of payments being made to the Fund in any one year.

Formal valuations of the USA defined benefit schemes were carried out as at 1 January 2020, and their assumptions, updated to reflect actual experience and conditions at 31 December 2020 and modified as appropriate for the purposes of IAS 19, have been applied.

Profit before tax includes charges in respect of the defined benefit pension schemes' administration costs of £0.9m (2019: £1.2m) and a net financing income on pension scheme balances of £0.3m (2019: £0.4m). In respect of the UK scheme, the Group paid deficit recovery contributions of £1.9m (2019: £1.9m). A contribution of £0.8m (2019: £nil), in accordance with the profit-sharing arrangement in the schedule of contributions, was also paid. In 2019 £0.1m was paid following the receipt of proceeds from the disposal of the I&TM business, being 10% of net proceeds. Contributions to the US scheme totalled £0.3m (2019: £0.9m)

Employee benefits include the net pension asset of the UK defined benefit pension scheme of £14.0m (2019: £20.4m) and the net pension liability of the USA defined benefit pension schemes of £3.0m (2019: £3.1m), all figures before tax.

5. Earnings per share

Basic earnings per ordinary share is based upon the profit for the period of £3.3m (2019: £5.9m) and on a weighted average of 19,955,307 shares in issue during the year (2019: 19,968,000). The weighted average number of shares excludes shares held by the employee trust in respect of the Company's long-term incentive arrangements.

Underlying earnings per ordinary share amounted to 31.4p for the year (2019: 39.5p) and is based on underlying profit for the period of £6.3m (2019: £7.8m), which is calculated on profit before non-underlying items.

6. Reconciliation of net cash flow to movement in net funds

	2020 £m	2019 £m
Net decrease in cash and cash equivalents	**(3.2)**	(8.8)
Change in net funds resulting from cash flows	**(3.2)**	(8.8)
Translation movements	**(0.2)**	(0.2)
Movement in net funds in the period	**(3.4)**	(9.0)
Opening net funds	**13.2**	27.0
Movement in lease liabilities/Recognised on adoption of IFRS 16	**0.6**	(4.8)
Closing net funds	**10.4**	13.2

7. Analysis of net funds

	2020 £m	2019 £m
Cash and cash equivalents – current assets	**15.5**	18.9
Interest-bearing loans and borrowings – non-current liabilities	**(0.9)**	(0.9)
Lease liabilities	**(4.2)**	(4.8)
Closing net funds	**10.4**	13.2

8. Business combination

On 9 September 2020 Mpac acquired the entire issued share capital of Switchback Group, Inc. ("Switchback"), a provider of packaging machinery and automation solutions to the food and beverage and consumer healthcare sectors, for an initial consideration of US$13.3m (£10.2m) (subject to adjustment for working capital movements, which have been settled in 2021 at US$0.3m (£0.2m)) with a further US$2.0m (£1.6m) subject to Switchback achieving certain earn-out criteria, which the Group anticipates will be met in full. It is expected that the acquisition will be immediately earnings enhancing.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	£m
Purchase consideration	
Cash paid on acquisition	10.2
Working capital adjustment (paid in 2021)	0.2
Contingent consideration (see below)	1.1
Total purchase consideration	11.5

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value £m
Cash and cash equivalents	0.4
Property, plant and equipment	0.1
Brand	0.6
Customer relationships	0.7
Machine designs	1.1
Order backlog	0.2
Inventories	0.4
Receivables	1.4
Contract assets	0.3
Payables	(0.3)
Contract liabilities	(0.8)
Deferred tax on intangible assets	(0.5)
Net identifiable assets acquired	3.6
Add: goodwill	7.9
	11.5

The goodwill is attributable to Switchback's strong position and profitability in the healthcare and food and beverage sectors, particularly in craft brewing, expected to arise after the Group's acquisition of the new subsidiary.

The amortisation of the acquired intangible assets in the period in relation to Switchback totalled £0.3m and is included in non-underlying items in the income statement.

Acquisition-related costs
Acquisition-related costs of £0.4m are included in administrative expenses in non-underlying items in the income statement.

Contingent consideration
The contingent consideration arrangement requires the Group to pay the former owners of Switchback up to US$1m (£0.7m) in each of the next two years, with a minimum payment of US$0.5m in each if Switchback's annual adjusted EBITDA is at least $1.1m and 50% of the excess over US$1.1m, up to $2.1m.

There is no minimum amount payable.

The fair value of the contingent consideration arrangement of £1.1m was estimated by calculating the present value of the future expected cash flows. The Group's forecasts identify that the maximum deferred consideration will be payable. Under IFRS 3, the company is required to discount the contingent consideration at a rate reflective of the risk of the amounts not falling due. This results in a discount to the total amount of £0.1m, which is expected to be amortised over the period to which the amounts fall due through the interest charge. The interest during the period was £nil. The deferred consideration payable to ongoing employees of Switchback is £0.3m, which is treated as additional remuneration and not included in the valuation of deferred consideration under IFRS3.

Acquired receivables
The fair value of trade and other receivables is £1.4m and includes trade receivables with a fair value of £1.4m. The gross contractual amount for trade receivables due is £1.4m which is expected to be collectable in full.

Revenue and profit contribution
The acquired business contributed revenues of £3.3m and net profit of £0.6m to the Group for the period from 9 September 2020 to 31 December 2020. If the acquisition had occurred on 1 January 2020, consolidated revenue and consolidated profit after tax for the year ended 31 December 2019 would have been £91.3m and £4.4m respectively.

9. Prior period adjustment
Following an internal review of Mpac's compliance with certain technical details of IFRS 15 and the FRC's third thematic review of IFRS 15, published 24 September 2020, the Group has restated certain balances previously reported, in accordance with IAS 8, to align the treatment of contract assets, contract liabilities, contract fulfilment assets and work in progress recognised in relation to contracts more closely to the demands of IFRS 15. The Group has not received any communication from the FRC on this or any other matter. These balances do not change any of the key metrics used by the Group, with gross profit, operating profit, profit before and after tax, earnings per share, net current assets and retained earnings remaining unchanged. These adjustments do not affect the future anticipated performance of the Group.

The effect of the adjustments results in a slight timing difference to the recognition of revenue and cost of sales in equal amounts in the income statement. The effect in 2019 was reviewed and found to be immaterial so no restatement of the 2019 income statement has been presented. There is no impact upon gross profit or any other key metric as a result of these adjustments in the income statement under any circumstances.

The adjustments made are:

	2019 as reported £m	**Adjustment £m**	**2019 restated £m**	**2018 as reported £m**	**Adjustment £m**	**2018 restated £m**
Work in progress (Inventories)	5.0	(3.9)	1.1	1.7	(0.9)	0.8
Contract assets (Trade & other receivables)	4.7	1.7	6.4	5.5	(1.2)	4.3
Contract fulfilment asset (Trade & other receivables)	-	1.2	1.2	-	1.0	1.0
Contract liabilities (Trade & other payables)	(5.8)	(5.9)	(11.7)	(11.6)	(2.5)	(14.1)
Prepayments and accrued income (Trade & other receivables)	0.5	3.2	3.7	3.9	1.8	5.7
Accruals and deferred income (Trade & other payables)	(8.4)	3.7	(4.7)	(6.5)	1.8	(4.7)
Effect on current assets and statement of financial position total		-			-	

10. Annual Report and Accounts

Shareholders will be notified, on or around 1 April 2021 of the availability of the Annual Report and Accounts, together with the Company's Notice of Annual General Meeting ("AGM"), via a Regulatory Information Service announcement. Copies of the documents will be available on the Group's website at www.mpac-group.com. Shareholders that have elected to receive a hard copy of the Annual Report and Accounts, together with the Notice of AGM will receive them shortly after the Easter weekend. Details of arrangements for voting at the AGM will also be notified to shareholders at the same time. The AGM will be held at 12 noon on 5 May 2021 at Mpac Lambert, Station Estate, Tadcaster, LS24 9SG. Due to Government guidelines on Covid-19, the AGM will be held with the minimum attendance required to form a quorum. Shareholders will not be permitted to attend the AGM in person but are encouraged to appoint the Chair of the meeting as their proxy so that their vote can be represented and counted.