Marshalls plc 2018
Results Review and Outlook

Delivering long-term sustainable growth

Marshalls

Agenda

Delivering long-term sustainable growth

- Highlights
- Financial Performance
- The Market
- Delivering Sustainable Growth
  - Public Sector and Commercial
  - Domestic
  - Emerging UK Businesses
- Strategy Update
- Digital
- New Product Development
- Self Help Investment
- Acquisitions
- Summary
- Questions

Find out more online
www.marshalls.co.uk

Find us on Facebook
MarshallsGroup

Follow us on Twitter
@MarshallsGroup

Follow us on LinkedIn
Marshalls

Follow us on YouTube
MarshallsTV

Delivering long-term sustainable growth

Highlights

	2018	2017	Increase %
Revenue	**£491.0m**	£430.2m	14
EBITDA	**£80.8m**	£67.9m	19
Operating profit	**£64.8m**	£53.4m	21
Profit before tax	**£62.9m**	£52.1m	21
Basic EPS	**26.29p**	21.52p	22
Total dividends – ordinary and supplementary	**16.00p**	14.20p	13
Final ordinary dividend – recommended	**8.00p**	6.80p	18
Supplementary dividend – recommended	**4.00p**	4.00p	-
ROCE (reported basis)	**21.9%**	20.8%	+110 basis points
Net debt	**£37.4m**	£24.3m	

Delivering long-term sustainable growth

Strong track record

	2018	2013	5 year CAGR %
Revenue	**£491.0m**	£307.4m	+10
EBITDA	**£80.8m**	£30.2m	+22
Operating profit	**£64.8m**	£16.1m	+32
Profit before tax	**£62.9m**	£13.0m	+37
Basic EPS	**26.29p**	6.94p	+31
Total dividends – ordinary and supplementary	**16.00p**	5.25p	+25
ROCE	**21.9%**	8.1%	+22
Net debt / EBITDA	**0.46**	1.18	

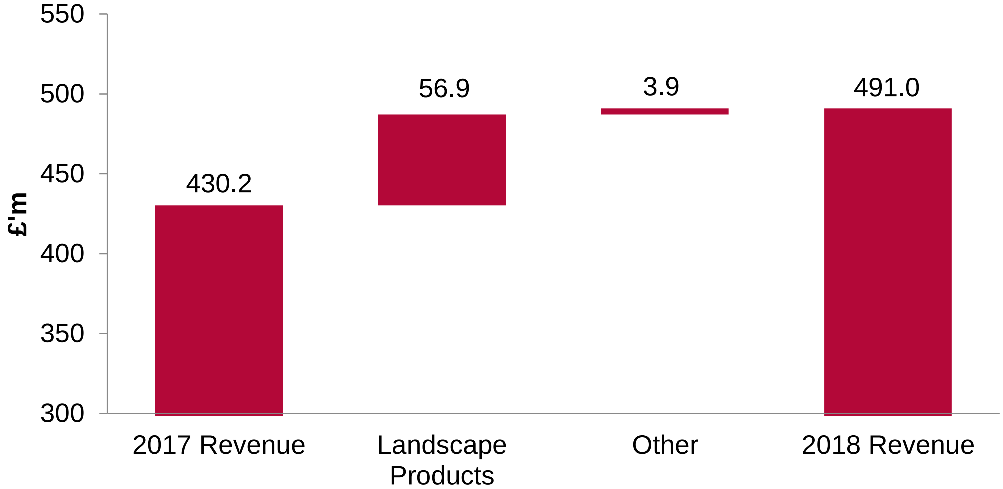
Marshalls

Financial Performance

Full Year 2018 Results

Delivering long-term sustainable growth

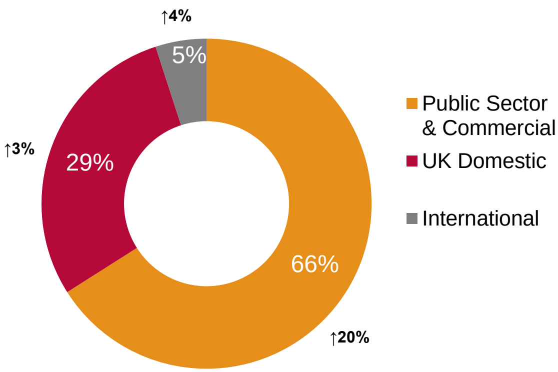
Revenue growth



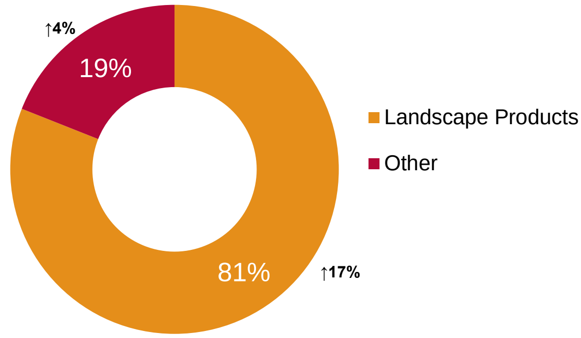
Delivering long-term sustainable growth

Revenue analysis

Revenue analysis: end market



Revenue analysis: business area



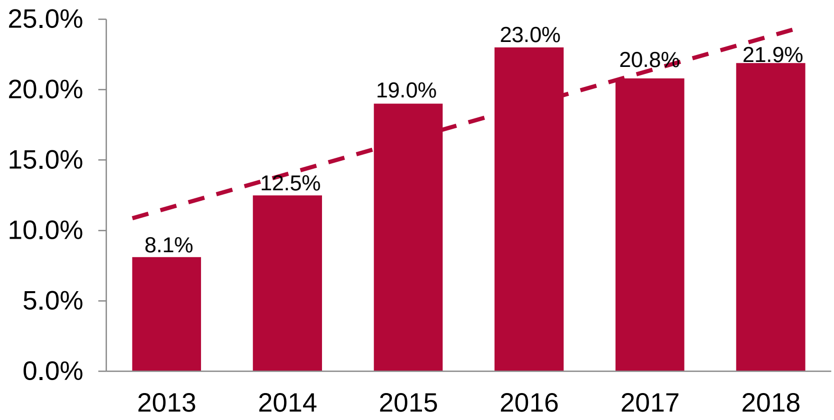
Delivering long-term sustainable growth

Margin reconciliation

	Revenue £m	Operating profit £m	Impact on margin %
2017	430.2	53.4	12.4
Landscape Products	56.9	8.1	0.2
Other	3.9	3.3	0.6
2018	**491.0**	**64.8**	**13.2**

Delivering long-term sustainable growth

Return on capital employed – reported basis



ROCE : CAGR of 22% over 5 years

Delivering long-term sustainable growth

Cash flow from operating activities

	2018 £m	2017 £m
Cash inflow arising from:		
Operating profit	**64.8**	53.4
Depreciation and amortisation	**16.0**	14.5
EBITDA	**80.8**	67.9
Net financial expenses paid	**(1.3)**	(0.9)
Taxation paid	**(9.9)**	(10.5)
Net gain on sale of property, plant and equipment	**(0.7)**	(0.9)
Receivables / payables	**-**	5.0
Inventory	**(4.3)**	(4.3)
Acquisition / restructuring costs	**(1.8)**	(1.4)
Equity settled share-based payments and other items	**0.5**	2.4
Net cash flow from operating activities	**63.3**	57.3
Operating cash flow / EBITDA	**92%**	101%

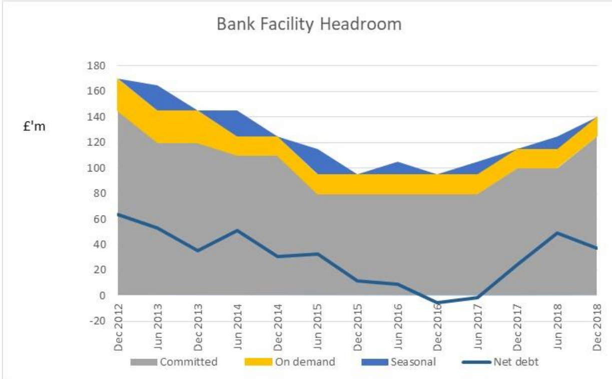
Delivering long-term sustainable growth
Cash flow

	2018 £m	2017 £m
Net cash flow from operating activities	**63.3**	57.3
Capital expenditure	**(29.2)**	(20.7)
Net proceeds from sale of property, plant and equipment	**1.6**	3.9
Acquisition of subsidiary undertaking	**(16.4)**	(44.5)
Dividends paid	**(29.2)**	(24.1)
Share issues / purchases	**0.6**	(1.1)
Payments in respect of share based awards	**(3.7)**	-
Movement in net debt	**(13.0)**	(29.2)
Foreign exchange	**(0.1)**	(0.5)
Net debt at 1 January	**(24.3)**	5.4
Net debt at 31 December	**(37.4)**	(24.3)

Delivering long-term sustainable growth

Significant borrowing facilities available

	Facility £m	Cumulative Facility £m
Expiry date		
Committed facilities:		
Q1 2024	25	25
Q3 2023	20	45
Q3 2022	20	65
Q3 2021	20	85
Q3 2020	20	105
Q3 2019	20	125
On demand facilities:		
Available all year	15	140
Seasonal (February to August inclusive)	10	150



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

Delivering long-term sustainable growth

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 £23m in 2019	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

Delivering long-term sustainable growth

Bank debt capacity

- Continued strong cash generation
- Net debt of £37.4 million at 31 December 2018 (2017: £24.3 million) reflecting cash outflow relating to the Edenhall acquisition of £16.4 million, increased capital expenditure and increased dividend
- Bank debt capacity of £150 million
- Significant capacity to fund organic investment and selective acquisitions
- Transition to IFRS 16 will bring a right of use asset (expected to be between £42 million and £47 million) and a financial lease liability (expected to be between £44 million and £51 million) onto the balance sheet as at 1 January 2019. Further details are contained in the appendices

Delivering long-term sustainable growth

Strong track record of capital discipline

	2018	2017	2016	2015	2014
ROCE	**21.9%**	20.8%	23.0%	19.0%	12.5%
Debtor days	**43**	41	39	39	38
Creditor days	**61**	58	56	53	59
Inventory turn (times per annum)	**3.4**	3.3	3.3	3.2	3.0
Liquidity ratio (current assets: current liabilities)	**1.6**	1.6	1.6	1.6	1.6
Gearing	**14.0%**	10.2%	N/A	6.0%	16.8%
Net (debt) / cash	**£(37.4)m**	£(24.3)m	£5.4m	£(11.5)m	£(30.5)m
Net assets	**£266.7m**	£237.6m	£217.1m	£192.7m	£181.9m

Delivering long-term sustainable growth

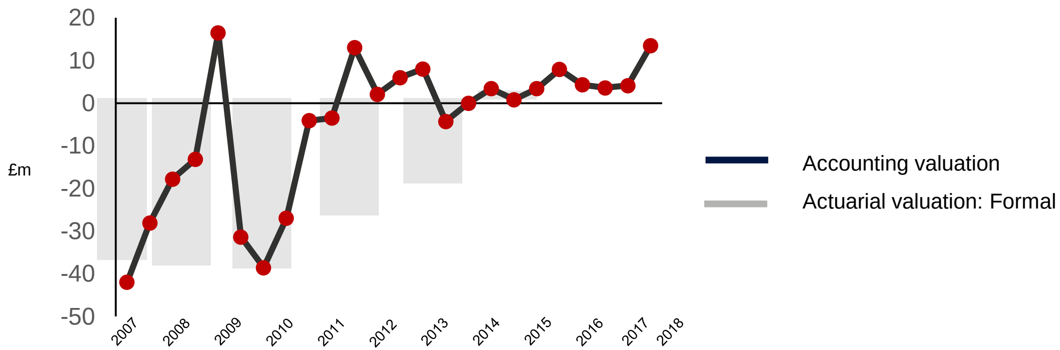
Pensions

Balance Sheet

- Company contributions to Defined Benefit Scheme reduced to zero under agreed Recovery Plan
- 31 December 2018 surplus of £13.5 million (2017: surplus of £4.1 million)
- Following the High Court ruling in the Lloyds Banking case, Scheme liabilities have been increased by approximately £1.5 million for GMP equalisation

Income Statement

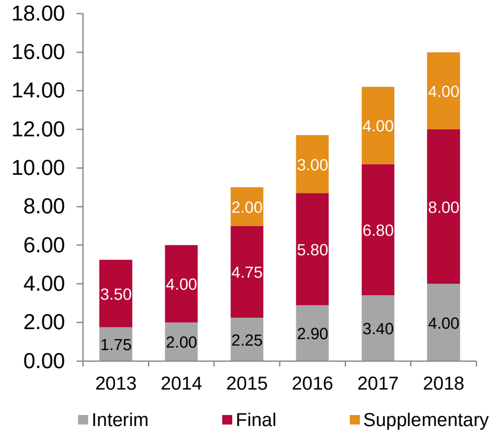
- Scheme closed since 2006 to future accrual
- Net service cost: £0.5 million debit (2017: £0.4 million debit)
- Looking to "transfer out" long term



Delivering long-term sustainable growth
Dividends

- Progressive ordinary dividend policy
- 2018 dividends
  - Interim and final [1] 12.0p (+18%)
  - Supplementary [1] 4.0p
  - Total 16.0 (+13%)
- Supplementary dividend: discretionary and non-recurring
- Dividend cover
  - Interim and final 2.2x 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

[1] Proposed payment subject to AGM approval



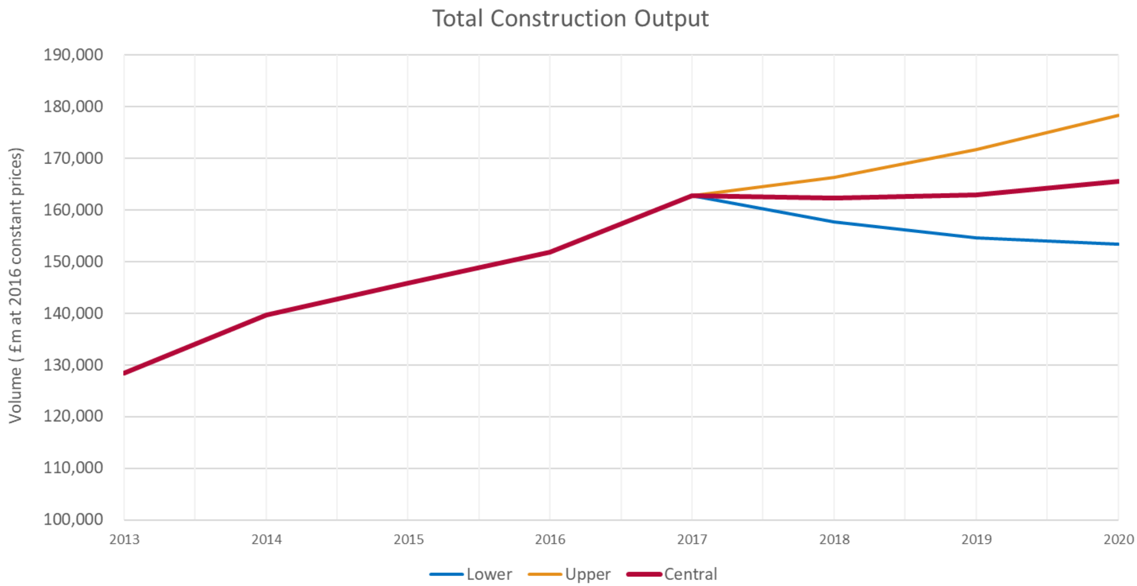
Marshalls

The Market

Full Year
2018 Results

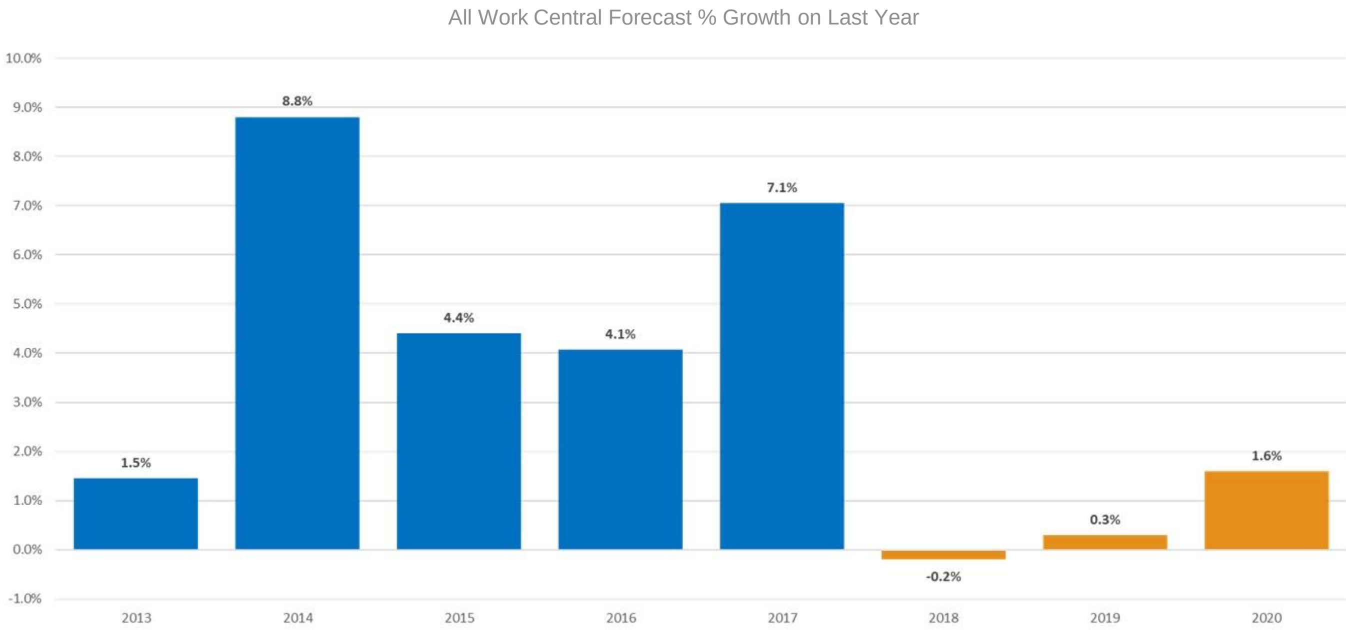
Delivering long-term sustainable growth

CPA construction sector forecasts



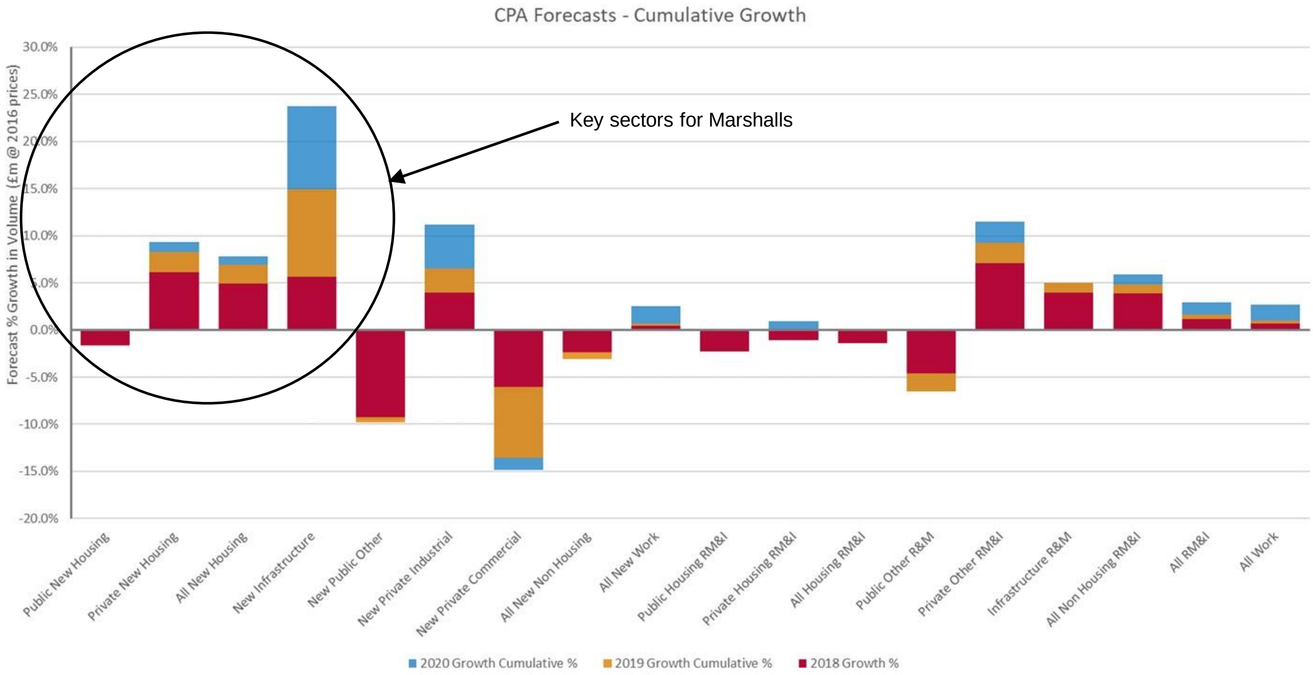
Delivering long-term sustainable growth

CPA construction output forecasts - Winter 2018



Delivering long-term sustainable growth

CPA sector cumulative forecasts MAT



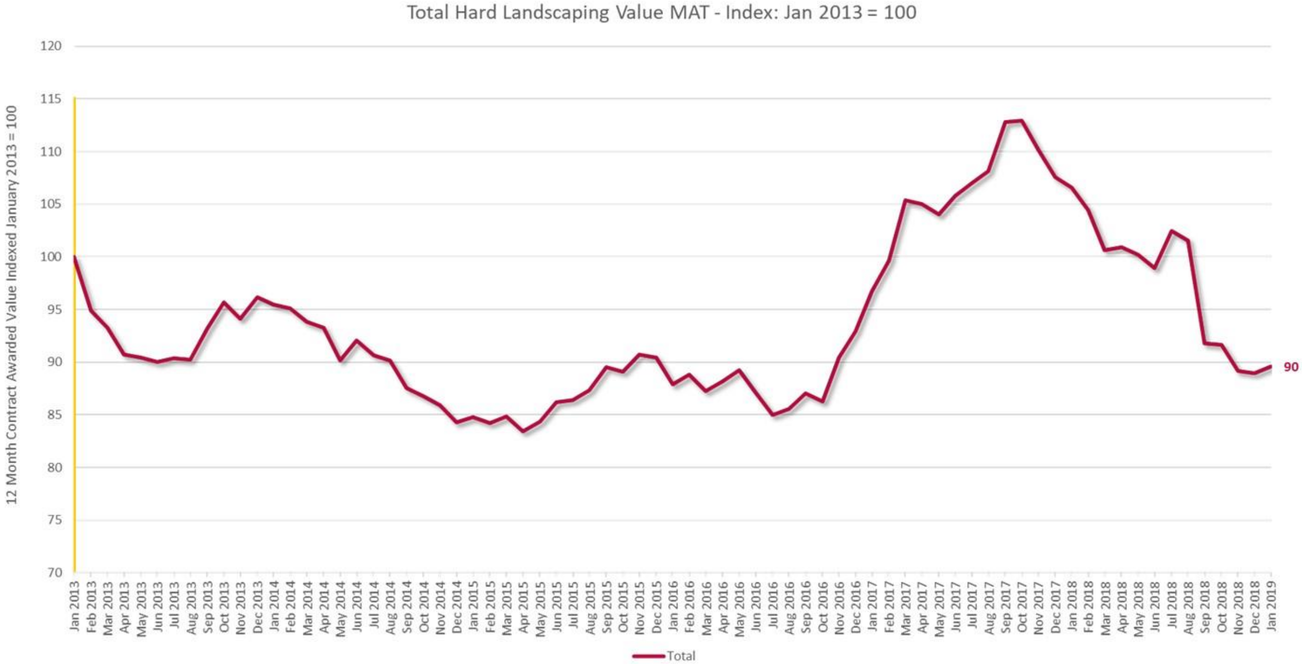
Marshalls

Public Sector & Commercial

Full Year
2018 Results

Delivering long-term sustainable growth

ABI projects awarded



Delivering long-term sustainable growth

Housing deficit

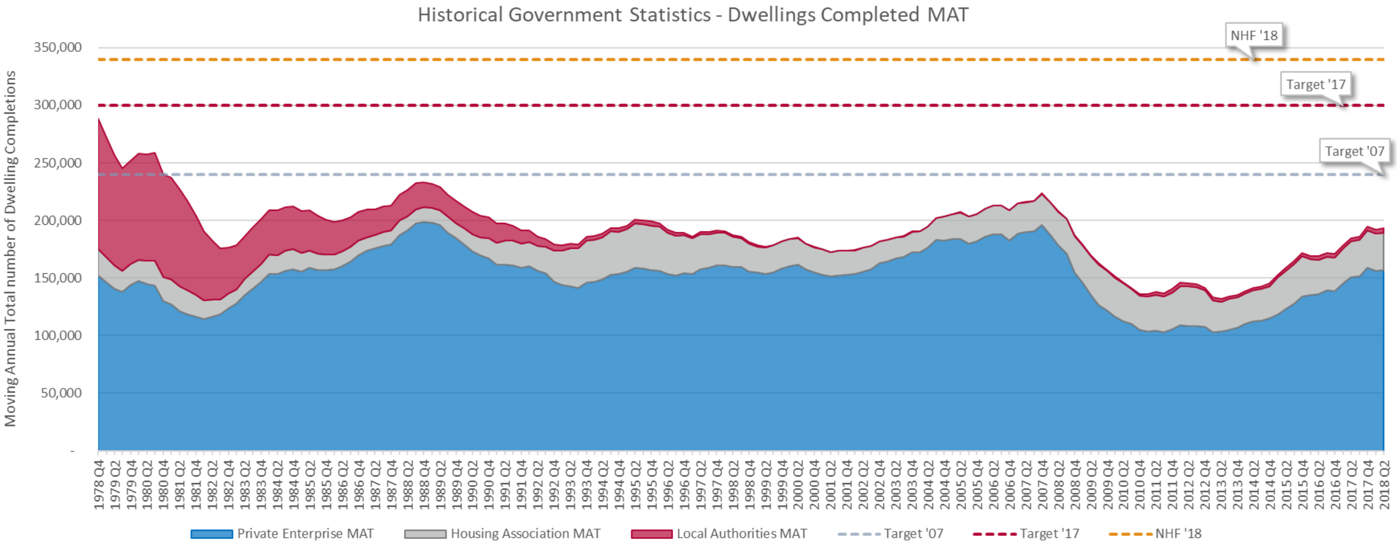
Housing Completions ▲1% in 2019 to 191,000 *(CPA)*

▼860,000 deficit since the 2007 target was set.

2 million deficit since 1980 when the target was last surpassed.

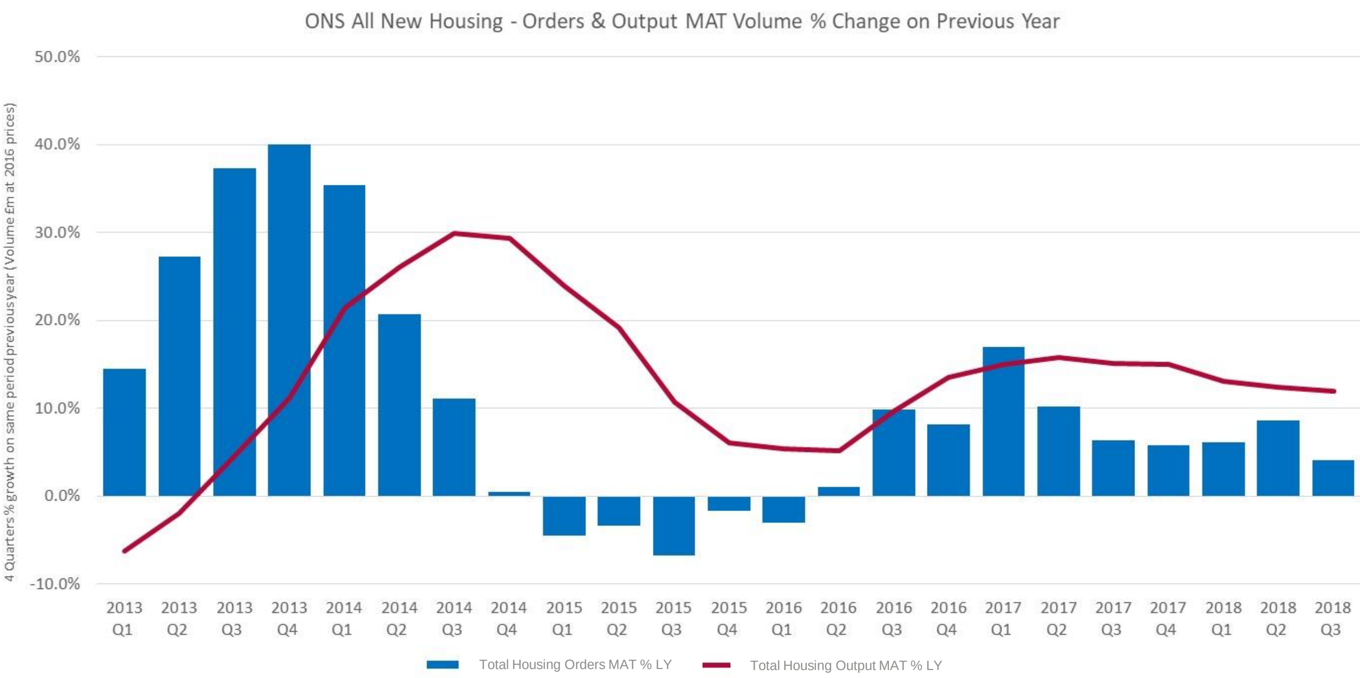
In 2017, the target was increased to 300,000 new homes per year.

FT 8th January 2019: *"Cross Party Commission urges +3.1 million new"Social" homes over next 20 years"* = extra 155,000 per year



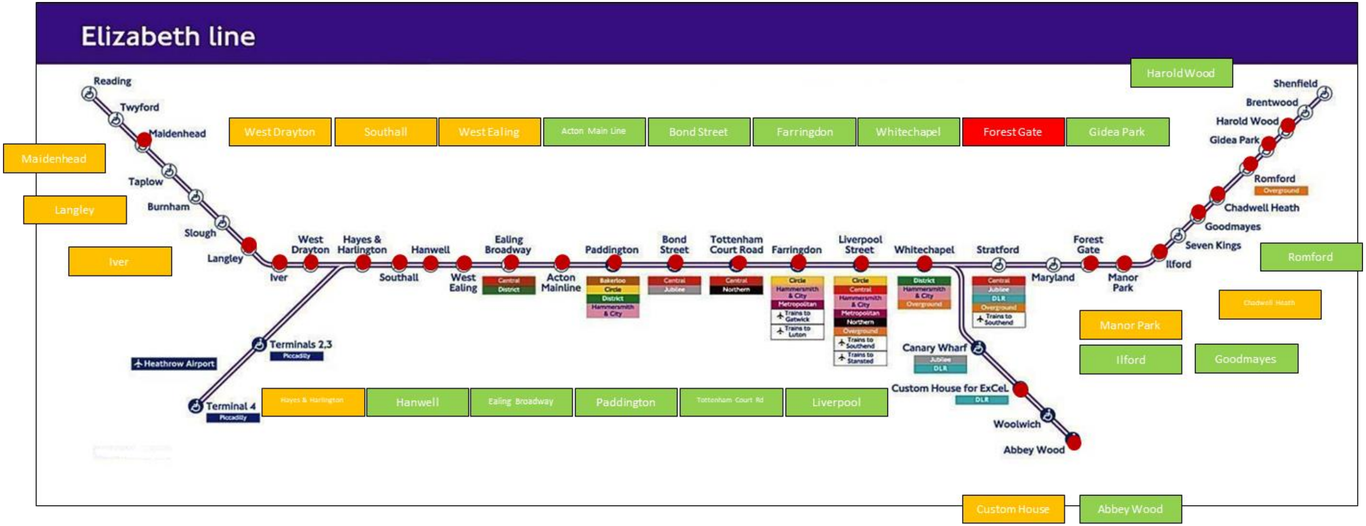
Delivering long-term sustainable growth

ONS total new housing orders and output



Delivering long-term sustainable growth

Cross Rail / Elizabeth line progress



Non Station activity around the Elizabeth Line

- Burnham West
- High Street
- Seven Kings
- Plumstead Sidings
- Victoria Dock
- Pudding Mill Lane
- Oak Old Common
- Seating
- North East Section
- Outer West Section
- Westbourne Park
- Kensington Park

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

Crossrail

Delivering long-term sustainable growth

Placemaking and pedestrianisation

Well-planned regeneration of the public realm can boost commercial trade by up to 40%*

• Stoke-on-Trent	Pedestrian-friendly project led to 30% more footfall
• Sheffield	Improvements to Peace Gardens lead to a 35% increase in footfall in the City Centre
• Coventry	Pedestrianisation improvements credited with a 25% rise in footfall
• Manchester	Altrincham saw footfall increase by 25% between 2010-17
• London	Wanstead High Street achieved an average increase of 98% in pedestrian numbers
• Birmingham	17 acre Paradise Circus development commenced in 2014
• Liverpool	Bold Street & other “rope walks” to be added to pedestrian area 2018/19

**Living Streets – The Pedestrian Pound*

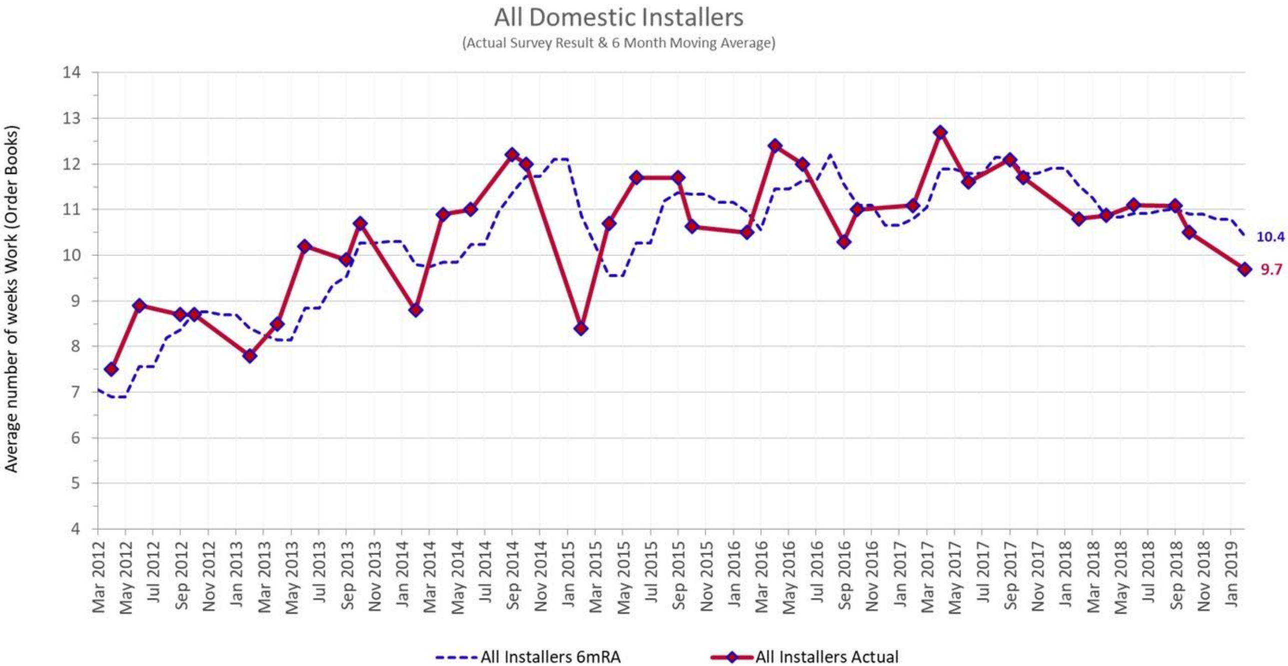
Marshalls

Domestic

Full Year
2018 Results

Delivering long-term sustainable growth

Domestic installer order books



Delivering long-term sustainable growth

Consumer project funding

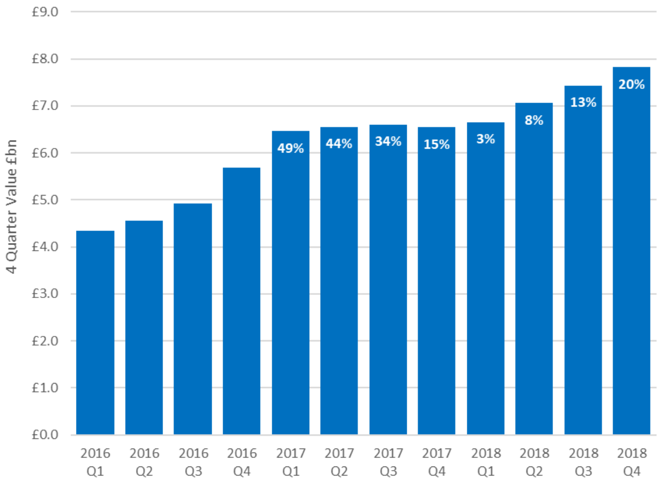
Over 55s Pension Withdrawals

▲20% to £7.8bn in 12 months to 2018 Q4

1 million individuals = £7,800 each

MAT Value of Flexible Payments from Pensions

(Lables are growth on Same Qtr Previous year)



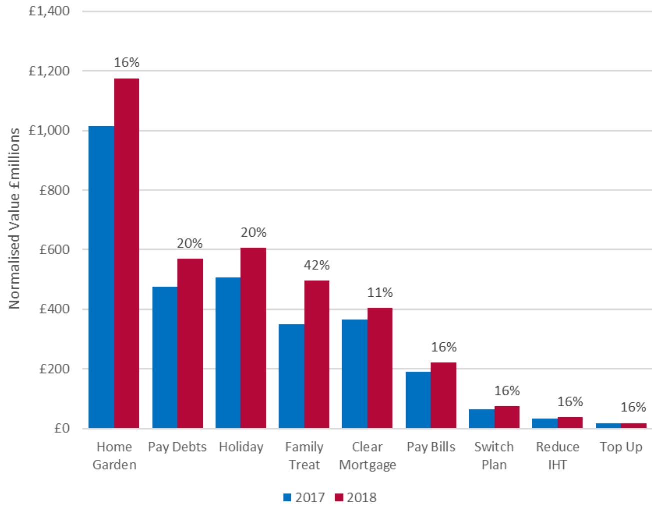
Over 55s Equity Release

▲16% to £1.2bn on Home Improvements

£3.6bn released in 2018, 64% planning Home & Garden improvements

Over 55s Equity Release Normalised

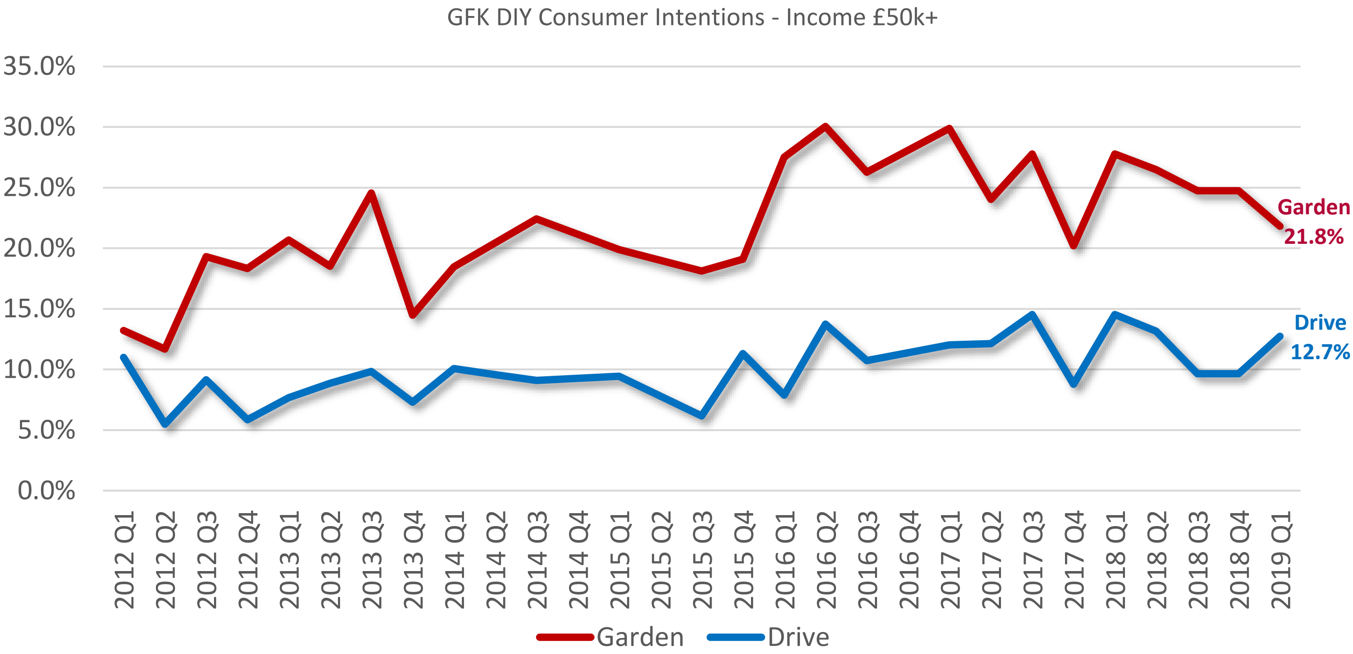
(Labels are Growth v LY)



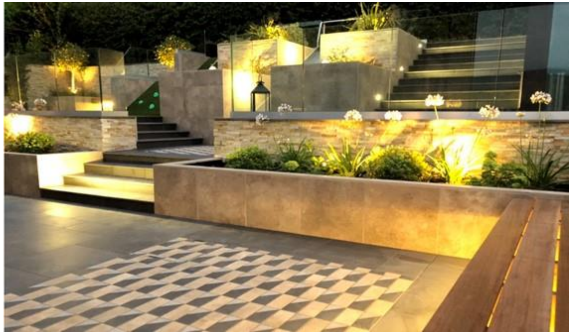
Delivering long-term sustainable growth

Consumer intentions

Which of the following improvements are you likely to make to your home over the next 12 months?



Delivering long-term sustainable growth
Marshalls Register awards 2019

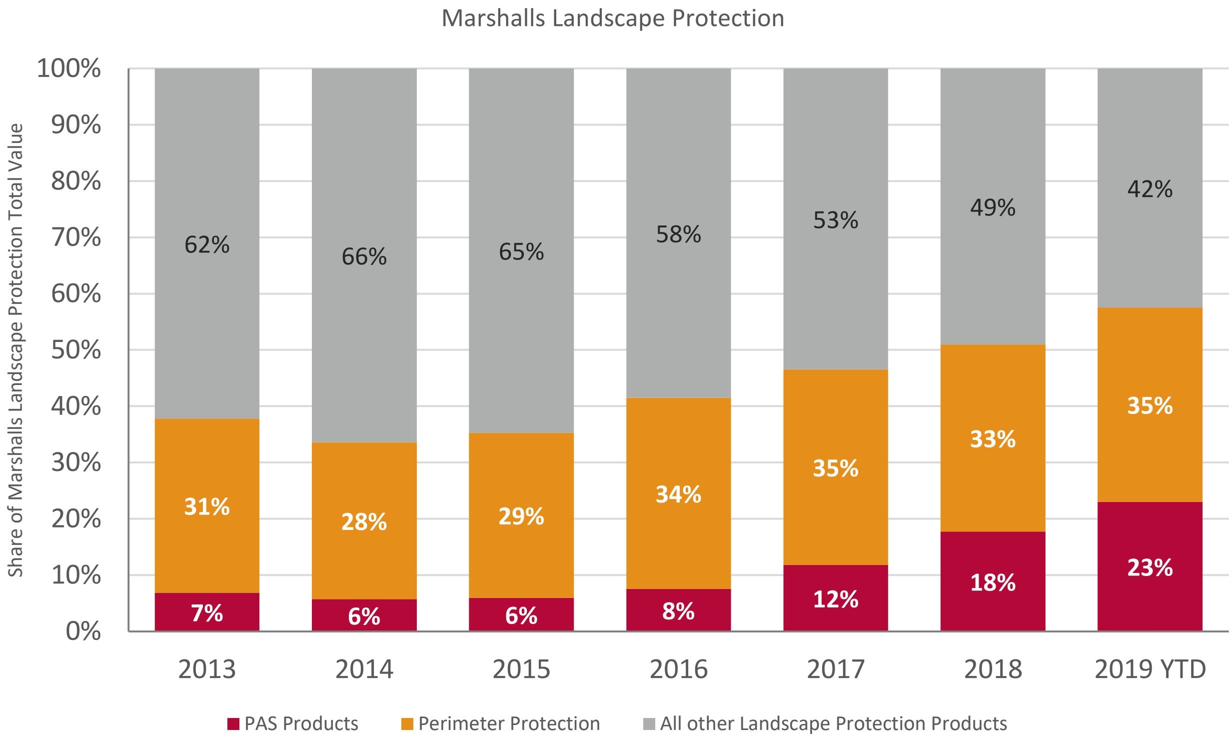


Marshalls

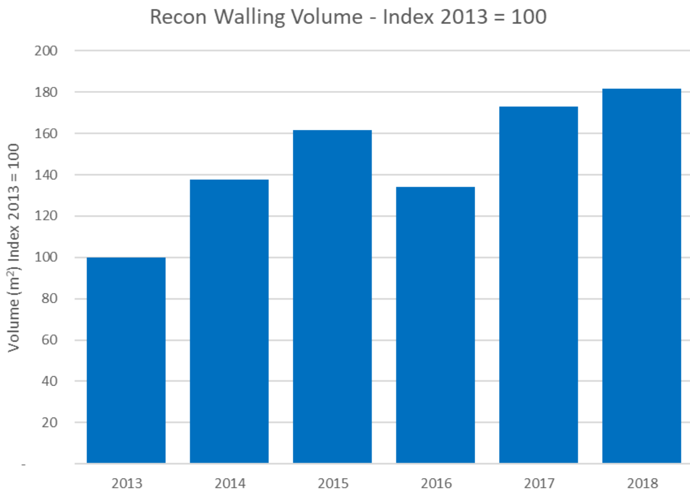
Emerging UK Businesses

Full Year
2018 Results

Delivering long-term sustainable growth
Marshalls Landscape Protection

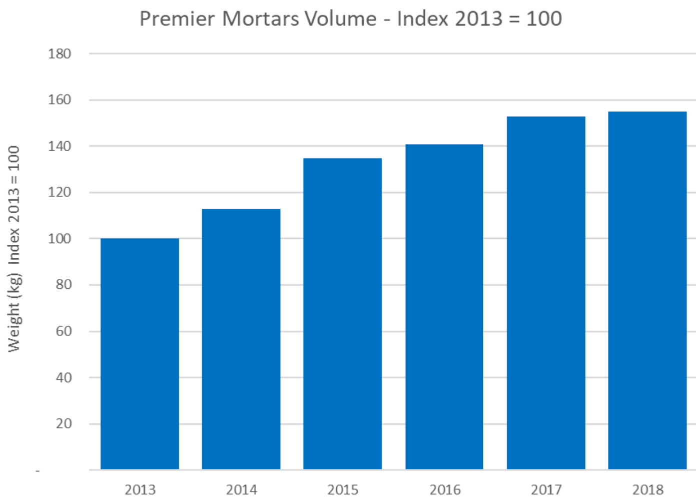


Delivering long-term sustainable growth
Marshalls Recon Walling

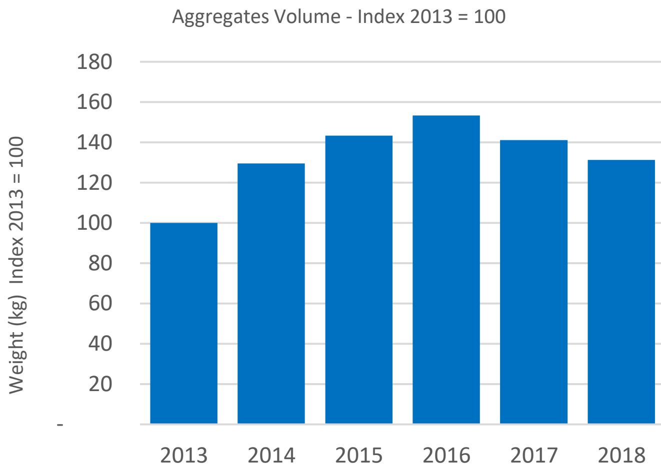


Delivering long-term sustainable growth

Marshalls Premier Mortars



Delivering long-term sustainable growth
Marshalls Aggregates



Marshalls

Strategy Update

Full Year
2018 Results

Delivering long-term sustainable growth

2020 Strategy update

- 2018 PBT of £62.9m + 21% ✓
- 2018 EBITDA of £80.8m +19% ✓
- Self help programme well advanced – annual savings of £5 million ✓
- New Product Development continuing strongly – 12% of 2018 sales ✓
- Digital strategy providing real benefits ✓
- CPM integration complete ✓
- Acquisition of Edenhall in December 2018 ✓
- Continued strengthening of the Marshalls brand ✓
- 2020 Strategy expected to fully deliver its goals ✓

Our 2020 Strategy has driven growth and shareholder returns

Delivering long-term sustainable growth

Marshalls 5 Year Strategy to 2020

Our Purpose

Our purpose is to Create Better Spaces 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

World Class Hard Landscape Business

Market Innovation

Market Leadership in through Brand and Specification based on

- Market Innovation
- Product Innovation
- Process Innovation
- Materials Innovation
- Digital Innovation

Operational Excellence

Market Leadership in Operational Efficiency & Effectiveness

- *Cost Leadership*
- *Quality Leadership*
- *Service & Logistics Leadership*

Strategic Growth Areas

Water Management

Market Leadership in SuDS through

Focusing on

- Collect
- Convey
- Clean Hold Release
- Recycled Water

Street Furniture

Market Leadership through

Focusing on

- Landscape Protection Products
- Integrated Landscape Furniture

Building Products

Market Leadership through

Focusing on

- Walling
- Mortars & Screeds
- Mineral Products

International Markets

Service & Product Leadership in Selective Markets

- Northern Europe
- North America
- Middle East

Focusing on

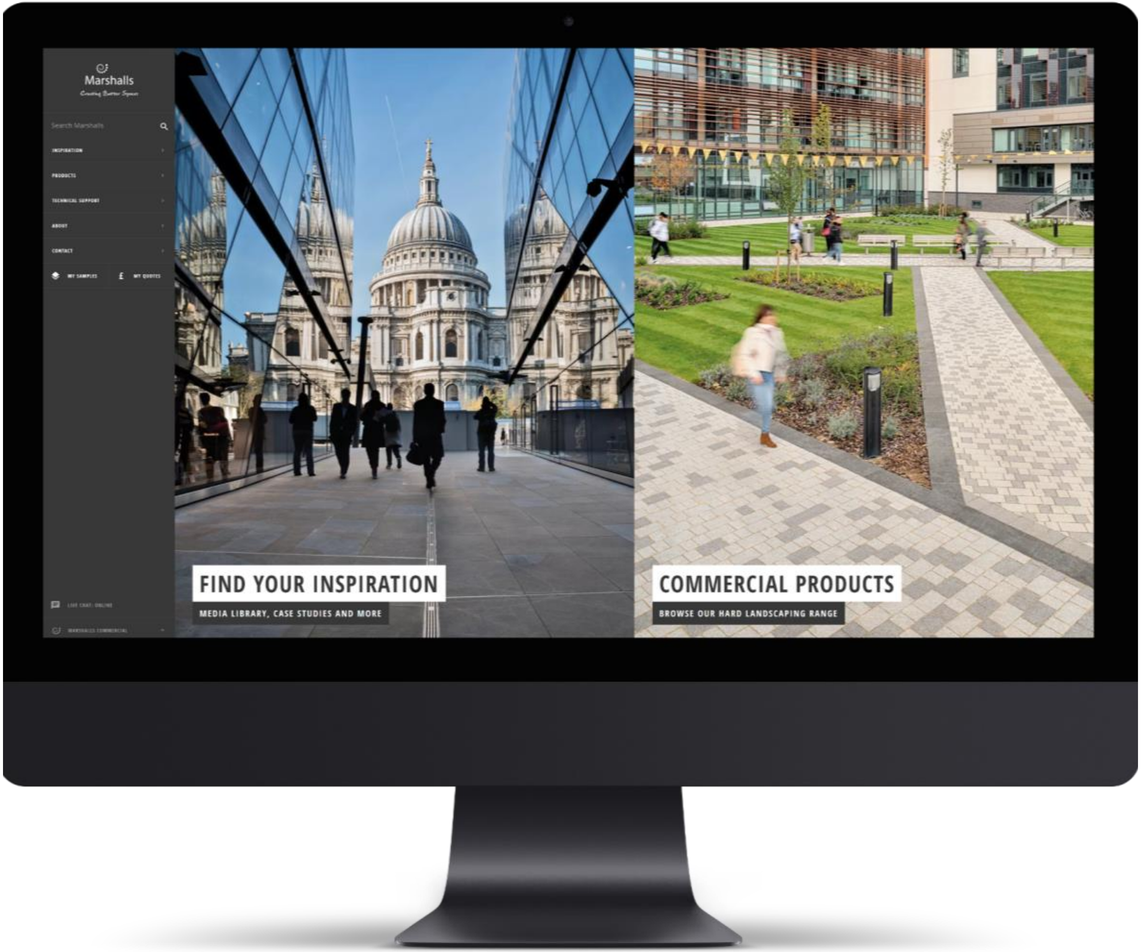
- Natural Stone
- Specialist Concrete
- Street Furniture

Our Values

- **Leadership**
- **Excellence**
- **Trust**
- **Sustainability**

Marshalls

Digital



Full Year
2018 Results

Delivering long-term sustainable growth

Artificial intelligence

- AI will change the world – Marshalls embracing it
- Natural language processing – c50% of all searches will be voice searches by 2020
- Marshalls Voice Assistant – over 80 questions asked in over 3,000 ways
- Extended to “live chat” via websites to enable out of hours support

What the future holds:

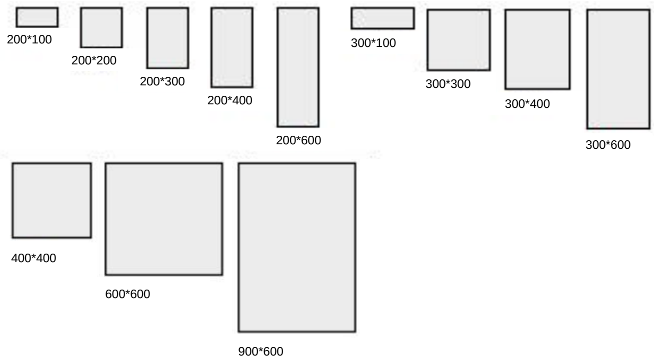
- Extend the AI framework to areas such as machine learning
- Develop natural language processing capabilities to support customers out of hours

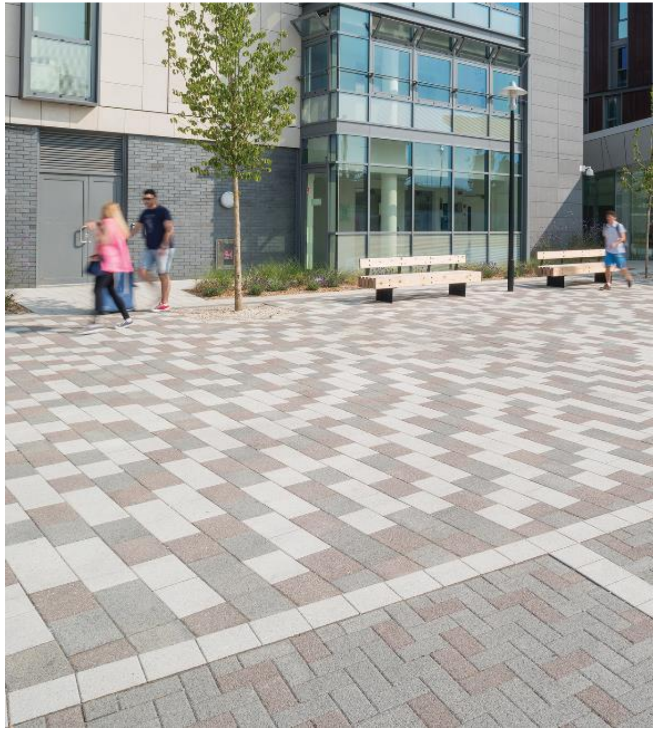
Marshalls

New Product Development

Full Year
2018 Results

Delivering long-term sustainable growth
New products in 2018 : Modal





Delivering long-term sustainable growth

New products in 2018 : SPT

Surface Performance Technology

SPT®

Marshalls

- Surface Performance Technology is not one process
- Aesthetic isn't the only advantage
- Innovative processes allow us to achieve a differentiated offer
- SPT highlights the value added products & extended guarantee
- SPT® products accounted for 20% of overall Concrete Block Paving sales in 2018

Self Help Investment

Full Year
2018 Results

Delivering long-term sustainable growth

Increasing self help capital investment

- Important part of the 2020 Strategy
- Original plan to invest additional £15m over 3 years to reduce cost base by £5m per annum
- Further self help opportunities led to capital expenditure of £29.2m in 2018 (including £17.0 million self help)
- All projects have a payback target of 3 years
- Key projects delivered include:
  - £3.5 million investment in static crushing plant installed at Howley Park – reduced costs, improved efficiency
  - £3 million investment in sawmill and production facility at Natural Stone – delivering significant, efficiency benefits
  - New £5 million production facility at Mells increasing capacity and efficiency

Delivering long-term sustainable growth

Self help investments : Mells

Marshalls

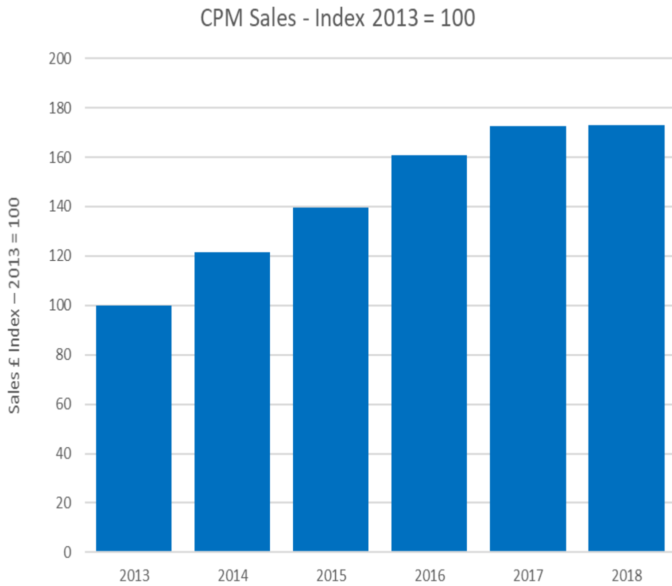
Acquisitions

Full Year
2018 Results

Delivering long-term sustainable growth

Marshalls acquisitions : CPM

•	M1	Junctions 23-25
•	M6	Junctions 2-4
•	M6	Junctions 16-19
•	M20	Junctions 3-5
•	M23	Junctions 8-10



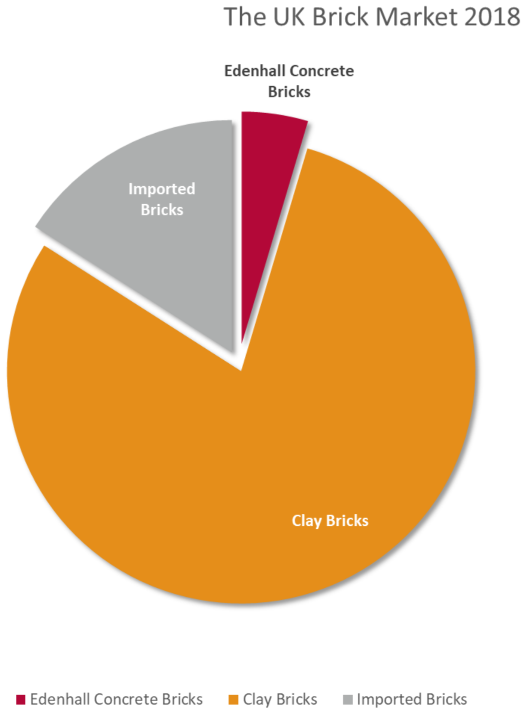
Delivering long-term sustainable growth

Acquisition of Edenhall

- In line with stated Group strategy of expanding into adjacent building products related to New Build Housing
- Acquired in December 2018 for an initial cash consideration of £16.4 million including take on of £4.7 million of existing Edenhall debt
- Growing business with a strong track record of quality, reliability and service
- The acquisition will enable Marshalls to offer customers a broader product choice
- 2018 revenue of £33 million and PBT of £3.0 million
- Strong fixed asset base – gross assets £21 million at 31 December 2018
- New state of the art factory in South Wales to be commissioned Q2 2019 will increase capacity and drive growth
- Strong trading since completion and integration on track with our expectations

Delivering long-term sustainable growth

Marshalls acquisitions : Edenhall



Delivering long-term sustainable growth

Summary

- Revenue growth – +14% (2013-18: +60%, CAGR: 10%)
- Strong PBT growth – +21% (2013-18: +384%, CAGR: 37%)
- Improving operating margins – up to 13.2% (2017: 12.4%)
- Continued strong ROCE – 21.9% (reported basis) (2013-18: +1,380 basis points, CAGR: 22%)
- Strong cash generation has continued
- Dividend – +13% (2013-18: +205%, CAGR: 25%), including 4.0 pence supplementary
- New Build Housing, Water Management, Road and Rail remain attractive markets
- Continued outperformance and increasing market share through service / product
- CPM integration complete and Edenhall integration in progress
- Strong start to 2019 – sales up 16% including Edenhall (up 8% underlying) in first 2 months
- Well placed to deliver continued growth and operational profit improvements

Our 2020 Strategy has driven growth and shareholder returns

Marshalls

Appendices

Full Year
2018 Results

Delivering long-term sustainable growth

Profit for the financial year

	2018 £m	2017 £m	Increase %
EBITDA	**80.8**	67.9	19
Depreciation / amortisation	**(16.0)**	(14.5)	
Operating profit	**64.8**	53.4	21
Financial income and expense (net)	**(1.9)**	(1.3)	
Profit before tax	**62.9**	52.1	21

Delivering long-term sustainable growth

Construction Products Association

£m / % change	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast
Housing					
	36,291	40,539	42,132	42,913	43,281
	12.2%	11.7%	3.9%	1.9%	0.9%
Other New Work					
	62,916	66,139	63,647	63,092	64,614
	2.5%	5.1%	-3.8%	-0.9%	2.4%
Repair, Maintenance and Improvement					
Private Housing	19,630	21,530	21,530	21,530	21,961
	5.6%	9.7%	-	-	2.0%
Total	52,564	56,023	56,598	56,866	57,575
	0.9%	6.6%	1.0%	0.5%	1.2%
Total All Work	151,771	162,701	162,376	162,871	165,470
	4.1%	7.2%	-0.2%	0.3%	1.6%

Note: Figures taken from the latest CPA Winter Forecast

Delivering long-term sustainable growth

Additional information and ratios

	2018	2017
Interest:		
Charge	**£1.9m**	£1.3m
Cover	**34.1 times**	41.1 times
EPS	**26.29p**	21.52p
Dividend:		
2018 interim and final recommended	**12.00p**	10.20p
Cover (ordinary)	**2.2 times**	2.1 times
Supplementary dividend recommended	**4.00p**	4.00p
Cover (total)	**1.6 times**	1.5 times
Weighted average number of shares	**197.7m**	197.5m
Net asset value	**£266.7m**	£237.6m

Delivering long-term sustainable growth

Financial flexibility

	2018 Actual
EBITA: Interest charge	60.3 times
Net Debt: EBITDA	0.46 times

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

Delivering long-term sustainable growth

Impact of IFRS 16 - Leases

- Effective from 1 January 2019 – with almost all leases being recognised on the balance sheet
- Recognition of a right-of-use asset and a lease liability on the balance sheet (included within debt)
- Marshalls is applying the modified retrospective transition approach – no restatement of comparatives for the year ended 31 December 2018. We will provide high level comparison on an indicative basis
- Upon transition the right of use asset is expected to be between £42 million and £47 million
- The transition financial lease liability is expected to be between £44 million and £51 million
- A transition adjustment that is expected to be between £2 million and £4 million will be taken to retained earnings along with an opening deferred tax adjustment
- Previously disclosed operating lease charges will be replaced by depreciation and interest
- No overall cash flow impact – but classification changes in the cash flow statement
- Increase in operating profit and EBITDA
- Likely to be decreases in PBT and EPS (as new rules front-load expenses)
- Reduced ROCE and increased gearing
- Bank covenants will remain on frozen GAAP

Delivering long-term sustainable growth

Net assets

	£m
2017 Net Assets	237.6
Impact of movements in the year:	
Profit for the financial year	51.9
Dividends	(29.2)
Actuarial movement on pensions (after tax)	8.3
Hedging reserve	(0.1)
Share issue	1.8
Share-based payments (after tax)	(2.0)
Purchase of own shares	(1.2)
Foreign currency translation differences	-
Non-controlling interest	(0.4)
	29.1
2018 Net Assets	**266.7**

Delivering long-term sustainable growth

Disclaimer

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

Marshalls

Creating Better Spaces

UN GLOBAL COMPACT

AWARDED FOR UK BUSINESS Superbrands 2017 QUALITY · RELIABILITY · DISTINCTION

Ethical Trading Initiative
Respect for workers worldwide

Fair Tax

Living Wage Foundation

BUSINESS IN THE COMMUNITY

MADE IN BRITAIN