

# Marshall of Cambridge Holdings



## Outlook remains promising

07 September 2020

**The over-riding feature of the Interim results from Marshall of Cambridge Holdings (MCH) was the impact of the COVID-19 related lockdown across the businesses. However, looking forward there are many grounds for optimism. The order book remains high, with a strong pipeline of opportunities available and a rapid bounce-back in the automotive retail market. Indeed, the resumption of dividend payments highlights Management's confidence.**

**Furthermore, we regard the NAV of 315p / share at the half-year as strongly supporting valuation. Unlocking the long-term value in the assets base continues unabated, notwithstanding modest delays due to lockdown. We retain our fair value / NVPO share at 532p.**

While the results were disappointing, the performance of the business pre-and-post-lockdown was ahead of last year and prospects remain encouraging. Typically, the gears move slowly within government machines, but the lockdown further delayed the decision-making process. Yet no projects have been cancelled, and the pipeline of opportunities remains as strong as pre-lockdown, with suggestions in some quarters that spending on defence could, in fact, improve over the medium term. Notably, the order book within MADG remains high at £763m at the end of June (72% of this is unrelated to the Hercules C-130J programme with the RAF), equating to several years' work and aided by numerous new wins during H1.

The first half proved momentous for Marshall Group Properties (MGP) as the sales & marketing suite for the Marleigh development opened during the period. Several reservations were made, with the initial residents expected to move in during late Q4. The Group's second development, the Land North of Cherry Hinton (LNCH), received the resolution to grant planning permission, with the necessary s106 approval expected imminently, ahead of preparatory work commencing on the site.

The motor retail business, MMH, markedly outperformed its peers within the new car market, with levels of trading recovering strongly from 1 June. One benefit of lockdown was the unravelling of working capital within MMH, resulting in the Group moving to a net cash position by the period end (£25.7m, representing a £50.6m turnaround from the 2019-year end position).

The loss-making Fleet Solutions (MFS) performed well during the period. With the hospitality sector closed during the lockdown, the reorganised business under new management sought additional customers elsewhere. MFS added the NHS to its roster of clients during the period, and importantly, the strong demand for online grocery shopping proved helpful. MFS moved markedly closer to breakeven during H1.

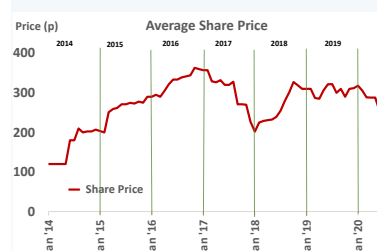
There is understandable caution at the current time, owing to the potential for further pandemic related lockdowns. However, the positive factors outlined above underpin our optimism for the future.

**The shares are strongly underpinned by the NAV and the potential within the asset base, which encourages us to retain our fair value /NVPO of 532p.**

### Company Data

Last matched shares trade	255p
Implied market cap	£151m
ED fair value / NVPO share	532p
Ordinary share count	59.1m
Preference shares (NBV)	8.4m
Net cash (June '20)	£25.7m

### Share Price, p



Source: ED, J Sharp

### Description

Founded in 1909, Marshall of Cambridge (Holdings) Ltd (MCH) is a private, family-owned company, employing 6,365 staff (as at Dec '19).

In 2019, the business generated c.£60m of EBITDA on revenues of £2.6bn and has significant organic opportunities ahead. Not only accelerating expansion at its leading aerospace/defence (MADG) and motor retail business (MMH – 64.46% owned). Along with perhaps turning around its loss-making Fleet Solutions arm (MFS) and providing a springboard for its high-tech venture capital investments, the Group is 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:

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## Interim results

2020 Interim results			
£m, 6m to 30 June	H1 2020A	H1 2019A	YoY change
Aerospace and Defence	132.9	138.0	-3.7%
Property	3.3	3.8	-13.9%
Ventures - Motor retail	895.3	1183.3	-24.3%
Ventures - Fleet Solutions	19.7	23.2	-15.3%
Consolidation adjustments	-2.8	-2.3	20.1%
<b>Total revenue</b>	<b>1048.3</b>	<b>1345.9</b>	<b>-22.1%</b>
Cost of sales	-891.53	-1174.73	-24.1%
<b>Gross profit</b>	<b>156.8</b>	<b>171.2</b>	<b>-8.4%</b>
<i>Gross margin, %</i>	<i>15.0%</i>	<i>12.7%</i>	
Operating expenses	-168.7	-148.8	13.4%
Other Op income	0.0	0.0	
Aerospace and Defence	0.2	7.0	-96.9%
Property	1.5	1.5	1.9%
Ventures - Motor retail	-4.5	18.7	-124.0%
Ventures - Fleet Solutions	-0.2	-0.7	-71.0%
Unallocated central costs	-8.9	-4.0	123.8%
<b>Group adj. EBIT</b>	<b>-11.9</b>	<b>22.4</b>	<b>-153.2%</b>
<i>Aerospace and Defence</i>	<i>0.2%</i>	<i>5.1%</i>	
<i>Property</i>	<i>46.5%</i>	<i>39.3%</i>	
<i>Ventures - Motor retail</i>	<i>-0.5%</i>	<i>1.6%</i>	
<i>Ventures - Fleet Solutions</i>	<i>-1.1%</i>	<i>-3.2%</i>	
<b>Group adj. EBIT margin, %</b>	<b>-1.1%</b>	<b>1.7%</b>	
Net interest charge	-3.6	-3.3	8.2%
Exceptional items	-3.8	-2.7	
<b>Adj. PBT</b>	<b>-15.5</b>	<b>19.1</b>	<b>-180.9%</b>
Taxation	-0.3	-3.9	
<i>Tax, %</i>	<i>-1.6%</i>	<i>20.2%</i>	
Non-controlling interests	-4.9	3.5	
Adj. Earnings	-20.6	18.7	
<b>Adj. EPS (p)</b>	<b>-18.4</b>	<b>17.9</b>	
<b>Div. on ordinary shares (p)</b>	<b>1.0</b>	<b>1.0</b>	<b>0.0%</b>
<b>Div. on NVPO shares (p)</b>	<b>3.0</b>	<b>3.0</b>	<b>0.0%</b>
Net cash/(debt) at period end	25.7	-12.3	-308.7%
Gearing, %	-13.8%	6.2%	-321.9%
Interest cover (x)	Net cash - N/A	6.8	
<b>NAV per share (p)</b>	<b>314.6</b>	<b>334.4</b>	<b>-5.9%</b>

Source: Company

Marshall of Cambridge Holdings (MCH) has issued results for the six months to June. The key features of the results are:

- The significant impact of the COVID-19 related lockdown on revenues and financials
- Re-instatement of the dividend, highlighting confidence in the outlook
- Payment of the preference dividends for the whole of 2020 (A and B shares)
- The outlook is strongly underpinned by the order book, with several new contract wins
- Opening of the Marleigh sales and marketing office
- Securing planning approval for the Land North of Cherry Hinton (LNCH)
- A re-setting of covenants/extension of banking arrangements
- Net cash at the period end of £25.7m, representing a turnaround of £50.6m from the 2019-year end.

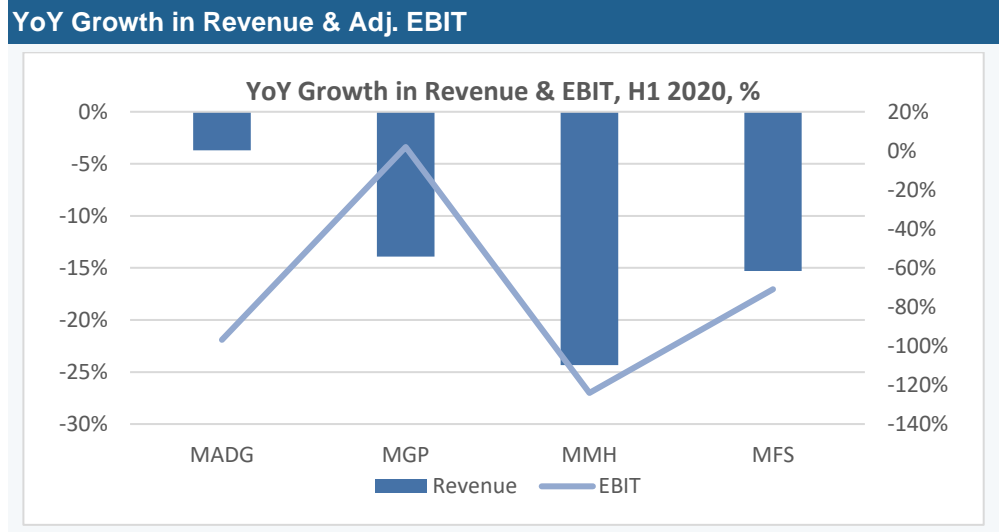
The first half of 2020 was overshadowed by the 10-weeks lockdown period in England, during which severe restrictions were placed on working practices, with many staff either deemed vulnerable (and absent as a result) or placed on furlough. As such, it is hardly surprising that in comparison with a 'normal' year, the results appear mixed. That said, we believe there to be reasons for cautious optimism, which we hope to demonstrate within this review.

**MCH remained busy and supportive during the pandemic.** In addition to supporting the development of the Exovent negative pressure ventilator, the Group was involved in:

- The 3-D printing of components for PPE
- The delivery of PPE and NHS equipment in conjunction with its partners
- The Group continued to work tirelessly in its community providing free meals and, free face masks to care homes
- More than 20,000 service calls to repair temperature-controlled vehicles within MFS
- 62 workshops remained open to provide essential services to key workers, despite the MMH dealerships remaining closed.

This optimism was visible in the decision to re-instate dividend payments following the cancellation of the 2019 final disbursements at the beginning of the crisis. The levels of dividend were unchanged from last year, at 1p per ordinary share and 3p per NVPO share.

The preference dividend for 2020 was paid on each of the 'A' and 'B' shares, at 8p and 10p, respectively. This comprises the late payment of the April instalment and the early disbursement of October's coupon.

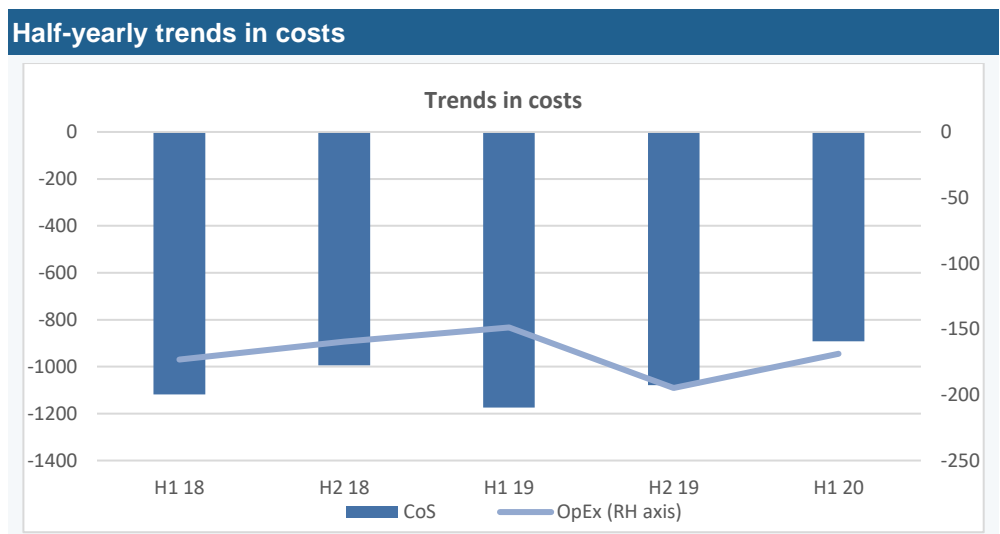


Source: Company, ED

Although 2020 had started well, following the UK entering lockdown, the focus of management was firmly on the safety of employees, cash generation/preservation and a reduction of costs – both on a temporary and permanent basis. Overall revenue declined 22.1% to £1.05bn, with the Motor retail business at one extreme (a revenue decline of 24.3% y-o-y), with MADG at the other (revenue falling by a very modest 3.7% over the same period).

Cost of sales fell 24.1%, mainly reflecting the 23.7% decline in MMH y-o-y, resulting in a gross margin of 15.0% (H1 2019: 12.7%). OpEx increased by 13.4% to £168.7m, which reflected:

- A combination of new working practices, slowing the pace of several projects at MADG
- Operationally geared nature of the business, with costs generally fixed in the short-term
- Central costs rising 123.8% to £8.9m, because of prudent provisioning for restructuring and discretionary spend in H2.



Source: Company, ED

Government schemes were of help and highlighted by the example of MMH who saw 90% of its employees on furlough shortly following the lockdown-related closure of its retail units in late March. Significantly, the Group did not cap furloughed salaries at the government recommended limit of £2,500, taking a longer-term view with regards to employee retention.

Management acted to remove costs permanently, rightsizing the business and resulting in exceptional costs of £0.5m during H1. A further £3.3m of such costs were included during the period and related to expenses associated with the COVID-19 pandemic. The exceptional costs can be split between MMH (£3.3m) and MADG (£0.5m).

Adjusting for the exceptionals, the turnaround in EBIT of £34.3m led to an £11.9m loss. Management estimates that the impact of the temporary closure of the motor retail units within MMH reduced profitability by £26.3m.

The 8.2% rise in interest payable led to a loss of £15.5m at the adjusted PBT level (H1 2019: profit of £19.2m). Taxation payable amounted to just £0.3m, with £4.9m of the loss recognised in minority interests.

As a result, adj. EPS moved to a loss of 18.4p (H1 2019: +17.9p). Notwithstanding the overall loss, the cautiously optimistic outlook, combined with the net cash, resulted in a resumption in dividend payments.

## H1 Trading

### Marshall Aerospace and Defence Group (MADG)

The Aerospace and Defence business performed well overall, notwithstanding the significant impact of the COVID-19 related disruption. The key challenge was ensuring that the required staffing levels were available and ensuring that correct social distancing was observed, which slowed the throughput of contracts during Q2. That said, revenues dipped by a modest 3.7% to £132.9m in comparison to H1 2019, while EBIT and margins declined to £0.2m (H1 2019: £7.0m) and 0.2% (H1 2019: 5.1%).

**Land Systems** performed well, delivering the 200<sup>th</sup> shelter to the Dutch military in May under the DVOW contract. It continues to supply the UK MoD and the Danish army with a range of shelters, vehicles, and training. However, the completion and delivery of orders slowed owing to the COVID-19 related lockdown and its impact on staffing.

We highlight later in this review several new contracts added during the period within MADG, firmly underpinning management's optimism. Although the procurement process has slowed during the pandemic (dealing predominantly with government agencies), the pipeline of orders is unchanged. However, concerns over the potential for further global or localised COVID-19 related lockdowns slightly tempers management's optimism.

The news emanating from the Major Projects sub-division was mixed. The Global 6000 project nears completion, although the second and final aircraft has had difficulty in attaining an export licence. This setback has delayed the delivery of the military surveillance aircraft, which is based on the Bombardier Global 6000 business jet.

The Company was unable to agree to commercial terms on the Boeing E7 conversion production project, preferring to utilise the rapidly filling hangar space with the more profitable C-130 related work. The lessons learned on the Global 6000 and E7 projects will benefit the Group when bidding on future major conversion projects.

Management reorganised **Advanced Composites** in Q4 2019, following its reported loss in 2019. During the first half of 2020, the business delivered an improved performance, notwithstanding the deferral of two contracts. **Aerostructures** had a much improved first half of the year, as last year's disrupted contract (supply chain issues) operated as expected.

In view of **Aeropeople's** customer base being situated predominantly within civil aerospace, it is hardly surprising that the level of activity was disappointing in H1. With the outlook poor, given the restrictions placed on travel currently and a generally reduced desire to fly, management expects to restructure the business during H2.

### Marshall Group Properties (MGP)

The six-month period to June was very eventful for the Group's property division. Revenue declined 13.9% to £3.3m, while EBIT and margins increased to £1.5m (H1 2019: £1.5m) and 46.5% (H1 2019: 39.3%), respectively.

Late March saw the opening of the sales office for the Marleigh site (only to close as lockdown hit), with several reservations subsequently made online, before re-opening at the start of June.

In early June, the resolution to grant planning approval for the first phase of the Land North of Cherry Hinton (LNCH), which is to the south of the airport, was received. Once the s106 agreement has been completed, which is expected imminently, the developers will be able to commence preparatory work.

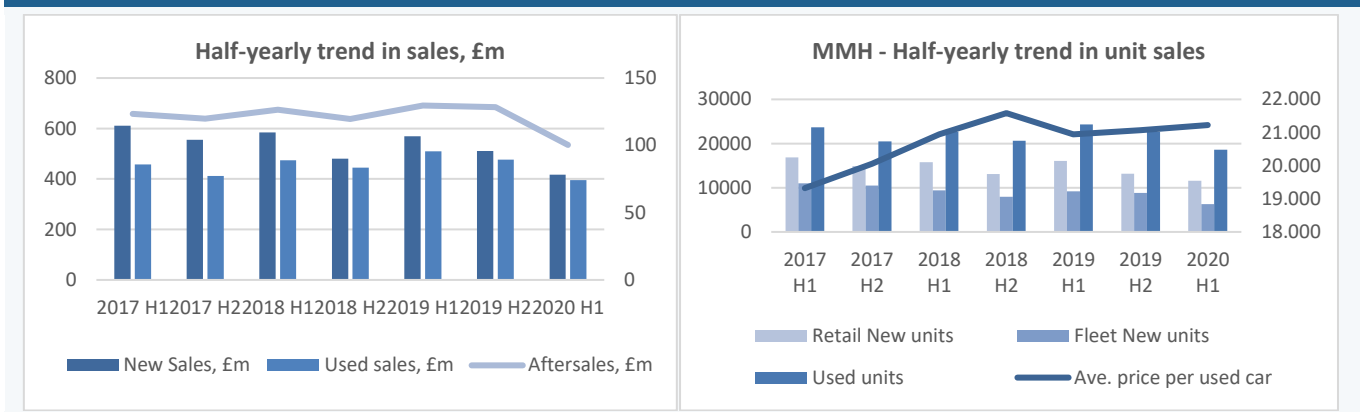
Across Marleigh and LNCH, a total of c. 230 acres and 2,000 dwellings are expected to be developed over the next few years.

## Marshall Ventures

### Marshall Motor Holdings (MMH)

The motor retailing division, MMH, delivered the most substantial decline in revenues within the Group. Sales fell 24.3% to £895.3m, while EBIT moved to a loss of £4.5m (H1 2019: £18.7m), which represented a loss margin of -0.5% (H1 2019: +1.6%).

#### Half-yearly trend in sales (£m) and unit sales



Source: Company

Despite the difficult market, with dealerships closed from the start of what is traditionally the busiest week of the year (last 7 days of March) until June 1, MMH yet again comfortably outperformed new car sales in the broader market. The market for new car sales declined 48.5% to 0.654m units, with MMH delivering 17,881 new cars, representing a y-o-y shortfall of just 29.3% (or -37.7% on a l-f-l basis). Only 3,700 orders for new vehicles were taken during lockdown (online and telephone sales), a significant decline on the same period a year ago.

By the end of March and the start of lockdown, MMH had outperformed the wider market for new vehicles by 10.6%, with the level of outperformance broadly unchanged during Q2. The SMMT has suggested that in April the new car market declined 97.3% y-o-y and by 89.0% in May. There was an element of catch-up as dealerships re-opened, with a strong June and July for new cars, albeit MMH (as with the market generally) failed to benefit from volume-related bonuses, one of the many effects of lockdown. The lack of bonus payments was a major factor in the 100 bp y-o-y reduction in the gross margin to 10.6%.

During H1 MMH sold 18,629 used cars, representing a decline of 31.8% on a l-f-l basis (actual -23.4%) and compared to the decline in the wider used market of -28.7%. Typically, with the Group having a higher proportion of premium brands in its portfolio, in comparison to the market, used residuals tend to be higher, generally impacting numbers.

The average price of a used unit sold during H1 increased by 1.3% y-o-y to £21,224 (H1 2019: £20,945). Sales from June 1 were brisk, owing to pent-up demand, revenge buying and a loss of confidence in public transport.

Aftersales revenue slipped 22.6% to £100.3m, with 62 units operating a restricted opening to service the vehicles of key workers during much of the lockdown period. From the beginning of June, the workshops have benefitted from delayed scheduled servicing of cars, maintenance, and MOT testing.

At the beginning of the lockdown, 90% of divisional employees were placed on furlough. Rather than applying the caps of 80% or £2,500, MMH decided to pay staff enhanced benefits up to 90% of their salary in April, falling to 85% in May, as management took a longer-term view of retention of employees. By June 1, 50% of employees had returned to work (socially distanced) as dealerships re-opened. At the time of writing, 88% of MMH employees have returned from furlough.

MMH sought to conserve cash and capex was markedly reduced y-o-y to just £4.7m. Further cash preservation measures were instigated, including a cessation of discretionary spend and no purchasing of vehicles or other stock. Also, while the historic 56-day vehicle turnaround was largely abandoned during the lockdown, management continued a targeted stock reduction. The level of stock turn increased to 9.3x in H1 (H1 2019: 9.1x), albeit on a lower number of vehicles. Coupled with the cancellation of MMH's 2019 dividend, working capital timing benefits (not stock related) and a deferral of VAT, the division generated £58m of cash during H1.

Recent MMH results for the six months to June suggested divisional net assets declined modestly to £190.5m (H1 2019: £200.7m – under IFRS and one should bear in mind that the reported MMH NAV fails to incorporate minorities, as recognised by MCH). This largely reflects the reduction in working capital during the period and the increased level of leasehold assets, reflecting prior year acquisitions (made in H2).

### **Marshall Fleet Solutions (MFS)**

The Fleet Solutions business had a mixed H1, with more positives than negatives. The hospitality sector was hit hard during the lockdown, thereby removing a revenue stream temporarily. New customers were sought, aided by last year's change in management and reorganisation (into five regional depots), with the NHS added. Also, the healthy growth in online grocery shopping (a more comprehensive explanation later), also helped to restrict the y-o-y revenue shortfall to 15.3% to £19.7m and reduce the loss to just £0.2m (versus £0.7m a year ago).

### **Martlet Capital**

Martlet Capital is an early-stage investor based in Cambridge, providing patient capital to deep technology and life science start-ups with high growth potential. No disposals occurred during H1, and as a result, there were no profits to report. The managers were active during the period, with several follow-on investments made into existing portfolio companies, and funds also provided to five new start-ups.



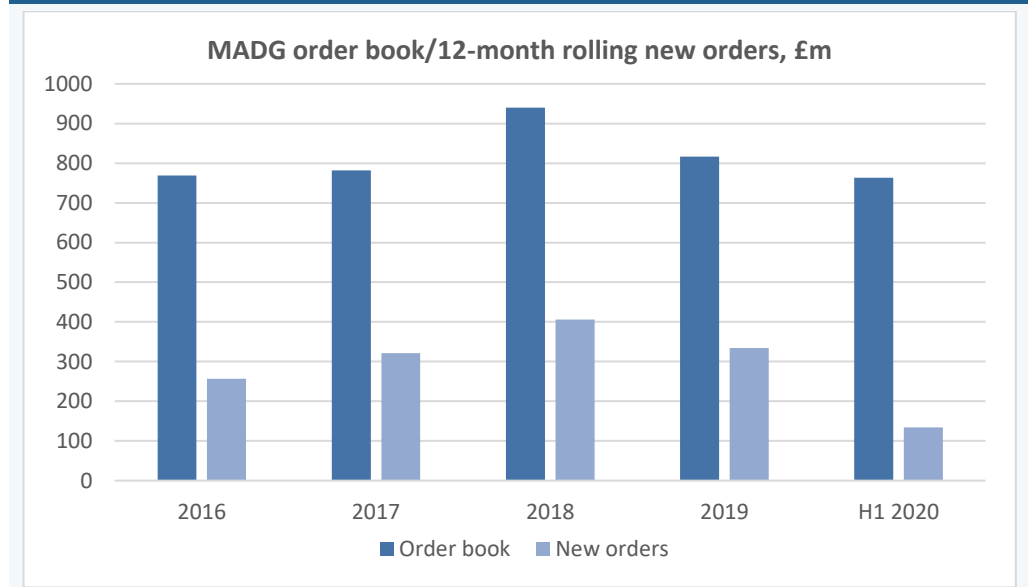
## Strong order books

### MADG

The outlook for the Aerospace and Defence division remains positive despite the slowing of the procurement process during the lockdown, with decisions taking longer to be reached. Since the period end, the UK Government has announced its intention to set resource and capital budgets for the medium term within the Comprehensive Spending review and, the Integrated Review, covering the UK's position in the world (incorporating security and the Armed Forces).

The MADG multi-year order book declined 6.6% during H1 to £763m, of which just over £550m excluded the Hercules C-130J contract with the MoD.

### MADG outlook



Source: Company

Several contracts were announced during H1, thereby resulting in a lengthening of the order book, and included:

- The provision of maintenance, support, and training to the Cameroon Air Force's C-130J Hercules transport aircraft
- The delivery in July of the first (of 14) centre wing box replacements for the RAF's fleet of Lockheed Martin C-130J-30s, which extends the service life of the aircraft (contract secured in 2019)
- The update of navigation systems on the Austrian Air Force's fleet of C-130K aircraft
- The completion of in-depth maintenance and re-painting of the 'Fat Albert', the C-130J purchased from the RAF by the US Navy's Blue Angels display team (as a support aircraft). The contract was announced in 2019
- Management has stated that the pipeline of revenue opportunities remains strong.

The signing of a meaningful, five-year contract with the Cameroon Air Force in May 2020 was significant. The new customer is the Group’s 17<sup>th</sup> on the C-130 Hercules transport aircraft platform. The deal encompasses maintenance, support, and training to the country’s fleet of the transport airframe.

The contract covers in-depth maintenance work undertaken at the Group’s Cambridge base but also front-line maintenance and support in Cameroon. The agreement ensures that MADG **supports the largest number of operators of the aircraft globally**, further highlighting the Group’s expertise on the airframe.

The Austrian Air Force awarded a multi-million-pound contract to MADG towards the end of the first half. Previously, Marshall upgraded the night vision system upgrade in 2017 and is to design and update the electronic flight instrument displays, standby instruments, and flight management system across its fleet. The Austrian Air Force operates three C-130K Hercules aircraft, purchased from the RAF in 2003.

The contract secured to maintain and paint the US Navy’s ‘Fat Albert’ C-130J was significant in that it represented the Group’s first such contract with the US military. As the airframe continues to be manufactured in the US by Lockheed Martin, we think the award of the contract to MADG was a significant milestone in the division’s history.

The traditional weighting of revenues tends to be in favour of H2 and is similar in other areas of the business, except for MMH. The latter reflects the March registration plate change traditionally being stronger than September’s.

Click on the link to see a video of the completed ‘Fat Albert’ and the US Navy ‘Blue Angel’ display team support aircraft.

<https://www.facebook.com/USNavyBlueAngels/videos/911573039279200>



Source: RAF

The HIOS contract lasts for the whole life of the aircraft, with pricing agreed in advance for five-year periods, with the current term ending in 2022. The replacement of the centre wing box of the RAF’s fleet of C-130J’s is within the scope of the HIOS maintenance and support contract with the UK MoD.

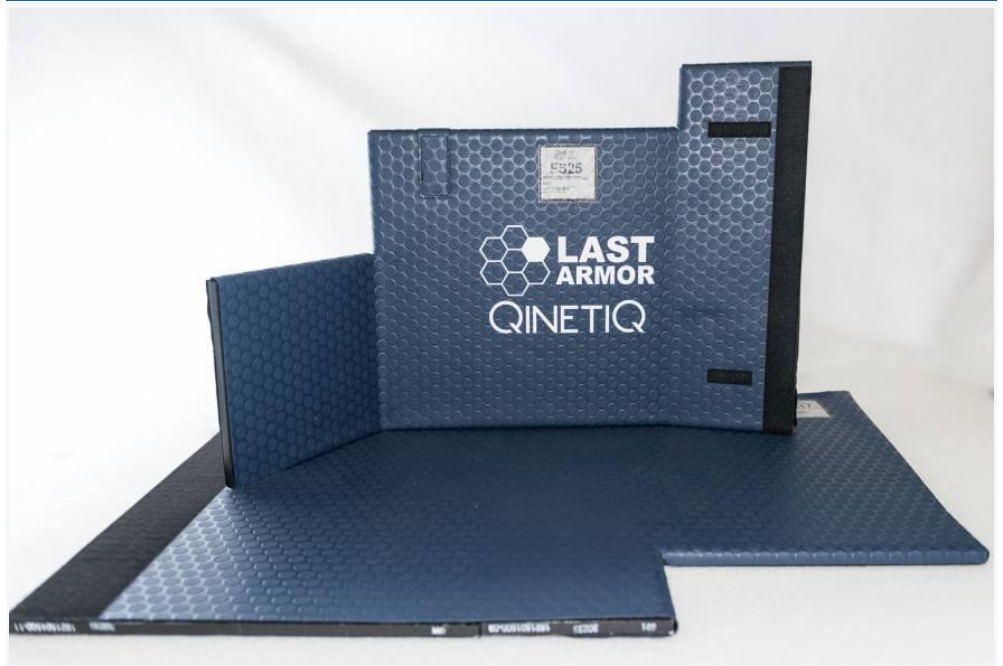
### A C-130J following completion of centre wing replacement for the RAF



Source: Company

MADG also signed a joint venture with **QinetiQ** to market, sell and install the latest generation of lightweight armour (LAST Armor® LWA) for the C-130J Hercules. The new armour is half the weight, while offering an unchanged level of threat protection of its predecessor. In addition to fuel savings, the new version has less impact on the aircraft's centre of gravity and, in turn, allows the airframe to carry a full cargo load.

### MADG signs a JV with Qinetiq for C-130J armour



Source: UK Defence Journal

The refurbishment of Hangar 16 is nearing completion. The combination of the growing order book and, the ever-increasing customer list for the C-130 maintenance programmes will result in full utilisation of the space over the short-to-medium term.

Land Systems completed the 200<sup>th</sup> shelter for the Dutch MoD in May (out of a total of 1,500), and part of a £100m-plus, 14-year contract (DVOW). The shelters are becoming increasingly technically complex, reflecting the requirements of the Dutch military (advanced battlefield communications). Newer programmes such as the EMC protection and Command & Control centres with the Danish army and the UK MoD (AJAX programme) to provide simulators to train turret crew for a new generation of armoured fighting vehicles gained traction during the period.

Shortly after the period end, the Advanced Composites division secured a contract with Honeywell for the manufacture and supply of components for sonobuoy launch carousels. Management expects the £0.9m contract to run until 2022.

**Marshall Composites: sonobuoy launch carousels**



*Source: UK Defence Journal*

Away from MADG, there was also good news within the other divisions, not least within Property.

**MGP**

Late H2 should see the first owners move into their new homes on the Marleigh site, which augurs well for 2021. We anticipate profits to be recognised from the Marleigh development in late 2020/early 2021. With s106 status anticipated shortly for the LNCH development, providing full outline planning approval, site preparation/building can commence.

## Marshall Ventures - MMH

The outlook within the MMH business is one of cautious optimism. Revenues are traditionally H1 weighted, reflecting the stronger March registration plate change. However, the SMMT is suggesting that following the re-opening of retail units from the beginning of June, the outcome for 2020 is likely to be 1.6m units or down 30.6% y-o-y. The market in H1 delivered a y-o-y shortfall of 48.5%. SMMT estimates new car sales of 0.949m units in H2, representing a y-o-y shortfall of only 8.9%. H2 has started well with the most robust July for new car sales since 2016, with 175k vehicles sold.

A recent survey undertaken by JudgeService Yourpoll suggested that 56% of the sample of franchised operators anticipate the September new car order intake will be lower than usual. The same survey indicated that 74% of dealers are currently doing brisk business in used cars, trading at higher than normal levels for the time of year. However, there are concerns on two fronts:

- OEM plant closures / re-opening with fewer shifts is likely to result in a reduction in the availability of new vehicles
- New car sales generally result in a supply of retail-ready, young-used vehicles via part-exchanges and a shortage of the former may well result in a relative scarcity of the latter

The used car market was down 28.7% at the half-year (2.89m units sold), which compares to a decline of 48.9% in Q2 (*source: SMMT*).

Against this backdrop, **since 1 June there has been a strong recovery in sales**, driven by:

- The high number of new and used finance agreements that have expired either during or since lockdown
- Revenge buying, representing pent up demand, following lockdown
- Nervousness in using public transport, resulting in strong demand for used vehicles and thereby, benefitting residual values (which is likely to continue if shortages of new product persist)
- The September registration plate change

Following a modest loss at the operating and adj. PBT levels during H1, the MMH management team conservatively anticipates an overall break-even position for 2020 as a whole, also citing the potential for further localised lockdowns as a basis for a degree of ongoing caution in the short-term.

The SMMT anticipates that the number of new cars purchased in 2021 should increase 26.9% to 2.04m vehicles, offering a positive outlook, particularly for the healthier market participants as consolidation is expected by various market watchers to accelerate over the next 12 to 18 months. Rather than amounting to an unrealistic target, the SMMT forecast for new car sales in 2021 represents a 12% reduction on the 2019 market outcome.

Furthermore, MMH's management team is of the view that consolidation in the automotive retail market is likely to accelerate, following the issues resulting from lockdown and the stress placed on the economy. MMH fully expects to participate in such consolidation.

## Fleet Solutions

The strong shift to online shopping accelerated during the lockdown period in the UK. This trend was perhaps most evident within the food retailing sector. A survey by OnePoll Research suggested that one in four consumers now purchase groceries online. The most significant shift was in the over 55s, with the proportion buying groceries online increased from 8% in 2019 to almost a quarter currently.

The behavioural shift has not slowed down post lockdown ending, with Tesco recently announcing (25 August 2020) that it is recruiting 16,000 new e-commerce related roles across its UK store network. Of this number, 3,000 will comprise of new delivery drivers. Tesco stated that e-commerce customer numbers stood at 0.6m at the beginning of the pandemic, rising to 1.5m currently. Revenues from online shopping as a proportion of overall UK sales subsequently rose from 9% to 16% over the same period.

Continued growth in e-commerce and, within the grocery sector augurs well for Fleet Services, with demand for servicing/maintenance of refrigerated trailers and home delivery vehicles significantly higher during the lockdown. We expect growth in this area to continue. With the hospitality sector out of lockdown from early July, we expect the second half of the year to be ahead year-on-year. Management has a short-term target of break-even for the business, a significant improvement from the losses of £1.2m in 2019.

## Martlet Capital

In late August, the Group's venture capital/seed investment business participated in a follow-on round, resulting in £0.9m raised for Sorex Sensors from several investors.

## Board changes

The Board of MCH has announced that its Vice Chairman, Robert Marshall, is standing down from the Board and his roles within the business. After attaining a 1<sup>st</sup> class degree in engineering from Cambridge, followed by Harvard, Robert joined Lockheed Martin, before founding a business designing and manufacturing specialist equipment for use in microbiology laboratories. Robert joined the Group in 1994. Since then, Robert performed roles across each of the businesses, before joining the Board in 2000 as Chief Executive of Marshall Specialist Vehicles. In 2010, Robert was promoted to Chief Operating Officer of MCH, before assuming the role of CEO in 2012, a position he held for seven years. Robert is to remain a shareholder in the family business and will focus his time on building an independent investment vehicle.

MCH has also announced the appointment of **Charlie Marshall as a new Non-Executive Director**. Charlie is the fourth-generation descendent of the Group's founder, David Marshall and is a successful business owner in his own right.

Charlie co-founded Primal Soup in 1998. The soup, made from simple ingredients, was sold to sandwich shops and coffee bars, including well known chains. Charlie used the proceeds of the sale of the business in 2005, alongside real estate profits to invest in his next venture, Loaf, in 2008. Loaf is one of the UK's fastest growing furniture brands with eight outlets currently. Revenue in the year to March 2019 amounted to £48.1m, rising to c.£60m in the year just ended.



## Financials

We have dealt with costs and trends within the income statement elsewhere, so it is now beneficial to turn our attention to cash flow and the balance sheet.

The key metric was undoubtedly the marked turnaround from a position of net debt of £24.9m at the year-end to net cash of £25.7m by the end of June 2020. Benefits included:

- Reversal of working capital at MMH, owing to lower stock purchases
- Deferral of VAT payments to HMRC
- Reduction in capex / no M&A during the period
- Temporary suspension of discretionary spend across the Group

The net cash equates to 43.5p per share. The cash levels should fall as H2 activity levels improve and new stock is purchased, VAT is paid, and capex returns to more normal levels.

Notwithstanding the high levels of net cash, Management opened discussions with its lenders (HSBC and Barclays), as it became apparent during the early stages of lockdown that the significant reduction in activity levels would result in the Group breaching its covenants. Those discussions proved fruitful, the result being that MCH's lenders reset the financial covenants within the Group's revolving credit facility (RCF) for the 12 months from 1 April 2020.

The treasury operations of MMH is separate to those of the wider Group. MMH entered into an agreement with its lenders at the end of July to extend the expiry date to January 2023 on their existing £120m banking facility.

The agreements, in turn, enabled MCH Management to approve and subsequently pay dividends on the ordinary and preference shares.



## Investor Access

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