Marshalls

Strong growth – positive trading outlook

Marshalls plc, the specialist Landscape Products group, announces its full year results for the year ended 31 December 2021.

Financial Highlights	Year ended 31 December 2021	Year ended 31 December 2020	change 2021/2020	Year ended 31 December 2019	change 2021/2019
Adjusted results (1) (2) (3)					
Revenue	£589.3m	£469.5m	26%	£541.8m	9%
Adjusted EBITDA	£107.1m	£57.6m	86%	£103.9m	3%
Adjusted operating profit	£76.2m	£27.2m	180%	£73.7m	3%
Adjusted profit before tax	£72.1m	£22.5m	221%	£69.9m	3%
Adjusted basic EPS	28.6p	8.6p	233%	29.4p	
Adjusted ROCE	20.6%	8.2%		21.4%	
Net debt	£41.1m	£75.6m		£60.0m	
Statutory results (2)					
EBITDA	£107.1m	£45.3m		£103.9m	
Operating profit	£76.2m	£9.4m		£73.7m	
Profit before tax	£69.3m	£4.7m		£69.9m	
Basic EPS	27.5p	1.2p		29.4p	
Proposed final dividend	9.6p	4.3p		-	
Total ordinary dividend for the year	14.3p	4.3p		4.7p	

Financial highlights

- Record sales and adjusted profitability, reflecting the sustained heightened demand post COVID-19
- Full year revenue of £589.3 million, an increase of 26% on 2020 and 9% on 2019
- Adjusted EBITDA of £107.1 million, an increase of 86% on 2020 and 3% on 2019
- Adjusted profit before tax up 3% against 2019 at £72.1 million (up 221% on 2020)
- Profit before tax on a statutory basis was £69.3 million (2020: £4.7 million; 2019: £69.9 million)
- Net debt of £41.1 million (2020: £75.6 million). Pre-IFRS 16 net positive cash of £0.1 million
- Strong balance sheet, with a flexible capital structure and a clear capital allocation policy
- Recovery in adjusted ROCE to 20.6 per cent (2020: 8.2%; 2019: 21.4%)
- Proposed final dividend of 9.6 pence giving rise to a total dividend for the year of 14.3 pence
- Continued momentum in trading during the first two months of 2022 – healthy order books underpinning management confidence
- The Board's expectations for the current year are now ahead of its previous view

Operational highlights

- Continued focus on customer service and satisfying increased demand
- Proactive supply chain management to mitigate raw material shortages and cost inflation
- Focus on flexibility within manufacturing and logistics and short-term labour availability
- Sustained emphasis on growth opportunities arising from ESG leadership
- Capital investment of around £35 million planned for 2022 – construction at St Ives on track
- Priority given to health and safety

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

"Trading remains strong and has continued to improve since the start of the year, notwithstanding ongoing supply chain challenges. At the end of February revenues were up 13 per cent and order volumes up 5 per cent compared to the same period in 2021. Despite the terrible situation in Ukraine and the current geo-geopolitical uncertainties that prevail, the outlook for the construction market remains positive. This continues to be supported by strong forward indicators, particularly in our target markets in New Build Housing, Road, Rail and Water Management.

Our strong market positions, focused investment plans and established brand underpin the Group's Business Strategy. We remain confident that our strategy will continue to deliver profitable long-term growth and that we will be able to mitigate raw material shortages and cost inflation through the effective management of our supply chain.

Given the strength of recent and current trading the Board's expectations for the current year are now ahead of its previous view."

There will be a video webcast for analysts and investors today at 09:00am. The presentation will be available for analysts and investors who are unable to view the webcast live and can be viewed on Marshalls' website at www.marshalls.co.uk. Users can register to access the webcast using the following link: https://webcasting.brrmedia.co.uk/broadcast/61e7db357eb59509ae2fb669. There will also be a telephone dial in facility available Tel: +44 (0)330 336 9601- Access Code: 8226602.

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014), as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

Notes:
1. Alternative performance measures are used consistently throughout this Preliminary Announcement. These relate to EBITA, EBITDA, return on capital employed ("ROCE"), net debt and results before adjusting items. Following the transition to IFRS 16, reference has been made to "pre-IFRS 16" and "reported basis," the latter referring to amounts required under IFRS 16. For further details of their purpose, definition and reconciliation to the equivalent statutory measures, see Note 2.
2. In order to provide a more relevant performance commentary, comparison in this statement has been made to the corresponding period for both 2020 and 2019, the latter considered to represent a more meaningful pre-COVID-19 baseline for performance comparison.
3. The results for the year ended 31 December 2021 have been disclosed before adjusting items. These are set out in Note 4.

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Group results

Market conditions have remained supportive over the last year, notwithstanding increasingly challenging supply chain pressures. The Group has performed well and delivered a record trading performance, despite experiencing issues with both raw material and labour shortages. These operational challenges have given rise to significant raw material cost inflation, additional overtime costs to cover COVID-19 related absenteeism and some customer project delays. Nevertheless, demand for our products has remained strong, and cost increases were recovered through a mid-year price increase and a further price increase was implemented successfully in January 2022. We have strong supplier relationships, and our centralised procurement team is actively managing our supply chain to create flexibility and reduce risk. Trading in the first two months of 2022 has continued to be positive with revenue growth of 13 per cent and the order books remain strong.

We have continued to prioritise health and safety, and we are committed to taking the safety and wellbeing of our employees and other stakeholders to the highest possible level. We have maintained robust health and safety procedures throughout our manufacturing, logistics and office-based operations. In 2021, we launched our Health and Employee Wellbeing Strategy and in 2022 we will be introducing a new mental health and wellbeing programme. Our goal is to recognise employee ill-health as early as possible and to provide the best support that we can. Our dedicated, external confidential Employee Assistance Helpline, has actively supported colleagues who have been working from home.

Group revenue for the year ended 31 December 2021 was £589.3 million (2020: £469.5 million; 2019: £541.8 million), which is 26 per cent ahead of the 2020 comparative and 9 per cent ahead of the same period in 2019. Revenue growth in the second half of the year was increasingly strong and was 11 per cent ahead of the comparative figures for 2019.

Revenue in the Domestic end market, which represented approximately 28 per cent of Group sales, was £167.0 million. This represents an increase of 30 per cent compared with the prior year, and is up 18 per cent compared with the same period in 2019. The survey of Marshalls' register of approved installers at the end of February 2022 revealed order books of 17.4 weeks (2021:19.4 weeks) which compared with 16.7 weeks at the end of October 2021 and remains at historically high levels. The Private Housing "repair, maintenance and improvement" trend continues to be strong and is the main driver in the UK Domestic end market. There remains strong demand for DIY projects, with customers spending more time at home and investing in home and garden improvements. This demand is underpinned by the unusually high level of household savings accumulated during the pandemic.

Revenue in the Public Sector and Commercial end market was £389.1 million and 66 per cent of Group revenue. This represents an increase of 26 per cent compared with the prior year, and is up 4 per cent compared with the same period in 2019. The comparison with 2019 was 6 per cent after adjusting for the impact on sales caused by the planned reduction in Marshalls Mortars and Screed sites in the first half of 2020. The Group continues to focus on those market areas where future demand is expected to be greatest, including New Build Housing, Road, Rail and Water Management. Infrastructure is also expected to be a key element of medium-term construction growth. The ABI lead indicator supports a strong outlook for commercial contract work in 2022.

Revenue in the International business, which includes Marshalls NV in Belgium, was up 6 per cent compared with the prior period and 23 per cent compared with 2019. International revenue represented 6 per cent of Group sales in the period. The Group continues to develop its international supply chains to ensure that they remain sustainable and aligned with market risks and opportunities. Freight costs from overseas have been particularly challenging, with the cost of container transport increasing significantly in the last year. The breadth of our operations is a strength and we continue to be able to balance the demand for imported stone with quality materials from our UK-based quarries.

Adjusted EBITDA was £107.1 million (2020: £57.6 million; 2019: £103.9 million). The Group's adjusted operating profit was £76.2 million (2020: £27.2 million; 2019: £73.7 million) and was 3 per cent ahead of the 2019 comparative. The operating profit margin of 12.9 per cent for the year ended 31 December 2021 (2020: 5.8 per cent; 2019: 13.6 per cent) has been adversely impacted by the temporary effect of supply chain issues and by increased levels of overtime required as a consequence of labour shortages and absenteeism during COVID-19.

The reported operating profit for the year ended 31 December 2021 is after a number of adjusting items, the net impact of which is not material. These items comprise a net profit on the sale of a surplus site at Ryton which is largely offset by adjusting charges totalling £8.8 million. The adjusting items are set out in Note 4.

Net financial expenses were £6.9 million (2020: £4.7 million; 2019: £3.8 million), including £1.9 million (2020: £1.6 million) of IFRS 16 lease interest. However, this is after making a charge to recognise an additional pension liability of £2.8 million in accordance with the requirements of IAS19. Details of this non-cash adjustment are set out at Note 4.

Adjusted profit before tax was £72.1 million (2020: £22.5 million; 2019: £69.9 million). Statutory profit before tax was £2.8 million lower than the adjusted result at £69.3 million reflecting the additional pension interest charge of £2.8 million (2020: £4.7 million; 2019: £69.9 million).

The adjusted effective tax rate was 20.8 per cent (2020: 23.1 per cent). The 2021 Budget announced that the UK corporation tax rate would increase to 25 per cent from 2023, and this rate change was substantively enacted on 10 June 2021. Consequently, the deferred tax liability at 31 December 2021 has been calculated at the rate at which the deferred tax is expected to unwind in the future, using rates enacted at the balance sheet date. This rate change has given rise to an increase in the deferred tax charge of £4.9 million. The impact of this on the tax charge has been partially mitigated by the temporary increases in capital allowances in the year arising from the announcement of a 130 per cent first year allowance for plant and machinery and the reversal of certain tax provisions made in prior years which are no longer required.

Earnings per share for the year, was 27.5 pence (2020: 1.2 pence), which increases to 28.6 pence on an adjusted basis after adding back the impact of the pension interest adjustment.

Capital discipline remains a key priority, and the Group's strong cash generation continued during the year which contributed to a significant reduction in Group net debt. Due to the supply chain challenges and raw material shortages experienced, we increased our investment in inventory driven by higher shipping costs on imported product lines and our desire to maintain availability and customer service. Inventory at 31 December 2021 was £107.4 million (2020: £89.8 million; 2019: £89.2 million).

Operational initiatives

During the year ended 31 December 2021, capital expenditure totalled £21.9 million, which was lower than the £30 million originally planned for 2021. Supply chain issues experienced during the year have led to delays in some of our capital expenditure projects. We continue to generate a good pipeline of capital investment projects that will drive future organic growth, and we are now planning for capital investment of around £35 million in 2022.

The construction of our flagship dual block plant at our St Ives site is progressing in line with plan. The overall 3-year investment will be around £24 million and will incorporate the latest advanced technologies. It will be the first facility of its kind in the UK, and the project will significantly increase capacity, improve efficiency, enable multiple secondary finishing and facilitate the launch of new products.

There continues to be a focus on innovation and new product development across all parts of the Group. The development pipeline is strong, and the Group is committed to providing sustainable, high-performance product solutions. Investment is being driven by our sustainability agenda and by anticipating future trends. Two examples are our new facing concrete bricks which have a significantly lower embedded carbon footprint and new granite choices which have lower Ethical Risk Index scores.

Marshalls 5 year Strategy and ESG agenda

Our overall strategy continues to focus on the maintenance of a strong balance sheet, a flexible capital structure and a clear capital allocation policy. The Group's strong ESG agenda is fully integrated into our business operations and our eight strategic growth pillars. For example, our ability to deliver our own products to our customers is a key part of our service proposition and sits within our Logistics Excellence strategic growth pillar. We continue to invest in our own fleet, supplemented by third party logistics contractors, and we aim to maximise the benefits of new technology and reduce vehicle carbon emissions. We believe that our ESG strategy continues to generate opportunities which, going forward, will be a source of significant competitive advantage.

COP 26 reminded us all how companies need to adapt to mitigate climate change. Marshalls began its sustainability journey over 20 years ago and we have worked hard to reduce our carbon footprint throughout this period. Since 2008 the Group has reduced its footprint by 50 per cent and we are on target to make a further 50 per cent reduction by 2030, in line with our commitment to net zero emissions by this date.

Our commitment is to reduce scope 1 and 2 greenhouse gas emissions by 40 per cent per tonne of production by 2030 from a 2018 base year. For scope 3, we have also committed that 73 per cent of our suppliers by emissions, covering purchase goods and services and upstream transport and distribution, will have science-based targets by 2024. Our emission reduction targets have been approved by the Science Based Targets initiative as consistent with levels required to meet this net-zero commitment. We were the first company in our sector to achieve this accreditation and we have a published roadmap to support these targets. We continue to make and plan operational changes, with a focus on our fleet using lower emission fuels and installing solar panels across our manufacturing sites. In 2021 we installed solar panels at our Sittingbourne site in Kent and all our major manufacturing sites have now had solar energy assessments. Our new dual block plant at St Ives has been designed to be compatible with solar energy supply, with the aim of using solar power for all forklift trucks and electric car charging points.

We continue to take the lead in supporting and upholding human rights, at home and overseas in our supply chain. We aim to ensure that all our products and services are ethically sourced and sustainable.

We joined the Ethical Trading Initiative in 2006 and continue to support the UN Global Compact sustainable development goals. Marshalls has again been awarded the Fair Tax Mark accreditation. This recognises social responsibility and transparency in our tax affairs.

Balance Sheet and net debt

Net assets at 31 December 2021 were £344.3 million (2020: £287.8 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 £41.1 million at 31 December 2021 (2020: £75.6 million; 2019: £60.0 million). On a pre-IFRS 16 basis, the Group was cash positive at 31 December 2021 at £0.1 million (2020: £26.9 million net debt; 2019: £18.7 million net debt). The strong cash generation reflects the continuing focus given to capital discipline. Operating cash flow for the twelve months to 31 December 2021 represented 80 per cent of EBITDA. This is lower than usual due to the operating decision to increase investment in imported inventory as a result of significant increases in shipping costs to ensure ongoing availability and maintain the desired high levels of customer service.

The balance sheet value of the Group's defined benefit Pension Scheme was a surplus of £25.8 million (2020: £2.7 million; 2019: £15.7 million). The amount has been determined by the Scheme's pension adviser. The fair value of the Scheme assets at 31 December 2021 was £392.1 million (2020: £402.7 million; 2019: £368.9 million) and the present value of the Scheme liabilities is £366.3 million (2020: £400.0 million; 2019 £353.1 million).

Dividend

The Group maintains a progressive dividend policy of two times dividend cover over the business cycle. The aim of this policy is to increase returns for shareholders whilst at the same time recognising an appropriate degree of caution and stewardship.

The Board is now proposing a final dividend of 9.6 pence which, when combined with the interim dividend of 4.7 pence, gives rise to a total dividend for the year of 14.3 pence. This compares with adjusted earnings per share of 28.6 pence for the year ending 31 December 2021 and represents two times cover.

Outlook

Trading remains strong and has continued to improve since the start of the year, notwithstanding ongoing supply chain challenges. At the end of February revenues were up 13 per cent and order volumes up 5 per cent compared to the same period in 2021. Despite the terrible situation in Ukraine and the current geo-political uncertainties that prevail, the outlook for the construction market remains positive. This continues to be supported by strong forward indicators, particularly in our target markets in New Build Housing, Road, Rail and water Management.

Our strong market positions, focused investment plans and established brand underpin the Group's Business Strategy. We remain confident that our strategy will continue to deliver profitable long-term growth and that we will be able to mitigate raw material shortages and cost inflation through the effective management of our supply chain.

Given the strength of recent and current trading the Board's expectations for the current year are now ahead of its previous view.

Martyn Coffey
Chief Executive

Marshalls plc

Preliminary Announcement of Results

Consolidated Income Statement

For the year ended 31 December 2021

	Notes	**Year ended 2021 £'000**	Year ended 2020 £'000
Revenue	2	**589,264**	469,454
Net operating costs	3	**(513,041)**	(460,081)
Operating profit	2	**76,223**	9,373
Financial expenses	5	**(6,903)**	(4,730)
Financial income	5	**2**	10
Profit before tax	2	**69,322**	4,653
Income tax expense	6	**(14,424)**	(2,095)
Profit for the financial year		**54,898**	2,558
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**54,806**	2,370
Non-controlling interests		**92**	188
		54,898	2,558
Earnings per share			
Basic	7	**27.5p**	1.2p
Diluted	7	**27.4p**	1.2p
Dividend			
Pence per share	8	**14.3p**	4.3p
Dividends declared	8	**28,484**	8,562

Profit before adjusting items			
Profit before tax (reported)		**69,322**	4,653
Adjusting items	4	**2,748**	17,809
Profit before tax (before adjusting items)		**72,070**	22,462
Profit for the financial year (reported)		**54,898**	2,558
Adjusting items (net of tax)	4	**2,142**	14,708
Profit after tax (before adjusting items)		**57,040**	17,266
Earnings per share before adjusting items			
Basic	7	**28.6p**	8.6p
Diluted	7	**28.4p**	8.5p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Notes	**2021 £'000**	2020 £'000
Profit for the financial year before adjusting items		**57,040**	17,266
Adjusting items	4	**(2,142)**	(14,708)
Profit for the financial year		**54,898**	2,558
Other comprehensive income/(expense)			
Items that will not be reclassified to the Income Statement:			
Remeasurements of the net defined benefit surplus		**26,383**	(12,741)
Deferred tax arising		**(6,600)**	2,421
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain/(loss)		**17**	(314)
Total items that will not be reclassified to the Income Statement		**19,800**	(10,634)
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		**1,403**	(1,526)
Fair value of cash flow hedges transferred to the Income Statement		**(922)**	1,238
Deferred tax arising		**36**	42
Exchange difference on retranslation of foreign currency net investment		**(232)**	922
Exchange movements associated with borrowings designated as a hedge against net investment		**640**	(1,117)
Foreign currency translation differences – non-controlling interests		**(55)**	39
Total items that are or may be reclassified to the Income Statement		**870**	(402)
Other comprehensive income/(expense) for the year, net of income tax		**20,670**	(11,036)
Total comprehensive income/(expense) for the year		**75,568**	(8,478)
Attributable to:			
Equity shareholders of the Parent		**75,531**	(8,705)
Non-controlling interests		**37**	227
		75,568	(8,478)

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Preliminary Announcement of Results

Consolidated Balance Sheet

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment		**173,931**	179,401
Right-of-use assets		**36,445**	44,990
Intangible assets		**95,004**	94,679
Employee benefits	11	**25,757**	2,726
Deferred taxation assets		**1,605**	2,620
		332,742	324,416
Current assets			
Inventories		**107,436**	89,782
Trade and other receivables		**111,909**	95,742
Cash and cash equivalents		**41,212**	103,707
Assets classified as held for sale		**1,860**	450
Derivative financial instruments		**813**	332
		263,230	290,013
Total assets		**595,972**	614,429
Liabilities			
Current liabilities			
Trade and other payables		**138,218**	119,816
Corporation tax		**2,198**	7,277
Lease liabilities	9	**8,545**	10,065
Interest-bearing loans and borrowings	10	**1,673**	20,000
		150,634	157,158
Non-current liabilities			
Lease liabilities	9	**32,776**	38,926
Interest-bearing loans and borrowings	10	**39,341**	110,282
Provisions		**839**	3,149
Deferred taxation liabilities		**28,065**	17,066
		101,021	169,423
Total liabilities		**251,655**	326,581
Net assets		**344,317**	287,848
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital		**50,013**	50,013
Share premium account		**24,482**	24,482
Own shares		**(646)**	(806)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**830**	313
Foreign exchange reserve		**47**	(361)
Retained earnings		**406,277**	350,930
Equity attributable to equity shareholders of the Parent		**343,330**	286,898
Non-controlling interests		**987**	950
Total equity		**344,317**	287,848

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Preliminary Announcement of Results

Consolidated Cash Flow Statement

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit before adjusting items		**57,040**	17,266
Adjusting items		**(2,142)**	(14,708)
Profit for the financial year		**54,898**	2,558
Income tax expense on continuing operations	6	**15,030**	5,196
Income tax credit on adjusting items	6	**(606)**	(3,101)
Profit before tax		**69,322**	4,653
Adjustments for:			
Depreciation of property, plant and equipment		**16,423**	15,657
Asset impairments		**233**	5,489
Depreciation of right-of-use assets		**11,315**	12,060
Amortisation		**3,178**	2,719
Gain on sale of property, plant and equipment		**(9,194)**	(1,103)
Equity settled share-based payments		**2,303**	2,998
Financial income and expenses (net)	5	**6,901**	4,720
Operating cash flow before changes in working capital		**100,481**	47,193
Increase in trade and other receivables		**(16,696)**	(26,031)
Increase in inventories		**(18,108)**	(180)
Increase in trade and other payables		**19,740**	7,442
Adjusting items		**(2,820)**	(6,946)
Cash generated from operations		**82,597**	21,478
Financial expenses paid		**(3,534)**	(4,475)
Income tax paid		**(13,527)**	(4,631)
Net cash flow from operating activities		**65,536**	12,372
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**14,892**	11,450
Financial income received		**2**	10
Acquisition of property, plant and equipment		**(19,037)**	(13,158)
Acquisition of intangible assets		**(2,885)**	(1,599)
Net cash flow from investing activities		**(7,028)**	(3,297)
Cash flows from financing activities			
Payments to acquire own shares		**(3,567)**	(2,705)
Repayment of borrowings		**(121,286)**	(10,009)
New loans		**32,658**	67,900
Cash payment for the principal portion of lease liabilities		**(10,828)**	(13,780)
Equity dividends paid		**(17,924)**	-
Net cash flow from financing activities		**(120,947)**	41,406
Net (decrease) / increase in cash and cash equivalents		**(62,439)**	50,481
Cash and cash equivalents at the beginning of the year		**103,707**	53,258
Effect of exchange rate fluctuations		**(56)**	(32)
Cash and cash equivalents at the end of the year		**41,212**	103,707

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Preliminary Announcement of Results

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year											
At 1 January 2021	50,013	24,482	(806)	75,394	(213,067)	313	(361)	350,930	286,898	950	287,848
Total comprehensive income/(expense) for the year											
Profit for the financial year attributable to equity shareholders of the Parent	-	-	-	-	-	-	-	54,806	54,806	92	54,898
Other comprehensive income/(expense)											
Foreign currency translation differences	-	-	-	-	-	-	408	-	408	(55)	353
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	1,403	-	-	1,403	-	1,403
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	(922)	-	-	(922)	-	(922)
Deferred tax arising	-	-	-	-	-	36	-	-	36	-	36
Defined benefit plan actuarial gain	-	-	-	-	-	-	-	26,383	26,383	-	26,383
Deferred tax arising	-	-	-	-	-	-	-	(6,600)	(6,600)	-	(6,600)
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain	-	-	-	-	-	-	-	17	17	-	17
Total other comprehensive income/(expense)	-	-	-	-	-	517	408	19,800	20,725	(55)	20,670
Total comprehensive income/(expense) for the year	-	-	-	-	-	517	408	74,606	75,531	37	75,568
Share-based payments	-	-	-	-	-	-	-	2,303	2,303	-	2,303
Deferred tax on share-based payments	-	-	-	-	-	-	-	(256)	(256)	-	(256)
Corporation tax on share-based payments	-	-	-	-	-	-	-	345	345	-	345
Dividends to equity shareholders	-	-	-	-	-	-	-	(17,924)	(17,924)	-	(17,924)
Purchase of own shares	-	-	(3,567)	-	-	-	-	-	(3,567)	-	(3,567)
Disposal of own shares	-	-	3,727	-	-	-	-	(3,727)	-	-	-
Total contributions by and distributions to owners	-	-	160	-	-	-	-	(19,259)	(19,099)	-	(19,099)
Total transactions with owners of the Company	-	-	160	-	-	517	408	55,347	56,432	37	56,469
At 31 December 2021	50,013	24,482	(646)	75,394	(213,067)	830	47	406,277	343,330	987	344,317

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Preliminary Announcement of Results

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Prior year											
At 1 January 2020	50,013	24,482	(1,391)	75,394	(213,067)	559	(166)	359,219	295,043	723	295,766
Total comprehensive (expense)/ income for the year											
Profit for the financial year attributable to equity shareholders of the Parent	-	-	-	-	-	-	-	2,370	2,370	188	2,558
Other comprehensive (expense)/income											
Foreign currency translation differences	-	-	-	-	-	-	(195)	-	(195)	39	(156)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(1,526)	-	-	(1,526)	-	(1,526)
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	1,238	-	-	1,238	-	1,238
Deferred tax arising	-	-	-	-	-	42	-	-	42	-	42
Defined benefit plan actuarial loss	-	-	-	-	-	-	-	(12,741)	(12,741)	-	(12,741)
Deferred tax arising	-	-	-	-	-	-	-	2,421	2,421	-	2,421
Impact of the change in rate of deferred tax on defined benefit plan actuarial loss	-	-	-	-	-	-	-	(314)	(314)	-	(314)
Total other comprehensive (expense)/income	-	-	-	-	-	(246)	(195)	(10,634)	(11,075)	39	(11,036)
Total comprehensive (expense)/income for the year	-	-	-	-	-	(246)	(195)	(8,264)	(8,705)	227	(8,478)
Share-based payments	-	-	-	-	-	-	-	2,998	2,998	-	2,998
Deferred tax on share-based payments	-	-	-	-	-	-	-	(104)	(104)	-	(104)
Corporation tax on share-based payments	-	-	-	-	-	-	-	371	371	-	371
Purchase of own shares	-	-	(2,705)	-	-	-	-	-	(2,705)	-	(2,705)
Disposal of own shares	-	-	3,290	-	-	-	-	(3,290)	-	-	-
Total contributions by and distributions to owners	-	-	585	-	-	-	-	(25)	560	-	560
Total transactions with owners of the Company	-	-	585	-	-	(246)	(195)	(8,289)	(8,145)	227	(7,918)
At 31 December 2020	50,013	24,482	(806)	75,394	(213,067)	313	(361)	350,930	286,898	950	287,848

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") this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full Consolidated Financial Statements in April 2022.

The Financial Information set out in this Preliminary Announcement does not constitute the Company's Consolidated Financial Statements for the years ended 31 December 2021 or 2020, but is derived from those Financial Statements. Statutory Financial Statements for 2020 have been delivered to the Registrar of Companies and those for 2021 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 2021 or 2020.

The Consolidated Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the International Accounting Standards Board. 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.

Details of the Group's funding position are set out in Note 12. The additional short-term bank facilities of £90 million established in May 2020 were not utilised and have now reached maturity. In addition, the COVID Corporate Financing Facility ("CCFF") that was put in place at the same time was also not required and expired in 2021. Bank facilities have returned to pre COVID-19 levels and total £165 million, of which £140 million are committed. On 13 August 2021, the Group entered into a new £20 million revolving credit facility with HSBC and the Group renewed its on-demand, short-term working capital facilities of £25 million with NatWest.

Amendment agreements were entered into with all partner banks prior to the cessation of LIBOR at the end of 2021. The Group's committed bank facilities are all revolving credit facilities with interest now charged at variable rates based on SONIA. 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 are structured to provided balanced, committed and phased medium-term debt. The Group has significant headroom of £114 million at 31 December 2021 against its bank facilities.

In assessing the appropriateness of adopting the going concern basis in the Consolidated Financial Statements, the Board reviewed a range of severe downside scenarios to stress test the potential impact of emerging and longer term risks. The latest stress tests reviewed by the Board in relation to the completion of these Consolidated Financial Statements assumed a further sales revenue sensitivity of 20 per cent over each of the next two years, cumulatively 60 per cent against 2021 revenue. None of the stress tests applied impact the Directors' opinion that there are sufficient unutilised facilities held which mature after twelve months.

The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. However, the potential impact of wider political and economic uncertainties has been considered, including issues or delays as a consequence of continuing issues relating to the availability of raw materials and labour and the potential impact of cost inflation that could lead to a reduction in consumer confidence and a slowdown in the UK economy. The financial impact of climate change risk continues to be assessed along with market changes driven by advances in technology. Based on current expectations the Group's latest cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom that is not dependent on facility renewals. At 31 December 2021, on a covenant test basis (pre-IFRS 16), the relevant ratios were comfortably achieved and were as follows:

- EBITA: interest charge – 54.4 times (covenant test requirement – to be greater than 2.5 times).
- Net debt: EBITDA – 0 times (covenant test requirement – to be less than 3.0 times).

In performing an assessment of the Group's going concern, the Directors have considered the group's capital allocation policy and priorities for capital and the possible future cash requirements arising from each of these priorities for capital.

After considering these capital allocation priorities and the risks associated with relevant uncertainties (including the impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, the risk of further COVID-19 uncertainty and continuing macro-economic factors and inflation), the Directors believe that the Group is well placed to manage its business risks successfully. The Board considers that the facilities now available to the Group are sufficient to meet significant downside liquidity scenarios over a prolonged period and that there are sufficient unutilised facilities held which mature after twelve months. Accordingly, the Directors 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 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.

Adoption of new standards in 2021
The Group adopted 'Interest Rate Benchmark Reform – Phase II – Amendments to IFRS 9 'Financial instruments', IFRS 16 'Leases' and other IFRSs with effect from 1 January 2021. The Group has also followed the IFRIC Interpretations Committee's

guidance published in April 2021 on the Capitalisation of costs of configuring or customising application software under “Software as a Service” (‘SaaS’) arrangements.

Other than items in respect of additional disclosure in relation to adjusting items, including for the year ended 31 December 2020, “operational restructuring costs and asset impairments”, 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). Adjusting items have been disclosed separately because of their size, nature or incidence to enable a full understanding of the Group’s underlying results.

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the consolidated financial statements.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning 1 January 2021 and are not expected to have a material impact on the Group. These standards have not been applied in these financial statements, and were pending endorsement by the UK Educational Board:

- IFRS 10 (amended) “*Consolidated Financial Statements*” and IAS 28 (amended) “*Investments in Associates and Joint Ventures (2011)*”, effective date deferred indefinitely;
- IFRS 17 “Insurance Contracts”, effective from 1 January 2023;
- IAS 1(amended) – *“Classification of Liabilities as Current or Non-current”,* effective from 1 January 2023;
- IAS 1(amended) – *“Disclosure of Accounting Policies”,* effective from 1 January 2023;
- IAS 8 (amended) – *“Definition of Accounting Estimates”,* effective from 1 January 2023;
- IFRS 16 (amended) – *“Property, Plant and Equipment – Proceeds before Intended Use”,* effective from 1 January 2022;
- IFRS 37 – *“Onerous Contracts – Cost of Fulfilling a Contract”,* effective from 1 January 2022;
- IFRS 3 – *“Reference to the Conceptual Framework”,* effective from 1 January 2022;
- Annual Improvements 2018 – 2020 cycle, effective from 1 January 2022; and
- IAS 12 (amended) – *“Income Taxes – Assets and Liabilities arising from a Single Transaction”,* effective from 1 January 2023.

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.

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 additional comparative information.

Adjusting items

Adjusting items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group’s underlying results.

For the year ended 31 December 2021, adjusting items include the disposal of the Group’s site at Ryton, significant asset impairments, the costs of closing the site at Stoke and exiting the manufacture of cast stone and the special “thank you” bonus paid to employees in recognition of their contributions during the COVID-19 pandemic. Adjusting items in 2021 also included an accounting charge relating to additional consideration for the acquisition of CPM and a non-cash finance charge resulting from the receipt of a Counsel legal opinion in relation to certain historic pension issues. Further details have been disclosed in Note 4.

For the year ended 31 December 2020, adjusting items comprise items previously disclosed separately under the heading of “operational restructuring costs and asset impairments.” Further details have been included in Note 4.

Profit before adjusting items

	2021 £'000	2020 £'000
Profit before tax (reported)	**69,322**	4,653
Adjusting items (Note 4)	**2,748**	17,809
Profit before tax (before adjusting items)	**72,070**	22,462
Profit for the financial year (reported)	**54,898**	2,558
Adjusting items (net of tax) (Note 4)	**2,142**	14,708
Profit after tax (before adjusting items)	**57,040**	17,266
Earnings per share before adjusting items		
Basic (pence)	**28.6p**	8.6p
Diluted (pence)	**28.4p**	8.5p

Pre-IFRS 16 basis

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 to provide additional information and a more detailed understanding of the Group results. Certain financial information, on both a reported basis and on a pre-IFRS 16 basis, is set out below. Both are disclosed before adjusting items.

	Pre-IFRS 16 December 2021	Impact of IFRS 16	Post-IFRS 16 December 2021	Pre-IFRS 16 December 2020	Impact of IFRS 16	Post-IFRS 16 December 2020
EBITDA (£'000)	**96,246**	**10,828**	**107,074**	43,838	13,780	57,618
EPS (pence)	**29.8**	**(1.2)**	**28.6**	8.5	0.1	8.6
Net (cash)/debt (£'000)	**(75)**	**41,198**	**41,123**	26,945	48,621	75,566
ROCE (%)	**22.9**	**(2.3)**	**20.6**	8.9	(0.7)	8.2
Net debt: EBITDA	**-**	**0.4**	**0.4**	0.6	0.7	1.3
Gearing (%)	**-**	**11.9**	**11.9**	9.3	17.0	26.3

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. Both EBITA and EBITDA are disclosed before adjusting items.

	Pre-IFRS 16 2021 £'000	Post-IFRS 16 2021 £'000	Pre-IFRS 16 2020 £'000	Post-IFRS 16 2020 £'000
EBITDA	**96,246**	**107,074**	43,838	57,618
Depreciation	**(16,423)**	**(27,738)**	(15,657)	(27,717)
EBITA	**79,823**	**79,336**	28,181	29,901
Amortisation of intangible assets	**(3,178)**	**(3,178)**	(2,719)	(2,719)
Operating profit	**76,645**	**76,158**	25,462	27,182

ROCE

Reported ROCE is defined as EBITA divided by shareholders' funds plus net debt. ROCE is disclosed before adjusting items.

	Pre-IFRS 16 2021 £'000	Post-IFRS 16 2021 £'000	Pre-IFRS 16 2020 £'000	Post-IFRS 16 2020 £'000
EBITA	**79,823**	**79,336**	28,181	29,901
Shareholders' funds	**348,788**	**344,317**	289,816	287,848
Net (cash)/debt	**(75)**	**41,123**	26,945	75,566
	348,713	**385,440**	316,761	363,414
Reported ROCE	**22.9%**	**20.6%**	8.9%	8.2%

Net debt

Net debt comprises cash at bank and in hand, bank loans and leasing liabilities. An analysis of net debt is provided in Note 11.

The ratio of operating cash flow to EBITDA

The ratio of adjusted operating cash flow to EBITDA is calculated as set out below:

	2021 £'000	2020 £'000
Net cash flows from operating activities	**65,536**	12,372
Adjusting items paid	**2,820**	6,946
Net financial expenses paid	**3,534**	4,475
Taxation paid	**13,527**	4,631
Adjusted operating cash flow	**85,417**	28,424
EBITDA	**107,074**	57,618
Ratio of adjusted operating cash flow to EBITDA	**79.8%**	49.3%

2 Segmental analysis

Segment revenues and results

	2021			2020		
	Landscape Products £'000	**Other £'000**	**Total £'000**	Landscape Products £'000	Other £'000	Total £'000
Total revenue	**499,561**	**94,092**	**593,653**	381,304	90,903	472,207
Inter-segment revenue	**(226)**	**(4,163)**	**(4,389)**	(314)	(2,439)	(2,753)
External revenue	**499,335**	**89,929**	**589,264**	380,990	88,464	469,454
Segment operating profit	**76,221**	**4,618**	**80,839**	32,413	1,517	33,930
Adjusting items (Note 4)			**65**			(17,809)
Unallocated administration costs			**(4,681)**			(6,748)
Operating profit			**76,223**			9,373
Finance charges (net) (Note 5)			**(6,901)**			(4,720)
Profit before tax			**69,322**			4,653
Taxation (Note 6)			**(14,424)**			(2,095)
Profit after tax			**54,898**			2,558

The Group has two 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, Mortars and Screeds and International operations, which do not currently meet the IFRS 8 reporting requirements.

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

	2021 £'000	2020 £'000
Property, plant and equipment, right-of-use assets and inventory:		
Landscape Products	**260,198**	248,245
Other	**57,614**	65,928
Total segment property, plant and equipment, right-of-use assets and inventory	**317,812**	314,173
Unallocated assets	**278,160**	300,256
Consolidated total assets	**595,972**	614,429

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the property, plant and equipment, 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		Property, plant and equipment and right-of-use asset additions	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Landscape Products	**24,588**	23,707	**22,423**	24,723
Other	**6,328**	6,729	**5,246**	6,528
	30,916	30,436	**27,669**	31,251

Geographical destination of revenue

	2021 £'000	2020 £'000
United Kingdom	**556,110**	438,173
Rest of the world	**33,154**	31,281
	589,264	469,454

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.

3 Net operating costs

	2021 £'000	2020 £'000
Raw materials and consumables	**246,478**	182,605
Changes in inventories of finished goods and work in progress	**(15,762)**	378
Personnel costs	**130,903**	122,260
Depreciation of property, plant and equipment	**16,423**	15,657
Depreciation of right-of-use assets	**11,315**	12,060
Amortisation of intangible assets	**3,178**	2,719
Own work capitalised	**(2,758)**	(2,991)
Other operating costs	**124,665**	112,603
Redundancy and other costs	**398**	356
Operating costs	**514,840**	445,647
Other operating income	**(1,687)**	(2,272)
Net gain on asset and property disposals	**(47)**	(1,103)
Net operating costs before adjusting items	**513,106**	442,272
Adjusting items (Note 4)	**(65)**	17,809
Total net operating costs	**513,041**	460,081

4 Adjusting items

	2021 £'000	2020 £'000
Additional special COVID-19 bonus paid to all colleagues	**2,216**	-
Redundancy and other closure costs	**1,175**	12,320
Write-off of property plant and equipment	**1,666**	5,489
Additional consideration to the CPM vendors	**3,750**	-
Net gain on sale of significant surplus site	**(8,872)**	-
Total adjusting items within operating costs (Note 3)	**(65)**	17,809
Adjusting interest expense on defined benefit pension scheme (Note 5)	**2,813**	-
Total adjusting items before taxation	**2,748**	17,809
Current taxation on adjusting items (Note 6)	**97**	(2,341)
Deferred taxation on adjusting items (Note 6)	**(703)**	(760)
Total adjusting items after taxation	**2,142**	14,708

(i) The additional special bonus payable to employees as a thank you for their support during the pandemic.

(ii) Redundancy and other closure costs relate to the Edenhall Stoke site following a network review. The site was used to manufacture cast stone and the Group has decided to exit this market.

(iii) Write-off of property, plant and equipment relates to assets at our St Ives site that are being dismantled to allow construction of the dual block plant.

(iv) The additional consideration to the CPM vendors represents an accounting charge relating to the acquisition of CPM following the agreement reached with the vendors to release of funds initially set aside in escrow, following the identification of an under-funded pension scheme of a related company. This risk is now considered to be remote and £3,750,000 will be released from escrow and paid to the vendors as additional consideration. This results in a charge to the Income Statement because it falls outside the hindsight period of twelve months set out under IAS.

(v) The net gain on a significant surplus site relates to the sale of Ryton near Coventry.

(vi) The interest expense on defined benefit pension scheme relates to a technical non-cash, finance charge resulting from the receipt of Counsel's opinion on certain historic benefit issues (Note 5).

5 Financial expenses and income

	2021 £'000	2020 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**439**	154
Interest expense on bank loans	**1,762**	2,972
Interest expense on lease liabilities	**1,889**	1,604
	4,090	4,730
(b) Adjusting items		
Adjusting interest expense on defined benefit pension scheme (Note 4)	**2,813**	-
	6,903	4,730
(c) Financial income		
Interest receivable and similar income	**2**	10

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges (Note 11).

6 Income tax expense

	Year ended 2021 £'000	Year ended 2020 £'000
Current tax expense		
Current year	**11,360**	2,731
Adjustments for prior years	**(2,147)**	(1,768)
	9,213	963
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**6,519**	158
Adjustments for prior years	**(1,308)**	974
Total tax expense	**14,424**	2,095
Current tax on adjusting items (Note 4)	**(97)**	2,341
Deferred tax on adjusting items (Note 4)	**703**	760
Total tax expenses before adjusting items	**15,030**	5,196

	2021 %	2021 £'000	2020 %	2020 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**69,322**	100.0	4,653
Tax using domestic corporation tax rate	**19.0**	**13,171**	19.0	884
Impact of capital allowances in excess of depreciation	**(3.3)**	**(2,260)**	3.7	173
Short-term timing differences	**(0.1)**	**(74)**	13.9	645
Adjustment to tax charge in prior year	**(3.1)**	**(2,147)**	(38.0)	(1,768)
Expenses not deductible for tax purposes	**0.8**	**523**	22.1	1,029
Corporation tax charge for the year	**13.3**	**9,213**	20.7	963
Impact of capital allowances in excess of depreciation	**2.3**	**1,610**	(34.1)	(1,585)
Short-term timing differences	-	**(22)**	1.1	52
Pension scheme movements	**0.9**	**659**	(2.7)	(124)
Other items	**(0.9)**	**(633)**	0.4	18
Adjustment to tax charge in prior year	**(1.9)**	**(1,308)**	20.9	974
Impact of the change in the rate of corporation tax on deferred taxation	**7.1**	**4,905**	38.7	1,797
Total tax charge for the year	**20.8**	**14,424**	45.0	2,095

The net amount of deferred taxation debited to the Consolidated Statement of Comprehensive Income in the year was £6,547,000 (2020: credited £2,149,000).

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 2021. The 2021 Budget announced that the UK corporation tax rate would increase to 25 per cent from 2023. This change was substantively enacted on 10 June 2021 and consequently, the deferred taxation liability at 31 December 2021 has been calculated at 25 per cent, which is the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date. The rate change has given rise to an increase to the deferred tax charge of £4.9 million which in turn has given rise to an increase in the effective tax rate.

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 2021 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 tax provisions made in prior years which are no longer required, including provisions made on acquisition of subsidiaries.

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 and China. The sales of these units, in total, were approximately 5 per cent of the Group's turnover in the year ended 31 December 2021. In total, the trading profits were not material and a minimal amount of tax is due to be paid overseas.

7 Earnings per share

Basic earnings per share from total operations of 27.5 pence (2020: 1.2 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £54,806,000 (2020: £2,370,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224).

Basic earnings per share before adjusting items of 28.6 pence (2020: 8.6 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £56,948,000 (2020: £17,078,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224).

Profit attributable to Ordinary Shareholders

	2021 £'000	2020 £'000
Profit before adjusting items	**57,040**	17,266
Adjusting items	**(2,142)**	(14,708)
Profit for the financial year	**54,898**	2,558
Profit attributable to non-controlling interests	**(92)**	(188)
Profit attributable to Ordinary Shareholders	**54,806**	2,370

Weighted average number of Ordinary Shares

	2021 Number	2020 Number
Number of issued Ordinary Shares	**200,052,157**	200,052,157
Effect of shares transferred into Employee Benefit Trust	**(957,193)**	(1,409,933)
Weighted average number of Ordinary Shares at the end of the year	**199,094,964**	198,642,224

Diluted earnings per share from total operations of 27.4 pence (2020: 1.2 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £54,806,000 (2020: £2,370,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224) plus potentially dilutive shares of 1,222,847 (2020: 1,614,132), which totals 200,317,811 (2020: 200,256,356).

Diluted earnings per share before adjusting items of 28.4 pence (2020: 8.5 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £56,948,000 (2020: £17,078,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224) plus potentially dilutive shares of 1,222,847 (2020: 1,614,132), which totals 200,317,811 (2020: 200,256,356).

Weighted average number of Ordinary Shares (diluted)

	2021 Number	2020 Number
Weighted average number of Ordinary Shares	**199,094,964**	198,642,224
Potentially dilutive shares	**1,222,847**	1,614,132
Weighted average number of Ordinary Shares (diluted)	**200,317,811**	200,256,356

8 Dividends

After the balance sheet date, a final dividend of 9.6 pence was proposed by the Directors. This dividend has not been provided for and there are no income tax consequences.

	Pence per qualifying share	**2021 £'000**	2020 £'000
2021 final	**9.6**	**19,122**	
2021 interim	**4.7**	**9,362**	
	14.3	**23,484**	
2020 final	**4.3**	**-**	8,562
2020 interim	**-**	-	-
	4.3	**-**	8,562

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

	Pence per qualifying share	**2021 £'000**	2020 £'000
2021 interim	**4.7**	**9,362**	-
2020 final	**4.3**	**8,562**	-
	9.0	**17,924**	-

Due to the impact of COVID-19 the Board did not propose an interim dividend during 2020.

The Board recommends a 2021 final dividend of 9.6 pence per qualifying Ordinary Share (amounting to £19,122,000, to be paid on 1 July 2022 to shareholders registered at the close of business on 10 June 2022).

9 Lease liabilities

	2021 £'000	2020 £'000
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**8,545**	10,065
Amounts due for settlement after 12 months	**32,776**	38,926
	41,321	48,991

	2021			2020		
	Minimum lease payments £'000	**Interest £'000**	**Principal £'000**	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	**9,828**	**1,283**	**8,545**	11,579	1,514	10,065
1 to 2 years	**7,316**	**1,110**	**6,206**	8,605	1,287	7,318
2 to 5 years	**13,149**	**2,434**	**10,715**	12,350	2,036	10,314
In more than 5 years	**21,915**	**6,060**	**15,855**	28,598	7,304	21,294
	52,208	**10,887**	**41,321**	61,132	12,141	48,991

As at 31 December 2021, the total minimum lease payments (above) comprised property of £33,272,000 (2020: £32,122,000) and plant, machinery and vehicles of £18,936,000 (2020: £29,010,000).

On 10 September 2020 the Group completed a sale and leaseback transaction in relation to its site in Rumst, Belgium. The net cash proceeds of €12,481,000 have been used to pay down the inter-company indebtedness between Marshalls NV and Marshalls Mono Limited. The net profit for the Group of £1,484,000 has been disclosed within the net gain on asset and property disposals (Note 3). The lease has a 10-year term, with an option to extend after 5 years. It has currently not been assumed that the option to extend will be exercised as the Directors do not believe that this is reasonably certain.

Certain leased properties have been sublet by the Group. Sublease payments of £285,254 (2020: £239,003) are expected to be received during the following financial year. An amount of £295,548 (2020: £225,786) 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. For the year ended 31 December 2021, the interest expense on lease liabilities amounted to £1,889,000 (2020: £1,604,000). 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 2021, the average effective borrowing rate was 3.4 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.

The vast majority of lease obligations are denominated in Sterling.

For the year ended 31 December 2021, the total cash outflow in relation to leases amounts to £12,717,000 (2020: £13,780,000). The total cash outflow in relation to short-term and low value leases was £5,671,000 (2020: £4,551,000).

10 Loans

	2021 £'000	2020 £'000
Analysed as:		
Current liabilities	**1,673**	20,000
Non-current liabilities	**39,341**	110,282
	41,014	130,282

Bank loans

The bank loans are secured by intra-group guarantees with certain subsidiary undertakings.

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 three years. The next actuarial valuation is being 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 2021 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:

	2021 £'000	2020 £'000	2019 £'000
Present value of Scheme liabilities	**(366,359)**	(399,938)	(353,136)
Fair value of Scheme assets	**392,116**	402,664	368,857
Net amount recognised at the year end (before any adjustments for deferred tax)	**25,757**	2,726	15,721

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.

	2021 £'000	2020 £'000
Net interest expense before adjusting items	**539**	254
Adjusting interest expense (Note 4)	**2,813**	-
Net interest expense recognised in the Consolidated Income Statement	**3,352**	254
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	**3,786**	(40,151)
(Gain)/loss arising from changes in financial assumptions	**(20,383)**	52,491
(Gain)/loss arising from changes in demographic assumptions	**(6,317)**	1,209
Experience gain	**(3,469)**	(808)
(Credit)/debit recorded in other comprehensive income	**(26,383)**	12,741
Total defined benefit (credit)/debit	**(23,031)**	12,995

The principal actuarial assumptions used were:

	2021 £'000	2020 £'000
Liability discount rate	**1.90%**	1.40%
Inflation assumption – RPI	**3.30%**	2.85%
Inflation assumption – CPI	**2.70%**	2.20%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.70%**	2.20%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.70%**	2.20%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.35%**	3.25%
CPI pension increases (maximum 3% p.a.)	**2.35%**	1.95%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**80%**	80%
Mortality assumption – before retirement	**Same as post-retirement**	Same as post-retirement
Mortality assumption – after retirement (males)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2020 1.0%**	Year of birth CMI_2019 1.0%
Mortality assumption – after retirement (females)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2020 1.0%**	Year of birth CMI_2019 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**85.4**	85.7
Female aged 65 at year end	**87.5**	87.7
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**86.3**	86.7
Female aged 45 at year end	**88.7**	88.9

12 Analysis of net debt

	1 January 2021 £'000	Cash flow £'000	New leases £'000	Other changes* £'000	**31 December 2021 £'000**
Cash at bank and in hand	103,707	(62,439)	-	(56)	**41,212**
Debt due within 1 year	(20,000)	20,000	-	(1,673)	**(1,673)**
Debt due after 1 year	(110,282)	68,628	-	2,313	**(39,341)**
Lease liabilities	(48,991)	10,828	(3,158)	-	**(41,321)**
	(75,566)	37,017	(3,158)	584	**(41,123)**

* Other changes include foreign currency movements on cash and loan balances.

Reconciliation of net cash flow to movement in net debt

	2021 £'000	2020 £'000
Net (decrease)/increase in cash equivalents	**(62,439)**	50,481
Cash outflow/(inflow) from decrease/(increase) in bank borrowings	**88,628**	(57,891)
Cash outflow from lease repayments	**10,828**	13,780
New leases entered into	**(3,158)**	(20,811)
Effect of exchange rate fluctuations	**584**	(1,149)
Movement in net debt in the year	**34,443**	(15,590)
Net debt at 1 January	**(75,566)**	(59,976)
Net debt at 31 December	**(41,123)**	(75,566)

Borrowing facilities

The total bank borrowing facilities at 31 December 2021 amounted to £155.0 million (2020: £255.0 million), of which £114.0 million (2020: £124.7 million) remained unutilised. The undrawn facilities available at 31 December 2021, in respect of which all conditions precedent had been met, were as follows:

	2021 £'000	2020 £'000
Committed:		
Expiring in more than 5 years	-	-
Expiring in more than 2 years but not more than 5 years	**80,659**	9,718
Expiring in 1 year or less	**18,327**	90,000
Uncommitted:		
Expiring in 1 year or less	**15,000**	25,000
	113,986	124,718

The additional short-term bank facilities of £90 million established in May 2020 were not utilised and have now reached maturity. In addition, the COVID Corporate Financing Facility ("CCFF") that was put in place at the same time was also not required. Bank facilities have returned to pre-COVID-19 levels and total £165 million, of which £140 million are committed.

On 13 August 2021, the Group entered into a new £20 million revolving credit facility with HSBC and the Group has also renewed its short-term working capital facilities of £25 million with NatWest.

Amendment agreements have also been entered into with all our partner banks following the announcement that LIBOR will cease at the end of 2021. The Group's committed bank facilities are all revolving credit facilities with interest now charged at variable rates based on SONIA. 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		
Q3: 2025	20,000	20,000
Q3: 2024	35,000	55,000
Q1: 2024	25,000	80,000
Q3: 2023	20,000	100,000
Q2: 2023	20,000	120,000
Q4: 2022	20,000	140,000
On-demand facilities		
Available all year	15,000	155,000
Seasonal (February to August inclusive)	10,000	165,000

Marshalls is party to a reverse factoring finance arrangement between a third party UK bank and one of the Group's key customers. The principal relationship is between the customer and its partner bank. The agreement enables Marshalls to benefit from additional credit against approved invoices and, in practice, this provides facilities of between £5 million and £15 million which the Group utilises periodically in order to help manage its short-term, mid-month funding requirements. The credit risk is retained by the customer and Marshalls pays a finance charge upon utilisation.

13 Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2021 is shown below:

	2021		2020	
	Book amount £'000	**Fair value £'000**	Book amount £'000	Fair value £'000
Trade and other receivables	**95,032**	**95,032**	86,699	86,699
Cash and cash equivalents	**41,212**	**41,212**	103,707	103,707
Bank loans	**(41,014)**	**(40,023)**	(130,282)	(126,010)
Trade payables, other payables and provisions	**(118,888)**	**(118,888)**	(110,039)	(110,039)
Interest rate swaps, forward contracts and fuel hedges	**813**	**813**	332	332
Contingent consideration	**(1,563)**	**(1,563)**	(1,800)	(1,800)
Financial instrument assets and liabilities – net	**(24,408)**		(51,383)	
Non-financial instrument assets and liabilities – net	**368,725**		339,231	
	344,317		287,848	

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table. Other than contingent consideration, which uses a level 3 basis, all use level 2 valuation techniques.

(a) Derivatives

Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps, broker quotes are used.

(b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

(d) Fair value hierarchy

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2021				
Derivative financial assets/(liabilities)	**-**	**813**	**(1,563)**	**(750)**
31 December 2020				
Derivative financial assets/(liabilities)	—	332	(1,800)	(1,468)

14. Principal risks and uncertainties

Risk management is the responsibility of the Marshalls plc Board and is a key factor in the delivery of the Group's strategic objectives. The Board establishes the culture of effective risk management and is responsible for maintaining appropriate systems and controls. The Board sets the risk appetite and determines the policies and procedures that are put in place to mitigate exposure to risks. The Board plays a central role in the Group's Risk Review process, which covers emerging risks and incorporates scenario planning and detailed stress testing.

Alongside the current supply chain challenges that are causing shortages of both materials and labour and cost inflation across the sector, the current assessment identifies external market demand as being the key medium-term risk. The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn, the impact of Government policy, increases in interest rates, volatility in world markets and any continuing issues associated with COVID-19. Other factors include the increasing impact of wider geo-political factors (including the conflict in Ukraine) and unprecedented levels of Government borrowings. The Group closely monitors trends and lead indicators, invests in market research and is an active member of the Construction Products Association. The Group benefits from the diversity of its business and end markets. The proactive development of the product range continues to offer protection.

The impact of COVID-19 continues to have implications for the business and its underlying risks. This is particularly true in the areas of health and safety, cyber security and the security of raw materials supply. In all these cases specific assessments continue to be reviewed and certain new operating procedures have been developed. Mitigating controls continue to be reviewed as appropriate. The Group's risk function has placed particular emphasis on the following areas during the year:

- Health and safety – the Group has used frequent and consistent messaging with mental and physical health prioritised for all employees and stakeholders. We have maintained our established COVID-19 workplace protocols throughout the last year.

- IT and cyber risk – the Group has continued to ensure business continuity during the COVID-19 restrictions. Practical support and guidance, together with additional cyber security training, has been provided to facilitate home working and this has remained a priority as the focus has shifted to a more “business as usual” environment. Cyber security risk within the wider market is also an increasing risk for the Group and continues to be an area of major focus.
- Security of raw materials supply – the Group has continued to ensure that product and distribution can continue to meet the increased levels of demand.
- Our ESG agenda continues to embrace risk management and governance and the generation of detailed climate risk assessments and scenario planning continues to be a priority.

The other principal risks and uncertainties that could impact the business for the remainder of the current financial year are those detailed in the Annual Report. These cover the strategic, financial and operational risks and have not changed significantly during the period. Strategic risks include those relating to the ongoing Government policy in relation to COVID-19, general economic conditions, the actions of customers, suppliers and competitors, and weather conditions. 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 other than COVID-19 include the effect of legislation or other regulatory actions and new business strategies.

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

The Annual General Meeting will be held at the offices of Walker Morris, 33 Wellington Street, Leeds, West Yorkshire, LS1 4DL at 11.00am on Wednesday 11 May 2022.

The Board

The Directors serving during the year ended 31 December 2021 were as follows:

Vanda Murray OBE	Chair
Angela Bromfield	Non-Executive Director
Martyn Coffey	Chief Executive
Avis Darzins	Non-Executive Director
Justin Lockwood	Chief Financial Officer
Tim Pile	Non-Executive Director
Graham Prothero	Senior Non-Executive Director

By order of the Board

Shiv Sibal
Group Company Secretary
17 March 2022

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 Market Act 2020.