Marshalls plc
2019 Results Review
and Outlook

Delivering sustainable growth

Marshalls

Agenda

Delivering sustainable growth

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

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Delivering sustainable growth
Highlights

	Pre-IFRS 16 2019	2018	Pre-IFRS 16 increase %
Revenue	**£541.8m**	£491.0m	10
EBITDA	**£90.1m**	£80.8m	12
Operating profit	**£72.6m**	£64.8m	12
Profit before tax	**£70.1m**	£62.9m	11
Basic EPS	**29.48p**	26.29p	12
Total dividends – ordinary and supplementary	**18.35p**	16.00p	15
Final ordinary dividend – recommended	**9.65p**	8.00p	21
Discretionary supplementary dividend – recommended	**4.00p**	4.00p	
ROCE (reported basis)	**23.7%**	21.9%	
Net debt	**£18.7m**	£37.4m	

Notes:

(1) The impact on the Income Statement of transitioning to IFRS 16 was marginal, with reported profit before tax of £69.9 million being only £0.2 million lower than the pre-IFRS 16 figure of £70.1 million.

(2) The application of IFRS 16 resulted in a decrease in other operating expenses of £14.0 million and an increase in depreciation of £12.9 million for the year ended 31 December 2019. The interest expense increased by £1.3 million due to additional IFRS 16 interest.

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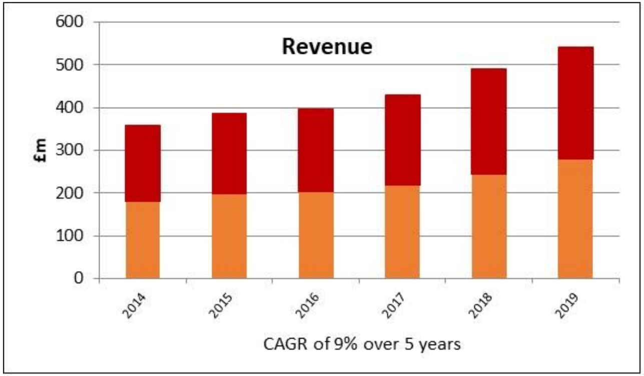
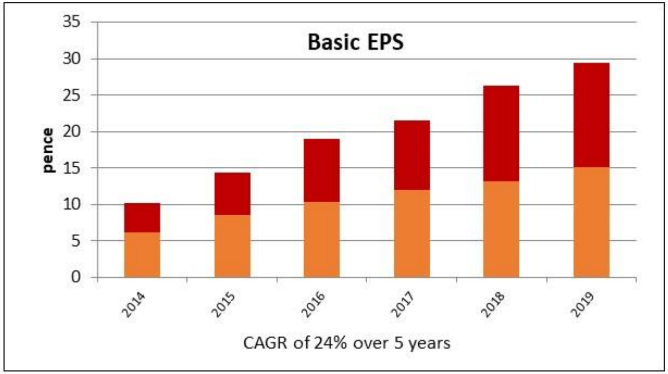
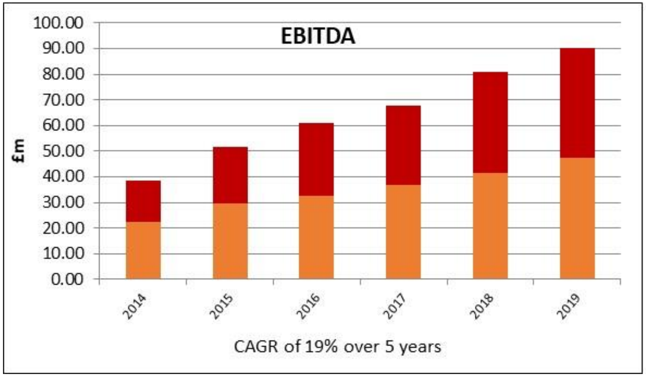
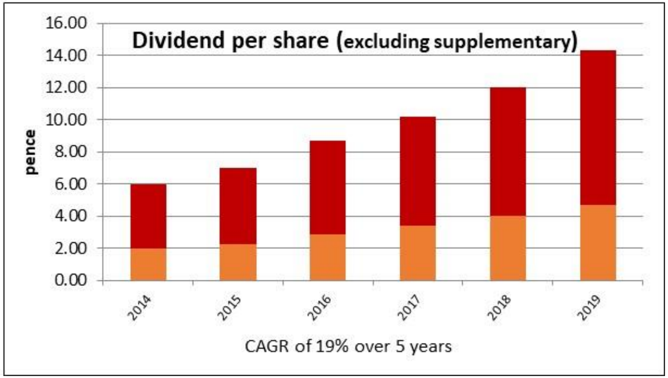
Highlights – pre-IFRS 16 basis









HY1 HY2

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Financial Performance

Full Year 2019 Results

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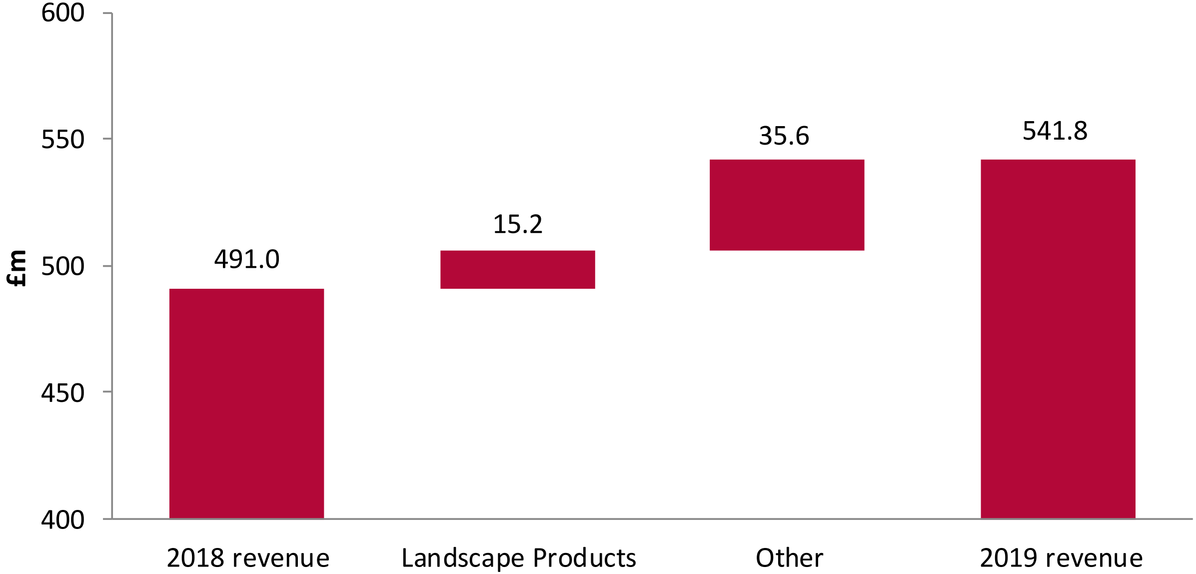
Revenue growth



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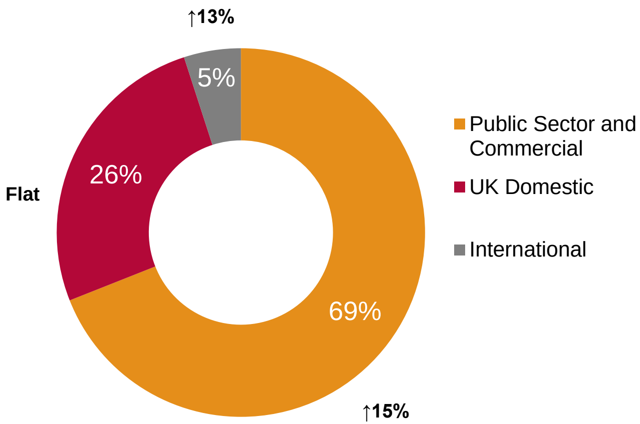
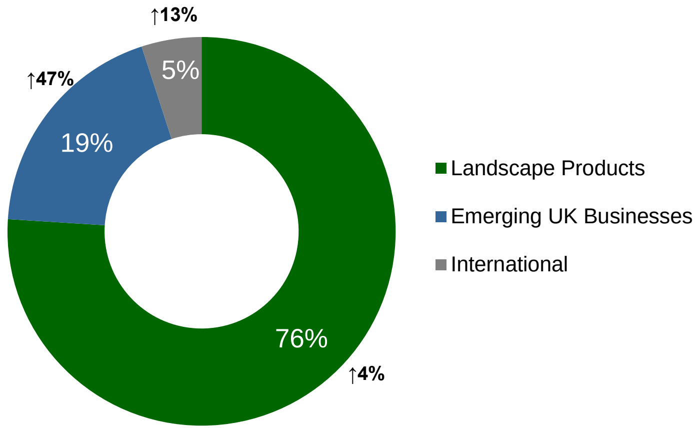
Revenue analysis

Revenue analysis: end market



Revenue analysis: business area



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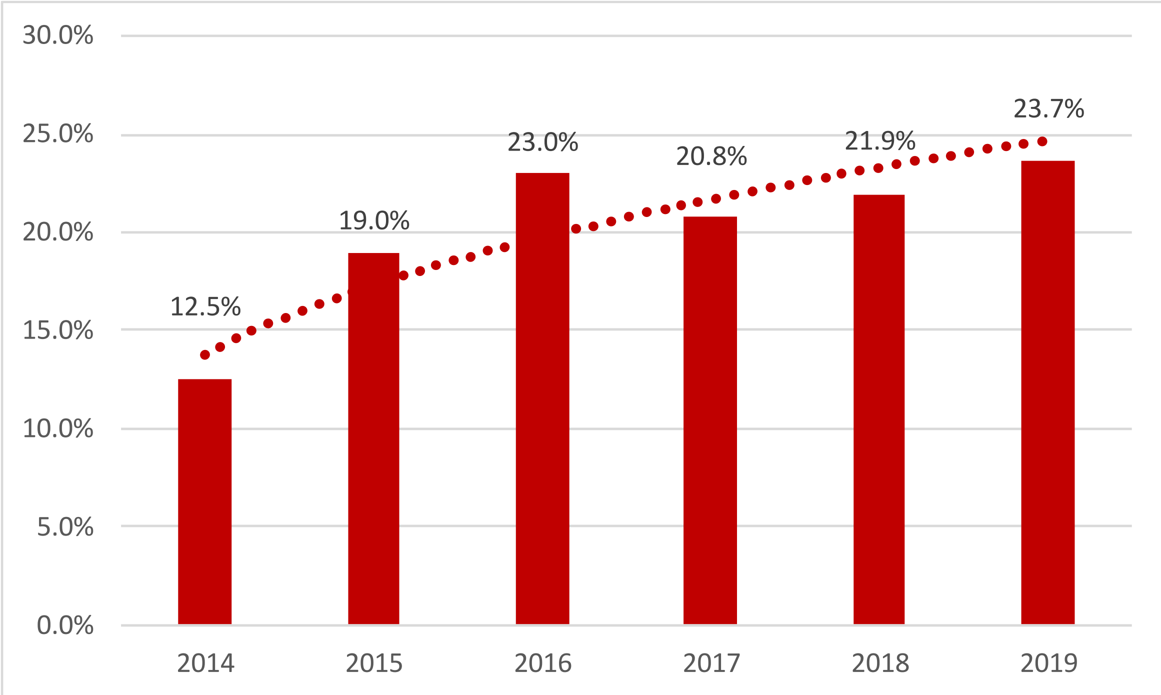
Return on capital employed – pre-IFRS 16 basis



ROCE: CAGR of 14% over 5 years

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Continued operating margin improvement

	Revenue £m	Operating profit £m	Impact on margin %
2018	491.0	64.8	13.2
Landscape Products	15.2	2.5	0.1
Other	35.6	5.3	0.1
2019 – pre-IFRS 16	**541.8**	**72.6**	**13.4**
2019 – as reported	**541.8**	**73.7**	**13.6**

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Cash flow from operating activities

	Pre-IFRS 16 2019 £m	2018 £m
Cash inflow arising from:		
Operating profit	**72.6**	64.8
Depreciation and amortisation	**17.5**	16.0
EBITDA	**90.1**	80.8
Net financial expenses paid	**(1.8)**	(1.3)
Taxation paid	**(9.0)**	(9.9)
Net gain on sale of property, plant and equipment	**(0.3)**	(0.7)
Receivables / payables	**0.5**	(0.9)
Inventory	**(5.3)**	(4.3)
Acquisition / restructuring costs	**(1.5)**	(1.8)
Equity settled share-based payments and other items	**3.0**	1.4
Net cash flow from operating activities	**75.7**	63.3
Operating cash flow / EBITDA	**96%**	92%

Note:
(1) The impact on the Cash Flow Statement of transferring to IFRS 16 was to increase net cash flow from operating activities by £12.4 million. Reported net cash flow from operating activities for the year ended 31 December 2019 was £88.1 million.

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Cash flow

	Pre-IFRS 16 2019 £m	2018 £m
Net cash flow from operating activities	**75.7**	63.3
Capital expenditure	**(22.9)**	(29.2)
Net proceeds from sale of surplus assets	**0.5**	1.6
Acquisition of subsidiary undertaking	**-**	(16.4)
Dividends paid	**(33.2)**	(29.2)
Proceeds from issue of share capital	**0.2**	0.6
Payments to acquire own shares	**(1.5)**	-
Payments in respect of share-based awards	**-**	(3.7)
Sub-total	**18.8**	(13.0)
Finance leases / exchange differences	**(0.1)**	(0.1)
Movement in net debt	**18.7**	(13.1)
Net debt at 1 January	**(37.4)**	(24.3)
Net debt at 31 December (pre-IFRS 16)	**(18.7)**	(37.4)

Note:
(1) Reported net debt was £60.0 million at 31 December 2019, following the inclusion of £41.3 million lease liabilities under IFRS 16.

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Bank debt capacity

- Continued strong cash generation (OCF:EBITDA = 96%)
- Pre-IFRS 16 net debt of £18.7 million at 31 December 2019 (31 December 2018: £37.4 million net debt)
- Reported net debt of £60.0 million at 31 December 2019 following inclusion of £41.3 million of additional IFRS 16 lease liabilities
- Bank debt capacity of £165 million
- Significant capacity to fund organic investment and selective acquisitions

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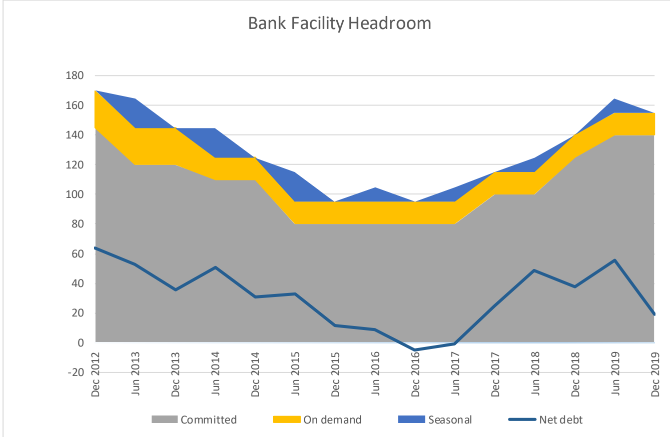
Significant borrowing facilities available

	Facility £m	Cumulative facility £m
Expiry date		
Committed facilities:		
Q1 2024	25	25
Q3 2023	55	80
Q3 2022	20	100
Q3 2021	20	120
Q3 2020	20	140
On demand facilities:		
Available all year	15	155
Seasonal (February to August inclusive)	10	165



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

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Capital allocation policy

1 Organic growth	2 R&D NPD	3 Ordinary dividends	4 Selective acquisitions	5 Supplementary dividends
Capital investment in growth projects Plan £20 million in 2020	Increase research and development and new product development	Maintain dividend cover of 2 times earnings over the business cycle	Target selective bolt-on acquisition opportunities in New Build Housing, Water Management, Landscape Protection and Minerals	Supplementary dividends when appropriate. Discretionary and non-recurring

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Strong track record of capital discipline

	2019	2018	2017	2016	2015
Debtor days	**36**	43	41	39	39
Creditor days	**55**	61	58	56	53
Inventory turn (times per annum)	**3.3**	3.4	3.3	3.3	3.2
Liquidity ratio (pre-IFRS 16) (current assets:current liabilities)	**1.3**	1.5	1.6	1.6	1.6
ROCE (pre-IFRS 16)	**23.7%**	21.9%	20.8%	23.0%	19.0%
ROCE (reported)	**21.4%**	21.9%	20.8%	23.0%	19.0%
Gearing (pre-IFRS 16)	**6.3%**	14.0%	10.2%	N/A	6.0%
Gearing (reported)	**20.3%**	14.0%	10.2%	N/A	6.0%
Net (debt) / cash (pre-IFRS 16)	**£(18.7)m**	£(37.4)m	£(24.3)m	£5.4m	£(11.5)m
Net (debt) / cash (reported)	**£(60.0)m**	£(37.4)m	£(24.3)m	£5.4m	£(11.5)m
Net assets	**£295.8m**	£266.7m	£237.6m	£217.1m	£192.7m

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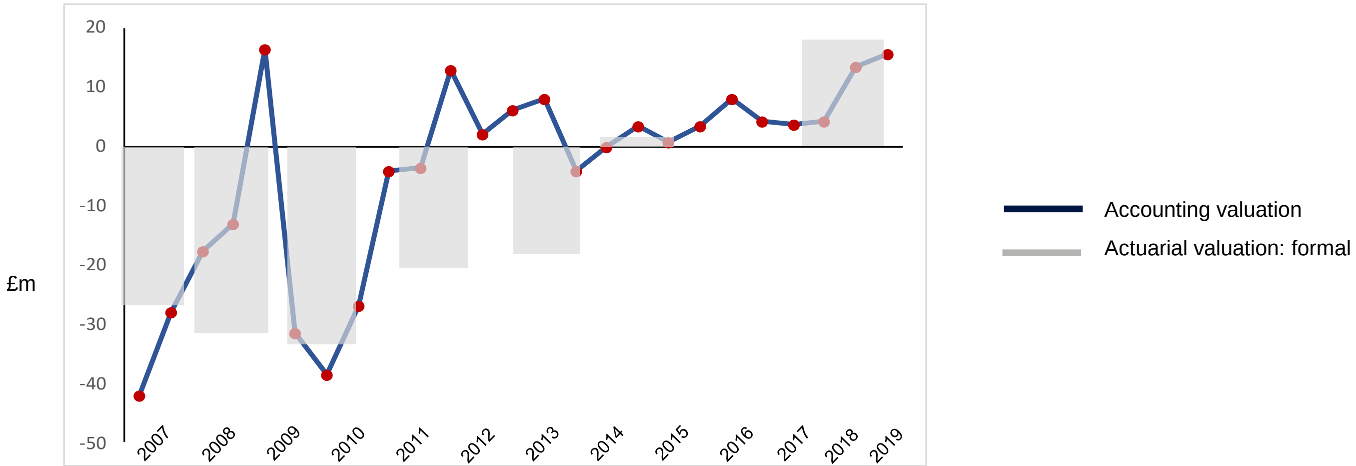
Pensions

Balance Sheet

- Company contributions to Defined Benefit Scheme reduced to zero under agreed Recovery Plan
- Surplus of £15.7 million at 31 December 2019 (31 December 2018: surplus of £13.5 million)

Income Statement

- Scheme closed since 2006 to future accrual
- Net service cost: £0.6 million debit (2018: £0.5 million debit)
- Looking to “transfer out” long term



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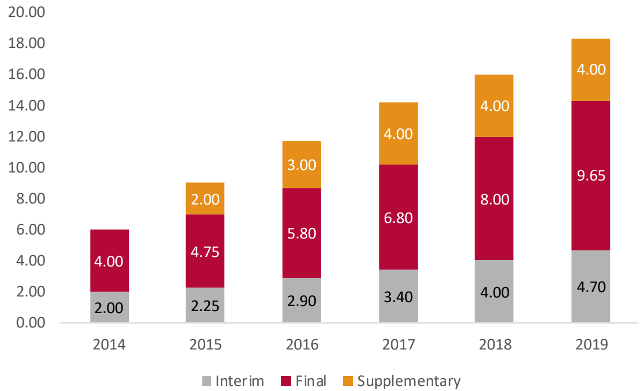
Strong dividend growth

- Progressive ordinary dividend policy
- 2019 dividends
  - Interim and final[(1)] 14.35p (+20%)
  - Supplementary[(1)] 4.0p
  - Total 18.35 (+15%)
- Supplementary dividend: discretionary and non-recurring
- Dividend cover
  - Interim and final 2.0x cover
  - Including supplementary 1.6x cover
- Total dividend (including supplementary dividend) shows CAGR of 25% over the last 5 years
- Board will continue to adhere to the Group's capital allocation policy



Note:
(1) Proposed payment subject to AGM approval.

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The Market

Full Year
2019 Results

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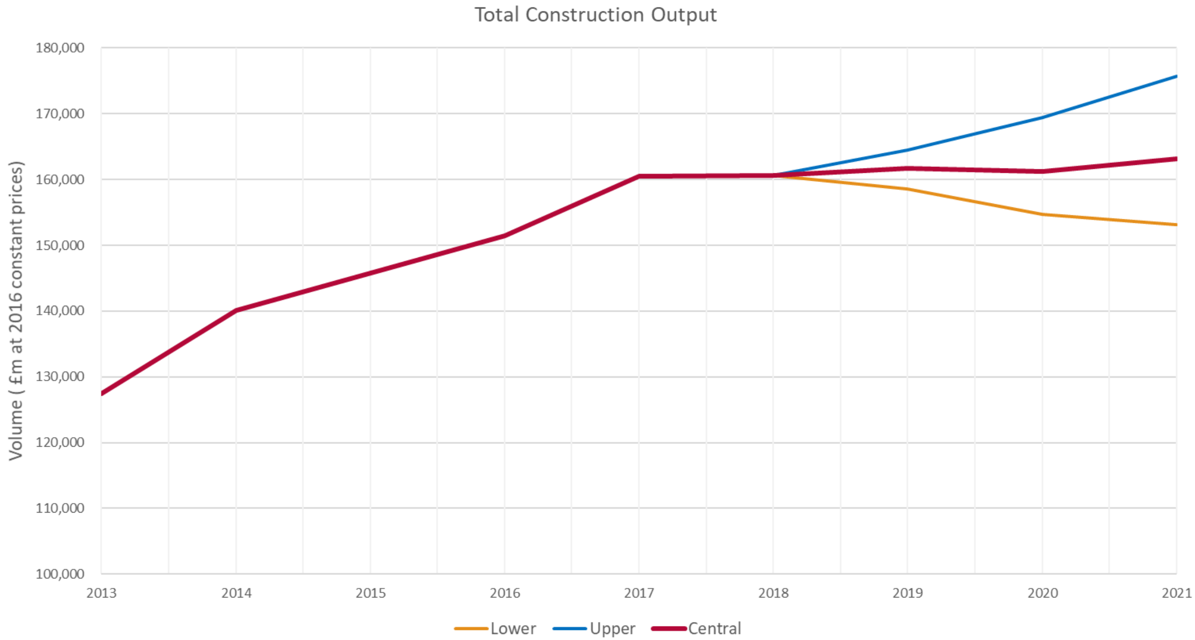
CPA construction sector forecasts – winter 2019



Source: CPA Forecast January 2020.

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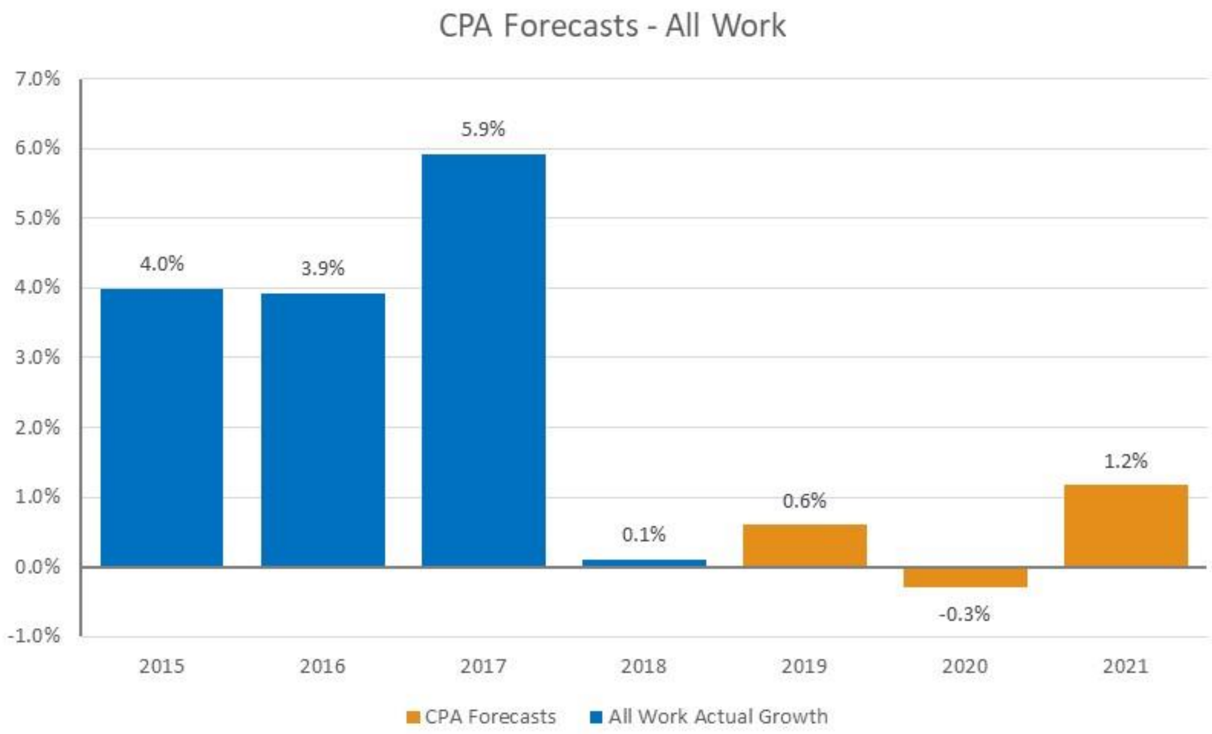
CPA construction output forecasts – winter 2019



Source: CPA Forecast January 2020.

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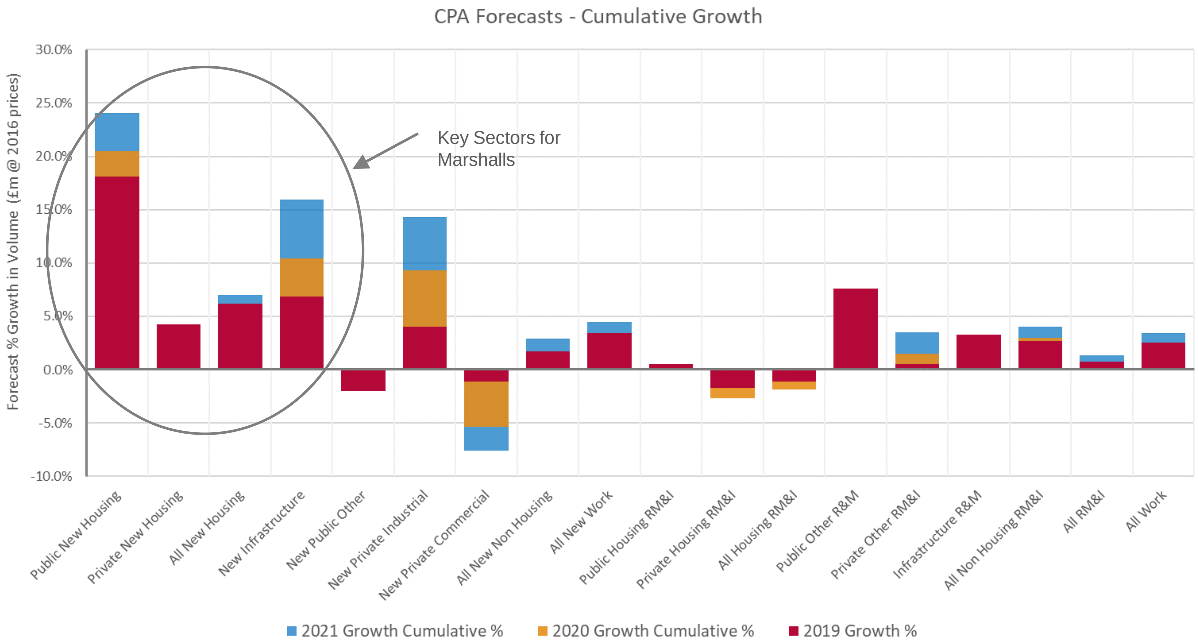
CPA 2019 to 2021 cumulative sector forecasts



Source: CPA Forecast January 2020.

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Public Sector and Commercial

Full Year 2019 Results

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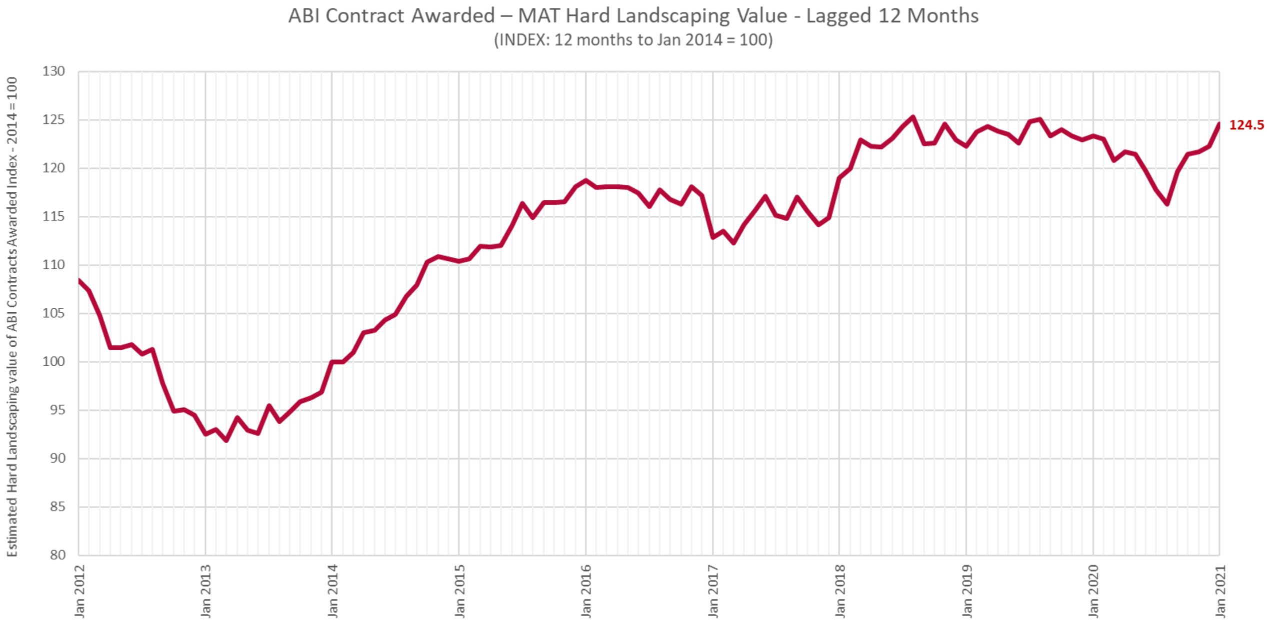
ABI contract awarded



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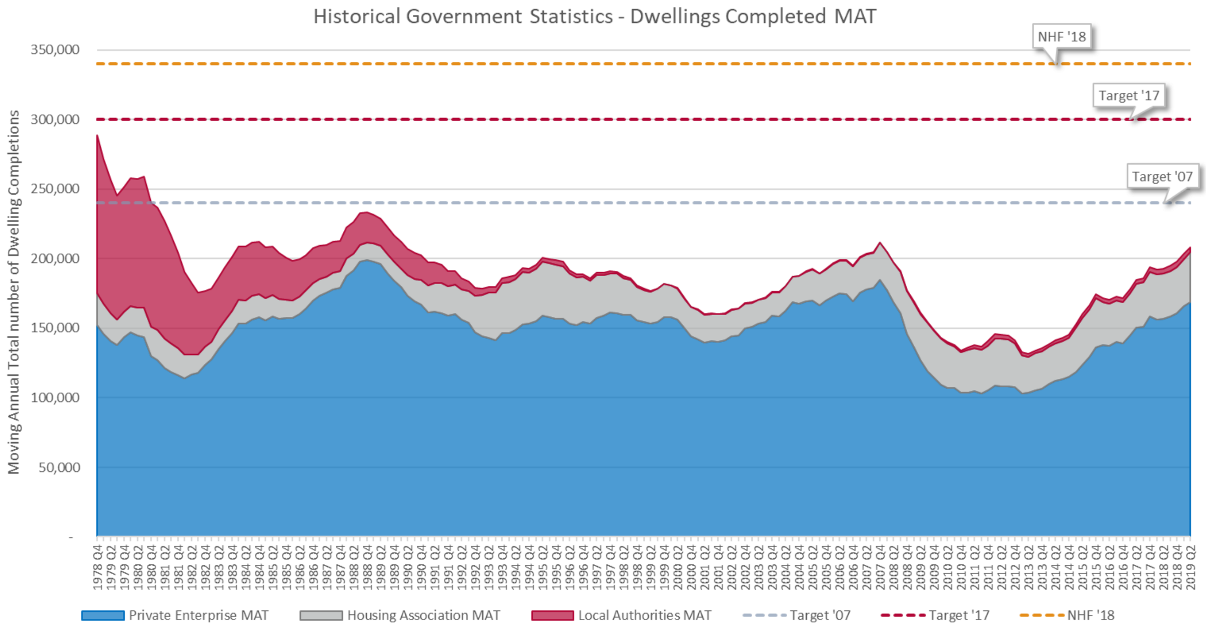
Housing deficit

▲ 208,417 new dwellings were completed in the 4 quarters to 2019 Q2, 8% more than the 4 quarters to 2018 Q2.

Since the Government target of 300,000 per year was set in 2017, the deficit stands at 223,010 new homes.



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Domestic

Full Year
2019 Results

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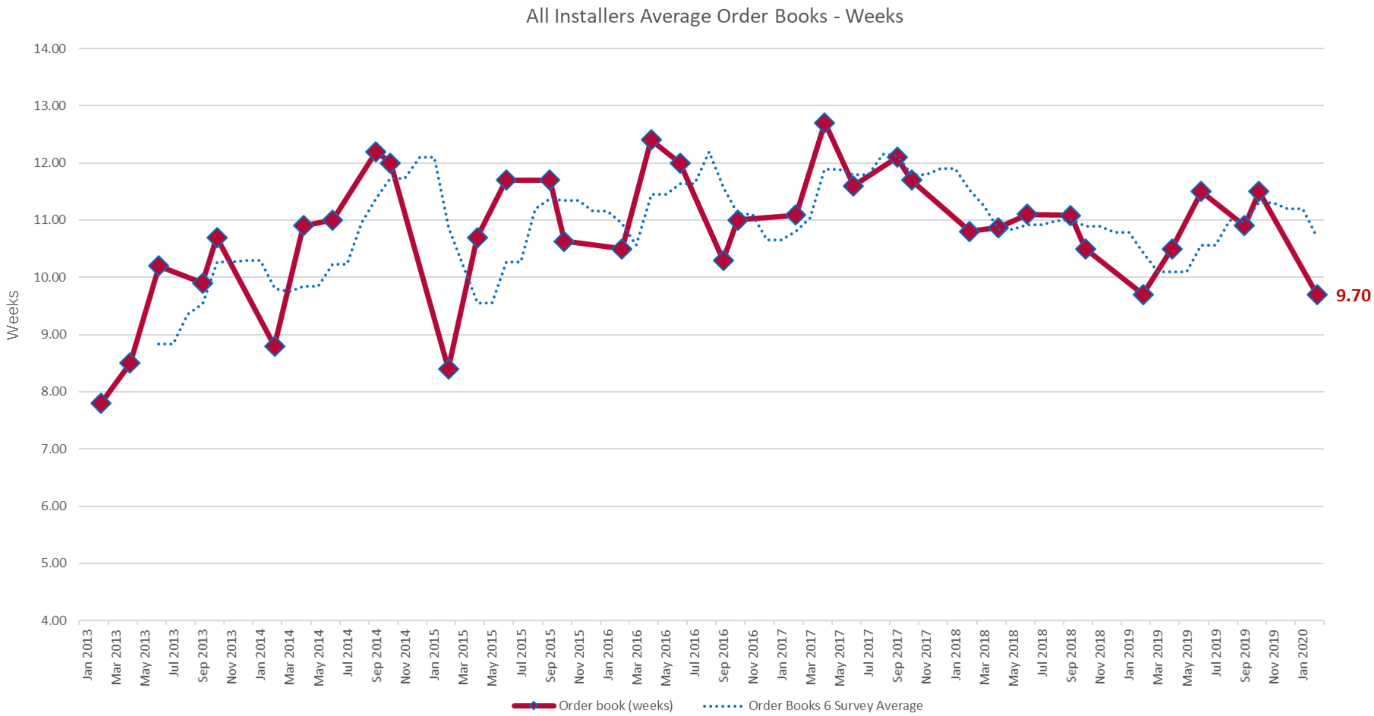
Domestic installer order books



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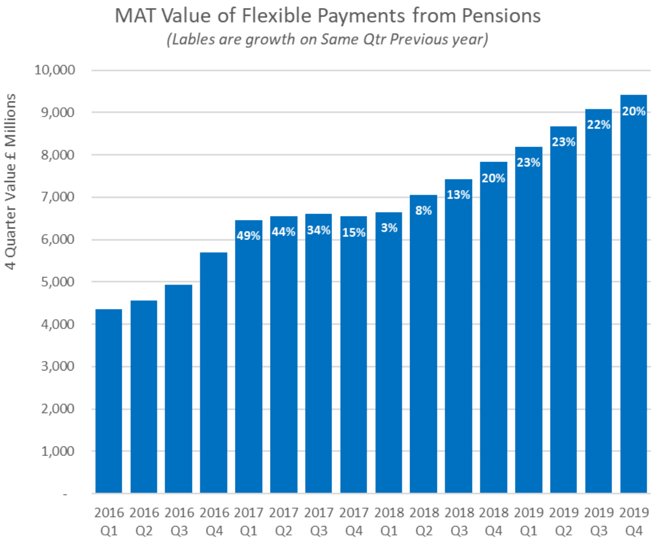
Consumer project funding

Over 55s Pension Withdrawals

£9.41 billion released in 4 Quarters to 2019 Q4

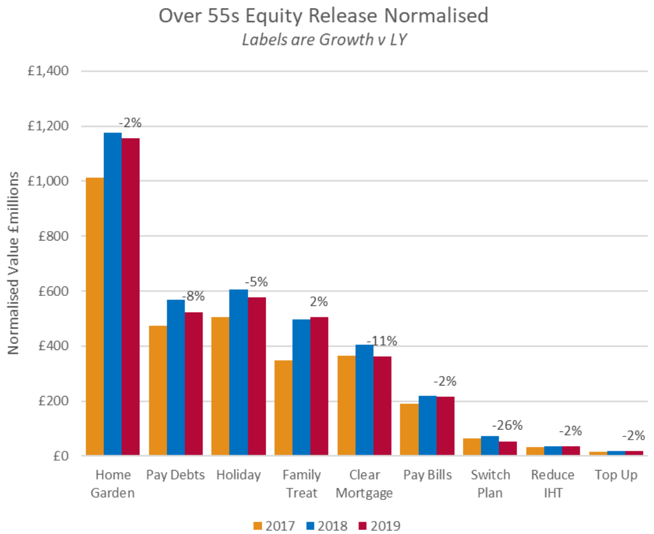
▲ *20.2% on Q-last year - an average of £7,386 Per Individual*



Over 55s Equity Release

£3.45 billion released in 2019 - 64% planning to spend on Home & Garden

▼ *-1.7% to an estimated £1,156m*



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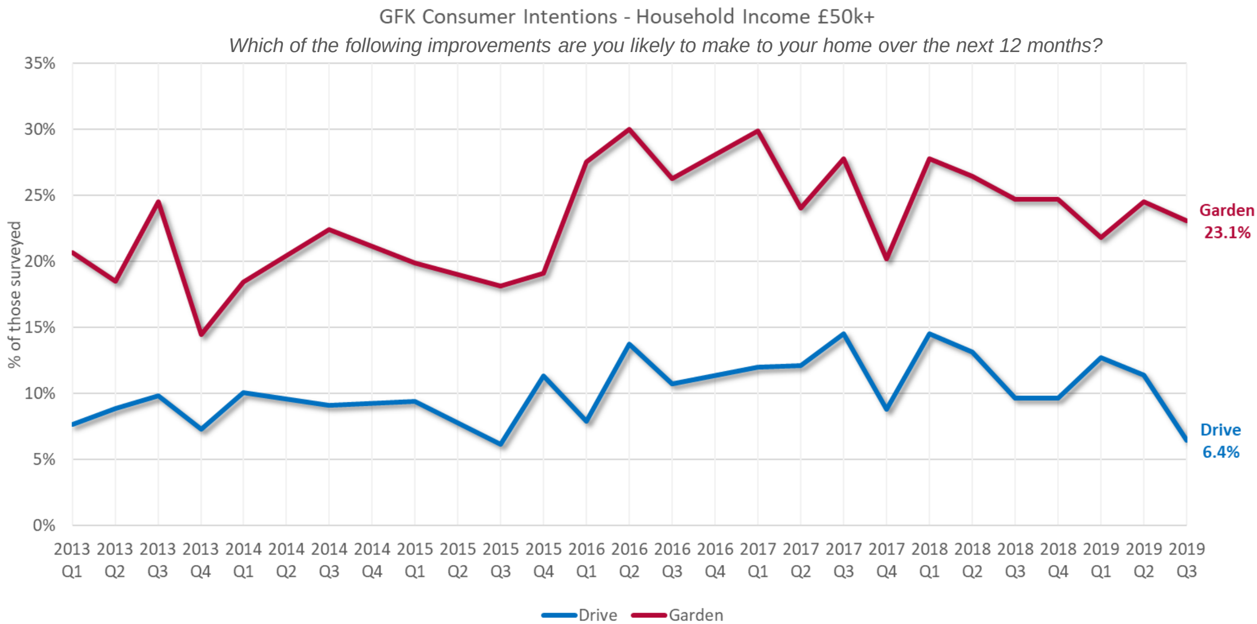
Consumer intentions



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Business Strategy

Full Year 2019 Results

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The Marshalls 5 year Business Strategy

Our Vision	Our vision is to Create Better Spaces and Futures for Everyone; Socially, Environmentally and Economically.
Our Mission	Our Continuing Mission is to Deliver Sustainable Growth through a Brand that Drives Customer Specification of Innovative Product Solutions for the Built Environment

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

Strategic Priorities

Brand Preference for Product Specification	**Logistics Excellence**	**Sustainable Materials Supply**	**Customer Centricity**
New Product Development	**Operational Excellence**	**Digital Transformation**	**Growth in the Emerging Businesses**

Enabled by People and Talent Development

The Marshalls Way

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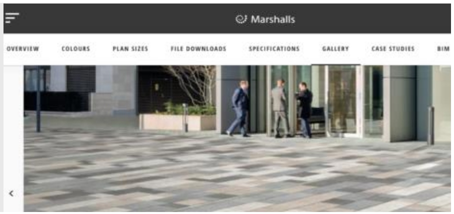
Brand preference for product specification - enhancements to our specification offer

Updated and refreshed London Design Space to offer specifiers, designers and clients an enhanced specification experience.


New Marshalls Design Space in the heart of Birmingham supporting the major redevelopment of the city.

Continual development of our product ranges and systems to ensure we remain at the forefront of innovation and technology within our industry.



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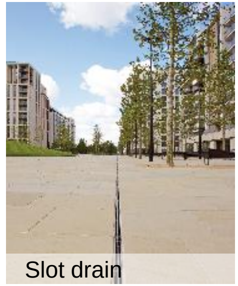
New product development


Cropped Porphyry


Slot drain


Symphony Plus

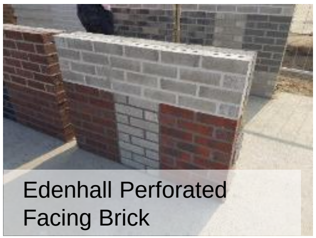

Farnley Setts


Drivesys


Granite Eclipse


Gatekeeper


Drivesett Savanna


Edenhall Perforated Facing Brick


Modal

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Logistics excellence

LOGISTICS FLEET

261 internal vehicles across 22 sites, making c.375k deliveries. c.60% of all deliveries completed in house supplemented by 3rd party hauliers.

OBJECTIVES, GOALS, STRATEGY AND MEASURES

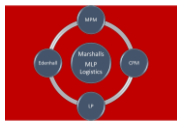
Departmental detailed plans aligned to the overall 5 year business strategy.

ePOD

Electronic proof of delivery now in place on all Marshalls' vehicles. Plans being developed for haulier roll out.

TRANSPORT PLANNING SYSTEM

Software developments deployed enhancing vehicle planning, resulting in more accurately planned routes and lower cost to serve.



EMERGING BUSINESS UNIT INTEGRATION

Leveraging synergies within logistics through the integration of Landscape Products, CPM and Edenhall into Group Logistics.

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Operational excellence

People

Aligned Organisational Structures

- Blue Print 2.0 (Competency)
- PAL System (Personal Achievement Logs)
- LCS (Lean Competency System) Accreditations
- A4 Ideas & Celebrations
- Leadership Development
- Create a culture where our people can achieve their personal best
- LSW (Leaders Standard Work) at all levels

Process

Compliance through Balanced Scorecard

- 5S Audit System
- TPM – CIM Standards (Total Productive Maintenance – Clean, Inspect, Maintain)
- MMA (Marshalls Maturity Assessment) Re-calibration
- OEE (Overall Equipment Effectiveness) Playbook
- Procedural flowcharts & control of documents
- 2nd Gen DARMS (daily action review meetings)

Plant

Creating a Network "fit for the future"

- Significant investment in St Ives (yard space, facilities, Dual Block Plant at year end)
- Rationalisation of facilities whilst absorbing volume (Bleadon exit, Ryton yard into St Ives)
- Consolidation of Wet Cast from St Ives into West Lane
- Continued capital investment plans across the network

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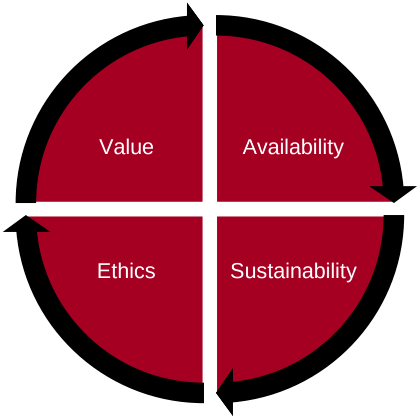
Sustainable materials supply strategy



- Deliver best value balancing cost, quality, availability and service
- Leveraging spend across the entire Group
- Long-term and sustainable availability through strong supplier relationships
- Minimising the environmental impact of the end-to-end supply chain
- Fully transparent and ethical supply chain across the globe

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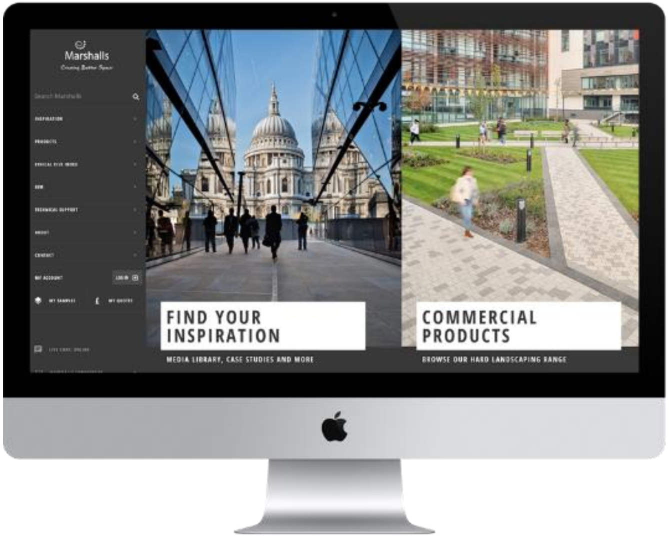
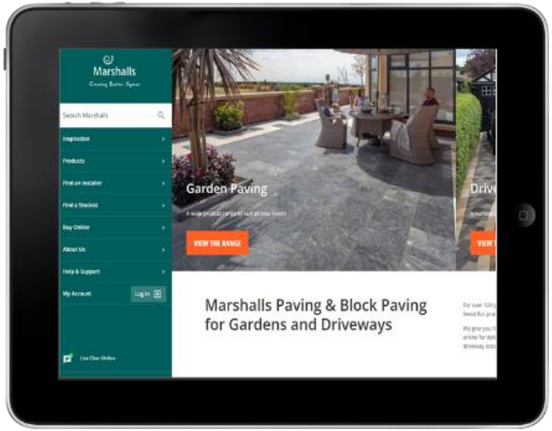
Digital transformation

Re-platformed Dynamic Content Websites





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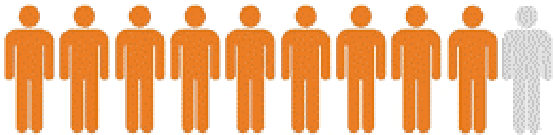
Customer centricity

Our ambition is to get **9** out of **10** customers to recommend Marshalls



Currently at 8.3/10

(latest domestic research)
Increased from 7/10 previous surveys

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Growth away from traditional Marshalls Landscape Products

Currently contributing 30% of total Marshalls revenue

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Marshalls Civils and Drainage – a combined water management offer

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Emerging businesses – innovation and new product development

Landscape Protection – New Gatekeeper Product

Marshalls Edenhall – New Perforated Facing Bricks

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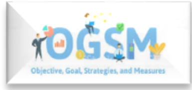
Maltby site investment



THE MARKET

- UK brick market estimated at 2.4 billion bricks p.a.
- 18% imported from Europe

THE OPPORTUNITY

- Demand for bricks increasing YOY
- Clay brick dominating the market (91% of demand)
- Unsustainable supply of clay brick (high investment and running cost, lead times, high carbon footprints)

THE SOLUTION

- Inject additional concrete brick volume into the market (convert Maltby CBP plant)
- Increases concrete brick manufacturing capacity by 36% (50 million bricks)
- Unlocks growth and self sufficiency for the UK brick market

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Switching from fired clay bricks to Edenhall concrete bricks would effectively halve the embodied carbon of the bricks in every house built

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Our people strategy … supported by the Marshalls story and The Marshalls Way

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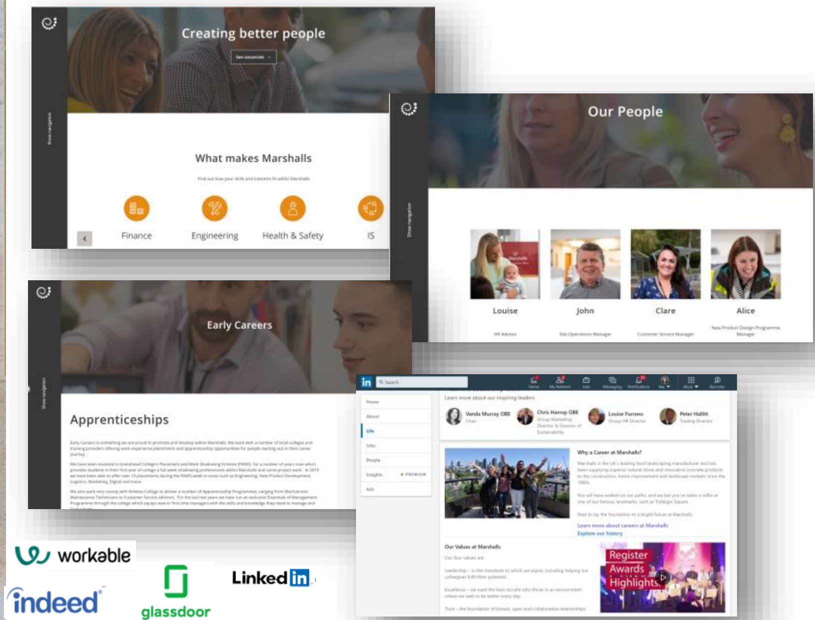
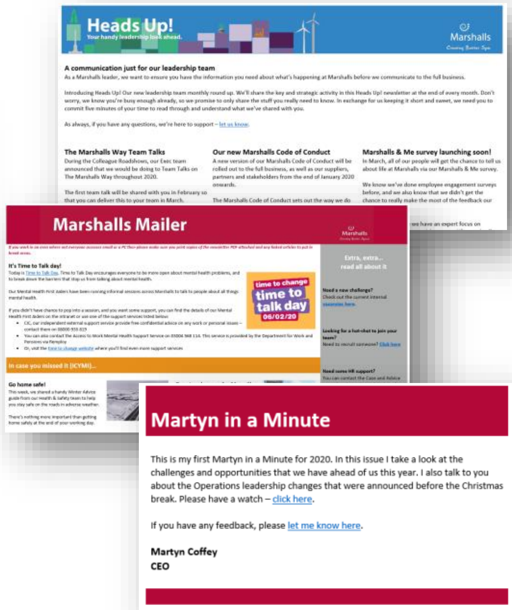
New communication channels: internal and external

Careers website and social media



Internal channels



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ESG

Full Year
2019 Results

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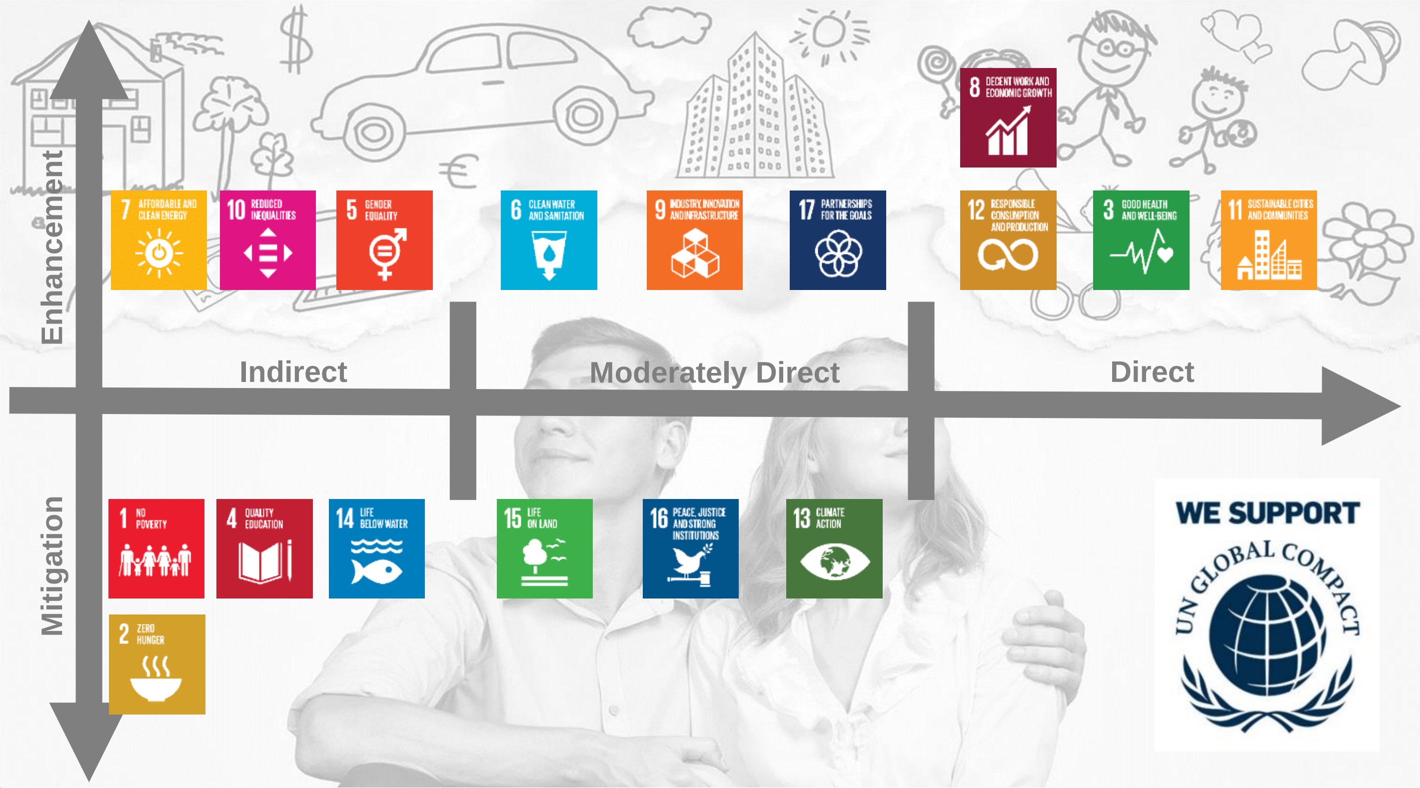
The sustainable development goals



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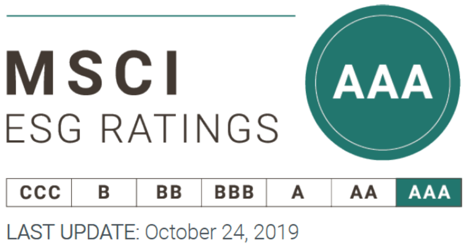
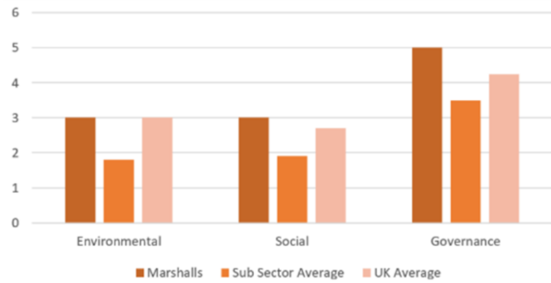
Current ESG ratings



FTSE4Good



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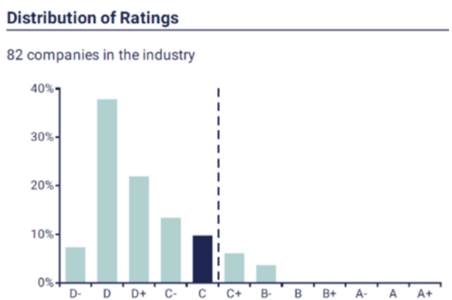

CDP

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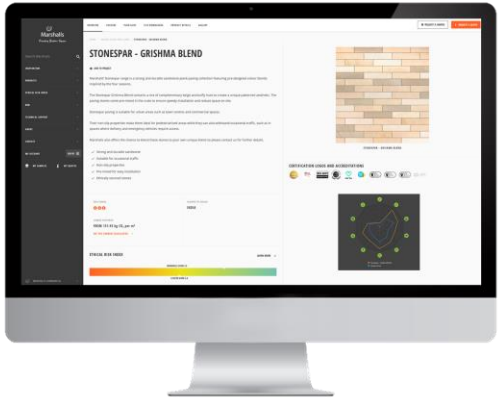
ETHICAL RISK INDEX by Marshalls

- Modern Slavery Act Awareness
- Supply Chain Visibility
- Income and Employment Security
- Health & Safety
- Social Wellbeing
- Employment Freely Chosen
- Empowerment
- Environment
- Governance
- Corruption and Bribery



Fairstone™ by Marshalls

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Summary

- Strong financial performance – revenue up 10% and PBT up by 11%
- 2019 EBITDA £90.1 million (pre-IFRS 16) + 12%
- Improved operating margins – up to 13.4% (2018: 13.2%)
- Strong cash generation has continued
- Continued strong ROCE – 21.4% reported (23.7% pre-IFRS 16)
- New Build Housing, Road, Rail and Water Management remain attractive markets
- Increasing market share through service / product
- ESG embedded throughout the business
- Both CPM and Edenhall continuing to trade strongly
- Edenhall integration complete
- Well placed to deliver continued growth and operational profit improvements
- Maintaining a 2 times dividend cover policy, supported by supplementary dividends

The new 5 year Strategy will drive growth and shareholder returns

Appendices

Full Year
2019 Results

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Profit for the financial period

	Pre-IFRS 16 2019 £m	As reported 2019 £m	2018 £m	Pre-IFRS 16 increase %	As reported increase %
EBITDA	**90.1**	**103.9**	80.8	12	29
Depreciation / amortisation	**(17.5)**	**(30.2)**	(16.0)		
Operating profit	**72.6**	**73.7**	64.8	12	14
Financial income and expense (net)	**(2.5)**	**(3.8)**	(1.9)		
Profit before tax	**70.1**	**69.9**	62.9	11	11

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Impact of IFRS 16 - Leases

- Effective from 1 January 2019 – with almost all leases being recognised on the balance sheet
- Recognition of a right-of-use asset and a lease liability on the balance sheet (included within debt)
- Marshalls has applied the modified retrospective transition approach – no restatement of comparatives for the year ended 31 December 2018
- Upon transition the right-of-use asset is £45.0 million
- The transition financial lease liability is £46.5 million
- A transition adjustment of £1.8 million has been taken to retained earnings
- Previously disclosed operating lease charges have been replaced by depreciation and interest
- No overall cash flow impact – but classification changes in the cash flow statement
- Increase in operating profit (£1.1 million) and EBITDA (£13.8 million) in 2019
- Reduced ROCE, but remains strong at 21.4%
- Bank covenants remain on frozen GAAP

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Impact of IFRS 16 - Leases

	Pre-IFRS 16 2019 £m	Impact of IFRS 16 2019 £m	As reported 2019 £m	2018 £m
Revenue	541.8	-	541.8	491.0
Net operating costs	(469.2)	1.1	(468.1)	(426.2)
Operating profit	72.6	1.1	73.7	64.8
Finance charges (net)	(2.5)	(1.3)	(3.8)	(1.9)
PBT	70.1	(0.2)	69.9	62.9
Income tax	(12.0)	-	(12.0)	(11.3)
PAT	58.1	(0.2)	57.9	51.6

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Impact of IFRS 16 - Leases

	Pre-IFRS 16 2019 £m	Impact of IFRS 16 2019 £m	As reported 2019 £m	2018 £m
PBT	70.1	(0.2)	69.9	62.9
EBITDA	90.1	13.8	103.9	80.8
EPS	29.48p	(0.12)	29.36p	26.29p
Net debt	18.7	41.3	60.0	37.4
ROCE	23.7%	(2.3)%	21.4%	21.9%
Net debt:EBITDA	0.2	0.4	0.6	0.5
Gearing	6.3%	14.0%	20.3%	14.0%

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Construction Products Association

£m / % change	2017 Actual	2018 Actual	2019 Estimate	2020 Forecast	2021 Forecast
Housing					
	38,611	40,305	41,558	41,327	41,866
	9.2%	4.4%	3.1%	-0.6%	1.3%
Other New Work					
	66,779	64,735	64,674	64,583	64,583
	5.9%	-3.1%	-0.1%	-1.0%	1.4%
Repair, Maintenance and Improvement					
Private Housing	20,922	20,883	20,257	20,054	20,254
	6.3%	-0.2%	-3.0%	-1.0%	1.0%
Total	55,060	55,583	55,421	55,302	55,771
	3.8%	0.9%	-0.3%	-0.2%	0.8%
Total All Work	160,450	160,623	161,654	161,212	163,120
	5.9%	0.1%	0.6%	-0.3%	1.2%

Note: Figures taken from the latest CPA Winter Forecast.

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Additional information and ratios

	2019	2018
Interest:		
Charge	**£3.8m**	£1.9m
Cover	**19.2 times**	34.1 times
EPS	**29.36p**	26.29p
Dividend:		
2019 interim and final recommended	**14.35p**	12.00p
Cover (ordinary)	**2.0 times**	2.2 times
Supplementary dividend recommended	**4.00p**	4.00p
Cover (total)	**1.6 times**	1.6 times
Weighted average number of shares	**198.4m**	197.7m
Net asset value	**£295.8m**	£266.7m

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Financial flexibility

	2019 Actual
EBITA:interest charge	42.6 times
Net debt:EBITDA	0.2 times

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

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Net assets

	£m
2018 YE net assets	266.7
Effect of initial application of IFRS 16	(1.8)
	264.9
Impact of movements in the period:	
Profit for the financial period	58.2
Dividends	(33.2)
Actuarial movement on pensions (after tax)	2.4
Hedging reserve	0.3
Share-based payments (after tax)	4.7
Issue of share capital	0.2
Purchase of own shares	(1.5)
Foreign currency translation differences / other	0.1
Non-controlling interest	(0.3)
	30.9
2019 net assets	**295.8**

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Creating Better Spaces

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DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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