Marshall of Cambridge Holdings Ltd

26 May 2023

In position for sustainable growth

The recent Operating Review of trading up to the end of FY22 was positive, with good growth in revenues and a strong uplift in profitability and cash generation. Ahead of a shareholder meeting, a trading update covering Q1 was also recently released, which highlighted that trading remained in-line with budgetary expectations. The proceeds from the disposal of MMH provide the Board with the resources to build the 'new' Marshall Group, with five-year plans in place for each division. Enhanced centres of excellence to provide a strong foundation for growth over the long-term have either recently completed or are in the planning stage.

There was £129m of net cash held at the FY22 year end, leaving the remainder of the business currently valued at just £90.3m, which we believe represents a significant anomaly.

The results for the year to December 2022 were encouraging, with revenues improving 7.5% to £369m and adj. PBT recovering to £28.1m on a continuing basis. The trend continued into Q1, with revenues improving 6.5% y-o-y. Cash generation, aided by the HIOS contract price adjustment, was strong during FY22.

Shaping the future

In the UK the move to Cranfield Airport / University has received outline planning permission, allowing the Group to begin detailed design work on phase one. We expect Marshall to move its Aerospace MRO (maintenance, repair & operations) business from the Cambridge Airfield site prior to 2030. The new North American Aerospace base at PTIA is due to become operational by 2025 and will provide MRO services on the USMC contract and future wins.

The Local Plan for Cambridge, which includes the Airport site (Cambridge East) as a preferred option, has the potential for over 7,000 dwellings and 1.5m to 2m sq ft of commercial space, ultimately transforming the city. The capacity of phase three of the Marleigh development is expected to increase when final plans are submitted, rising by 90 to 1,390.

The new manufacturing facility for Land Systems in Canada became available during Q1, with further plans to move the UK arm to a new home in or around Cambridge. The Canadian business remains focused on both domestic orders as well as international defence contracts.

We are encouraged by the new contracts secured in recent months at Marshall Fleet Solutions, delivering improved Q1 '23 revenues, as well as cost, CO2, fuel, waste savings and reducing noise pollution. The Titan solar power and lithium battery storage system from MFS can provide 100% free power to all makes of on-board refrigeration units, tail lifts, and other vehicle mounted electrical applications and is a recipient of several industry awards.

Marshall Aerostructures moved into a new facility during Q1 2023. The Skills Academy signed additional clients, with the new 2023 programme reporting its largest intake to date. Marshall Futureworx, the Group's venture arm, partnered with ISS Aerospace to inspect offshore wind energy installations using UAVs to facilitate predictive maintenance scheduling and reduce downtime.

Sum-of the-parts valuation

To derive an indicative fair value for the group we have made a sum-of-the-parts assessment from our financial model using conservative ratings and FY25 EBITDA expectations.

The implied equity value of £263.6m equates to 446p per NVPO share.

Marshall of Cambridge Holdings Ltd

Last matched trade	375p
Implied market cap	£221.6m
ED fair value / NVPO share	446p
Ordinary share count	59.1m
Preference shares	£8.4m
Net cash (current est.)	£100m

Share Price, p

Source: James Sharp, Asset Match

Description

Founded in 1909, Marshall of Cambridge (Holdings) Ltd (MCH) is a private, family-owned company, employing c.2,100 staff. The world-class applied engineering services and technology business to the aerospace and defence sectors is the core of the Group, comprising Aerospace, Land Systems and Advanced Composites. The property division, MGP, is in the process of unlocking value from its 900-acre estate at Cambridge airport.

The non-voting private ordinary shares (NVPOs) can be traded freely via a special off-exchange matching facility administered by Asset Match.

The next auction for the shares closes on 4th July, with dealing details available from marshall@assetmatch.com

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Operating update on FY'22 shows progress

Income statement

Y/e Dec, £m	2021A	2022A	Change
Aerospace	232.7	252.9	8.7%
Land Systems	40.6	55.9	37.7%
Property	7.9	7.6	-4.4%
Fleet Solutions	54.3	51.6	-4.9%
Slingsby Adv. Composites	8.3	10.2	22.0%
Skills Academy	2.0	2.7	34.9%
Discontinued	3.4		-100.0%
Other	0.5	0.6	25.1%
Internal sales	-6.7	-12.9	92.7%
Group revenues	343.1	368.7	7.5%
Cost of sales	-255.0	-245.0	-3.9%
Gross Profit	88.1	123.7	40.5%
GP%	25.67%	33.55%	
OpEx	-114.6	-106.9	-6.7%
Profit on sale of land & buildings	21.1	0.0	-100.0%
Other income	3.4	3.0	-12.7%
Adj. EBIT	-2.0	19.9	n/a
EBIT %	-0.6%	5.4%	
Share of JVs	3.5	4.5	28.8%
Associates	4.5		
Interest	0.0	3.7	
Aerospace	7.9	44.0	457.7%
Land Systems	-6.1	-15.0	145.8%
Property	11.3	11.4	0.6%
Fleet Solutions	0.1	-2.4	n/a
Slingsby Adv. Composites	0.4	0.5	34.6%
Skills Academy	-0.4	-0.1	-74.3%
Futureworx	-0.9	-2.5	185.9%
Discontinued	0.0		-100.0%
Central costs	-6.3	-7.7	22.0%
Adj. PBT	6.0	28.1	372.2%
Adj. PBT %	1.7%	7.6%	
Exceptional items	10.7	-0.7	-106.6%
Reported PBT	16.6	27.4	64.7%
Taxation	-3.9	-5.8	50.9%
Tax (%)	65.0%	20.8%	-68.0%
Adj. PAT	2.1	22.3	969.8%
Adj. EPS	2.3	36.4	1509.4%
DPS - Ord	4.0	80.0	1900.0%
DPS - NVPO	6.0	82.0	1266.7%

Source: Company

Key features of report

The operating review covering the 12-months to December 2022 was issued on 12 May, with encouraging progress on several fronts. Of note is the transformation of the balance sheet following the disposal of the Group's stake in Marshall Motor Holdings ("MMH"), as well as other smaller non-core subsidiaries.

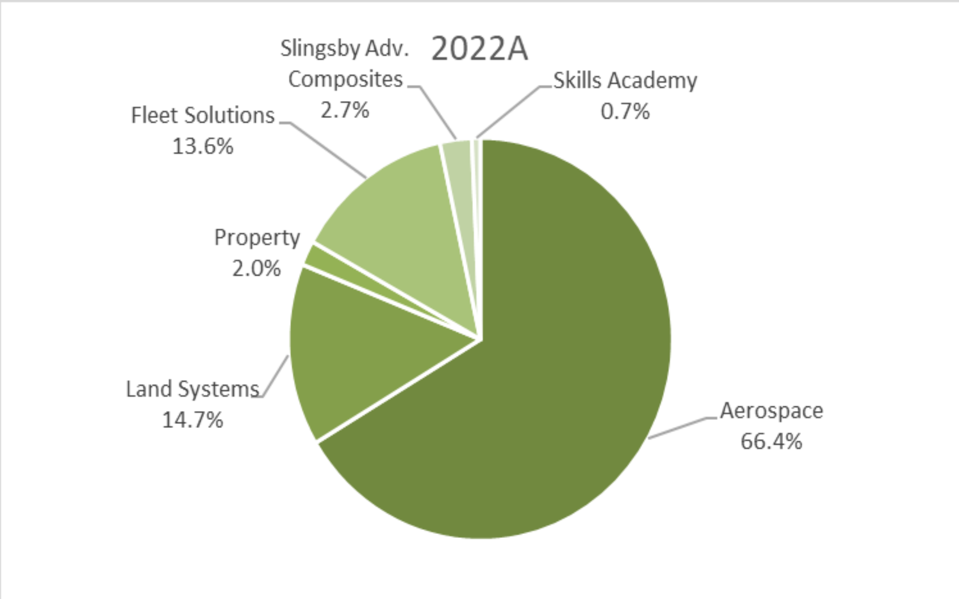
The Group stands at a crossroads as the early retirement of the RAFs fleet of C-130J Hercules has resulted in a re-engineering of the Group's strategy. By design, the cash generated from the disposal of MMH will fund much of the transition.

For example, in a short period of time the Group has received outline planning consent for the new UK Aerospace hub at Cranfield Airport/University ("Cranfield") and the siting of the North American Aerospace hub at Piedmont Triad International Airport ("PTIA") in North Carolina. Those facilities, once operational, will drive the continued internationalisation of the Group's Aerospace division.

The unaudited results for the 12-months to December 2022 were positive, with improvements made across all areas of the business y-o-y, either from the point of view of the top-and-bottom lines or in addressing longstanding issues. Revenues improved 7.5% to £369m overall, with most of the divisions delivering a meaningful uplift.

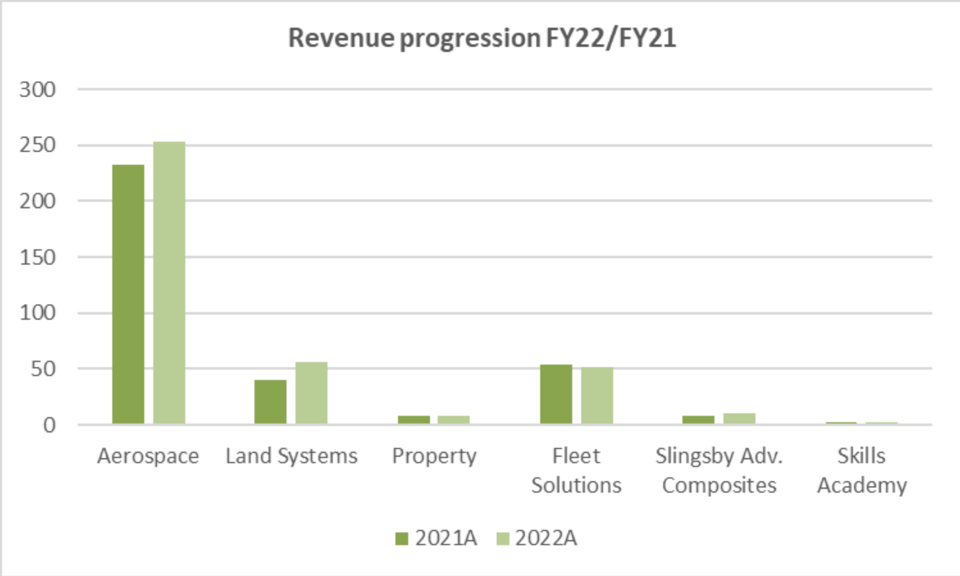
The exception was Marshall Fleet Solutions ("MFS"), where revenues declined by less than 5% despite challenging circumstances. MFS has since secured several contract wins, which augurs well for the outlook going forward. We shall highlight this in greater detail later.

Split of revenues, y/e December 31



Source: Company

Revenues vs prior year, £m



Source: Company

Business units

Marshall Aerospace (revenues +9% to £252.9m, adj. PBT +458% to £44.0m)

The Aerospace division delivered the largest improvement in revenues which grew by 8.7% y-o-y. Its divisional share of Group revenues rose to 66.4%. Negotiations with the UK MoD to compensate for the early end to the Hercules Integrated Operational Support contract ("HIOS") were successful, which will continue to have a positive impact until mid-2023.

The internationalisation of the business also proved beneficial, with the US Marine Corps and Indian Air Force contracts of note during the period.

The experiences gained on the Dolphin special missions aircraft programme has resulted in the Aerospace division seeking partnerships to deliver engineering solutions on numerous new air platforms. We highlight the modular systems developed by the Group, with the launch in March 2023 of the ARC (Adaptable Role-fit Capability) family of products, initially with a palletised radar, thereby flexibly transforming the roles of airframes rapidly. The targeting of further international customers remains a priority, with the Group in a strong position to do so owing to its role in the disposal process of the RAFs fleet of C-130s,

Profitability improved markedly to £44.0m, from £7.9m pre-central costs in FY21. Several factors were at work here. The comparative period suffered from the supply chain disruption and changing working practices due to the COVID-19 pandemic and the implementation of the ERP system, which reduced productivity levels initially.

The reduction in higher margin engineering upgrades and MRO work, in favour of essential maintenance, due to the winding down of activities with the RAFs fleet was offset by the price adjustment on the HIOS contract, thereby in part accounting for the jump in profitability and margins.

Perhaps the greatest milestone for Aerostructures during the FY22 year was the completion of the 1,000th auxiliary fuel tank for the Boeing P-8 maritime patrol aircraft. The division delivered good margins during the period, reflecting the ongoing success of the programme and efficiency gains generated during the period.

Marshall Land Systems (revenues +38% to £55.9m, adj. LBT +146%)

Marshall Land Systems ("Land Systems") was the fastest growing division during 2022, with revenues improving 37.7% representing an uplift of £15.3m y-o-y. The combination of the scaling up of an existing contract with the UK MoD, the ongoing DVOW contract with the Royal Netherlands Army and several new contracts focused a variety of container-based systems were responsible for the uplift in revenues. However, despite the strong growth in the top-line, it wasn't all smooth sailing:

- Supply chain issues resulting from the overhang of the COVID-19 pandemic, impacting inventory
- The implementation of the ERP system initially disrupted processes and reduced productivity, and
- The scaling up of the DVOW contract, highlighted the design related deficiencies of the systems, thereby resulting in inefficient manufacturing process.

The issues resulted in the division markedly increasing its loss at the adj. PBT level, from £6.1m in 2021 to £15.0m in FY22 (pre-central costs).

New, profitable contracts have been signed, including one to supply to Royal Netherlands Army with 201 ammunition storage containers. The ERP system is now operating as intended, resulting in efficiency improvements emerging. Also, the new management team appointed in late 2021 has introduced more flexible and scalable processes based on interchangeable product modularisation. By the year end, the efficiency improvements proved beneficial and productivity on the legacy contracts had improved. However, we expect those two contracts to prove to be a drag on divisional profitability until completed in FY25.

The new Canadian facility in Monckton, New Brunswick became available in Q1 2023, servicing several of the Group's international clients.

Group Property (MGP) (revenues -4% to £7.6m, adj. PBT +1% to £11.4m)

Phase 1b of the Marleigh development was completed during the period (88 dwellings) and the new primary school opened in September 2022. Sales commenced on phase two of the development and comprised 30 reservations out of a total of 421 units (most yet to be completed) and broadly in-line with expectations notwithstanding the issues caused by rising mortgage rates. Our expectation is that net reservations per week have now bounced back strongly from the low point in Q4 2022.

The Local Plan for Cambridge, which includes the Airport site (Cambridge East) as a preferred option, has the potential for approximately 7,000 dwellings and 1.5m to 2m sq ft of commercial space, ultimately transforming the city. The Group has started the process of identifying a partner to lead the development of the 440-acre site.

The capacity of phase three of the Marleigh development is expected to increase when final plans are submitted this summer 2023, resulting in the number of dwellings built in the three phases of the development rising by 90 to 1,390. The development was ranked as the best place to live within the Cambridgeshire area on HomeViews in 2022.

The largest constituent of 'other income' corresponds to deferred land profit, amounting to £2.3m in FY22 (FY21: £3.4m). The profit is released as dwellings are sold, with the rate of £45k per unit declining yoy due to the changing mix of sales.

Similarly, the share of profit from joint ventures relates to the sale of dwellings within the Marleigh development, with MGP and Hill Residential the co-developers, with profits increasing by £1m to £4.5m yoy. The improvement in profitability reflects both a favourable change in mix of sales, favouring houses versus apartments and the increase in the number of transactions. Following the disposal of MMH, the properties leased by MGP to the motor retailer were revalued, resulting in a £3m gain.

MFS (revenues -5% to £51.6m, adj. LBT of £2.4m vs adj. PBT of £0.1m in 2021)

Marshall Fleet Solutions had an eventful year, moving into a state-of-the-art 'super site' in Tamworth during the period, with additional workshop and training spaces available. The site is now the largest Thermo-King refrigerated unit dealership in the UK.

Revenues were affected by the global shortage of semiconductors and the ensuing reduction in new vehicle production, leading to a further reduction in the number of refrigerated units installed. However, older vehicle fleets generally result in a higher frequency of servicing/callouts, albeit the cost to customers is generally below that of an installation.

Two factors proved beneficial during the period and mostly offset the reduction in installations:

- The addition of further supermarket customers (home deliveries), and
- The launch of environmentally friendly products, enabling fleet operators to move closer to net zero targets.

The launch of a range of renewable refrigeration unit's targets reductions in waste, noise, CO2 and fuel, with the Titan solar power and lithium battery storage systems can power refrigeration units, tail lift and other electrical units using renewable means. The Titan system is available for both new vehicles and can be retrofitted to older trucks.

We highlight a selection of new fleet management contracts later in the document, which reflects a focus on customer wins in this area.

The move to a loss reflects the difficulty in recovering exceptionally high supply chain inflation which the business was unable to pass on to customers during the year.

Slingsby Advanced Composites (revenue +22% to £10.2m, adj PBT +35% to £0.5m)

Revenue growth at Advanced Composites was encouraging and included a combination of improved shipping rates on existing programmes, new customer wins and the start of two deferred contracts ahead of the FY22 year-end. The partnership agreement with BAE Systems on the new Future Combat Aircraft System (FCAS) commenced during the period. Looking further forward, we expect the division to increase its share of the UK MoD programmes in which it is involved.

R&D continues to drive the number of new applications and manufacturing techniques and is at the heart of new customer wins. The increase in advanced materials applications within the defence markets, particularly when partnered with the use of sustainable and energy efficient materials is a driver of the overall market.

Following a change in senior divisional management in late 2020, which led to reductions in energy usage and a move to lean and continuous improvement manufacturing techniques, unit costs declined. The reduction in costs as the efficiency improvements fed through, coupled with rising volumes, resulted in the improvement in profitability.

Marshall Skills Academy (revenue +35% to £2.7m, adj. LBT -74% to £0.1m)

Following a slow start to life as the pandemic severely limited its operations, the division continues to make firm progress. The division provides training for engineering and business apprenticeships in Cambridge and pilot training in Canada. At the beginning of the year, Bombardier was the only external client, and we highlight the new customers added for the FY23 later in the document. Our expectation is a move to profitability during FY23 as the broader number of programmes and customers take effect.

Futureworx (adj. LBT +186% to £2.5m)

The Group's venture arm, Futureworx, is at the pre-revenue stage. It is currently exploring two development areas:

- Remote maintenance inspections using UAVs within the offshore renewable wind energy sector and further applications in the security and defence sectors, and,
- The production of fuel systems for the use of liquid hydrogen in aircraft and vehicles, including ground support equipment.

The former is relatively advanced, involving a partnership agreement with ISS Aerospace, to develop the Lilypad system. A memorandum of understanding was signed in 2022 with Cranfield Aerospace Solutions for the conversion of aircraft to run on hydrogen.

Both areas remain at the pre-revenue stage.

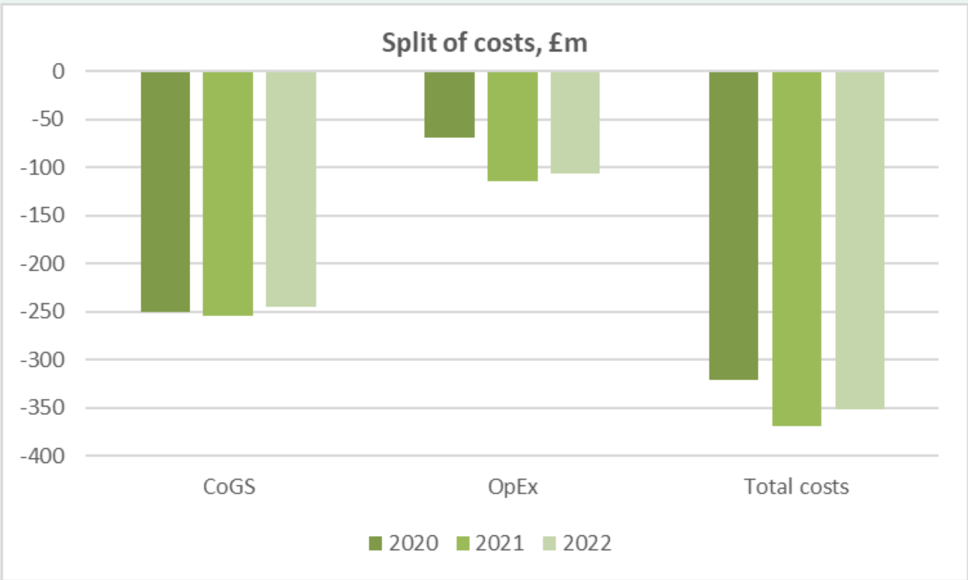
Financials

Gross & EBIT margins improved markedly

We highlight in the chart below the movement in costs from FY20 onwards. Y-o-Y overall costs decreased by 4.8% to £351.8m, representing a two-year CAGR of 4.8% compared to FY20 levels. Both cost of goods sold and operating expenses declined y-o-y, falling by 3.9% and 6.7% respectively. The outcome was despite the delayed recovery of supply chain inflation generally, which included component price rises and higher freight costs.

Central costs increased 22% y-o-y to £7.7m and represents 2.2% of total costs.

Total costs = CoGS + OpEx

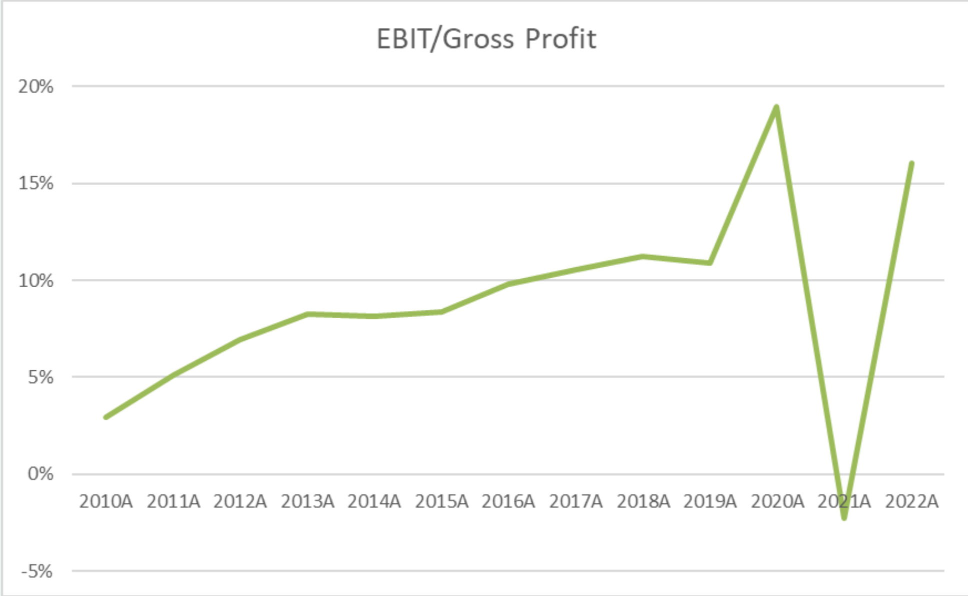


Source: Company

Gross margins improved by an astonishing 788 basis points to 33.6%, which reflected a combination of the higher revenues (including the HIOS price adjustment), an improved margin mix of sales and a decline in cost of goods sold. As is clear from the chart below, much of this fed through at the operating profit level, with the proportion of GP nearing FY20 record levels in recovering to 16.0% in FY22.

Excluding profit on sale of land adj. EBIT increased by £21.9m to £19.9m, suggesting an EBIT margin of 5.4% (FY21: -0.6%).

Operational leverage a positive in FY22



Source: Company

Adj. PBT, excl. MMH, recovered strongly

Adj. PBT recovered to £28.1m (FY21: £6.0m) including the benefit:

- Interest income of £3.7m (FY21: £0.0m)
- Share of joint ventures of £4.5m (FY21 £3.5m) reflecting the Marleigh/Hill Residential jv
- Operating income of £3.0m (FY21: £3.4m)

Exceptional items were materially lower than in the previous year, amounting to just -£0.7m (FY21: £10.7m) and comprised, restructuring costs of -£1.6m (Aerospace and Land Systems – legacy contracts) and a £0.9m profit on the sale of property. This compares to a £10.7m gain in FY21, which reflected a £21.1m gain on the disposal of property, a £4.5m dividend received from MMH, £2.4m of restructuring costs, a £7m contract loss provision (on HIOS), a £4.4m impairment on intangible assets relates to IFS ERP system implemented during the COVID-19 lockdown, and a £1.2m cost associated with the COVID-19 pandemic.

Dividends from MMH are treated as investment income, with none payable ahead of its disposal during FY22 and compares to an inflow of £4.5m in FY21.

Taxation of £5.8m (FY21: £1.4m on an adjusted basis) equated of a tax charge of 20.8% (FY21: 23.1%). Following the disposal of MMH minority items reduced to £0.0m and preference dividends were unchanged at £0.7m. On this basis, we estimate adj. EPS to amount to 36.4p / share and compares to 6.5p in FY21.

Excluding the 76p / share special dividend paid in October and following the receipt of the proceeds of the disposal of MMH, the Group paid ordinary shareholders an unchanged 4p dividend, with the NVPO holders receiving 6p / share (FY21: 6p).

The Group has not provided an audited balance sheet within the operating update. We highlight our estimate within the Financials section. **Our expectation is a NAV / share of 449p or c. £265m (versus FY21 levels of 231p / £136.5m).**

The main components of the cash flow statement included:

- Operating cash inflow of £38.3m (FY21: -£35.8m), equated to 193% of EBIT in FY22 largely a result of the HIOS contract price adjustment, with FY21s result demonstrating a high level of working capital consumption, reflecting the requirement to maintain a high inventory as supply chain issues persisted
- Working capital inflow of £8.4m represented a reverse y-o-y of £43.1m from an outflow of £34.7m in FY21, with the HIOS contract price adjustment a significant factor in the improvement.
- Capex during the period was £10.5m, reflecting expenditure on the next phase of the ERP software implementation, investment in the property portfolio (Cambridge East and Cranfield planning processes, relocation of Land Systems and the new supersite in Tamworth) and the second payment associated with the disposal of the Land North of Cherry Hinton development and the disposal of Martlet Investments
- The consideration received from the disposal of MMH amounted to £199m net of associated costs, and
- A special dividend of £44.9m was paid in October, with two interim dividends amounting to a further £3.3m, resulting in a total £48.2m and a further £0.7m on preference dividends.

Net cash at the period end stood at £129.3m (FY21: net debt of £41.2m).

Marshall's future is taking clearer shape

The five-year divisional plans have started well.

The receipt of the MMH disposal proceeds has proven pivotal in the execution of long-term plans of each division. Many of the facilities in which the individual components of the Group operate in have either been upgraded or there are plans to do so, to ensure that the Group can meet its growth expectations. Each division has a five-year plan in place.

Recent news flow, split and analysed by business unit, highlights the strong progress made YTD in achieving the goals set in place by the Group Board.

We underline this with the positive trading update covering Q1, with revenues ahead y-o-y by 6.2% to £81.2m. With Aerospace and Skills Academy delivering broadly unchanged revenues y-o-y, the drivers of revenue growth included Land Systems (+14% yoy), Property (+50%), Fleet Solutions (+13%), and Slingsby Advanced Composites (+33%).

No operating / adj. PBT information was included, although the Group is trading in line with budgeted expectations currently.

Q1 trading update

£m	Q1 '22	Q1 '23	Change	£m Change
Aerospace	48.9	48.6	-0.6%	-0.3
Land Systems	11.3	12.9	14.1%	1.6
Property	2.8	4.2	49.7%	1.4
Fleet Solutions	12.9	14.6	12.7%	1.6
Slingsby Adv. Composites	2.0	2.7	32.8%	0.7
Skills Academy	0.8	0.8	-3.1%	0.0
Other & intercompany	-2.3	-2.5	10.2%	-0.2
Group revenues	76.5	81.2	6.2%	4.7

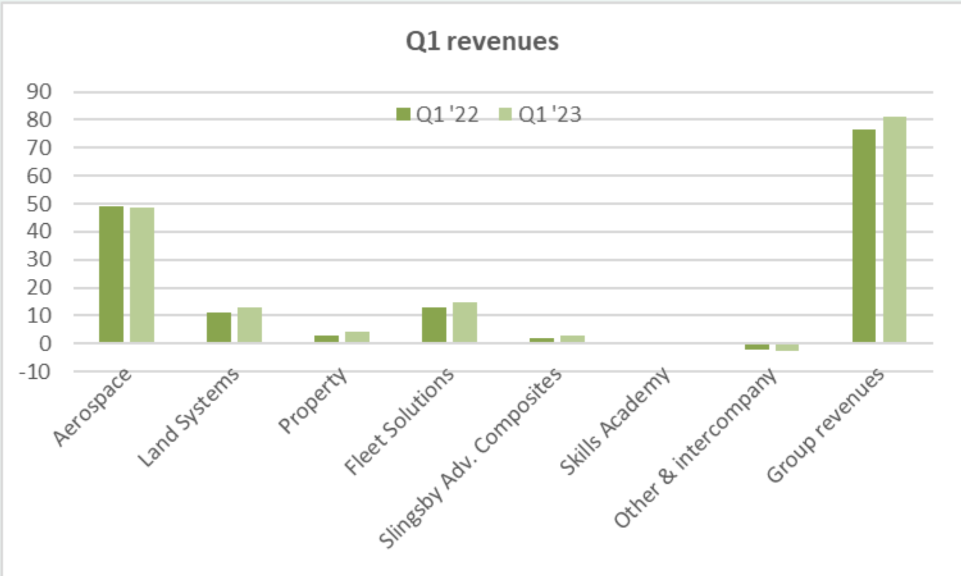
Source: Company

Order intake declined modestly during Q1, reflecting customer delays and as such, a related improvement is anticipated during Q2.

With a repositioning of the Group during FY22, which reflects several disposals and planning towards the retirement of the RAFs C-130 Hercules fleet, investment was made in the sales and marketing function**.**

There is confidence within the Group that the book-to-bill ratio will subsequently improve to above 1.1 for the year. As such, H2 is likely to prove stronger, with profitability peaking for the year during Q4.

Q1 revenue progression, £m 2022 to 2023



Source: Company

We next highlight the current trading within the divisional segmentation, which incorporates news flow issued during the period.

AEROSPACE & DEFENCE

The C-130 remains key to Group's strategy

The Lockheed Martin C-130 Hercules has proven to be the 'bread and butter' of Marshall Aerospace's activities, providing MRO services to the RAF and the air forces of other nation states for approximately 55 years. Although the UK's fleet is in the process of being decommissioned, Marshall Aerospace already services **17 other customers globally**, including the C-130s of the US Marine Corps and various European, Middle Eastern, African and South-East Asian air forces.

The Dolphin special missions project has provided valuable experience for Marshall Aerospace to widen its capabilities onto other airframes. Significantly, the Group has developed a range of portable technologies to provide aircraft with new capabilities on a temporary basis. We will discuss this in greater detail in the section on ARC.

The Lockheed Martin C-130J Hercules

Source: Crown Copyright

The C-130 Hercules aircraft originally entered service in 1956, with more than 2,500 ordered and delivered, and **70 countries** currently operate at least one of more than 70 variants. There are more than 520 of the latest versions in service globally (the C-130J), following its introduction in 1998. Marshall Aerospace is contracted to service less than 10% of the roughly 900 airframes currently operational, leaving **significant scope to improve its market share.**

The RAFs final mission utilising the C-130J Hercules has been set for 17 June this year, as part of the celebrations for the King's birthday involving a fly past. Currently, only six aircraft remain in service with the outstanding eight relocated to Marshall's Cambridge base where they are being prepared for sale. The airframe will be withdrawn from service on 30 June 2023.

The final service on one of the RAFs C-130s was completed during February. As a result, activity levels were quieter than normal, with revenues benefitting from the HIOS contract price amendment. The C-130 activity, which includes domestic and international revenues, continues to account for c. 60% of the divisional total.

In addition to the task of readying the aircraft for sale, Marshall will also be involved in:

- The sale process, with other nation states the most likely purchasers

- The disposal of support equipment, including tools and machinery used within the MRO process, and
- The disposal of the C-130J spares inventory.

Just as the disposal of the RAFs fleet of C-130H aircraft took time to complete, so we anticipate the sale of the 14 C-130Js will also require a degree of patience. We note that it has been reported within the media that both Sweden and Greece are looking for replacement transport planes such as the C-130J. On this basis, they could potentially be interested in parts of the retired RAF fleet.

Marshall Canada has secured its largest contract since the 2006 OWSM (Optimised Weapons System Management) program on the core Primary Air Vehicle (PAV) with the Royal Canadian Air Force (RCAF). The new contract, with De Havilland Aviation, sees Marshall Canada provide engineering services.

Outline planning consent granted for the new Aerospace HQ

The retirement of the UK fleet has resulted in the Board of MCH reconsidering the appropriateness of the large base in Cambridge. International contracts were sought for the MRO of C-130 Hercules, with the addition of the US Marine Corps (USMC) from late 2020, India in 2022, the extension of a support contract with the Royal Canadian Air Force in 2022 and contract extensions for C-130 MRO work with the French and Danish governments in 2022.

Such contract wins/extensions help to shift the focus away from necessity of such a large UK base.

Cranfield Airport/University became the favoured option for its UK base in 2021 for several reasons, with an Outline Planning Application submitted in November 2022. **A resolution to grant outline consent was given in April 2023**, allowing the Group to begin detailed design work for the first phase of its new HQ at Cranfield Airport. The next stage of the planning process is the preparation for a Reserved Matters planning application.

Marshall Aerospace: The new Cranfield base

Source: BusinessWeekly

Once established, Marshall Aerospace is expected to employ up to 1,200 people, of which the majority will be involved in aircraft maintenance and the remainder in support and management roles. We anticipate that Marshall will develop approximately 35 hectares of land at Cranfield to build state-of-the-art facilities to support its aerospace operations.

In parallel with the planning for the Cranfield relocation, we expect the Group to open similar aircraft maintenance hubs in North America and the Middle East to service existing and future contracts. We expect Marshall Aerospace to have fully vacated the current Cambridge Airport site by 2030.

Plans for a North American base unveiled

To date, the contract with the US Marine Corps has been serviced in Cambridge. As a result, the Company has been searching for a base in the US to carry out MRO operations in the US, much closer to its client. The opening of an office in Washington DC in 2021 was seen as a potential springboard to securing additional contracts, that would then need to be serviced in North America.

The process to establish a new aircraft maintenance facility in the US is well advanced, with the chosen site at Piedmont Triad International Airport, in Guilford County, North Carolina. Marshall is locating its North American aerospace base at the facility and has been offered economic incentives of US$1,000 per employee or £0.24m by the local Greensboro City Council and US$2.4m over a 12-year period via a Job Development Investment Grant (JDIG) from the State Government of North Carolina to proceed with the facility. The enlarged, planned facility is expected to cost in the region of US$50m to build.

Up to 30 locations were considered, narrowed down to a shortlist of four sites for the new US facility. A combination of the availability of land, room for expansion, and a skilled workforce in the vicinity, were all key considerations towards the decision favouring PTIA. One should not ignore the significance of the FRCE at MCS Cherry point, which is sited nearby in North Carolina.

Phase one will see the construction of an aircraft hangar large enough to incorporate six bays for the repair, maintenance, and overhaul of Lockheed Martin Hercules C-130 aircraft. In addition, there will also be a separate paint bay. Construction is expected to commence in early 2024, with the site becoming operational from early 2025.

Marshall Aerospace: Phase one of the new US facility

Source; Marshall of Cambridge Holdings Ltd

We think that the recent announcement from the US Navy stating the Fleet Readiness Center East ("FRCE") at MCAS Cherry Point will take on the MRO duties for the US Navy and USMC KC/C-130J Super Hercules and KC/C-130T Hercules tanker and transport aircraft from 2025/26 is potentially significant. Previously the MRO requirements of the USMC fleet were split between Hill Air Force base in Utah and Marshall Aerospace, through a framework agreement with the latter securing several MRO undertakings every year.

The US Navy currently operates 43 Hercules aircraft, while the USMC has a total of 66 C-130s. Following the transfer of the contract, it is envisioned that Marshall will continue to work in partnership with the US Navy/USMC.

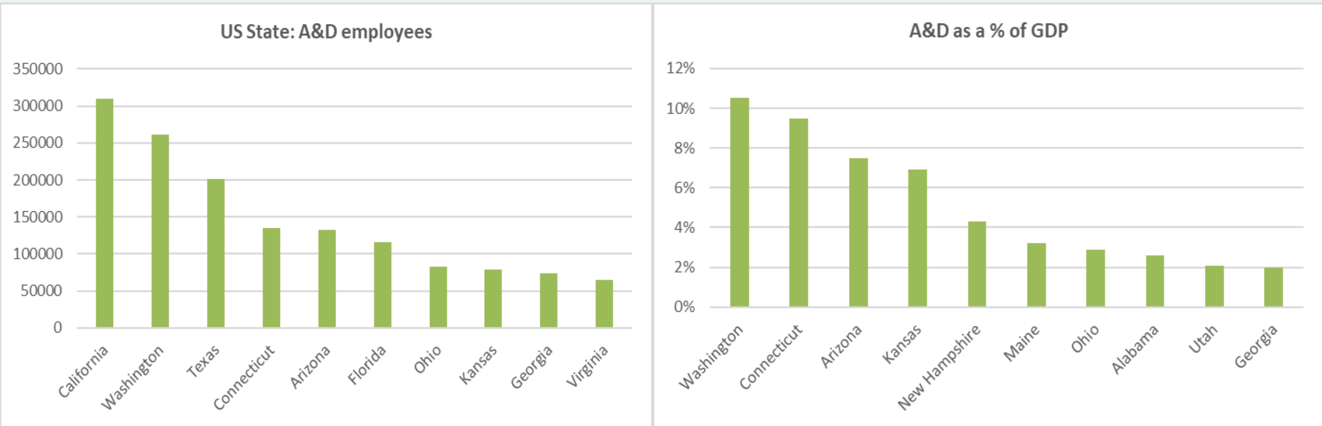
The base in North Carolina sits within the US aerospace ecosystem and anchors the North Carolina Aerospace Corridor, centred on Wayne, Lenoir and Craven counties in the south-eastern portion of the state. The aerospace focus of the state includes:

- Three air bases – Pope, Seymour Johnson and MCAS Cherry Point (including USMC)
- Existing aerospace companies including Lockheed Martin, Northrop Gruman, Rolls-Royce, Honeywell Aerospace, Bell Helicopter, Parker Aerospace, Sikorsky, Spirit Aerosystems, UTC Aerospace Systems, Boeing, GE Aviation, and Pratt & Whitney
- An experienced workforce, plus strong educational support, with programmes certified by the FAA.

In terms of the C-130 specifically, the airframe is located nearby at an Air Reserve base at Fayetteville, North Carolina. Other important locations carrying a fleet of C-130s include Air reserve bases in neighbouring states such as Dobbins Air Base in Georgia and Maxwell Air base in Alabama. The primary fleet of C-130s reside at Dyess Air Force base in Texas and Little Rock Air Force base in Arkansas.

Both Georgia and Virginia border North Carolina and rank the top 10 States in the US for aerospace and defence employees, as well as in proportion of GDP:

Top 10 US states by Aerospace & Defence employees & % of GDP



Source; AIA Aerospace

Major US bases operating Hercules C-130s

US air base	AFB/ARB
Dyess, Texas	AFB
Little Rock, Arkansas	AFB
Ramstein, Germany	AFB
Yokota, Japan	AFB
Peterson, Colorado	ARB
Pope, N. Carolina	ARB
Minneapolis, Minnesota	ARB
Maxwell, Alabama	ARB
Dobbins, Georgia	ARB
Youngstown, Ohio	ARB
Keesler, Mississippi	ARB

Source: AF.mil

The US is a key market

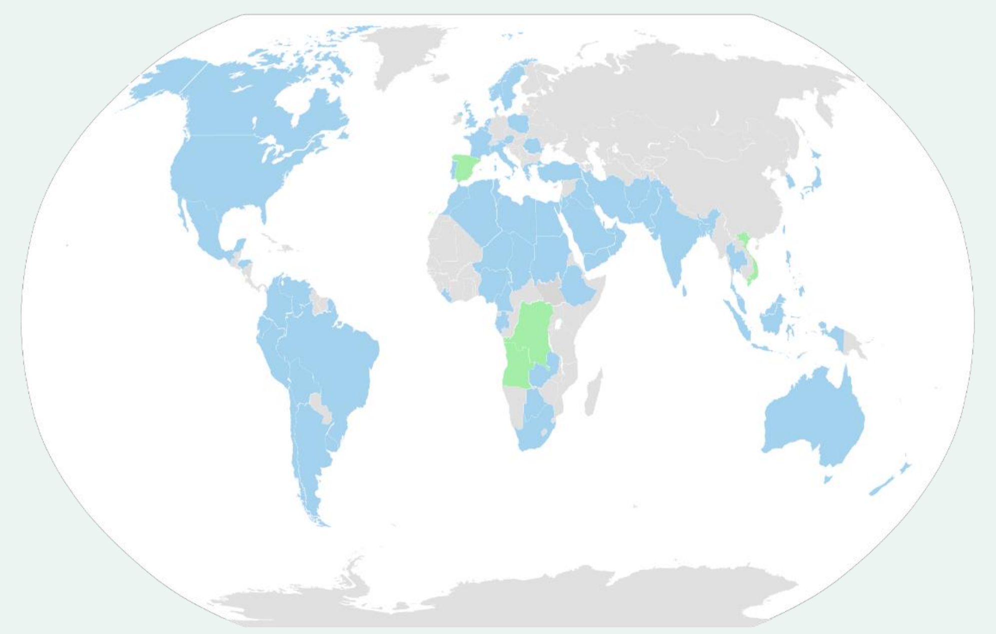
The US operates approximately half of the global C-130 fleet, covering a myriad of tasks including airlifts, search and rescue, humanitarian operations, in-flight refuelling, troop carrier, coast guard and commercial freighter. The airframe is utilised not only by the USAF, US Air National Guard but also by the US Coast Guard, US Marine Corps and US Navy.

The timing and scale of the second phase at PTIA will ultimately be dependent upon further contract wins in North America.

Global opportunities abound too

The C-130J aircraft is the airlifter of choice for 22 nations and 26 operators globally,

Current (blue) and former (green) operators of the C-130



Source: WinAir

It is noteworthy that many more countries use older versions of the C-130 and other airframes such as the A400M Atlas, and the C-17 Globemaster. The recent evacuations from the Wadi Saeedna airfield north of Khartoum and from the eastern coastal city of Port Sudan in Sudan are prime examples of the humanitarian work undertaken by those airframes. The UK will change from a current operator to a former operator of the C-130J once its fleet has been disposed of.

A new Aerospace MRO base in the Middle East is yet to be announced

There are approximately 240 tactical airlifters operating in the Middle East and North Africa (*source: Times Aerospace*), of which the majority are C-130 Hercules. Our expectation is that Marshall Aerospace will open a base in the Middle East to target the C-130s in the region and beyond, thereby widening its customer base and improving the service provided.

Chris Walton was appointed as Managing Director of Marshall Middle East in mid-February, with a focus on supporting the existing business in the UAE and the surrounding region and developing new business lines via strategic partners. Previously, Chris had headed up Marshall Futureworx, the Group's advanced concepts and venture building arm, which followed as head of the 'special missions' aircraft modification programmes (including previous projects in Abu Dhabi).

The expected scope of the work undertaken in the region will predominantly focus on aerospace & defence sectors and to include:

- Aircraft capability upgrades
- Advanced technologies supporting drone operations, and
- Land systems infrastructure for rapid deployment.

ARC suite of role fit products

Since inception, Marshall Aerospace has built a reputation for engineering excellence, delivering solutions to complex issues affecting the aerospace industry, via R&D. The Aerospace Future Products team has launched ARC (Adaptable Role-fit Capability) family of role-fit products, unveiled in March 2023.

Traditionally, radar is permanently fixed owing to the sensitive nature of the equipment used. The launch of the ARC-Radar allows operators of tactical transport aircraft to transform an airframe rapidly and temporarily for intelligence, surveillance and reconnaissance ("ISR") missions.

Unlike its fixed nature predecessors, the ARC-Radar is a palletised solution requiring power outlets only. The installation or removal process for the ARC-Radar system is typically undertaken within four hours, guaranteeing minimal aircraft downtime. The Leonardo Osprey radar delivers full performance during operations without the need for any modifications to the airframe. The system provides greater flexibility and utilisation of the aircraft, easily reverting to humanitarian support, disaster relief, and military missions from its temporary ISR role.

The Marshall ARC-Radar solution has undergone extensive testing on the C-130J Super Hercules airframe, with representatives of Leonardo operating the system successfully over:

- Maritime surface surveillance, including small target mode
- Ground mapping over a wide area and,
- Moving target detection, whether on the ground, at sea or air-to-air.

The ARC-Radar's range is up to 200 nautical miles, with an ability to track as many as 1,000 targets.

An example of the ARC-Radar

Source: Company

Aerostructures moved into a new facility in March 2023

The new state-of-the-art Aerostructures hangar (21) in Cambridge opened in mid-March. The facility produces auxiliary fuel tanks for the P-8 maritime patrol aircraft, based on Boeing's next generation 737-800. The cost of the facility amounted to £2.6m.

Marshall has adopted an innovative and adaptable working environment, fostering continuous improvement techniques with the new production line markedly more efficient than in the previous facility. The new site incorporates many of the Group-wide Ambition 2030 goals to reduce carbon emissions, including a 50kW solar PV installation on the roof, LED lighting, High efficiency air conditioning, hot water generation via heat pumps, leak detectors on all water services, and chargers for electric vehicles.

The 1,000th fuel tank was delivered to Boeing in May 2022, 16 years after the commencement of manufacturing. The tanks shipped in sets of six and 157 P-8s delivered to customers globally to date. The auxiliary tanks enable the coastguard aircraft to fly longer and further, with up to 1,200 nautical miles of range possible.

The new Aerostructures' facility

Source: Company

Marshall Land Systems

The existing facility housing the Land Systems manufacturing base remains operational and is yet to be demolished as part of the proposed Cambridge East development. Management continues to evaluate options, with the new UK facility expected to open in or around Cambridge by 2025.

Bottlenecks in production had been an issue during the last 12+ months, although a change in senior management, coupled with the ERM system now operating as intended have delivered improvements in productivity and output.

The move to a standardised container, initially with a 10 ft model, is resulting in significant improvements in productivity and a marked reduction in the use of materials and hence, leading to cost reductions.

New contracts, including the following contributed to improved activity levels YTD:

- Deployable CT scanners for the Australian and Canadian governments
- Contract extensions with BAE Systems and Kongsberg
- Team Project (UK MoD) and,
- Advanced hybrid power solutions collaboration with Intracom Defence.

However, delays and a re-scheduling of several contracts resulted in Group delivering revenues below budget during Q1 ’23, despite the overall improvement y-o-y of 14%.

The new 82,000 s ft manufacturing facility in New Brunswick, Canada became operational during Q1 2023. It is intended that the site will become a focal point of the division, as the business services international defence contracts and seeks to secure further wins from the Canadian Government.

The deployable military shelter market was valued at US$933.5m in 2021 and according to Mordor Intelligence is set to grow by a CAGR of 1%+ to 2031. Europe is expected to record the highest levels of growth during the period as armed forces from within the area are strategically deployed by NATO partner countries in peacekeeping roles. North America remains the largest market for deployable military shelters at c.35% at the beginning of the period.

Other activities

Marshall Group Properties sees capacity rise at Marleigh

The Cambridge East site incorporates approximately 900 acres of airport land the Group owns to the east of Cambridge, forming part of Marshall Group Properties (MGP). Initially, the development of the airport site began with the Marleigh development, which continues and the Land North of Cherry Hinton (“LNCH”), which was sold to a joint venture owned by Bellway Homes and Clarion Housing Group. The airport land was included in the preferred options for the Greater Cambridgeshire plan in October 2021.

The expected number of dwellings to be ultimately completed across the three phases of the Marleigh development increased by 90 homes to 1,390 during February 2023. Representatives of the jv partnership with Hill Residential and Marshall Group Properties updated Councillors from Cambridge City Council and South Cambridgeshire District Council on plans for the final phase of the Marleigh development.

Stakeholder engagement on the Local Plan is expected to take place in July, involving shareholders and the wider public. The draft Local Plan is due to be published during H2, with consultation anticipated by the year end.

The Marleigh development

Source: Company

Fleet Solutions fulfils several contracts YTD

Marshall Fleet Solutions ("MFS"), the UKs largest independent commercial vehicle service operation, has secured several contracts from the beginning of December 2022, including:

- Supply of ten Thermo King SLXi refrigeration units to OPX Logistics
- The supply of the Thermo King Advancer A400 refrigeration systems to EWT Dartford Ltd
- Ocado Logistics introduces Titan solar powered refrigerated systems from MFS
- Samworth Brothers has begun to upgrade its refrigerated fleet with Thermo King Advancer A400 units
- Brakes introduces 30 new trailers with Thermo King Advancer A500 refrigeration systems, and
- LF&E Refrigerated transport has partnered with MFS to electrify its fleet using Titan solar / lithium battery system.

The combination of the implementation of those contracts and a backlog of orders from H2 '22, was behind the 12.7% y-o-y improvement in revenues during Q1, to £14.6m.

MFS was awarded 'Blue Track Select' dealer status by Thermo-King, further underlining its significance in the suppliers' global network, ranking the Tamworth site as the second highest scoring dealer in EMEA.

The SLXi refrigeration units deliver cost savings, reductions in CO_2, while simultaneously lowering waste and noise pollution levels, compared to previous generations of the product. The Advancer A400 and A500 systems generate fuel savings, in turn reducing the carbon footprint of a fleet and helping operators to move closer to net zero goals. The Titan solar power and lithium battery storage system from MFS can provide 100% free power to all makes of on-board refrigeration units, tail lifts, and other vehicle mounted electrical applications. The Titan system is available for both new vehicles and can be retrofitted to older trucks.

Marshall Slingsby Advanced Composites making progress

The Marshall Slingsby Advanced Composites ("MSAC") business has been busy in recent months, adding new senior team members, benefitting from efficiency gains within the manufacturing process as part of the continuous improvement programme, and winning an additional contract to manufacture composite submarine optronic masts. Q1 '23 revenues improved 32.8% y-o-y to £2.7m.

The division added a Senior and an Associate Engineer, Shaun Richardson and Stephen Whalley respectively, who will be involved with R&D, production and post-delivery support.

A new contract with Thales UK and extends the relationship between the two parties to more than 20 years, initially commencing on the Astute Class submarine. That contract has been replaced following the successful tender on new marine work. New composite structures manufactured by MSAC for Thales reduces the load on the submarine's optonic mast, while also contributing to reduced acoustic, visual, radar and thermal signature, thereby decreasing the counter detection risk.

Two further contracts which had previously been delayed owing to the supply chain issues post the pandemic, re-started in late 2022.

Marshall Futureworx to provide offshore wind farm inspections

Futureworx was born during the pandemic in 2020. It is aiming to create technology and enterprise solutions to create new revenue streams for the Group. The business is exploring two development areas:

- The deployment of inspection drones to determine maintenance requirements in the offshore renewable wind energy sector and,
- The production of fuel systems for the use of liquid hydrogen in aircraft and vehicles, including the supply of ground support equipment.

A memorandum of understanding was signed in 2022 with Cranfield Aerspace Solutions for the conversion of aircraft to run on hydrogen.

The UK has the second largest installed offshore wind capacity globally, generating 12 GW currently, with targets of 30 GW by 2030 and 100 GW by 2050, suggesting CAGRs in capacity of 13% and 5% respectively. The ever-increasing demand for secure and renewable energy requires regular inspections to enable timely maintenance of the structures and ensure the continued efficiency of the wind turbines.

Marshall has partnered with ISS Aerospace, a provider of industrial unmanned aerial vehicle ("UAVs") to develop **the Lilypad system**., which comprises multiple autonomous UAVs utilising AI and navigational sensors and deployed from an onshore command and control centre and operated by a single remote pilot. The new system revolutionises how operators monitor real-time performance of their wind farms, reducing the requirement for offshore personnel undertaking inspections. The inspection data and reports are transmitted to the wind farm operator for more frequent, reliable and predictive maintenance scheduling and thereby reducing downtime. Further applications for the Lilypad system will be pursued in due course, including within the security and defence sectors.

The Board is confident that orders will materialise during FY23, with revenues delivered prior to the year end.

Kieran Paterson replaced Chris Walton as Managing Director of Futureworx in February. Kieran is a co-founder of the division building a strong team and developing a portfolio of new products and services to be commercialised over the medium term. Kieran started his career as an engineering graduate in 1998.

Marshall Skills Academy moving to a new facility

The last intake of apprentices completed their tasks in the old workshop before returning to their employers at the end of March. The new facility, incorporating classrooms and workshops, will open later in 2023 on the site of the former Cambridge Airport Jet Centre (Hangar 2).

More than 70 technical and business apprentices are expected to commence the new 2023 programme, following 380 applications. This represents the largest intake to date, with the Skills Academy working with more organisations than ever before, with Aircraft Restoration Company, Stansted Aerospace and Titan Airways adding to existing clients Marshall Aerospace, Marshall Land Systems, Bombardier.

Outside of the UK, the skills academy model has been expanded into Canada with the launch of the 'Earn as you learn' pilot/manufacturing/engineering programme. The programmes will be delivered in conjunction with the University of New Brunswick and New Brunswick Community College.

The division traded broadly in-line with its comparative period last year, delivering £0.8m of revenues in Q1 '23.

The new Skills Academy facility

Source: Company

Board changes

We note the appointment of **John Crompton as a Non-Executive Director** from 1 March 2023. John has been associated with the Marshall family for some time as a Trustee of the Marshall family settlements. On graduating from Oxford, John began his career at HM Treasury before a move to Morgan Stanley culminating in deputy Head of UK operations and a secondment to HM Treasury as its Senior Corporate Finance Advisor.

John spent one year at Merrill Lynch responsible for new equity issues in the EMEA region, then returning to the HM Treasury as Head of Market Investments and overseeing the UK Government's holdings in Lloyds Banking Group and Royal Bank of Scotland. Various senior roles within HSBC followed, culminating in the Head of Corporate Finance before moving to a plural career, initially as Chairman of Wyelands Bank, an advisor to various FinTechs, as a Non-Executive Director of ICE Benchmark Administration and as Senior Advisor to XMS Capital Partners.

Looking forward

We remain optimistic on the medium-term outlook for the Group as its transformation continues, reflecting:

- Contract amendment received from the MoD to cover for the loss of work with a recovery of committed overhead costs over the medium term
- Further internationalisation of the Aerospace MRO business, with newly secured contracts ramping up to optimum levels
- The turnaround of the Land Systems businesses, under its new management team, with the scale of losses declining in FY23 as more efficient manufacturing processes are introduced with a greater modularisation of the products
- The ramping up of the contract with the Royal Netherlands Army to supply military container systems for the storage of ammunition and manufactured in Canada
- Other contract wins, with the UK MoD, Australia, Canada, the Netherlands, and shelters for Kongsberg, and BAE Systems feeding through to revenues
- The new facility in Canada combined with a strong joint bid will help to secure potential contract wins with the Canadian Armed Forces (LVM – the replacement of its fleet of light and heavy vehicles, logistics vehicles, trailers, and containers)
- Additional manufacturing capacity coming on stream at Land Systems in Canada, expanding the geographical reach into new geographical markets (Europe, Middle East, and North Africa)
- The ramping up of the new Tamworth 'supersite', with new income streams for MFS such as renewables beginning to bear fruit
- New vehicle conversions for fleet customers have started to ramp up, part helped by a nascent recovery in the food service and hospitality sectors
- A move to profitability within the two newer and smaller divisions, Skills Academy and Futureworx
- Increased residential sales within MGP, particularly as the uncertainty created within the UK residential property market during Q4 2022 has eased, with the rate of reservations generally doubling from the nadir, and
- Receipt of planning consents for the later stages of the Marleigh development

Net cash stood at £129.3m at the FY22 year-end. We estimate that accounting for capex, the planning process and dividends will in total reduce the amount by £29m to c. £100m currently, Meanwhile, the MoD's ongoing contract price adjustment runs until mid-2023 and is expected to assist working capital.

This cash pile will be used to future-proof the business with plans to build new facilities either completed (Fleet Services, Land Systems Canada and Aerostructures) or pending over the medium term (Aerospace in the UK and in North America, and Land Systems in the UK).

Group Financials

Summary Income Statement					
Year to Dec, £m	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**
Aerospace			229.3	232.7	252.9
Land Systems			44.2	40.6	55.9
Advance Composites			10.3	8.3	10.2
Aerospace & Defence	247.8	307.6	283.8	281.6	319.0
Property	8.0	7.8	8.1	7.9	7.6
Fleet Solutions	47.4	53.0	45.7	54.3	51.6
Skills Academy			0.0	2.0	2.7
Other/discontinued			13.2	3.9	0.6
Intercompany	-6.1	-6.5	-17.1	-6.7	-12.9
Revenue	297.1	361.8	333.7	343.1	368.7
Y-o-Y growth (%)		21.8%	-7.8%	2.8%	7.5%
CoGS	-181.0	-238.5	-250.7	-255.0	-245.0
Gross profit	116.1	123.3	83.0	88.1	123.7
Gross margin (%)	39.1%	34.1%	24.9%	25.7%	33.6%
OpEx	-109.1	-112.6	-69.9	-114.6	-106.9
Profit on sale of land & buildings	0.0	0.0	0.0	21.1	0.0
Other income	2.7	1.2	2.6	3.4	3.0
Adj. EBIT	9.7	11.9	15.7	-2.0	19.9
Adj. EBIT %	3.3%	3.3%	4.7%	-0.6%	5.4%
Share of JVs			0.4	3.5	4.5
Associates	0.0	0.0	0.0	4.5	0.0
Net Interest	-5.7	-6.6	-0.1	0.0	3.7
PBT (Adjusted)	4.0	5.3	16.1	6.0	28.1
Exceptionals	4.4	-4.4	-0.5	10.7	-0.7
Reported PBT	8.4	0.9	15.6	16.6	27.4
Adj. Tax	-11.1	-6.7	-4.6	-1.4	-5.8
Adj. PAT	-7.2	-1.3	11.5	4.7	22.3
Minority interests	-2.0	-3.9	-0.6	0.0	0.0
Pref. dividends	-0.7	-0.7	-0.7	-0.7	-0.7
Earnings	-9.9	-6.0	10.1	3.9	21.5
EPS (Adjusted) (p)	33.9	35.3	41.3	6.5	36.4
Dps (p) - Voting, ordinary	4.0	1.0	7.0	4.0	80.0
DPS (p) - NVPO	6.0	3.0	9.0	6.0	82.0
Ave no of shares (FD) (m)	59.1	59.1	59.1	59.1	59.1

Source: Company historics

Summary Cash Flow					
Year to Dec, £m	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**
EBITDA	75.5	67.3	15.0	-0.5	28.5
Working capital movement	34.4	24.5	-12.7	-34.7	8.4
Other	-58.4	-19.7	-1.2	-0.6	1.4
Operating cash flow	51.5	72.1	1.1	-35.8	38.3
Net Interest	-6.4	-7.1	-0.3	-0.4	1.1
Pref. dividends	-0.7	-0.7	-0.7	-0.7	-0.7
Minority payment	-1.8	-2.6	0.0	0.0	0.0
Taxation	-6.7	-3.4	1.1	-2.3	-1.0
Cash earnings	35.8	58.3	1.1	-39.2	37.6
Net capex	-39.9	-45.6	-19.2	12.8	188.5
Post capex cash flow	-4.1	12.7	-18.0	-26.4	226.1
Dividends	-3.3	-3.3	-3.3	-3.3	-48.2
Free cash flow	-7.4	9.4	-21.3	-29.6	177.9
Net (Acqns)/Disposals	-0.1	-28.2	0.0	0.0	0.0
Share Issues	-1.0	-0.7	0.0	0.0	0.0
Other financial	0.1	-3.0	-0.1	4.2	-7.4
Increase Cash/(Debt)	-8.3	-22.5	-21.4	-25.4	170.5
Opening Net Cash/(Debt)	5.9	-2.4	5.6	-15.8	-41.2
Closing Net Cash/(Debt)	-2.4	-24.9	-15.8	-41.2	129.3

Source: Company historics, Equity Development estimates

Please note that a balance sheet was not provided as part of the operating update. We have estimated the net asset value as highlighted in the table below and hence the 'F' for forecast instead of 'A' for actual.

In FY22F, the 'other' category includes an adjustment for the disposal proceeds net of assets and costs of MMH during the year**.**

Our estimated FY22 NAV / share equates to 449p and thereby underpins our fair value calculation.

Movement on Net Assets					
Year to Dec, £m	**2018A**	**2019A**	**2020A**	**2021A**	**2022F**
Opening Net Assets	230.7	251.1	270.6	122.3	136.5
Earnings	30.2	23.9	10.9	8.5	21.5
Dividends paid	-3.3	-1.5	-5.0	-3.3	-48.2
Share Issues	-1.0	-0.7	0.0	0.0	0.0
Goodwill	0.0	0.0	-154.2	0.0	0.0
Other	-5.6	-2.3	0.0	9.0	155.2
Closing Net assets (ex minorities)	251.1	270.6	122.3	136.5	265.0
Movement on Net Assets	20.4	19.5	-148.3	14.2	128.5

Source: Company historic data, Equity Development estimates

Valuation

Sum-of-the-parts methodology

A material part of the current market capitalisation of £221.6m is made up of net cash that on our current estimates stands at c. £100m. We have taken a very conservative view of the level of cash resources currently, reducing the FY22 year-end position by c. £29m to cover dividends, expenses associated with the planning process and capex. Excluding that cash, the business is valued at just £121.6m or c. 206p / share. We think this represents a clear anomaly, as:

- We have assigned 85% of the EV/EBITDA sector multiple to **Aerospace & Defence**, including Land Systems and Aerostructures, discounted by 12% per annum. Based on our expectation of divisional EBITDA of £26m in FY25, this suggests a value of £207.3m
- For every 100 acres of the Airport land that is developed, our expectation is an incremental £40m will be generated by MGP. Excluding the three phases of the Marleigh development and the previously disposed of LNCH, **670 acres are yet to be (re)developed**, potentially generating £268m alone.
- Rental and profits on disposal of developments represent the two cash streams derived from MGP. The property rental stream has been assigned a multiple of 11.3x on FY21 EBIT to produce, £111.0m. Meanwhile, the profits from developments we have valued at the estimated cash flow, discounted at 10% per annum, suggesting £102.6m. **On this basis, we feel that a reasonable valuation for MGP is £213.6m.**
- MFS moved to a modest loss during the 12-month period to December 2022. However, we have witnessed YTD a string of new contracts as components have become more readily available and new trucks are built, with installation revenues returning and the nascent renewables business gathering pace. Based on a modest 6x EV/EBITDA, using estimated FY25 profitability and discounted by 12% per annum, **we consider MFS to be currently worth £28.4m.**
- We have applied a FY25 EV/EBITDA multiple of 6x to Sligsby Advanced Composites business. Using a 12% annual discount rate, **this suggests a valuation of £9.6m**, based on expected profitability of £2m.
- We conservatively value the burgeoning Skills Academy and Futureworx divisions at **zero,** potentially providing further medium-term upside to our valuation. We note the addition of three new customers for the 2023 intake and a record number of apprentices within Skills Academy.

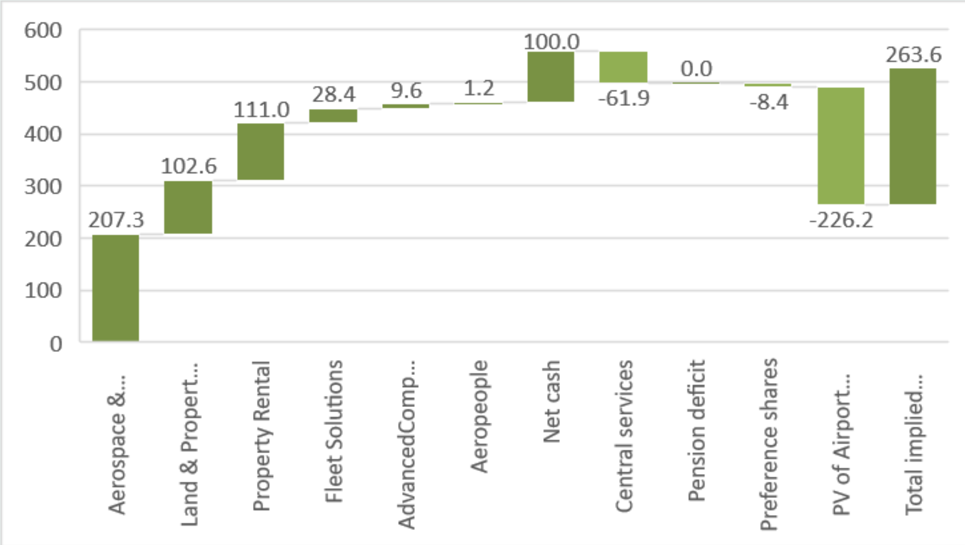
To reach the valuation as stated in the SOTP chart, we exclude the following:

- Central services (8x central costs), equating to £61.9m
- Preference shares of £8.4m
- We expect the airport move and the new base at PTIA to cost c. £500m by 2027. Discounting this figure back at a 12% annual rate suggest a cost of £226.2m currently.

The above produces an implied equity value of £263.6m, or 446p per share. This valuation represents a premium of 19% to the last traded price of 375p. Our estimated net asset value as of December 2022 is a reassuring 449p per share.

One should bear in mind that, while we are factoring in the current discounted value of the airport move into the calculation, we have only included cash flows from the property business up until 2030. We think this is sensibly conservative, as the newly vacated airport site (as of 2030) should generate significant cash and profits for the Group between 2030 and 2040, as well as attracting potential partners.

SOTP valuation, £m



Source: MarketScreener, Equity Development

Assumptions underpinning our SOTP valuation

	£m	Assumptions
Aerospace & Defence	207.3	85% of 2022 Sector rating x FY2025 EBITDA, discounted at 12% pa
Land & Property Develpt.	102.6	Est. cashflow, discounted at 10% pa
Property Rental	111.0	11.33x 2021 EBIT
Fleet Solutions	28.4	6x 2025 EV/EBITDA, discounted at 12% pa
AdvancedComposites	9.6	6x 2025 EV/EBITDA, discounted at 12% pa
Aeropeople	1.2	Disposal proceeds and loan provided
Net cash	100.0	Current estimate
Central services	-61.9	10x annualised, FY22 central costs
Pension deficit	0.0	No pension deficit as at the end of FY21
Preference shares	-8.4	Hypothetical 7% yield into perpetuity
PV of Airport move	-226.2	£500m cost at 2030, discounted at 12% pa
Total implied Equity Value	263.6	
Shares in issue (m)	59.082	Voting & non-voting shares
Valuation per share, p	446	
Current share price, p	375	
Disparity	19%	

Source: Equity Development

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