Marshall of Cambridge

A game of two halves

2 September 2019

The H1 results from Marshall of Cambridge were modestly below last year's outcome, largely reflecting the difficult market conditions within motor retail (MMH). However, what provides us with confidence for the full year outlook and beyond is the level of contract wins secured by the Group's aerospace & defence subsidiary (MADG).

Due to the planned investment undertaken within the business this year the dividend has been held. The balance sheet remains very strong, which will provide management with the firepower to take advantage of both M&A and investment opportunities, as they arise.

Divisional revenues at MADG in H1 were 8.9% higher year-on-year, and its order book increased markedly during the period to £900m. Even excluding the order book for the UK MoD C-130J fleet, whose contract was recently extended to 2035, the pipeline still rose 33% from the year-end to £600m. In addition, the Land Systems sub-division also grew its order book by 19% to £200m. The Global 6000 project work continues as anticipated, with the customer signing an in-territory support contract during H1. We believe that the commencement on the newer contracts should result in an even stronger H2 and beyond.

MMH delivered revenues marginally ahead (+0.9% on a like-for-like basis, including the dealership acquisitions), which markedly outperformed a deteriorating motor retail market and saw gross margins maintained at 11.4%. In the short-term challenges remain for MMH: a combination of Brexit (potential backlog of vehicle imports) and waning consumer confidence due to political and economic uncertainty, plus the potential for supply disruptions as new emissions legislation is introduced (WLTP).

H2 2019 is expected to be eventful for the Property division. Following the construction of the GRE to reduce noise pollution from the airfield, detailed planning permission is expected for the first phase of the Marleigh development. Infrastructure on the site is already in progress, with reservations for new homes anticipated during H1 2020. Outline planning approval for the development on land north of Cherry Hinton is expected during Q1 of next year.

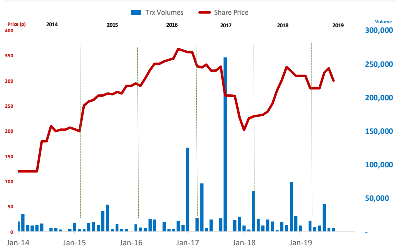
The new management team within Fleet Solutions has begun the process of turning the business around. The rising order book should result in a stronger H2 outcome, with the division moving to break-even in H2 2020.

Despite the strong capex/M&A expenditure during H1, the balance sheet remains very strong, with net debt of just £12.3m. We believe that this puts the group in a strong position to invest in the business whenever new contracts require that and, in the case of the MMH business, to add in-fill dealerships as opportunities arise.

Our expectation is that the strong pipeline of orders elsewhere is likely to offset any further malaise in the motor retail sector for H2 2019 and into 2020. **As a result, we have left estimates unchanged. However, incorporating additional peers to our SOTP valuation results in an increase in our fair value per NVPO share to 591p. That is almost twice the last average share price trade (300p).**

Marshall of Cambridge (Holdings) Ltd	
Last matched trades	300p
Implied market cap	£177.2m
ED valuation/NVPO share	591p
Ordinary share count	59.1m
Preference shares (NBV)	£8.4m
Net debt (Dec' 18)	£12.3m

Share Price, p



Source: Company

Description

Founded in 1909, Marshall of Cambridge (Holdings) Ltd (MCH) is a private, family-owned company, employing 5,786 staff.

In 2018, the business generated c.£58m of EBITDA on revenues of £2.5bn and has significant organic opportunities ahead. Not only accelerating expansion at its leading aerospace/defence (MADG) and motor retail businesses (MMH – 64.46% owned). Along with perhaps turning around its loss-making Fleet Solutions arm and providing a springboard for its high-tech venture capital investments. But also unlocking value from its 900-acre estate at Cambridge airport.

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

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Interim results

Summary interim results

£m	H1 2018	H1 2019	% change
Aerospace & Defence	126.7	138.0	8.9%
Property	3.9	3.8	-3.4%
Ventures - Motor retail	1162.9	1183.3	1.8%
Ventures - Fleet solutions	20.8	23.2	11.6%
Consolidation adjustments	-3.1	-2.3	
Total revenue	**1311.3**	**1345.9**	**2.6%**
Cost of sales	-1118.5	-1174.7	5.0%
Gross profit	192.8	171.2	-11.2%
Gross margin	14.7%	12.7%	-13.5%
Operating expenses	-170.0	-148.8	-12.5%
Net interest charge	-3.1	-3.3	4.4%
Exceptional items	20.1	-2.7	
Aerospace & Defence	6.4	7.0	8.9%
Property	1.2	1.9	66.1%
Ventures - Motor retail	16.5	15.2	-7.9%
Ventures - Fleet solutions	-0.6	-0.7	18.8%
Unallocated central costs	-3.7	-4.2	12.9%
Total adj. PBT	**19.7**	**19.2**	**-2.9%**
Aerospace & Defence	5.1%	5.1%	
Property	29.4%	50.6%	
Ventures - Motor retail	1.4%	1.3%	
Ventures - Fleet solutions	-3.0%	-3.2%	
Central costs	-0.3%	-0.3%	
Total PBT margin	1.5%	1.4%	
Taxation	-10.1	-3.9	
Adj. taxation	-5.8	-5.0	-13.6%
Tax	29.6%	26.3%	
Non-controlling interests	-3.7	-3.5	
Adj. Earnings	10.2	10.6	4.1%
Basic EPS (p)	43.4	14.7	
Adj. EPS (p)	17.2	17.9	4.1%
Dps on ordinary shares (p)	1.0	1.0	0.0%
Dps on NVPO shares (p)	3.0	3.0	0.0%
Net debt at period end	-6.2	-12.3	
Gearing	4.0%	7.2%	
Interest cover (x)	7.3	6.8	
NAV per share (p)	446.4	454.5	1.8%

Source: Company historics

The Group results for the six months to June were very positive in the context of an extremely difficult motor retail market. Strong progress within the Aerospace & Defence division (MADG) and in Fleet Solutions helped to drive an overall improvement in H1 revenues of 2.6% to £1,345.9m. Meanwhile, turnover within the Group's property division was modestly lower, falling 3.5% y-o-y.

MADG comprises Military Aerospace, Aerostructures, Land Systems, Major Projects, Advanced Composites and Aeropeople. The first three are responsible for the lion's share of divisional revenues and as a result shall remain our primary focus. The commonality between Aerostructures and Land Systems is their focus on advanced engineering and the management of clients' projects.

The MADG division delivered an 8.9% increase in revenues. However, what was vastly more encouraging was the growth in the order book. The overall aerospace order book increased to £900m or, excluding the UK MoD C-130J Hercules contract, £600m. The order book has increased by a third from the 2018 year-end. New contracts have been secured with several national air forces, predominantly focused on the maintenance, logistics support, provision of spare parts and ground support equipment. In addition, the Group will also provide related engineering services. Contracts have been signed with the following countries' air forces, with the Bahrain and US Navy contracts signed during H1:

- **Bangladesh**
- **Bahrain**
- **Sri Lanka**
- **France**
- **US Navy**

The contract signed with the US Navy for maintenance of its C-130J Hercules highlights the quality of service supplied by MADG. The aircraft was manufactured by Lockheed in the US.

In addition, MADG has signed a major contract with Boeing post-period end, to begin preparatory work on the RAFs five E-7 Wedgetail Airborne Early Warning & Control (AEW&C) programme. Ultimately, the contract facilitates the modification work of the B-737 Next generation aircraft into the E-7, including the fitting of Northrop Grumman's multi-role electronically scanned array (MESA) surveillance radar, communication and mission computer systems. The E-7 is expected to modernise the UK's airborne battle management fleet, with an ability to track both airborne and maritime targets simultaneously. The contract is expected to move from the preparatory stage to the modification stage in 2021.

Major Projects, which comprises the re-fitting/re-purposing of a Bombardier Global 6000 business jet into an advanced aircraft to the customer's exacting requirements (Global 6000 aircraft integration engineering project), delivered its first aircraft to a customer in May. This is currently undergoing extensive testing. Regulatory approval was obtained for the second aircraft in the programme, following successful flight testing in February. This aircraft continues to go through the re-fitting stage, and it is currently anticipated that the customer will take delivery prior to the end of the year.

Land Systems also saw a marked increase in its order book, which stood at just £60m at the beginning of 2018, rising to £170m by the year end. During H1, the order book increased by a further 19% to £200m. Major contracts on this front include work for:

- The UK MoD (Project GASKET, awarded in April 2019, whereby the Group will upgrade existing counter chemical, biological, radiological, nuclear and explosive vehicles)
- Denmark (EMC protection and Command & Control centres), secured during H1 2019 and,
- Netherlands army (£100m multi-year contract secured in early December 2018 but delivery commenced during H1 2019)

The variety of orders reflects the wide number of configurations available to MADG, generally providing support solutions ready to be deployed to battlefield situations/on operations.

The Property business is primarily responsible for the Group's land and buildings, plus the housing developments via joint venture companies. Revenues declined modestly during H1 2019, reflecting the reduction in rents from farmers occupying the land now under development. During the period, the division completed the construction of the noise reduction enclosure, which has undergone acoustic testing to determine the scale to which noise levels have declined while aircraft are undergoing assessments. We discuss this further within the financials section, including the cost of related capex. When detailed planning approval is forthcoming on the Marleigh site, construction should commence prior to the year end, with reservations taken during Q1 2020. The installation of the site's infrastructure is currently underway.

Marshall Motor Holdings (MMH) delivered an increase in revenues of 1.8%, markedly outperforming the market. Data from the SMMT suggests that in the year to June 2019, new car registrations declined 3.4% to 1.269m, while actual registrations in June fell 4.9% y-o-y to 223.4k. Over the same period, used car sales were 1.7% lower at 4.054m, with the strong uplift in demand for hybrid and electric vehicles (EVs) failing to offset the reduction in demand for used petrol and diesel models. Q2 used car sales fell at a higher pace, down 2.8% y-o-y.

Car market, H1 '19 vs H1 '18, in units ('000s) & % change

	H1 2018, units	H1 2019, units	% change	Market change, y-o-y, %
New car sales - retail	15803	16108	1.9%	
New car sales - lease	9396	9199	-2.1%	
Total new cars sold	**25199**	**25307**	**0.4%**	**-3.4%**
Used car units	22659	24330	7.4%	-1.7

Source: Company/SMMT

In contrast to the scale of the declines market wide, MMH delivered an increase in new vehicle sales of 0.4% (retail up 1.9%, with fleet units declining 2.1%), albeit translating into a l-f-l decline of 0.7% y-o-y. Revenue of new vehicles amounted to £569.1m (H1 2018: £584.6m, representing a decline of 3.6% on a like-for-like basis). Used car revenues rose 6.8% on a l-f-l basis and to £509.6m overall. Unit sales of used vehicles increased 7.2% against the corresponding period a year ago.

Aftersales increased by 1.8% on a l-f-l basis to £129.5m, aided by in excess of 70,000 customers with service plans (a means of spreading the cost of maintenance and a good retention tool). Overall MMH revenues rose 1.8% to £1,183.3m, which allowing for the acquisitions made since June 2018, translated to a l-f-l increase of 0.9%.

Despite used vehicle residuals falling during Q2 and a higher proportion of lower margin vehicle parts sold in the aftermarket, the divisional gross margin was static at 11.4%. The impetus behind the flat gross margin was the 73bp uplift on new vehicle sales to 7.7%, helped by an improved product mix.

Revenues in **Fleet Solutions**, the UK's leading support operation for refrigerated delivery trucks, increased by an impressive 11.6% to £23.2m. New management was introduced in late 2018 and has sought to move the business up the value chain (and the current environment of competitive pricing), increase product differentiation, reduce overheads and increase market share. The improving order book is set to underpin improvement y-o-y for the full-year, in our opinion. What does that mean? We expect that the improvement to the top and ultimately bottom-line is likely to result in the best adj. pre-tax result since FY2015A, albeit still a loss of £0.5m.

The Group's venture capital funds, **Martlet and MarQuity**, invest in high-tech start-ups situated in and around Cambridge. Performance during H1 was a continuation of positive returns, with cash realised from the disposal of an investment. In addition to several follow-on investments, the fund also added one new company to the fund. The portfolio was valued at £6.6m at the end of December 2018.

Higher investment levels led to an increase in costs

Owing to the information that is available we have split costs into Marshall Group minus MMH and MMH separately. The trends are quite marked. Taking MMH first, overall costs (CoGS and OpEx) rose by just 1.8% y-o-y to £1,163.1m, resulting in the EBIT margin declining slightly to 1.7% (H1 2018: 1.8%). This followed a static gross margin of 11.4%. What is clear is that as the car retail market deteriorated, MMHs management team sought to conserve both cash and to invest in the business only where necessary.

On examining the costs of the remainder of Marshall of Cambridge, what becomes quite apparent is the investment that has clearly taken place in the business y-o-y. Overall costs (CoGS and OpEx) increased 9.5% y-o-y to £160.4m (from £146.4m a year earlier). The strengthening of the order book, coupled with the commencing of preparatory work in the first residential housing phase at Marleigh and the associated construction of GRE, firmly warranted management's decision to invest in the business. Had this not been the case, then we believe that bottlenecks in production would have been created, particularly within the large projects the MADG business undertakes. That said, the overall EBIT margin declined just 8 bps to 1.7% y-o-y, or by £0.4m to £22.4m.

Interest payable rose £0.2m or by 4.4% to £3.3m, which reflects the rise in net debt to £12.3m. This is £9.9m ahead of the FY2018A year-end position, reflecting the extent of capex and acquisition-led investment during H1. Adj. PBT declined 2.9% y-o-y to £19.2m, reflecting the increase in costs and financing charges. In view of the turmoil in the motor retail market and requirement to invest in the business during H1, we think this is an excellent result.

Adj. EPS improved 4.1% to 17.9p per share, in part-reflecting a decline in the level of tax paid. The dividend was held at 1p per ordinary share and 1p per NVPO share. However, the priority dividend of 2p per NVPO share was also announced, which was in-line with last year's pay-out. Once the current investment phase completes in late 2020, we expect dividend growth to resume.

Strong cash flow

Cash flow from operating activities was strong and equated to 83.4% of operating profit, highlighting the strong inherent cash flow of the Group. Capex was relatively high during H1, amounting to a net £20.9m, with a further £5.6m of expenditure on acquisitions within MMH. MADG was very busy, with spend on the repair and upgrade of several hangars at the Cambridge Airport head office site. Significant costs included the refurbishment of Hangar 10 (£2.2m) and the completion of the new Aircraft Ground Running Enclosure (GRE) to reduce noise pollution levels from the testing of aircraft on site. The construction of the GRE was essential in order to achieve planning consent for the building phase of the Marleigh new home development site.

On top of the heavy capex profile, the Group saw several provisions unwind during the period, which related to a combination of lease dilapidations, redundancies, closed sites and warranties.

During the period, MMH purchased six Skoda dealerships at a cost of £5.6m. MMH is now Skoda's largest UK retailer (with 11 sites) and taking the number of dealerships to 106 (end H1 2018: 101), across 23 brands. Capex at MMH amounted to £7.3m net, including one freehold property (Northampton Skoda) at a cost of £1.7m. Highlights included the development of a new single site premises for the Jaguar and Land Rover franchises in Lincoln; a relocation of the Ford franchise in Cambridge and the transfer of its Nissan franchise to a new site in Lincoln. Work continued on the upgrade of the Group's remaining Jaguar and Land Rover franchises and is expected to be completed next year.

MMH paid £6m to eliminate its defined benefit pension deficit during H1. Despite this, the capex and acquisition of dealerships and the increase in the dividend, its net cash position improved to £5.8m (H1 2018: £0.9m).

Outlook for estimates

Looking forward, we believe there to be several areas that will determine whether our estimates will be met for the full-year and beyond. We have previously highlighted the strong pipeline of new orders within MADG, both within the Aerostructures and the Land Systems sub-divisions. Our expectation is that with the new work having commenced, H2 2019 is likely to be stronger than H1 (which was up 8.9% y-o-y). With the order book covering the medium to long term, coupled with the recent announcement that the UK MoD is to extend the life of the Hercules C-130J until 2035 (from 2030 previously and beyond the scope of the current forecasts), we believe the outlook for the MADG division is currently looking very healthy over the short and long term.

However, we should be aware that costs, particularly within the Major Projects portion of MADG, could escalate and throw the full-year result into question. That said, our belief is that key lessons have been learned in the last two years and the legacy issues resolved, thereby reducing the risks of costs escalating again. Indeed, such is the customer's satisfaction with how the contract has progressed, that an in-territory support contract was signed during H1.

We anticipate that the next 12-months are likely to be very eventful for the Group's Property division. Following the construction of the GRE, we anticipate a relatively imminent approval of the first phase of the housebuilding joint venture (Marleigh) north of the 900-acre airfield plot.

Planning approval for the development on the land north of Cherry Hinton is expected during Q1 2020 at the latest. With infrastructure works continuing at the Marleigh site, reservations for new homes will begin next year. We anticipate profits building from 2021, as properties are sold, while 2020 is likely to show modest profits.

We continue with a cautious outlook for H2 2019 for the motor retail business, MMH, which is likely to continue in a similar state for much of 2020 before commencing recovery from 2021. Not only is the business weighted towards H1 with the registration of new vehicles generally skewed in favour of March rather than the September plate change (54.8:45.2 average split in the last four years) but, we expect further issues, such as:

- Brexit on 31 October, potentially increasing the cost and logistical difficulties associated with importing new vehicles
- In addition, to the uncertainty surrounding Brexit and the resultant nervousness surrounding making significant purchases, consumers may also be affected by the current political uncertainty
- Reduced supply of new vehicles owing to the introduction of emissions legislation (WLTP) for light commercial vehicles (with the introduction of the legislation for passenger vehicles occurring last year), which is expected to place further pressure on manufacturers

Traditionally, the Fleet Solutions division performs more strongly during H2 and we anticipate that the current year will prove no exception. Management commented on the improved order book, which underpins our belief of a better H2. Moving forward, we anticipate the relatively new management team to further improve the performance of the division into 2020 and beyond, resulting in a move to a break-even position.

Were we to compare the H1 result and what that leaves the Group to achieve in H2, then we believe that our anticipated outcome is very achievable, notwithstanding the difficult H2 expected within MMH. Operating profit amounted to £22.4m in H1, with adj. PBT of £19.2m and adj. EPS of 17.9p. By comparison, our FY profitability estimates are:

- **FY2019 EBIT estimate of £36.5m, implying 39% of the FY target to be delivered in H2**
- **FY2019F adj. PBT estimate of £29.0m, implying 34% of the target to be delivered in H2**
- **FY2019F adj. EPS estimate of 27.2p, implying 34% of the target to be delivered in H2.**

Traditionally, the average H1:H2 split of profits in the last four years has been 40.3%:59.7%, although the ratio was 50:50 in FY2017A. While we need to take a cautious stance, our belief is that notwithstanding the risk to estimates at MMH owing to the difficult car retail market, the underpinning of the MADG business by government-backed military’s gives us a relatively high degree of confidence on the immediate outlook.

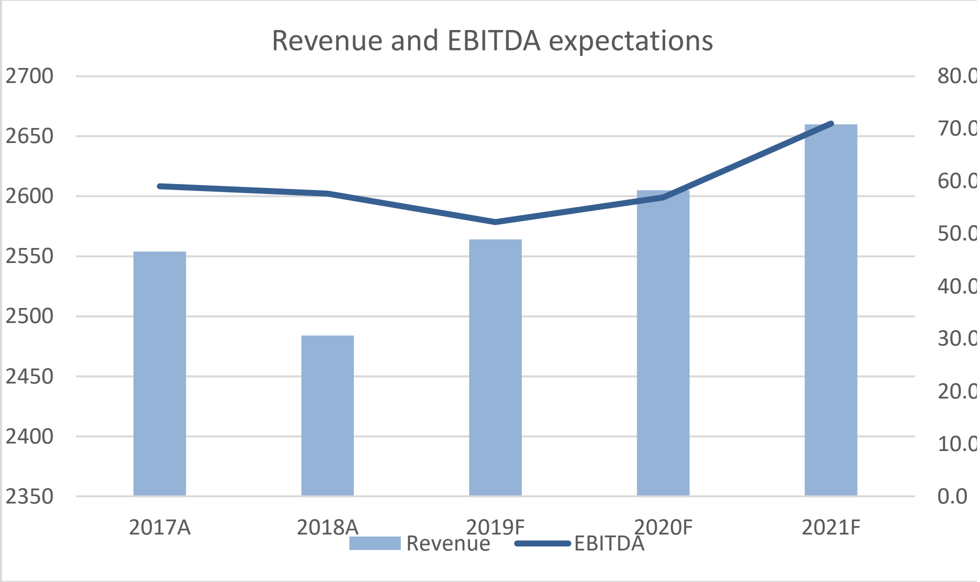
As a result, we are leaving estimates unchanged at this stage.

Summary Income Statement

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
Aerospace & Defence (MADG)	295.4	247.8	272.6	299.8	329.8
Property Rental	8.0	8.0	8.0	8.0	8.0
Marshall Motor (MMH)	2232.0	2186.9	2240.0	2251.2	2273.7
Fleet Solutions	42.8	47.4	49.8	52.3	54.9
Intercompany	-24.2	-6.1	-6.2	-6.4	-6.5
Revenue	**2554.0**	**2483.9**	**2564.1**	**2605.0**	**2659.9**
Y-o-Y growth		*-2.7%*	*3.2%*	*1.6%*	*2.1%*
CoGS	-2202.2	-2112.2	-2153.4	-2177.9	-2203.8
Gross profit	**351.7**	**371.8**	**410.7**	**427.1**	**456.2**
Gross margin	*13.8%*	*15.0%*	*16.0%*	*16.4%*	*17.1%*
EBITDA	**59.1**	**57.6**	**52.2**	**56.9**	**71.0**
% margin	2.3	2.3	2.0	2.2	2.7
Aerospace & Defence (MADG)	13.8	15.3	16.0	20.0	24.0
Property Rental	2.7	2.0	2.1	2.1	2.3
Marshall Motor (MMH)	34.1	31.9	27.0	27.0	28.5
Fleet Solutions	-1.4	-1.5	-0.5	0.0	0.3
Land sales & prop development	0.0	22.6	1.2	2.6	21.2
Other/Contingency	0.0	0.0	-2.0	-2.0	-2.1
Central shared services	-6.2	-6.0	-7.3	-7.4	-7.5
Adj. EBIT (pre-amortisation)	**43.0**	**64.4**	**36.5**	**42.3**	**66.6**
Aerospace & Defence (MADG)	*4.7%*	*6.2%*	*5.9%*	*6.7%*	*7.3%*
Property Rental	*33.2%*	*25.6%*	*25.7%*	*26.4%*	*29.1%*
Marshall Motor (MMH)	*1.5%*	*1.5%*	*1.2%*	*1.2%*	*1.3%*
Fleet Solutions	*-3.4%*	*-3.1%*	*-1.0%*	*0.0%*	*0.5%*
Total % EBIT margin	***1.7%***	***2.6%***	***1.4%***	***1.6%***	***2.5%***
Net Interest	-8.3	-5.7	-7.5	-8.0	-7.5
PBT (Adjusted)	**34.7**	**58.7**	**29.0**	**34.3**	**59.1**
Adj. Tax	-6.7	-11.1	-6.1	-7.2	-12.4
Adj. PAT	28.0	47.5	22.9	27.1	46.7
Minority interests	-8.7	-7.4	-6.1	-6.1	-6.5
Pref. dividends	-0.7	-0.7	-0.7	-0.7	-0.7
Earnings	**18.6**	**39.4**	**16.1**	**20.3**	**39.5**
EPS (Adjusted) (p)	**31.4**	**66.7**	**27.2**	**34.3**	**66.8**
Dps (p) - Voting, ordinary	4.0	4.0	4.0	4.9	5.9
DPS (p) - NVPO	6.0	6.0	6.0	6.9	7.9
Ave no of shares (FD) (m)	59.1	59.1	59.1	59.1	59.1

Source: Company historics, Equity Development estimates

Revenue and EBITDA outlook



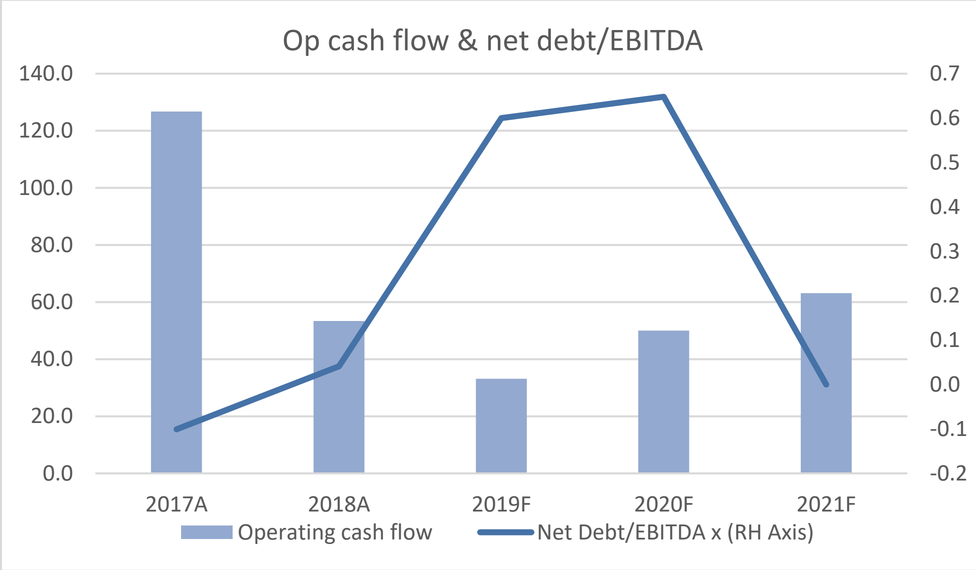
Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
EBITDA	59.1	57.6	52.2	56.9	71.0
Working capital movement	42.5	34.4	-4.1	-5.9	-7.9
Other	25.2	-38.6	-15.0	-1.0	0.0
Operating cash flow	126.7	53.4	33.2	50.0	63.1
Net Interest	-8.4	-6.4	-7.5	-8.0	-7.5
Pref. dividends	-0.7	-0.7	-0.7	-0.7	-0.7
Minority payment	-1.6	-1.8	-8.0	-6.6	-11.2
Taxation	-2.6	-6.7	-8.0	-6.6	-11.2
Cash earnings	113.4	37.7	8.9	28.0	32.5
Net capex	-31.3	-39.9	-36.9	-41.1	-26.0
Post capex cash flow	82.1	-2.2	-28.0	-13.1	6.5
Dividends	-3.3	-3.3	-3.3	-3.4	-4.0
Free cash flow	78.8	-5.5	-31.2	-16.6	2.5
Net (Acqns)/Disposals	44.3	-0.1	-3.5	0.0	0.0
Share Issues	0.0	-1.0	0.0	0.0	0.0
Other financial	5.0	-1.8	5.8	11.0	8.0
Increase Cash/(Debt)	128.1	-8.3	-28.9	-5.6	10.5
Opening Net Cash/(Debt)	-122.2	5.9	-2.4	-31.3	-36.9
Closing Net Cash/(Debt)	5.9	-2.4	-31.3	-36.9	-26.4

Source: Company historics, Equity Development estimates

Operating cash flow and net debt/EBITDA expectations



Source: Company historics, Equity Development estimates

Abbreviated Balance Sheet

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
Intangible Assets	112.3	94.8	89.8	84.9	80.0
Tangible Assets	218.2	237.9	257.9	281.8	290.2
Investments/other	4.8	6.6	9.1	11.6	14.1
Net Working Capital	-15.0	-17.4	-4.1	-5.9	-7.9
Capital Employed	320.3	321.9	352.7	372.4	376.4
Other	-18.4	-23.5	-23.5	-23.5	-23.5
Net Cash/(Debt)	5.9	-2.4	-31.3	-36.9	-26.4
Provisions	-72.3	-37.9	-32.9	-31.9	-31.9
Net Assets	235.6	258.1	264.9	280.1	294.6

Source: Company historics, Equity Development estimates

Key ratios

Year to Dec, £m	2017A	2018A	2019F	2020F	2021F
Continuing revenue growth %	N/A	-2.7%	3.2%	1.6%	2.1%
Gross Margin %	13.8%	15.0%	16.0%	16.4%	17.1%
Op margin %	1.7%	2.6%	1.4%	1.6%	2.5%
PBT Margin (Adjusted) %	1.4%	2.4%	1.1%	1.3%	2.2%
Net Debt/EBITDA x	-0.1	0.0	0.6	0.6	0.4
Gearing %	-2.5%	0.9%	11.8%	13.2%	9.0%
Net Capex / Depreciation x	-1.1	-1.3	-1.1	-2.6	-1.5
Working Capital / Sales %	-0.6%	-0.7%	-0.2%	-0.2%	-0.3%
Net Capex / Sales %	1.2%	1.6%	1.4%	1.6%	1.0%
Interest Cover x	5.2	11.3	4.9	5.3	8.9
Dividend Cover x	5.2	11.1	4.5	5.0	8.5
EV/Sales x	0.1	0.1	0.1	0.1	0.1
EV/EBITDA x	3.2	4.4	2.1	2.1	3.6
EV/CFBIT x	3.7	4.7	1.5	2.2	5.3
PER (Adjusted) x	9.5	4.5	11.0	8.7	4.5
Dividend Yield %	2.0	2.0	2.0	2.3	2.6
Price/book value x	0.8	0.9	0.8	0.7	0.7
FCF Yield	46.3%	-1.3%	-15.8%	-7.4%	3.7%

Source: Equity Development

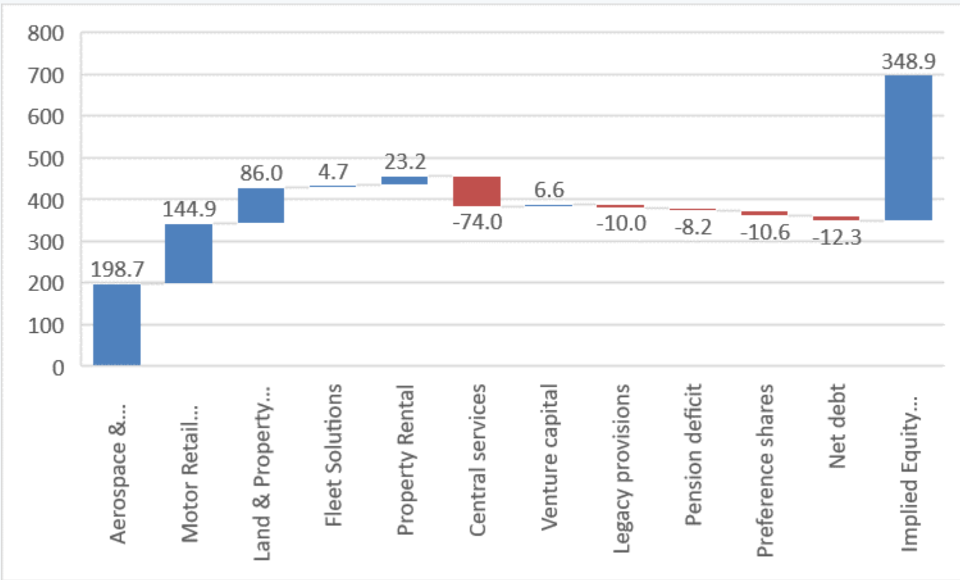
Valuation

Our sum-of-the-parts valuation (SOTP) for Marshall of Cambridge is, we believe, relatively conservative, taking 85% of the market rating of its peers in order to generate a value for the Group's two largest divisions, MADG and MMH. Despite not upgrading estimates at this stage, the valuation has increased. The primary reason for this is that we have included all of the UK-quoted motor retailers (Penske Automotive Group, PAG:US was previously not included), as well as adding peers who are heavily involved in the UK used car market (Autotrader and BCA Marketplace). In generating a value for the Group's aerospace & defence business, we now include Hexcel Corporation, reflecting the small composites business within MADG.

As a result of such changes, our valuation has increased to £348.9m. This represents a share price of 591p, which is 96.9% above the most recent traded price of 300p.

One should point out that our valuation excludes any further upside arising from additional land being made available for redevelopment.

SOTP valuation for Marshall of Cambridge £m



Source: Equity development

Assumptions underpinning our SOTP valuation

	£m	Assumptions
Aerospace & Defence	198.7	85% of Sector EV/EBITDA rating x FY20220 EBITDA, discounted at 12% pa
Motor Retail (64.46%)	144.9	85% of Sector EV/EBITDA rating x FY2019 EBITDA
Marshall Land & Prop. develpt.	86.0	Est. cashflow, discounted at 12% pa
Fleet Solutions	4.7	2.6x 2025 EV/EBITDA, discounted at 12% pa
Property Rental	23.2	11.3x 2019 EBIT
Central services & contingency	-74.0	8x 2019 central costs & contingency
Venture capital investments	6.6	2018 market value
Legacy provisions	-10.0	To be settled in 2019
Net defined benefit obligation	-8.2	Pension deficit, net of tax at end 2018
Preference shares	-10.6	Hypothetical 7% yield into perpetuity
Net debt (June 2019)	-12.3	
Implied Equity Value	348.9	
Shares in issue, m	59.1	Voting & non-voting shares
Valuation per share	**591p**	
Current share price	300p	

Source: Equity Development

The shares in MCH are unlisted but can be bought and sold freely

It is possible to buy the non-voting priority ordinary shares (of which there are 43.5m in circulation), using an exchange administered by James Sharp & Co (Contact: Josh McArdle, on 0161 764 4043).

Investor Access

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