Marshall of Cambridge

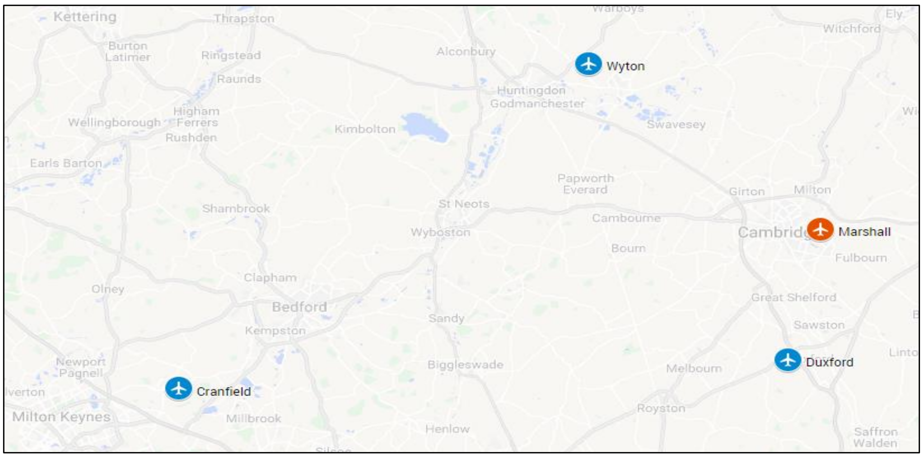
First step in creating long-term value

22 May 2019

Building a world class business is not an exercise that can be achieved in a matter of months. Indeed, for privately owned Marshall of Cambridge (Holdings) Ltd it has been a journey of 110 years from humble beginnings (re chauffeuring) to today's portfolio of divisions generating sales of £2.5bn. Namely aerospace/defence (MADG), motor retail (MMH: 64.46% owned), property, Fleet Solutions (MFS) and high-tech investments.

The backbone of this success has been the Group's desire to adapt and importantly stay ahead of its rivals, by being prepared to move decisively where strategic opportunities present themselves. As evidenced last week, when MCH announced that by 2030 it was intending to relocate MADG from its 900 acres site at Cambridge Airport to new, state-of-the-art facilities at one of 3 possible venues (see below): Cranfield, Duxford airfield or RAF Wyton. The beauty of this decision is 2-fold.

3 possible sites: Duxford, Cranfield and Wyton



Source: Google maps

Many benefits for the community, employees and stakeholders

Firstly, it allows MADG to more easily service its widening international client base, whilst freeing up vital capital to further invest in its cutting edge aerospace/defence capabilities, along with MCH's other interests. This could also lead to perhaps hundreds of new highly skilled jobs being created.

Equally, the plan should provide the local community with an urgently required source of quality residential houses (up to 12,000), commercial property (5m sq ft) and transport solutions. A 'win-win' for the shared benefit of all stakeholders.

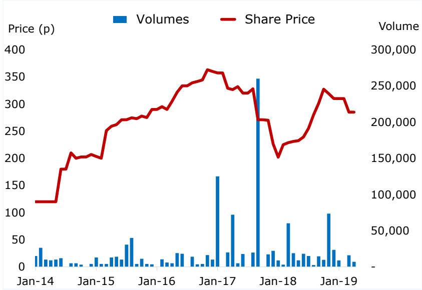
One must be aware that there are still many hurdles to climb before this can become reality, such as obtaining full planning permission, choosing MADG's next home, relocating employees/equipment, and finally redeveloping the Cambridge site.

This is why at this stage, we conservatively retain our 533p/share valuation (see overleaf) and financial forecasts. Albeit, we certainly recognise the significant potential of the announcement to create additional long-term value.

Marshall of Cambridge (Holdings) Ltd

Price (latest trade)	285p
52 week Hi/Lo	327p/232p
Implied market cap	£168m
ED valuation / NVPO share	532p
Ordinary share count	59.1m
Preference shares (NBV)	£8.4m
Net debt (Dec'18)	£2.4m

Non-voting ordinary shares, p



Source: Company

Description

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

In 2018, the business generated >£80m of EBITDA on revenues of £2.5bn, and has significant organic opportunities ahead. Not only accelerating expansion at its leading aerospace/defence (MADG) and motor retail businesses (MMH - 64.46% owned). Along with perhaps turning around its loss making Fleet Solutions arm, and providing a springboard for its high-tech venture capital investments. But also unlocking possibly £100ms of value from its 900 acres 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. The NVPOs attract business property relief, and so fall outside a person's estate for inheritance tax purposes (ie if held for >2 years).

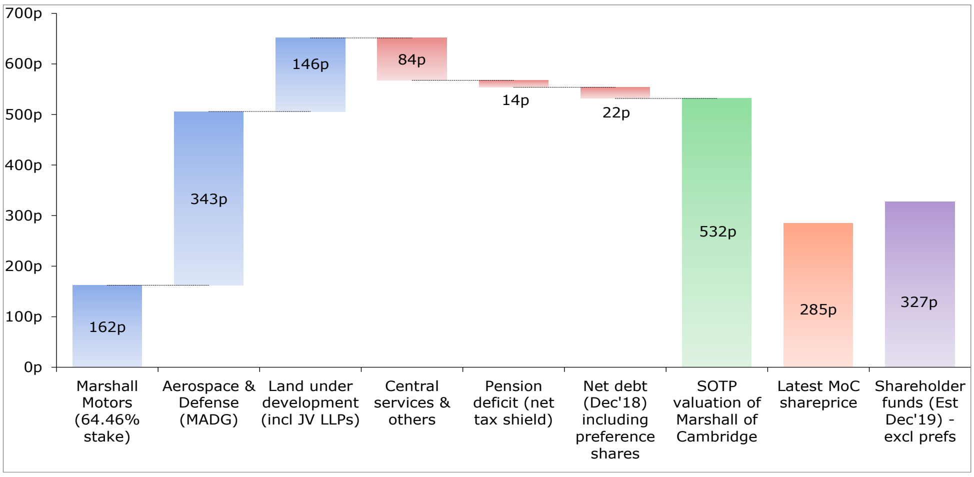
Andy Edmond
0207 065 2690
andy@equitydevelopment.co.uk

Valuation impact should be positive over time

In terms of indicative timing we envisage: the public consultation to be held in 2019, MADG to choose its new home by the end of 2020, and the local authority to publish its development plan sometime 2020-21. After which MCH will then be able to apply for planning permission.

If approved, we estimate that this entire process could bring in, net of one-off costs, a total cash stream of >£800m over the next 30 years.

SOTP valuation Marshall of Cambridge (p/share)



Source: Equity Development

Assumptions underpinning our valuation

	£'000s	Assumptions
Aerospace & Defence	202,903	11x 2022 EBIT discounted at 12%
Motor Retail (64.46%)	95,916	6x 2019 EBIT
Marshall land & property development	86,000	Est. cashflow discounted at 10%
Fleet Solutions	4,653	8x 2025 EBIT discounted at 12%
Property rental business	23,265	14x 2019 EBIT
Central services & contingency	-74,000	8x 2019 cost base
Venture capital investments	6,600	2018 market value
Others	-10,000	Legacy provision to be settled in 2019
Pension deficit (net tax shield)	-8,184	Yearend Dec 2018
Buy-out value of preference shares	-10,629	Hypothetical 7% yield into perpetuity
Net debt (Dec'18)	-2,397	
Implied Equity Value	**314,127**	
Sharecount (000s)	59,082	Voting and non-voting ordinary shares
Valuation (p/share)	**532p**	
Current share price	285.0	
Potential upside	**87%**	

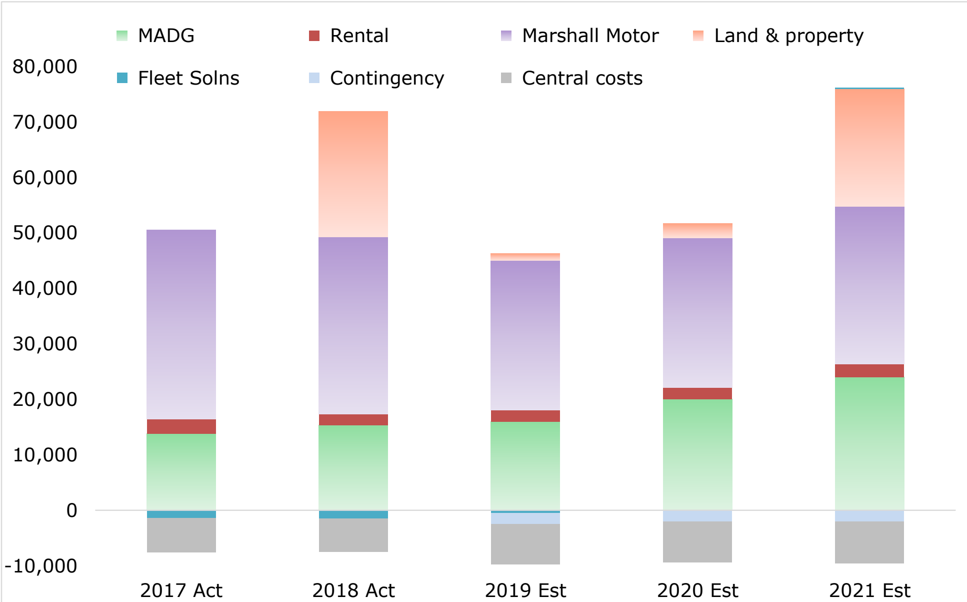
Source: Equity Development

No change to our forecasts or 532p/share valuation

Finally, at today's AGM we understand trading for the 4 months to April has been in line with expectations. Executive Chairman, Alex Dorrian, adding "***the planned relocation of Marshall Aerospace and Defence Group and the development of the airfield will give us a once-in-a-lifetime opportunity to make a big positive difference both to Marshall and to Cambridge**. As you will appreciate, there is a long way to go before any final decisions can be made but this is a very exciting time for Marshall.* "

Consequently, we reiterate our 2019 projections for the Group of adjusted EBITDA, EBIT (see below) and EPS of £52.7m, £36.5m and 16.85p respectively.

Divisional breakdown of adjusted EBIT (£'000s)



Source: Equity Development.

Shares in MCH are unlisted, but can be bought & sold freely

As we noted in our initiation note , it is possible to buy the non-voting priority ordinary shares (45.3m) - using an exchange administered by James Sharp & Co (Contact: Josh McArdle, Tel 0161 764 4043).

Between Jan'17-Dec'18, there were 815,500 NVPOs traded with a combined value of £2.385m, equivalent to an average price of 292p.

Projections (£'000s)

Marshall of Cambridge (December yearend) - UK GAAP	2017 Act £000s	2018 Act £000s	2019 Est £000s	2020 Est £000s	2021 Est £000s
Aerospace & Defence (MADG)	295,411	247,778	272,556	299,811	329,793
Property Rental	8,040	7,951	8,000	8,240	9,064
Marshall Motor (MMH)	2,231,979	2,186,887	2,240,000	2,251,200	2,273,712
Fleet Solutions	42,761	47,443	49,815	52,306	54,921
Intercompany	-24,205	-6,117	-6,239	-6,364	-6,491
Turnover	**2,553,986**	**2,483,942**	**2,564,132**	**2,605,193**	**2,660,998**
Aerospace & Defence (MADG)		*-16.1%*	*10.0%*	*10.0%*	*10.0%*
Property Rental		*-1.1%*	*0.6%*	*3.0%*	*10.0%*
Marshall Motor (MMH)		*-2.0%*	*2.4%*	*0.5%*	*1.0%*
Fleet Solutions		*10.9%*	*5.0%*	*5.0%*	*5.0%*
Total % sales growth		***-2.7%***	***3.2%***	***1.6%***	***2.1%***
Gross Profit	**351,743**	**371,790**	**410,716**	**427,063**	**456,168**
% margin	*13.8%*	*15.0%*	*16.0%*	*16.4%*	*17.1%*
EBITDA	**59,056**	**80,457**	**52,715**	**58,762**	**83,441**
% margin	*2.3%*	*3.2%*	*2.1%*	*2.3%*	*3.1%*
Aerospace & Defence (MADG)	13,767	15,330	16,000	20,000	24,000
Property Rental	2,666	2,039	2,052	2,113	2,324
Land sales & property development	0	22,621	1,213	2,588	21,154
Marshall Motor (MMH)	34,129	31,907	27,000	27,000	28,500
Fleet Solutions	-1,440	-1,487	-500	0	250
Other / contingency	0	0	-2,000	-2,032	-2,076
Central shared services	-6,155	-6,042	-7,250	-7,366	-7,524
Adjusted EBIT (pre goodwill)	**42,967**	**64,368**	**36,515**	**42,303**	**66,629**
Aerospace & Defence (MADG)	*4.7%*	*6.2%*	*5.9%*	*6.7%*	*7.3%*
Property Rental	*33.2%*	*25.6%*	*25.6%*	*25.6%*	*25.6%*
Marshall Motor (MMH)	*1.5%*	*1.5%*	*1.2%*	*1.2%*	*1.3%*
Fleet Solutions	*-3.4%*	*-3.1%*	*-1.0%*	*0.0%*	*0.5%*
Total % EBIT margin	***1.7%***	***2.6%***	***1.4%***	***1.6%***	***2.5%***
Group net interest	-8,278	-5,710	-7,500	-8,000	-7,500
Adj. Profit before Tax	**34,689**	**58,658**	**29,015**	**34,303**	**59,129**
Tax	-6,678	-11,145	-5,513	-6,518	-11,234
Minorities (35.54% of MMH)	-8,700	-7,382	-5,901	-5,815	-6,304
Preference dividends	-744	-744	-744	-744	-744
ED normalised PAT	**18,567**	**39,387**	**16,856**	**21,226**	**40,846**
Adjusted EPS (p)	**31.4**	**66.7**	**28.5**	**35.9**	**69.1**
EPS growth rate		*112.1%*	*-57.2%*	*25.9%*	*92.4%*
Dividend (p) - Voting ordinary	4.0	4.0	4.0	4.9	5.9
Dividend (p) - Non voting	**6.0**	**6.0**	**6.0**	**6.9**	**7.9**
Yield	*2.1%*	*2.1%*	*2.1%*	*2.4%*	*2.8%*
Valuation benchmarks					
P/E ratio	*9.1*	*4.3*	*10.0*	*7.9*	*4.1*
EV / EBITDA (incl prefs)	*3.5*	*2.6*	*3.9*	*3.5*	*2.5*
EV / EBITDA (adj for minorities)			*4.9*	*4.3*	*2.9*
EV / EBITA (incl prefs)	*4.8*	*3.2*	*5.7*	*4.9*	*3.1*
EV / EBITA (adj for minorities)			*7.1*	*5.9*	*3.5*
Price / Book (net of prefs)	*1.1*	*0.9*	*0.9*	*0.8*	*0.7*
ROCE	*12.9%*	*19.8%*	*10.8%*	*11.9%*	*17.0%*
Adjusted tax rate	*-19.3%*	*-19.0%*	*-19.0%*	*-19.0%*	*-19.0%*
Net cash/(debt)	**5,917**	**-2,397**	**-31,308**	**-36,878**	**-26,351**
Net cash/(debt) - less pref shares	-2,483	-10,797	-39,708	-45,278	-34,751
Voting ordinary shares	13,940	13,811	13,811	13,811	13,811
Non voting ordinary shares	45,142	45,271	45,271	45,271	45,271
Sharecount (Ks) - basic	**59,082**	**59,082**	**59,082**	**59,082**	**59,082**
Sharecount (Ks) - diluted	59,082	59,082	61,523	61,523	61,523
Shareprice (p)	**285**				

Source: Equity Development

Key risks

- Contract delays, overspends, compensation and reputational damage could arise as a result of major problems when undertaking complex engineering projects.
- Recession, which could slow the UK motor industry and housing demand.
- Brexit – this has not materially impacted results to date, although it is possible future EU procurement activities might change, once the UK leaves Europe.
- Competitive pressures (eg Fleet Solutions & Motor retail) and higher interest rates that could lift funding costs for the property JVs and MCH.
- The UK MOD have indicated they will retire their fleet of C-130J Hercules transporters by 2035, and replace them with the longer-range Airbus A400M Atlas planes. The C-130Js are likely to be resold rather than scrapped, albeit a change of ownership could prove disruptive. In response, MADG is actively diversifying overseas and onto other military airframes.
- Cyber security attacks. In 2018, the company spent an extra £772k upgrading its online defences.
- The voting stock is owned by the Marshall family, which could theoretically impact minority interests, for instance in the event of conflicting views.
- MCH is signing large multi-year deals with international organisations, where timing is hard to predict. Inevitably leading to a degree of lumpiness in the revenues.
- Unforeseen events, such as a loss of large military customers.
- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Foreign exchange. However, this is not a significant concern at the moment, with the vast majority of sales/profits generated in the UK.
- Regulatory and tax changes.
- Business interruption – eg a serious incident resulting in closure of the airport and/or loss of key staff.
- Monthly NVPO liquidity can be low, particularly during seasonally quieter periods and/or between newsflow.
- Motor retail – FCA's ongoing review into PCP financing, aggressive online entrants and proposed EU/UK legislation to fit speed limiters on all cars from 2021, which could affect sales of high performance vehicles. In addition, electric vehicles may need fewer repairs due to their less complex drive trains.

Investor Access

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690