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Marshalls

Preliminary results for the year ended 31 December 2019

Marshalls plc, the specialist Landscape Products group, announces its full year results for the year ended 31 December 2019

Financial Highlights	Year ended 31 December 2019	Year ended 31 December 2018	Increase %
Revenue	£541.8m	£491.0m	10
EBITDA – reported	£103.9m	£80.8m	29
EBITDA – pre-IFRS 16	£90.1m	£80.8m	12
Operating profit – reported	£73.7m	£64.8m	14
Operating profit – pre-IFRS 16	£72.6m	£64.8m	12
Profit before tax – reported	£69.9m	£62.9m	11
Profit before tax – pre-IFRS 16	£70.1m	£62.9m	11
Basic EPS – reported	29.36p	26.29p	12
Basic EPS – pre-IFRS 16	29.48p	26.29p	12
Total dividends – ordinary and supplementary	18.35p	16.00p	15
Final ordinary dividend – recommended	9.65p	8.00p	21
Discretionary supplementary dividend – recommended	4.00p	4.00p	-
ROCE – reported	21.4%	21.9%	
ROCE – pre-IFRS 16	23.7%	21.9%	Up 180 basis points
Net debt – reported	£60.0m	£37.4m	
Net debt – pre-IFRS 16	£18.7m	£37.4m	

Notes:
1. The financial impact of IFRS 16 is summarised below and in Note 1.
2. Alternative performance measures are used consistently throughout this Preliminary Announcement. These relate to EBITA, EBITDA, ROCE and net debt. For further details of their purpose, definition and reconciliation to the equivalent statutory measures, see Note 2.

Highlights:

- Revenue growth of 10% to £541.8 million (2018: £491.0 million)
- Continued improvement in operating margins which increased to 13.4% (2018: 13.2%)
- Profit before tax up 11% to £69.9 million on a reported basis (2018: £62.9 million)
- ROCE improved to 23.7% (2018: 21.9%) on a pre-IFRS 16 basis and on a reported basis was 21.4%
- Reported EPS up 12% to 29.36 pence (2018: 26.29 pence)
- Edenhall performed well in the period and its operational integration is complete
- Strong cash generation has continued with operating cash flow at 96% of EBITDA
- Net debt of £18.7 million (2018: £37.4 million) on a pre-IFRS 16 basis
- Reported net debt of £60.0 million, after the inclusion of £41.3 million of IFRS 16 lease liabilities
- Recommended final ordinary dividend increased by 21% to 9.65 pence (2018: 8.00 pence) per share
- Recommended supplementary dividend of 4.00 pence per share made possible by strong cash management

The new 5 year Strategy, launched in June 2019, maintains the objective of delivering sustainable growth. The main elements are:

- Continued focus on organic growth and investment - capital expenditure of £20 million planned for 2020 to drive growth
- Increasing momentum in the delivery of the digital strategy through continued investment and continuous improvement
- Increase in research and development and new product development to drive sales growth

- Renewed focus on increasing the profitability of the Emerging UK Businesses
- Continuing to target selective bolt-on acquisition opportunities in New Build Housing, Water Management and Minerals
- Continued focus on customer service, brand, operational and manufacturing excellence and procurement efficiency
- Maintaining a strong balance sheet, a flexible capital structure and a clear capital allocation policy
- Maintaining a 2 times earnings cover dividend policy, enhanced by supplementary dividends

Commenting on these results, Martyn Coffey, Chief Executive, said:

"The Group has delivered further growth in 2019 despite a period of market slowdown and economic and political uncertainty. The CPA's recent Winter Forecast predicted an increase in UK market volumes of 0.6 per cent in 2019 followed by a decrease of 0.3 per cent in 2020. The underlying indicators in our key New Build Housing, Road, Rail and Water Management markets remain supportive.

The Board believes that the Group's new 5 year Strategy will continue to deliver sustainable growth, whilst maintaining a strong balance sheet and a flexible capital structure. The strategy is underpinned by positive market fundamentals, focused investment plans and an established brand."

Presentation for analysts and investors

There will be a presentation for analysts and investors today at 9.00 am with a telephone dial in facility available Tel: number +44 (0)330 336 9125 - Access Code: 2683077. Marshalls' Analyst Presentation will be available for analysts and investors who are unable to attend the presentation. The presentation can be viewed on Marshalls' website at www.marshalls.co.uk.

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Group results

Group revenue for the year ended 31 December 2019 was up 10 per cent at £541.8 million (2018: £491.0 million). Excluding the impact of Edenhall, revenue was up 3 per cent.

Sales in the Public Sector and Commercial end market, which represented approximately 69 per cent of Group sales, were up 15 per cent compared with the prior year period. The Edenhall business, acquired on 11 December 2018, traded strongly during 2019, and its operational integration into the Marshalls Group is now complete.

Sales in the Domestic end market, which represented approximately 26 per cent of Group sales, were flat compared with 2018. These results are ahead of the overall Domestic market in 2019. Whilst the Domestic end market was softer in the second half and suffered from the poor weather, continued execution of the 2020 Strategy more than compensated by improving operating margins. The survey of domestic installers at the end of February 2020 revealed order books of 9.7 weeks (2019: 10.0 weeks) which compared with 10.9 weeks at the end of October 2019.

International revenue grew by 13 per cent during 2019 and represents approximately 5 per cent of Group sales. The Group continues to develop opportunities by improving its global supply chains and infrastructure to ensure that international operations are sustainable and aligned with market opportunities.

Reported operating profit increased to £73.7 million (2018: £64.8 million). The reported operating margin was 13.6 per cent (2018: 13.2 per cent). Pre-IFRS 16 operating margins increased to 13.4 per cent. Excluding the impact of Edenhall, the operating margin increased to 13.7 per cent. This is a direct result of our successful execution of the 2020 Strategy.

Profit before tax, on a reported post-IFRS 16 basis, was £69.9 million. On a pre-IFRS 16 basis, profit before tax was £70.1 million (2018: £62.9 million), an increase of 11 per cent. Reported EBITDA was £103.9 million. On a pre-IFRS 16 basis, EBITDA grew by 12 per cent to £90.1 million and the Group's earnings per share, at 29.48 pence, were up 12 per cent on a pre-IFRS 16 basis. Reported earnings per share were 29.36 pence.

ROCE was 21.4 per cent (2018: 21.9 per cent), on a reported basis, at 31 December 2019. The consistently high ROCE reflects the Group's tight control and management of inventory and monetary working capital. ROCE was 23.7 per cent on a pre-IFRS 16 basis (2018: 21.9 per cent).

Net financial expenses were £3.8 million (2018: £1.9 million), including £1.3 million of additional IFRS 16 lease interest. On a reported basis interest was covered 19.2 times and, on a pre-IFRS 16 basis, interest was covered 29.2 times (2018: 34.1 times). Interest charges on bank loans totalled £1.9 million (2018: £1.4 million) and, including scheme administration costs, there was an IAS 19 notional interest charge of £0.6 million (2018: £0.5 million) in relation to the Group's Pension Scheme. The IAS 19 notional interest includes interest on obligations under the defined benefit section of the Marshalls plc Pension Scheme, net of the expected return on Scheme assets.

The effective tax rate was 17.1 per cent (2018: 18.0 per cent). The Group has paid £9.0 million (2018: £9.9 million) of corporation tax during the year. Deferred tax of £0.5 million in relation to the actuarial gain arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

For the sixth year running, Marshalls has been awarded the Fair Tax Mark, which recognises social responsibility and transparency in a company's tax affairs. The Group's tax approach has long been closely aligned with the Fair Tax Mark's objectives and this is supported by the Group's tax strategy and fully transparent tax disclosures. Taking into account not only corporation tax but also PAYE and NI paid on our employee wages, aggregate levy, VAT, fuel duty and business rates Marshalls has funded total taxation to the UK economy of £93.6 million in 2019.

Capital discipline remains a key priority and the Group's strong cash generation has continued. On a pre-IFRS 16 basis, net debt at 31 December 2019 was significantly reduced to £18.7 million (2018: £37.4 million). Operating cash flow was 96 per cent of EBITDA on a pre-IFRS 16 basis.

Reported net debt was £60.0 million at 31 December 2019 (2018: £37.4 million), following the inclusion of £41.3 million of IFRS 16 lease liabilities. The Group increased both capital expenditure and dividends, yet tight control of working capital has led to a reduction in net debt.

Impact of IFRS 16

In adopting IFRS 16 from 1 January 2019, the Group has applied the modified retrospective transition approach and not restated comparative amounts for the year ended 31 December 2018. Right-of-use assets of £45.0 million and lease liabilities of £46.5 million were recognised as at 1 January 2019. A transition adjustment of £1.8 million has been taken to retained earnings.

The impact on the Income Statement of transitioning to IFRS 16 has been marginal, with reported profit before tax of £0.2 million lower than the pre-IFRS 16 figure of £70.1 million. The application of IFRS 16 resulted in a decrease in other operating expenses of £14.0 million and an increase in depreciation of £12.9 million for the year ended 31 December 2019. The interest expense increased by £1.3 million due to additional IFRS 16 lease interest. Consequently, on a reported basis, there has been an increase in operating profit of £1.1 million and a reduction in profit before tax of £0.2 million. Reported EBITDA of £103.9 million compares with £90.1 million on a pre-IFRS 16 basis. Bank covenants remain on frozen GAAP.

Investment priorities

Our new 5 year Strategy lays the foundations for our goals and objectives and the Group's long term strategy continues to be to deliver sustainable growth with a continued emphasis on organic growth, investment and a focus on ESG initiatives. At the heart of the strategy are 8 priority areas for investment and business focus. We believe that these areas provide significant growth potential for the Group over the next 5 years. The priorities for investment within the new 5 year Strategy are:

- Brand preference for product specification
- Digital transformation
- New product development
- Logistics excellence
- Sustainable materials supply
- Customer centricity
- Operational excellence
- Growth in emerging businesses

Operating performance

In the Public Sector and Commercial end market, Marshalls' strategy offers sustainable integrated solutions to customers, architects and contractors. The objective is to create a brand preference in order to secure product specification. Our Design Space office in Central London has been updated and refreshed during the year to offer specifiers, designers and clients an enhanced experience and to showcase our full range of brand-leading capabilities and technical and design solutions. During the year we have also opened a new Marshalls Design Space in the heart of Birmingham supporting the major redevelopment in the city. We are continually developing our product ranges and systems to ensure that we remain at the forefront of innovation and technology within our industry.

In the Domestic end market, the Group's strategy continues to be to drive sales through the Marshalls Register of approved domestic installers. This ensures a consistently high standard of quality, customer service and marketing support. The Marshalls Register is unique and comprises approximately 1,900 installer teams.

Capital expenditure was £22.9 million in the year ended 31 December 2019 and further capital expenditure of £20 million is planned for 2020. We continue to generate a good pipeline of capital investment projects that will drive future organic growth. Edenhall's new £6 million state-of-the-art factory in South Wales was completed and fully commissioned in 2019. It has the capacity to deliver 100 million brick equivalents per annum. CPM's new precast factory was completed in 2018 and has increased the manufacturing capability for bespoke water management solutions.

Further investment continues to be made to develop our wide-ranging digital strategy, encompassing digital trading, digital marketing and digital business. Digital investment has been £9 million over the last 3 years.

In the core Landscape Products business, the growth in revenue from new products continued strongly, increasing by 9 per cent during 2019. Research and development expenditure amounted to £5.5 million (2018: £4.9 million). The objective is to deliver innovative market leading new products that are aligned with customer needs across all business areas. The development pipeline continues to be strong and the Group is committed to providing high performance product solutions.

We aim to maintain the highest standards of health and safety which remains a cornerstone of The Marshalls Way. The Group has continued to invest in health and safety awareness training for all managers and supervisory staff and we continue to promote a culture in which all managers visibly demonstrate health and safety leadership. We remain committed to continual improvement in health and safety performance.

Environmental, social and governance ("ESG") objectives

The Board is committed to the promotion of strong ethical, environmental and corporate social responsibility principles. This is a fundamental element of The Marshalls Way. We recognise the need to have sustainable products and services and to consider the long-term impact of every decision the Group makes. We are focused in playing our part in addressing the risk of climate change and the protection of the environment and we are engaging with our stakeholders to ensure they also put sustainability first. Our ESG agenda is supported by a detailed framework and comprehensive policies.

We support capital projects which improve operational efficiency and better utilisation of resources and raw materials. The investment in our new stone processing sawmills is a good example of this and our procurement process is focused on sourcing ethical and sustainable materials. We are committed to reducing the environmental impact of our products, reducing packaging and the recycling of water at our sites.

Capital allocation

The Group's capital allocation strategy is to maintain a strong balance sheet and flexible capital structure that recognises cyclical risk, while focusing on security, efficiency and liquidity.

The capital allocation strategy prioritises organic capital investment, supported by an increase in new product development and research and development expenditure. The strategy also targets selective bolt-on acquisition opportunities. In addition, the objective is to maintain a dividend cover of 2 times earnings over the medium term and to give consideration to supplementary dividends.

Balance sheet and net debt

Net assets at 31 December 2019 were £295.8 million (2018: £266.7 million). The Group has a strong balance sheet with a good range of medium-term bank facilities available to fund investment initiatives to generate growth.

Reported net debt was £60.0 million at 31 December 2019 (2018: £37.4 million), following the inclusion of £41.3 million of IFRS 16 lease liabilities. The Group increased both capital expenditure and dividends, yet tight control of working capital has led to a reduction in net debt. The ratio of net debt to EBITDA was 0.6 times at 31 December 2019 on a reported basis, and 0.2 times on a pre-IFRS 16 basis. Both are comfortably within our target range, of between 0 to 1 times, and well below covenant levels. The Group continues to prioritise the close control of inventory and the effective management of working capital. Debtor days remain industry leading due to continued close control of credit management procedures.

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £15.7 million (2018: £13.5 million). The amount has been determined by the Scheme actuary. The fair value of the scheme assets at 31 December 2019 was £368.8 million (2018: £343.7 million) and the present value of the scheme liabilities is £353.1 million (2018: £330.2 million).

These changes have resulted in an actuarial gain, net of deferred taxation, of £2.4 million (2018: £8.3 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. Following the completion of the 2018 triennial actuarial valuation during the year, the Company has agreed with the Trustee that no cash contributions are now payable under the funding and recovery plan.

Dividends

The Group continues to follow a progressive dividend policy aimed at achieving up to 2 times earnings cover over the business cycle. For the current year, the Board is recommending a final dividend of 9.65 pence per share (2018: 8.00 pence per share) which, together with the interim dividend of 4.70 pence per share (2018: 4.00 pence per share), makes a combined dividend of 14.35 pence per share (2018: 12.00 pence per share), an increase of 20 per cent for the year.

The Board is also recommending a supplementary dividend of 4.00 pence per share for 2019 (2018: 4.00 pence per share). The aim continues to be to maintain a degree of flexibility within our dividend strategy by utilising discretionary supplementary dividends commensurate with free cash flow and after considering future group capital requirements. The payment of this supplementary dividend provides increased returns for shareholders whilst at the same time recognising an appropriate degree of caution and stewardship.

Subject to shareholder approval at the Annual General Meeting, the final ordinary and supplementary dividends will be paid on 30 June 2020 to shareholders on the register on 5 June 2020. If approved by shareholders, the total dividend for the year will be 18.35 pence per share (2018: 16:00 pence per share).

Outlook

The Group has delivered further growth in 2019 despite a period of market slowdown and economic and political uncertainty. The CPA's recent Winter Forecast predicted an increase in UK market volumes of 0.6 per cent in 2019, followed by a decrease of 0.3 per cent in 2020. The underlying indicators in our key New Build Housing, Road, Rail and Water Management markets remain supportive.

The Board is closely monitoring the rapidly evolving situation of COVID-19. To date we have seen no discernible impact on the business. The Company regularly carries out onerous stress testing of its balance sheet and liquidity using a set process. Consistent with Group strategy we look to maintain a conservative approach to debt with a policy of running leverage at less than one times debt to EBITDA. This proactive management of risk and conservative borrowing ensure good liquidity to manage any emerging risks.

The Board believes that the Group's new 5 year Strategy will continue to deliver sustainable growth, whilst maintaining a strong balance sheet and a flexible capital structure. The strategy is underpinned by positive market fundamentals, focused investment plans and an established brand.

Martyn Coffey
Chief Executive

Marshalls plc
Preliminary Announcement of Results
Consolidated Income Statement

for the year ended 31 December 2019

	Notes	**2019 £'000**	2018 £'000
Revenue	3	**541,832**	490,988
Net operating costs	4	**(468,151)**	(426,154)
Operating profit	3	**73,681**	64,834
Financial expenses	5	**(3,835)**	(1,904)
Financial income	5	**7**	5
Profit before tax	2	**69,853**	62,935
Income tax expense	6	**(11,942)**	(11,307)
Profit for the financial year		**57,911**	51,628
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**58,240**	51,958
Non-controlling interests		**(329)**	(330)
		57,911	51,628
Earnings per share			
Basic	7	**29.36**	26.29p
Diluted	7	**29.14**	26.08p
Dividend			
Pence per share	8	**16.70p**	14.80p
Dividends declared	8	**31,113**	29,250

All results relate to continuing operations.

Marshalls plc
Preliminary Announcement of Results
Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit for the financial year	**57,911**	51,628
Other comprehensive income / (expense)		
Items that will not be reclassified to the Income Statement:		
Remeasurements of the net defined benefit asset	**2,847**	9,985
Deferred tax arising	**(484)**	(1,698)
Total items that will not be reclassified to the Income Statement	**2,363**	8,287
Items that are or may in the future be reclassified to the Income Statement:		
Effective portion of changes in fair value of cash flow hedges	**231**	528
Fair value of cash flow hedges transferred to the Income Statement	**113**	(668)
Deferred tax arising	**(58)**	27
Exchange difference on retranslation of foreign currency net investment	**992**	(208)
Exchange movements associated with borrowings designated as a hedge against net investment	**(869)**	199
Foreign currency translation differences – non-controlling interests	**(42)**	(35)
Total items that are or may be reclassified subsequently to the Income Statement	**367**	(157)
Other comprehensive income for the year, net of income tax	**2,730**	8,130
Total comprehensive income for the year	**60,641**	59,758
Attributable to:		
Equity shareholders of the Parent	**61,012**	60,123
Non-controlling interests	**(371)**	(365)
	60,641	59,758

Marshalls plc
Preliminary Announcement of Results
Consolidated Balance Sheet

for the year ended 31 December 2019

	Notes	**2019 £'000**	2018* £'000
Assets			
Non-current assets			
Property, plant and equipment		**195,554**	192,061
Right-of-use assets	9	**40,014**	-
Intangible assets		**95,799**	95,802
Employee benefits	11	**15,721**	13,516
Deferred taxation assets		**2,947**	1,406
		350,035	302,785
Current assets			
Inventories		**89,238**	84,361
Trade and other receivables		**69,418**	80,430
Cash and cash equivalents		**53,258**	45,709
Derivative financial instruments		**620**	276
		212,534	210,776
Total assets		**562,569**	513,561
Liabilities			
Current liabilities			
Trade and other payables		**121,379**	128,533
Corporation tax		**11,234**	9,683
Short-term lease liabilities	10	**9,736**	-
Interest-bearing loans and borrowings		**20,000**	2,974
		162,349	141,190
Non-current liabilities			
Long-term lease liabilities	10	**32,224**	-
Interest-bearing loans and borrowings		**51,274**	80,168
Provisions		**2,649**	7,935
Deferred taxation liabilities		**18,307**	17,553
		104,454	105,656
Total liabilities		**266,803**	246,846
Net assets		**295,766**	266,715
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital		**50,013**	49,998
Share premium account		**24,482**	24,326
Own shares		**(1,391)**	(888)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**559**	273
Retained earnings		**359,053**	329,585
Equity attributable to equity shareholders of the Parent		**295,043**	265,621
Non-controlling interests		**723**	1,094
Total equity		**295,766**	266,715

*The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities (Note 12).

Marshalls plc
Preliminary Announcement of Results
Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Notes	**2019 £'000**	2018 £'000
Cash flows from operating activities			
Profit for the financial year		**57,911**	51,628
Income tax expense	6	**11,942**	11,307
Profit before tax		**69,853**	62,935
Adjustments for:			
Depreciation		**27,771**	14,199
Amortisation		**2,423**	1,759
Gain on sale of property, plant and equipment		**(306)**	(738)
Equity settled share-based payments		**3,024**	1,434
Financial income and expenses (net)		**3,828**	1,899
Operating cash flow before changes in working capital		**106,593**	81,488
Decrease / (increase) in trade and other receivables		**10,645**	(6,927)
Increase in inventories		**(5,262)**	(4,314)
(Decrease) / increase in trade and other payables		**(10,151)**	6,009
Operational restructuring costs paid		**(1,109)**	(1,244)
Acquisition costs paid		**(375)**	(594)
Cash generated from operations		**100,341**	74,418
Financial expenses paid		**(3,193)**	(1,308)
Income tax paid		**(9,023)**	(9,855)
Net cash flow from operating activities		**88,125**	63,255
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**523**	1,637
Financial income received		**7**	5
Acquisition of subsidiary undertaking		**-**	(11,726)
Acquisition of property, plant and equipment		**(20,488)**	(27,296)
Acquisition of intangible assets		**(2,420)**	(1,995)
Net cash flow from investing activities		**(22,378)**	(39,375)
Cash flows from financing activities			
Proceeds from issue of share capital		**225**	1,784
Payments to acquire own shares		**(1,470)**	(1,210)
Payment in respect of share-based payment awards		**-**	(3,683)
Repayment of borrowings following acquisition of subsidiaries		**-**	(4,742)
(Decrease) / increase in borrowings		**(10,927)**	39,101
Cash payment for the principle portion of the lease liabilities		**(12,723)**	(101)
Equity dividends paid		**(33,203)**	(29,250)
Net cash flow from financing activities		**(58,098)**	1,899
Net increase in cash and cash equivalents		**7,649**	25,779
Cash and cash equivalents at the beginning of the year		**45,709**	19,845
Effect of exchange rate fluctuations		**(100)**	85
Cash and cash equivalents at the end of the year		**53,258**	45,709

Marshalls plc
Preliminary Announcement of Results
Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Attributable to equity holders of the Company									
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year										
At 1 January 2019	**49,998**	**24,326**	**(888)**	**75,394**	**(213,067)**	**273**	**329,585**	**265,621**	**1,094**	**266,715**
Effect of initial application of IFRS 16 (Note 1)	-	-	-	-	-	-	(1,842)	(1,842)	-	(1,842)
At 1 January 2019 – as restated	**49,998**	**24,326**	**(888)**	**75,394**	**(213,067)**	**273**	**327,743**	**263,779**	**1,094**	**264,873**
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	-	-	-	-	-	-	58,240	58,240	(329)	57,911
Other comprehensive income / (expense)										
Foreign currency translation differences	-	-	-	-	-	-	123	123	(42)	81
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	231	-	231	-	231
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	113	-	113	-	113
Deferred tax arising	-	-	-	-	-	(58)	-	(58)	-	(58)
Defined benefit plan actuarial gain	-	-	-	-	-	-	2,847	2,847	-	2,847
Deferred tax arising	-	-	-	-	-	-	(484)	(484)	-	(484)
Total other comprehensive income	-	-	-	-	-	286	2,486	2,772	(42)	2,730
Total comprehensive income for the year	-	-	-	-	-	286	60,726	61,012	(371)	60,641
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	-	-	-	-	-	-	3,024	3,024	-	3,024
Deferred tax on share-based payments	-	-	-	-	-	-	1,219	1,219	-	1,219
Corporation tax on share-based payments	-	-	-	-	-	-	457	457	-	457
Dividends to equity shareholders	-	-	-	-	-	-	(33,203)	(33,203)	-	(33,203)
Shares issued	15	156	54	-	-	-	-	225	-	225
Purchase of own shares	-	-	(1,470)	-	-	-	-	(1,470)	-	(1,470)
Disposal of own shares	-	-	913	-	-	-	(913)	-	-	-
Total contributions by and distributions to owners	15	156	(503)	-	-	-	(29,416)	(29,748)	-	(29,748)
Total transactions with owners of the Company	15	156	(503)	-	-	286	31,310	31,264	(371)	30,893
At 31 December 2019	**50,013**	**24,482**	**(1,391)**	**75,394**	**(213,067)**	**559**	**359,053**	**295,043**	**723**	**295,766**

Marshalls plc
Preliminary Announcement of Results
Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2019

	Attributable to equity holders of the Company									
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Prior year										
At 1 January 2018	49,845	22,695	(2,359)	75,394	(213,067)	386	303,274	236,168	1,459	237,627
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	51,958	51,958	(330)	51,628
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	(9)	(9)	(35)	(44)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	528	–	528	–	528
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	(668)	–	(668)	–	(668)
Deferred tax arising	–	–	–	–	–	27	–	27	–	27
Defined benefit plan actuarial gain	–	–	–	–	–	–	9,985	9,985	–	9,985
Deferred tax arising	–	–	–	–	–	–	(1,698)	(1,698)	–	(1,698)
Total other comprehensive income	–	–	–	–	–	(113)	8,278	8,165	(35)	8,130
Total comprehensive income for the year	–	–	–	–	–	(113)	60,236	60,123	(365)	59,758
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	(2,249)	(2,249)	–	(2,249)
Deferred tax on share-based payments	–	–	–	–	–	–	(171)	(171)	–	(171)
Corporation tax on share-based payments	–	–	–	–	–	–	426	426	–	426
Dividends to equity shareholders	–	–	–	–	–	–	(29,250)	(29,250)	–	(29,250)
Shares issued	153	1,631	–	–	–	–	–	1,784	–	1,784
Purchase of own shares	–	–	(1,210)	–	–	–	–	(1,210)	–	(1,210)
Disposal of own shares	–	–	2,681	–	–	–	(2,681)	–	–	–
Total contributions by and distributions to owners	153	1,631	1,471	–	–	–	(33,925)	(30,670)	–	(30,670)
Total transactions with owners of the Company	153	1,631	1,471	–	–	(113)	26,311	29,453	(365)	29,088
At 31 December 2018	49,998	24,326	(888)	75,394	(213,067)	273	329,585	265,621	1,094	266,715

1 Basis of Preparation

Whilst the Financial Information included in this Preliminary Announcement has been prepared on the basis of the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") in issue, as adopted by the European Union and effective at 31 December 2019, this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full Consolidated Financial Statements in April 2020.

The Financial Information set out in this Preliminary Announcement does not constitute the Company's Consolidated Financial Statements for the years ended 31 December 2019 or 2018, but is derived from those Financial Statements. Statutory Financial Statements for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor, Deloitte LLP, has reported on those Financial Statements. The audit reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying the reports and did not contain statements under Section 498(2) or (3) of the Companies Act 2006 in respect of the Financial Statements for 2019 or 2018.

The Consolidated Financial Statements have been prepared in accordance with IFRSs as adopted for use in the EU and therefore the Group Financial Statements comply with Article 4 of the EU IAS Regulations. The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

Adoption of new standards in 2019

The Group has applied IFRS 16 "*Leases*" with effect from 1 January 2019. The impact of adoption is set out below.

Other than in respect of IFRS 16, the accounting policies have been applied consistently throughout the Group for the purpose of the Consolidated Financial Statements. The accounting policies are set out on the Company's website.

IFRS 16 "*Leases*"

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as for the impact of lease modifications, amongst others. The classification of cash flows is affected because operating lease payments under IAS 17 are presented as operating cash flows, whereas, under the IFRS 16 model, the lease payments are split into a principal and an interest portion which are presented as financing and operating cash flows respectively. Depreciation of the right-of-use asset is recognised in the Income Statement on a straight line basis, with interest recognised on the lease liability.

In adopting IFRS 16 from 1 January 2019, the Group has applied the modified retrospective transition approach and not restated comparative amounts for the year ended 31 December 2018. Right-of-use assets of £45,022,000 and lease liabilities of £46,520,000 were recognised as at 1 January 2019. For certain leases the Group has elected to measure the right-of-use asset as if IFRS 16 had been applied since the start of the lease, but using the incremental borrowing rate at 1 January 2019, with the difference between the right-of-use asset and the lease liability taken to retained earnings. In other cases, the Group has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions and leased assets which have subsequently been sub-leased). The Group has elected to adopt the following practical expedients on transition:

- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairments review;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right-of-use asset; and
- to apply the portfolio approach where a group of leases has similar characteristics.

The Group's leases principally comprise commercial vehicles and trailers, fork-lift trucks, motor vehicles, certain property assets and fixed plant.

Short-term leases, with a duration of less than 12 months, have been accounted for in accordance with the recognition exemption in IFRS 16 and hence related payments are expensed as incurred. The Group also made use of the option to apply the recognition exemption for low value assets (with a value of less than the equivalent of $5,000), which means that related payments have been expensed as incurred. Expenses for short-term and low value assets amounted to £555,000 in the year ended 31 December 2019.

Financial impact of IFRS 16

(a) Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 January 2019 £'000
Right-of-use assets	45,022
Lease liabilities	(46,520)
Retained earnings	1,842
Deferred tax	415
Reclassification of prepayments and accruals	(3)
Reclassification of finance lease assets	(1,697)
Reclassification of finance lease liabilities	941
	-

Included in the transition values for right-of-use assets and lease liabilities are £1,697,000 and £941,000 respectively in relation to previously recognised finance leases under IAS 17. The net assets value in respect of these items was £756,000.

Of the total right-of-use assets of £46,719,000 recognised at 1 January 2019, £20,910,000 related to leases of property and £25,809,000 to leases of plant and machinery.

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

	£'000
Operating lease commitments disclosed under IAS 17 at 31 December 2018	66,508
Exclusion of service / maintenance elements of a contract from the lease liability	(8,934)
Effect of discounting	(11,995)
Finance lease liabilities recognised under IAS 17 at 31 December 2018	941
Lease liabilities recognised at 1 January 2019	**46,520**

The lease liabilities were discounted at the incremental borrowing rate at 1 January 2019. The weighted average discount rate applied was 2.9 per cent. The incremental borrowing rate is calculated at the rate of interest which the Group would have been able to borrow for a similar term with a similar security of funds necessary to obtain a similar asset in a similar market.

(b) Impact for the period

In terms of the Income Statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year ended 31 December 2019, in relation to leases under IFRS 16, the Group recognised the following amounts in the Consolidated Income Statement.

	£'000
Depreciation	12,868
Interest expense	1,342
Other lease payments including short-term and low value lease expenses	555
	14,765

The reconciliation of the Income Statement is as follows:

	Pre-IFRS 16 December 2019 £'000	**Impact of IFRS 16 £'000**	**As reported December 2019 £'000**	December 2018 £'000
Revenue	**541,832**	**-**	**541,832**	490,988
Net operating costs	**(469,252)**	**1,101**	**(468,151)**	(426,154)
Operating profit	**72,580**	**1,101**	**73,681**	64,834
Finance charges (net)	**(2,486)**	**(1,342)**	**(3,828)**	(1,899)
Profit before tax	**70,094**	**(241)**	**69,853**	62,935
Income tax	**(11,942)**	**-**	**(11,942)**	(11,307)
Profit after tax	**58,152**	**(241)**	**57,911**	51,628

(c) Impact on the Cash Flow Statement

Under IFRS 16 the cash payments for leasing are presented within financing activities and amount to £12,723,000 in the Consolidated Cash Flow Statement. Under IAS 17 operating lease payments were presented as operating cash outflows. The impact on the Consolidated Cash Flow Statement for the year ended 31 December 2019 has been to increase net cash flow from operating activities to £88,125,000. On a pre-IFRS 16 basis net cash flows from operating activities would have been £75,712,000 (2018: £63,255,000).

(d) Impact on the Balance Sheet

	Pre-IFRS 16 December 2019 £'000	**Impact of IFRS 16 £'000**	**As reported December 2019 £'000**	December 2018 £'000
Property, plant and equipment	**196,989**	**(1,435)**	**195,554**	192,061
Right-of-use assets	**-**	**40,014**	**40,014**	-
Deferred taxation assets	**2,550**	**397**	**2,947**	1,406
Net impact on total assets	**199,539**	**38,976**	**238,515**	193,467
Interest bearing loans and borrowings	**71,912**	**(638)**	**71,274**	83,142
Lease liabilities	**-**	**41,960**	**41,960**	-
Deferred taxation liabilities	**18,307**	**-**	**18,307**	17,553
Net impact on total liabilities	**90,219**	**41,322**	**131,541**	100,695
Retained earnings	**361,137**	**(2,084)**	**359,053**	329,585
Net assets	**297,850**	**(2,084)**	**295,766**	266,715

(e) Impact on financial metrics

	Pre-IFRS 16 December 2019	**Impact of IFRS 16**	**As reported December 2019**	December 2018
Profit before tax (£'000)	**70,094**	**(241)**	**69,853**	62,935
EBITDA (£'000)	**90,115**	**13,760**	**103,875**	80,792
EPS (pence)	**29.48**	**(0.12)**	**29.36**	26.29
Net debt (£'000)	**18,654**	**41,322**	**59,976**	37,433
ROCE (%)	**23.7**	**(2.3)**	**21.4**	21.9
Net debt : EBITDA	**0.2**	**0.4**	**0.6**	0.5
Gearing (%)	**6.3**	**14.0**	**20.3**	14.0

The following other standards, interpretations and amendments to existing standards became effective on 1 January 2019 and have not had a material impact on the Group.

- IFRC 23: "*Uncertainty over Income Tax Treatments*", effect from 1 January 2019;
- Amendments to IFRS 9: "*Prepayment Features with Negative Compensation*", effective from 1 January 2019;
- Amendments to IAS 28: "*Long-term Interests in Associates and Joint Ventures*", effective from 1 January 2019;
- Amendments to IAS 19: "*Plan Amendment, Curtailment or Settlement*", effective from 1 January 2019; and
- "*Annual Improvements to IFRS Standards 2015-2017 Cycle*", effective from 1 January 2019.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning 1 January 2019 and are not expected to have a material impact on the Group.

- Amendments to IFRS 3: "*Definition of a Business, effective from 1 January 2020*" (not yet endorsed by the EU);
- Amendments to References to the Conceptual Framework in IFRS Standards, effective from 1 January 2020 (not yet endorsed by the EU);
- Amendments to IAS 1 and IAS 8: "*Definition of Material*", effective from 1 January 2020 (not yet endorsed by the EU);
- "*IFRS 17 Insurance Contracts*", effective from 1 January 2021;
- Amendments to IFRS 10 and IAS 28: "*Sale or contribution of assets between an investor and its associate or joint venture, effective date deferred indefinitely*";
- Annual improvements 2018 – 2020 cycle (not yet endorsed by the EU); and
- "*Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39, and IFRS 7)*", effective from 1 January 2020.

Other than in respect of IFRS 16 "*Leases*", the Directors do not expect that the adoption of the standards listed above will have a material impact on the Financial Statements of the Group in future periods.

Details of the Group's funding position are set out in Note 13 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is reviewed on an annual basis and the current arrangements were renewed and signed on 6 August 2019. In the opinion of the Directors there are sufficient unutilised facilities held which mature after 12 months. The

Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. Based on current expectations, the Group's cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

The Consolidated Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and liabilities for cash settled share-based payments.

The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company's website (www.marshalls.co.uk/investor/financial-performance).

The Consolidated Financial Statements are presented in Sterling, rounded to the nearest thousand. Sterling is the currency of the primary economic environment in which the Group operates.

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 Alternative performance measures

The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide more meaningful comparative information.

Like-for-like revenue growth

Management uses like-for-like revenue growth as it provides a consistent measure of the percentage increase / decrease in revenue year-on-year, excluding the effect of acquisitions.

	2019 £'000	2018 £'000	Increase %
Reported revenue	**541,832**	490,988	10%
Edenhall post-acquisition revenue	**(35,489)**	(675)	
Like-for-like revenue	**506,343**	490,313	3%

EBITA and EBITDA

EBITA represents earnings before interest, tax and the amortisation of intangibles. This is a component of the ROCE calculation. EBITDA is calculated by adding back depreciation to EBITA.

	As reported 2019 £'000	**Pre-IFRS 16 2019 £'000**	Pre-IFRS 16 2018 £'000	Increase %
EBITDA	**103,875**	**90,115**	80,792	29%
Depreciation	**(27,771)**	**(15,112)***	(14,199)	
EBITA	**76,104**	**75,003**	66,593	
Amortisation of intangible assets	**(2,423)**	**(2,423)**	(1,759)	
Operating profit	**73,681**	**72,580**	64,834	14%

* Pre-IFRS 16 depreciation of £15,112,000 comprises depreciation of £14,903,000 in respect of tangible fixed assets (Note 4) and £209,000 relating to assets previously classified as finance leases but now reclassified as right-of-use assets.

ROCE

Reported ROCE is defined as EBITA divided by shareholders' funds plus cash / net debt.

	As reported 2019 £'000	**Pre-IFRS 16 2019 £'000**	Pre-IFRS 16 2018 £'000
EBITA	**76,104**	**75,003**	66,593
Shareholders' funds	**295,766**	**297,850**	266,715
Net debt	**59,976**	**18,654**	37,433
	355,742	**316,504**	304,148
Reported ROCE	**21.4%**	**23.7%**	21.9%

ROCE on a like-for-like basis (excluding the impact of acquisitions) includes adjustments to report the calculation on a basis that eliminates the impact of the acquisition of Edenhall in 2018. This ensures comparability with the prior year period.

	2019 **£'000**	2018 £'000
Reported EBITA	**76,104**	66,593
Post-acquisition EBIT	**-**	(21)
Amortisation of intangible assets in year of acquisition	**-**	17
Acquisition costs	**-**	375
Adjusted EBITA	**76,104**	66,964
Shareholders' funds	**295,766**	266,715
Net debt	**59,976**	37,433
	355,742	304,148
Impact on net debt arising from the acquisitions in the year	**-**	(16,468)
As adjusted	**355,742**	287,680
ROCE on a like-for-like basis (excluding the impact of acquisitions)	**21.4%**	23.3%

Net Debt

Net debt comprises cash at bank and in hand, bank loans and leasing liabilities. An analysis of net debt is provided at Note 13.

IFRS 16 transition

The financial impact of the transition to IFRS 16 is set out in Note 1. Disclosures required under IFRS are referred to as either on a post-IFRS 16 basis or on a reported basis. Disclosures referred to on a pre-IFRS 16 basis are restated to those that applied before the adoption of IFRS 16 and are used throughout this Annual Report to show a like-for-like comparison with prior year periods.

The ratio of operating cash flows to EBITDA

The ratio of operating cash flows to EBITDA is calculated on a pre-IFRS 16 basis as set out below:

	Pre-IFRS 16 **2019** **£'000**	Pre-IFRS 16 2018 £'000
Net cash flows from operating activities	**75,712**	63,255
Net financial expenses paid	**1,851**	1,308
Taxation paid	**9,023**	9,855
Operating cash flow	**86,586**	74,418
EBITDA	**90,115**	80,792
Ratio of operating cash flow to EBITDA	**96.1%**	92.1%

3 Segmental analysis

Segment revenues and results

	2019			2018		
	Landscape Products £'000	**Other £'000**	**Total £'000**	Landscape Products £'000	Other £'000	Total £'000
Total revenue	**413,484**	**132,453**	**545,937**	398,128	96,943	495,071
Inter-segment revenue	**(362)**	**(3,743)**	**(4,105)**	(228)	(3,855)	(4,083)
External revenue	**413,122**	**128,710**	**541,832**	397,900	93,088	490,988
Segment operating profit	**71,663**	**6,719**	**78,382**	68,418	2,095	70,513
Unallocated administration costs			**(4,701)**			(5,679)
Operating profit			**73,681**			64,834
Finance charges (net)			**(3,828)**			(1,899)
Profit before tax			**69,853**			62,935
Taxation			**(11,942)**			(11,307)
Profit after tax			**57,911**			51,628

The Group has 2 customers which each contributed more than 10 per cent of total revenue in the current and prior year.

The Landscape Products reportable segment operates a national manufacturing plan that is structured around a series of production units throughout the UK, in conjunction with a single logistics and distribution operation. A national planning process supports sales to both of the key end markets, namely the UK Domestic and Public Sector and Commercial end markets and the operating assets produce and deliver a range of broadly similar products that are sold into each of these end markets. Within the Landscape Products operating segment the focus is on one integrated production, logistics and distribution network supporting both end markets.

Included in "Other" are the Group's Landscape Protection, Mineral Products, Premier Mortars and International operations, which do not currently meet the IFRS 8 reporting requirements. Following the acquisition, the Edenhall business has been included within "Other".

The accounting policies of the Landscape Products operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of certain central administration costs that are not capable of allocation. Centrally administered overhead costs that relate directly to the reportable segment are included within the segment's results.

Segment assets

	2019 £'000	2018* £'000
Fixed assets, right-of-use assets and inventory:		
Landscape Products	**232,539**	201,489
Other	**92,267**	74,933
Total segment fixed assets, right-of-use assets and inventory	**324,806**	276,422
Unallocated assets	**237,763**	237,139
Consolidated total assets	**562,569**	513,561

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 12).

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the tangible fixed assets, right-of-use assets and inventory. Assets used jointly by reportable segments are not allocated to individual reportable segments.

Other segment information

	Depreciation and amortisation		Fixed asset and right-of-use asset additions	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Landscape Products	**21,603**	13,251	**24,550**	21,060
Other	**8,591**	2,707	**5,027**	6,256
	30,194	15,958	**29,577**	27,316

Geographical destination of revenue

	2019 £'000	2018 £'000
United Kingdom	**514,905**	467,032
Rest of the world	**26,927**	23,956
	541,832	490,988

The Group's revenue is subject to seasonal fluctuations resulting from demand from customers. In particular, demand is higher in the summer months. The Group manages the seasonal impact through the use of a seasonal working capital facility.

4 Net operating costs

	2019 £'000	2018 £'000
Raw materials and consumables	**198,124**	172,175
Changes in inventories of finished goods and work in progress	**847**	6,267
Personnel costs	**128,221**	116,588
Depreciation of property, plant and equipment	**14,903**	14,199
Depreciation of right-to-use assets	**12,868**	-
Amortisation of intangible assets	**2,423**	1,759
Own work capitalised	**(4,216)**	(3,340)
Other operating costs	**116,135**	120,187
Operational restructuring costs	**1,396**	1,244
Acquisition costs	**-**	375
Operating costs	**470,701**	429,454
Other operating income	**(2,244)**	(2,562)
Net gain on asset and property disposals	**(306)**	(738)*
Net operating costs	**468,151**	426,154

* This reflects the proceeds of the sale of a domain name and is net of associated digital strategy costs.

In the prior year operating costs were expensed in accordance with the requirements of IAS 17. For the period ended 31 December 2019, leasing expenses for short-term leases as well as leases of low value assets remain within leasing costs, because the Group has applied the recognition exemption for those contracts provided by IFRS 16. Right-of-use assets are depreciated over the lease term.

5 Financial expenses and income

	2019 £'000	2018 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**542**	496
Interest expense on bank loans, overdrafts and loan notes	**1,951**	1,403
Interest expense on lease liabilities	**1,342**	5
	3,835	1,904
(b) Financial income		
Interest receivable and similar income	**7**	5

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges.

6 Income tax expense

	2019 £'000	2018 £'000
Current tax expense		
Current year	**13,214**	11,269
Adjustments for prior years	**(1,577)**	(934)
	11,637	10,335
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**556**	921
Adjustments for prior years	**(251)**	51
Total tax expense	**11,942**	11,307

	2019 %	2019 £'000	2018 %	2018 £'000
Reconciliation of effective tax rate				
Profit before tax	**100**	**69,853**	100.0	62,935
Tax using domestic corporation tax rate	**19.0**	**13,272**	19.0	11,957
Impact of capital allowances in excess of depreciation	**(0.7)**	**(523)**	(0.6)	(402)
Short-term timing differences	**0.6**	**386**	0.9	595
Adjustment to tax charge in prior year	**(2.3)**	**(1,577)**	(1.5)	(934)
Expenses not deductible for tax purposes	**0.1**	**79**	(1.4)	(881)
Corporation tax charge for the year	**16.7**	**11,637**	16.4	10,335
Impact of capital allowances in excess of depreciation	**0.9**	**648**	(0.2)	(130)
Short-term timing differences	**-**	**-**	1.8	1,139
Pension scheme movements	**(0.2)**	**(109)**	(0.2)	(101)
Other items	**0.4**	**261**	0.5	300
Adjustment to tax charge in prior year	**(0.4)**	**(251)**	0.1	51
Impact of the change in the rate of corporation tax on deferred taxation	**(0.3)**	**(244)**	(0.4)	(287)
Total tax charge for the year	**17.1**	**11,942**	18.0	11,307

The net amount of deferred taxation debited to the Consolidated Statement of Comprehensive Income in the year was £542,000 (2018: £1,671,000).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 19 per cent for the year to 31 December 2019.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on fixed assets. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on fixed assets is treated as an investment with the cost then being spread over the anticipated useful life of the asset, and / or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of fixed assets for tax and accounting purposes is one reason why the taxable income of the Group is not the same as its accounting profit. During the year ended 31 December 2019 the capital allowances due to the Group exceeded the depreciation charge for the year.

Short-term timing differences arise on items such as depreciation in stock and share-based payments because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the years following those in which they arise, as is reflected in the deferred tax charge in the Financial Statements.

Adjustments to tax charges arising in earlier years arise because the tax charge to be included in a set of accounts has to be estimated before those Financial Statements are finalised. Such charges therefore include some estimates that are checked and refined before the Group's corporation tax returns for the year are submitted to HM Revenue & Customs, which may reflect a different liability as a result.

Some expenses incurred may be entirely appropriate charges for inclusion in the Financial Statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability for the same accounting period. Examples of such disallowable expenditure include business entertainment costs and some legal expenses.

The prior year adjustment in corporation tax includes the reversal of some tax provisions made on acquisition of subsidiaries in 2017 and 2018 which are no longer required.

As can be seen from the tax reconciliation, the process of adjustment that can give rise to current year adjustments to tax charges arising in previous periods can also give rise to revisions in prior year deferred tax estimates. This is why the current year adjustments to the current year charge for capital allowances and short-term timing differences are not exactly replicated in the deferred taxation charge for the year.

The Group's overseas operations comprise a manufacturing operation in Belgium and sales and administration offices in the USA, China and Dubai. The sales of these units, in total, were less than 5 per cent of the Group's turnover in the year ended 31 December 2019. In total, the trading profits were not material and no tax was due.

7 Earnings per share

Basic earnings per share of 29.36 pence (2018: 26.29 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £58,240,000 (2018: £51,958,000) by the weighted average number of shares in issue during the period of 198,346,723 (2018: 197,669,293).

Profit attributable to Ordinary Shareholders

	2019 £'000	2018 £'000
Profit for the financial year	**57,911**	51,628
Loss attributable to non-controlling interests	**329**	330
Profit attributable to Ordinary Shareholders	**58,240**	51,958

Weighted average number of Ordinary Shares

	2019 Number	2018 Number
Number of issued Ordinary Shares	**200,052,157**	199,419,571
Effect of shares transferred into Employee Benefit Trust	**(1,705,434)**	(1,750,278)
Weighted average number of Ordinary Shares at the end of the year	**198,346,723**	197,669,293

Diluted earnings per share of 29.14 pence (2018: 26.08 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £58,240,000 (2018: £51,958,000) by the weighted average number of shares in issue during the period of 198,346,723 (2018: 197,669,293) plus potentially dilutive shares of 1,496,678 (2018: 1,548,929), which totals 199,843,401 (2018: 199,218,222).

Weighted average number of Ordinary Shares (diluted)

	2019 Number	2018 Number
Weighted average number of Ordinary Shares	**198,346,723**	197,669,293
Potentially dilutive shares	**1,496,678**	1,548,929
Weighted average number of Ordinary Shares (diluted)	**199,843,401**	199,218,222

8 Dividends

After the balance sheet date a final dividend of 9.65 pence (2018: 8.00 pence) per qualifying Ordinary Share was proposed by the Directors. In addition a supplementary dividend of 4.00 pence (2018: 4.00 pence) per qualifying Ordinary Share was proposed by the Directors. These dividends have not been provided for and there are no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	**2019 £'000**	2018 £'000
2019 supplementary	**4.00**	**7,934**	
2019 final	**9.65**	**19,142**	
2019 interim	**4.70**	**9,323**	
	18.35	**36,399**	
2018 supplementary	4.00		7,930
2018 final	8.00		15,860
2018 interim	4.00		7,906
	16.00		31,696

The following dividends were approved by the shareholders and recognised in the year:

	Pence per qualifying share	**2019 £'000**	2018 £'000
2019 interim	**4.70**	**9,323**	
2018 supplementary	**4.00**	**7,930**	
2018 final	**8.00**	**15,860**	
	16.70	**33,113**	
2018 interim	4.00		7,906
2017 supplementary	4.00		7,905
2017 final	6.80		13,439
	14.80		29,250

The Board recommends a 2019 final dividend of 9.65 pence per qualifying Ordinary Share (amounting to £19,142,000), alongside a supplementary dividend of 4.00 pence per qualifying Ordinary Share (amounting to £7,934,000), to be paid on 30 June 2020 to shareholders registered at the close of business on 5 June 2020.

9 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
New leases recognised	**20,508**	**24,514**	**45,022**
Reclassification of finance lease assets	**402**	**1,295**	**1,697**
At 1 January 2019	**20,910**	**25,809**	**46,719**
Additions	**74**	**6,089**	**6,163**
At 31 December 2019	**20,984**	**31,898**	**52,882**
Depreciation and impairment losses			
At 1 January 2019	**-**	**-**	-
Depreciation change for the year	**2,057**	**10,811**	**12,868**
At 31 December 2019	**2,057**	**10,811**	**12,868**
Net book value			
1 January 2019	20,910	25,809	46,719
31 December 2019	**18,927**	**21,087**	**40,014**

Depreciation charge

The depreciation charge is recognised in the following line items in the Consolidated Income Statement:

	2019 £'000	2018 £'000
Net operating costs	**12,868**	-

Lease commitments

	2019 £'000	2018 £'000
Lease commitments that has been contracted for but have not yet commenced	**1,764**	-

10. Lease liabilities

	31 December 2019 £'000	1 January 2019 £'000
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**9,736**	11,523
Amounts due for settlement after 12 months	**32,224**	34,997
	41,960	46,520

	2019		
	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	**10,835**	**1,099**	**9,736**
1 to 2 years	**8,322**	**1,476**	**6,846**
2 to 5 years	**12,469**	**2,080**	**10,389**
In more than 5 years	**21,225**	**6,236**	**14,989**
	52,851	**10,891**	**41,960**

As at 31 December 2019, the total minimum lease payments (above) comprised property of £30,323,000 and plant, machinery and vehicles of £22,528,000

Certain leased properties have been sublet by the Group. Sublease payments of £214,068 (2018: £207,779) are expected to be received during the following financial year. An amount of £229,034 (2018: £211,164) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

The Group does not face a significant liquidity risk with regard to its lease liabilities. The interest expense on lease liabilities amounted to £1,342,000 for the year ended 31 December 2019. Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date.

For the year ended 31 December 2019, the average effective borrowing rate was 2.9 per cent. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

11 Employee benefits

The Company sponsors a funded defined benefit pension scheme in the UK (the "Scheme"). The Scheme is administered within a trust which is legally separate from the Company. The Trustee Board is appointed by both the Company and the Scheme's membership and acts in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The defined benefit section of the Scheme provides pension and lump sums to members on retirement and to dependants on death. The defined benefit section closed to future accrual of benefits on 30 June 2006 with the active members becoming entitled to a deferred pension. Members no longer pay contributions to the defined benefit section. Company contributions to the defined benefit section after this date are used to fund any deficit in the Scheme and the expenses associated with administering the Scheme, as determined by regular actuarial valuations.

The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

The defined benefit section of the Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk, inflation risk and salary risk. The Trustee is aware of these risks and uses various techniques to control them. The Trustee has a number of internal control policies, including a risk register, which are in place to manage and monitor the various risks it faces. The Trustee's investment strategy incorporates the use of liability-driven investments ("LDIs") to minimise sensitivity of the actuarial funding position to movements in interest rates and inflation rates.

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every 3 years. The next actuarial valuation is expected to be carried out with an effective date of 5 April 2021. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

A formal actuarial valuation was carried out as at 5 April 2018. The results of that valuation have been projected to 31 December 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

The amounts recognised in the Consolidated Balance Sheet were as follows:

	2019 **£'000**	2018 £'000	2017 £'000
Present value of Scheme liabilities	**(353,136)**	(330,222)	(350,554)
Fair value of Scheme assets	**368,857**	343,738	354,681
Net amount recognised at the year end (before any adjustments for deferred tax)	**15,721**	13,516	4,127

The current and past service costs, settlements and curtailments, together with the net interest expense for the year, are included in the employee benefits expense in the Consolidated Statement of Comprehensive Income. Remeasurements of the net defined benefit surplus are included in other comprehensive income.

	2019 **£'000**	2018 £'000
Net interest expense recognised in the Consolidated Income Statement	**642**	596
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	**(33,362)**	7,872
Loss / (gain) arising from changes in financial assumptions	**38,367**	(16,326)
Gain arising from changes in demographic assumptions	**(13,017)**	(1,531)
Experience loss	**5,165**	-
Credit recorded in other comprehensive income	**(2,847)**	(9,985)
Total defined benefit credit	**(2,205)**	(9,389)

The principal actuarial assumptions used were:

	2019 £'000	2018 £'000
Liability discount rate	**2.10%**	2.75%
Inflation assumption – RPI	**2.95%**	3.15%
Inflation assumption – CPI	**2.05%**	2.15%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.10%**	2.15%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.10%**	2.15%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.20%**	3.20%
CPI pension increases (maximum 3% p.a.)	**1.90%**	1.95%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**80%**	50%
Mortality assumption – before retirement	**Same as post retirement**	Same as post retirement
Mortality assumption – after retirement (males)	**S2PXA tables**	S2PXA tables
Loading	**110%**	105%
Projection basis	**Year of birth CMI_2018 1.0%**	Year of birth CMI_2017 1.0%
Mortality assumption – after retirement (females)	**S2PXA tables**	S2PXA tables
Loading	**110%**	105%
Projection basis	**Year of birth CMI_2018 1.0%**	Year of birth CMI_2017 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**85.6**	86.1
Female aged 65 at year end	**87.5**	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**86.6**	87.1
Female aged 45 at year end	**88.7**	89.2

12 Acquisition of subsidiary

On 11 December 2018, Marshalls Mono Limited acquired 100 per cent of the issued share capital of Edenhall Holdings Limited, a concrete brick manufacturer. Edenhall Holdings Limited operates within the UK and is registered in England and Wales.

	2018 Edenhall fair values acquired as restated £'000
Land and buildings	3,962
Plant, machinery and vehicles	8,139
Identifiable intangible assets	3,897
Inventories	2,105
Trade and other receivables	5,726
Cash and cash equivalents	33
Trade and other payables	(18,772)
Provisions	(1,647)
Borrowings	(3,959)
Finance leases	(783)
Corporation tax	(692)
Deferred tax	(1,120)
Total identifiable net liabilities	(3,111)
Goodwill	18,190
Total consideration	
Satisfied by:	
Cash consideration	10,759
Deferred consideration	1,900
Contingent consideration	2,420
Total cost of investment	15,079
Monies paid into escrow	1,000
	16,079
Analysis of amounts paid in connection with the acquisition	
Total cash payments	11,759
Net cash acquired	(33)

Total cash outflow in connection with the acquisition	11,726

Acquisition of Edenhall Holdings Limited

Initial cash consideration paid to the vendors was £10,759,000 and, in addition, a further £1,000,000 was paid into an escrow account in relation to certain ongoing legal and regulatory matters identified during the course of due diligence carried out prior to concluding the acquisition. The Group has a right to be reimbursed from amounts held in escrow to the extent that any liability crystallises in respect of these ongoing legal and regulatory matters, up to the full value of the £1,000,000 held in escrow and consequently a reimbursement asset of £1,000,000 was recognised within other debtors. To the extent that any such liabilities are resolved at a lower value than the escrow balances, the excess balance remaining in escrow is payable to the vendors as additional consideration.

The Group has agreed to pay the vendors deferred consideration of £1,900,000 which is payable on 11 December 2021. This is not dependent on performance. Additional consideration is also payable dependent on the achievement of performance targets in the periods post acquisition. These performance periods are up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £nil and £2,420,000. The Group has included £2,420,000 as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities.

As part of the ongoing review of the fair value of assets and liabilities acquired, adjustments were made to certain accruals and provisions during the period, These had the effect of decreasing the fair value of the net assets acquired under the acquisition by £6,157,000, which has given rise to an increase in goodwill of a similar amount. Goodwill, land and buildings, plant and machinery, trade and other payables and provisions have been restated accordingly in respect of the reported 31 December 2018 balance sheet.

Due to their contractual dates, the fair value of the receivables (shown above) is approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

The goodwill arising from the acquisition represents the opportunity to grow by utilising the capabilities and technical expertise of the acquired workforce and by developing synergistic opportunities.

The goodwill arising from the acquisition is not expected to be deductible for income tax purposes.

Transaction costs incurred on acquisition were £375,000 and these were fully expensed in the period to 31 December 2018 (Note 4).

13 Analysis of net debt

	1 January 2019 £'000	IFRS 16 £'000	Cash flow £'000	New leases £'000	Other changes £'000	**31 December 2019 £'000**
Cash at bank and in hand	45,709	-	7,649	-	(100)	**53,258**
Debt due within 1 year	(22,493)	-	10,927	-	(8,434)	**(20,000)**
Debt due after 1 year	(59,708)	-	-	-	8,434	**(51,274)**
Finance leases	(941)	941	-	-	-	**-**
Lease liabilities	-	(46,520)	12,723	(8,163)	-	**(41,960)**
	(37,433)	(45,579)	31,299	(8,163)	(100)	**(59,976)**

Reconciliation of net cash flow to movement in net debt

	2019 £'000	2018 £'000
Net increase in cash equivalents	**7,649**	25,779
Leases recognised on adoption of IFRS 16	**(45,579)**	-
Cash outflow / (inflow) from decrease / (increase) in bank borrowings	**10,927**	(34,164)
Cash outflow from lease repayments	**12,723**	101
Repayment of borrowings following acquisition of subsidiaries	**-**	(4,742)
New leases entered into	**(8,163)**	-
Effect of exchange rate fluctuations	**(100)**	(110)
Movement in net debt in the year	**(22,543)**	(13,136)
Net debt at 1 January	**(37,433)**	(24,297)
Net debt at 31 December	**(59,976)**	(37,433)

Borrowing facilities

The total bank borrowing facilities at 31 December 2019 amounted to £155.0 million (2018: £140.0 million), of which £83.7 million (2018: £60.5 million) remained unutilised. There are additional seasonal bank working capital facilities of £10.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2019, in respect of which all conditions precedent had been met, were as follows:

	2019 £'000	2018 £'000
Committed:		
Expiring in more than 5 years	**-**	25,000
Expiring in more than 2 years but not more than 5 years	**68,726**	20,292
Expiring in 1 year or less	**-**	180
Uncommitted:		
Expiring in 1 year or less	**15,000**	15,000
	83,726	60,472

On 6 August 2019, the Group renewed its short-term working capital facilities of £25.0 million and took out an additional committed facility of £35.0 million with a 2023 maturity date. The committed facilities are all revolving credit facilities with interest charged at variable rates based on LIBOR. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels.

The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities		
Q1: 2024	25,000	25,000
Q3: 2023	55,000	80,000
Q3: 2022	20,000	100,000
Q3: 2021	20,000	120,000
Q3: 2020	20,000	140,000
On-demand facilities		
Available all year	15,000	155,000
Seasonal (February to August inclusive)	10,000	165,000

14 Principal risks and uncertainties

The principal risks and uncertainties that could impact the Group for the remainder of the current financial year are set out in the 2019 Annual Report. These cover the strategic, financial and operational risks and have not changed during the period.

Strategic risks include those relating to general economic conditions, Government policy, the actions of customers, suppliers and competitors and also weather conditions. Cyber risk within the wider market is also an increasing risk for the Group and an area of major focus. The Group also continues to be subject to various financial risks in relation to access to funding and to the pension scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The other main financial risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

External operational risks include the weather, political and economic uncertainty in relation to the ongoing Brexit transaction process, the effect of legislation or other regulatory actions, the actions of competitors, raw material prices and threats from cyber security, new technologies and business models. Internal operational risks include investment in new products, new business strategies, acquisitions and the integration of Edenhall.

The Group continues to monitor all these risks and pursue policies that take account of, and mitigate, the risks where possible.

15 Annual General Meeting
The Annual General Meeting will be held at The Holiday Inn, Clifton Village, Brighouse, HD6 4HW at 11.00am on Wednesday 13 May 2020.

The Board
The Directors serving during the year ended 31 December 2019 were as follows:
Vanda Murray OBE Chair
Janet Ashdown Non-Executive Director
Angela Bromfield (appointed 1 October 2019)
Jack Clarke Finance Director
Martyn Coffey Chief Executive
Tim Pile Non-Executive Director
Graham Prothero Non-Executive Director

By order of the Board
Cathy Baxandall
Company Secretary
12 March 2020

Cautionary Statement
This Preliminary Results announcement contains certain forward looking statements with respect to the financial condition, results, operations and business of Marshalls plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. Nothing in this Preliminary Results announcement should be construed as a profit forecast.

Directors' Liability
Neither the Company nor the Directors accept any liability to any person in relation to the contents of this Preliminary Results announcement except to the extent that such liability arises under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.