Embargoed until 7.00am on Monday 18 March 2024

Management actions position the Group well for when markets recover

Marshalls plc, a leading manufacturer of sustainable solutions for the built environment, announces its results for the year ended 31 December 2023

Financial summary

£M	2023	2022	Change (%)
Revenue	**671.2**	719.4	(7%)
Adjusted results (Notes 1 and 2 below)			
Adjusted EBITDA	**103.6**	136.0	(24%)
Adjusted operating profit	**70.7**	101.1	(30%)
Adjusted profit before tax	**53.3**	90.4	(41%)
Adjusted basic EPS – pence	**16.7**	31.3	(47%)
Adjusted ROCE (%)	**8.4**	13.3	(4.9ppts)
Final dividend – pence	**5.7**	9.9	(42%)
Total dividend for the year – pence	**8.3**	15.6	(47%)
Pre-IFRS 16 net debt	**172.9**	190.7	9%
Statutory results			
Operating profit	**41.0**	47.9	(14%)
Profit before tax	**22.2**	37.2	(40%)
Basic EPS - pence	**7.4**	11.4	(35%)

- Group financial performance impacted by challenging end market conditions
- Benefitted from agile and flexible business model:
  - Decisive action taken to right size manufacturing capacity and the cost base, resulting in annualised savings of £11 million, with around 40 per cent delivered in 2023
  - Flexibility maintained in the manufacturing network in order to respond rapidly to deliver higher volumes when markets recover
- Term loan reduced by £30 million to £180 million in early January 2024 which, together with the £160 million RCF, provides significant liquidity to fund the Group's strategy
- Robust balance sheet with net debt reducing by £17.8 million to £172.9 million (on a pre-IFRS 16 basis), and year-end leverage of 1.9 times adjusted EBITDA

Operational and strategic highlights

- On 1 March 2024 Matt Pullen was appointed as Chief Executive, succeeding Martyn Coffey who stepped down from the Board on 29 February 2024
- Dual block plant in St Ives operational, improving capabilities and new product development
- Exited the Group's Belgian operation allowing the Group to solely focus on the UK construction market
- Ahead of Marshalls' carbon reduction target: enlarged Group's targets submitted to SBTi for approval. Progress made towards commercialising the Group's ESG and carbon credentials
- Marshalls' logistics function to be outsourced to Wincanton in H1 2024 - expected to improve service and deliver efficiencies

Outlook

- Revenue in the first two months of the year was lower than 2023 and reflects the continued weakness seen in the second half of last year
- In line with recent sentiment of UK economic and industry forecasts, the Board expects activity levels to remain subdued in the first half of the year followed by a modest recovery in the second half as the macro-economic environment progressively improves. The start of this recovery is now expected to be

slower and more modest than previously assumed. Therefore the Board believes that revenues in 2024 will be lower than previously expected and that profit will now be at a similar level to 2023.
- The Board remains confident that actions taken to improve efficiency and flexibility, together with a more diversified and resilient portfolio has strengthened the Group.
- With clear long-term structural growth drivers and attractive market growth opportunities, the Group is well positioned for relative outperformance in the medium-term, and this will underpin a material improvement in profitability as end markets recover.

Matt Pullen, Chief Executive, commented:

"I am delighted to be appointed as Chief Executive of Marshalls. During 2023, the business was necessarily focused on controlling and improving the efficiency and agility of its cost base, leveraging its strength in operations, as well as rigorous and strong management of cashflow. All of the actions taken demonstrate the business is well managed and agile. I would like to thank all my colleagues for their hard work and commitment throughout last year.

I have been with the Group since early January and these first two months have reinforced my view of both the strengths of the business and the significant opportunity to deliver profitable growth and create shareholder value. Over the coming months our focus will be on evolving the existing strategy, with a focus on the medium and longer-term market opportunities related to climate mitigation and adaptation and the structural drivers that will fuel demand for the Group's products and solutions.

In the short-term markets are expected to remain challenging with continued weakness in the first half of the year followed by a progressive recovery in the second half as the macro-economic environment improves. This recovery is however expected to be slower and more modest than previously anticipated.

The Board remains confident that actions taken to improve efficiency and flexibility, together with a more diversified and resilient portfolio have strengthened the Group. With clear long-term structural growth drivers and attractive market growth opportunities, the Group is well positioned for relative outperformance in the medium term, and this will underpin a material improvement in profitability as end markets recover."

There will be a live presentation today at 10:00am at the offices of Peel Hunt for analysts and investors, which will also be webcast live. The presentation will be available for analysts and investors who are unable to view the webcast live and can be accessed on Marshalls' website at www.marshalls.co.uk. Users can register to access the webcast using the following link:

https://brrmedia.news/MSLH_FY

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014), as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

Notes:
1. The results for the year ended December 2023 have been disclosed after adding back adjusting items. These are set out in Note 4.
2. This Preliminary Announcement includes alternative performance measures ('APMs'), which are not defined or specified under the requirements of International Financial Reporting Standards. The Board believes that these APMs provide stakeholders with important additional information on the Group. To support this, we have included an accounting policy note on APMs in the Notes to this Preliminary Announcement, a glossary setting out the APMs that we use, how we use them, an explanation of how they are calculated, and a reconciliation of the APMs to the statutory results, where relevant. See Notes 4 and 21 for further details.

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Introduction

2023 was a challenging year for the Group. A weak macro-economic backdrop impacted the Group's key end markets, resulting in a reduction in sales volumes, revenues, and profitability. In response, management took decisive action to improve agility, reduce capacity and lower Group overheads, with a strong focus on cash management. This has resulted in a leaner, more operationally geared business that is well positioned for when its end markets recover.

Market overview

Macro-economic pressures and uncertainty have continued to impact the construction industry in 2023, with significant cost inflation in the UK economy and progressive base rate increases by the Bank of England, leading to falling real wages, which has put unprecedented pressure on household budgets, and resulted in reduced demand in the housing sector. The impacts have been exaggerated by economic uncertainties and weak consumer confidence, which also saw reduced investment in the non-housing and infrastructure sectors although these remained more resilient in 2023. The CPA estimates that the output of the UK construction industry contracted by 6.4 per cent in 2023, with reductions of 17 per cent and 11 per cent in new build housing and private housing RMI, respectively, which are key end markets for the Group. These factors resulted in a reduction in demand for the Group's products, which had a significant impact on its profitability.

The expectation is that many of these factors will begin to reverse during 2024, and that the UK economy, together with general construction activity will start to recover in the second half of the year. This is reflected in the Construction Products Association's Winter forecast, which anticipates a contraction in construction output of 2.1 per cent in 2024, with a flat outlook for infrastructure and further contraction in housing. The CPA forecast that the construction industry will grow by 2.0 per cent in 2025 as the macro-economic environment improves during the course of next year.

A core element of the Group's strategy over recent years has been to broaden its product range, building a strong brand presence in landscaping, roofing, water management and bricks and walling through acquisition and organic growth. This has led to the diversification of sector exposure across new build housing, infrastructure, commercial projects and refurbishment in both the private and public housing sectors. The strategy has also enabled the Group's portfolio to provide solutions at all levels of the build program from groundworks to the roof. We estimate that around 40 per cent of the enlarged Group's revenues are derived from the new build housing sector, with another 40 per cent from commercial & infrastructure end markets. The remaining revenues of around 20 per cent are focused on private housing RMI, and importantly, this is split between sales to the domestic landscaping market and roofing refurbishment, which is far less discretionary as a purchase decision. The strategy of sector diversification provides an element of protection against market sector fluctuations and enables the Group to capitalise on sector opportunities presented by demand growth, investment or regulations.

Looking further ahead, the Board believes that the UK construction market continues to have attractive medium and long-term growth prospects driven by the structural deficit in new housebuilding, an ageing housing stock that requires increasing levels of repair and maintenance, and the need to continue to improve UK infrastructure. The Group's strategy is underpinned by its strong market positions, established brands and focused investment plans to drive continuous operational improvements. In addition, the Board is recently encouraged by the more positive inflation trends and the consequent impact on interest rate expectations, which should support progressive improvements in the Group's end markets during 2024.

Group results

The Group's adjusted results are set out in the following table.

£'m	2023	2022	Change (%)
Revenue	**671.2**	719.4	(7%)
Adjusted net operating costs	**(600.5)**	(618.3)	3%
Adjusted operating profit	**70.7**	101.1	(30%)
Adjusted financial expenses	**(17.4)**	(10.7)	(63%)
Adjusted profit before taxation	**53.3**	90.4	(41%)
Adjusted taxation	**(11.2)**	(17.1)	35%
Adjusted profit after taxation	**42.1**	73.3	(43%)
Adjusted EPS - pence	**16.7p**	31.3p	(47%)
Proposed full-year dividend - pence	**8.3p**	15.6p	(47%)

£'m	2023	2022	Change (%)
Adjusted operating profit	**70.7**	101.1	(30%)
Adjusting items	**(29.7)**	(53.2)	44%
Operating profit	**41.0**	47.9	(14%)
Finance costs	**(18.8)**	(10.7)	(76%)
Profit before taxation	**22.2**	37.2	(40%)
EPS - pence	**7.4p**	11.4p	(35%)

Group revenue for the year ended December 2023 was £671.2 million (2022: £719.4 million) which is seven per cent lower than 2022 and includes the contribution of four additional months of revenue from Marley. On a like-for-like basis, Group revenue contracted by 13 per cent, with lower revenues in all reporting segments. The strongest relative performance was in Roofing Products demonstrating the additional resilience that the Marley acquisition has brought to the Group due to its exposure to less discretionary RMI activity.

Group adjusted operating profit was £70.7 million, which is 30 per cent lower than 2022 reflecting the benefit of an additional four-month contribution from Marley offset by reduction in profitability in the Group's other reporting segments. Group adjusted operating margin reduced by 3.6 percentage points to 10.5 per cent (2022: 14.1 per cent) and reflects the benefit of Marley's structurally higher margins, offset by margin compression due to weaker volumes and the consequent impact on operational leverage. Management took decisive action to improve our agility, reduce capacity and lower Group overheads, with a strong focus on cash management. This included the closure or mothballing of factories, a reduction in shifts and capacity in other facilities, and a reorganisation of commercial and support functions. These changes resulted in a reduction of approximately 330 roles and will deliver annualised net savings of around £11 million, with around 40 per cent of this benefit being delivered in 2023. The Board reprioritised its capital expenditure plans, executed a programme of surplus land disposals that generated around £7 million, and has focused on efficient working capital management including reducing inventories by around £16 million in the second half of the year, in order to reduce the Group's net debt.

The statutory operating profit is stated after adjusting items totalling £29.7 million as summarised in the following table, further details are set out at Note 4.

£'m	2023	2022
Amortisation of intangible assets arising on acquisitions	**10.4**	7.3
Impairment charges, restructuring and similar costs	**18.3**	13.0
Contingent consideration	**1.6**	3.9
Disposal of Marshalls NV	**(0.6)**	10.2
Transaction related costs	**-**	14.9
Fair value adjustment to inventory	**-**	3.9
Adjusting items within operating profit	**29.7**	53.2
Adjusting items within financial expenses	**1.4**	-
Adjusting items within profit before taxation	**31.1**	53.2

Adjusting items in 2023 principally comprise the amortisation of intangible assets arising on the acquisition of subsidiary undertakings of £10.4 million (2022: £7.3 million) and restructuring costs of £18.3 million (2022: £13.0 million). The impairment charges, restructuring and similar costs arising from the decisive action taken during the year in response to the challenging market conditions and comprises £8.3 million of non-cash charges and £10.0 million of cash costs. The contingent consideration charge reflects an increase in the expected payments in respect of the acquisition of Viridian Solar based on the strong performance of that business. The disposal of Marshalls NV on 13 April 2023 resulted in a profit on disposal of £0.6 million. Details of the adjusting items arising in 2022 are set out at Note 4.

Net financial expenses were £18.8 million (2022: £10.7 million) and £17.4 million after adding back adjusting items (2022: £10.7 million). These expenses comprised financing costs associated with the Group's bank borrowings of £14.7 million (2022: £8.2 million), IFRS 16 lease interest of £2.5 million (2022: £2.4 million) and a pension related expense of £1.6 million (2022: £0.1 million). The pensions related expense includes a non-cash, one-off accounting charge of £1.4 million arising from the Board's decision to augment the benefits of certain pensioners who would have otherwise suffered hardship due to a reduction in pension payments following a review to correct historical benefit issues (see Notes 4 and 5 for further details). The increase in financial expenses after adding back adjusting items in the period reflects the impact of a full year of the additional debt financing used to part-fund the acquisition of Marley and the increase in base rates, partially offset by a reduction in net debt.

Adjusted profit before tax was £53.3 million (2022: £90.4 million). Statutory profit before tax was £31.1 million lower than the adjusted result at £22.2 million (2022: £37.2 million), reflecting the impact of the adjusting items. The adjusted effective tax rate was 21.0 per cent (2022: 18.9 per cent), which is slightly lower than the UK headline corporation tax rate for 2023. On a reported basis, the effective tax rate is 17.1 per cent. Adjusted earnings per share was 16.7 pence (2022: 31.3 pence), which is a 47 per cent reduction year on year reflecting the weaker profitability and the increase in the headline rate of corporation tax. Reported earnings per share was 7.4 pence (2022: 11.4 pence), which is lower than the adjusted number due to the adjusting items and their tax effect.

Segmental performance

The adjusted operating profit is analysed between the Group's reporting segments as follows:

£'m	2023	2022	Change (%)
Marshalls Landscape Products	**21.3**	45.3	(53%)
Marshalls Building Products	**12.2**	26.8	(54%)
Marley Roofing Products	**44.9**	34.4	31%
Central costs	**(7.7)**	(5.4)	(43%)
Adjusted operating profit	**70.7**	101.1	(30%)

Marshalls Landscape Products

Marshalls Landscape Products comprises the Group's Commercial and Domestic landscape business, Landscape Protection and the international businesses. The segment delivered revenue of £321.5 million (2022: £394.1 million) which represents a contraction of 18 per cent compared to 2022. On a like-for-like basis, adjusting for the disposal of Marshalls NV which was sold in April 2023, revenue contracted by 16 per cent.

£'m	2023	2022	Change (%)
Revenue	**321.5**	394.1	(18%)
Segment operating profit	**21.3**	45.3	(53%)
Segment operating margin %	***6.6%***	*11.5%*	*(4.9ppts)*

This reporting segment derives around 45 per cent of its revenues from commercial & infrastructure, approximately 30 per cent from new build housing and 25 per cent from private housing RMI. Whilst commercial & infrastructure remains robust, the business has been impacted by lower new build housing and continued weakness in private housing RMI activity driven by the discretionary nature of the segment's domestic products, weak consumer confidence, product price inflation and lower real incomes. These factors resulted in UK domestic revenues being down by around 25 percent year on year, which is a continuation of the trends reported since the second quarter of 2022. Revenues of commercially focused products were more resilient with a contraction of 10 per cent where a robust commercial & infrastructure performance was offset by weakness in new build housing.

Segment operating profit reduced by £24.0 million to £21.3 million. This was driven by the combined effect of

lower volumes on gross profit, weaker realisation of price increases in the second half of the year which meant input cost increases were not fully recovered, and a reduction in the operational efficiency of the manufacturing network due to reduced production volumes. In addition, margins were adversely impacted by a reduction in the market price of Indian sandstone in the first half of the year and a tougher pricing environment in the second half. Management took further decisive action to reduce capacity to align to market demand, simplify operating structures and reduce the cost base. Taken together, these actions reduced net operating costs by around £7.6 million on an annualised basis, of which around £3.2 million was realised in 2023. The costs associated with this action have been presented as an adjusting item (see Note 4). The fall in volumes together with the impact of weaker margins resulted in segment operating margins reducing by 4.9 ppts to 6.6 ppts for the year.

Marshalls Building Products

Marshalls Building Products comprises the Group's Civils and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregates businesses. Revenue in this reporting segment reduced by 12 per cent year on year to £170.1 million.

£'m	2023	2022	Change (%)
Revenue	**170.1**	193.1	(12%)
Segment operating profit	**12.2**	26.8	(54%)
Segment operating margin %	***7.2%***	*13.9%*	*(6.7ppts)*

This reporting segment generates around 60 per cent of its revenues from new build housing, around 30 per cent from commercial & infrastructure, with the balance being derived from private housing RMI. The exposure of this reporting segment to new build housing had an impact on its performance during the year. All business units within this reporting segment were affected by weak demand during the year, with the slowdown in activity impacting Bricks and Masonry and Mortars and Screeds in the second half of the year as new build housing volumes progressively slowed.

Segment operating profit contracted by £14.6 million to £12.2 million. This was driven by the impact of lower volumes on both gross margins and the operational efficiency of the factories and quarries due to reduced production volumes. In addition, in the second half of the year management took action to reduce manufacturing output further than sales volumes in order to reduce inventory levels, which adversely affected operational recoveries and profitability. Management also took action to reduce manufacturing capacity to align it with lower market activity levels by mothballing capacity and reducing shifts. These actions removed around £3.5 million from the cost base, of which £1.1 million was realised in 2023. The restructuring costs associated with these actions has been accounted for as an adjusting item (see Note 4). Segment operating margin reduced by 6.7 ppts to 7.2 per cent reflecting the impact of lower volumes on profitability.

Marley Roofing Products

Marley Roofing Products comprises pitched roofing products and accessories and roof integrated solar. Revenue increased by £47.4 million including the four additional months that were consolidated in 2023, however, on a like-for-like basis Marley's revenues were 9 per cent lower than 2022.

£'m	2023	2022	Change (%)
Revenue	**179.6**	132.2	36%
Segment operating profit	**44.9**	34.4	31%
Segment operating margin %	**25.0%**	*26.0%*	*(1.0 ppts)*

Approximately 40 per cent of Marley's revenues are generated from new build housing and 40 per cent from commercial & infrastructure (including public housing RMI) with the balance of around 20 per cent from private housing RMI. The challenging market backdrop resulted in a reduction in like-for-like revenues of 9 per cent, with weaker volumes of traditional roofing products partially offset by revenue growth from Viridian Solar, which benefitted from the trend towards energy efficient solutions and the start of the impact of changes to building regulations in England and Wales. The rate of contraction in revenues was more modest than the Group's other reporting segments due to the less discretionary nature of the RMI activity that uses its products.

Segment operating profit in the period was £44.9 million, which was £10.5 million higher than the £34.4 million included in the Group results in 2022. However, this represents a reduction of 12 per cent compared to 2022 on a like-for-like basis. This decline in profitability was driven by weaker volumes of traditional roofing products which impacted both gross profits and operational efficiency, partially offset by growing profitability from Viridian Solar. In the second half of the year, management took action to reduce costs and capacity by mothballing certain assets to manage working capital levels. The impact of this action has been accounted for as an adjusting item (see Note 4). Segment operating margin remained strong at 25%, representing a year-

on-year reduction of 1.0 ppts.

The opportunity for Marshalls

During 2023, the business was necessarily focused on controlling and improving the efficiency and agility of its cost base, leveraging its strength in operations, as well as rigorous management of operating cashflow. All of the actions taken demonstrate the business is well managed and in control.

Marshalls has a real strength in its operations, its drive towards ever more sustainable solutions, and its brands and products are well regarded in the market by our customers. Over the coming months, management's focus will be on evolving the existing strategy, with a focus on the medium and longer-term market opportunities related to climate management and adaptation and the structural drivers that will fuel demand for the Group's products and solutions. Understanding and analysing these market trends and listening to what the Group's customers are calling for, where its brands and solutions can solve problems, is key. Investing in having a sharp focus on the parts of the market where the Group can add real value, through great insight, clear articulation of its brand propositions to customers and innovating in these areas will be of paramount importance. Ensuring the Group is a trusted and preferred partner for our customers to work with, realise greater value, accelerate growth and expand margins as the markets recover through the next cycle.

The Group expects to benefit from a recovery in the UK construction market driven by the structural deficit in new build housing, the ageing housing stock which needs investment in RMI and the continued need to improve infrastructure. In addition to this, there are specific market sector opportunities that are expected to outperform the overall UK construction market and the management team are focused on capturing this potential. The demand for roof-integrated solar solutions is expected to increase significantly in the next 12 to 24 months. Changes to building regulations (Part L) on energy efficiency took effect in mid-2023 and represent first part of the plan to improve the energy efficiency of new homes. Roof-integrated solar is being adopted by housebuilders as part of their solution to improve energy efficiency. The Group's solar business, Viridian Solar with its innovative patented design, is the market leader and is expected to deliver strong profitable growth as a result. The second part of the plan aims to mandate low carbon heating and world-leading energy efficiency through the Future Homes Standard, and this could present further opportunities for the growth of roof-integrated solar. The consultation on these changes is expected to conclude in 2024. Additionally, the government's Social Housing Decarbonisation Fund is driving the low energy refurbishment of homes by local authorities and social landlords. A requirement of the funding is a switch to electric heating coupled to a reduction in energy bills for residents and solar PV is incorporated into many of the successful schemes. With a strong position in the social housing sector, Marley is increasingly securing specifications including solar PV as part of its roof system for this RMI work.

The Group also expects growing demand for its water management products and solutions. This is underpinned by water utility companies' proposals to significantly increase their expenditure on water and sewerage infrastructure projects, to £96 billion for 2025 to 2030, to modernise infrastructure and reduce system leakage. In the shorter-term, additional investment of £1.6 billion has been approved following a request by DEFRA to accelerate investments in water quality and storm overflow discharges by 2025. The Group's drainage management and flood mitigation product range is well placed to provide solutions to help water companies to meet these challenges. This comprises a full underground drainage range together with the ability to design and supply wet cast tanks and attenuation systems for improved water storage.

Management has continued to innovate to develop its products and solutions and, following around £25 million of investment, the dual block plant at St Ives is now operational and able to manufacture a new range of innovative paving products using exclusive colour blending technology, which creates a granite appearance. The products are being launched in a wide range of colours and finishes that have a significantly lower carbon footprint than imported products. Viridian Solar has introduced a new range of more powerful solar panels, EV chargers and inverters that have helped to underpin revenue growth alongside launching ArcBox, an award-winning fire safety enclosure and mounting bracket for use with pitched and flat roof solar systems.

The Group's product innovation is further underpinned by developments of products that have a lower embodied carbon: utilising cement replacement and carbon sequestration techniques. The Group was the first pre-cast concrete manufacturer in the UK to adopt CarbonCure technologies' carbon mineralisation technology that uses waste CO2 from other industrial processes to accelerate the carbonation of concrete, effectively reducing the embodied carbon.

In addition, the Group is focused on opportunities to improve the efficiency of its operations and, building on the existing relationship between Marley and Wincanton, it announced the outsourcing of its logistics function to Wincanton in January 2024. The transition will take place during the first half of 2024 and will see up to 300

Marshalls employees joining Wincanton. This outsourcing is expected to support the Group's drive for continuous improvement for its customers and to deliver operating efficiencies. Placing this important function in the hands of specialists will enable the Group to take advantage of their programme to invest in diesel-alternative fuel options, contributing to its sustainability goals.

Management continues to focus on executing the digital strategy, which aims to provide an end-to-end digital offering and to pioneer digital standards for the industry. This includes shifting transactions onto electronic trading including its ordering app, EDI and dropship. Dropship is being used to extend the availability of product ranges to customers across the board. The Group successfully completed the disposal of its former Belgian subsidiary in April 2023, which leaves the Group focused on the UK construction market.

A recovery in the UK construction sector, a focus on attractive market segments and continued innovation are expected to drive future volume growth and the Group is well positioned with its market leading brands, products and sustainable solutions for relative outperformance in the medium-term.

ESG progress

The Group has continued to focus on its carbon reduction programme, and the Marshalls business is ahead of target on its Science Based Targets Initiative ('SBTi') approved plans. As reported last year, the Group's acquisition of Marley meant that we needed to recalculate the enlarged Group's carbon footprint and review the targets and timeline for achieving net zero. This work has been completed with updated targets for the enlarged Group to achieve net zero and these plans have been submitted to STBi, and we are awaiting validation before we communicate our revised ambitions to stakeholders.

Commercialising our ESG credentials is a key priority for the business and a cornerstone of this is the introduction of Environmental Product Declarations ('EPDs'), which are a valuable tool for making more sustainable choices in construction. They provide clear and transparent information on the environmental impact of different products and materials. The Group now has EPDs for over 80 percent of its standard product portfolio, ensuring that architects, engineers, and builders are able to specify the most appropriate products from its ranges.

Balance sheet, cash flow and funding

A summary of the Group's capital deployment and net assets is set out below.

£'m	**December 2023**	December 2022
Goodwill	**324.4**	322.6
Intangible assets	**227.5**	237.1
Property, plant & equipment and right-of-use assets	**291.1**	303.5
Net working capital	**91.0**	109.7
Net pension asset	**11.0**	22.4
Deferred tax	**(84.1)**	(89.4)
Other net balances	**(2.0)**	(8.2)
Total capital employed	**858.9**	897.7
Pre-IFRS 16 net debt	**(172.9)**	(190.7)
Leases	**(44.7)**	(45.9)
Net assets	**641.3**	661.1

Total capital employed at December 2023 was £858.9 million, which represents a year on year reduction of £38.8 million. This reduction is due to the impact of amortising intangible assets arising on acquisition, depreciation and impairment of property plant and equipment and reduced net working capital balances. The reduction in net working capital of £18.7 million was driven by a decision to manage inventory levels to be aligned to lower levels of demand and the reduced trade debtor and trade creditor balances arising from reduced activity levels.

The balance sheet value of the Group's defined benefit pension scheme ('the Scheme') was a surplus of £11.0 million (2022: £22.4 million). The amount has been determined by the Scheme's pension adviser using appropriate assumptions which are in line with current market expectations. The fair value of the scheme assets at 31 December 2023 was £250.4 million (2022: £254.9 million) and the present value of the scheme liabilities is £239.4 million (2022: £232.5 million). The total loss recorded in the Statement of Comprehensive Income net of deferred taxation was £7.4 million (2022: £2.3 million loss). The principal driver of the actuarial loss was a 0.3ppt reduction in AA corporate bond rate used to discount the scheme's liabilities at December

2023, which increased the current value of the liabilities, partially offset by an actuarial gain (net of deferred taxation) of £2.4 million arising from the resolution of certain historical benefit issues. This resolution also resulted in a past service cost of £1.4 million, which has been included in the Income Statement and accounted for as an adjusting item (see Note 4). The last formal actuarial valuation of the defined benefit pension scheme was undertaken on 5 April 2021 and resulted in a surplus of approximately £24.3 million, on a technical provisions basis, which was a funding level of 107 per cent. The Company has agreed with the Trustee that no cash contributions are payable under the current funding and recovery plan. The next actuarial valuation is scheduled for 5 April 2024.

Adjusted return on capital employed ('ROCE') was 8.4 per cent (2022: 13.3 per cent) on an annualised basis, with the year on year reduction due to the weaker trading performance. We expect adjusted ROCE to increase in the medium term to around 15 per cent as volumes recover and we benefit from operational leverage.

Operating cash flow conversion in 2023 was 106 per cent of adjusted EBITDA (December 2022: 91 per cent) which demonstrates the consistently strong cash generative nature of the Group's businesses. The proactive management of working capital combined with the planned reduction in capital expenditure resulted in a reduction in pre-IFRS16 net debt of £17.8 million in the period to £172.9 million (2022: £190.7 million). The strong cash generation during the year facilitated a £30 million reduction of the Group's term loan to £180 million in early January 2024, ensuring efficient management of borrowings and finance costs. The Group's revolving credit facility of £160 million was undrawn at the year-end, which, together with the reduced term loan, provides the Group with significant liquidity to fund its strategic and operational plans going forward. Following the £30 million reduction in the term loan, the syndicated debt facility totals £340 million with the majority of it maturing in April 2027. Net debt to EBITDA was 1.9 times at December 2023 on an adjusted pre-IFRS16 basis (December 2022: 1.4 times). Headroom against the bank facility at December 2023 was £160 million and all covenants were comfortably met at this date.

Dividend

The Group maintains a dividend policy of distributions covered twice by adjusted earnings. The Board has proposed a final dividend of 5.7 pence per share, which, taken together with the interim dividend of 2.6 pence per share, would result in a pay-out in respect of 2023 of 8.3 pence (2022: 15.6 pence). This is in-line with the Group policy and represents a year-on-year reduction of 47 per cent driven by weaker profitability, increase in weighted average shares in issue and a higher effective taxation rate. The dividend will be paid on 1 July 2024 to shareholders on the register at the close of business on 7 June 2023. The shares will be marked ex-dividend on 6 June 2024.

Outlook

Revenue in the first two months of the year was lower than 2023 and reflects the continued weakness seen in the second half of last year. In line with recent sentiment of UK economic and industry forecasts, the Board expects activity levels to remain subdued in the first half of the year followed by a modest recovery in the second half as the macro-economic environment progressively improves. The start of this recovery is now expected to be slower and more modest than previously assumed. Therefore, the Board believes that revenues in 2024 will be lower than previously expected and that profit will now be at a similar level to 2023.

The Board remains confident that actions taken to improve efficiency and flexibility, together with a more diversified and resilient portfolio has strengthened the Group. With clear long-term structural growth drivers and attractive market growth opportunities, the Group is well positioned for relative outperformance in the medium-term, and this will underpin a material improvement in profitability as end markets recover.

Matt Pullen
Chief Executive

Condensed consolidated income statement
For the year ended 31 December 2023

	Notes	**Audited Year ended December 2023 £'m**	Audited Year ended December 2022 £'m
Revenue	2	**671.2**	719.4
Net operating costs	3	**(630.2)**	(671.5)
Operating profit	2	**41.0**	47.9
Net financial expenses	5	**(18.8)**	(10.7)
Profit before tax		**22.2**	37.2
Income tax expense	6	**(3.8)**	(10.7)
Profit for the financial year		**18.4**	26.5
Profit for the year attributable to:			
Equity shareholders of the Parent		**18.6**	26.8
Non-controlling interests		**(0.2)**	(0.3)
Profit for the financial year		**18.4**	26.5
Earnings per share			
Basic	7	**7.4p**	11.4p
Diluted	7	**7.3p**	11.3p
Dividend			
Full year dividend - pence per share	8	**8.3p**	15.6p

A reconciliation of the Group's statutory results to the adjusted results is set out below.

	Notes	**Audited Year ended December 2023 £'m**	Audited Year ended December 2022 £'m
Operating profit			
Operating profit		**41.0**	47.9
Adjusting items	4	**29.7**	53.2
Adjusted operating profit		**70.7**	101.1
Profit before tax			
Profit before tax		**22.2**	37.2
Adjusting items	4	**31.1**	53.2
Adjusted profit before tax		**53.3**	90.4
Profit after tax			
Profit for the financial period		**18.4**	26.5
Adjusting items (net of tax)	4	**23.7**	46.8
Adjusted profit after tax		**42.1**	73.3
Earnings per share after adding back adjusting items			
Basic		**16.7p**	31.3p
Diluted		**16.7p**	31.1p

Condensed consolidated statement of comprehensive income
For the year ended 31 December 2023

	Notes	**Audited Year ended December 2023 £'m**	Audited Year ended December 2022 £'m
Profit for the financial year		**18.4**	26.5
Other comprehensive income/(expense)			
Items that will not be reclassified to the Income Statement:			
Re-measurements of the net defined benefit surplus		**(9.8)**	(3.1)
Deferred tax arising		**2.4**	0.8
Total items that will not be reclassified to the Income Statement		**(7.4)**	(2.3)
Items that are or may in the future be reclassified to the Income Statement:			
Effective portion of changes in fair value of cash flow hedges		**(0.6)**	5.7
Fair value of cash flow hedges transferred to the Income Statement		**(1.1)**	(2.8)
Deferred tax arising		**0.8**	(0.7)
Reclassification on sale of subsidiary		**(0.6)**	-
Exchange difference on retranslation of foreign currency net investment		**0.1**	0.6
Exchange movements associated with borrowings designated as a hedge against net investment		**(0.2)**	(0.2)
Total items that are or may be reclassified to the Income Statement		**(1.6)**	2.6
Other comprehensive (expense)/income for the year, net of income tax		**(9.0)**	0.3
Total comprehensive income for the year		**9.4**	26.8
Attributable to:			
Equity shareholders of the Parent		**10.2**	27.0
Non-controlling interests		**(0.8)**	(0.2)
		9.4	26.8

Condensed consolidated balance sheet
As at 31 December 2023

	Notes	**Audited December 2023 £'m**	Audited December 2022 £m
Assets			
Non-current assets			
Goodwill	9	**324.4**	322.6
Intangible assets	10	**227.5**	237.1
Property, plant and equipment	11	**249.4**	266.5
Right-of-use assets		**41.7**	37.0
Employee benefits	12	**11.0**	22.4
Deferred taxation assets		**1.1**	1.3
		855.1	886.9
Current assets			
Inventories		**125.1**	138.8
Trade and other receivables		**93.4**	123.3
Cash and cash equivalents		**34.5**	56.3
Assets classified as held for sale		**2.4**	-
Derivative financial instruments		**1.9**	3.6
Corporation tax		**1.7**	-
		259.0	322.0
Total assets		**1,114.1**	1,208.9
Liabilities			
Current liabilities			
Trade and other payables		**127.5**	152.4
Corporation tax		**-**	2.1
Lease liabilities	13	**8.0**	9.8
Provisions		**3.0**	3.0
		138.5	167.3
Non-current liabilities			
Lease liabilities	13	**36.7**	36.1
Interest-bearing loans and borrowings	14	**207.4**	247.0
Provisions		**5.0**	6.7
Deferred taxation liabilities		**85.2**	90.7
		334.3	380.5
Total liabilities		**472.8**	547.8
Net assets		**641.3**	661.1
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital		**63.2**	63.2
Share premium & merger reserve		**341.6**	341.6
Capital redemption reserve & consolidation reserve		**(137.7)**	(137.7)
Other reserves		**1.1**	2.0
Retained earnings		**373.1**	391.2
Equity attributable to equity shareholders of the Parent		**641.3**	660.3
Non-controlling interests		**-**	0.8
Total equity		**641.3**	661.1

Condensed consolidated cash flow statement
For the year ended 31 December 2023

	Notes	**Audited Year ended December 2023 £'m**	Audited Year ended December 2022 £'m
Cash generated from operations	17	**104.6**	106.8
Financial expenses paid		**(16.5)**	(9.9)
Income tax paid		**(10.4)**	(11.6)
Net cash flow from operating activities	17	**77.7**	85.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**6.9**	1.4
Financial income received		**0.1**	-
Acquisition of subsidiary undertaking		**(3.0)**	(86.2)
Acquisition of property, plant and equipment		**(18.3)**	(27.8)
Acquisition of intangible assets		**(2.5)**	(2.3)
Cash outflow from sale of subsidiary		**(1.4)**	-
Net cash flow from investing activities		**(18.2)**	(114.9)
Cash flows from financing activities			
Net proceeds from issue of share capital		**-**	182.7
Payments to acquire own shares		**(0.3)**	(1.1)
Payment in respect of share-based payment award		**-**	(1.2)
Repayment of debt on acquisition of subsidiaries		**-**	(292.0)
Repayment of borrowings		**(84.4)**	(97.7)
New loans		**44.8**	303.5
Cash payment for the principal portion of lease liabilities		**(9.6)**	(11.1)
Equity dividends paid		**(31.6)**	(38.7)
Net cash flow from financing activities		**(81.1)**	44.4
Net decrease/(increase) in cash and cash equivalents		**(21.6)**	14.8
Cash and cash equivalents at the beginning of the year		**56.3**	41.2
Effect of exchange rate fluctuations		**(0.2)**	0.3
Cash and cash equivalents at the end of the year		**34.5**	56.3

Condensed consolidated statement of changes in equity
for the year ended 31 December 2023

	Share capital £'m	Share premium & merger reserve £'m	Capital redemption & consolidation reserves £'m	Other reserves* £'m	Retained earnings £'m	Total £'m	Non-controlling interests £'m	Total equity £'m
At 1 January 2023	63.2	341.6	(137.7)	2.0	391.2	660.3	0.8	661.1
Total comprehensive income/(expense) for the period								
Profit for the financial period	-	-	-	-	18.6	18.6	(0.2)	18.4
Other comprehensive income/(expense)								
Foreign currency translation differences	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Reclassification on sale of subsidiary	-	-	-	0.3	(0.3)	-	(0.6)	(0.6)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(0.6)	-	(0.6)	-	(0.6)
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	(1.1)	-	(1.1)	-	(1.1)
Deferred tax arising	-	-	-	0.8	-	0.8	-	0.8
Defined benefit plan actuarial loss	-	-	-	-	(9.8)	(9.8)	-	(9.8)
Deferred tax arising	-	-	-	-	2.4	2.4	-	2.4
Total other comprehensive income/(expense)	-	-	-	(0.7)	(7.7)	(8.4)	(0.6)	(9.0)
Total comprehensive income/(expense) for the period	-	-	-	(0.7)	10.9	10.2	(0.8)	9.4
Transactions with owners								
Shares issued	-	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	2.8	2.8	-	2.8
Deferred tax on share-based payments	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Corporation tax on share-based payments	-	-	-	-	-	-	-	-
Dividends to equity shareholders	-	-	-	-	(31.6)	(31.6)	-	(31.6)
Purchase of own shares	-	-	-	(0.3)	-	(0.3)	-	(0.3)
Own shares issued under share scheme	-	-	-	0.1	(0.1)	-	-	-
Total contributions by and distributions to owners	-	-	-	(0.2)	(29.0)	(29.2)	-	(29.2)
Total transactions with owners	-	-	-	(0.9)	(18.1)	(19.0)	(0.8)	(19.8)
At 31 December 2023	63.2	341.6	(137.7)	1.1	373.1	641.3	-	641.3

Note*: Other reserves include own shares, hedging reserve and foreign exchange reserve.

Condensed consolidated statement of changes in equity
for the year ended 31 December 2022

	Share capital £'m	Share premium & merger reserve £'m	Capital redemption & consolidation reserves £'m	Other reserves* £'m	Retained earnings £'m	Total £'m	Non-controlling interests £'m	Total equity £'m
At 1 January 2022	50.0	24.5	137.7	0.2	406.3	343.3	1.0	344.3
Total comprehensive income/(expense) for the period								
Profit for the financial period	-	-	-	-	26.8	26.8	(0.3)	26.5
Other comprehensive income/(expense)								
Foreign currency translation differences	-	-	-	0.3	-	0.3	0.1	0.4
Effective portion of changes in fair value of cash flow hedges	-	-	-	5.7	-	5.7	-	5.7
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	(2.8)	-	(2.8)	-	(2.8)
Deferred tax arising	-	-	-	(0.7)	-	(0.7)	-	(0.7)
Defined benefit plan actuarial loss	-	-	-	-	(3.1)	(3.1)	-	(3.1)
Deferred tax arising	-	-	-	-	0.8	0.8	-	0.8
Total other comprehensive income/(expense)	**-**	**-**	**-**	2.5	(2.3)	0.2	0.1	0.3
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	2.5	24.5	27.0	(0.2)	26.8
Transactions with owners								
Shares issued	13.2	321.8	-	-	-	335.0	-	335.0
Share issue costs	-	(4.7)	-	-	-	(4.7)	-	(4.7)
Share-based payments	-	-	-	-	-		-	-
Deferred tax on share-based payments	-	-	-	-	(0.6)	(0.6)	-	(0.6)
Corporation tax on share-based payments	-	-	-	-	0.1	0.1	-	0.1
Dividends to equity shareholders	-	-	-	-	(38.7)	(38.7)	-	(38.7)
Purchase of own shares	-	-	-	(1.1)	-	(1.1)	-	(1.1)
Own shares issued under share scheme	-	-	-	0.4	(0.4)	-	-	-
Total contributions and distributions to owners	13.2	317.1	-	(0.7)	(39.6)	290.0	-	290.0
Total transactions with owners	13.2	317.1	-	(1.8)	(15.1)	317.0	(0.2)	316.8
At 31 December 2022	63.2	341.6	137.7	2.0	391.2	660.3	0.8	661.1

Note*: Other reserves include own shares, hedging reserve and foreign exchange reserve.

Notes to the condensed consolidated financial statements
For the year ended 31 December 2023

1. Basis of preparation

The consolidated financial information, which comprises the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes, is derived from the Company's Financial Statements for the year ended 31 December 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. It does not constitute full Financial Statements with the meaning of section 434 of the Companies Act 2006.

Statutory Financial Statements for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the Company's Annual General Meeting. The auditor, Deloitte LLP, has reported on those Financial Statements. The audit reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying the reports and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The accounting policies used in completing this financial information have been applied consistently in all periods shown and are set out in detail in the Annual Report for the year ended 31 December 2022 which can be found on the Group's website (www.marshalls.co.uk).

The Group operates a formal risk management process, the details of which are set out on page 66 of the Annual Report for the year ended 31 December 2022. The risks assessed in preparing Preliminary Announcement are consistent with those set out on pages 69 to 75 of the Annual Report and an update on those risks is set out at Note 22 of this report.

Going concern

In assessing the appropriateness of the adopting the going concern basis in the preparation of this Preliminary Announcement, the Board has considered the Group's financial forecasts and its principal risks for a period of at least 12 months from the date of this report. The forecasts included projected profit and loss, balance sheet, cash flows, headroom against debt facilities and covenant compliance. As noted above, the Group's principal risks are set out in the 2022 Annual Report and Accounts and an update is included in this report.

The financial forecasts have been stress tested in downside scenarios to assess the impact on future profitability, cash flows, funding requirements and covenant compliance. The scenarios comprise a more severe economic downturn (which represents the Group's most significant risk) than that included in the base case forecast, and a reverse stress test on our financial forecasts to assess the extent to which an economic downturn would need to impact on revenues in order to breach a covenant. This showed that revenue would need to deteriorate significantly from the financial forecast and the Directors have a reasonable expectation that it is unlikely to deteriorate to this extent.

Details of the Group's funding position are set out in Note 14. The Group has a syndicated bank facility of £340 million that principally matures in April 2027, having repaid £30 million of the original £370 facility in January 2024. At December 2023, £160 million of the facility was undrawn (2022: £120.1 million undrawn). There are two financial covenants in the bank facility that are tested on a semi-annual basis and the Group maintains good cover against these with pre-IFRS 16 net debt to EBITDA of 1.9 times (covenant maximum of three times) and interest cover of 5.2 times (covenant minimum of three times).

Taking these factors into account, the Board has the reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future and for this reason, the Board has adopted the going concern basis in preparing this Preliminary Announcement.

Alternative performance measures and adjusting items

The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide additional comparative information. A glossary setting out the APMs that the Board use, how they are used, an explanation of how they are calculated, and a reconciliation of the APMs to the statutory results, where relevant is set out at Note 21.

Adjusting items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results and to

demonstrate the Group's capacity to deliver dividends to shareholders. The adjusted results should not be regarded as a complete picture of the Group's financial performance, which is presented in the total results. Details of the adjusting items are disclosed in Note 4 and Note 21.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported accounts. Critical judgements represent key decisions made by the Board in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to the Board's assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Critical accounting judgements
The following critical accounting judgements has been made in the preparation of the consolidated financial statements:

- As noted above, adjusting items have been highlighted separately due to their size, nature or incidence to provide a full understanding of the Group's results and to demonstrate the Group's capacity to deliver dividends to shareholders. The determination of whether items merit treatment as an adjusting item is a matter of judgement. Note 4 sets out details of the adjusting items.

Sources of estimation uncertainty
The Directors consider the following to be key sources of estimation uncertainty:

- In arriving at the accounting value of the Group's defined benefit pension scheme, key assumptions have to be made in respect of factors including discount rates and inflation rates. These are determined on the basis of advice received from a qualified actuary. These estimates may be different to the actual outcomes. See further information in Note 12.
- The carrying value of goodwill is reviewed on an annual basis in accordance with IAS36. This review requires the use of cash flow projections based on a financial forecast that are discounted at an appropriate market-based discount rate, and a long-term growth rate. The assumption on the market-based discount rate is determined based on the advice of a third-party advisor. The actual cash flows generated by the business may be different to the estimates included in the forecasts. See further information in Note 9.

2. Segmental analysis

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ('CODM') to allocate resources to the segments and to assess their performance. The CODM at Marshalls is the Board. The Group reports under three reporting segments, namely Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products. Marshalls Landscape Products comprises the Group's Public Sector and Commercial and Domestic landscape business, Landscape Protection and the International businesses. Marshalls Building Products comprises the Group's Civil and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregate businesses.

Segment revenues and operating profit

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Revenue		
Landscape Products	**321.5**	394.1
Building Products	**170.1**	193.1
Roofing Products	**179.6**	132.2
Revenue	**671.2**	719.4
Operating profit		
Landscape Products	**21.3**	45.3
Building Products	**12.2**	26.8
Roofing Products	**44.9**	34.4
Central costs	**(7.7)**	(5.4)
Segment operating profit	**70.7**	101.1
Adjusting items (see Note 4)	**(29.7)**	(53.2)
Reported operating profit	**41.0**	47.9

The Group has two customers which each contributed more than 10 per cent of total revenue in the current and prior year. The accounting policies of the three operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of certain central administration costs that are not capable of allocation. Centrally administered overhead costs that relate directly to the reportable segment are included within the segment's results.

The geographical destination of revenue is the United Kingdom £662.8 million (2022: £687.9 million) and Rest of the World £8.4 million (2022: £31.5 million).

Segment assets

	Audited December 2023 £'m	Audited December 2022 £'m
Segment assets		
Landscape Products	**240.8**	260.5
Building Products	**142.0**	148.4
Roofing Products	**587.7**	593.1
Unallocated assets	**143.6**	206.9
Total	**1,114.1**	1,208.9

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the property, plant and equipment, right-of-use assets, intangible assets and inventory. Assets used jointly by reportable segments are not allocated to individual reportable segments.

Capital additions

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Capital additions		
Landscape Products	**23.1**	37.0
Building Products	**4.9**	4.6
Roofing Products	**5.9**	2.0
Total	**33.9**	43.6

Capital additions comprise property, plant and equipment of £16.5 million (2022: £28.4 million), right-of-use assets of £18.6 million (2022: £13.0 million) and intangible assets of £2.5 million (2022: £2.2 million).

Depreciation and amortisation

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Depreciation and amortisation		
Landscape Products	**19.5**	22.3
Building Products	**8.0**	8.8
Roofing Products	**5.4**	3.8
Segment depreciation and amortisation	**32.9**	34.9
Adjusting items	**10.4**	7.3
Depreciation and amortisation	**43.3**	42.2

Depreciation and amortisation includes £10.4 million of amortisation of intangible assets arising from the purchase price allocation exercises (year ended December 2022: £7.3 million). This comprises £0.1 million (year ended December 2022: £0.1 million) in Landscape Products, £1.1 million in Building Products (year ended December 2022: £1.1 million) and £9.2 million in Roofing Products (year ended December 2022: £6.1 million). The amortisation has been treated as an adjusting item (Note 4).

3. Net operating costs

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Raw materials and consumables	**235.4**	267.3
Changes in inventories of finished goods and work in progress	**12.9**	6.6
Personnel costs	**151.6**	155.5
Depreciation of property, plant and equipment	**21.4**	21.8
Depreciation of right-of-use assets	**9.8**	11.3
Amortisation of intangible assets	**12.1**	9.1
Asset impairments	**7.3**	14.0
Own work capitalised	**(2.5)**	(3.1)
Other operating costs	**177.5**	189.3
Redundancy and other costs	**9.3**	2.9
Operating costs	**634.8**	674.7
Other operating income	**(2.6)**	(2.0)
Net gain on asset and property disposals	**(1.4)**	(1.2)
Net gain on disposal of subsidiary	**(0.6)**	-
Net operating costs	**630.2**	671.5
Adjusting items (Note 4)	**(29.7)**	(53.2)
Adjusted net operating costs	**600.5**	618.3

4. Adjusting items

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Amortisation of intangible assets arising on acquisitions	**10.4**	7.3
Restructuring and similar costs	**11.3**	4.2
Impairment of property, plant and equipment	**7.0**	8.8
Contingent consideration	**1.6**	3.9
Disposal / impairment of assets in Belgian subsidiary	**(0.6)**	10.2
Transaction related costs	**-**	14.9
Unwind of inventory fair value adjustment	**-**	3.9
Total adjusting items within operating profit	**29.7**	53.2
Adjusting item in interest expense	**1.4**	-
Total adjusting items before taxation	**31.1**	53.2
Current tax on adjusting items (Note 6)	**(2.7)**	(1.6)
Deferred tax on adjusting items (Note 6)	**(4.7)**	(4.8)
Total adjusting items after taxation	**23.7**	46.8

- Amortisation of intangible assets arising on acquisitions is principally in respect of values recognised for the Marley brand and its customer relationships.
- Restructuring and similar costs arose during major restructuring exercises conducted when the Group took steps to reduce manufacturing capacity and the cost base in response to a reduction in market demand.
- The impairment of property, plant and equipment arose in connection with the major restructuring exercises noted above.
- The additional contingent consideration relates to the reassessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition of Viridian Solar Limited in 2021.
- On 14 April 2023, the Group's interest in the former Belgian subsidiary was sold for a nominal consideration. This consideration was higher than the net carrying value on this date which resulted in a non-recurring profit of £0.6 million. In 2022 following a downturn in the business' performance, the assets were impaired to fair value which was higher than the value in use. This was based on the Directors' assessment and consideration of observable market information. The impairment charge comprised property, plant and equipment (£1.1 million), intangible assets (£0.7 million), right-of-use assets (£3.4 million) and inventory (£5.0 million).
- In 2022, transaction related costs relating to the acquisition of Marley Group plc. These comprise the fees charged by professional advisors.
- In 2022, the unwind of the inventory fair value adjustment relates to the fair value uplift of the inventory as part of the Marley acquisition that has subsequently been sold. This item has been shown as an adjusting item to align with the internal reporting and to present a margin consistent with that which would have been reported in the absence of a recent acquisition transaction.
- The adjusting item in interest expense of £1.4 million is a non-cash technical accounting charge arising from the resolution of certain historical benefit issues. An allowance of £6.5 million was included in the net pension scheme asset at December 2022 and following the resolution of the benefit issues, this has been reduced to £5.5 million. This net reduction of £1.0 million comprised a profit and loss account charge of £1.4 million arising from the decision by the Board to not reduce pensions to payment to certain pensioners who were receiving payments that are too high and £2.4 million credit to the condensed statement of comprehensive income relating to adjustments to estimates. Further information on the accounting for the retirement benefit asset is set out at Note 12.

5. Financial expenses

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Net interest expense on bank loans	**14.7**	8.2
Interest expense of lease liabilities	**2.5**	2.4
Net interest expense on defined benefit pension scheme	**0.2**	0.1
	17.4	10.7
Additional interest expense in defined benefit pension scheme	**1.4**	-
Financial expenses	**18.8**	10.7

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges for scheme administration. The additional technical interest expense in respect of the defined benefit pension scheme arose from the resolution of certain historical issues, is non-cash and non-recurring. The Board decided to augment the benefits of certain pensioners who would have otherwise suffered hardship due to a reduction in pension payments following a review to correct the historical benefit issues. This has augmentation charge has been accounted for as an adjusting item (see Note 4).

6. Income tax expense

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Current tax expense		
Current year	**8.8**	11.6
Adjustments for prior years	**(1.4)**	(0.6)
	7.4	11.0
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**(3.0)**	0.8
Adjustments for prior years	**(0.6)**	(1.1)
Total tax expense	**3.8**	10.7
Current tax on adjusting items (Note 4)	**2.7**	1.6
Deferred tax on adjusting items (Note 4)	**4.7**	4.8
Total tax expenses after adding back adjusting items	**11.2**	17.1

7. Earnings per share

Basic earnings per share from total operations of 7.4 pence (year ended December 2022: 11.4 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £18.6 million (year ended December 2022: £26.8 million) by the weighted average number of shares in issue during the period of 252,824,077 (year ended December 2022: 235,388,001).

Basic earnings per share after adding back adjusting items of 16.7 pence (year ended December 2022: 31.3 pence) per share is calculated by dividing the adjusted profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £42.3 million (year ended December 2022: £73.6 million) by the weighted average number of shares in issue during the period of 252,824,077 (year ended December 2022: 235,388,001).

Profit attributable to Ordinary Shareholders

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Adjusted profit after tax	**42.1**	73.3
Adjusting items	**(23.7)**	(46.8)
Profit for the financial year	**18.4**	26.5
Profit attributable to non-controlling interests	**0.2**	0.3
Profit attributable to Ordinary Shareholders	**18.6**	26.8

Weighted average number of Ordinary Shares

	Audited year ended December 2023 Number	Audited year ended December 2022 Number
Number of issued Ordinary Shares	**252,968,728**	252,968,728
Effect of shares issued during the period	**-**	(17,299,649)
Effect of shares transferred into Employee Benefit Trust	**(144,651)**	(281,078)
Weighted average number of Ordinary Shares at the end of the year	**252,824,077**	235,388,001

Diluted earnings per share before adjusting items of 7.3 pence (December 2022: 11.3 pence) per share is calculated by dividing the profit for the financial period, after adjusting for non-controlling interests of £18.6 million (year ended December 2022: £26.8 million), by the weighted average number of shares in issue during the period of 252,824,077 (year ended December 2022: 235,388,001), plus potentially dilutive shares of 1,026,468 (31 December 2022: 1,213,042), which totals 253,853,545 (31 December 2022: 236,601,043).

Diluted earnings per share after adding back adjusting items of 16.7 pence (year ended 31 December 2022: 31.1 pence) per share is calculated by dividing the profit for the financial period, after adjusting for non-controlling interests of £42.3 million (year ended December 2022: £73.6 million), by the weighted average number of shares in issue during the period of 252,824,077 (year ended December 2022: 235,388,001), plus potentially dilutive shares of 1,026,468 (31 December 2022: 1,213,042), which totals 253,850,545 (31 December 2022: 236,601,043).

Weighted average number of Ordinary Shares (diluted)

	Audited year ended December 2023 Number	Audited year ended December 2022 Number
Weighted average number of Ordinary Shares	**252,824,077**	235,388,001
Potentially dilutive shares	**1,026,468**	1,213,042
Weighted average number of Ordinary Shares (diluted)	**253,850,545**	236,601,043

8. Dividends

The Group maintains a dividend policy of distributions covered twice by adjusted earnings. The Board has proposed a final dividend of 5.7 pence per share, which taken together with the interim dividend of 2.6 pence per share, would result in a pay-out in respect of 2023 of 8.3 pence. This is in-line with the Group policy and would represent a year-on-year reduction of 47 per cent driven by weaker profitability, increase in weighted average shares in issue and a higher effective taxation rate. The dividend will be paid on 1 July 2024 to shareholders on the register at the close of business on 7 June 2024. The shares will be marked ex-dividend on 6 June 2024.

9. Goodwill

	Audited December 2023 £'m	Audited December 2022 £'m
Net book value at start of period	**322.6**	78.5
Acquisition of a subsidiary	**-**	244.1
Adjustments to purchase price allocation (see Note 19)	**1.8**	-
Net book value at end of period	**324.4**	322.6

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across cash generating units ("CGUs") which represent the lowest level within the Group at which the associated goodwill is monitored for management purposes and is consistent with the operating segments set out in Note 2. The Group has three material CGUs, Landscape Products, Building Products and Roofing Products. The carrying amount of goodwill has been allocated to CGUs as follows:

	Audited December 2023 £'m	Audited December 2022 £'m
Landscape Products	**34.8**	34.8
Building Products	**43.7**	43.7
Roofing Products	**245.9**	244.1
	324.4	322.6

Building Products and Landscape Products
The recoverable amounts of the Building Products and Landscaping Products segments as cash-generating units are determined based on value in use calculations which use cash flow projections based on financial budgets approved by the directors covering a five-year period and a post-tax discount rate of 10.4 per cent per annum (2022: 8.9 per cent per annum). Cash flows beyond that five-year period have been extrapolated using a 2.4 per cent (2022: 2.4 per cent) per annum growth rate. This growth rate reflects the long-term average growth rate for the UK economy.

Roofing Products
The recoverable amount of the Roofing Products segment as a cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period and a post-tax discount rate of 10.4 per cent per annum (2022: 8.9 per cent per annum). Cash flows beyond that five-year period have been extrapolated using a 2.4 per cent (2022: 2.4 per cent) per annum growth rate. This growth rate reflects the long-term average growth rate for the UK economy.

The compound annual growth rate ('CAGR') assumed within the Roofing Products CGU five-year forecast is 10.9 per cent which reflects industry consensus with respect to the future recovery in the construction materials market together with management's expectations of future growth in residential solar PV as a consequence of amendments made to building regulations in England and Wales.

Sensitivity analysis
The group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the group of CGUs to which goodwill is allocated. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amounts of Landscape Products and Building Products are based would not cause the aggregate carrying amounts to exceed the aggregate recoverable amounts of those CGUs.

At the end of the financial year, the recoverable amount of the Roofing Products CGU exceeds the carrying amount by £39 million, which is significantly lower than the other CGUs given the recency of the acquisition, and consequently the impairment review is more sensitive to changes in assumptions. The CAGR in the Roofing Products CGU is particularly sensitive to future political and regulatory decisions and the industry's interpretation of the most effective solution to building regulation requirements regarding the use of roof-

integrated solar in new homes. These factors could affect growth rates within the residential solar PV market and may have a corresponding impact on profit margins. Changes in regulations regarding both the UK's ambitions for the energy efficiency of residential properties and the specificity on how they should be achieved represent reasonably possible downside risks that could give rise to a future impairment charge. A CAGR of nine per cent would reduce the headroom in the Roofing Products CGU to nil.

The impairment review is also sensitive to changes in discount rate with an increase of 60 basis points in the post-tax rate required to reduce headroom in the Roofing Products CGU to nil, giving a breakeven point for the post-tax rate of 11.0 per cent.

10. Intangible assets

	Audited December 2023 £'m	Audited December 2022 £'m
Net book value at start of period	**237.1**	16.5
Acquisition of a subsidiary	**-**	228.2
Additions	**2.5**	2.2
Amortisation	**(12.1)**	(9.1)
Impairment	**-**	(0.7)
Net book value at end of period	**227.5**	237.1

Amortisation includes £10.4 million (year ended December 2022: £7.3 million) relating to intangible assets arising on acquisitions that is accounted for as an adjusting item (see Note 4). The impairment in the year ended December 2022 represents the assets being written down to fair value less cost to sell of £0.7 million in relation to the Group's Belgian subsidiary (see Note 4). Included in software additions is £1.6 million (year ended December 2022: £1.5 million) of own work capitalised.

11. Property, plant and equipment

	Audited December 2023 £'m	Audited December 2022 £'m
Net book value at start of period	**266.5**	173.9
Acquisition of a subsidiary	**-**	96.2
Additions	**16.5**	28.4
Depreciation	**(21.4)**	(21.8)
Impairment	**(7.3)**	(9.9)
Other movements	**(4.9)**	(0.3)
Net book value at end of period	**249.4**	266.5

Impairment in the year ended December 2023 represents the assets being written down to fair value less cost to sell of £7.3 million (year ended December 2022: £8.8 million) in relation to major restructuring exercises at certain facilities in the Group's network. In addition, in the year ended December 2022, a £1.1 million impairment charge was recorded in relation to the Group's Belgian subsidiary (see Note 4).

12. Retirement benefit asset

The amounts recognised in the balance sheet in respect of the defined benefit asset are as follows:

	Audited December 2023 £'m	Audited December 2022 £'m
Present value of Scheme liabilities	**(239.4)**	(232.5)
Fair value of Scheme assets	**250.4**	254.9
Net amount recognised (before deferred tax)	**11.0**	22.4

The Company sponsors a funded defined benefit pension scheme in the UK (the "Scheme"). The Scheme is administered within a trust which is legally separate from the Company. The Trustee Board is appointed by

both the Company and the Scheme's membership and acts in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The Scheme provides pension and lump sums to members on retirement and to dependants on death. The defined benefit section closed to future accrual of benefits on 30 June 2006 with the active members becoming entitled to a deferred pension. Members no longer pay contributions to the defined benefit section. Company contributions to the defined benefit section after this date are used to fund any deficit in the Scheme and the expenses associated with administering the Scheme, as determined by regular actuarial valuations.

The Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk, inflation risk and salary risk. The Trustee is aware of these risks and uses various techniques to control them. The Trustee has a number of internal control policies, including a Risk Register, which are in place to manage and monitor the various risks it faces. The Trustee's investment strategy incorporates the use of liability-driven investments ("LDIs") to minimise sensitivity of the actuarial funding position to movements in interest rates and inflation rates.

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is being carried out with an effective date of 5 April 2024. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions. The last formal actuarial valuation was carried out as at 5 April 2021 which resulted in a surplus of £24.3 million, on a technical provisions basis. The Company has agreed with the Trustee that no cash contributions are payable under the funding plan.

The charge recognised in the income statement in respect of the Scheme is included in financial expenses and totalled £1.6 million in the year ended December 2023 (year ended December 2022: £0.1 million). Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges for scheme administration. In the year ended December 2023, this expense included a one-off, non-cash, technical accounting charge of £1.4 million relating to the resolution of a review into historical benefit issues. This charge has been accounted for as an adjusting item, see Notes 4 and 5 for further details.

13. Lease liabilities

	Audited December 2023 £'m	Audited December 2022 £'m
Analysed as:		
Amounts due for settlement within twelve months	**8.0**	9.8
Amounts due for settlement after twelve months	**36.7**	36.1
	44.7	45.9

The interest expense on lease liabilities amounted to £2.5 million (year ended December 2022: £2.4 million). Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date. For the year ended December 2023, the average effective borrowing rate was 4.2 per cent (December 2022: 3.4 per cent). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The total cash outflow in relation to leases amounts to £11.6 million (year ended December 2022: £13.5 million). The total cash outflow in relation to short-term and low value leases was £7.1 million (year ended December 2022: £7.0 million).

14. Interest bearing loans and borrowings

	Audited December 2023 £	Audited December 2022 £'m
Analysed as:		
Non-current liabilities	**207.4**	247.0

Interest bearing loans and borrowings are stated net of unamortised debt arrangement fees of £2.6 million (December 2022: £3.0 million).

The total syndicated bank facility at December 2023 was £370.0 million (December 2022: £370.0 million), of which £160 million (December 2022: £120.1 million) remained unutilised. The undrawn facility available at December 2023 expires between two and five years. In January 2024, the Group repaid £30 million of the term loan and therefore reduced the total facility to £340 million, which provides significant liquidity to fund its strategic and operational plans going forward.

The Group's committed bank facilities are charged at variable rates based on SONIA plus a margin. The Group's bank facility continues to be aligned with the current strategy to ensure that headroom against the available facility remains at appropriate levels and are structured to provide committed medium-term debt.

Marshalls is party to a reverse factoring finance arrangement between a third-party UK bank and one of the Group's key customers. The principal relationship is between the customer and its partner bank. The agreement enables Marshalls to receive advance payment of approved invoices, and this provides a facility of up to around £15 million which the Group utilises periodically in order to help manage its short-term funding requirements. The credit risk is retained by the customer and Marshalls pays a finance charge upon utilisation.

15. Analysis of net debt

	Audited December 2023 £'m	Audited December 2022 £'m
Cash at bank and in hand	**34.5**	56.3
Debt due after 1 year	**(207.4)**	(247.0)
Lease liabilities	**(44.7)**	(45.9)
Net debt	**(217.6)**	(236.6)

16. Reconciliation of net cash flow to movement in net debt

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Net decrease in cash equivalents	**(20.3)**	(19.3)
Cash outflow from movement in bank borrowings	**39.8**	86.2
On acquisition of subsidiary undertakings	**-**	(259.5)
On disposal of subsidiary undertakings	**(1.4)**	-
Cash outflow from lease repayments	**9.6**	11.1
New leases entered into	**(13.7)**	(14.0)
Lease liability terminated on disposal of subsidiary undertaking	**5.3**	-
Effect of exchange rate fluctuations	**(0.3)**	-
Movement in net debt in the year	**19.0**	(195.5)
Net debt at beginning of the year	**(236.6)**	(41.1)
Net debt at end of the year	**(217.6)**	(236.6)

17. Reconciliation of profit after taxation to cash generated from operating activities

	Notes	**Audited year ended December 2023 £'m**	Audited year ended December 2022 £'m
Profit after taxation		**18.4**	26.5
Income tax expense on continuing operations		**3.8**	10.7
Profit before tax		**22.2**	37.2
Adjustments for:			
Depreciation of property, plant and equipment		**21.4**	21.8
Asset impairments		**7.3**	14.0
Depreciation of right-of-use assets		**9.8**	11.3
Amortisation		**12.1**	9.1
Gain on disposal of subsidiary		**(0.6)**	-
Gain on sale of property, plant and equipment		**(1.4)**	(1.2)
Equity settled share-based payments		**2.8**	1.2
Financial income and expenses (net)		**18.8**	10.7
Operating cash flow before changes in working capital		**92.4**	104.1
Decrease in trade and other receivables		**25.8**	22.9
Decrease/(increase) in inventories		**10.1**	(4.1)
Decrease in trade and other payables		**(23.7)**	(16.1)
Cash generated from operations		**104.6**	106.8
Financial expenses paid		**(16.5)**	(9.9)
Income tax paid		**(10.4)**	(11.6)
Net cash flow from operating activities		**77.7**	85.3

18. Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2023 is shown below:

	Book value		Fair value	
	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m	**Audited year ended December 2023 £'m**	Audited year ended December 2022 £'m
Trade and other receivables	**87.5**	113.5	**87.5**	113.5
Cash and cash equivalents	**34.5**	56.3	**34.5**	56.3
Bank loans	**(207.4)**	(247.0)	**(202.2)**	(259.1)
Trade payables, other payables and provisions	**(116.8)**	(136.5)	**(116.8)**	(136.5)
Derivatives	**1.9**	3.6	**1.9**	3.6
Contingent consideration	**(8.0)**	(8.9)	**(8.0)**	(8.9)
Financial instrument assets and liabilities – net	**(208.3)**	(219.0)		
Non-financial instrument assets and liabilities – net	**849.6**	880.1		
Net assets	**641.3**	661.1		

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table. Other than contingent consideration, which uses a level three basis, all use level two valuation techniques.

(a) Derivatives

Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps, broker quotes are used.

(b) Interest-bearing loans and borrowings
Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Trade and other receivables/payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

(d) Contingent consideration
The contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities.

(e) Fair value hierarchy
The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
December 2023				
Derivative financial assets	**-**	**1.9**	-	**1.9**
Contingent consideration	**-**	**-**	**(8.0)**	**(8.0)**
	-	**1.9**	**(8.0)**	**(6.1)**
December 2022				
Derivative financial assets	-	3.6	-	3.6
Contingent consideration	-	-	(8.8)	(8.8)
	-	3.6	(8.8)	(5.2)

19. Acquisition of subsidiary

On 29 April 2022 Marshalls Group Limited acquired 100 per cent of the issued share capital of Marley Group plc, a leader in the manufacture and supply of pitched roofing systems to the UK construction market. Marley Group plc operates within the UK and is registered in England and Wales.

The Group concluded its review of the fair value of assets and liabilities acquired, and final adjustments were made to the provision assessment that was disclosed in the 2022 Annual Report in Note 25 on page 182. These increased the provisions for deferred tax and contingent consideration together with an increase in goodwill of £1.8 million (see Note 9).

20. Disposal of subsidiary

On 13 April 2023, the Group sold its interest in Marshalls NV, its former Belgian subsidiary, for a nominal sum. The sale resulted in a profit on disposal of £0.6 million, which has been accounted for as an adjusting item (see Note 4). This business contributed revenue of £21.3 million and a loss before taxation of £1.1 million in 2022. In the period until the disposal on 13 April 2023, the business generated revenue of £5.0 million and a loss before taxation of £0.6 million.

21. Alternative performance measures

The APMs set out by the group are made-up of earnings-based measures and ratio measures with a selection of these measures being stated after adjusting items.

Measures stated after excluding adjusting items
These performance measures are calculated using either the associated statutory measure or alternative performance measure after adding back the adjusting items detailed in Note 4. The Group's accounting policy on adjusting items is set out in Note 1, basis of preparation.

APM	Definition and/or purpose
Adjusted operating profit, adjusted profit before tax, adjusted profit after tax, adjusted earnings per share, adjusted EBITA, adjusted EBITDA and adjusted operating cash flow	The Directors assess the performance of the Group using these measures including when considering dividend payments.
Adjusted return on capital employed	Adjusted return on capital employed is calculated as adjusted EBITA (on annualised basis) divided by shareholders' funds plus net debt at the period end. It is designed to give further information about the returns being generated by the Group as a proportion of capital employed.
Adjusted operating cash flow conversion	Operating cash flow conversion is calculated by dividing adjusted operating cash flow by adjusted EBITDA (both on an annualised basis). Adjusted operating cash flow is calculated by adding back adjusting items paid, net financial expenses paid, and taxation paid. It illustrates the rate of conversion of profitability into cash flow.

Pre-IFRS 16 measures
The Group's banking covenants are assessed on a pre-IFRS 16 basis. In order to provide transparency and clarity regarding how the Group's compliance with banking covenants, the following performance measures and their calculations have been presented:

APM	Definition and purpose
Pre-IFRS16 adjusted EBITDA	Pre-IFRS16 adjusted EBITDA is adjusted EBITDA excluding right-of-use asset depreciation and profit or losses on the sale of property, plant and equipment.
Pre-IFRS16 net debt	Pre-IFRS 16 net debt comprises cash at bank and in hand and bank loans but excludes lease liabilities. It shows the overall net indebtedness of the Group on a pre-IFRS 16 basis.
Pre-IFRS16 net debt leverage	This is calculated by dividing pre-IFRS16 net debt by adjusted pre-IFRS16 EBITDA (on an annualised basis) to provide a measure of leverage.

Like-for-like
A number of the APMs are stated on a like-for-like basis in 2022 to include the relevant information for Marley for the period between 1 January 2022 and 28 April 2022 in order to show the measure as if the business had been owned by the Group for the whole of 2022.

APM	Definition and purpose
Like-for-like revenue growth	Like-for-like revenue growth is revenue growth generated by the Group that includes revenue for acquired businesses and excludes revenue for businesses that have been sold for the corresponding periods in the prior year. This provides users of the financial statements with an understanding about revenue growth that is not impacted by acquisitions or disposals.

Other definitions

APM	Definition and purpose
EBITDA	EBITDA is earnings before interest, taxation, depreciation, and amortisation and provides users with further information about the profitability of the business before financing costs, taxation, and non-cash charges.
EBITA	EBITA is earnings before interest, taxation and amortisation and provides users with further information about the profitability of the business before financing costs, taxation, and amortisation.

Reconciliations of IFRS reported income statement measures to income statement APMs is set out in the following three tables. A reconciliation of operating profit to like-for-like pre-IFRS16 adjusted EBITDA is set out below:

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Operating profit	**41.0**	47.9
Adjusting items (Note 4)	**29.7**	53.2
Adjusted operating profit	**70.7**	101.1
Amortisation (excluding amortisation of intangible assets arising on acquisitions)	**1.7**	1.8
Adjusted EBITA	**72.4**	102.9
Depreciation	**31.2**	33.1
Adjusted EBITDA	**103.6**	136.0
Marley pre-acquisition EBITDA	**-**	18.1
Profit on sale of property, plant and equipment	**(1.4)**	(1.2)
Right-of-use asset principal payments	**(9.6)**	(11.1)
Like-for-like pre-IFRS16 adjusted EBITDA	**92.6**	141.8

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Adjusted EBITA	**72.4**	102.9
Marley pre-acquisition EBITA	**-**	16.4
Adjusted like-for-like EBITA	**72.4**	119.3

Disclosures required under IFRS are referred to as on a reported basis. Disclosures referred after adding back adjusting items basis are restated and are used to provide additional information and a more detailed understanding of the Group's results. Certain measures are reported on an annualised basis to show the preceding 12-month period where seasonality can impact on the measure.

Like-for-like revenue growth

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m	**Change %**
Marshalls Landscape Products	**321.5**	381.9	(16)
Marshalls Building Products	**170.1**	193.1	(12)
Marley Roofing Products	**179.6**	196.5	(9)
Like-for-like revenue	**671.2**	771.5	(13)

The Group sold its Belgian subsidiary on 13 April 2023 and therefore Marshalls Landscape Products 2022 revenue has been restated to exclude £12.2 million of revenue generated by that subsidiary between 14 April

and 31 December 2022. Marley revenue in 2022 has been restated to include £64.3 million of revenue for the pre-acquisition period from 1 January 2022 to 28 April 2022. No adjustments have been to Marshalls Building Products revenue.

Pre-IFRS 16 net debt and pre-IFRS16 net debt leverage
Net debt comprises cash at bank and in hand, bank loans and leasing liabilities. An analysis of net debt is provided in Note 15. Net debt on a pre-IFRS 16 basis has been disclosed to provide additional information and to align with reporting required for the Group's banking covenants. Pre-IFRS16 net debt leverage is defined as pre-IFRS16 net debt divided by like-for-like adjusted pre-IFRS16 EBITDA. Net debt as reported in Note 15 is reconciled to pre-IFRS 16 net debt and pre-IFRS 16 net debt leverage below:

	Audited year ended December 2023 £'m	Audited year ended December 2022 £'m
Net debt	**217.6**	236.6
IFRS 16 leases	**(44.7)**	(45.9)
Net debt on a pre-IFRS16 basis	**172.9**	190.7
Like-for-like adjusted pre-IFRS16 EBITDA	**92.6**	141.8
Pre-IFRS16 net debt leverage	**1.9**	1.4

Return on capital employed ('ROCE')
ROCE is defined as adjusted EBITA divided by shareholders' funds plus net debt.

	Audited year ended December 2023 £'m	Audited year ended December 2022 £m
Like-for-like adjusted EBITA	**72.4**	119.3
Shareholders' funds	**641.3**	661.1
Net debt	**217.6**	236.6
Capital employed	**858.9**	897.7
ROCE	**8.4%**	13.3%

Adjusted operating cash flow conversion
Adjusted operating cash flow conversion is the ratio of adjusted operating cash flow to adjusted EBITDA (on an annualised basis) and is calculated as set out below:

	Audited year ended December 2023 £'m	Audited year ended December 2022 £m
Net cash flow from operating activities	**77.7**	85.3
Adjusting items paid	**5.5**	17.4
Net financial expenses paid	**16.5**	9.9
Taxation paid	**10.4**	11.6
Adjusted operating cash flow	**110.1**	124.2
Adjusted EBITDA	**103.6**	136.0
Adjusted operating cash flow conversion	**106%**	91%

22. Principal risks and uncertainties

Risk management is the responsibility of the Marshalls plc Board and is a key factor in the delivery of the Group's strategic objectives. The Board establishes the culture of effective risk management and is responsible for maintaining appropriate systems and controls. The Board sets the risk appetite and determines the policies

and procedures that are put in place to mitigate exposure to risks. The Board plays a central role in the Group's Risk Review process, which covers emerging risks and incorporates scenario planning and detailed stress testing.

There continue to be external risks and significant volatility in UK and world markets with high and persistent levels of cost inflation and an uncertain outlook. In an addition to the macro-economic environment, the key risks for the Group are cyber security, competitor activity and an increased focus in climate change and other ESG related issues. In all these cases, specific assessments continue to be reviewed, certain new operating procedures have been implemented and mitigating controls continue to be reviewed as appropriate. A summary of these risks is set out below.

- Macro-economic uncertainty – The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn, the impact of Government policy, changes in interest rates, the increasing impact of wider geo-political factors (including the conflict in Ukraine and the Middle East) and volatility in world markets. The Group closely monitors trends and lead indicators, invests in market research and is an active member of the Construction Products Association. The Group's response to macro-economic uncertainty has been a major focus during the period and action has been taken to reduce capacity and costs in the challenging macro-environment.
- Cyber security – the risk of a cyber security attack continues to increase with more incidents being reported in UK businesses. In response, the Group appointed a dedicated Head of Cyber Security and has a risk-based approach to the continued development of our cyber security controls, including immutable back-ups, alongside procuring cyber insurance for the Marshalls businesses.
- Competitor activity – It has become more challenging to recover input cost inflation through higher selling prices due to weaker demand levels resulting in heightened competition for volumes in the marketplace and not all input costs were covered by price increases in the second half of 2023. In order to protect profitability, the Group is focusing on reducing its cost base and simplifying processes with the aim of being easier to deal with whilst continuing to invest in its brands, specification selling and new product development.
- Climate change and other ESG issues – to ensure the effective management of all relevant risks and opportunities. The Group remains committed to full transparency for all stakeholders and the Group's sustainability objectives remain core to the Group's business model and strategy. The Group employs experienced, dedicated staff to support our ESG agenda.

The other principal risks and uncertainties that could impact the business for the remainder of the current financial year are those set out in the 2022 Annual Report and Accounts on pages 69 to 75. These cover the strategic, financial and operational risks and have not changed significantly during the period. Strategic risks include those relating to the ongoing Government policy, general economic conditions, the actions of customers, suppliers and competitors, and weather conditions. The Group also continues to be subject to various financial risks in relation to the pension scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The other main financial risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. External operational risks include the cyber security and information technology, the effect of legislation or other regulatory actions and new business strategies.

The Group continues to monitor all these risks and pursue policies that take account of, and mitigate, the risks where possible.

23. Annual General Meeting

The Annual General Meeting will be held at the offices of Walker Morris, 33 Wellington Street, Leeds, West Yorkshire, LS1 4DL at 11.00am on Wednesday 15 May 2024.

Board members
The Directors serving during the year ended 31 December 2023 and up to the date of this report were as follows:

Vanda Murray OBE	Chair
Simon Bourne	Chief Operating Officer
Angela Bromfield	Non-Executive Director
Martyn Coffey	Former Chief Executive (resigned 29 February 2024)
Avis Darzins	Non-Executive Director
Diana Houghton	Non-Executive Director
Justin Lockwood	Chief Financial Officer
Graham Prothero	Senior Non-Executive Director
Matt Pullen	Chief Executive (appointed 8 January 2024)

By order of the Board

Shiv Sibal
Group Company Secretary
18 March 2024

Cautionary Statement
This Preliminary Results announcement contains certain forward-looking statements with respect to the financial condition, results, operations and business of Marshalls plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Preliminary Results announcement should be construed as a profit forecast.

Directors' Liability
Neither the Company nor the Directors accept any liability to any person in relation to the contents of this Preliminary Results announcement except to the extent that such liability arises under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Market Act 2020.

Shareholder Information

Financial calendar

Report and accounts for the year ended December 2023	10 April 2024
Annual General Meeting	15 May 2024
Final dividend for the year ended December 2023 (subject to shareholder approval)	1 July 2024
Results for the half year ending June 2024	14 August 2024
Results for the year ending December 2024	March 2025

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ (telephone: 0870 707 1134) and should clearly state the registered shareholder's name and address.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society should contact the Registrars for a dividend mandate form. Dividends paid in this way will be paid through the Bankers' Automated Clearing System ("BACS").

Website

The Group has a website that gives information on the Group and its products and provides details of significant Group announcements. The address is www.marshalls.co.uk.