MARSHALL

Building Extraordinary Futures

Operating review – 12 months to 31 December 2022

Headlines

This unaudited operating review of continuing businesses has been produced to keep stakeholders informed on developments within, and performance of, the Group during the 12 months to 31 December 2022. It excludes the trading results of Marshall Motor Holdings ("MMH") and the profit associated with its disposal in May 2022. An audited consolidated report and accounts for the 9 months to 31 December 2022 will be published later in the year.

The comparative information for the 12 months ended 31 December 2021 in this operating review does not constitute statutory accounts for that year but is consistent with the prior year's operating review.

Financial Headlines*

Revenue (£m)

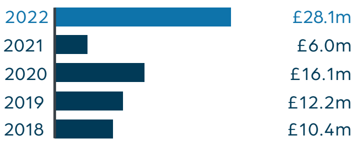
£368.7m

Profit before tax (£m)

£27.4m

Profit before exceptional items and tax (£m)

£28.1m



Net cash/(debt) (£m)

£129.3m

* As set out in note 1, this operating review is non-compliant with UK Generally Accepted Accounting Practice and as a result should not be relied upon for investment decisions

Operational Headlines

- Sale of Marshall Motor Holdings to Constellation Automotive Group was concluded in May 2022.
- Agreed price adjustment with MOD as Marshall Aerospace prepared for the premature end of its long-term contract with the RAF following the MOD's decision to withdraw the UK's C-130 fleet from service in June 2023. This had a significant positive impact on 2022 profit and will continue to do so up to the end of the contract in June 2023.
- Marshall Land Systems experienced further challenges relating to a number of its legacy programmes which, despite mitigating actions, continued to impact financial performance.
- Marshall Fleet Solutions had a difficult year, reflecting the limited availability of chassis for refrigeration units, as a result of the global shortage of semi-conductors and the war in Ukraine.
- Marshall Slingsby Advanced Composites delivered a very strong performance, underpinned by its turnaround in operational efficiency and strong sales across key programmes.
- The global aerospace and engineering skills shortage delivered a host of opportunities for Marshall Skills Academy to expand its industry-leading apprenticeship programmes both in the UK and, importantly, Canada in line with plans to establish it as our second home market.
- 2022 was a pivotal year for the business which saw significant progress across all major initiatives and the completion of detailed five-year plans for all Business Units.

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Chief executive's statement

" Reflecting on our 2022 performance, there are many reasons to be proud of what we have been able to achieve; we have faced into our challenges, stayed true to our strategic plan, made significant strides forward and demonstrated an extraordinary level of resilience."

Kathy Jenkins, Chief Executive Officer

2022 was by any measure a pivotal year for the Marshall business. Not only did we have to deal with the continued economic fall-out from the Covid-19 pandemic, Brexit, and the dreadful conflict in Ukraine, but we also had to come to terms with the reality of the end of the single biggest contract in our history.

Therefore, I am incredibly grateful for all the hard work that teams across the business have put in to ensure we finished the year in the strongest possible position. Acknowledging that not all of our Business Units were able to deliver the level of financial performance we had hoped or expected, there is not one single area of our business that did not end the year in better shape than it started.

In our Aerospace and Land Systems businesses, we carried out a vast amount of work to understand the scale of the challenges built into some of our legacy projects. This has taught us difficult but valuable lessons, shining a light on the degree to which the HIOS contract has masked under performance over many years.

The harsh reality is that, in our Land Systems business in particular, this will depress earnings over the next two years while the legacy programmes are being delivered. Despite the efforts of the team to mitigate their impact by improving operational efficiency and by winning and onboarding new, profitable contracts, 2022 was an incredibly challenging year for them.

Addressing these legacy contracts has validated the investment we made in our new enterprise resource planning tool (IFS) which, as it embeds across the business, is beginning to give us valuable data that is enabling us to identify and address inefficiencies and to take informed evidence-based decisions. IFS implementation has been tough and there is still work to do but it is now delivering a renewed level of rigour and control in both our Land Systems and Aerospace businesses which, coupled with the capability of the team we have now assembled to lead the business, should ensure that we will avoid the mistakes of the past.

Although we spent a lot of time and energy last year addressing legacy issues, that should not detract from the real progress we made in defining our future. Each of our Business Units now has a robust five-year plan which have become the cornerstones of our operation.

I have talked previously about the proud reputation that Marshall has earned with government, customers and partners and the value that they all place on working with an independent, family-owned British business. To ensure that we continue to build on this legacy we have focussed on developing a set of concentrated actions to enhance the value we deliver to our customers. Through each of our conversations it has become increasingly clear that we have a relevant, compelling, and winning proposition.

Nowhere is that more evident than in the skills arena. Last year was truly transformational for Marshall Skills Academy during which we saw the sheer scale of opportunity both in the UK and overseas begin to crystalise as industry and governments at last realised the enormity of the looming skills gap. Recognising that we don't have the bandwidth or resource to do everything people are asking of us, it is important now that we take the time to prioritise opportunities.

Elsewhere we achieved some incredibly significant milestones, not least the successful sale of Marshall Motor Holdings to the Constellation Automotive Group. As fundamental changes continue across the motor retail sector, it is good to see the business continue to thrive with their new owner.

It was vital that we were able to set out a transition plan that maintains capability and credibility for our customer and us

Chief executive's statement (cont.)

as we approached the retirement of the UK's C-130 fleet. We have done so, as evidenced by the constancy of availability in demanding situations. We secured a critical price adjustment reflecting early withdrawal as well as our position as principal retail partner for the disposal for aircraft. This affords us the opportunity to secure a pipeline of initial modification and long-term support work with a wide range of global air forces over the coming years.

The terms of these price adjustments are commercially sensitive, however the effect is a significant boost to 2022 profit versus what would have otherwise been the case given the almost immediate decline in high value engineering work once early withdrawal was confirmed. The price adjustment will make another positive contribution to profits in 2023.

Marshall Aerospace also forged some important strategic industry partnerships which will see us deliver engineering solutions on a number of future air platforms, capitalising on the unique capability that we developed through the delivery of the Dolphin programme. Our Future Products team also made considerable progress in the development of innovative new platform agnostic role-fit technology which we are taking to market this year and Aerostructures continued to delight its customer, celebrating the delivery of its 1000th auxiliary fuel tank for Boeing.

I was also pleased to see a step-change in our interactions with our Land Systems customers where, despite the challenges I have already outlined, we have been able to transform our key relationships. The work that our engineering team has been doing to develop new standardised containers which significantly reduce labour, raw materials and carbon footprint is attracting much attention and, as with the Skills Academy, we are seeing unprecedented levels of interest in what our Land Systems business can deliver in a politically unstable world.

Marshall Fleet Solutions also made good progress in terms of customer relationships despite a difficult trading year, which was driven in the main by pricing and lack of availability of new Thermo King fridge units. The opening of its new state-of-the-art 'Super Site' in Tamworth at the heart of the UK distribution hub enables Fleet Solutions to set a new standard in the industry and demonstrate a commitment to investing in the facilities of the future. In tandem it continued to develop its Fleet Management proposition and focus on new product development, particularly in the renewables sector. We again extended our customer portfolio, and this now includes many of the major supermarket chains.

Our Futureworx start-up continued to work on its range of next generation technology-led products to deliver long-term revenue streams in the future, benefitting from increased investment during its first full year of operation. The first product to go to market will be Lilypad, an autonomous drone inspection ecosystem with applications in the offshore energy, security, and defence sectors. This should launch later this year.

Marshall Slingsby Advanced Composites completed its turnaround to outperform expectations, a fantastic result underpinned by improvements in operational performance and increased sales across some of its core programmes. The year ahead will therefore be the most significant in the business's history in terms of growth with an increased share of activity on major UK programmes.

In Cambridge, we were proud to see the Marleigh community begin to come to life with the opening of the new Primary Academy. House sales remained very strong and despite industry-wide supply chain issues, completions were broadly in line with expectation which is a great testament to the strength and quality of our partnership with the Hill Group.

Work on our plans for Cambridge East also progressed well and whilst we are still awaiting the publication of the Greater Cambridge draft Local Plan, we remain confident of inclusion and have begun the process of identifying a potential master development partner. Preparing for this process has only served to underline the level of excitement and interest that a 440-acre mixed use development so close to Cambridge City Centre is continuing to generate.

In parallel, we submitted our Outline Planning Application for the relocation of our Aerospace business to Cranfield permission for which has now been granted by Central Bedfordshire Council, paving the way for us to be able to vacate the airport land by 2030.

Reflecting on our 2022 performance, there are many reasons to be proud of what we have been able to achieve; we have faced into our challenges, stayed true to our strategic plan, made significant strides forward and demonstrated an extraordinary level of resilience.

I am pleased to confirm that the Company will be paying a second interim dividend in respect of the period ending 31 December 2022 of 3p per share for both Ordinary and NVPO shares on 7th July 2023 to all shareholders who are on the register as at 16th June 2023 , maintaining our consistent and stable dividend payment record.

In 2023, our goal is to continue to build our profile as an important independent UK business that has a demonstrable track record in creating capability across all of our sectors and communities. With the changes we have at last been able to put in place, we can do so whilst delivering increasing shareholder value, despite the end of an era.

Kathy Jenkins
Chief Executive Officer

Financial review

The financial information includes a consolidated income statement and consolidated statement of cash flows. It excludes both the results of Marshall Motor Holdings ("MMH") and the profit associated with its disposal in May 2022. The consolidated income statement therefore recognises dividends received from MMH in 2021 as investment income. No consolidated balance sheet as at 31st December 2022 is included as this is subject to audit and will be published later in the year in the audited report and accounts for the 9 months to 31 December 2022. All numbers referred to in this financial review are unaudited.

Revenue for the 12 month period was £369m, representing a 7.5% increase from the previous 12 month period (2021: £343m). This was predominantly in Aerospace, where the HIOS contract price amendment negotiated with the MOD offset the lost engineering and MRO work as the contract continued to wind down. In addition Land Systems saw an increase from the continuing growth in container programmes.

Profit before tax for the 12 month period was £27.4m, representing a 65% increase from the previous 12 month period (2021: £16.6m). Aerospace results reflect not only the HIOS contract price amendment, but also good margins on Aerostructures, the US Marine Corp activity and the support contract in the Middle East. No further provision on the main Global 6000 contract has been taken in 2022. Land Systems continued to struggle with the problematic legacy contracts with additional trading losses and reduced margins in the year. Action has been taken to improve our ability to achieve high volume production on budget for these contracts.

Property profits include the Group's share of the Marleigh joint ventures. On a like for like basis excluding the sale of land, profit is in line with the previous 12 months. Fleet Solutions had a very difficult 12 months with unprecedented price increases in all areas of their supply chain, whilst having fixed price arrangements with customers covering the full year and beyond. Many of these contracts with customers have now been renegotiated with price rises in place. Futureworx's loss as budgeted, reflects a full year of research and development into providing solutions for key real world problems.

The main exceptional item in this period is the restructuring costs of £1.6m within Aerospace and Land Systems, reflecting the changes needed post-HIOS in the former and to address the capability needed to deliver the legacy contracts and win more profitable business in the latter. The largest element of other income is the deferred land profit, which is released at a flat rate of around £45,000 per unit sale during the period. This is lower than the previous period as more flats than houses were sold in 2021 compared with 2022. However, this meant that the more favourable sales mix in 2022 has led to an increase in share of profit from joint ventures from £3.5m to £4.5m.

No dividends from MMH were received in 2022, but it became necessary to revalue the properties they still occupy as third party investment properties, with a corresponding gain of £3m recognised in the consolidated income statement.

Net finance income primarily consists of bank interest both payable and receivable, together with present value adjustments and discount unwinding on the deferred income on land sales. The proceeds from the sale of MMH and the HIOS contract amendment, coupled with increasing bank interest rates, is the main driver behind the significant increase.

The total net increase in cash during the 12 month period was £127.6m, ending the year with £131.3m. In addition, the debt at 31 December 2021 of £42.9m had been repaid by 31 December 2022. The key elements of this are set out below.

The net cash inflow in 2022 from operating activities was £29.8m which compares with a net outflow in the previous 12 months of £33.7m. The single biggest driver of this was the HIOS contract amendment.

The intangible assets investment reflects the next phase of implementing the IFS business system across the Group and was at a similar level to the previous year. Capital expenditure of £17m predominantly related to investment in our property portfolio, including progress on the Cambridge East and Cranfield planning applications, as well as relocation costs on the North Works to make way for the next phase of the Marleigh development. In addition a new Fleet super site at Tamworth for MFS was leased and fitted out.

The receipts from sales of fixed assets effectively reflect the next instalment of the funds from the sale of Land North of Cherry Hinton and the receipts from sales of investments relate to the sale of Martlet.

The main driver of cash inflow is the net receipts of £199m from the sale of MMH, after accounting for sales costs and professional and legal fees. All third party debt was repaid during the year and a Special Dividend of £45m was paid to all equity shareholders in October 2022.

Consolidated income statement

for the 12 months ended December 2022

	Notes	2022 (unaudited) £'000	2021 (unaudited) £'000
Revenue*	2	**368,693**	343,064
Cost of sales		**(244,982)**	(255,000)
Gross profit		**123,711**	88,064
Net operating expenses		**(107,572)**	(103,911)
Profit on sale of land and buildings		**–**	21,068
Other income	4	**3,007**	3,444
Operating profit	5	**19,146**	8,665
Share of profit in the year from joint ventures		**4,531**	3,517
Dividend received from Marshall Motor Holdings plc		**–**	4,465
Net finance income / (charges)	6	**3,719**	(18)
Profit before tax		**27,396**	16,629
Analysed as:			
Profit before exceptional items and tax	2	**28,102**	5,951
Exceptional items	3	**(706)**	10,678
Tax charge on profit		**(5,840)**	(3,870)
Profit after tax		**21,556**	12,759

* excludes non-statutory JV revenue

Consolidated statement of cash flows

for the 12 months ended December 2022

	Notes	**2022 (unaudited) £'000**	2021 (unaudited) £'000
Net cash inflow / (outflow) from operating activities	8	**29,847**	(33,717)
Investing activities			
Interest received		**3,976**	293
Payments to acquire intangible assets		**(5,436)**	(5,455)
Payments to acquire tangible assets and investments		**(16,909)**	(12,298)
Receipts from sales of fixed assets		**6,835**	23,350
Receipts from sales of investments		**5,003**	6,915
Receipts from sales of businesses / subsidiaries net of costs		**198,967**	602
Net cash inflow from investing activities		**192,436**	13,407
Financing activities			
Bank interest paid		**(2,855)**	(933)
Dividends paid to preference shareholders	7	**(744)**	(744)
Equity dividends paid	7	**(48,182)**	(3,269)
Proceeds from borrowings		**–**	18,869
Repayment of borrowings		**(42,860)**	–
Net cash (outflow) / inflow from financing activities		**(94,641)**	13,923
Increase / (decrease) in cash and cash equivalents		**127,642**	**(6,387)**
Cash and cash equivalents at start of year		**3,689**	10,076
Increase / (decrease) in cash and cash equivalents		**127,642**	(6,387)
Cash and cash equivalents at end of year		**131,331**	**3,689**
Cash and cash equivalents consist of:			
Cash at bank and in hand		**86,331**	3,689
Short term deposits		**45,000**	–
Cash and cash equivalents at end of year		**131,331**	**3,689**

Notes to the operating review

for the 12 months ended December 2022

1. Accounting policies

The Group has applied the same accounting policies and methods of computation in its operating review as in its report and accounts, for the 15 months ending 31st March 2022, except as explained below.

(a) Basis of preparation

This operating review includes only a consolidated income statement and consolidated statement of cash flows. It excludes both the results of Marshall Motor Holdings plc (MMH) and the profit associated with its disposal in May 2022. The consolidated income statement recognises dividends received from MMH. No consolidated balance sheet is included as this is subject to audit and will be published later in the year in the report and accounts for the 9 months to 31 December 2022.

As MMH was more than 50% owned for part of the period, its results should be consolidated into the Group's results to be fully compliant with applicable UK accounting standards. Additionally, upon the sale of MMH in May 2022, the profit generated from this disposal should be included within the consolidated income statement. The proceeds have been included in the consolidated statement of cash flows and in the net funds reconciliation.

The comparative information for the 12 months ended 31 December 2021 in this operating review does not constitute statutory accounts for that year but is consistent with the prior year's operating review.

As result of these factors, this operating review is non-compliant with UK Generally Accepted Accounting Practice and should not be relied upon for investment decisions.

(b) Going concern

The directors have adopted the going concern basis in preparing the operating review. In forming this opinion directors have considered a formal group going concern assessment, including the impact of certain reasonably possible adverse scenarios, which concludes the Group is forecast to be able to meet its liabilities as they fall due for the relevant going concern period.

The directors assessment includes c.£202m cash receipt, received in May 2022, following the sale of the Group's shareholding in MMH.

On this basis, the directors of the company have concluded that no material uncertainty exists that may cast significant doubt about the ability of Group to continue as going concern for at least 12 months from the date of this operating review.

2. Segmental analysis

Revenue	2022 (unaudited) £'000	2021 (unaudited) £'000
Aerospace	**252,928**	232,681
Land Systems	**55,875**	40,579
Property	**7,579**	7,925
Fleet Solutions	**51,621**	54,291
Slingsby Advanced Composites	**10,167**	8,335
Skills Academy	**2,731**	2,024
Aeropeople (sold in the prior year)	**–**	3,383
Other	**648**	518
Internal sales	**(12,856)**	(6,672)
Total	**368,693**	**343,064**

Profit/(loss) before tax	2022 (unaudited) £'000	2021 (unaudited) £'000
Aerospace	**42,707**	(5,256)
Land Systems	**(15,328)**	(6,086)
Property	**12,334**	32,395
Fleet Solutions	**(2,448)**	118
Slingsby Advanced Composites	**506**	376
Skills Academy	**(108)**	(420)
Futureworx	**(2,502)**	(875)
Aeropeople (sold in the prior year)	**–**	(33)
Dividends from Marshall Motor Holding plc	**–**	4,465
Unallocated central costs	**(7,765)**	(8,055)
Total	**27,396**	**16,629**

Profit before exceptional items and tax	2022 (unaudited) £'000	2021 (unaudited) £'000
Aerospace	**43,951**	7,881
Land Systems	**(14,957)**	(6,086)
Property	**11,394**	11,327
Fleet Solutions	**(2,448)**	118
Slingsby Advanced Composites	**506**	376
Skills Academy	**(108)**	(420)
Futureworx	**(2,502)**	(875)
Aeropeople (sold in the prior year)	**–**	(33)
Unallocated central costs	**(7,734)**	(6,337)
Total	**28,102**	**5,951**

3. Exceptional items

	2022 (unaudited) £'000	2021 (unaudited) £'000
Restructuring costs	**(1,646)**	(2,415)
Contract loss provision	**–**	(6,930)
Intangible fixed asset impairment	**–**	(4,352)
Items directly attributed to the COVID-19 pandemic	**–**	(1,158)
Dividend received from Marshall Motor Holdings plc	**–**	4,465
Profit and PV adjustments on the disposal of property	**940**	21,068
Exceptional items	**(706)**	10,678

4. Other income

	2022 (unaudited) £'000	2021 (unaudited) £'000
Coronavirus Job Retention Scheme grant repaid	**–**	(731)
Research and development expenditure tax credit	**646**	479
Rent received	**31**	213
Deferred land profit	**2,256**	3,383
Trademark licence income	**74**	100
Other income	**3,007**	**3,444**

5. Operating profit

	2022 (unaudited) £'000	2021 (unaudited) £'000
Operating profit is after charging / (crediting):		
Depreciation of tangible assets	**9,764**	7,751
Amortisation and impairment of intangible assets	**2,569**	6,545
Profit on disposal of land and buildings	**–**	(21,068)
Gain on revaluation of investment properties	**(3,036)**	(623)
Gain on revaluation of investments	**(152)**	(974)
Amounts provided against investments	**–**	205

6. Net finance income / (charges)

	2022 (unaudited) £'000	2021 (unaudited) £'000
Bank interest receivable	**3,976**	293
Interest receivable from joint ventures	**781**	708
Unwind of discounting – deferred receivable on land sale	**973**	1,208
Bank loans and overdrafts – interest and charges	**(2,855)**	(933)
Interest payable to joint ventures	**(96)**	(390)
Interest on defined benefit scheme liabilities	**–**	(55)
Present value adjustment – deferred receivable on land sale	**940**	(849)
Net finance income / (charges)	**3,719**	**(18)**

7. Dividends

	2022 (unaudited) £'000	2021 (unaudited) £'000
Dividends on Ordinary shares		
In respect of 2020 – Interim of 3.00p per share	**–**	415
In respect of 2021 – Interim of 1.00p per share	**–**	138
In respect of 2021 – Interim of 3.00p per share	**399**	–
In respect of 2022 – Special of 76.00p per share	**10,100**	–
In respect of 2022 – Interim of 1.00p per share	**133**	–
	10,631	**553**
Dividends on NVPO shares		
In respect of 2020 – Interim of 3.00p per share	**–**	1,358
In respect of 2021 – Interim of 3.00p per share	**–**	1,358
In respect of 2021 – Interim of 3.00p per share	**1,374**	–
In respect of 2022 – Special of 76.00p per share	**34,803**	–
In respect of 2022 – Interim of 3.00p per share	**1,374**	–
	37,551	**2,716**
Dividends on preference shares		
A preference shares of 8.00p per share (2021 – 8.00p)	**384**	384
B preference shares of 10.00p per share (2021 – 10.00p)	**360**	360
	744	**744**
Reversal of accrual for preference dividends	**–**	(155)
Aggregate dividends paid	**48,926**	**3,858**

8. Reconciliation of profit before tax to net cash inflow/(outflow) from operating activities

	2022 (unaudited) £'000	2021 (unaudited) £'000
Profit before tax	**27,396**	16,629
Loss / (profit) on disposal of land and buildings	**12**	(22,181)
Share of profit in the year in joint ventures	**(4,531)**	(3,517)
Deferred land profit	**(2,256)**	(3,383)
Gain on investment properties at fair value through consolidated income statement	**(3,036)**	(623)
Gain on investments at fair value through consolidated income statement	**(152)**	(769)
Net finance (income) / charges	**(3,719)**	18
Foreign exchange movement	**15**	–
Depreciation of tangible fixed assets and impairment charges	**9,764**	7,751
Amortisation and impairment of intangible fixed assets	**2,569**	6,545
R&D claim	**(646)**	(479)
Increase in stocks	**(6,215)**	(5,928)
(Increase) / decrease in debtors	**(3,523)**	933
Increase in provisions	**1,362**	1,405
Increase / (decrease) in creditors	**18,169**	(26,637)
Pension funding	**(4,317)**	(1,227)
UK and overseas corporation tax paid	**(1,045)**	(2,254)
Net cash inflow / (outflow) from operating activities	**29,847**	**(33,717)**

9. Net funds reconciliation

	31st December 2022 (unaudited) £'000	31st December 2021 (unaudited) £'000
Cash at bank and in hand	**86,331**	3,689
Short term deposits	**45,000**	–
Bank loans and overdrafts due in less than one year	**(1,988)**	(44,848)
Net funds / (debt) at end of period	**129,343**	**(41,159)**

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