Marshalls plc

2023 Financial Results Review and Outlook

Management actions position the Group well for when markets recover

18 March 2024

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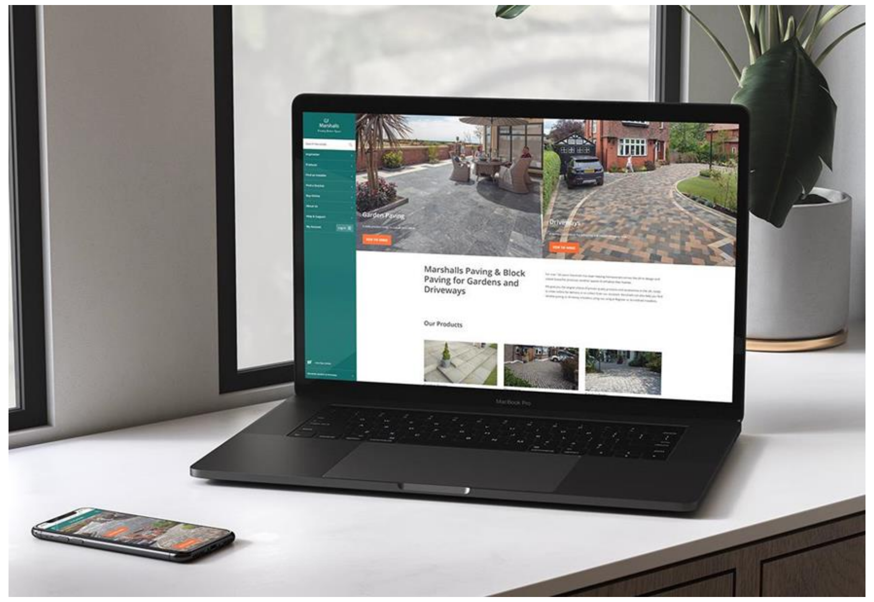
Agenda

- First Impressions from Matt Pullen
- 2023 Summary and Financial Results
- Opportunity for Marshalls
- Summary and Outlook
- Q&A



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Matt Pullen,
Chief Executive

Justin Lockwood, CFO

Marshalls

Matt Pullen, Chief Executive

My background

- Experience of leading complex businesses in construction
- Career foundation in blue chip FMCG in the UK and Europe
  - Strategic foresight
  - Transformation and growth
  - People leadership
  - Enhance stakeholder value

Why did I join Marshalls?

- Strong reputation with leading brands and products
- Track record of profitable growth and market outperformance
- Commitment to decarbonisation
- Opportunity to create further value

First impressions and reflections

Presence and brands

- Leading brands and market positions
- Strengthened through acquisition
- National scale and reach
- Drive towards sustainable solutions

Organisation people and culture

- Talented, knowledgeable and experienced leaders
- People are passionate and care
- Strength in Operational Excellence
- Committed to our Customers

Opportunity to create value

- Operational leverage from market recovery
- Structural trends related to climate mitigation and adaption
- Developing strong propositions and innovative solutions

The Group is well positioned for outperformance in the medium-term

- Our near-term markets remain challenging
- Management actions taken in 2023 demonstrate a well-managed and agile business
- More diversified portfolio of products and solutions has increased the Group's resilience in cyclical markets
- Clear opportunity to evolve the business, making the most of structural drivers and market trends
- Well positioned for outperformance in the medium term

2023 summary

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2023 summary

Management actions position the Group well for when markets recover

- Financial results in short-term impacted by weak market conditions
- Group resilience demonstrably enhanced through Marley acquisition, with exposure to less discretionary RMI, and exit from Belgium
- Action taken to reduce costs, improve agility and manage cash without compromising medium-term capacity
  - c.£11 million annualised net cost savings, 40 per cent realised in 2023
  - c.£7 million generated from site disposals
- Strong balance sheet – reduction in net debt of c.£18 million
- Dual block plant in St Ives operational; improving capabilities and new product development
- Ahead of Marshalls' carbon reduction target; enlarged Group's targets submitted to SBTi for approval
- Marshalls' logistics function to be outsourced to Wincanton in H1 2024 - expected to improve service and deliver efficiencies

Financial headlines

Revenue	£671.2m	7% ↓	Adjusted basic EPS	16.7p	47% ↓
Adjusted operating profit	£70.7m	30% ↓	Final proposed dividend	5.7p	42% ↓
Adjusted PBT	£53.3m	41% ↓	Pre-IFRS 16 net debt	£172.9m	£17.8 million ↓

Note: Adjusted PBT stated after adding back adjusting items totaling £31.1 million; see page 39 for details

Key challenges and management response

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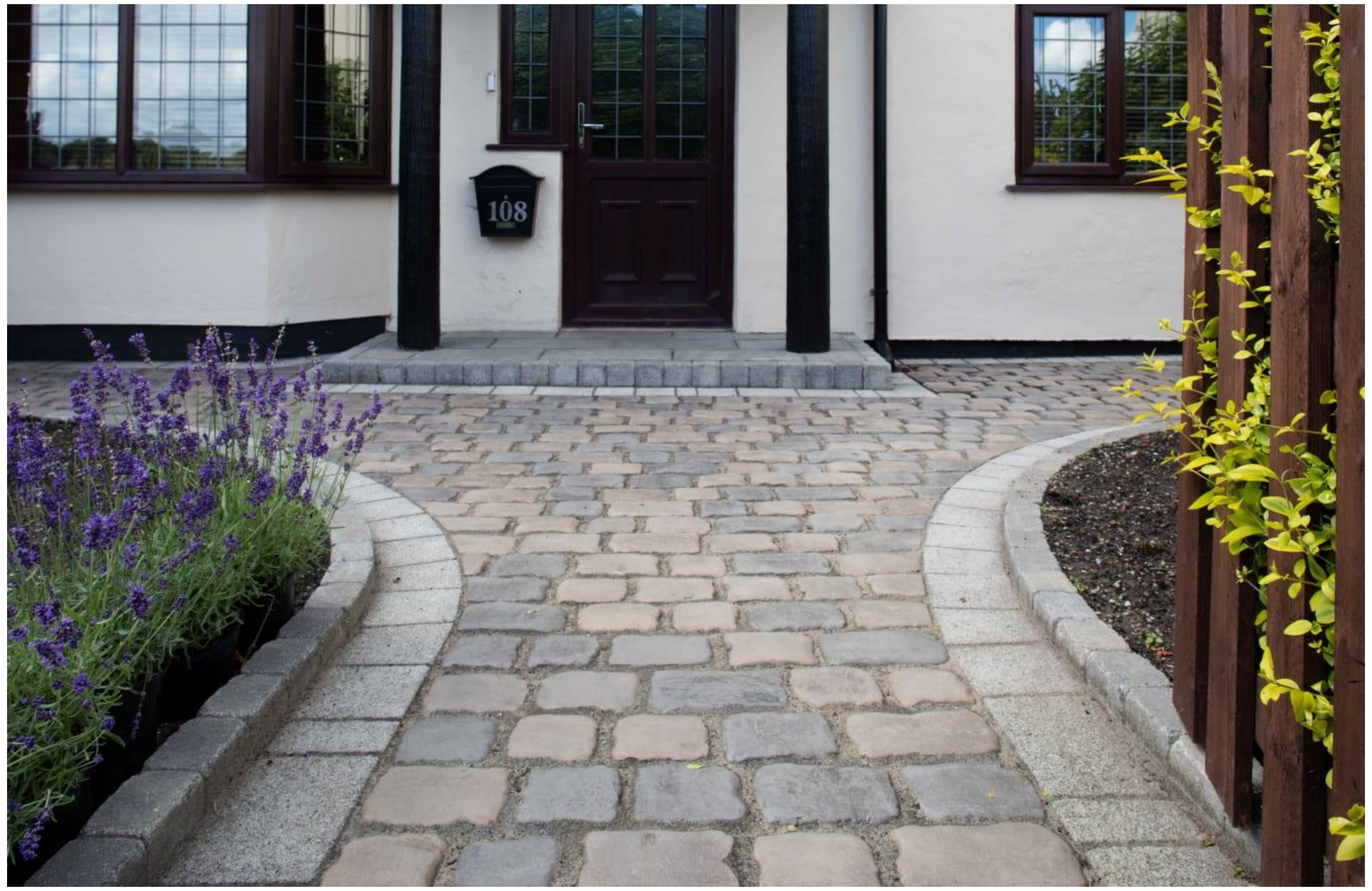
2023 challenges

Weak market backdrop impacted demand and the financial results

- Macro-economic environment challenging through 2023
- House builders reduced activity levels with progressive slowdown as they worked through order books
- Consumer confidence weak during year with squeeze on disposable incomes reducing private housing RMI activity
- Demand for the Group's products reduced
- Tougher pricing environment - input cost inflation not fully covered by price increases in H2 impacting margins



Management response

Action taken in response to challenging market backdrop

- Reduction in capacity whilst maintaining ability to supply a stronger market in the medium-term
  - Factory closure at Carluke
  - Mothballing capacity in building and roofing products
  - Reduction in shifts
- Improving agility and reducing cost base with annualised net cost reduction of c.£11million
  - Simplification of commercial and support functions
  - Headcount reduction of c.330 roles, in addition to c.150 roles removed in H2 2022
- Managing cash and de-levering balance sheet
  - Proactive working capital management to deliver strong cash conversion - OCF%EBITDA of 106%
  - Reduction in capex spend to c.£21 million
  - Programme of surplus site sales generated c.£7 million in 2023
  - Pre-IFRS16 net debt year on year reduced by £17.8 million to £172.9 million
- Group is leaner and better positioned as and when markets recover

Financial performance

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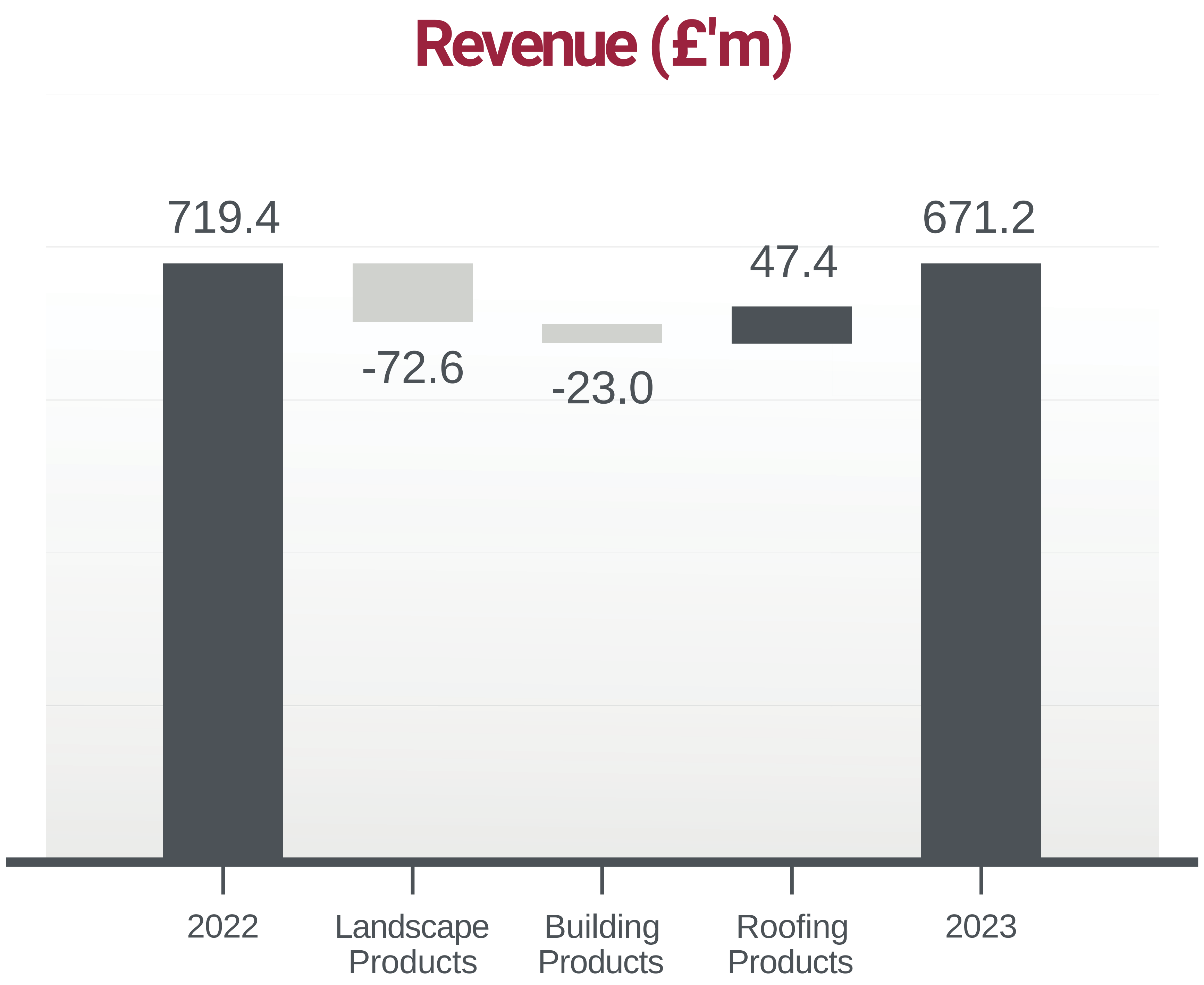
Group revenue

Revenue contracted by 13 per cent on a like-for-like basis

- Group revenue reduction of 7 per cent including an additional 4 months of Marley; like-for-like contraction by 13 per cent
- Marshalls Landscape Products' revenue contracted by 16 per cent on a like-for-like basis due to weak house building and RMI market
- Revenue from Marshalls Building Products reduced by 12 per cent due to the weak new build housing activity
- Marley Roofing Products contributed £180 million of revenue, representing like-for-like contraction of 9 per cent. Weakness in new build housing was partially offset by Viridian Solar growth

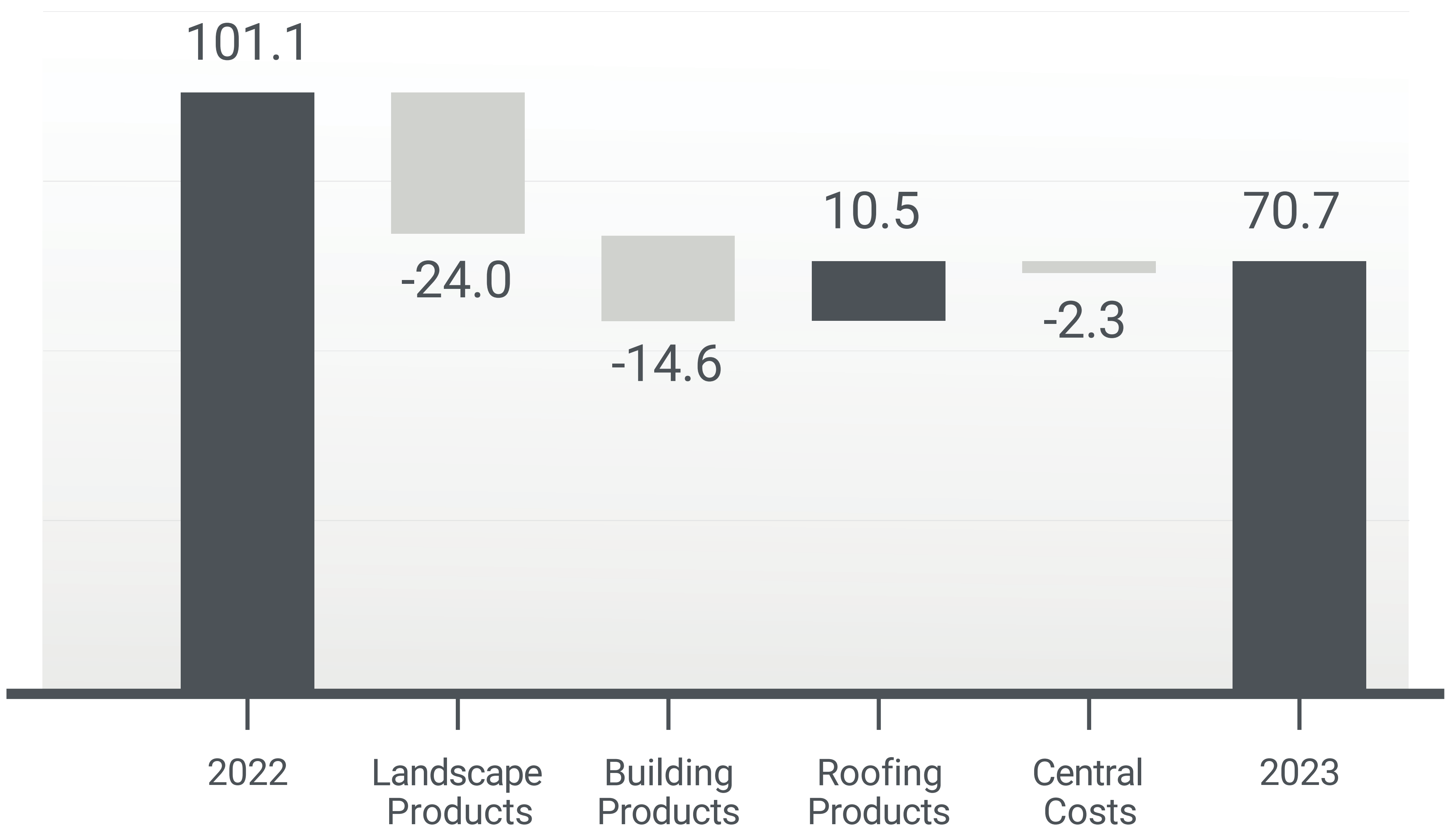


Group adjusted operating profit

Contraction in operating profit driven by weaker market demand and reduced manufacturing efficiency

- Operating profit stated after adding back adjusting items of £29.7 million, of which £18.7 million are non-cash charges
- Operating profit contracted by £30.4 million driven by lower profitability in the Marshalls businesses partially offset by an additional 4 months contribution from Marley
- H2 performance weaker than H1 due to a slowing market, more challenging price realisation and the impact of working capital management on operational efficiency
- Landscape and Building Products down on weaker volumes impacting gross profit and operational efficiency
- Group operating margin contracted by 3.6 ppts to 10.5 per cent due to adverse operating leverage in Marshalls partially offset by structurally stronger Marley margins
- Decisive action taken to reduce costs and capacity, delivering annualised net cost savings of c.£11 million

Adjusted operating profit (£'m)



Note: Operating profit is stated after adding back adjusting items totaling £29.7 million. See page 39 for details.

Marshalls Landscape Products

Lower demand from new build housing and private housing RMI impacts volumes and profitability

- Volumes adversely impacted by weak demand from new build housing and private housing RMI with commercial and infrastructure more robust
- Revenues contracted by 18 per cent year on year with demand weakest for domestic products; like-for-like revenue contracted by 16 per cent
- Decline in segment operating profit of 53 per cent arising from lower volumes together with margin squeeze from tougher pricing environment
- Decisive action taken to reduce capacity delivered annualised savings of around £7.6 million
- Medium-term target to return segment operating margins to at least 15 per cent, when volumes recover

	2023 £'m	Change %
Revenue	£321.5	16%* ↓
Segment operating profit	21.3	53% ↓
Segment operating margin %	6.6%	4.9ppts ↓

Comprises the Group's Commercial and Domestic landscaping business, Landscape Protection and International businesses

* On a like-for-like basis

Marshalls Building Products

Weak new build housing activity reduced volumes and profitability

- Challenging trading conditions driven by progressive weakness in new build housing through the year
- Revenue contracted by 12 per cent with all business units impacted by weak demand and a slowdown in bricks and mortar volumes in H2
- Lower sales volumes and reduced factory efficiency adversely impacted profitability, particularly in H2
- Action taken to mothball capacity, reduce manufacturing output to manage working capital and reduce annualised net costs by £3.5 million
- Medium-term target to achieve segment operating margins of 15 per cent when volumes normalise

	2023 £'m	Change %
Revenue	170.1	12% ↓
Segment operating profit	12.2	54% ↓
Segment operating margin %	7.2%	6.7ppts ↓

Comprises Civils and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregates businesses

Marley Roofing Products

Resilient performance demonstrating benefits of less discretionary RMI market and integrated solar growth

- Challenging trading conditions in new build housing together with more resilient RMI and growth in Viridian Solar, resulted in 9 per cent contraction in revenues
- Segment operating profit contracted by 12 per cent to £44.9 million on a like-for-like basis due to weaker traditional roofing volumes partially offset by growing profitability of Viridian Solar
- Segment operating margins remained robust - expected to be in the range of 20 to 25 per cent in the medium term
- Action taken to reduce costs and manage working capital levels by mothballing assets

	2023 £'m	Change %
Revenue	179.6	9%* ↓
Segment operating profit	44.9	12%* ↓
Segment operating margin %	25.0%	1.0ppts* ↓

Comprises concrete and clay roof tiles, timber battens and integrated solar panels

* On a like-for-like basis

Adjusted profit before taxation and earnings per share

Profitability impacted by weak construction market

- Operating profit was £70.7 million, representing year on year contraction of 30 per cent
- Higher financing costs reflect full year of higher debt funding and higher base rates – interest rate hedging in place for c.2/3rds of term loan
- Profit before tax contracted by 41 per cent year on year to £53.3 million
- Effective tax rate of 21 per cent - higher than 2022 due to increase in UK headline rate
- EPS contracted by 47 per cent due to weaker operating performance, higher finance costs, an uplift in the effective tax rate and an increase in the weighted average number of shares

	2023 £'m	Change %
Operating profit	70.7	30% ↓
Finance costs	(17.4)	63% ↑
Profit before taxation	53.3	41% ↓
Effective tax rate (%)	21%	2.1ppts ↑
EPS – pence	16.7p	47% ↓

Note: PBT stated after adding back adjusting items totaling £31.1 million; see page 39 for details

Cash flow

Strong management of cash delivers reduction in net debt

- Strong cash conversion with 106 per cent of EBITDA flowing into operating cash flow due to strong management of working capital
- Finance and tax payments increased due to higher interest payments
- Net capex of £13.9 million comprises gross capex of £20.8 million less a £6.9 million benefit from site disposals
- Acquisition and disposal cash flows of £4.4 million: £3 million contingent consideration and impact of Belgian disposal of £1.4 million
- Reduction in net debt of £19 million reflecting cash generative nature of the Group

	2023 £'m	Change £m
Operating profit	70.7	30.4 ↓
Working capital and non-cash items	**39.4**	**16.3** ↑
Finance cost and tax paid	**(26.9)**	**5.4** ↑
Adjusting items paid	(5.5)	11.9 ↓
Net capex	**(13.9)**	**14.8** ↓
Acquisitions and disposals	**(4.4)**	**191.1** ↓
Dividends paid	(31.6)	7.1 ↓
Other	(8.8)	9.1 ↓
Change in net debt	**19.0**	-

Note: Operating profit stated after adding back adjusting items totaling £29.7 million; see page 39 for details

Funding and liquidity

Extension of medium-term funding, significant liquidity and covenant headroom

- Majority of syndicated bank facility extended to April 2027, further securing medium-term funding
- £30 million of term loan repaid in January 2024 ensuring efficient management of borrowings and finance cost
- Net debt of £217.6 million (2022: £236.6 million) and £172.9 million (2022: £190.7 million) on a pre-IFRS16 basis
- Cash generative features of the Group illustrated by £17.8 million reduction in pre-IFRS16 net debt during 2023
- Comfortable headroom against covenants
  - EBITA: interest charge – 5.2 times (covenant = more than 3 times)
  - Net debt: adjusted EBITDA – 1.9 times (covenant = less than 3 times)
- Headroom against bank facilities of £160 million at December 2023 (December 2022: £120 million)

Note: Adjusted EBITDA is on a pre-IFRS16 basis and is stated after adding back adjusting items set out on page 39.

Ongoing capital discipline

Good control of working capital; medium-term target to rebuild ROCE to c.15 per cent; progressive deleveraging

- Continued focus on maintaining capital discipline through active working capital management
- Return on capital employed of 8 per cent; medium-term target of around 15 per cent when market volumes recover
- Pre-IFRS 16 net debt to adjusted EBITDA of 1.9 times
- Cash generative nature of business model expected to support progressive deleveraging
- Significant balance sheet strength

	2023 £'m	Change
Debtor days	49 days	none
Creditor days	53 days	11 days ↓
Inventory turn (times per annum)	2.8X	0.2X ↓
Adjusted ROCE	8.4%	4.9 ppts ↓
Net debt to adjusted EBITDA leverage	1.9X	0.5X ↑

Capital allocation

Clear and unchanged policy

1

Organic growth

Capital investment remains core to strategic growth

Capex of £15 million to £20 million planned for 2024

2

R&D and new product development

Continued focus on R&D and NPD

New product ranges focused on low carbon and energy efficiency products

3

Ordinary dividends

Maintaining dividend cover of two times adjusted earnings

Full year proposed dividend of 5.7 pence per share

4

Balance sheet deleveraging

Target to reduce net debt to around one times adjusted EBITDA

5

Selective acquisitions

Target selective bolt-on acquisition opportunities

The opportunity for Marshalls

The opportunity for Marshalls

- Clear opportunity to evolve the business, making the most of structural drivers and market trends to drive relative outperformance in the medium-term

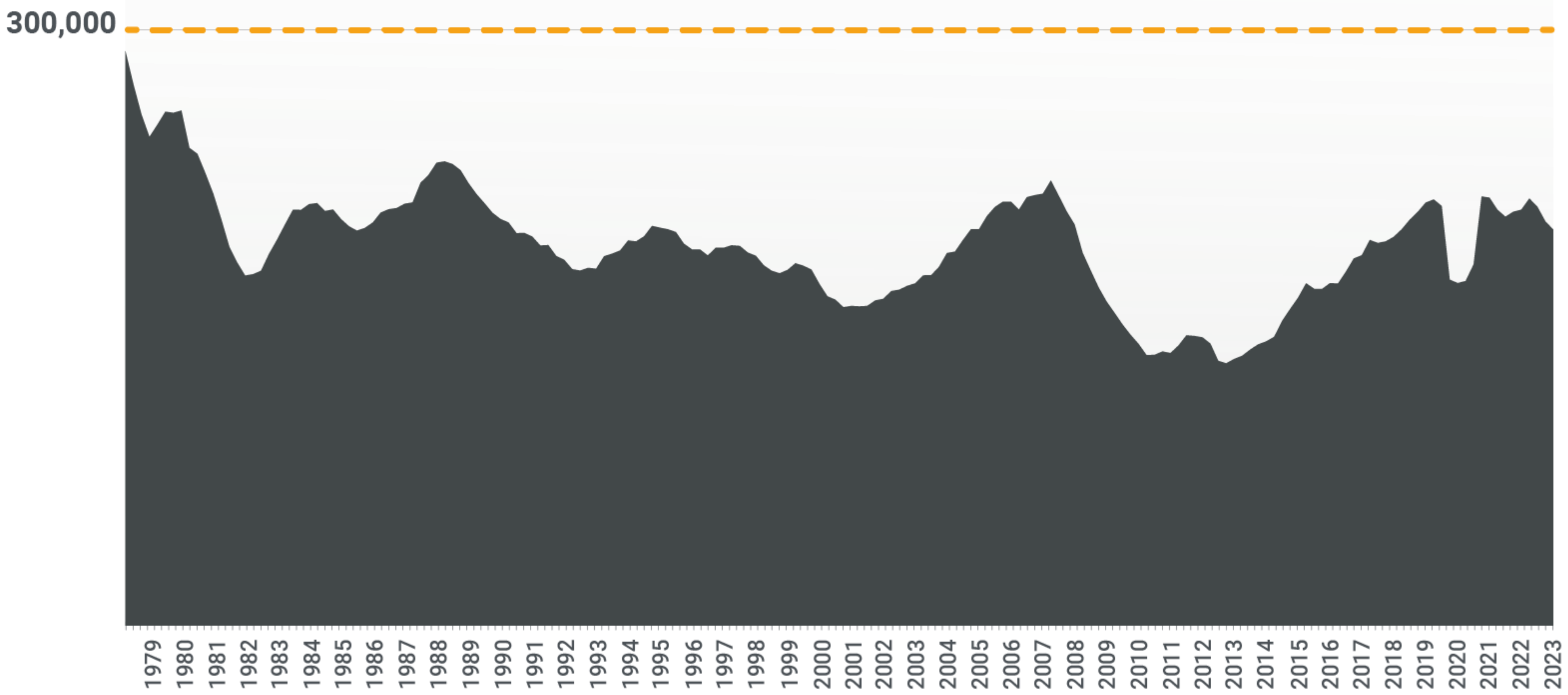
Requires an increased focus on

- understanding our end markets
- listening to what our customers are calling for
- ensuring we realise greater value, through the products and solutions we offer

Structural under-investment in construction expected to drive medium-term market outperformance

Material structural deficit in new build housing

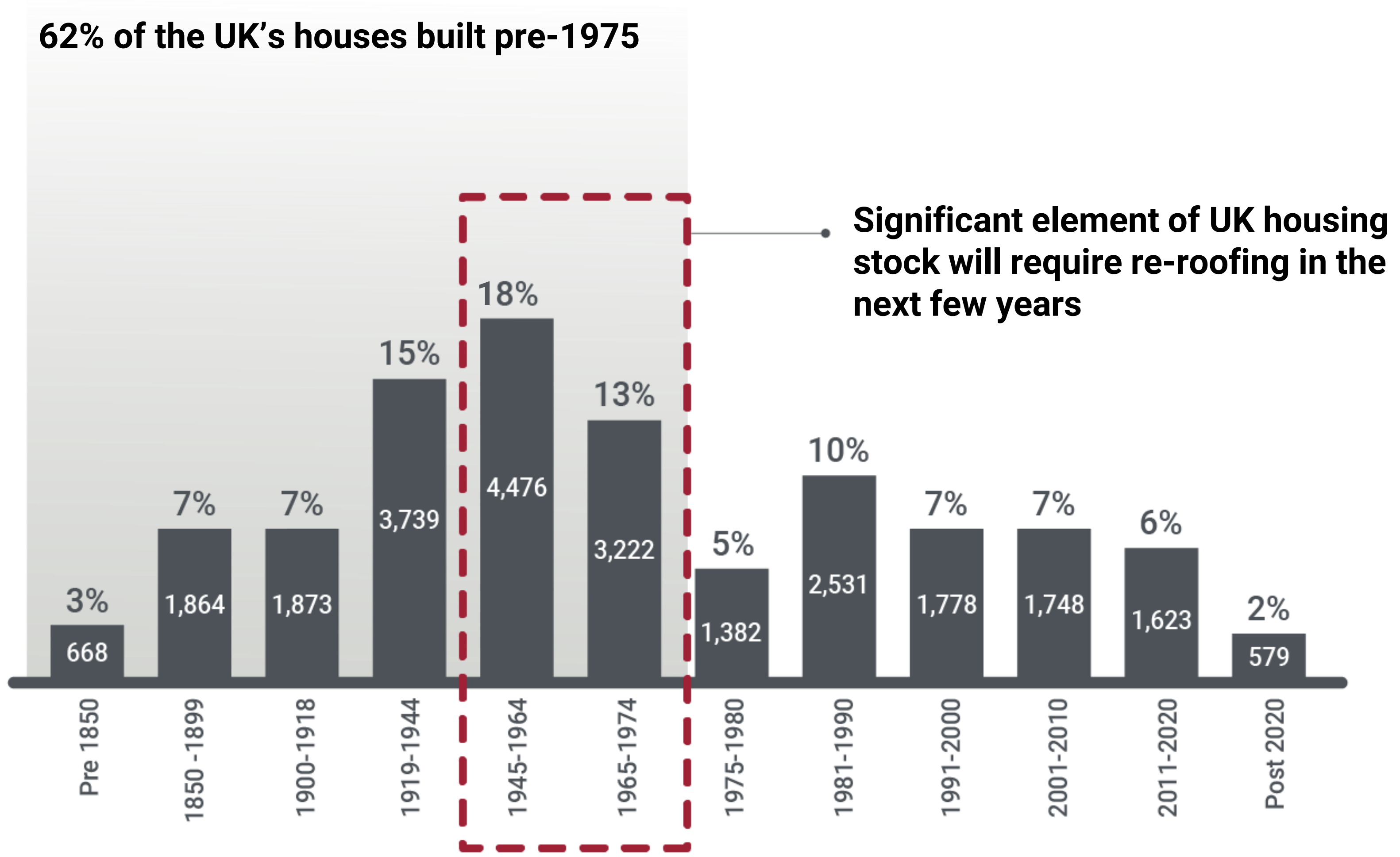
House building volumes compared to government targets



Source: England: Gov.uk; Scotland: Scottish Government;
Northern Ireland: finance-ni.gov.uk; Wales: Statswales.gov.wales

UK's housing stock continues to age, underpinning RMI demand going forward

Age profile of UK housing stock



Source: management estimates based on internal data

Climate mitigation and adaptation driving market opportunities for integrated solar

Integrated solar growth expected to be driven by regulation changes

- Building regulation driving improvement in energy efficiency and market growth
- Integrated solar is already being adopted by housebuilders in private and public sector housing
- Marley and Viridian Solar are well positioned to meet the needs of growing and profitable opportunity
- Developing home energy systems presents further opportunities for growth

Innovation will enhance our competitive advantage

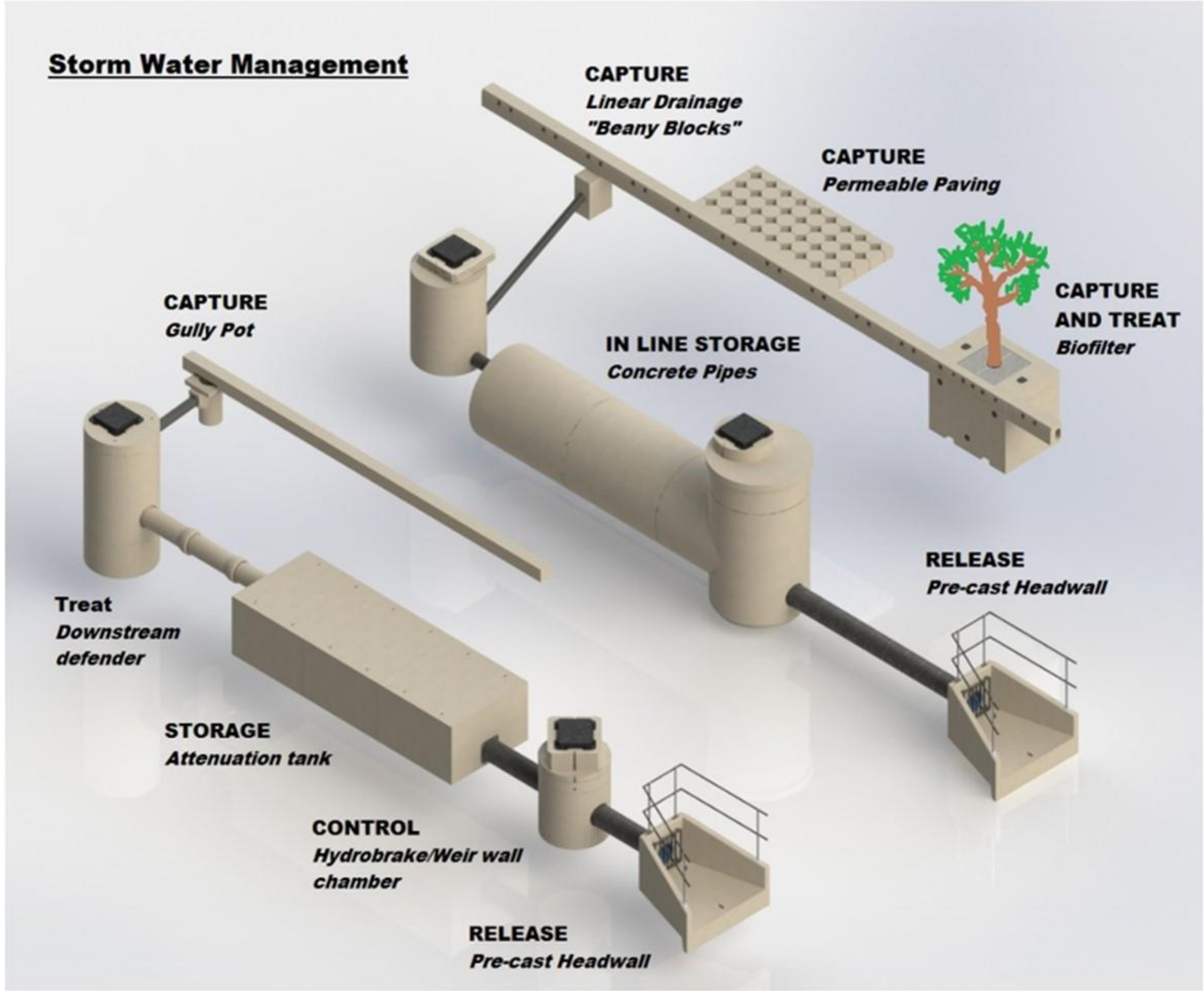
Viridian Solar innovation extends its system offer

- Viridian Solar has a strong track record of innovation
- 90 per cent of revenue from products launched in the last five years
- Most powerful roof-integrated photovoltaic panel and roofing kits - delivering 30 per cent of panel sales by year end
- New solar inverters and EV chargers add to the home energy system solution
- New patented ArcBox solar connector and mounting system - safety product to prevent roof fires

Climate mitigation and adaptation driving market opportunities water management

Increased demand anticipated for water management solutions

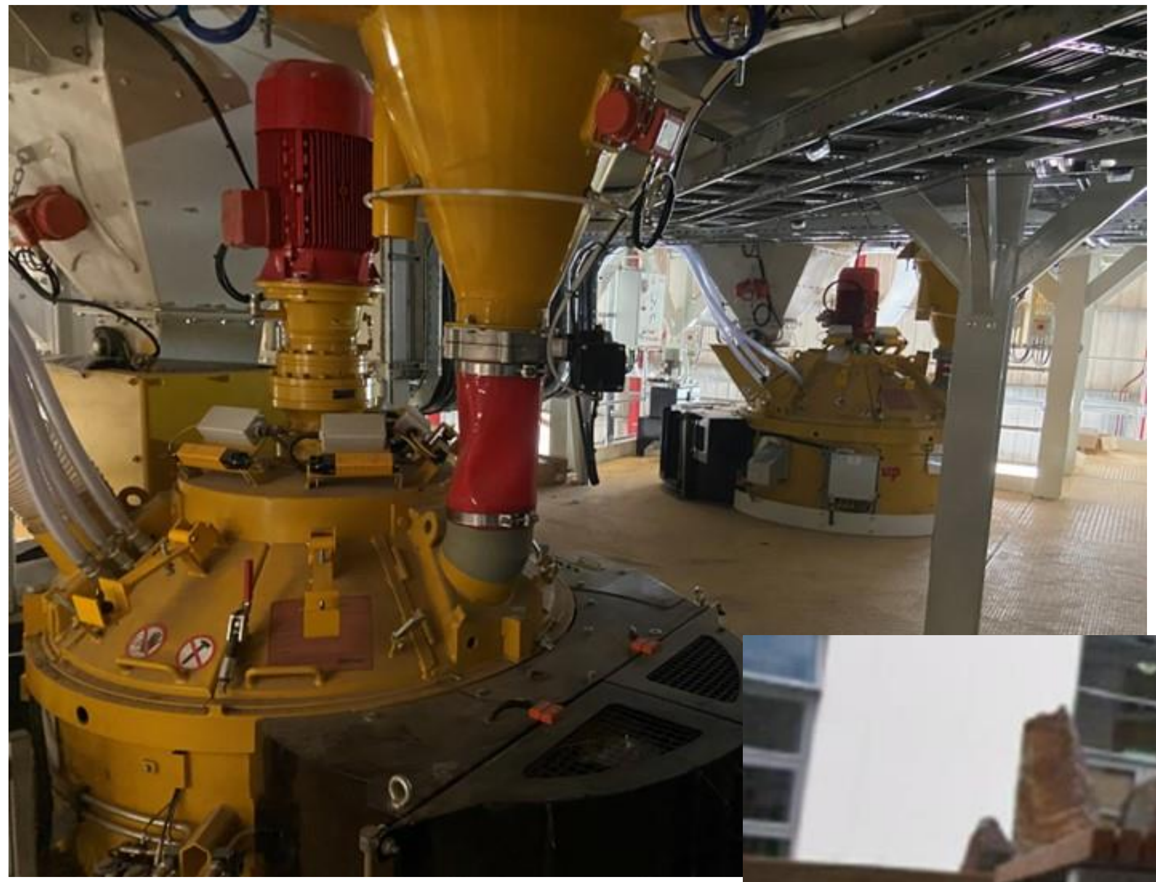
- Water utility companies proposed a £96 billion infrastructure investment through to 2030
- Additional investment of £1.6 billion in water quality and storm overflow discharges through to 2025
- Our drainage management and flood mitigation provide solutions to meet these challenges
- Full underground drainage range with the ability to design and supply wet cast tanks and attenuation systems for improved water storage

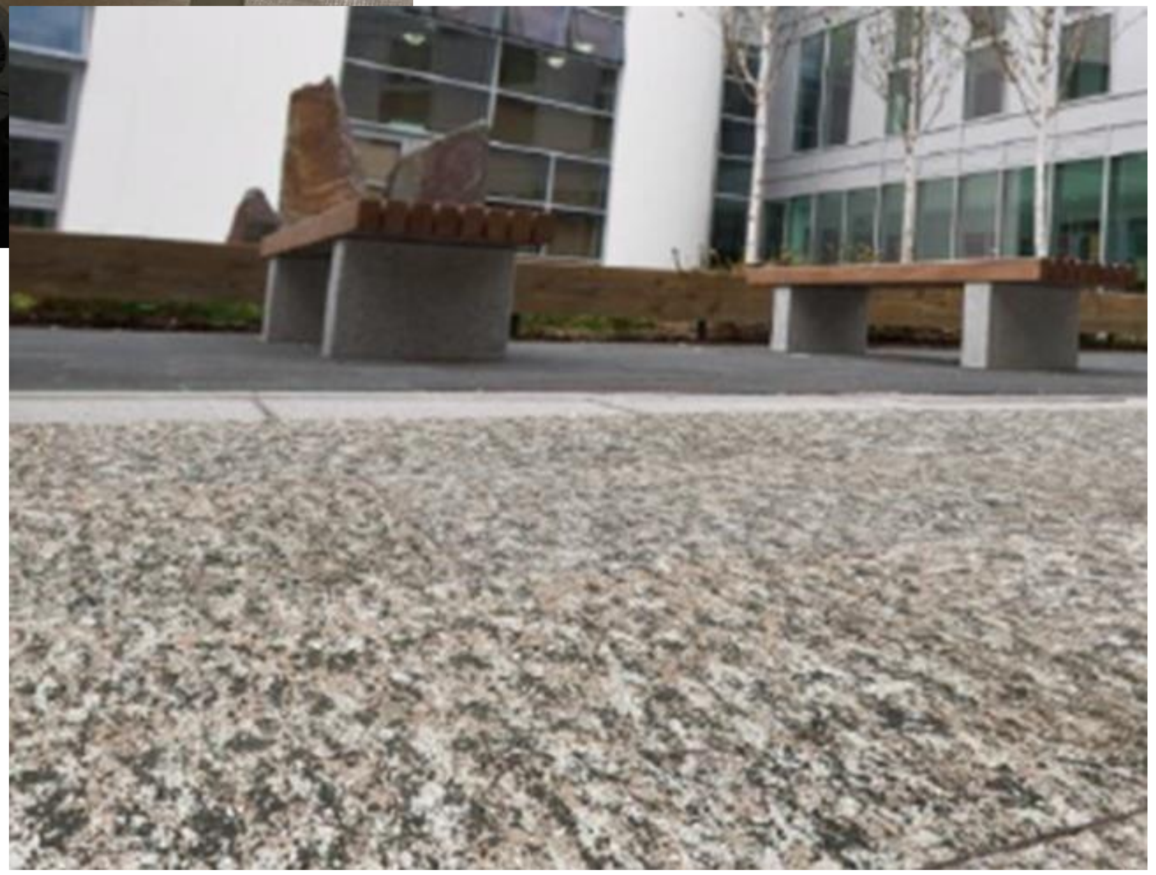


New product development in Landscape Products enhances our competitive advantage

Dual block plant unlocks innovative lower carbon paving ranges

- Marshalls' £25m investment in state-of-the-art facility is now operational
- Dual block plant technology improves operational efficiency and delivers real product differentiation
- New products with a natural granite appearance that have a lower carbon footprint than imported natural products

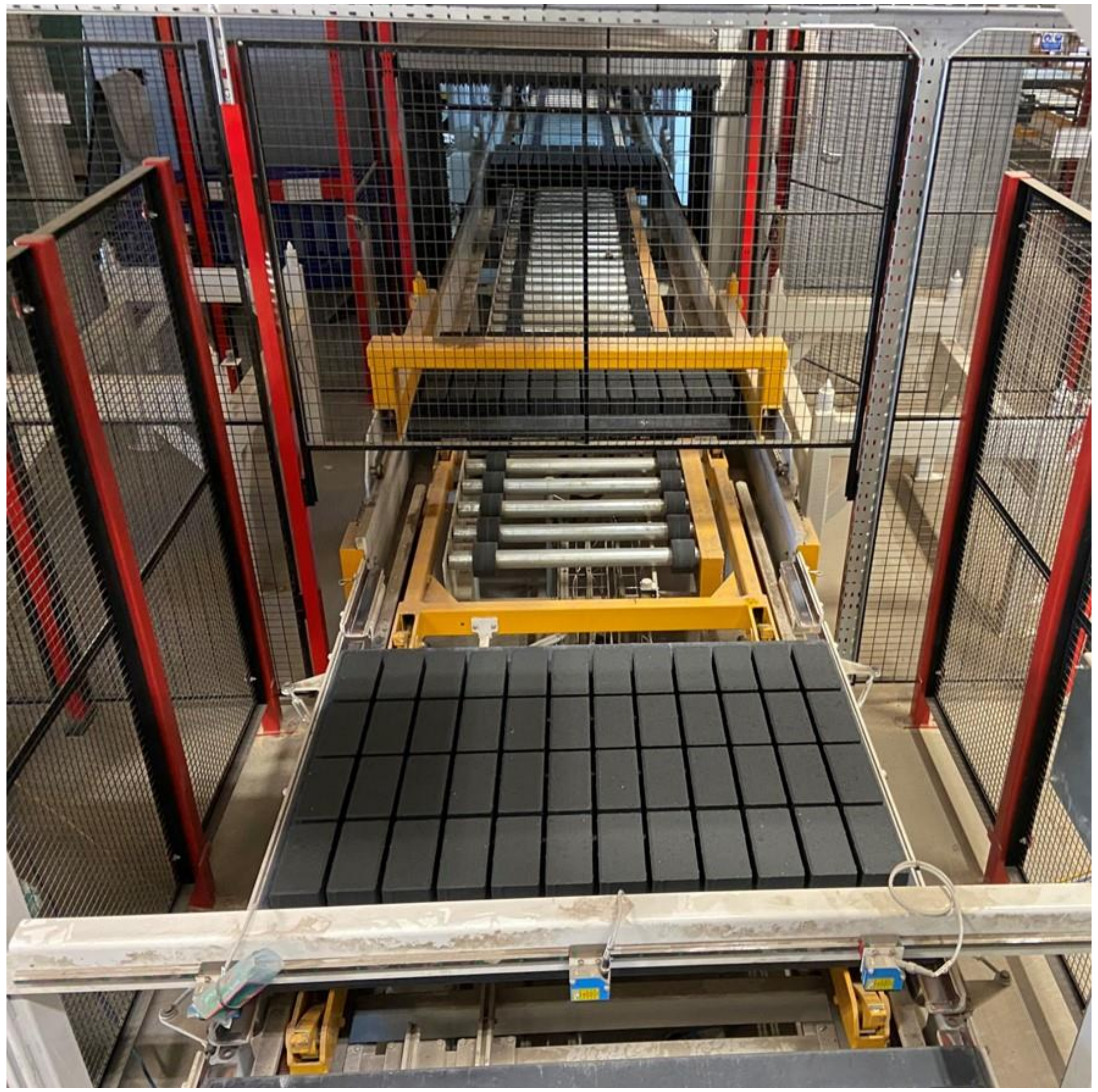




Group well positioned for when markets recover

Protecting medium-term capacity through the downturn

- 2023 sales volumes c.25 to 30 per cent below 2019
- Network capacity reduced through mothballing and can be quickly recommissioned
- Manufacturing network is more efficient and agile
- Capable of 30 per cent higher demand with limited increase in overhead or investment
- Supports improved drop through margins as market conditions improve
- Volume recovery has a significant positive impact on margins and profitability



Group well positioned for when markets recover

20 per cent recovery in sales volumes has potential to double PBT

- Market recovery and volume growth will drive stronger returns with improved operational leverage
- 10% volume growth delivers 200bps margin improvement and 50% growth in PBT
- 20% volume growth delivers 400bps margin improvement and PBT doubles

	2023	10% Growth	20% Growth
Revenue	£671M	£738M	£805M
Adjusted operating profit	£71M	£94M	£127M
Adjusted PBT	£53M	£77M	£110M
EPS - pence	16p	23p	33p
Operating margin	11%	13%	16%

Ingredients in place to drive significant shareholder returns

Our key strategic goals define our medium-term targets

Execution of strategic goals delivers sustainable profit growth

- Group growth ahead of the market as structural under-investment addressed
- Leverage strong sustainability credentials

Higher volumes and efficiency improvements drive margin recovery

- Group operating margin of c.15 per cent

Strong cash conversion

- Target of c.85-90% EBITDA converting to OCF

Capital discipline and financial flexibility

- Re-build ROCE to c.15 per cent
- Clear capital allocation priorities; 2x dividend cover

Summary and outlook

Marshalls

The Group is well positioned for outperformance in the medium-term

- Our near-term markets remain challenging
- Management actions taken in 2023 demonstrate a well-managed and agile business
- More diversified portfolio of products and solutions has increased the Group’s resilience in cyclical markets
- Clear opportunity to evolve the business, making the most of structural drivers and market trends
- Well positioned for outperformance in the medium term

Appendices

Results summary

Weak construction market results in reduced demand and contraction in profitability

	2023	2022	Change %
Revenue	**£671.2m**	£719.4m	(7%)
Adjusted results			
EBITDA	**£103.6m**	£136.0m	(24%)
Operating profit	**£70.7m**	£101.1m	(30%)
Profit before tax	**£53.3m**	£90.4m	(41%)
Basic EPS	**16.7p**	31.3p	(47%)
ROCE (%)	**8.4%**	13.3%	(4.9ppts)
Pre-IFRS16 net debt	**£172.9m**	£190.7m	9%
Statutory results			
Operating profit	**£41.0m**	£47.9m	(14%)
Profit before tax	**£22.2m**	£37.2m	(40%)
Basic EPS	**7.4p**	11.4p	(35%)

Note: Adjusted operating profit and adjusted PBT are stated after adding back adjusting items totaling £29.7 million and £31.1 million, respectively. See page 39 for details.

Adjusted profit before taxation and earnings per share

Bridge of reported result to adjusted result

£'m	**2023 Reported**	**2023 Adjusting**	**2023 Adjusted**	2022 Reported	2022 Adjusting	2022 Adjusted
Operating profit	**41.0**	**29.7**	**70.7**	47.9	53.2	101.1
Net finance costs	**(18.8)**	**1.4**	**(17.4)**	(10.7)	–	(10.7)
Profit before taxation	**22.2**	**31.1**	**53.3**	37.2	53.2	90.4
Taxation	**(3.8)**	**(7.4)**	**(11.2)**	(10.7)	(6.4)	(17.1)
Profit after taxation	**18.4**	**23.7**	**42.1**	26.5	46.8	73.3
Earnings per share – pence	**7.4p**	**9.3p**	**16.7p**	11.4p	19.9p	31.3p

Note: PBT stated after adding back adjusting items totaling £31.1 million; see page 39 for details

Adjusting items charged to profit before taxation

	2023 £'m	2022 £'m
1. Amortisation of acquired intangible assets	**10.4**	7.3
2. Impairment charges, restructuring and similar costs	**18.3**	13.0
3. Additional contingent consideration	**1.6**	3.9
4. Disposal of Marshalls NV	**(0.6)**	10.2
5. Transaction-related costs	**-**	14.9
6. Fair value adjustment to inventory	**-**	3.9
Total adjusting items within operating profit	**29.7**	53.2
7. Adjusting items within finance costs	**1.4**	-
Total adjusting items	**31.1**	**53.2**

Notes:
1. Amortisation of intangible assets arising on acquisitions
2. Impairment charges, restructuring and similar costs comprise asset impairment charges, redundancy costs, other site closure costs and similar expenses
3. Additional contingent consideration relates to the reassessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition of Viridian Solar Limited in 2021
4. Profit of sale of the Group's interest in its former Belgian subsidiary
5. Transaction costs comprise transaction and professional fees arising on the acquisition of Marley Group plc
6. The unwind of the inventory fair value adjustment relates to the fair value uplift of the inventory as part of the Marley acquisition that was subsequently sold
7. Non-cash finance charge arising from decision to augment pensioner benefits to avoid hardship following a review of historical benefit issues

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