Marshalls plc
2023 Half Year Results Review and Outlook

Management actions position the Group well for when markets normalise

16 August 2023

Agenda

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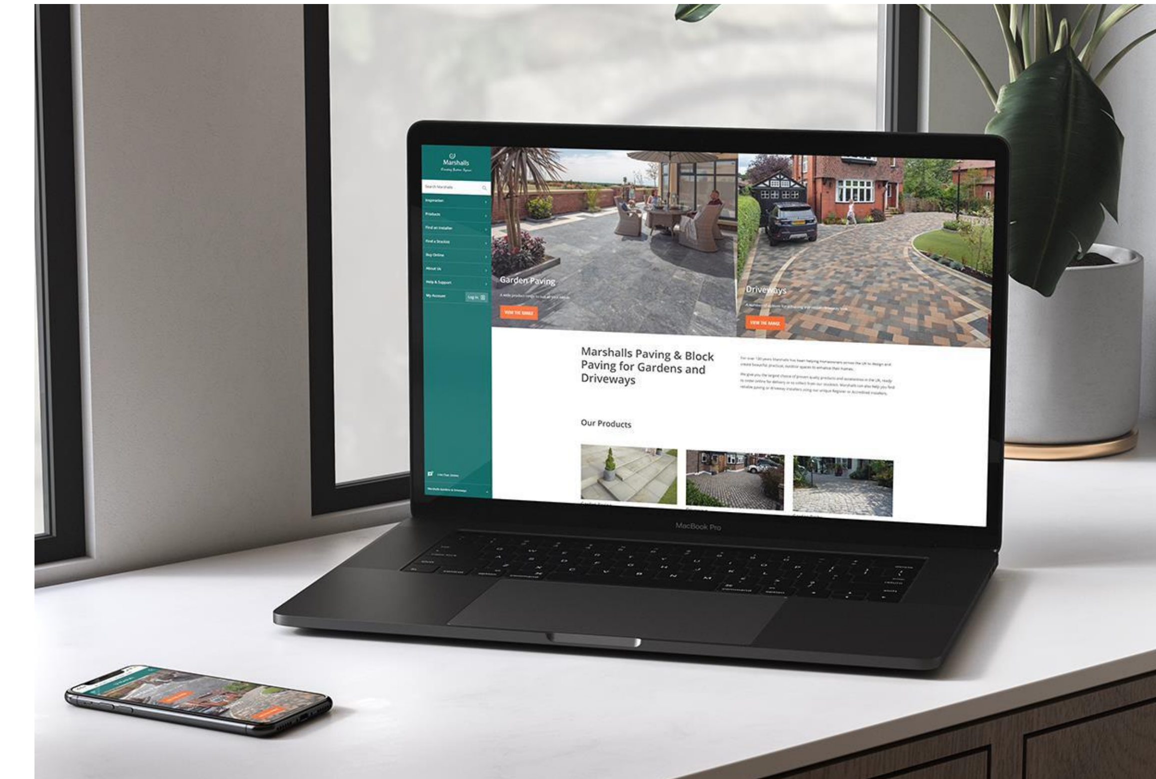

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Highlights

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Highlights

Management actions position the Group well for when markets normalise

- Financial results in short term impacted by weak market backdrop
- Action taken to reduce costs, improve agility and manage cash without compromising medium term capacity
- Significant growth drivers remain following structural under-investment in UK construction
- Well positioned for when markets normalise
- Group PBT has potential to double on volumes c.10 per cent below 2019

Financial highlights

Revenue

£354.1m

Adjusted operating profit

£41.9m

Adjusted PBT

£33.2m

Adjusted basic EPS

10.2p

Interim dividend

2.6p

Pre-IFRS 16 net debt

£184.6m

Note: Adjusted PBT stated after adding back adjusting items totaling £16.5 million; see page 39 for details

Key challenges and management response

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2023 challenges

Weak market backdrop impacts demand and the financial results

- Macro-economic environment deteriorated through H1 2023
- Persistent core inflation increased expectations of the interest rate cycle peak
- Swap rates and fixed rate mortgages increased and adversely impacted housing demand
- House builders reduced activity levels with significant year-on-year volume reductions
- Consumer confidence remains weak due to falling real incomes and interest rate increases impacting private housing RMI activity
- Demand for the Group's products reduced
- Increased competition resulted in a tougher pricing environment - input cost inflation covered by price increases

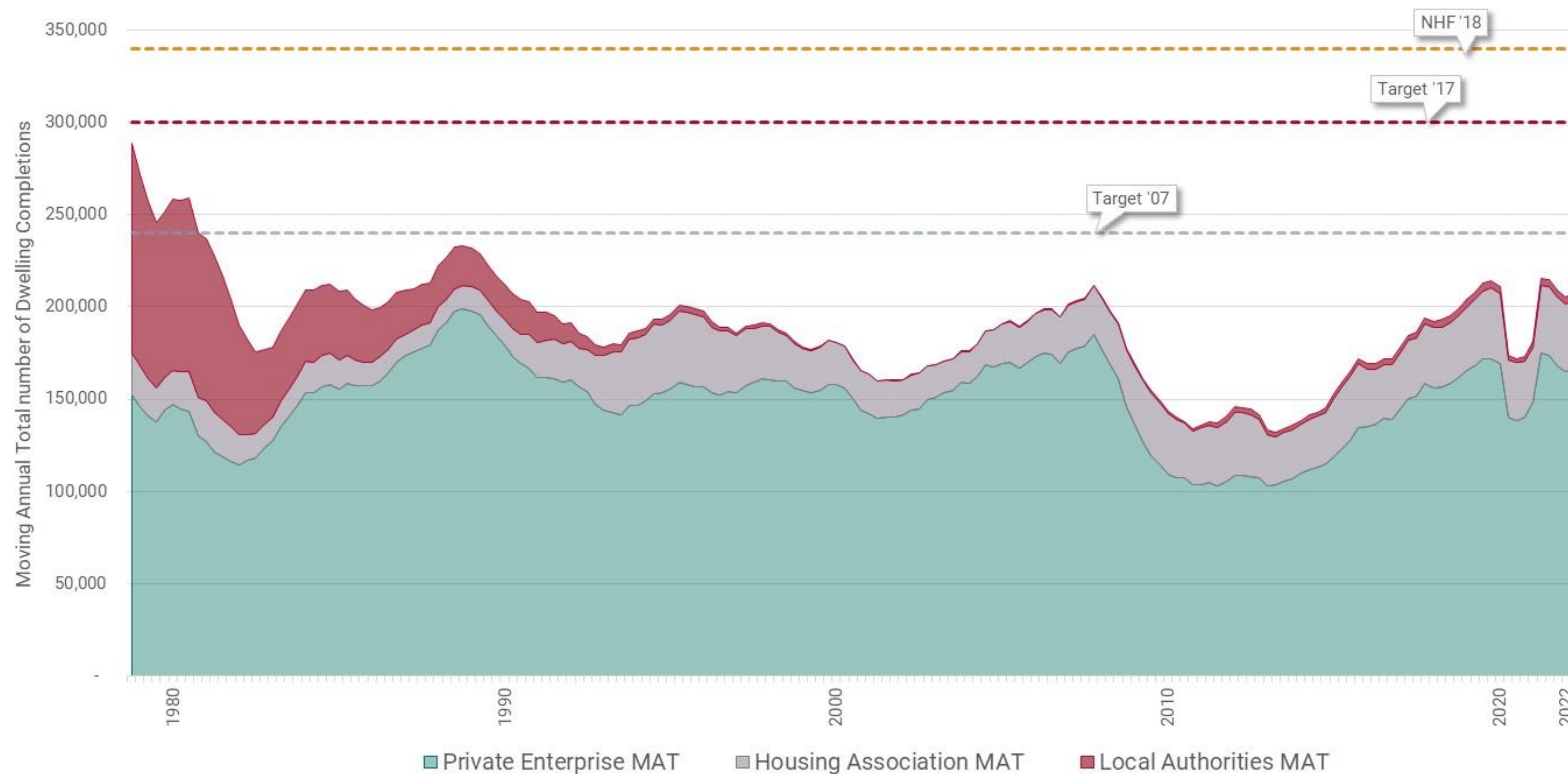
Management actions

Decisive action taken in response to challenging market backdrop

- Reduction in capacity whilst maintaining ability to supply a stronger market in the medium-term
  - Factory closure at Carluke
  - Mothballing clay tile capacity
  - Reduction in shifts
- Improving agility and reducing cost base with annualised cost reduction of around £9 million
  - Simplification of Marshalls' commercial function
  - Headcount reduction of 250 roles, in addition to 150 roles in H2 2022
- Managing cash and de-levering balance sheet
  - Reduction in capex spend to c.£19 million
  - Programme of surplus site sales expected to generate c.£7 million in 2023
  - Proactive working capital management to deliver strong cash conversion - LTM OCF%EBITDA of 105%
  - Pre-IFRS16 net debt year-on-year reduced by £23.6 million to £184.6 million at June 2023
- Group well positioned for when markets normalise

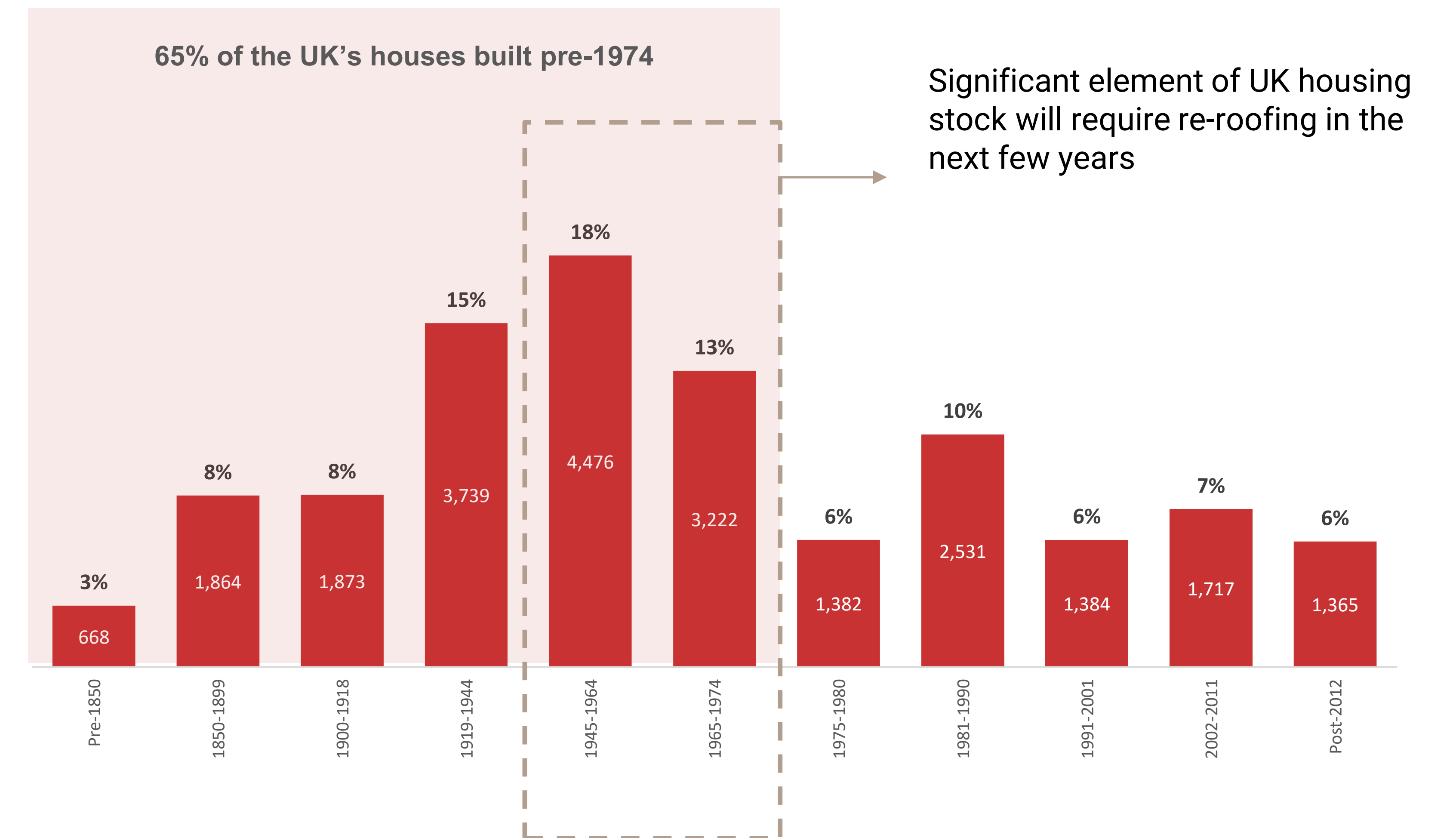
Structural under-investment in construction expected to drive medium-term market outperformance

House building volumes compared to government targets



Material structural deficit in new build housing

Age profile of UK housing stock



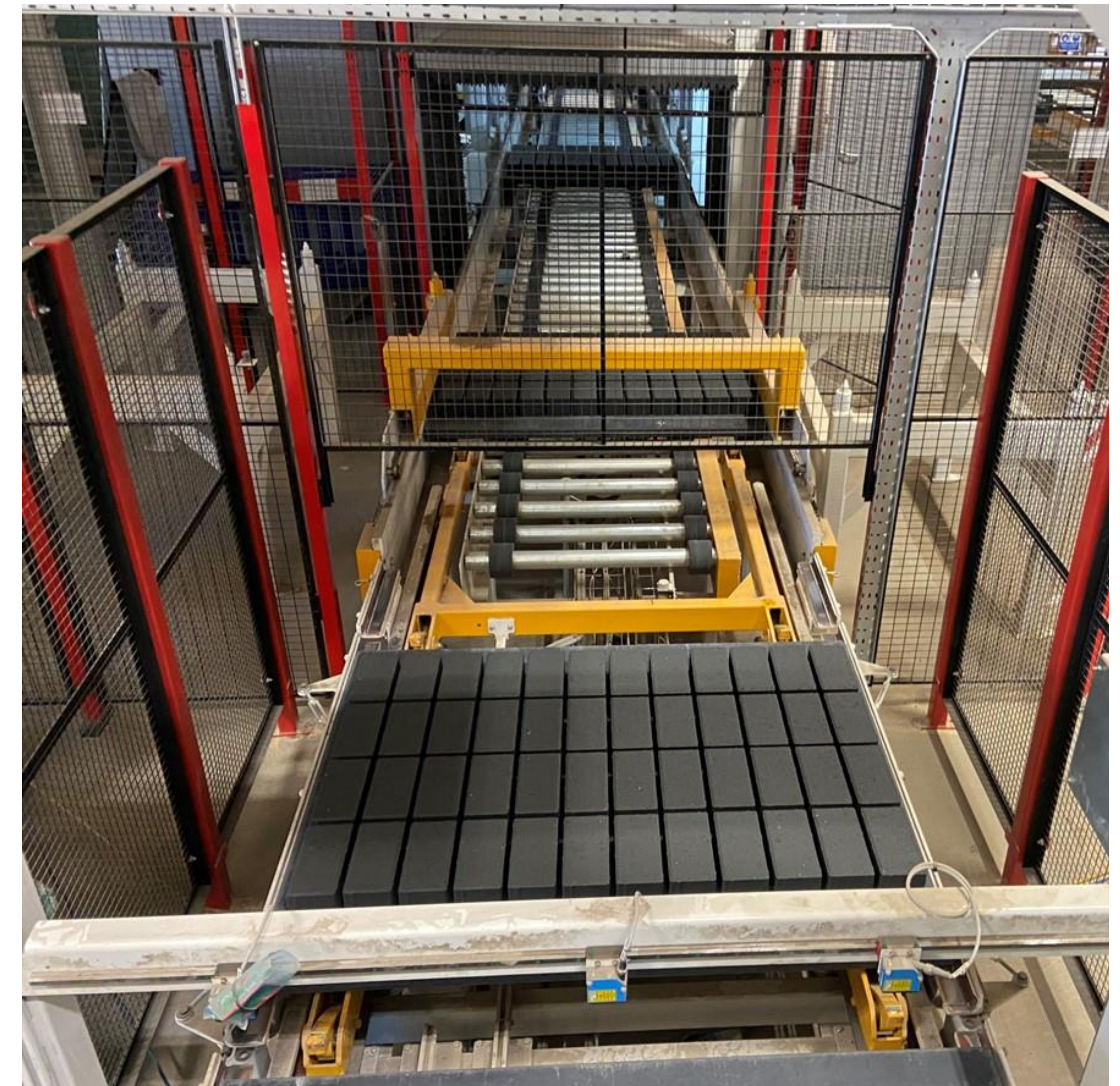
Significant element of UK housing stock will require re-roofing in the next few years

UK's housing stock continues to age, underpinning RMI demand going forward

Group well positioned for when markets normalise

Managing through the downturn and protecting medium-term capacity

- 2023 sales volumes forecast to be c.30 per cent below 2019
- Reduction in capacity mainly temporary – mothballed units can be recommissioned to meet demand
- Manufacturing capacity to produce volumes that are c.30 per cent higher than 2023 with limited increased staffing and investment
- Manufacturing sites are well invested and drop through margins adversely impacting current year results should reverse with higher volumes, supported by 2023 cost actions
- Recovery in volumes will have a significant positive impact on profitability



Group well positioned for when markets normalise

Return of sales volumes to c.10 per cent below 2019 has potential to double PBT

- 2023 consensus performance impacted significantly by weak market demand
- Operating leverage works positively as well as negatively
- Growth illustration assumes:
  - 20 per cent volume growth, leaving volumes c.10 per cent lower than 2019 actual
  - Drop through to operating profit of 42 per cent representing reversal of 2023 trend
- P&L account would be transformed in the illustration:
  - Profitability and earnings per share double
  - Operating margin increases to >15 per cent
  - ROCE approaching 15 per cent
- Proforma Group adjusted operating profit of £122 million and £118 million in 2021 and 2022, respectively

	Consensus	Illustrative growth	Illustration
Revenue	£673M	£135M	£808M
Adjusted operating profit	£71M	£57M	£128M
Adjusted PBT	£52M	£57M	£109M
EPS - pence	16p	17p	33p
Operating margin	11%	5%	16%

- Consensus represents 2023 average forecast from Numis and Peel Hunt

Ingredients in place to drive significant shareholder returns

Our key strategic goals define our medium-term targets

Execution of strategic goals delivers sustainable profit growth

- Group growth ahead of the market as structural under-investment addressed

Higher volumes and efficiency improvements drive margin recovery

- Group operating margin of c.15 per cent

Strong cash conversion

- Target of c.85-90% EBITDA converting to OCF

Capital discipline and financial flexibility

- Re-build ROCE to c.15 per cent
- Clear capital allocation priorities; 2x dividend cover

Financial performance

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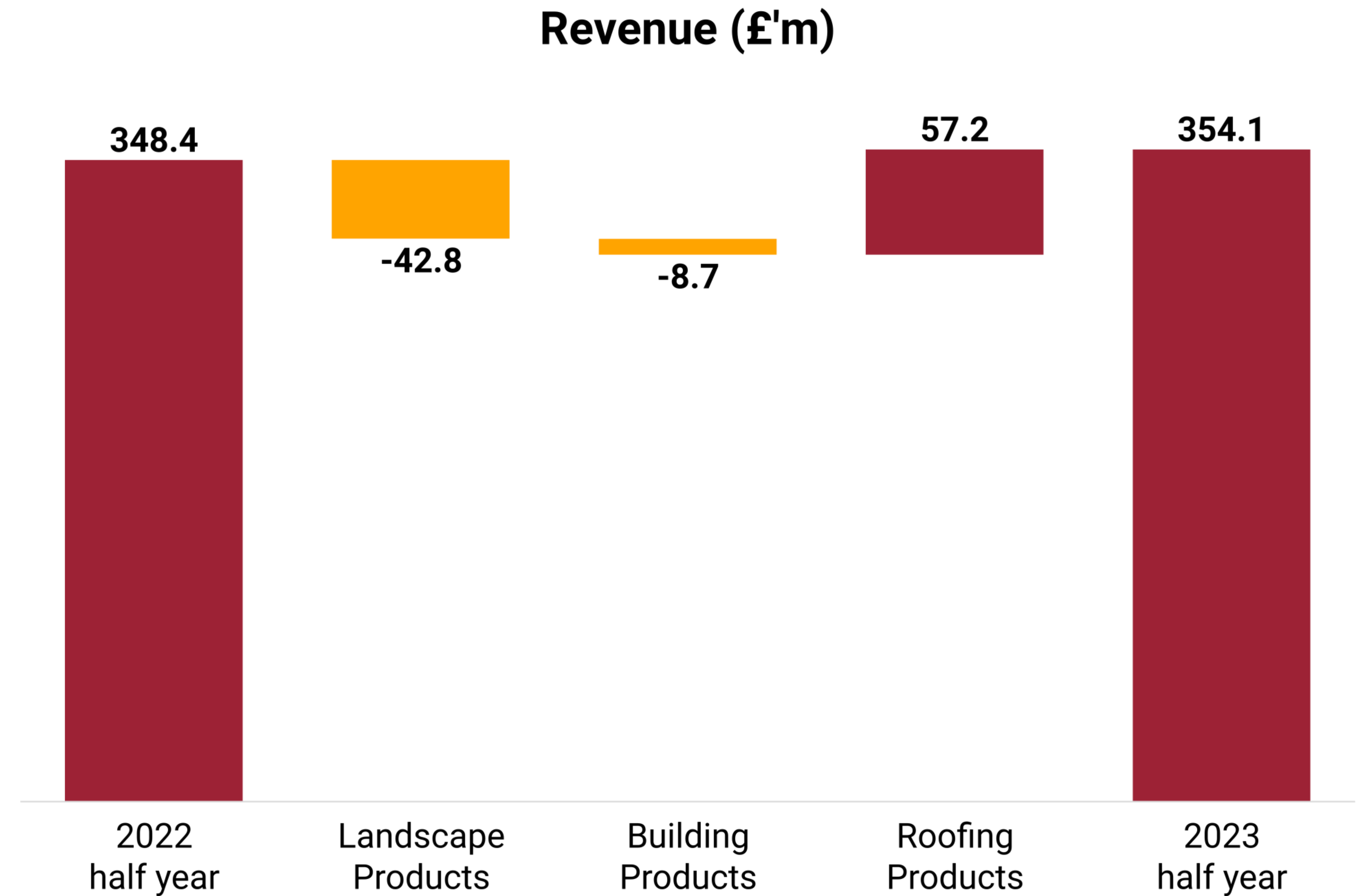
Group revenue

Revenue growth of two per cent, like-for-like revenue contracted by 13 per cent

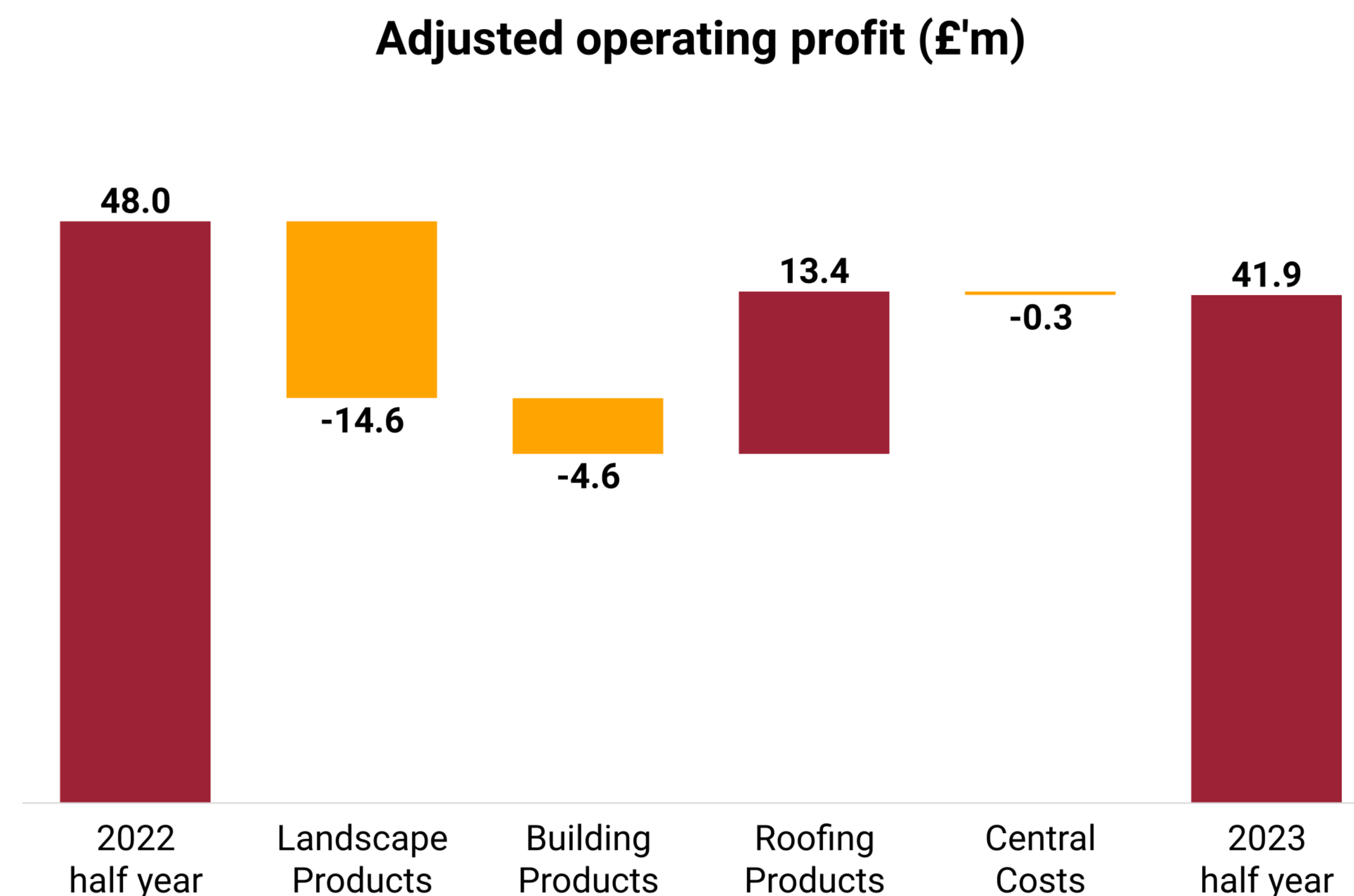
- Group revenue growth of 2 per cent including an additional 4 months of Marley
- On a like-for-like basis, Group revenue contracted by 13 per cent
- Marshalls Landscape Products' revenue contracted by 18 per cent on a like-for-like basis due to weak house building and RMI market
- Revenue from Building Products contracted by 9 per cent due to the weak new build housing activity
- Marley Roofing Products contributed £93 million of revenue, representing like-for-like contraction of 7 per cent. Weakness in new build housing was partially offset by Viridian Solar growth



Group adjusted operating profit

Contraction in adjusted operating profit driven by weaker market demand and reduced manufacturing efficiency

- Adjusted operating profit stated after adding back adjusting items of £15.1 million, of which £9.8 million are non-cash
- Adjusted operating profit contracted by £6.1 million driven by lower profitability in the Marshalls businesses partially offset by an additional 4 months of Marley
- Landscape Products and Building Products delivered lower adjusted operating profit with weaker volumes impacting gross profit and operational efficiency
- Group operating margin contracted by 2 ppts to 11.8 per cent reflecting adverse operating leverage in Marshalls partially offset by structurally stronger Marley margins
- Decisive action taken to reduce costs and capacity, delivering annualised savings of c.£9 million



Note: Details of adjusting items are set out on page 39

Marshalls Landscape Products

Lower demand from new build housing and private housing RMI impacts volumes and profitability

- Volumes adversely impacted by weak demand from new build housing and private housing RMI with commercial and infrastructure more robust
- Revenues contracted by 20 per cent year-on-year with demand weakest for domestic products. Like-for-like revenue contracted by 18 per cent adjusting for the disposal of the Belgian business
- Decline in segment operating profit of 49 per cent reflects lower sales and production volumes, impacting both gross margin and operational efficiency, and lower margins from Indian sandstone
- Operating margins adversely impacted by weaker volumes. Medium-term target to return segment operating margins to at least 15 per cent, when volumes normalise
- Decisive action taken to reduce capacity delivered annualised savings of around £7 million

	2023 £'m	Change
Revenue	174.1	20% ↓
Segment operating profit	15.4	49% ↓
Segment operating margin %	8.8%	5.0ppts ↓

- Comprises the Group's Commercial and Domestic landscaping business, Landscape Protection and International businesses

Marshalls Building Products

Weak new build housing activity reduced volumes and profitability

- Challenging trading conditions driven by weakness in new build housing reduced demand
- Revenue contracted by 9 per cent with a relatively strong performance from bricks and mortars and a weaker outturn from drainage and aggregates
- Lower sales volumes and reduced factory efficiency adversely impacted profitability
- Segment operating margin contracted by 4.0 ppts to 9.6 per cent
- Medium-term target to achieve segment operating margins of 15 per cent when volumes normalise
- Action taken to trim manufacturing output and reduce costs

	2023 £'m	Change
Revenue	87.2	9% ↓
Segment operating profit	8.4	35% ↓
Segment operating margin %	9.6%	4.0ppts ↓

- Comprises Civils and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregates businesses

Marley Roofing Products

Viridian Solar revenue growth partially offset weaker traditional roofing performance

- Challenging trading conditions particularly in new build housing resulted in 7 per cent contraction in revenues
- Strong growth from Viridian Solar partially offset weaker revenues in traditional roofing
- Segment operating profit contracted by 12 per cent to £22.0 million due to weaker traditional roofing volumes partially offset growing profitability of Viridian Solar
- Segment operating margins dipped by 1.2ppts and expected to be in the range of 20 to 25 per cent in the medium term
- Action taken in July to reduce costs and manage working capital levels by mothballing assets

	2023 £'m	Change
Revenue	92.8	7%* ↓
Segment operating profit	22.0	12%* ↓
Segment operating margin %	23.7%	1.2 ppts* ↓

- Comprises concrete and clay roof tiles, timber battens and integrated solar panels

*On a like-for-like basis

Adjusted profit before taxation and earnings per share

Profitability impacted by weak construction market

- Adjusted operating profit was £41.9 million, representing year-on-year contraction of 13% per cent
- Higher financing costs reflect the impact of additional debt used to part fund the acquisition of Marley and higher base rates
- c.55 per cent of term loan hedged at SONIA rate of 3 per cent plus the facility margin
- Adjusted profit before tax contracted by 26 per cent year-on-year to £33.2 million
- Adjusted effective tax rate of 23.2 per cent - higher than 2022 due to increase in UK headline rate
- Adjusted EPS contracted by 38 per cent due to weaker operating performance, higher finance costs, an uplift in the effective tax rate and an increase in the weighted average number of shares

	2023 £'m	Change
Adjusted operating profit	41.9	13% ↓
Finance costs	(8.7)	156% ↑
Adjusted profit before taxation	33.2	26% ↓
Effective tax rate (%)	23.2%	3.9 ppts ↑
Adjusted EPS – pence	10.2p	38% ↓

Note: Adjusted PBT stated after adding back adjusting items totaling £16.5 million; see page 39 for details

Cash flow

Strong management of cash delivers reduction in net debt

- Strong cash conversion with 105 per cent of adjusted EBITDA flowing into adjusted operating cash flow in the LTM due to strong management of seasonal working capital
- Finance and tax payments increased due to higher interest payments
- Cash flow from operating activities significantly improved year-on-year due to strong working capital management and lower adjusting items paid
- Net capex of £6.7 million comprises gross capex of £10.4 million less a £3.7 million benefit from site disposals
- Acquisition and disposal cash flows of £4.4 million: £3 million contingent consideration and impact of Belgian disposal of £1.4 million
- Reduction in net debt of £6.6 million compared to an increase of £211.2 million in 2022 following Marley acquisition.

	2023 £'m	2022 £'m	Change
Adjusted operating profit	41.9	48.0	(6.1)
Working capital and non-cash items	(1.5)	(20.4)	18.9
Finance cost and tax paid	(15.0)	(10.8)	(4.2)
Adjusting items paid	(1.6)	(15.0)	13.4
Cash flow operating activities	23.8	1.8	22.0
Net capex	(6.7)	(7.8)	1.1
Acquisitions and disposals	(4.4)	(195.5)	191.1
Other	(6.1)	(9.7)	3.6
Change in net debt	6.6	(211.2)	n/a

Funding and liquidity

Extension of medium-term funding, significant liquidity and covenant headroom

- £350 million of the Group's syndicated bank facility extended to April 2027, further securing medium-term funding
- Net debt at half year of £230.0 million (HY 2022: £252.3 million) and £184.6 million (2022: £208.2 million) on a pre-IFRS16 basis
- Cash generative features of the Group illustrated by £23.6 million reduction in pre-IFRS16 net debt since June 2022
- Comfortable headroom against covenants
  - EBITA: interest charge – 7.8 times (covenant = more than three times)
  - Net debt: adjusted EBITDA – 1.6 times (covenant = less than three times)
- Headroom against bank facilities of £117.5 million at June 2023 (June 2022: £80.2 million)

Note: Adjusted EBITDA is on a pre-IFRS16 basis and is stated after adding back adjusting items set out on page 39.

Ongoing capital discipline

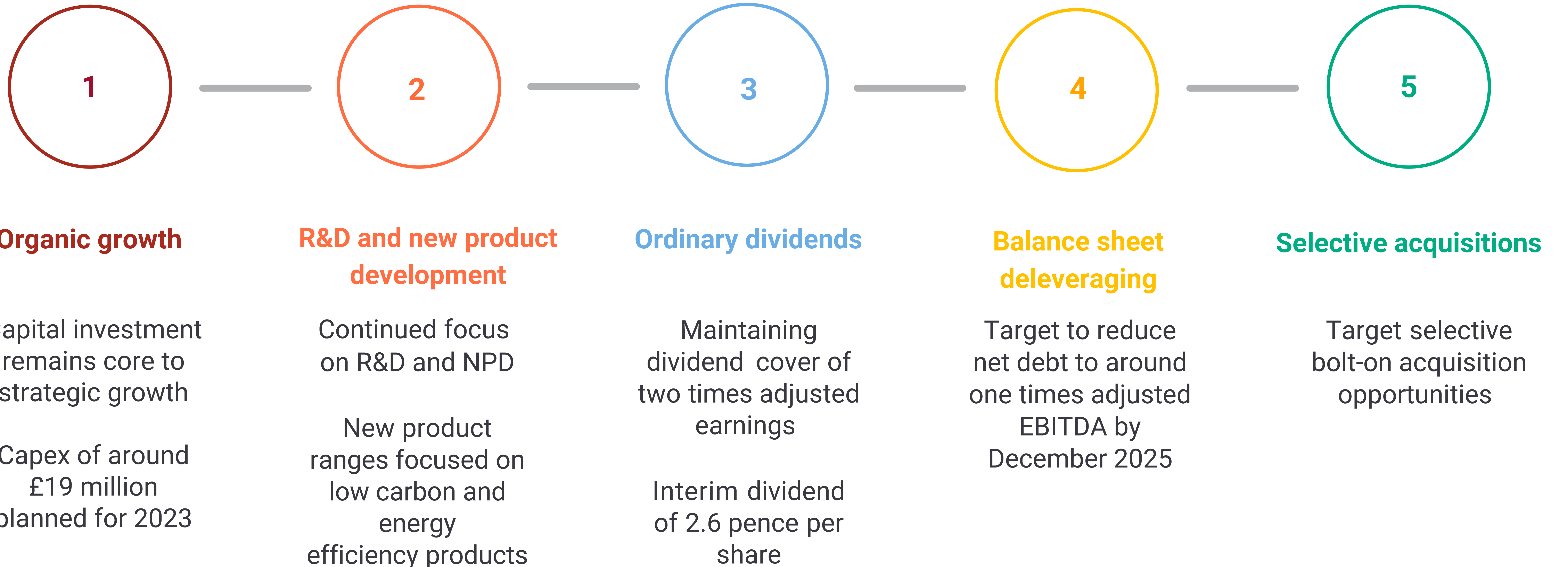
Good control of working capital; medium-term target to rebuild ROCE to c.15 per cent; progressive deleveraging

- Continued focus on maintaining capital discipline through active working capital management
- Return on capital employed of 10.6 per cent; medium-term target of around 15 per cent when market volumes recover
- Pre-IFRS 16 net debt to adjusted EBITDA of 1.6 times
- Net debt reduced by £23.6 million year-on-year. Cash generative nature of business model will support progressive deleveraging
- Strong balance sheet with significant land asset backing and net assets of £680 million

	2023	Change
Debtor days	48 days	1 day ↓
Creditor days	55 days	4 days ↓
Inventory turn (times per annum)	2.8X	0.1X ↓
LTM adjusted ROCE	10.6%	2.8ppts ↓
Net debt to adjusted EBITDA leverage	1.6X	0.2X ↑

Capital allocation policy

Clear and unchanged policy



Strategy

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Our Purpose and Strategic Goal

Our Purpose

To create better places

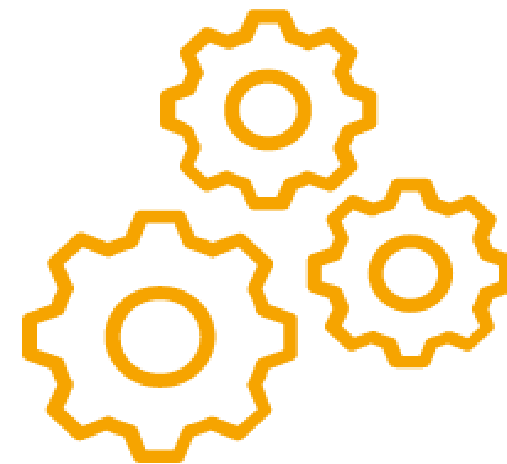
Our Strategic Goal

To be the UK's
leading manufacturer of sustainable solutions
for the built environment

Group key strategic objectives

Obtain and deliver specifications for products and solutions to grow revenues and profitability

Innovate and optimise products and solutions



Improve our cost effectiveness, capital efficiency and flexibility

Operate in an environment where safety and people are a key priority

Be easy to work with

Obtain and deliver specifications for our products and systems to grow revenues and profitability

Secure specifications to create demand for our products and systems to optimise market share

Building Products seeks to generate demand for its solutions through established partnerships underpinned by design. It also seeks to generate demand from UK house builders

Roofing Products leverages the breadth of its products range to provide full roof system specifications supported by a 15-year warranty. Viridian Solar provides site layout and solar design services for house builders

Landscape Products secures pull demand from commercial specifiers at the contract design phase and domestic specifications through the Marshalls Register and investment in visualisation software

Introducing our Outdoor Reality app

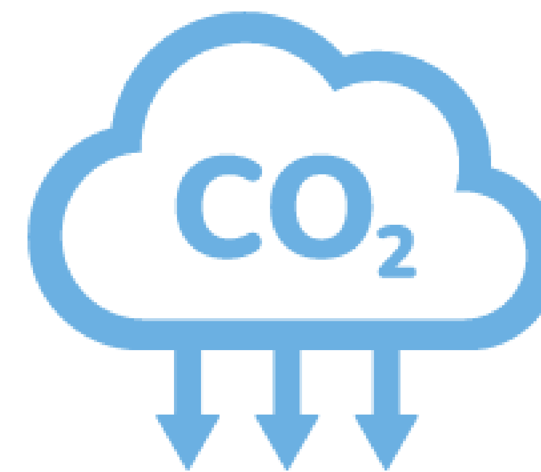
See Video link here

Innovate and optimise our products and solutions

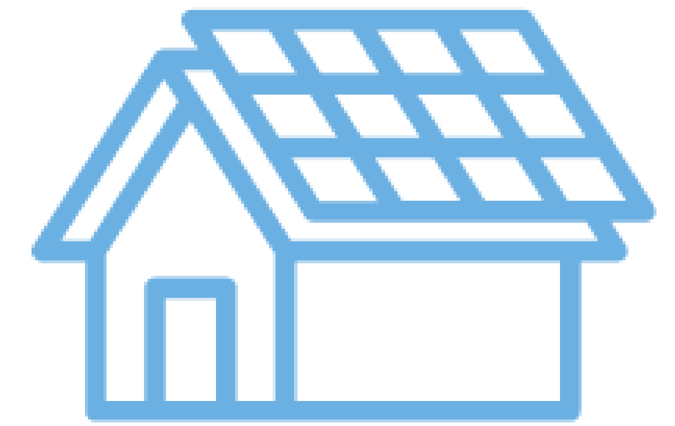
New product development to improve our product mix and generate competitive advantage through innovation, with an emphasis on reducing embodied carbon

Commercialised ESG credentials - environment performance declarations available for c.80 per cent of Group's product range

Dual block plant will manufacture wide range of innovative paving products with lower carbon footprint than imported products



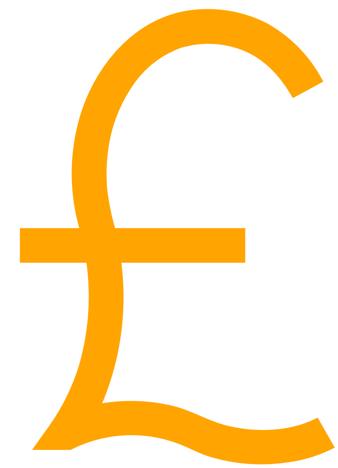
CarbonCure Technology being used to sequester carbon at a concrete brick factory. Rollout of lower cement content mix running to plan



Viridian Solar has launched its most powerful solar panel and ArcBox, an innovative fire safety enclosure for solar rood systems

Improve our cost effectiveness, capital efficiency and flexibility

To deliver cost base optimisation and flexibility, maximise returns from efficiency and strategic capex and optimise investment in working capital



Restructuring removed an annualised c.£9 million from the cost base. Options to build more flexibility in labour under discussion

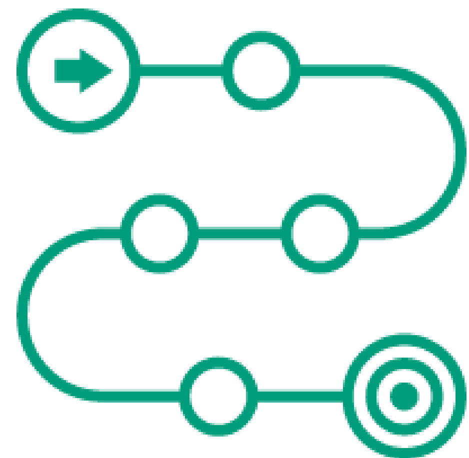
Capacity reduced but capability exists to increase shift patterns and recommission assets as demand improves

Capital expenditure plans focus on commissioning the dual block plant, efficiency capex and maintaining existing capital base

Working capital being activity managed with reduced output in second half to manage inventory

Operate in an environment where safety and people are key priorities

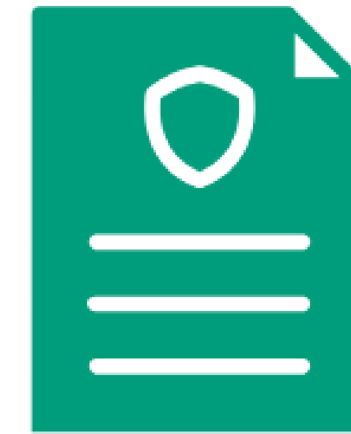
We will continue to ensure the work environment is safe and foster a culture and environment of diversity, equity, respect, inclusion and engagement



Clear roadmap for keeping colleagues safe with focus on continuous improvement

Employee voice group provides strong channel for engagement and feedback

Group-wide employee engagement surveys create priorities for further improvement activities



Group Code of Conduct refreshed and being rolled out with training

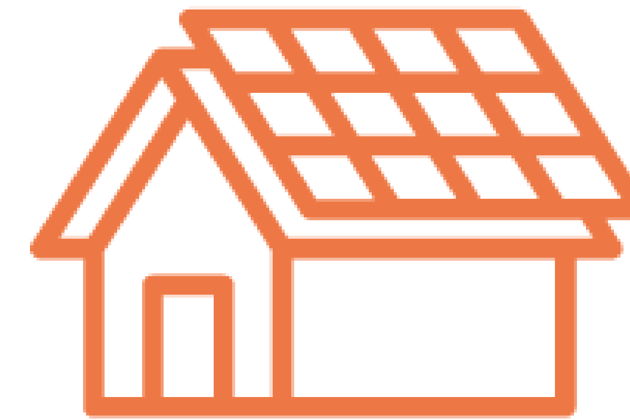
Continued investment in apprenticeships and learning and development

Be easy to work with

Improve the customer experience by simplifying process and touchpoints, particularly through technology

Shifting transactions to EDI, ordering apps and dropship

Migrating Marshalls' business systems to the cloud whilst simplifying and digitising processes to improve efficiency



Introducing a digital channel in roofing products to sell a range of products direct to the end user

Rolling out visualisation software and paving installer technology, so customers can better visualise products in domestic and commercial projects

Summary and outlook

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Summary and outlook

Challenging market conditions, decisive management action taken, well positioned for when markets normalise

- Weaker market demand and volumes adversely impacted financial performance in H1
- Decisive management action to reduce capacity and the cost base
- Reduction in pre-IFRS16 net debt in H1 driven by strong management of cash
- Market conditions in H2 not expected to improve materially
- The medium-term outlook for the UK construction market is positive with strong structural growth drivers
  - Structural deficit in new build housing
  - Ageing housing stock that requires RMI activity
  - The need to continue improving UK infrastructure
- The Group is well positioned to benefit from these drivers when market conditions improve
- Latent capacity in manufacturing network to supply materially higher volumes than 2023 market demand
- Significant operational leverage expected to positively impact profitability when volumes normalise

Question & Answers

Appendices

Results summary

Weak construction market results in reduced demand and contraction in profitability

	2023	2022	Change %
Revenue	**£354.1m**	£348.4m	2%
Adjusted results			
Adjusted EBITDA	**£58.8m**	£64.2m	(8%)
Adjusted operating profit	**£41.9m**	£48.0m	(13%)
Adjusted profit before tax	**£33.2m**	£44.6m	(26%)
Adjusted basic EPS	**10.2p**	16.4p	(38%)
Proforma ROCE (%)	**10.6%**	13.4%	(21%)
Net debt	**£230.0m**	£252.3m	9%
Net debt (pre-IFRS 16)	**£184.6m**	£208.2m	11%
Statutory results			
Operating profit	**£26.8m**	£27.3m	(2%)
Profit before tax	**£16.7m**	£23.9m	(30%)
Basic EPS	**5.2p**	7.9p	(34%)

Note: Adjusted operating profit and adjusted PBT after adding back adjusting items totaling £15.1 million and £16.5 million, respectively. See page 39 for details.

Adjusted profit before taxation and earnings per share

Bridge of reported result to adjusted result

£'m	**2023 Reported**	**2023 Adjusting**	**2023 Adjusted**	2022 Reported	2022 Adjusting	2022 Adjusted
Operating profit	**26.8**	**15.1**	**41.9**	27.3	20.7	48.0
Net finance costs	**(10.1)**	**1.4**	**(8.7)**	(3.4)	–	(3.4)
Profit before taxation	**16.7**	**16.5**	**33.2**	23.9	20.7	44.6
Taxation	**(3.8)**	**(3.9)**	**(7.7)**	(6.5)	(2.07)	(8.5)
Profit after taxation	**12.9**	**12.6**	**25.5**	17.4	18.7	36.1
Earnings per share – pence	**5.2p**	**5.0p**	**10.2p**	7.9p	8.5p	16.4p

Note: PBT stated after adding back adjusting items totaling £16.5 million; see page 39 for details

Adjusting items charged to profit before taxation

	2023 £'m	2022 £'m
1. Amortisation of acquired intangible assets	**5.2**	2.1
2. Restructuring charges	**9.3**	-
3. Additional contingent consideration	**1.2**	-
4. Disposal of Marshalls NV	**(0.6)**	-
5. Transaction-related costs	**-**	14.7
6. Fair value adjustment to inventory	**-**	3.9
Total adjusting items within operating profit	**15.1**	20.7
7. Adjusting items within finance costs	**1.4**	-
Total adjusting items	**16.5**	**20.7**

Notes:

1. Amortisation of intangible assets principally in relation to the values recognised for the Marley brand and its customer relationships
2. Restructuring charges comprise asset impairment charges, redundancy costs and other site closure costs
3. 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
4. Profit of sale of the Group's interest in its former Belgian subsidiary
5. Transaction costs comprise transaction and professional fees arising on the acquisition of Marley Group plc
6. The unwind of the inventory fair value adjustment relates to the fair value uplift of the inventory as part of the Marley acquisition that was subsequently sold
7. Non-cash finance charge arising from decision to augment pensioner benefits to avoid hardship following a review of historical benefit issues

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