Marshall of Cambridge Holdings

13 September 2021

Recovery across the board in the first half

The results for H1 were very impressive, with all businesses delivering an uplift in revenue and margins. The most spectacular was Motor Retail, performing at record levels, with guidance improving three times during the period. Although the Aerospace and Defence core performed ahead of last year, uncertainty over its main contract with the UK MoD, ongoing delays elsewhere and component price increases all muted the scale of the improvement. We believe the retirement of the RAF's C-130's has weighed on the share price, which currently sits at a modest premium to the shareholding in MMH, and a marked discount to shareholder's funds. Our valuation model gives a sum-of-the-parts (SOTP) fair value of 611p per share.

H1 2021 proved a busy period for the Group. Not only did revenues and operating profit improve on last year's pandemic associated difficulties, but a new CEO was appointed, with a new NED joining the Board at the beginning of October, completing the overhaul of the senior management team. One business was disposed of during the period with another in the final stages of a sale process, suggesting the determination of the Board to focus group activities: one was loss-making and exposed to civil aerospace and the other non-core, albeit profitable. Pleasingly, the turnaround of Marshall Fleet Solutions (MFS) continued, with the level of H1 losses lower than a year earlier and the outlook positive (seasonally weighted towards Q4). Commitment to MFS was underpinned by the announcement to invest in a new hub, offering additional services to customers.

Within the **Aerospace and Defence** division revenues increased modestly y-o-y, with the MRO and modification work on the RAF's fleet of C-130s showing a positive trend, and the completion of the first Hercules KC-130 for the US Marine Corps (USMC) in July, signifying an encouraging start to the potentially substantial contract. The pandemic has continued to affect both new orders and working practices within the hangars, exacerbated by the implementation of the new ERP system. While the DVOW contract with the Dutch MoD improved its run-rate, delays and resulting inefficiencies in other major programmes (UK and Denmark) resulted in some pressure on margins, exacerbated by rising raw material pricing/component shortages. Investment in a dedicated production facility in Canada is expected in 2022.

The completion of residential unit sales within the Marleigh development (phase 1a) added profitability and the disposal of The Land North of Cherry Hinton (LNCH) has resulted in significant cash flows into the **Property** division (MGP). Phase 1b of Marleigh is now being marketed, with detailed planning permission submitted for phase 2.

The Group's **Motor Retail** business (MMH) performed strongly during H1, with adj. PBT guidance raised three times. The demand/supply imbalance within the used vehicle market has resulted in selling prices increasing by more than 15% y-o-y across the market, in turn, positively influencing gross margins. H2 is likely to be slower as supply constraints within the new vehicle market bite and used values move closer to normality.

Valuation

We believe that the decision by the UK MoD to accelerate the out-of-service date to 2023 weighs too heavily on the Group. The share price is currently valuing the MCH Group at modestly above its stake in MMH, and markedly below NAV. On this basis it would suggest that the three other divisions have only a modestly positive valuation, yet they remain profitable…

We have conducted a SOTP valuation, which suggests a fair value of 611p per share, which is comfortably more than double the most recently matched NVPO price.

Marshall of Cambridge Holdings

Last matched NVPO trade	239p
Implied market cap	£141.2m
ED fair value/NVPO	611p
Net debt (Jun '21)	£33.7m

Share Price, p

Source: James Sharp & Co, ED

Description

Founded in 1909, Marshall of Cambridge (Holdings) Ltd (MCH) is a private, family-owned company, employing 6,256 staff. The world-class applied engineering services and technology business to the aerospace/defence sectors (Marshall ADG), is the core of the Group. The 64.41% owned motor retail business (MMH) delivers the bulk of the revenues. The property division, MGP, is in the process of unlocking value from its 900-acre estate at Cambridge airport. Finally, the Group owns the UK's largest independent commercial vehicle service organisation (MFS).

The non-voting priority ordinary shares (NVPOs) can be traded freely via a special off-exchange matching facility administered by Stockbroker James Sharp & Co. The contact there is Josh McArdle, Tel. 0161 764 4043.

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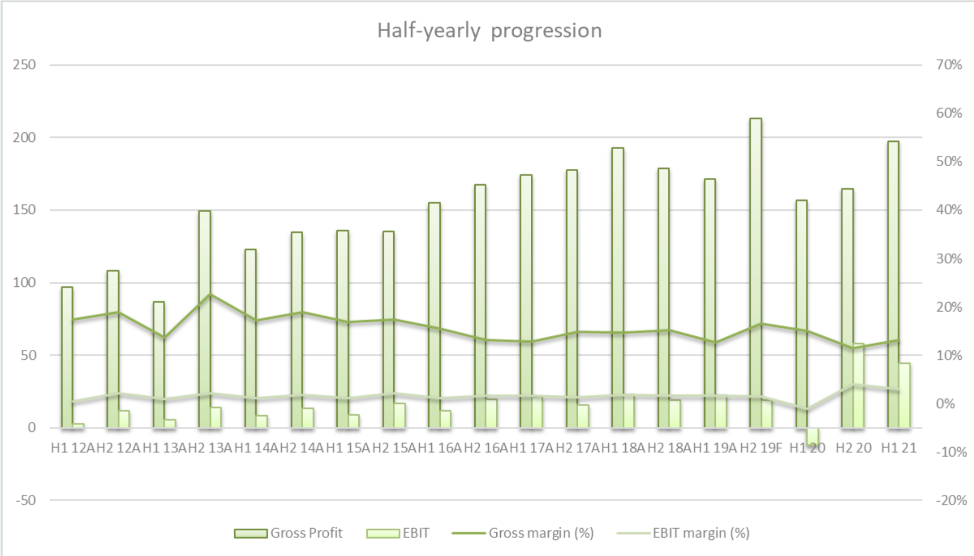
Interims

2021 Interim results			
£m, six months to June	**H1 20**	**H1 21**	***Change, y-o-y***
Aerospace and Defence	132.9	134.3	*1.1%*
Property	3.3	3.4	*4.8%*
Ventures - Motor retail	895.3	1334.1	*49.0%*
Ventures - Fleet Solutions	19.7	27.1	*37.5%*
Consolidation adjustments	-2.8	-2.8	*0.2%*
Total revenue	**1048.3**	**1496.1**	***42.7%***
Cost of sales	-891.5	-1299.0	*45.7%*
Gross profit	156.797	197.142	*25.7%*
Gross margin, %	15.0%	13.2%	
Operating expenses	168.7	152.9	*-9.4%*
Aerospace and Defence	0.2	4.3	*2045.3%*
Property	1.5	3.9	*154.0%*
Ventures - Motor retail	-4.5	41.5	*1024.7%*
Ventures - Fleet Solutions	-0.2	-0.1	*20.1%*
Ventures - Martlet Capital	-0.6	0.0	*n/a*
Unallocated central costs	-8.4	-5.2	*-38.2%*
Group adj. EBIT	**-11.9**	**44.3**	
Aerospace and Defence	0.2%	3.2%	
Property	46.5%	112.7%	
Ventures - Motor retail	-0.5%	3.1%	
Ventures - Fleet Solutions	-0.9%	-0.5%	
Group adj. EBIT margin, %	-1.1%	3.0%	
Net interest charge	-3.6	-3.7	*5.2%*
Exceptional items	-5.5	19.1	
Adj. PBT	**-15.5**	**40.5**	*362.3%*
Taxation	0.1	-18.6	
Tax	0.5%	45.8%	
Non-controlling interests	5.2	-8.4	
Adj. Earnings	-10.3	32.2	*413.6%*
Adj. EPS (p)	-14.3	34.8	*343.4%*
Div. on ordinary shares (p)	1.0	1.0	*0.0%*
Div. on NVPO shares (p)	3.0	3.0	*0.0%*
Net cash/(debt) at period end	25.7	23.5	*-8.4%*
Net cash per share (p)	43.5	39.8	*-8.4%*
Interest cover (x)	n/a	n/a	
Shareholder's Funds per share (p)	306.5	420.1	*37.0%*

Source: Company

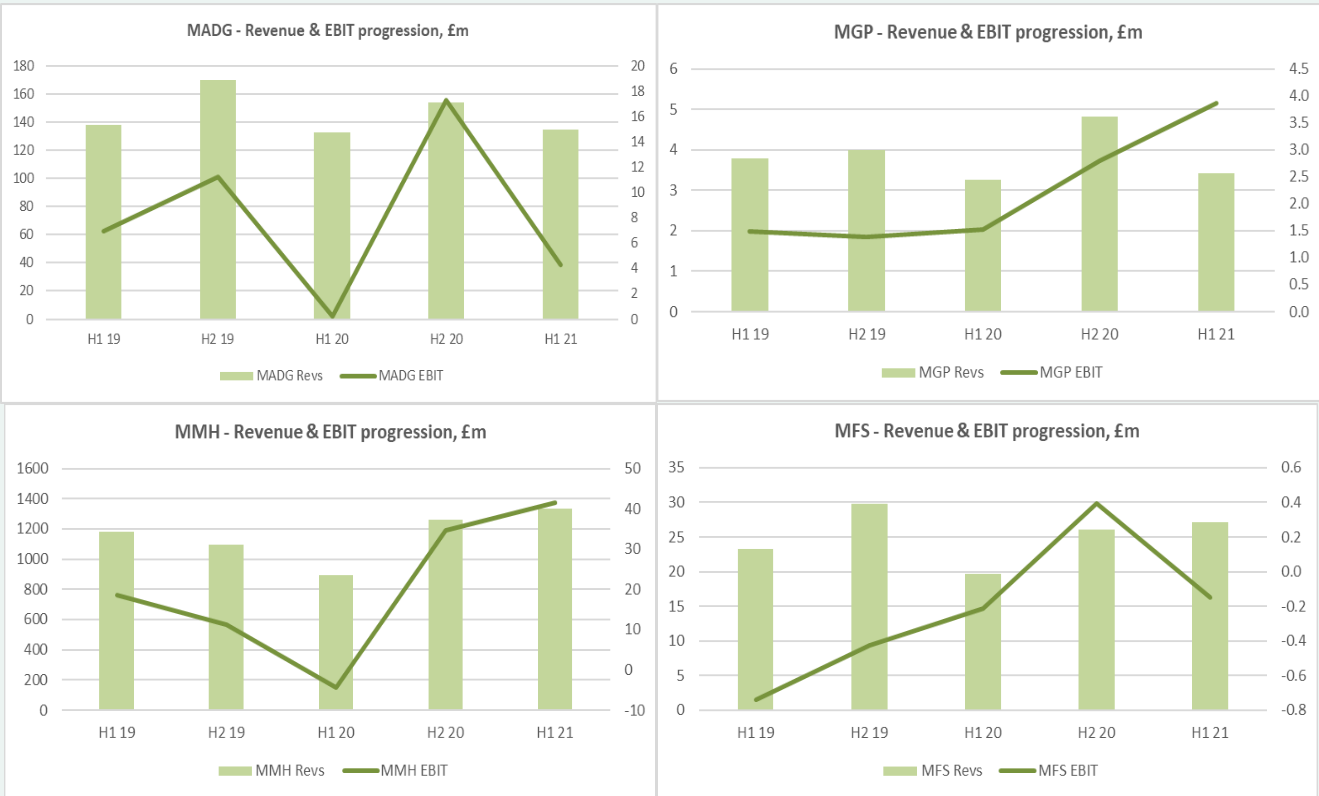
Financial overview

Gross and operating profit trends



Source: Company

Divisional revenues and EBIT are mostly at similar or higher than H1 2019 levels



Source: Company

Aerospace and Defence

The **Aerospace and Defence Group** (Marshall ADG), comprising Military Aerospace, Land Systems and Composites, form the core business and follows the disposal of the loss-making Aeropeople in April (for a deferred consideration matching its net asset value). The Group no longer has any exposure to the civil aerospace market following the sale.

Core revenues improved modestly to £134.3m (up 1.1% y-o-y), which was impressive in view of the disruption to the hangar and manufacturing operations as a result of the ongoing COVID-19 impact on working practices. Also, the implementation of new ERP systems throughout the business resulted in temporary operating inefficiencies during H1.

The multi-year Aerospace and Defence order book stood at £742m at the end of FY20 and, excluding the C-130 contract with the UK MoD, £582m (an increase of 2.1% y-o-y). No update was issued in terms of the order book, although we understand that the pandemic continues to slow the decision-making process on new contracts.

The division has not been immune to the trends affecting all engineering businesses during the period: input price inflation, delays in the supply of components, and higher transportation costs. Nevertheless, the impact of the cost inflation and inefficiency has been partially offset by the benefits emerging from the completion of a cost restructuring programme in late 2020.

Notwithstanding the above, adjusted operating profits improved y-o-y to £4.3m (H1 20: £0.2m). It is perhaps worth noting that the division is typically H2 weighted, with 55.1% of full-year revenues and 61.7% of annual operating profits delivered in H2 during 2019 (the last year to be unaffected by the COVID-19 pandemic).

Taking the largest segment first, **Military Aerospace** performed admirably with revenues 8.7% higher at £93.2m. The mix of revenues changed with international customers (16 currently) clearly the growth driver and accounting for 47% (c.£43.8m) and compares to last year's 44% (£37.5m). The initial US Marine Corps (USMC) KC-130J tanker-transport aircraft of the 10-year enabling contract was delivered in July, following planned maintenance and repairs. Although competing (on time, quality and price) with a third-party MRO operator on the 66-strong airframe contract, the potential remains significant. The delivery into Cambridge of further USMC aircraft is anticipated ahead of the year end.

Work for the UK MoD included the second centre-wing replacement on the RAF's 14-strong C-130 fleet, with the third ongoing. However, while there remains a question mark over the scale of future modification work on the fleet following the recent Integrated Review, discussions are ongoing. The C-130 is the primary airframe that Marshall undertakes MRO work on for the UK MoD.

Within **Major Projects** the combination of the pandemic and supply chain constraints has delayed the signing-off of the 'Global 6000 integration' project, which is anticipated by the year end. Discussions are under way to provide the customer with a long-term maintenance service for the aircraft post-final acceptance.

Operating margins within Military Aerospace came under modest pressure during the period, reflecting the component shortages and in turn, input price inflation.

Within **Land Systems**, the 500th container system was delivered on schedule to the Dutch Armed Forces during May, as part of the 1,600-plus strong DVOW contract. The newer containers will be fitted to Scania 'Gryphus' vehicles, replacing the previous DAF built trucks. Volume throughput during H1 was ahead of the previous run-rate, while gross margins were maintained.

Ongoing deferrals of the Gasket contract (upgrading existing counter chemical, biological, radiological, nuclear and explosive vehicles for the UK MoD), reflected customer-led design changes, impacting the margin.

The contract to supply DALO (Danish Defence Acquisition and Logistics Organisation) with 40 container-based deployable protective shelters incorporating advanced protected network and communication systems was similarly delayed, resulting in cost increases. The combined margin pressure was mostly offset through the implementation of a continuous improvement programme.

A container-based system

Source; Company

Canada continues to be a fruitful operating territory for MADG over the last 15 years, with further opportunities arising under the latest Defence Investment Plan covering the next five years. In response to this, the Company will establish a dedicated manufacturing facility in New Brunswick province, opening towards the end of 2022 and increasing headcount in the country to over 150 staff. The new facility is expected to enable the sub-division to bid on larger programmes, under the latest Defence Investment Plan, which require a higher Canadian content.

NATO awarded the Company a contract to modernise its Deployable Air Command and Control Component's (DACCC) communications systems. VOIP will form the basis of the upgrade by which NATO's transportable shelters transmit, relay, and receive critical mission data.

Over the last twelve years the **Aerostructures** sub-division has supplied over 900 lightweight, honeycomb technology fuel tanks to Boeing for the P-8 Multi-Mission Maritime Aircraft. The Company has received three Boeing supplier performance awards in the last four years, highlighting the strong service levels and quality of engineering provided. However, the maturing of the platform has resulted in volumes declining compared to previous years, having a knock-on effect to revenues and profitability. Margins per unit remain unchanged. Additional orders have resulted in the contract now running to 2024, with scope for further extensions.

In **Advanced Composites**, the cockpit panel contract with Lockheed Martin's C-130 continues to perform to plan, with profitability running at expected levels. However, the pandemic has had a negative impact on bid activity for new work and as a result, the book-to-bill ratio is now less than one within the sub-division.

Boeing P-8 Multi-Mission Maritime Aircraft

Source: Company

Marshall Group Properties (MGP)

MGP had an eventful trading period, which was masked by the modest growth in the top line. Revenues of £3.4m were delivered, representing an increase of 4.8% y-o-y. A further 28 completions were achieved on the first phase of the Marleigh development by the end of H1, taking the total to date to 38 (first in November 2020). By the end of the period, 19 units had exchanged and a further 15 reservations held. MGP's share of the joint venture developer margin was £1.3m.

Profit on the original transfer of the land to the joint venture was deferred until residential units were sold. Following the sales highlighted earlier during H1, a deferred profit of £1.3m (H1 '20: nil) was recognised in the period.

Marleigh development

Source; Company

The Land North of Cherry Hinton (LNCH) was sold, with planning permission to Bellway Homes (Bellway Latimer Cherry Hinton LLP) for £34.5m, with the profit on disposal of £21.9m, subject to adjustments for land remediation and transaction costs. The consideration per acre (70 acres) amounted to £493k. The initial proceeds amounted to £8m, with the remainder payable in four equal instalments of £6.625m. Including land purchased from MGP's collaboration partner, the purchaser is to develop up to 1,200 homes, a primary school, secondary school, local centre, and a spine road.

In March, phase two of the Marleigh development's joint venture with Hill Developments was finalised, which resulted in a profit of £1.1m on the transfer. The profit recognition reflects the increase in the acreage transferred relative to the original agreement in 2018. MGP received consideration of £12.5m, with the remaining half available once units are sold. The second phase consists of 421 homes, with detailed planning applied for in May. Construction is set to commence in early 2022.

Ahead of the third phase of the Marleigh development commencing, several properties relating to MMH and the Aerospace and Defence core require demolition. This work is ongoing.

Stripping out the one-off gains, **adjusted operating profit improved to £3.7m** (H1 20: £1.5m).

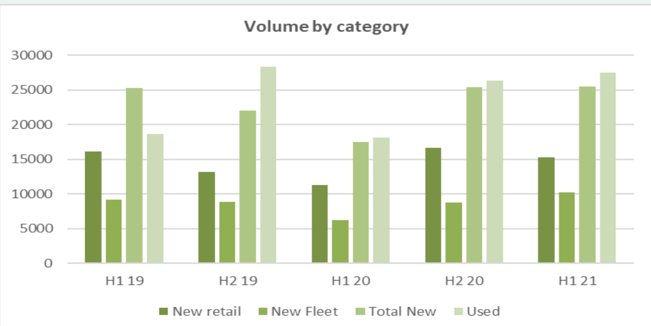
Marshall Motor Holdings (MMH)

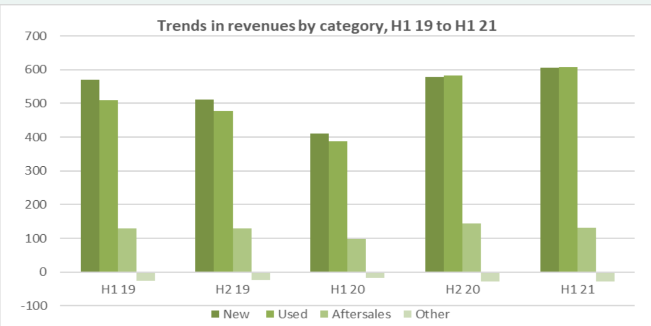
The Group's motor retail division, **Marshall Motor Holdings**, has performed at record levels during H1, notwithstanding the weak Q2 comparatives of 2020 when dealerships were closed (except for servicing for key workers). **Revenues (on a UK GAAP basis) increased 49.0%** to £1,334.1m y-o-y and in comparison, to 2019's more normalised revenue levels (pre-pandemic) by an impressive 12.7%, which we highlight in the charts below. Extra revenue was generated by a 46.1% y-o-y growth in the number of new vehicles sold to 25,798 (comprising new retail up 36.0% y-o-y to 15,566 and a 64.5% increase in fleet vehicles sold to 10,232). Revenues from new vehicle sales amounted to £610.5m, representing 44.8% of overall MMH revenues. Yet again MMH outperformed in new vehicle sales relative to the wider market, which improved 39.2% over the same period to 910k new vehicles (new retail up 30.6% y-o-y and new fleet rising 47.3% over the same period). New car volumes rose 0.9% versus H1 2019.

Similarly, the strong progress in the used category was also impressive, rising 51.7% on a l-f-l basis to 28,094 vehicles during H1. By comparison, the market registered an increase of 31.1% (*source; Autotrader*) in the six months to June, versus a year earlier. The number of used vehicles increased 47.4% compared to H1 2019, albeit were modestly below (-3.1%) H2 2019 levels. Revenues from used vehicles rose to £618.8m during H1, representing 45.5% of divisional sales, aided by the appreciation in average sale value, which increased from £21,224 to £22,026 per unit, an uplift of 3.8% y-o-y.

In the aftermarket, MMH delivered a strong revenue uplift to £132.2m, representing a l-f-l increase of 34.8% y-o-y. All operations remained open, compared to just 62 during Q2 2020. The ongoing impact of the pandemic restricted the uplift on H1 2019 to just 2.0%.

MMH: Volumes and revenues by category



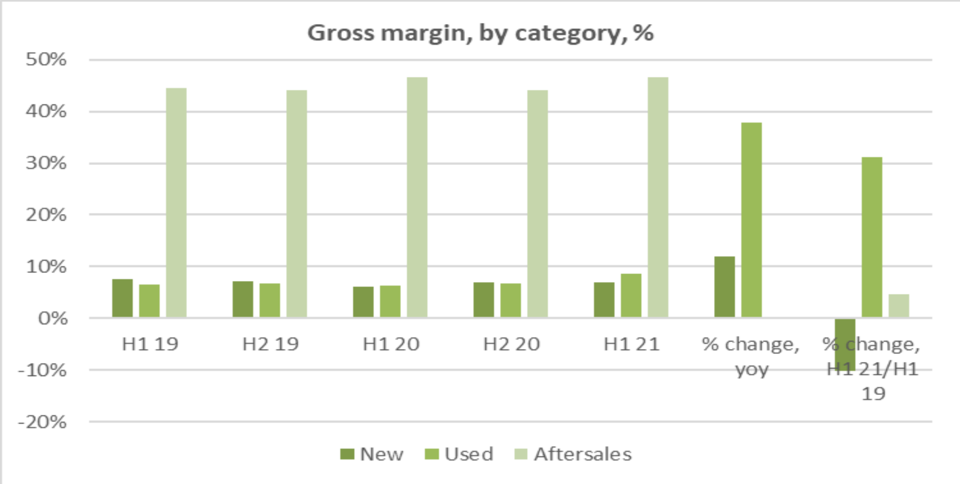


Source: Company

Gross profits within MMH increased 65.3% to £157.4m, representing a margin of 11.8% (H1 20: 10.6% and, H1 19: 11.4%). The improvement reflects the changing mix of revenues, with a disproportionate rise in used vehicle transactions and the y-o-y appreciation in values (resulting in a record used vehicle margin), plus the 171 bp increase in the aftersales gross margin (reflecting a higher proportion of service revenues).

Although the gross margin on new vehicle sales rose 74 bps to 6.9% y-o-y, it declined in comparison to the H1 2019 margin of 7.7% (reflecting the benefit of revenues from a normal March plate change). The appreciation in used car values resulted in the release of a previous stock provision of £2.8m.

MMH: Gross margin by category



Source: Company

Record underlying operating profits of £42.9m (IFRS vs £41.5 UK GAAP), were delivered, stated after the payment of £4m of CJRS (Coronavirus job retention scheme) and non-essential retail sector grants receivable during the period.

Although operating costs were higher y-o-y at £114.5m (up £12.9m), they were lower than in the corresponding period in 2019, notwithstanding the M&A activity has added c.£16m of costs during the intervening period. The retail division also benefitted to the tune of £4.7m by the Government's business rates holiday scheme.

Following the record interim results, coupled with its healthy balance sheet (net cash of £57.2m), the Board of MMH announced that it is restoring dividend payments. A dividend of 8.86p per share was announced, split on a two-thirds basis in favour of the first half and in reflection of the anticipated stronger profits performance in H1 of 2021. From 2022, MMH is to return to a one-thirds/two-thirds pattern, in favour of the full-year dividend.

Marshall Fleet Solutions (MFS)

Marshall Fleet Services (MFS) delivered a 37.5% y-o-y uplift in revenues in H1 21. Owing to the pandemic and the three lockdowns, MFS lost a significant portion of its end markets, as demand from the food service and hospitality sectors evaporated almost overnight. New markets had to be found quickly.

Hospitality remained depressed during H1 '21, with the sale of new refrigerated units lower due to the supply constraints of semiconductors (which is likely to deteriorate further in the short-term).

However, the pace at which new customers were found, was quite remarkable and behind the very strong y-o-y growth witnessed during H1 '21. The areas targeted focused on the distribution of food (online grocery shopping and the supply of refrigerated goods into supermarkets), pharmaceuticals (including the NHS), and other essential supplies. Tesco, as a result, remains a significant customer.

The restructuring of the business in H2 2019, new management team and a reorganisation into regional depots helped to restrict the loss a year ago to £0.2m. In the period just ended, the losses halved to £0.1m, although business tends to be seasonally biased towards Q4 and the run-up to Christmas. In mid-August, investment in a full-service operation for clients was launched in the West Midlands, which we discuss in the outlook section.

Martlet Capital

No fair value gains or impairment provisions were recognised in H1 '21 at Martlet Capital, which reflects the disposal of just one investment during the period (March 2021). An increase in fair value was recognised during the previous financial year and as a result, there was no profit on disposal. The consideration achieved amounted to £2.1m, realising a 2.4x return on investment. Fair value stood at £11.6m at the FY20 year end and with £0.4m invested YTD, resulting in a fair value of £9.9m at the end of H1 2021.

The early-stage investor, based in Cambridge, is in the final stages of being sold to a new venture. The necessary approvals to transfer the funds to the new entity require agreement from each investee company, with completion anticipated around the end of the year, eventual consideration is expected to be c.£11m

Four-fifths of the disposal proceeds relating to each investment will be received on completion, with the remainder deferred, payable in eight quarterly instalments commencing in Q3 2022.

Summary of Group results

Overall Group operating profits amounted to £44.3m (UK GAAP vs., H1 20: -£11.9m), suggesting OpEx of £152.9m, representing a 9.4% decline y-o-y. Operating margins of 3.0% reflect the bias in favour of the lower margin automotive retail sales.

Net interest of £3.7m was broadly unchanged y-o-y, resulting in adj. PBT of £40.5m, which compares to the pandemic influenced loss of £15.5m in H1 20. The increase in Corporation Tax rates from 19% to 25% from April 2023 increased the deferred tax element of the tax charge, which rose to 45.8% during H1 and compares to a modest £0.1m tax credit a year ago. Minorities of £8.4m contrasts with £5.3m last year, resulting in adj. EPS of 34.8p versus of loss per share of 14.3p last year.

The Group has paid dividends throughout the pandemic and H1 21 proved to be no exception. Holders of the ordinary shares will receive 1p per share, with the owners of the NVPOs, 3p, each payable on December 10th.

Shareholders' funds, which excluded the MMH minority, improved 14.8% to £248.2m. The key movements from the year end included a marked increase in debtors to £251.7m, from £162.3m (and representing a relatively modest increase y-o-y, +7.1%), cash balances rising to £69.7m (FY20: £43.9m), offset by lower stock levels.

One should bear in mind that the driver of the Group net cash during H1 was MMH, which reported cash of £57.2m (H1 '20: £27.4m). On this basis, the Group was carrying net debt of £33.7m (H1 '20: £1.7m) at the end of the period. The net result is consolidated net cash of £23.5m (FY20: £12.9m) and reflected the following: EBITDA of £57.6m (H1 '20: £1.0m, net capex of £2.5m (H1 20: £11.7m), and M&A expenditure of £10.7m (H1 20: £nil).

Group Outlook

Aerospace and Defence

The outlook for the **Aerospace** sub-division is both exciting and uncertain. The latter involves the decision to retire the RAF's C-130 fleet by March 2023, with future modification work beyond the third aircraft in the fleet's centre wing replacement, open to question. That said, MRO activity on the RAF's fleet continued at anticipated levels during H1, with no material change anticipated during the remainder of the year.

The excitement comes in the form of further USMC KC-130's scheduled to arrive in Cambridge before the end of the year. The question remains, can the USMC contract accelerate to the extent that it replaces the withdrawal of the UK MoD's fleet? To place it into context, of the 17 countries that Marshall supports for C-130 MRO//modification work, the RAF accounts for less than 10% of the total (14/150).

The Marshall ADG order book stood at £742m at the end of FY20, suggesting several year's work, with the non-RAF C-130 work amounting to £582m, with international orders on a rising trend.

Within **Land Systems**, the DVOW contract has commenced on the more complex, higher margin work with the relatively 'standard' work now complete. We anticipate some progress on the Gasket and DALO contracts during H2.

MGP

Phase 1b of the Marleigh development moved to the sales & marketing stage from mid-July, reflecting the near completion of the construction stage of phase 1a. With 72 units either completed, exchanged or reserved at the end of June, 21 properties remained available in the initial phase. Notwithstanding the ending of the stamp duty holiday, we think this suggests a stronger H2 in terms of home sales (a new Help to buy scheme was introduced).

Cambridge City Council and South Cambridgeshire District Council continue to create the Greater Cambridge Local Plan, overseeing the City's growth from 2030 to 2050. The Plan, once finalised, will provide a preferred option of how much development to plan for, and where it should be allocated. The Cambridge Airport site remains under discussion, with a decision on the inclusion of the Cambridge East development (and others) expected ahead of the year end. MGP continues to cooperate with the local councils and its development partners on this issue.

MMH

As suggested by the split in the 2021 dividend favouring the interim payment, the outlook for MMH in H2 currently remains unclear. Guidance on the FY21 outlook has been upgraded three times to an adj. PBT of not less than £40m (IFRS), stated after the repayment of the £4m of CJRS payments and retail grants. H1 21 adj. PBT was reported at £38.4m (IFRS).

The cautious stance on H2 reflects the following:

- Disruption to new car supply and potentially into FY22 (OEM production challenges and semiconductor shortages), as evidenced in July as UK car production fell to its lowest July performance since 1956, with just 53,438 vehicles produced (-37.6% y-o-y)
- The reduction in new car availability potentially impacting the supply of used cars (traditionally sourced through PCP renewals/trade-ins/OEM sales/fleet returns/demonstrator and courtesy car sales)

MMH continues to add to its portfolio of franchises and sites. In May, the division acquired the Cheltenham and Gloucester Jaguar Land Rover dealership, which will be relocated to a new site in Cheltenham. In June, a Nissan dealership was purchased in Leicester.

The Nissan and JLR acquisitions were loss-making, but MMH has a long history of turning such dealerships around. In early H2, a freehold was purchased in south London to consolidate three Audi sites, which should enable the disposal of two freeholds. Similarly, the purchase of a freehold in north Cambridge for conversion into a body shop, will replace two existing leasehold sites (one of which is a MGP freehold and once demolished will form part of the third phase of the Marleigh development).

The division retails light commercial vehicles (LCV) from 19 sites, of which 12 are standalone. There is an opportunity to expand the level of revenues from this area, both organically (leveraging the existing infrastructure) and to acquire standalone franchises. A new LCV Director has been appointed tasked with overseeing the expansion.

MFS

With an increased focus on food retail and home shopping deliveries, the bias in trading clearly favours H2. As such, we anticipate that Fleet Services will move into profit for the full year, as deliveries/revenues improve into Q4 in the run-up to Christmas.

MFS has launched a new renewables division focused on introducing new technology and innovations to reduce the emissions of high carbon fleets, while generating significant cost savings. Initially, the division will focus on the supply of HVO Green D + alternative fuel (which is fossil-free and manufactured from fat, waste vegetables and other oils and does not require modifications to vehicles). The fuel will be used in all types of diesel-powered engines, including refrigeration equipment.

The next stage is expected to be the launch of the Titan hybrid system that combines power generated from lightweight, high-powered solar panels and, a kinetic energy recovery system, to power on-board fridges and other vehicle and trailer applications. The system can be retrofitted, potentially turning existing vehicles into a low or no-carbon fleet.

The services offered by MFS are unmatched throughout the industry, consisting of:

- Fuel-efficient Thermo King transport refrigeration equipment
- Electrification equipment (now including solar power and solar kinetic energy), and
- HVO drop-in replacement for fossil fuel applications

The flagship services will be provided on a 26,000 sq ft. site in Tamworth, close to the M42/A5 motorway junction and due for completion in January 2022. In addition, the new Tamworth service centre will house a state-of-the-art multi-bay workshop, the company's national parts and accessories centre, plus the environmental/sustainable services. The new service centre will meet the division's medium term growth aspirations centred on the Thermo King transport refrigeration and tail lift 24/7/365 facilities. The Tamworth facility follows on from the new Avonmouth depot, which opened in 2020.

Martlet Capital

We anticipate the only news likely to emerge from Martlet Capital during H2 will be confirmation of the agreements reached with the proposed purchaser of the funds/investments.

Financials

Summary Income Statement				
Year to Dec, £m	**2017A**	**2018A**	**2019A**	**2020A**
Aerospace & Defence (MADG)	295.4	247.8	307.6	286.6
Property Rental	8.0	8.0	7.8	8.1
Marshall Motor (MMH)	2232.0	2186.9	2276.1	2154.4
Fleet Solutions	42.8	47.4	53.0	45.7
Intercompany	-24.2	-6.1	-6.5	-6.7
Revenue	2554.0	2483.9	2638.0	2488.1
Y-o-Y growth (%)		-2.7%	6.2%	-5.7%
CoGS	-2202.2	-2112.2	-2253.8	-2167.0
Gross profit	351.7	371.8	384.1	321.2
Gross margin (%)	13.8%	15.0%	14.6%	12.9%
EBITDA	61.7	57.7	59.6	65.7
% margin	2.4	2.3	2.3	2.6
Aerospace & Defence (MADG)	13.8	15.4	18.2	17.5
Property Rental	3.4	2.1	2.9	4.3
Marshall Motor (MMH)	34.1	32.0	29.9	30.2
Fleet Solutions	-1.4	-1.4	-1.2	0.2
Land sales & property development	0.0	0.0	0.0	0.0
Martlet	0.0	0.0	0.0	0.0
Central shared services	-7.0	-6.2	-8.2	-5.8
Adj. EBIT (pre-amortisation)	43.0	41.7	41.8	46.3
Aerospace & Defence (MADG)	1.2%	6.2%	5.9%	6.1%
Property Rental	42.7%	26.3%	37.7%	53.3%
Marshall Motor (MMH)	1.7%	1.5%	1.3%	1.4%
Fleet Solutions	-3.3%	-3.0%	-2.2%	0.4%
Total % EBIT margin	1.4%	1.7%	1.6%	1.9%
Net Interest	-8.9	-5.7	-6.6	-7.2
PBT (Adjusted)	34.7	36.0	35.2	39.1
Adj. Tax	-6.7	-11.1	-6.7	-8.5
Adj. PAT	28.0	25.0	28.5	30.6
Minority interests	-15.0	-1.9	-3.9	-3.5
Pref. dividends	-0.7	-0.7	-0.7	-0.7
Earnings	5.8	22.2	23.9	26.3
EPS (Adjusted) (p)	31.1	35.9	35.3	41.3
Dps (p) - Voting, ordinary	4.0	4.0	1.0	7.0
DPS (p) - NVPO	6.0	6.0	3.0	9.0
Ave no of shares (FD) (m)	59.1	59.1	59.1	59.1

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2017A	2018A	2019A	2020A
EBITDA	76.4	75.5	67.3	72.5
Working capital movement	9.8	34.4	24.5	29.5
Other	25.2	-58.4	-19.7	-16.1
Operating cash flow	111.4	51.5	72.1	85.9
Net Interest	-8.4	-6.4	-7.1	-7.4
Pref. dividends	-0.7	-0.7	-0.7	-0.7
Minority payment	-1.6	-1.8	-2.6	-1.9
Taxation	-2.6	-6.7	-3.4	-7.3
Cash earnings	98.0	35.8	58.3	68.6
Net capex	-31.3	-39.9	-45.6	-24.2
Post capex cash flow	66.7	-4.1	12.7	44.4
Dividends	-3.3	-3.3	-3.3	-3.3
Free cash flow	63.4	-7.4	9.4	41.1
Net (Acqns)/Disposals	44.3	-0.1	-28.2	-3.0
Share Issues	0.0	-1.0	-0.7	0.0
Other financial	20.3	0.1	-3.0	-0.3
Increase Cash/(Debt)	128.1	-8.3	-22.5	37.9
Opening Net Cash/(Debt)	-122.2	5.9	-2.4	-24.9
Closing Net Cash/(Debt)	5.9	-2.4	-24.9	12.9

Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

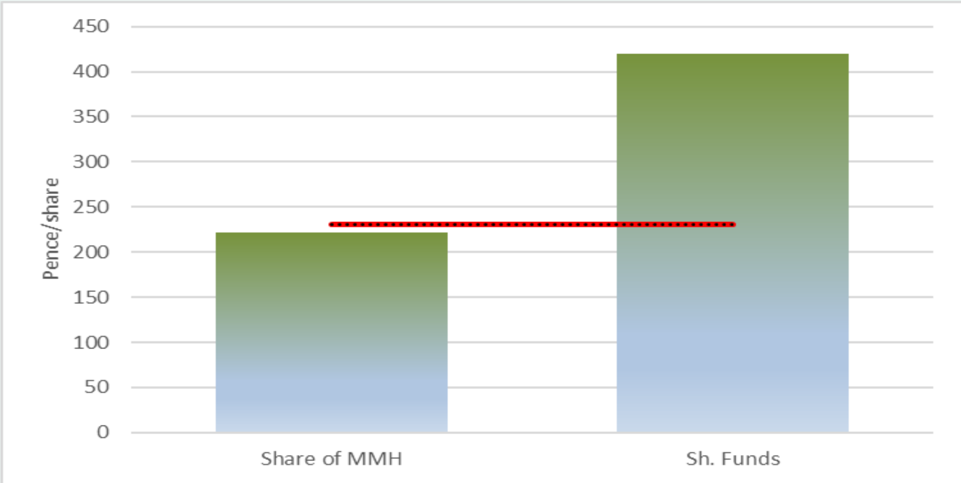
Year to Dec, £m	2017A	2018A	2019A	2020A
Intangible Assets	106.4	86.4	87.0	94.1
Tangible Assets	218.9	237.9	271.7	271.1
Investments/other	4.8	6.6	7.9	12.1
Net Working Capital	-15.7	-17.4	-17.9	-44.7
Capital Employed	314.4	313.5	348.6	332.6
Other	-6.1	-13.6	-28.1	-29.6
Net Cash/(Debt)	5.9	-2.4	-24.9	12.9
Provisions	-71.3	-36.5	-25.1	-31.2
Pension liability	-12.3	-9.9	-3.0	-4.6
Shareholders' funds	167.7	188.0	202.7	211.5
Non-controlling interest	-63.0	-63.1	-64.2	-68.6
Net Assets	230.7	251.1	267.6	280.1

Source: Company historics, Equity Development estimates

Valuation

We are of the opinion that the recent MCH matched trades (at 239p/share) have been at a level significantly below its fair value, which we intend to demonstrate within this section. Initially, we show this in the chart below. The bold horizontal line represents the current matched share price of MCH.

Recent traded share price is below cash & share of MMH, and NAV



Source: Company, ED

The market capitalisation of MMH was £200.8m immediately ahead of the publication of this research. MCH owns 64.41% of the automotive retailer, which equates to £129.3m, or 219p per share.

The shareholders' funds (excluding the MMH-related minority) stood at £248.2m at the H1 period end, which equates to 420p per share.

By contrast, the market capitalisation of Marshall of Cambridge in its entirety is currently £141.2m, attributing a value of just £11.9m (20.1p/share) to the remainder of the Group (excluding its share of its quoted subsidiary, MMH). Also, the current share price of 239p, sits at a 43.1% discount to the shareholder's funds per share.

Sum-of-the-parts valuation

We believe that we have demonstrated that MCH is undervalued - but what is it worth? We believe the ideal methodology is a sum-of-the-parts valuation (SOTP).

Commencing with the **Aerospace and Defence** business, we have assigned 85% of the 2021 average EV/EBITDA sector multiple to an estimate of the FY25 divisional EBITDA. **The average multiple for FY21 is 15.0x and 85% of which is 12.8x and our expectation for FY2025F EBITDA, is £39.6m, discounted by 12% per annum suggesting a valuation of £321.5m.**

The property business, **MGP**, is at a relatively early stage of the development process of the Cambridge Airport site. To date, two developments have commenced/achieved outline planning permission:

- Marleigh, comprising 160 acres and 1,300 homes and developed via a joint venture partnership,
- LNCH, which amounts to 1,200 units, of which 700 are on 70 acres of MCH owned land.

The latter was recently sold for a consideration of £34.5m, with initial cash proceeds of £8m, with the remainder due in four equal annual instalments. The influx of cash from the combination of residential unit sales and the disposal of LNCH has begun to emerge a year earlier than anticipated, largely a reflection the latter sale.

The 208 acres utilised across the two burgeoning developments form part of the 900-acre Cambridge Airport site. It is anticipated that the relocation of the airport would ultimately result in approximately 7,000 residential properties and 9,000 jobs created.

For every 100 acres that is freed up, excluding Marleigh's three phases and LNCH, we estimate this to be worth an incremental £60m to MGP. The 70-acre site, LNCH, recently sold for 493k per acre.

The development should be sufficiently completed to enable the airport site and related hangars to re-locate to a new home by 2030.

We anticipate two cash streams generated by MGP, rental and profits on disposal.

- Profits from developments
- Rental stream

The former we have valued at the estimated cash flow, discounted at 10% per annum, suggesting £85m. The property rental stream has been assigned a multiple of 11.3x on 2 x H1 2021 EBIT to produce, £82m. **On this basis, we feel that a reasonable valuation for MGP is, £166.4m.**

Moving to the Group's car retail subsidiary, **MMH**, we note the third upgrade to FY21 adj. PBT recently, suggesting profits of no less than £40m for the year. This is a remarkable achievement, buoyed by an extraordinary used car market but stated after the repayment of £4m of government funds. We further estimate combined depreciation, amortisation, and interest to add a further, c.£28m

MMH has consistently outperformed its peers and the wider market for several years and we envisage little reason for this to change. On this basis, we feel that trading on a rating below the average for the sector overcompensates for the relatively limited free float of the shares. As a result, we think that an EV/EBITDA valuation of 85% of the average FY21 sector multiple of 5.1x is more appropriate, that is, 4.3x.

Taking the FY23 EBITDA (a return to more normal trading patterns by then) and applying 85% of the above multiple and then discounting back by 12% pa, suggests a more appropriate valuation for **MMH** of £198.4m. Significantly, as we add the Group's net debt at the end of the SOTP valuation, this ignores any impact on the calculation of the net cash of £57.2m sitting on the **MMH** balance sheet. **We, therefore, need to add this on to our fair value calculation for MMH, which thereby amounts to £255.6m. MCH's share therefore amounts to a valuation of £164.6m. This view is predicated on our opinion that the management of the Motor Retailer will use the cash to purchase franchises/assets with a higher return than interest and thereby, boost profitability further.**

The **MFS** division moved to a modest profit during FY20, following several years of losses. We expect the division to build on this, with profitability to continue to improve over the medium term as the range of services increase and the food service and hospitality sectors return.

We have afforded the division a modest valuation (2.6x EV/EBITDA) on estimated FY25 profitability (EBITDA) and discounted back by a very conservative 12% per annum. **On this basis, we anticipate MFS to be worth c.£7.1m.**

Martlet Capital is in the final stages of being sold to a new venture, subject to approval by the management of the investee companies. **We expect consideration of c.£11m to be paid in cash, with 80% on completion of each investment transfer and the remainder in eight equal quarterly instalments commencing in Q3 2022.**

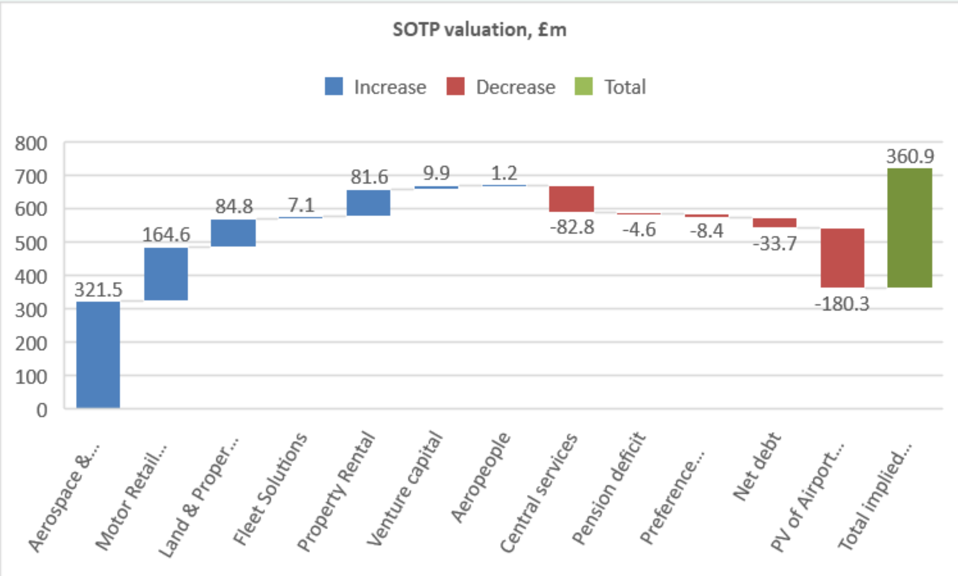
Aeropeople was disposed of in March for a valuation equating to its NAV, that is, £0.6m. A loan of £0.6m was provided to the business ahead of disposal, which results in expected cash proceeds £1.2m in due course.

In order to reach the valuation as stated in the SOTP chart, we subtract the following:

- Central services (8x central costs), equating to £82.8m
- Pension deficit of £4.6m at the end of H1 ‘21
- Preference shares of £8.4m
- Bank debt as of 30 June 2021, of £33.7m
- The PV of the top-of-the-range estimate of the cost of the airport move in 2030, at £180.3m

Excluding the above, this produces an implied equity value of £360.9m and equates to 611p per share. The value per share represents a 155.6% premium to the current share price of 239p.

SOTP valuation



Source: ED

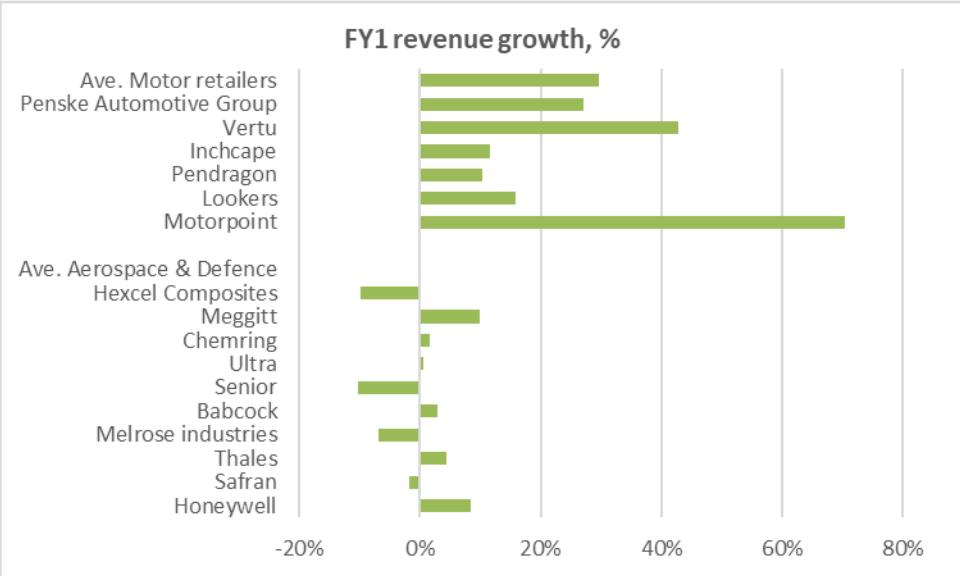
Assumptions that underpin our SOTP valuation	£m	Assumptions
Aerospace & Defence	321.5	85% of 2021 Sector rating x FY25 EBITDA, discounted at 12% pa
Motor Retail (64.41%)	164.6	85% of 2021 Sector rating x FY23 EBITDA, discounted at 12% pa, plus cash
Land & Property Development	84.8	Est. cashflow, discounted at 10% pa
Fleet Solutions	7.1	2.6x 2025 EV/EBITDA, discounted at 12% pa
Property Rental	81.6	11.3x 2021 EBIT
Venture capital	9.9	2020 market value of portfolio, minus March disposal
Aeropeople	1.2	Disposal proceeds and loan provided
Central services	-82.8	8x H1 '21 x 2 central costs
Pension deficit	-4.6	Pension deficit, net of tax at end 2018
Preference shares	-8.4	Hypothetical 7% yield into perpetuity
Net debt	-33.7	As at June 2021
PV of Airport move	-180.3	£500m cost at 2030, discounted at 12% pa
Total implied Equity Value	360.9	
Shares in issue, m	59.082	Voting & non-voting shares
ED Value / share p	**611**	
Current share price, p	239	

Source: Equity Development

Valuation benchmarks & Industry KPIs

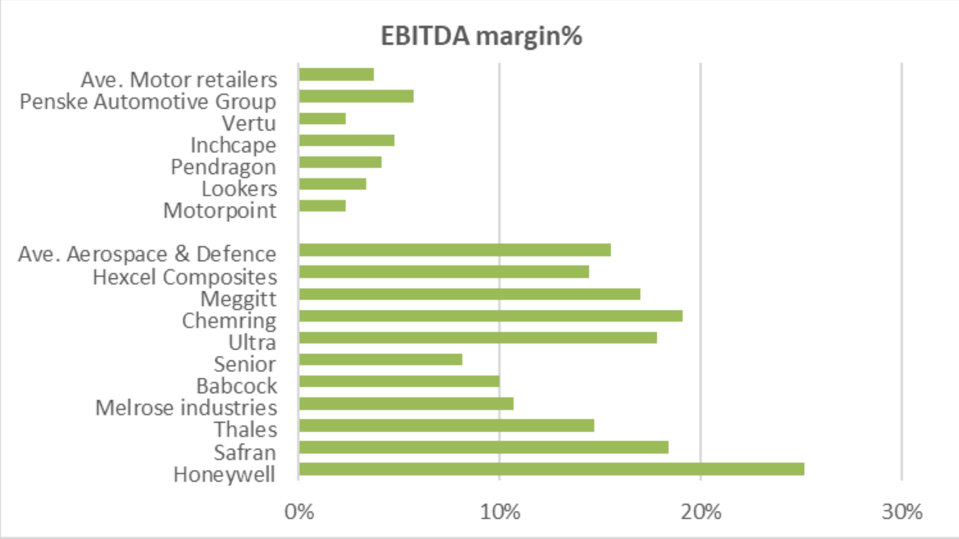
Aerospace and UK motor dealerships

Peer group comparison: FY1 revenue growth



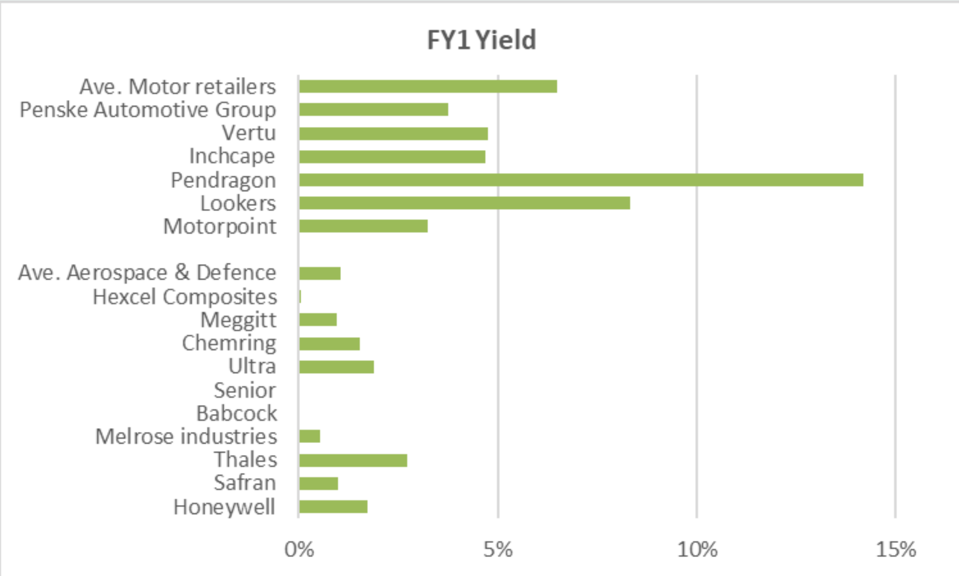
Source: Market Screener, ED

Peer group comparison: EBITDA margin



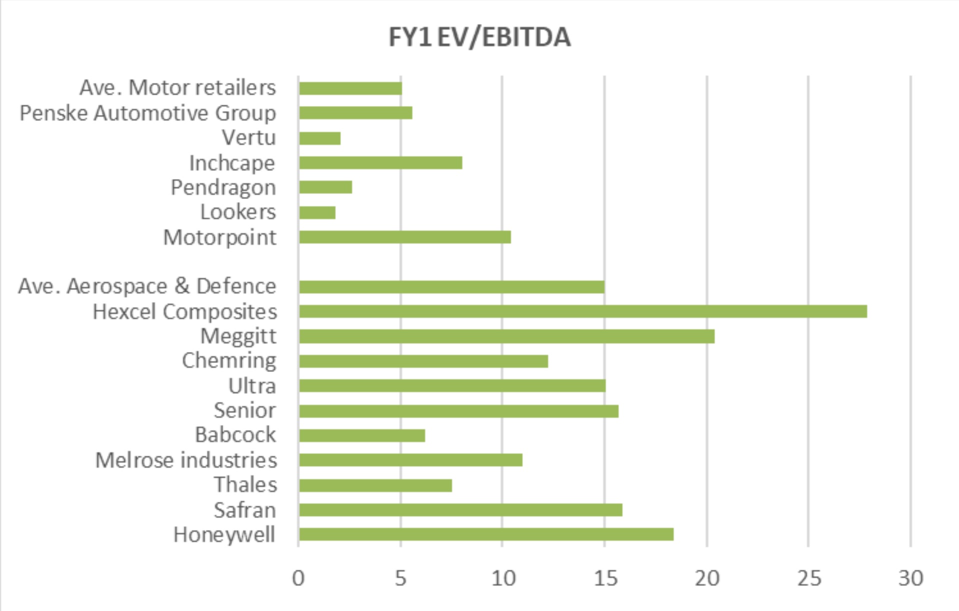
Source: Market Screener, ED

Peer group comparison: FY1 yield, %



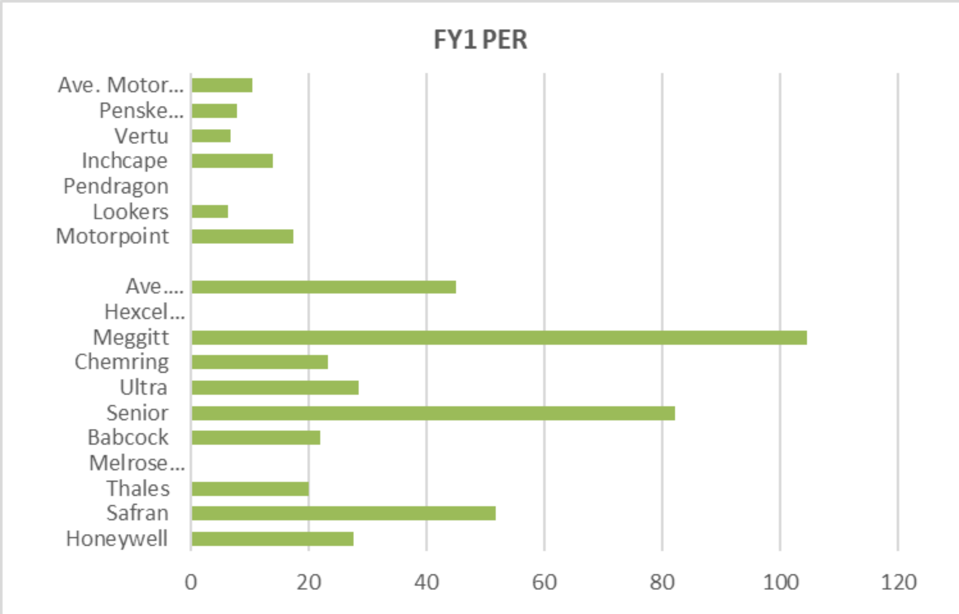
Source: market Screener, ED

Peer group comparison: FY1 EV/EBITDA multiples, x



Source: Market Screener, ED

Peer group comparison: FY1 PER, x



Source: Market Screener, ED

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