

## Very much on track

08 June 2020

**2019 proved to be a positive year for MCH, with good progress seen post-restructuring of the MADG business, including new contracts secured which broaden the scope of the business. The property division achieved significant milestones during the year. MMH delivered revenue growth ahead of the broader market (yet again) and the restructuring of MFS began to bear fruit. Also, most recently, a covenant reset was agreed with the Group's banks.**

**While we have withdrawn estimates due to the uncertainty surrounding the COVID-19 induced lockdown and some parts of the business disrupted, we believe that the long-term strategy of unlocking the value within the asset base continues unabated. We, therefore, retain our fair value / NVPO at 532p.**

2019 was a solid year for Marshall of Cambridge Holdings (MCH) with revenues up 6.2% overall, driven by strong performances at the Aerospace and Defence Group (MADG) and Fleet Solutions (MFS), plus sector beating growth at MMH. The one minor fly-in-the-ointment was the modest decline in revenues from the Group's Property division, albeit this reflects the sale and development of two large parcels of land.

Revenues at MADG improved significantly during H2 2019, reflecting a combination of contract wins (including a widening of the C-130 Hercules military transport customer base to 17 in early 2020) and strong progress at Land Systems (delivering its 200<sup>th</sup> mobile shelter during early 2020). The delivery of the first aircraft in the Global 6000 project was significant. The order book stood at £817m by the end of 2019.

The first phase of the Marleigh development site, which includes 239 dwellings (out of a total 1,300 homes) was granted detailed planning permission during 2019. A sales office opened, with reservations since made. Outline planning permission on the Land North of Cherry Hinton site (LNCH, 1,200 dwellings) was granted recently.

MMH took advantage of the weak automotive retail market, acquiring 19 franchised retail units (VW/Skoda/Honda/Volvo) and further cementing relationships with the Group's key OEMs. MMH strongly outperformed the broader automotive market during 2019.

The COVID-19 related lockdown has significantly disrupted the business. Apart from 62 workshops, all dealerships were closed in late March, and 80% of MMH's employees initially placed on furlough. Construction ceased across the Marleigh development, partially resuming during May. While productivity levels have declined, the critical nature of the maintenance work across several airframes has enabled MADG to operate throughout the lockdown. MFS has benefitted from rising deliveries to and from food retailers and pharmacies, although the closure of restaurants has proved a negative.

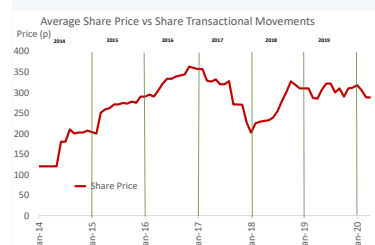
Longer-term, we think that the trends witnessed during H2 2019, including contract wins and a broadening of the work secured augurs well for MADG. We remain of the view that MMH is likely to take advantage of the weaker automotive markets and add further franchises during 2020 and beyond.

**The unlocking of value within the Group's property base, coupled with the restructuring of MADG feeding through, encourages us to retain our long-term fair value / NVPO of 532p.**

### Company Data

Last matched trades	288p
Implied market cap	£170m
ED fair value / NVPO share	532p
Ordinary share count	59.1m
Preference shares (NBV)	£8.4m
Net debt (Dec '19)	£24.9m

### NVPO Share Price, p



Source: Company

### Description

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

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 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, 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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## 2019 Preliminary results

### Summary 2019 preliminary results

£m, Dec y/e	H1 18A	H2 18A	FY 18A	H1 19A	H2 19A	FY 19A	YoY change
Aerospace & Defence	126.7	121.1	247.8	138.0	169.6	307.6	24.1%
Property	3.9	4.0	8.0	3.8	4.0	7.8	-2.2%
Ventures - Motor retail	1162.9	1024.0	2186.9	1183.3	1092.9	2276.1	4.1%
Ventures - Fleet solutions	20.8	26.6	47.4	23.2	29.7	53.0	11.6%
Consolidation adjustments	-3.1	-3.0	-6.1	-2.3	-4.2	-6.5	6.2%
Total revenue	1311.3	1172.6	2483.9	1345.9	1292.0	2638.0	6.20%
Cost of sales	-1118.5	-993.7	-2112.2	-1174.7	-1079.1	-2253.8	6.7%
Gross profit	192.8	179.0	371.8	171.2	213.0	384.1	3.3%
Gross margin, %	14.7%	15.3%	15.0%	12.7%	16.5%	14.6%	
Operating expenses	-173.1	-159.5	-332.6	-152.0	-191.5	-343.6	3.3%
Other Op income	0.0	2.7	2.7	0.0	1.2	1.2	-56.6%
Aerospace & Defence	6.4	9.0	15.4	7.0	10.8	17.8	15.8%
Property	1.2	0.9	2.1	1.9	0.9	2.9	39.1%
Ventures - Motor retail	16.5	15.5	32.0	15.2	14.7	29.9	-6.7%
Ventures - Fleet solutions	-0.6	-0.8	-1.4	-0.7	-0.4	-1.2	-18.0%
Unallocated central costs	-3.7	-2.5	-6.2	-4.2	-3.5	-7.6	23.6%
Group adj. EBIT	19.7	22.1	41.9	19.2	22.6	41.8	-0.2%
<i>Aerospace &amp; Defence</i>	<i>5.1%</i>	<i>7.4%</i>	<i>6.2%</i>	<i>5.1%</i>	<i>6.4%</i>	<i>5.8%</i>	
<i>Property</i>	<i>29.4%</i>	<i>22.5%</i>	<i>25.9%</i>	<i>50.6%</i>	<i>23.8%</i>	<i>36.9%</i>	
<i>Ventures - Motor retail</i>	<i>1.4%</i>	<i>1.5%</i>	<i>1.5%</i>	<i>1.3%</i>	<i>1.3%</i>	<i>1.3%</i>	
<i>Ventures - Fleet solutions</i>	<i>-3.0%</i>	<i>-3.0%</i>	<i>-3.0%</i>	<i>-3.2%</i>	<i>-1.4%</i>	<i>-2.2%</i>	
<i>Central costs</i>	<i>-0.3%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.3%</i>	<i>-0.3%</i>	<i>-0.3%</i>	
<i>Group adj. EBIT margin</i>	<i>1.50%</i>	<i>1.89%</i>	<i>1.69%</i>	<i>1.42%</i>	<i>1.75%</i>	<i>1.58%</i>	
Net interest charge	-3.1	-2.6	-5.7	-3.3	-3.3	-6.6	15.6%
Exceptional items	20.1	2.6	22.6	-2.7	-1.7	-4.4	
Adj. PBT	16.6	19.6	36.1	15.9	19.3	35.2	-2.7%
Taxation	-10.1	0.2	-9.9	-3.9	-2.8	-6.7	
Tax, %	51.0%	-0.7%	23.6%	20.2%	12.4%	15.9%	
Non-controlling interests	-3.7	0.9	-2.9	-3.5	-1.6	-5.2	80.6%
Adj. Earnings	10.2	18.9	29.1	10.6	19.4	29.9	2.9%
Adj. EPS (p)	17.2	16.7	33.9	17.9	17.1	35.0	3.2%
Dps on ordinary shares (p)	1.0	3.0	4.0	1.0	0.0	1.0	-75.0%
Dps on NVPO shares (p)	3.0	3.0	6.0	3.0	0.0	3.0	-50.0%
Net debt at period end	-6.2		-2.4	-12.3		-24.9	940.6%
Gearing (%)	4.0%		0.9%	7.2%		8.9%	
Interest cover (x)	6.3		7.3	5.8		6.3	
NAV per share (p)	446.4		436.8	454.5		474.7	8.7%

Source: Company historic data

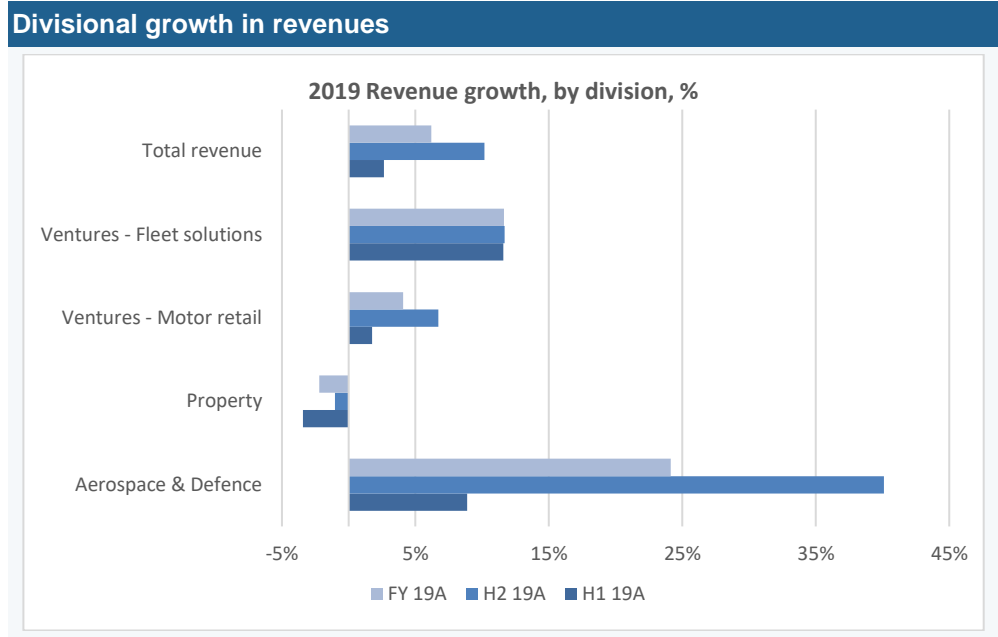
## Progress

**2019 proved to be a significant year for Marshall of Cambridge Holdings. Key events included:**

- Aerospace and Defence revenues at the highest level since 2016
- A further broadening of the Lockheed Martin C-130 Hercules aircraft customer base
- UK MoD further extends the life of the 14-strong C-130J fleet to 2035
- Recently delivered 200<sup>th</sup> shelter from Land Systems subsidiary, which forms part of the DVOW programme with the Dutch Armed Forces to deliver 1,500-plus deployable container units
- Further strong growth in the MADG order book to £817m by year-end
- Announces the proposed relocation of MADG and development of Cambridge Airport
- Ground Running Enclosure (GRE) is commissioned and operational by November 2019
- Global 6000 aircraft integration programme makes further progress and release of provision
- MMH acquires 19 franchised retail units to strengthen key manufacturer relationships
- MMH sells 94,277 vehicles (passenger and commercial), outperforming the broader market
- Detailed planning permission gained on phase one of the Marleigh development site, on the edges of the Airport
- Strong top-line performance at Fleet Solutions
- No final dividend, owing to COVID-19 related disruption; however, the preference dividends were paid (£0.7m)

The results for the year to December 2019 were positive, in our opinion, with revenues ahead y-o-y by 6.2% overall to £2.64bn (2018: £2.28bn). All areas of the business delivered an uplift in the top-line, except for the Property division, where rental income declined very modestly.

**Revenue growth accelerated during H2 to +10.2% y-o-y (H1 2019: +2.6%), driven predominantly by higher activity levels within the Aerospace and Defence business, "MADG" and the motor retail business, "MMH", notwithstanding a problematic new car market.**



Source: Company

Looking more closely at each Division:

## Aerospace and Defence Group (MADG)

**MADG had an extraordinarily strong year with revenues 24.1% higher at £307.6m, levels last seen in 2017. The improvement reflected strong performances from the Military Aerospace, Land Systems and Aerostructures operating divisions.**

Growth from UK-related customers was modest, at 3.8% y-o-y to £150.8m during 2019 within MADG. However, growth with **international customers improved markedly**, rising 53.1% y-o-y to £156.7m, reflecting new contract wins and is generally more widespread than just derived from the Military Aerospace sub-division. The level of international revenues was at record levels in 2019.

MADG’s order book was £817m by the year-end, with £334m of new projects secured during the year. The book-to-bill ratio amounted to 1.6:1, excluding the UK MoD’s Hercules Integrated Operational Support contract.

### Military Aerospace

Here, business benefitted from the securing of key contracts, which includes the addition of two national air forces (Bahrain and US Navy) to the roster of clients for the maintenance, logistics support, provision of spare parts and ground support equipment of their C-130J Hercules military transport planes. By the end of 2019, the Group had 16 such engineering-related clients on the C-130 airframe.

In July, MADG extended the scope of the contract with Boeing for work related to the modification of five Boeing 737NCs to E-7 Wedgetail airborne early warning and control systems aircraft for deployment with the RAF. Due to the success of the international expansion of repeating C-130 work, however, the business decided not to proceed with the full one-off modification programme due to the availability of hangar capacity.

Since the year-end, further contracts were signed, including a multi-year project with the US Navy to support the Kuwait Air Force fleet of KC-130J tanker aircraft. MADG will undertake planned maintenance interval inspections, aircraft repainting and specific overhaul tasks of the customer's three-strong fleet.

The Global 6000 Aircraft Integration programme delivered further progress during 2019 within MADG's **Major Projects** sub-division, with all key milestones met. The programme involves the modification/re-purposing of a Bombardier Global 6000 business jet into a military aircraft with unspecified mission roles. Delivery of the first aircraft occurred in May 2019. The modification of a second plane was completed and moved to the flight-testing programme. The success of the programme has resulted in a reduction in the loss provision by £1.8m.

## Land Systems

Revenues rose impressively to £40.5m (2018: £32.9m), firmly underpinned by two significant contracts – the £100m-plus, 14-year contract with the Dutch MoD to provide 1,500 shelters and ancillary support, approved in late 2018 and, the GASKET programme, signed in April 2019, with the UK MoD. The latter contract upgrades the UK's counter chemical, biological, radiological, nuclear and explosive vehicle fleet. Further agreements were signed with the Danish military (EMC protection and Command & Control centres) and the UK MoD on the AJAX programme, to provide simulators to train turret crew for a new generation of armoured fighting vehicles.

## Other units

In **Aerostructures**, one key programme was delayed owing to disrupted deliveries of components from a mandated supplier. The results from the **Advanced Composites** and **Aeropeople** subsidiaries disappointed, reporting losses during 2019. Action has been taken, with plans to return both businesses into the black during H2 2020.

## Property

**The Group's Property division, responsible for the Group's land and buildings and the housing developments at various stages of planning/construction, delivered revenues of £7.8m, representing a 2.2% decline y-o-y.**

The revenues decline amounted to just 1.0% in H2. With two large parcels of land now under various stages of planning and/or development, it is hardly surprising that rental income declined.

Notwithstanding the above, it was a monumental and hectic year for the division. Detailed planning approval was gained for the first phase of the Marleigh development, enabling the construction of initial stages of the site which will include 239 homes and a local centre (out of a total of 1,300 homes for all phases of the Marleigh development). The opening of a sales office has since resulted in reservations on several properties.

To meet both a Homes England milestone and the obligations under an s106 legal agreement, the Group commissioned the Ground Running Enclosure (GRE), which became operational from November 2019. Following the opening of the GRE, all major planning conditions concerning the Marleigh site were discharged.

We estimate that the Marleigh development site remains on track to deliver profits from FY2021 onwards.

MCH was granted outline planning permission on the second site, the Land North of Cherry Hinton (LNCH, a collaboration with an adjoining landowner), which has been delayed owing to the COVID-19 pandemic. THE LNCH site will accommodate 1,200 properties, schools, retail outlets, a community centre and landscaping. The planning application is due to be presented before the end of H1 2020.

During 2019, management announced that it was to relocate the airport and the MADG businesses as part of the Local Plan with a vision of a new city extension to the east of Cambridge. Ultimately, the development is to include approximately 12,000 new dwellings, combined with civic, cultural and academic institutions, plus a science park.

The Local Plan will support employment for up to 38,000 people once completed. In order to unlock the full potential of the Cambridge East location, a new rapid transit system (Cambridge Autonomous Metro) will be required. The Group's project team is engaged with the public, all relevant local authorities and central government regarding the Local Plan and MCH's role within it.

#### Aircraft Ground Running Enclosure (GRE) became operational in November 2019



Source: Company



## MCH Ventures

### Marshall Motor Holdings (MMH)

**MMH** delivered a revenue uplift ahead of the broader market and many of its peers. Divisional revenues increased by 4.1% to £2,276.1m, which represented a like-for-like growth of 2.2%. By category, sales of new cars rose 1.4% to £1,079.5m, with like-for-like sales increasing 0.3% y-o-y, outperforming the 2.4% decline in overall new car registrations during the year in the broader market to 2.31m (*source: SMMT*). In contrast, MMH saw new vehicle unit sales rise 2.4% to 47,303, with retail 1.3% higher at 29,249 and fleet sales 4.1% ahead y-o-y to 18,054 and compares to respective declines of 3.2% and 1.7% in the wider market (*source: SMMT*). On an l-f-l basis, sales of new vehicles declined 0.3% y-o-y, comfortably ahead of the broader market.

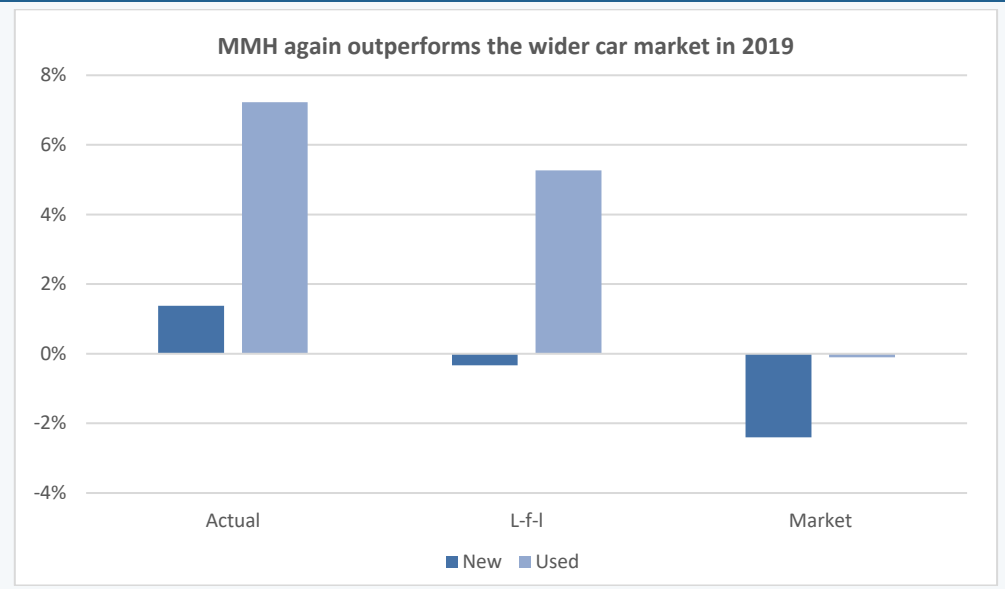
During 2019, MMH spent approximately £50m on capex and M&A, which included the purchase of two freeholds (Northampton Skoda and Derby Volvo), freehold land adjacent to the Grimsby BMW franchise and the refurbishment and/or relocation of four dealerships. Also, MMH acquired 19 dealerships and one body repair facility, 15 of the former were with the Volkswagen Group (+8 VW, +7 Skoda), with MMH now the OEM's most significant UK partner, by the number of franchises with 53 sites in total. The business also purchased two Honda, one Volvo and one LEVC (black taxis) franchises during the year. As a group, the acquired dealerships were loss-making but purchased for their potential and the strengthening of existing manufacturing relationships. The Group is also now the largest Skoda dealer in the UK (12 retail units), One site was closed during the period, with a further retail outlet to close during FY2020F.

Over the same period, MMH saw used car sales rise 7.2% to £986.7m, with unit sales some 8.5% ahead y-o-y to 46,974, which translated into a 5.3% improvement on a like-for-like basis. By comparison, the used car market declined modestly (down 0.1%) during 2019 to 7.94m units (*source: SMMT*). The division's strict 56-day used car stocking policy encourages accelerated stock turn, albeit generally not at the expense of margin. Within MMH, unit sales of used vehicles rose 8.5% to 46,974 during 2019 and representing a l-f-l rise of 6.1%.

Aftersales forms the third leg of revenues within MMH, accounting for 11.3% of revenues or £258.2m and representing an increase of 4.9% y-o-y (up 3.2% on a l-f-l basis). The Group operates six standalone body repair facilities, six trade parts centres and one PDI centre, in addition to the dealership-based repair operations. Part of the reason for the success of the aftersales operation and positive performance even in challenging economic climates is the sale of service plans, not just in the case of new vehicles but also used too. The purchase of such policies is also a useful tool for engendering customer retention.

We believe that the top-line outcome was strong in comparison to the wider market. Furthermore, performance was in the context of external 'bumps along the road' - in the form of new emissions regulation in 2018 and 2019 (WLTP, including a lack of testing capacity across Europe) and from 1 January 2020, the Clean Air for Europe (CAFE, arguably bringing some 2020 sales-forward). The combination of the uncertainty resulting from Brexit and during November and December, the UK General Election, harmed both consumer and business decision making, and therefore the car market during 2019.

**MMH performing well vs sector**



Source: Company, SMMT

Gross margins at MMH improved modestly to 11.6% (2018: 11.5%), with the mix adjusting slightly. The largest category of the £260.8m (2018: £253.2m) gross profit remained Aftersales, accounting for 43.9% (£114.6m). Margins on Aftersales declined 106 bp's to 44.4% as the mix of trading adjusted to include a higher proportion of lower-margin parts.

New vehicle margins improved to 7.4% (2018: 7.1%), which reflected an easing of the shortages immediately following the introduction of the WLTP tests in 2018. The used car margin declined 48 bp's to 6.6% as residual values fell in Q2, before part recovering during H2.

**Marshall Fleet Solutions (MFS)**

MFS is involved in the sale, service and parts support of commercial tail lift vehicles, fleet management and is also a main dealer of Thermo King equipment. MFS is the UK's largest independent commercial vehicle service organisation. Revenues in 2019 climbed by a healthy 11.6% to £53.0m, which was driven by improved sales of Thermo King units. However, broadly static aftersales revenues (down 1.8% y-o-y) impacted the gross margin.

The previous management was replaced in late 2018 and implemented a strategy to move the business up the value chain and away from competitive pricing; increase product differentiation; reduce overheads; and to improve market share. Also, there has been significant investment in marketing and sales to improve future revenues, resulting in the scale of the loss only shrinking modestly to £1.5m (2018: LBT of £1.7m).

The restructuring of the business into five regional UK hubs in Q4 2019, was designed to reduce costs and to improve customer service levels. We anticipate the management actions will result in a further reduction in the scale of losses during 2020, ceteris paribus.



### **Martlet Capital**

The investment portfolio operates venture capital funds to identify and invest in start-up/early-stage technology companies often affiliated with Cambridge University. By the end of 2019, the fair value of the two portfolios (Martlet and MarQuity) had risen to £7.9m (2018: £6.6m). A fair value increase of £0.9m (2018: £0.2m) was recognised during 2019.

An additional 15 investments were made during the year, consisting of seven new companies and further funding for eight existing portfolio companies. The new investment amounted to £1.5m in total. Disposals made during the year resulted in proceeds of £1.3m.

## Financials

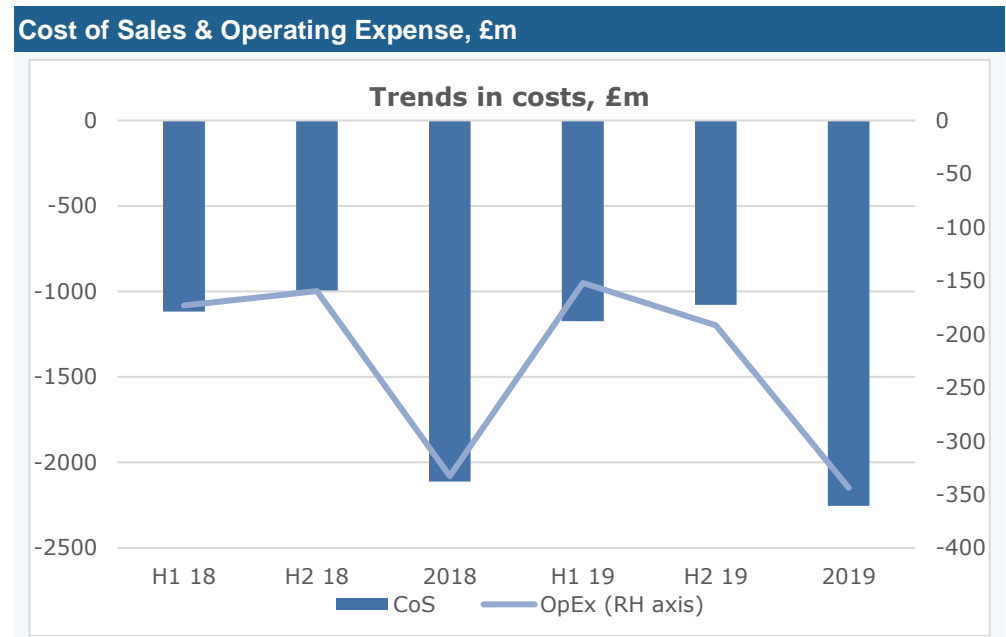
### Group costs and profitability

Overall costs (CoS + OpEx) increased 6.2% y-o-y during 2019 to £2,597.6m, which was in-line with the overall increase in Group revenues and therefore, leaving Group EBIT margins broadly unchanged at 1.6% (2018: 1.7%). The 6.7% y-o-y increase in cost of sales (CoS) and 8.6% rise during H2 2019 drove the overall growth in costs at the Group. Although the increase in operating expenses (OpEx) was much lower at +3.3% y-o-y, OpEx rose 20.1% during H2, which followed a 12.2% y-o-y fall in H1 2019. We believe that the substantial top-line increase during H2 2019 within MADG was responsible.

Gross margins declined modestly to a still very respectable 14.6% (2018: 15.0%), although during H2 '19, they achieved their highest level in four years, rising to 16.5%.

OpEx increases were relatively muted during 2019, except for total payroll costs, rising 8.1% y-o-y to £250.8m, depreciation, up 7.8% y-o-y to £17.1m and rents 13.0% ahead y-o-y to £12.5m.

EBIT was broadly static at £41.8m (2018: £41.9m) and with net interest rising to £6.6m (2018: £5.7m), adj. PBT declined by 2.4% to £35.2m. However, the lower tax payable y-o-y ensured that adj. EPS increased 3.2% to 35.0p.



Source: Company

MADG commenced a project to replace four separate ERP/MRP systems with **one new ERP system** during 2019. The new system allows consolidation and standardisation of processes across the business, delivering increased efficiency and providing the required data to improve decision making.

The implementation process is complex and time-consuming, with the new system set to go live during 2020. We expect the benefits will be more noticeable from 2021 onwards.

## Cash flow and Balance sheet

Net debt increased to £24.9m at the end of 2019, from £2.4m at 31 December 2018. The cash outflow largely reflected investment across the Group, equating to capex of £47.6m and acquisitions in MMH of £28.2m. Notable investment included the Aircraft GRE, the upgrading of several hangars, the new ERP system at MADG and property developments/purchases in MMH.

Interest cover remained comfortable in 2019, at 6.5x and compared to 7.3x in 2018. Gearing rose, albeit to a still-low level of 8.9% by the 2019 year-end.

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

MMH opened two replacement facilities for Jaguar Land Rover in Lincoln and Mercedes Commercial Vehicles in Southampton. The relocation of the Group's Ford franchise to a new site in Cambridge was completed and Lincoln Nissan was moved to the old Jaguar Land Rover facility during the year. The upgrade of the remainder of MMH's Jaguar Land Rover facilities continues. MMH also acquired 19 franchised dealerships and one body shop during 2019 for a total consideration of £28.2m.

Cash levels reflected the short-term benefits of advance customer payments on major projects within MADG. The level of advanced payments increased by £16.7m during 2019 (2018: £28.7m).

**The Group's pension deficit reduced during the year to just £3.0m** (2018: £9.9m), with a net liability (post-deferred tax) of £2.5m. The reduction in the deficit reflected payments made by both the Group under an agreed funding plan and £5.5m of cash received from MMH, as it ceased to be part of the Group scheme.

## Outlook for 2020 and beyond

### The 'elephant in the room': COVID-19

#### Short-term

The disruption caused to the Group's operations by the COVID-19 pandemic is/will continue to be significant in the near term, with an impact on profitability to be expected, possibly even resulting in a reported loss for the current year. Management has swiftly undertaken several actions, however, to ameliorate the worst of its impact on cash and profits:

- A cautious approach to dividend payments
- Deferral of capex
- Reduction in discretionary expenditure
- Deferral of major projects
- A recruitment freeze
- Utilising various government schemes where appropriate
- Negotiating a deferral of payroll tax for three months
- Optimisation of working capital

In terms of how the crisis is impacting the various businesses:

- MADG has achieved a position of stability, with employees either working from home or safely, subject to strict guidelines, on-site. The C-130 is heavily involved in relief work/managing the crisis across the globe
- Most of MFS's service engineers are operational, working from their vans, as divisional customers are involved in delivering food supplies and pharmaceuticals
- While MFS benefited from increased home deliveries of food and pharmacies remaining open, the closure of many restaurants has impacted demand for its services
- MMH closed all dealerships temporarily from 24 March, although 62 workshops remained open to service the vehicles of key workers. Those workshops have now opened to regular customers, as of May.
- MMH franchised dealerships re-opened from June 1. During the lockdown management undertook a comprehensive risk assessment of all sites; produced a detailed reactivation plan and engaged and re-trained all employees on the revised operating procedures, in line with current Health & Safety legislation
- Delivery of vehicles purchased immediately prior to and during the lockdown via 'click and collect' services undertaken ahead of the re-opening of retail units. Such orders were heavily weighted towards used vehicles
- Approximately 90% of MMH employees were furloughed initially, with the slow process of cautiously re-opening showrooms now under way. Some 50% of MMH employees returned to work to ensure safe working procedures are maintained and to match resources to expected consumer demand

- Latent demand for new vehicle purchases post-lockdown as finance agreements come to an end and new models are released. There was significant demand for used vehicles from mid-May
- Initial booking levels post-lockdown have been positive within Aftersales, with pent-up demand and requirement for MOTs likely to result in a strong recovery in volumes
- The Property division saw construction cease on the Marleigh scheme, which partially resumed in May

We believe the Group to be well funded. MCH, excluding MMH, has a £75m revolving credit facility (RCF) with its lenders until March 2022. The original covenants on the RCF have been waived and new ones, more suitable for the current, difficult period have been agreed with its banks. The covenants are to be tested on a quarterly basis from June until the end of March 2021. The Group's banks remain supportive of the business. MMH keeps its treasury facilities separate from the remainder of the Group and has a ceiling of £120m to June 2021. MMH indebtedness amounted to just £3.2m as of 31 May, benefiting from working capital inflows. The working capital position is expected to reverse to more normalised levels in due course. At the end of March 2020, the enlarged Group had £160m of available headroom on the combined facilities. Negotiations are currently underway on the £120m revolving credit facility with MMH's bankers.

MMH also finances new and used vehicle inventories via OEM and specialist funding agreements. At the end of 2019, this aspect of financing amounted to £444m. The COVID-19 related closure of the physical retail units will have delayed repayments.

The management of both MCH and MMH are regularly in contact with their respective bankers and the level of comfort, with regards to covenants, has improved in the last month. We strongly suspect that it will improve again as a higher proportion of the Group returns to work.

#### **Medium-term**

Notwithstanding the above issues related to COVID-19 and the undoubted impact on the Group's businesses and in turn, short-term profitability, we continue to believe that 2020 and beyond will prove a decisive period for MCH. We remain encouraged by:

- Securing of 17<sup>th</sup> C-130 customer in May 2020. The Cameroon Air Force signed an initial five-year agreement with MADG to provide maintenance, training and ground support
- In 2019, the group signed similar maintenance and support to the US Navy's C-130J display team aircraft, known as "Fat Albert" (pictured), recognising the significant expertise within the Group on the airframe.
- Extension of the expected life of the RAF's 14-strong fleet of C-130J's to 2035. MADG will be hopeful of retaining the work for the five-year extension
- Expected delivery of the second Global 6000 aircraft during FY2020 within Major projects sub-division
- The UK MoD budget was increased by 2.3% in the relatively recent Budget for FY2020/21
- Much of the MADG order book tends to be medium-to-long term in nature, emphasised by the overall order book of £817m at the end of 2019

- The Land Systems sub-division recently delivered its 200<sup>th</sup> DVOW shelter, which forms part of a 1,500-plus contract with the Dutch Armed Forces and therefore, continues to have a robust and long-term order book
- The new ERP system once installed and operational, should improve the efficiency and ability to meet deadlines on projects at MADG
- Further improvements in productivity at MADG
- The first phase of the Marleigh development should ramp up during H2 2020, with current reservations on properties
- MCH was recently granted outline planning permission for the LNCH development, following COVID-19 related delays in the planning process
- Move to profitability over the medium term at MFS, with a combination of improved customer service levels and benefits from 2019’s restructuring beginning to feed through
- Delays to Brexit owing to COVID-19 related disruption should benefit MMH, delaying cost and logistical issues involved in importing vehicles from Europe
- Consolidation opportunities within the UK motor retail sector, with weaker competitors, likely becoming under more significant stress due to COVID-19 related closure

**The US Navy’s C-130J, ‘Fat Albert’**



Source: Company

## Estimates withdrawn but long-term fair value unchanged

A lack of visibility relating to the COVID-19 pandemic has caused us to withdraw financial estimates for FY20 and FY21. We expect to revisit these once it is appropriate to do so.

That said, we believe that it is essential to appreciate that the transformation of the Group remains ongoing, which commenced with the restructuring of the MADG business in 2018. We expect significant long-term value will be unlocked as a result of the land sales initially and ultimately, with the development/relocation of the Cambridge Airport/MADG site.

**Despite the withdrawal of financial estimates, we have left our fair value assessment of the Group unchanged at 532p per NVPO share.**

## Shares in MCH are unlisted but can be bought and sold freely

It is possible to trade in the non-voting priority ordinary shares (of which there are 45.3m in circulation), using an exchange administered by **James Sharp & Co** (Contact: [Josh McArdle](#), on 0161 764 4043).





## Investor Access

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