

Marshalls plc
2019 Half Year Results
Review and Outlook

Delivering sustainable growth



Marshalls



ANGEL COURT




Agenda


Delivering sustainable growth


- Highlights
- Financial Performance
- The Market
 - Public Sector and Commercial
 - Domestic
- Business Strategy
 - Specification
 - New Product Development
 - Logistics
 - Operations
 - Sustainable Materials
 - Digital
 - Customer Centricity
 - Emerging Businesses
- Summary
- Questions



Find out more online
www.marshalls.co.uk

 Find us on Facebook
MarshallsGroup

 Follow us on Twitter
@MarshallsGroup

 Follow us on LinkedIn
Marshalls

 Follow us on YouTube
MarshallsTV



Delivering sustainable growth

Highlights

	Pre IFRS 16 HY 2019	HY 2018	Pre IFRS 16 Increase %
Revenue	£280.1m	£244.3m	15
EBITDA	£47.3m	£41.6m	14
Operating profit	£38.4m	£33.5m	15
Profit before tax	£37.2m	£32.5m	14
Basic EPS	15.22p	13.24p	15
Interim dividend	4.70p	4.00p	18
ROCE	21.4%	20.0%	
Net debt	£55.6m	£48.9m	

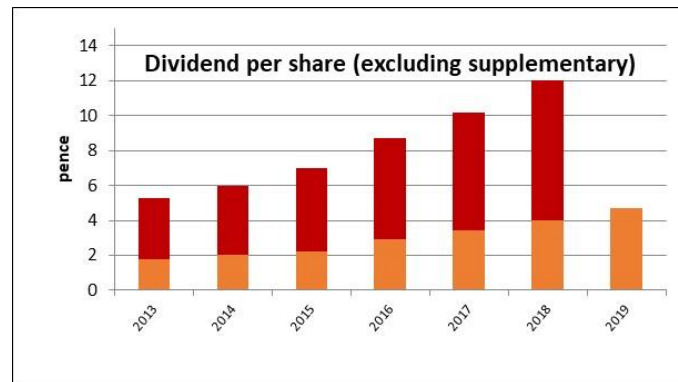
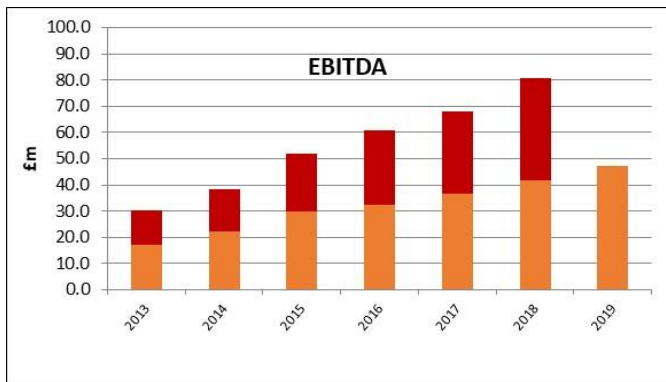
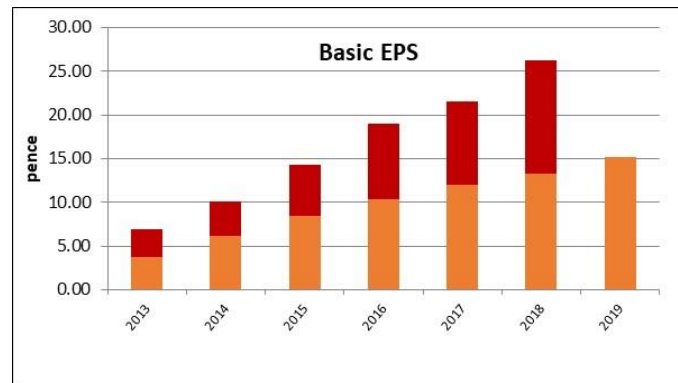
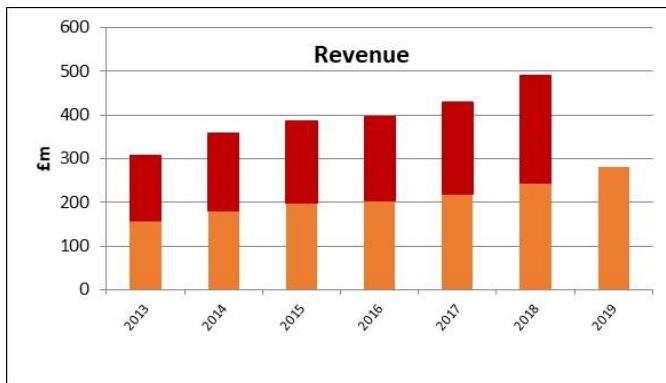
Note:

- (1) The impact on the Income Statement of transitioning to IFRS 16 was marginal, with reported profit before tax of £37.1 million being only £0.1 million lower than the pre IFRS 16 figure of £37.2 million.
- (2) The application of IFRS 16 resulted in a decrease in other operating expenses of £7.6 million and an increase in depreciation of £7.0 million for the 6 months ended 30 June 2019. The interest expense increased by £0.7 million due to additional IFRS 16 interest.



Delivering sustainable growth

Highlights



HY1

HY2



Marshalls

Financial Performance

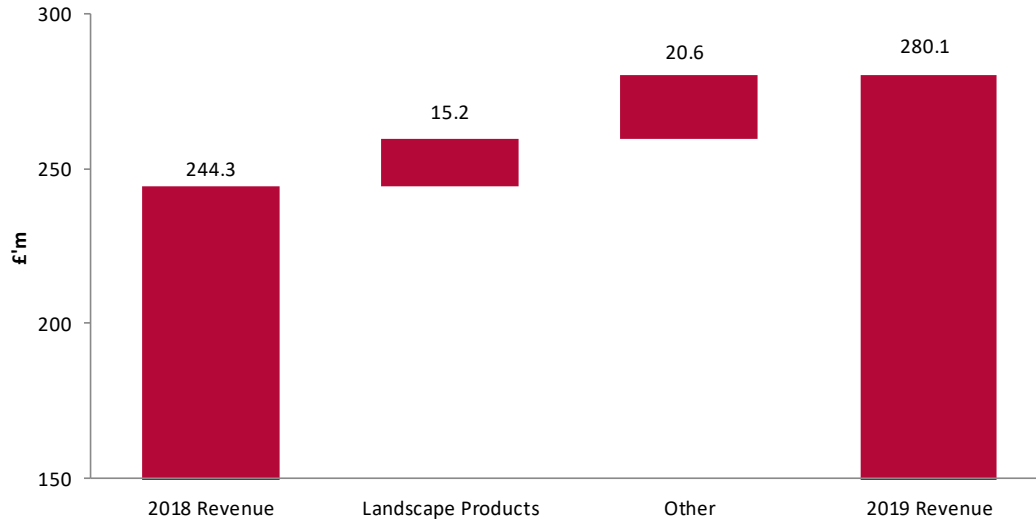
Half Year 2019 Results





Delivering sustainable growth

Revenue growth

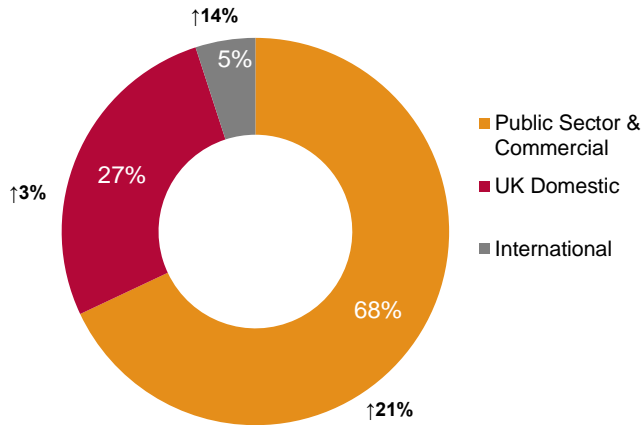




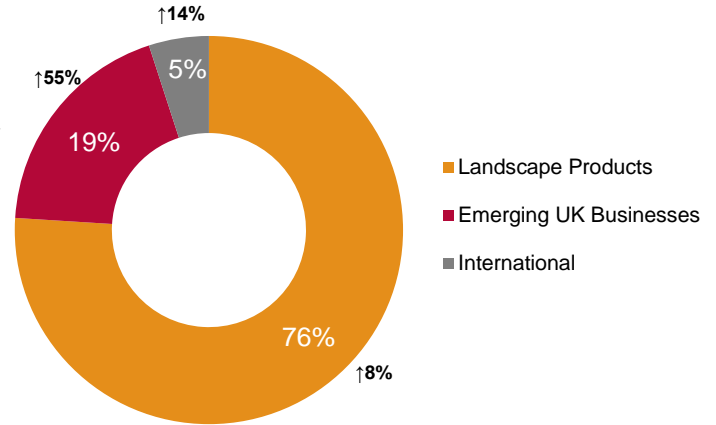
Delivering sustainable growth

Revenue analysis

Revenue analysis: end market



Revenue analysis: business area





Delivering sustainable growth

Margin reconciliation

	Revenue £m	Operating profit £m	Impact on margin %
HY 2018	244.3	33.5	13.7
Landscape Products	15.2	2.7	0.2
Other	20.6	2.2	(0.2)
HY 2019 – pre IFRS 16	280.1	38.4	13.7
HY 2019 – as reported	280.1	39.0	13.9



Delivering sustainable growth

Cash flow from operating activities

	Pre IFRS 16 HY 2019 £m	HY 2018 £m
Cash inflow arising from:		
Operating profit	38.4	33.5
Depreciation and amortisation	8.9	8.1
EBITDA	47.3	41.6
Net financial expenses paid	(0.7)	(0.7)
Taxation paid	(5.2)	(6.1)
Net gain on sale of property, plant and equipment	(0.1)	(1.0)
Receivables / payables	(16.7)	(11.9)
Inventory	(8.9)	(7.0)
Acquisition / restructuring costs	(0.4)	(1.5)
Equity settled share-based payments and other items	1.3	0.6
Net cash flow from operating activities	16.6	14.0

Note:

- (1) The impact on the Cash Flow Statement of transferring to IFRS 16 was to increase net cash flow from operating activities by £7.7 million. Reported net cash flow from operating activities for the 6 months ended 30 June 2019 was £24.3 million.



Delivering sustainable growth

Cash flow

	Pre IFRS 16 HY 2019 £m	HY 2018 £m
Net cash flow from operating activities	16.6	14.0
Capital expenditure	(10.0)	(14.1)
Net proceeds from sale of surplus assets	0.1	1.6
Dividends paid	(23.8)	(21.3)
Proceeds from issue of share capital	0.2	-
Payments to acquire own shares	(1.4)	(1.2)
Payments in respect of share-based awards	-	(3.7)
Sub-total	(18.3)	(24.7)
Finance leases / exchange differences	0.1	0.1
Movement in net debt	(18.2)	(24.6)
Net debt at 1 January	(37.4)	(24.3)
Net debt at 30 June (pre IFRS 16)	(55.6)	(48.9)
Lease liabilities (under IFRS 16)	(42.1)	-
Reported net debt	(97.7)	(48.9)



Delivering sustainable growth

Bank debt capacity

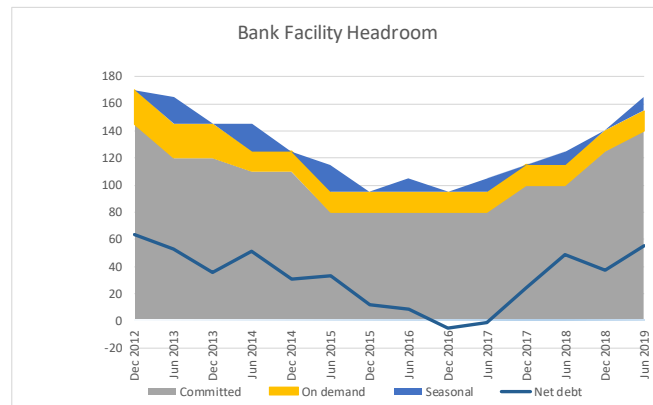
- Continued strong cash generation (OCF : EBITDA = 90%)
- Pre IFRS 16 net debt of £55.6 million at 30 June 2019 (31 December 2018: £37.4 million net debt) following acquisition of Edenhall
- Reported net debt of £97.7 million at 30 June 2019 following inclusion of £42.1 million of additional IFRS 16 lease liabilities
- Final and supplementary dividends of £23.8 million paid on 28 June 2019
- Bank debt capacity increased to £165 million
- Significant capacity to fund organic investment and selective acquisitions



Delivering sustainable growth

Significant borrowing facilities available

Expiry date	Facility £m	Cumulative Facility £m
Committed facilities:		
Q3 2024	25	25
Q3 2023	55	80
Q3 2022	20	100
Q3 2021	20	120
Q3 2020	20	140
On demand facilities:		
Available all year	15	155
Seasonal (February to August inclusive)	10	165

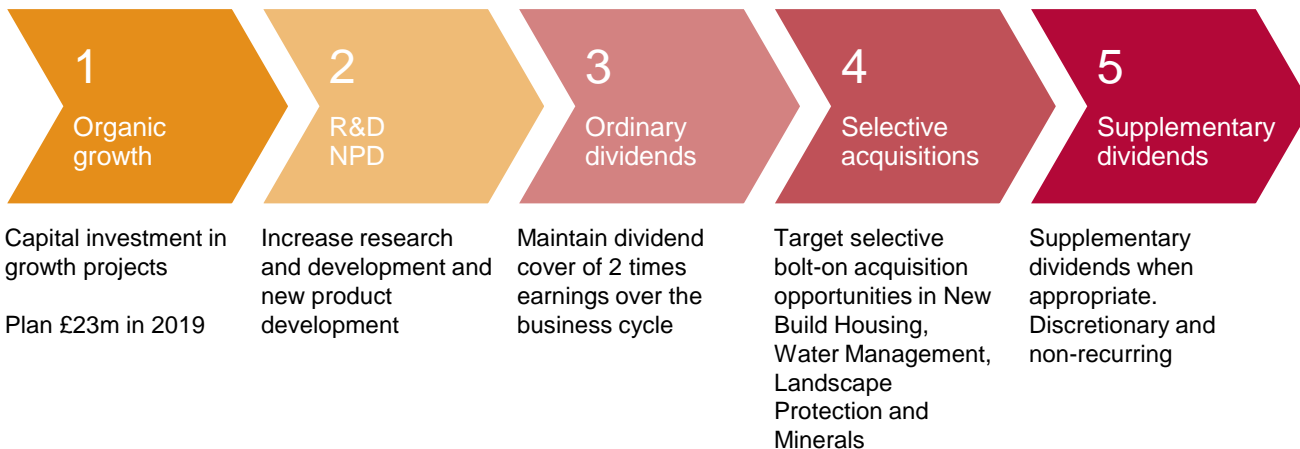


- Bank facilities actively managed to maintain flexibility
- Balance of committed and uncommitted facilities
- Increase in committed facilities during the period
- Facilities comfortable against headroom
- Good comfort against covenants



Delivering sustainable growth

Capital allocation policy





Delivering sustainable growth

Strong track record of capital discipline

	HY 2019	HY 2018	HY 2017	HY 2016	HY 2015
Debtor days	35	33	34	34	36
Creditor days	56	53	52	51	51
Inventory turn (times per annum)	3.1	3.2	3.3	3.2	3.0
Liquidity ratio (pre IFRS16) (current assets: current liabilities)	1.5	1.6	1.6	1.5	1.6
ROCE (pre IFRS 16)	21.4%	20.0%	23.7%	19.9%	15.2%
ROCE (reported)	19.3%	20.0%	23.7%	19.9%	15.2%
Gearing (pre IFRS 16)	19.8%	20.0%	N/A	4.3%	17.9%
Gearing (reported)	35.1%	20.0%	n/a	4.3%	17.9%
Net (debt) / cash (pre IFRS 16)	£(55.6)m	£(48.9)m	£1.2m	£(8.8)m	£(32.9)m
Net (debt) / cash (reported)	£(97.7)m	£(48.9)m	£1.2m	£(8.8)m	£(32.9)m
Net assets	£278.2m	£244.6m	£222.6m	£204.9m	£184.0m



Delivering sustainable growth

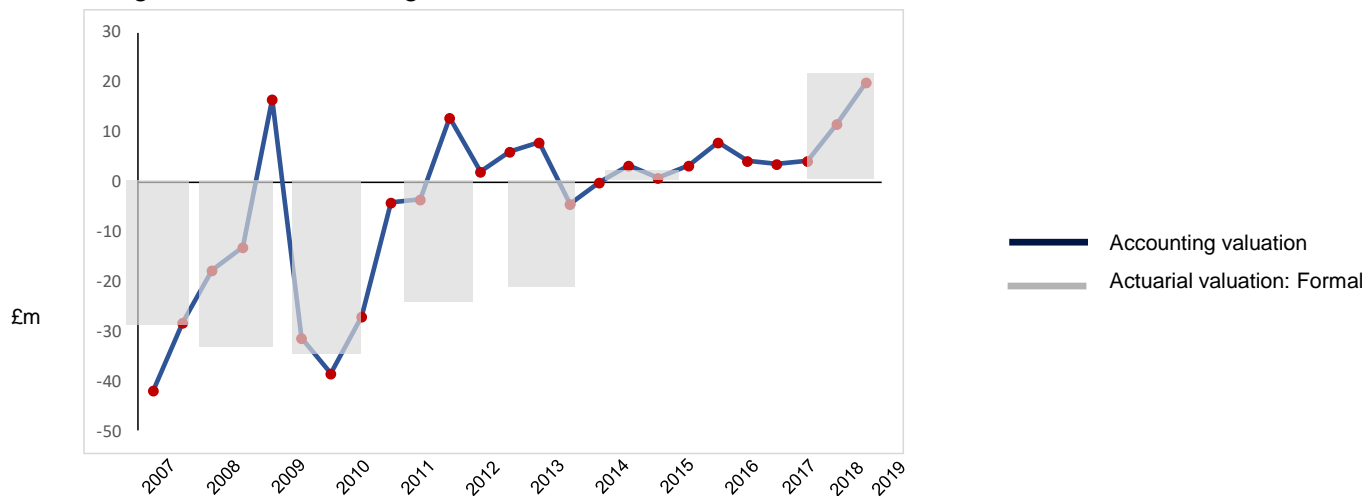
Pensions

Balance Sheet

- Company contributions to Defined Benefit Scheme reduced to zero under agreed Recovery Plan
- Surplus of £20.6 million at 30 June 2019 (31 December 2018: surplus of £13.5 million)

Income Statement

- Scheme closed since 2006 to future accrual
- Net service cost: £0.4 million debit (2018: £0.3 million debit)
- Looking to “transfer out” long term

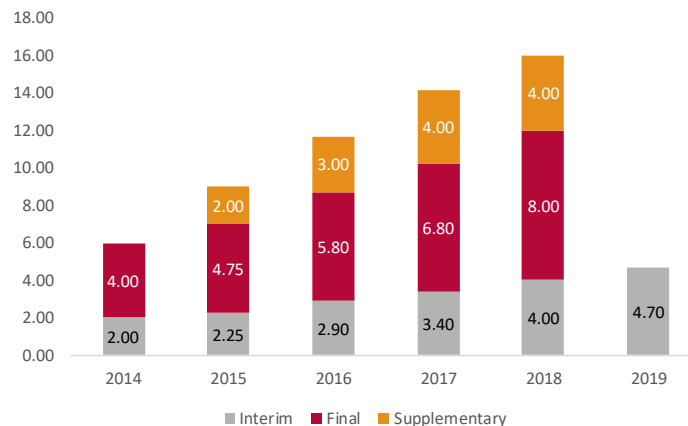




Delivering sustainable growth

Dividends

- Progressive ordinary dividend policy
- 2019 interim dividend 4.70p (up 18%)
- Target of 2x cover
- Supplementary dividend: discretionary and non-recurring
- CAGR growth of 18.6% over 5 years
- Board will continue to adhere to the Group's capital allocation policy





Marshalls

The Market

Half Year 2019 Results

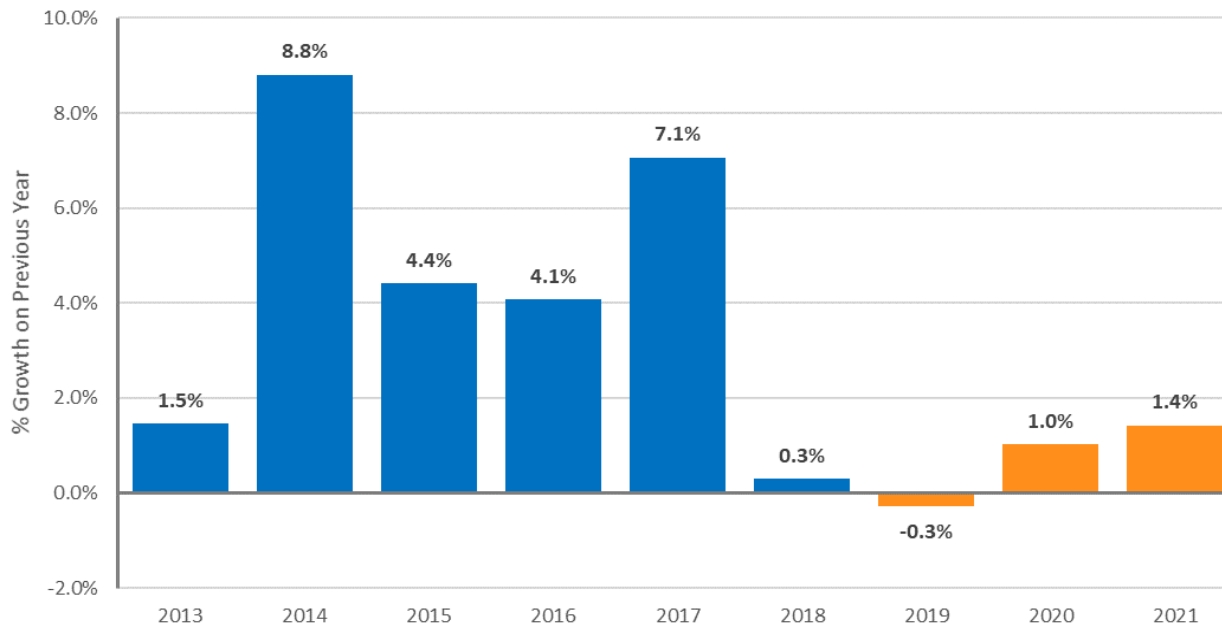




Delivering sustainable growth

CPA construction output forecasts – Summer 2019

All Work Central Forecast % Growth on Last Year

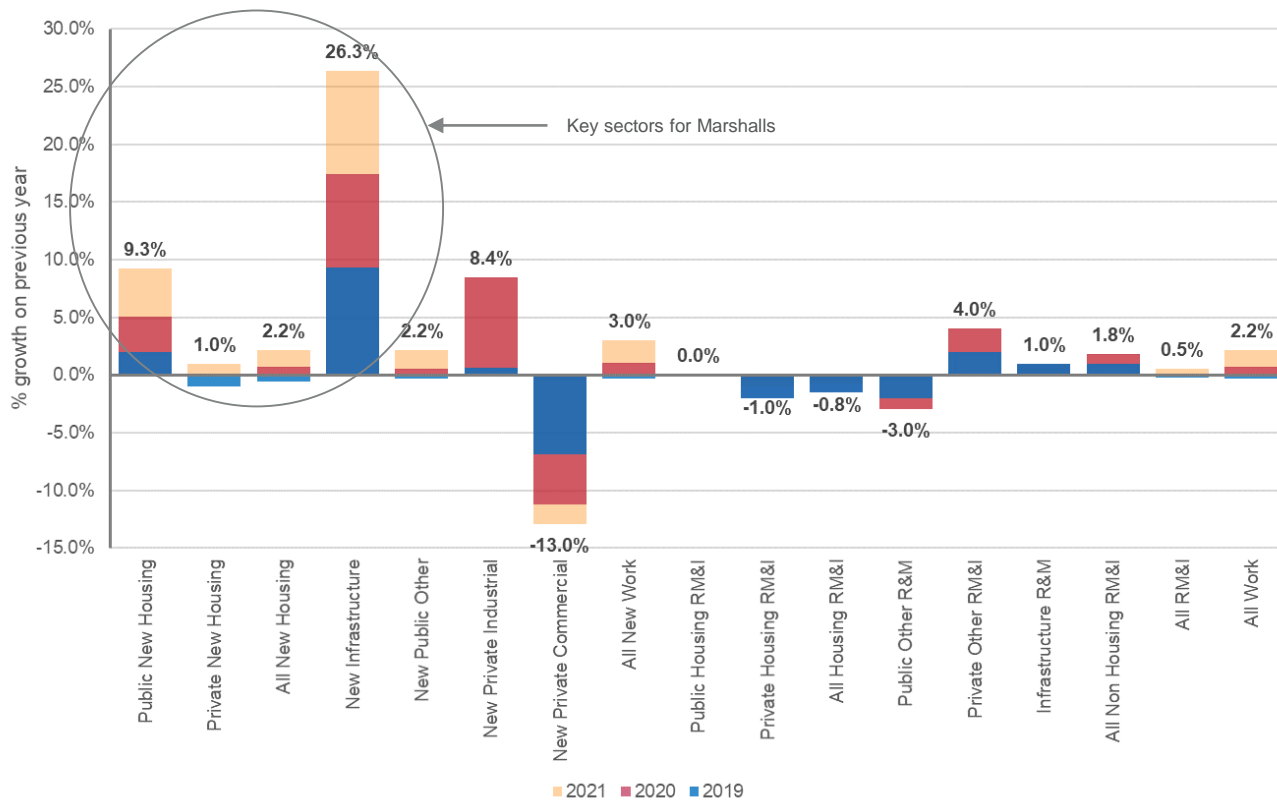


Note: Historic numbers are the latest ONS adjusted figures



Delivering sustainable growth

CPA 2019 to 2021 cumulative sector forecasts





Marshalls

**Public Sector &
Commercial**

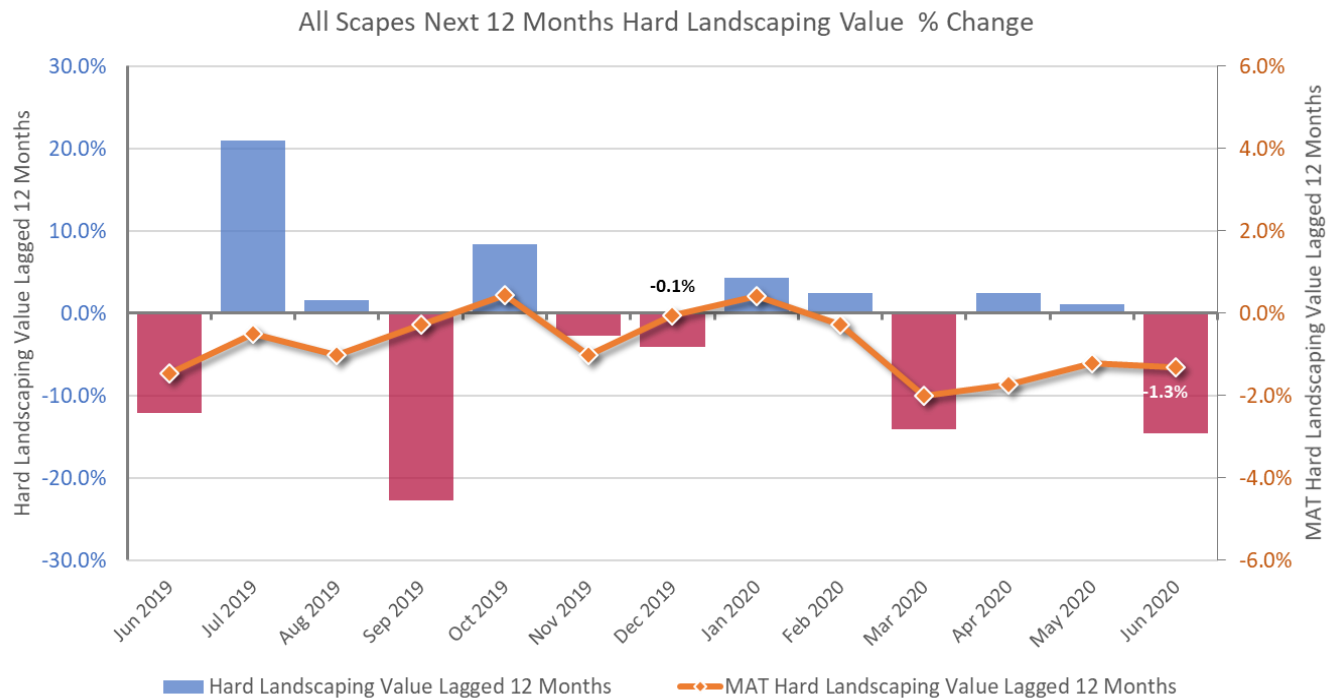
**Half Year
2019 Results**





Delivering sustainable growth

ABI lead indicator

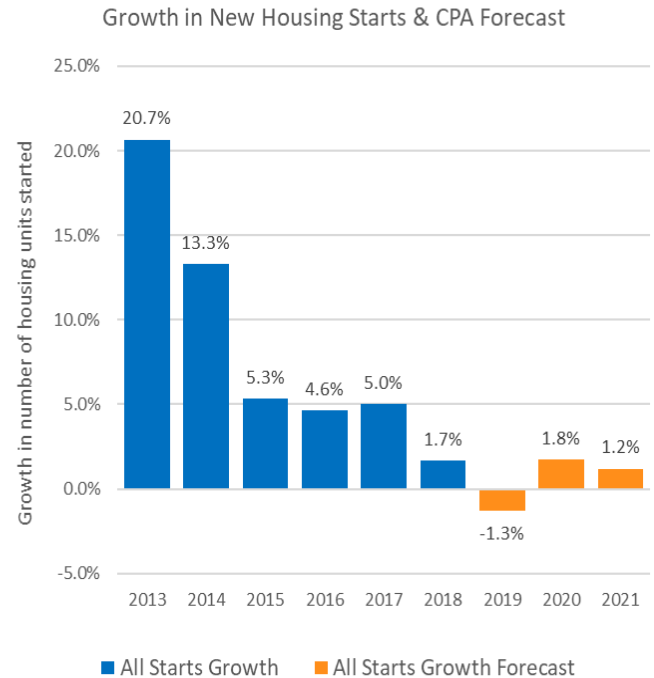
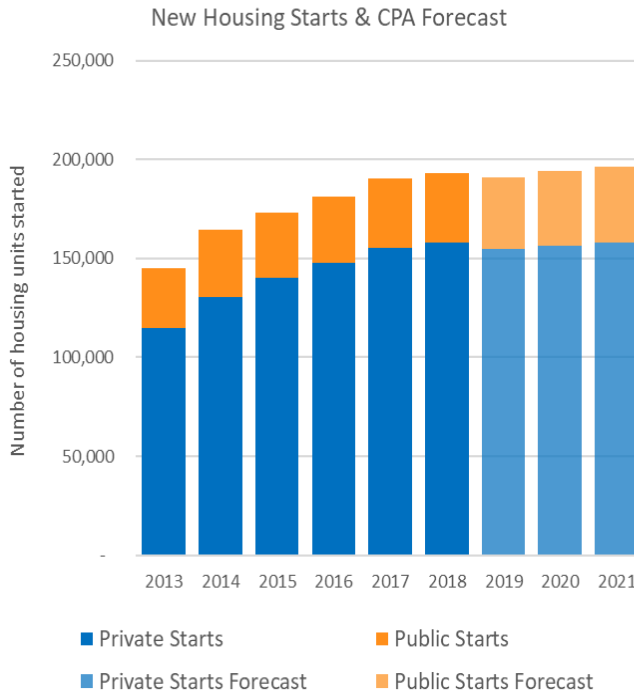


Projects under £100m – Est hard landscaping value



Delivering sustainable growth

Private and public housing statistics and CPA forecasts



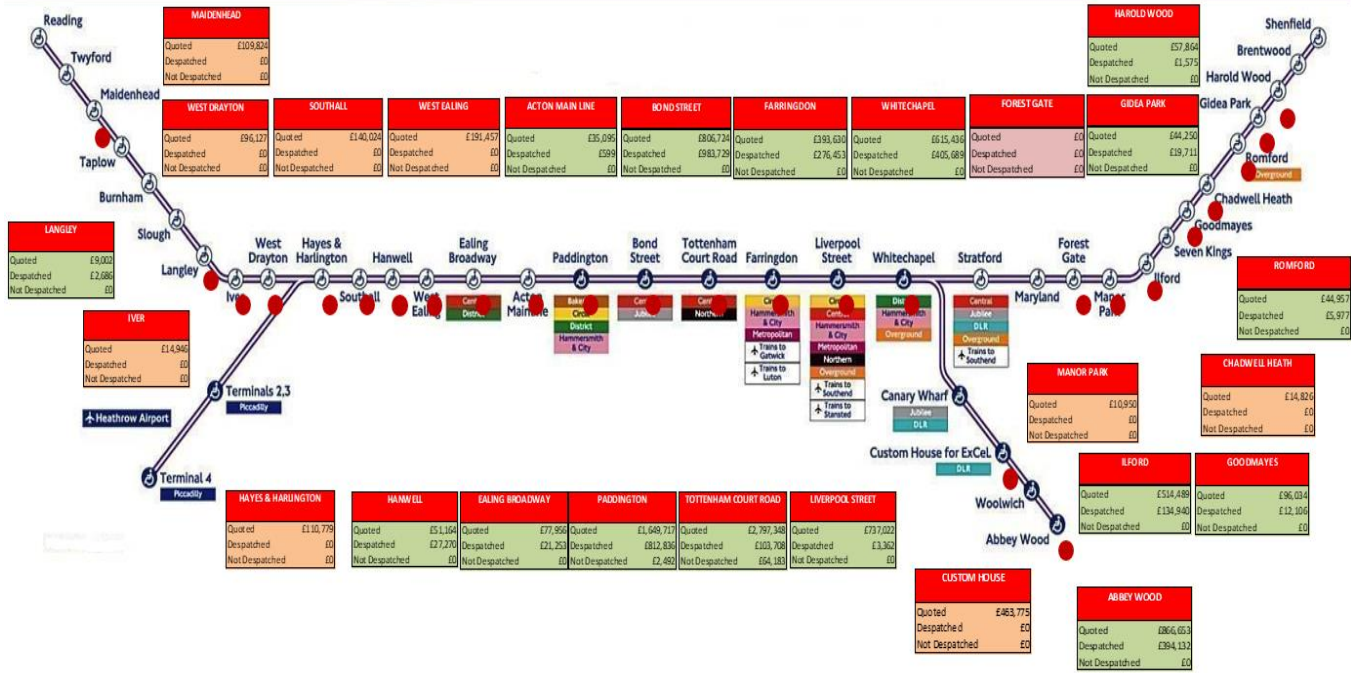


Delivering sustainable growth

Update on Cross Rail specs, orders and sales

Marshalls share increasing

Elizabeth line



- Quoted on project and delivered
- Quoted on project
- No activity as yet



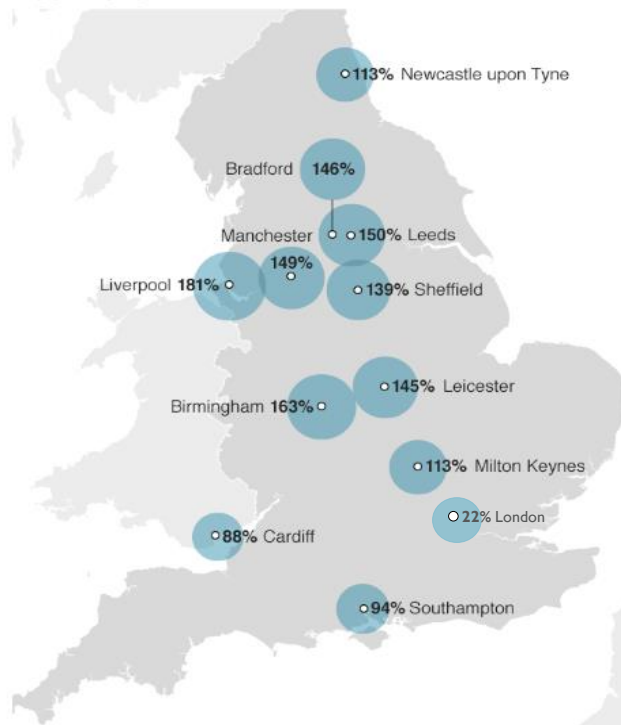
Quoted
£14,556,731
Despatched
£4,202,410
Not Despatched
£65,676



Delivering sustainable growth

Pedestrianisation

**Fastest growing city centre populations
2002-2015**





Marshalls

Domestic

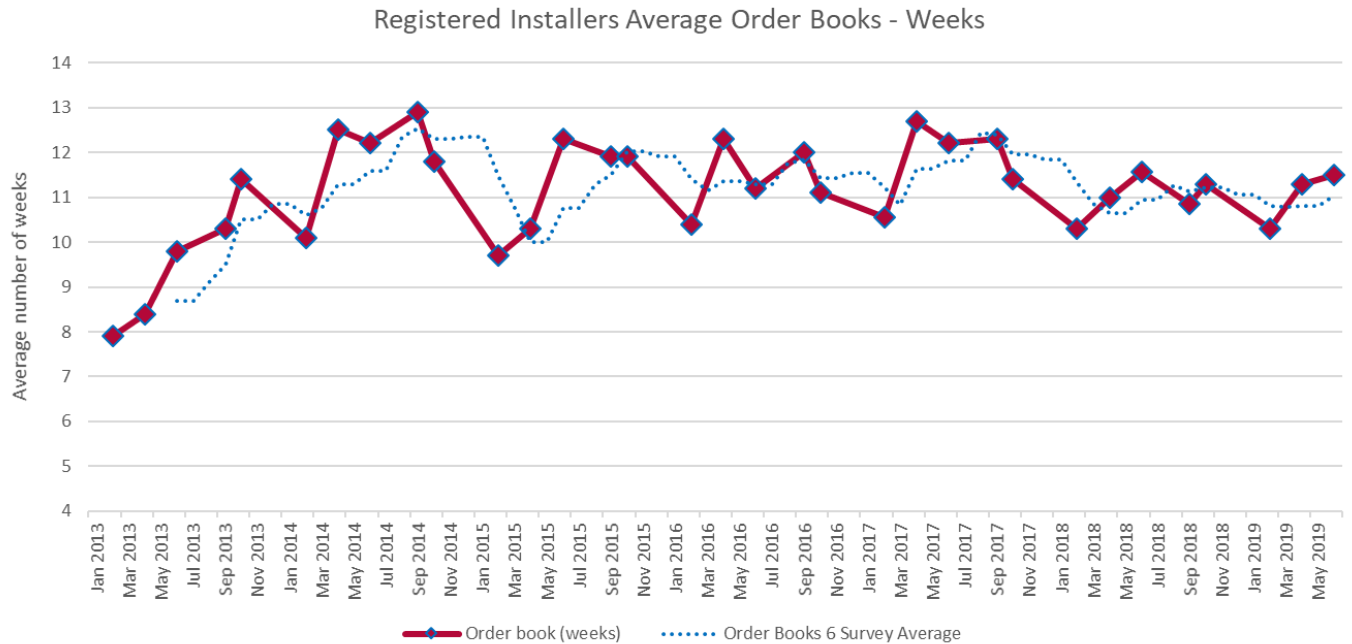
**Half Year
2019 Results**





Delivering sustainable growth

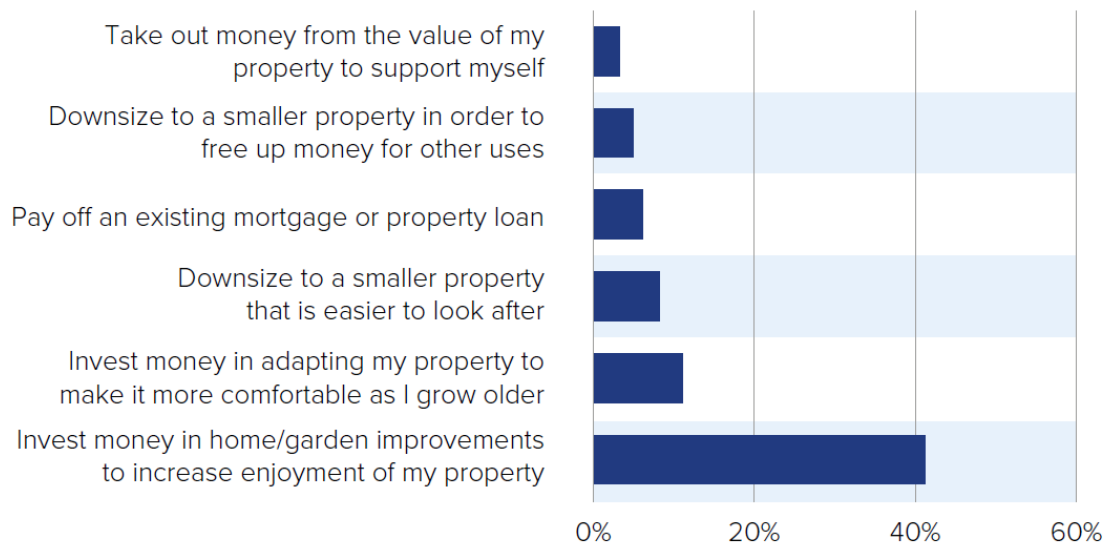
Installer order books





Delivering sustainable growth

Survey of over 45s homeowner property plans over the next year



Source: Equity Release Council research among 2,503 UK homeowners aged 45+, May 2019



Marshalls

**Business
Strategy Update**

**Half Year
2019 Results**





Delivering sustainable growth

The Marshalls 5 year business strategy

Our Vision

Our vision is to Create Better Spaces and Futures for Everyone; Socially, Environmentally and Economically.

Our Mission

Our Continuing Mission is to Deliver Sustainable Growth through a Brand that Drives Customer Specification of Innovative Product Solutions for the Built Environment

Our Strategic Goal is to become the UK's Leading Manufacturer of products for the Built Environment

Strategic Priorities

Brand Preference for Product Specification

Logistics Excellence

Sustainable Materials Supply

Customer Centricity

New Product Development

Operational Excellence

Digital Transformation

Growth in the Emerging Businesses

Enabled by People & Talent Development

**T
h
e
M
a
r
s
h
a
l
l
s

W
a
y**



Marshalls

Specification

**Half Year
2019 Results**

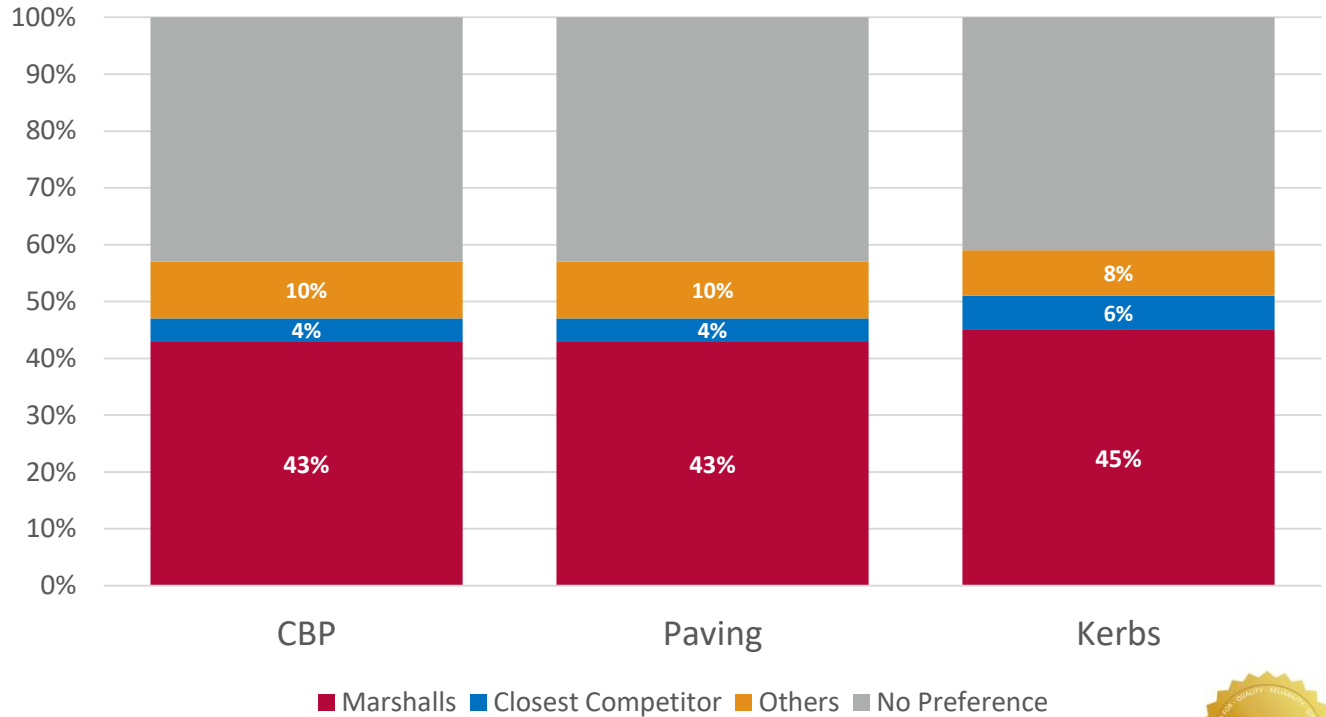




Delivering sustainable growth

Brand preference that drives product specification

Survey of Overall Brand Preference for Core Products
Spring 2019





Marshalls

**New Product
Development**

**Half Year
2019 Results**

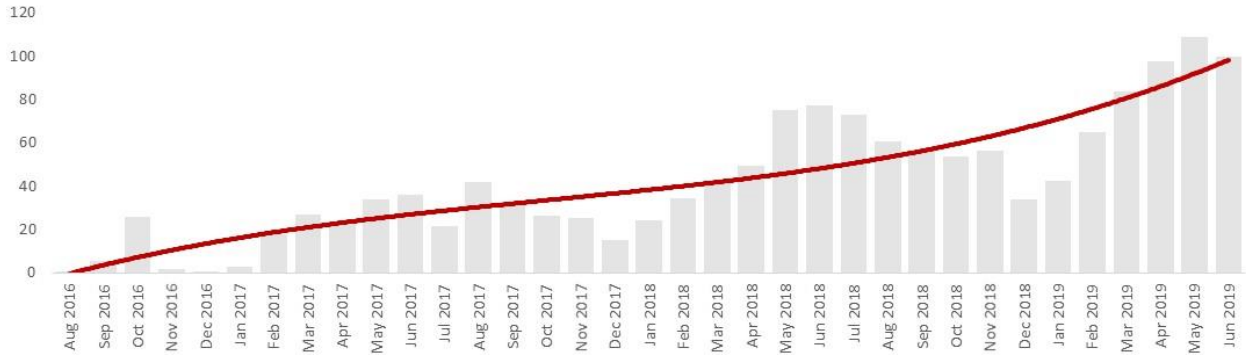




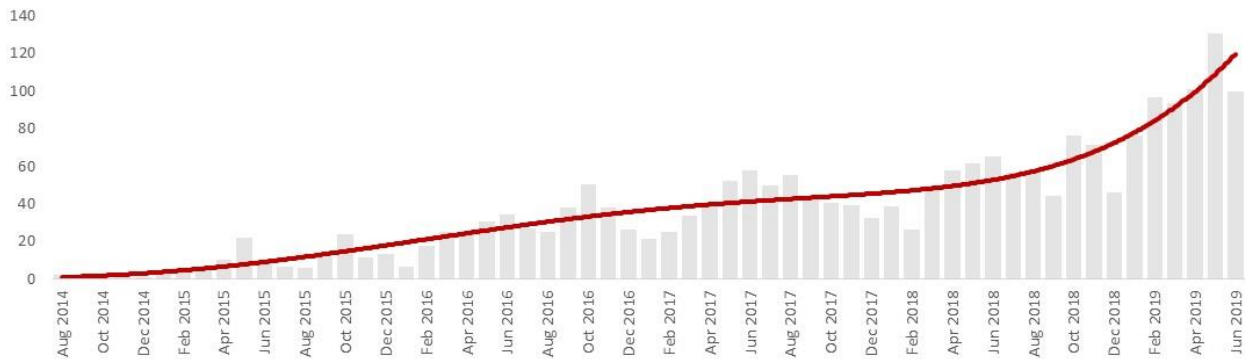
Delivering sustainable growth

New product development

Domestic Products Launched in the last 3 years - Monthly Sales
Index: June 2019=100



Commercial Products launched in the last 5 years - Monthly Sales
Index June 2019=100





Marshalls

Logistics

Half Year 2019 Results





Delivering sustainable growth

Logistics excellence

Marshalls



DELIVER



LOGISTICS FLEET

268 internal vehicles across 23 sites.
c. 60% of all deliveries completed in-house supplemented by 3rd party hauliers.



COMPETITIVE ADVANTAGE

In-House fleet provides a competitive advantage and differentiation vs competitors with Industry leading safety technology.



EMPLOYEE SATISFACTION

Stable driver community with long service & experience (avg. age 45).



DELIVERY QUANTITIES

c. 375,000 deliveries/annum to every UK postcode.



ACCREDITATION

Active member of FTA and FORS Silver Accreditation.
Outstanding VOSA Compliance.



Marshalls

Operations

Half Year
2019 Results





Delivering sustainable growth

Operational excellence

People *Fit For The Future*

We need to ensure that we invest appropriately in the right areas to provide reliable supply and manufacturing flexibility for future demands.



- Key roles in Logistics, Procurement, Technical & Planning recruited & in place.
- Full “People” blueprint review for core & support functions at an operational level underway – further value creation & standardisation.

Process *Volume Leverage & Profitability*

Understand how to achieve efficiencies by maximizing production volumes and optimising the number of sites.



- 4% points uplift in OEE YOY across primary processes creating capacity.
- 12% volume & 13% tonnage increase absorbed on significantly reduced cost base (including inflation).

Plant *Capacities, Demand & Transport*

We are approaching capacity in some geographical and product areas, with internal transport increasing.



- Full review of logistics cost base drivers – transport & overhead costs reducing YOY.
- We can now reach 95% of our customers in the UK within 2 hours.
- ePOD roll out is complete.



Marshalls

**Sustainable
Materials**

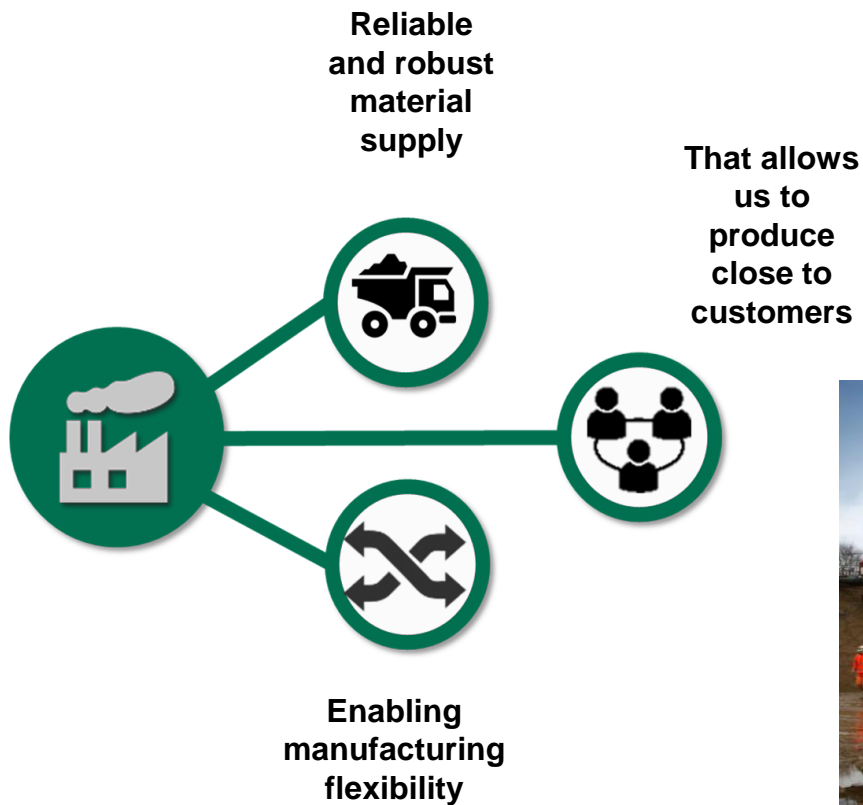
**Half Year
2019 Results**





Delivering sustainable growth

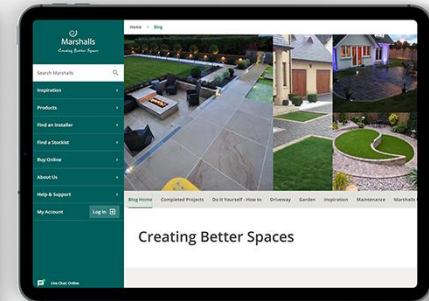
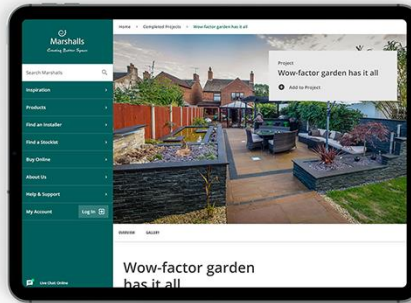
Sustainable materials supply





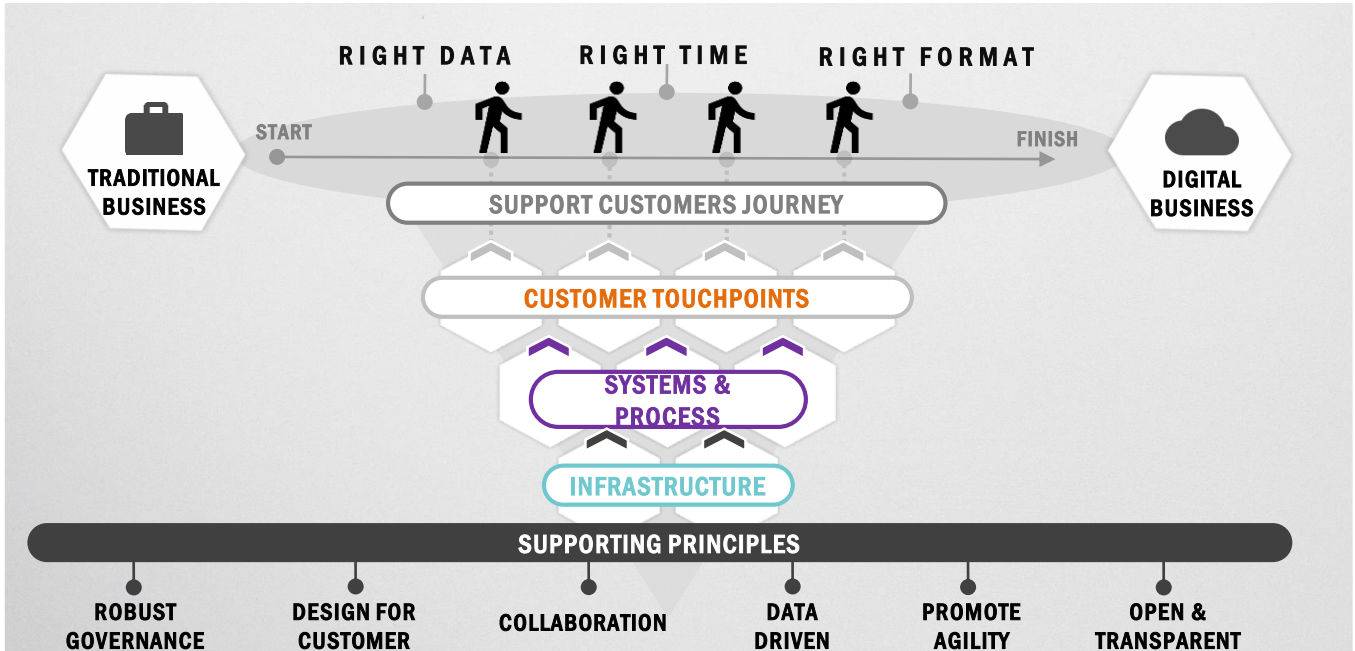
Digital

Half Year
2019 Results



Delivering sustainable growth

Digital transformation



Artificial Intelligence- Machine Learned Pricing

The AI machine is currently vetting 40% of all competitively priced quotes replacing human workload and improving quote turnaround time by 10 mins per quote.

Increased turnover by 1.3% on negotiable MLP commercial site projects whilst improving efficiency and customer service levels.

The next phase of the project is aiming to maximise margin by predicting the optimum price based on the likelihood of sales at different price levels.



Marshalls

**Customer
Centricity**

**Half Year
2019 Results**





Delivering sustainable growth

Customer centricity



Marshalls Customers

+54

Overall NPS score

Fieldwork April-May 2019



Marshalls

**Emerging
Businesses**

**Half Year
2019 Results**





Delivering sustainable growth

Emerging businesses and acquisitions HY1 2019 v HY1 2018

	Sales	Profit
CPM	+14%	+11%
Edenhall	+100%	+100%
Minerals & Mortar	0%	+46%
Landscape Protection	+13%	+159%
Recon	+10%	+108%
Natural Stone Paving	+30%	+99%



Delivering sustainable growth

New house building market





Delivering sustainable growth

Summary

- Strong financial performance – revenue up 15% and PBT up 14%
- 2019 H1 EBITDA £47.3 million (pre IFRS 16) +14%
- Improved operating margins – up to 13.9% (2017: 13.7%)
- Strong cash generation has continued
- Continued strong ROCE – 19.3% reported (21.4% pre IFRS 16)
- New Build Housing, Road, Rail and Water Management remain attractive markets
- Increasing market share through service / product
- Both CPM and Edenhall continuing to trade strongly
- Edenhall integration well advanced
- Well placed to deliver continued growth and operational profit improvements
- Maintaining a 2 times dividend cover policy, supported by supplementary dividends
- Board is increasingly confident of at least achieving its expectations for 2019

The new 5 year Strategy will drive growth and shareholder returns



Marshalls

Appendices

Half Year
2019 Results



Delivering sustainable growth

Profit for the financial period

	Pre IFRS 16 HY 2019 £m	As reported HY2019 £m	HY 2018 £m	Pre IFRS 16 Increase %	As reported Increase %
EBITDA	47.3	54.9	41.6	14	32
Depreciation / amortisation	(8.9)	(15.9)	(8.1)		
Operating profit	38.4	39.0	33.5	15	16
Financial income and expense (net)	(1.2)	(1.9)	(1.0)		
Profit before tax	37.2	37.1	32.5	14	14



Delivering sustainable growth

Impact of IFRS 16 - Leases

- Effective from 1 January 2019 – with almost all leases being recognised on the balance sheet
- Recognition of a right-of-use asset and a lease liability on the balance sheet (included within debt)
- Marshalls has applied the modified retrospective transition approach – no restatement of comparatives for the year ended 31 December 2018
- Upon transition the right of use asset is £46.7 million
- The transition financial lease liability is £48.2 million
- A transition adjustment of £1.8 million has been taken to retained earnings
- Previously disclosed operating lease charges have been replaced by depreciation and interest
- No overall cash flow impact – but classification changes in the cash flow statement
- Increase in operating profit (£0.6 million) and EBITDA (£7.6 million) in the half year
- Reduced ROCE, but remains strong at 19.3%
- Bank covenants remain on frozen GAAP



Delivering sustainable growth

Impact of IFRS 16 - Leases

	Pre IFRS 16 HY 2019 £m	Impact of IFRS 16 HY 2019 £m	As reported HY 2019 £m	HY 2018 £m
Revenue	280.1	-	280.1	244.3
Net operating costs	(241.7)	0.6	(241.1)	(210.8)
Operating profit	38.4	0.6	39.0	33.5
Finance charges (net)	(1.2)	(0.7)	(1.9)	(1.0)
PBT	37.2	(0.1)	37.1	32.5
Income Tax	(7.1)	-	(7.1)	(6.4)
PAT	30.1	(0.1)	30.0	26.1



Delivering sustainable growth

Impact of IFRS 16 - Leases

	Pre IFRS 16 HY 2019 £m	Impact of IFRS 16 HY 2019 £m	As reported HY 2019 £m	HY 2018 £m
PBT	37.2	(0.1)	37.1	32.5
EBITDA	47.3	7.6	54.9	41.6
EPS	15.22	(0.04)	15.18	13.24p
Net debt	55.6	42.1	97.7	48.9
ROCE	21.4%	(2.1)%	19.3%	20.0%
New debt : EBITDA	0.6	0.4	1.0	0.7
Gearing	19.8%	15.3%	35.1%	20.0%



Delivering sustainable growth

Construction Products Association

£m / % change	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast
Housing					
	40,571	42,274	42,034	42,579	43,197
	11.8%	4.2%	-1.6%	1.3%	1.5%
Other New Work					
	65,957	64,205	64,130	65,002	66,509
	4.3%	-2.7%	-0.1%	1.4%	2.3%
Repair, Maintenance and Improvement					
Private Housing	21,529	21,361	20,934	20,934	21,143
	9.7%	-0.8%	-2.0%	0%	1.0%
Total	55,968	56,503	56,349	56,583	56,793
	6.5%	1.0%	-0.3%	0.4%	0.4%
Total All Work	162,496	162,982	162,512	164,164	166,498
	7.1%	0.3%	-0.3%	1.0%	1.4%

Note: Figures taken from the latest CPA Summer Forecast



Delivering sustainable growth

Additional information and ratios

	HY 2019	HY 2018
Interest:		
Charge	£1.9m	£1.0m
Cover	20.2 times	34.0 times
EPS	15.18p	13.24p
Interim dividend	4.70p	4.00p
Weighted average number of shares	198.3m	197.6m
Net asset value	£278.2m	£244.6m



Delivering sustainable growth

Financial flexibility

	HYE 2019 Actual
EBITA: Interest charge	61.1 times
Net Debt: EBITDA	0.63 times

- EBITA to interest charge must be greater than 2.5 times
- Net debt to EBITDA must be less than 3.0 times
- Net assets must be greater than £100 million



Delivering sustainable growth

Net assets

	£m
2018 YE Net Assets	266.7
Effect of initial application of IFRS 16	(1.8)
	264.9
Impact of movements in the period:	
Profit for the financial period	30.1
Dividends	(23.8)
Actuarial movement on pensions (after tax)	6.3
Hedging reserve	0.1
Share-based payments (after tax)	1.9
Issue of share capital	0.2
Purchase of own shares	(1.4)
Foreign currency translation differences / other	-
Non-controlling interest	(0.1)
	13.3
HYE 2019 Net Assets	278.2



Delivering sustainable growth

Disclaimer

- For the purposes of the following disclaimer, references to this “presentation” shall be deemed to include references to the presenters’ speeches, the question and answer session and any other related verbal or written communications.
- This presentation, which is personal to the recipient and has been issued by Marshalls plc (“Marshalls”), comprises slides for a presentation in relation to Marshalls preliminary results, and is solely for use at such presentation.
- This presentation and these slides are confidential and may not be reproduced, redistributed or passed on directly or indirectly to any other person or published in whole or in part for any purpose.
- This presentation and associated discussion includes forward-looking statements. Information contained in this presentation relating to Marshalls has been compiled from public sources. All statements other than statements of historical fact included in this announcement, including without limitation those regarding the plans, objectives and expected performance of Marshalls, are forward-looking statements. Marshalls has based these forward-looking statements on its current expectations and projections about future events, including numerous assumptions regarding its present and future business strategies, operations, and the environment in which it will operate in the future.
- Forward-looking statements generally can be identified by the use of forward-looking terminology such as 'ambition', 'may', 'will', 'could', 'would', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek' or 'continue', or negative forms or variations of similar terminology. Such forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors related to Marshalls.
- By their nature, forward-looking statements involve risks, uncertainties and assumptions and many relate to factors which are beyond the control of Marshalls, such as future market and economic conditions, external factors affecting operations and the behaviour of other market participants. Actual results may differ materially from those expressed in forward-looking statements. Given these risks, uncertainties, and assumptions, you are cautioned not to put undue reliance on any forward-looking statements. In addition, the inclusion of such forward-looking statements should under no circumstances be regarded as a representation by Marshalls that Marshalls will achieve any results set out in such statements or that the underlying assumptions used will in fact be the case.
- Other than as required by applicable law or the applicable rules of any exchange on which securities of Marshalls may be listed, Marshalls has no intention or obligation to update or revise any forward-looking statements included in this presentation.
- This presentation is for information only and does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase, any shares in Marshalls or any other securities, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied upon in connection with, any contract or investment decision related thereto. No investment advice is being given in this presentation.



Marshall's

Creating Better Spaces

