Marshall of Cambridge

Undervalued Aerospace & Defence stock

10 May 2019

Most people would agree that family firms are at the heart of the economy. What is less well known is that they can make excellent investments too. In fact, over the past 15 years, investment bank UBS found that unquoted SMEs (small/medium enterprises) generated returns double those of their listed peers.

The main reasons being that they generally have longer time horizons, act quicker and more decisively, are 100% customer focused, hold managers to account and are committed to shareholder returns. Importantly, without taking on excessive debt either.

Top class technology with over 100 years heritage

Core principles, which we think are the bedrock of privately owned Marshall of Cambridge (Holdings) Ltd (MCH). It was originally founded in 1909 by David Marshall as a chauffeuring business. Afterwards it expanded into vehicle sales/servicing, and later aerospace, where in 1937 it relocated to its current 900 acres site at Cambridge airport.

Since then, both businesses have flourished. So much so, that the namesake motor dealership, Marshall Motor Holdings plc (AIM: MMH) was partially spun-off and separately listed in April 2015 (MCH's stake now 64.46%). The military aerospace/defence arm (MADG) has been supporting the RAF's Lockheed Martin C-130 Hercules transporters since they came into service in 1967 and in 2006 **clinched a landmark £1.5bn contract to provide whole-life maintenance/support for the fleet**, which continues today.

C-130 Hercules transporter

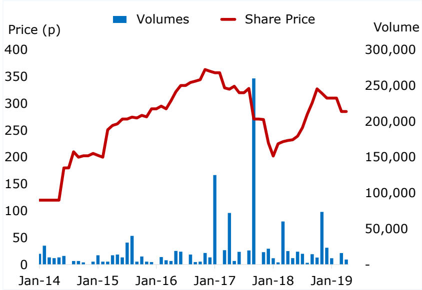
Source: Company

Adding to the portfolio of activities, MCH has just embarked on the development and sale of 2,000 residential properties on the perimeter of the airport. Working in partnership with homebuilders like Hill Residential, expecting to generate c. £200m of cash over the next 10-15 years. Outline planning permission has already been granted for 1,300 homes, with additional decisions expected shortly.

Marshall of Cambridge (Holdings) Ltd

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

Non-voting ordinary shares, p



Source: Company

Description

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

In 2018, the business generated >£80m of EBITDA on revenues of £2.5bn, and has significant organic opportunities ahead. Not only accelerating expansion at its leading aerospace/defence (MADG) and motor retail businesses (MMH - 64.46% owned). Along with perhaps turning around its loss making Fleet Solutions arm, and providing a springboard for its high-tech venture capital investments. But also unlocking possibly £100ms of value from its 900 acres estate at Cambridge airport.

The non-voting priority ordinary shares (NVPOs) can be traded freely via a special off-exchange matching facility administered by stockbroker James Sharp. The NVPOs attract business property relief, and so fall outside a person's estate for inheritance tax purposes (ie if held for >2 years).

Next news: AGM 22nd May 2019

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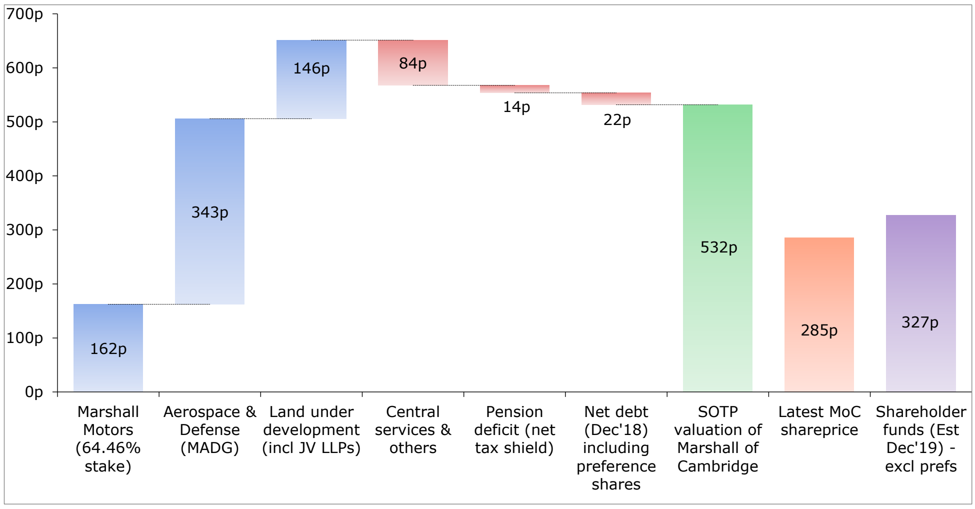
What does this mean in terms of valuation?

Our sum-of-the-parts (SOTP) comes out at 532p/share – materially above the most recent shares' traded price of 285p. Note that this excludes any further upside arising from more land being made available for redevelopment.

SOTP valuation Marshall of Cambridge (p/share)



Source: Equity Development

How can you buy the shares?

For a private company, this is a comparatively straightforward process. Anyone wishing to purchase stock should contact stockbroker James Sharp & Co (Contact: Josh McArdle, Tel 0161 764 4043) and register their interest.

Substantially all of the ordinary voting shares (13.8m) are held by the Marshall family/trust. That said, the 45.3m non-voting priority ordinary shares (NVPOs), which are entitled to an extra 2p dividend, can be bought or sold freely using the exchange mechanism administered by James Sharp.

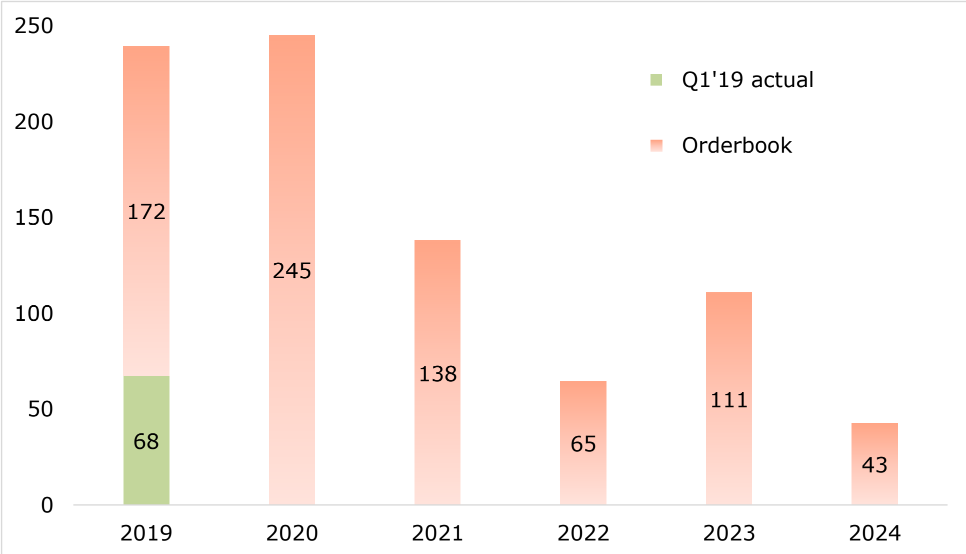
Between Jan'17-Dec'18, there were 815,500 NVPOs traded with a combined value of £2.385m, equivalent to an average price of 292p.

Marshall Aerospace and Defence (MADG)

The crown jewel within the group is MADG (2018 sales of £247.8m, 6.2% EBIT margin), a specialist Aerospace and Defence business, encompassing 6 operating units. Each possessing systems engineering and project management prowess, combined with customer (e.g. MoD, Boeing) and platform (eg C-130 Hercules transporter) expertise.

A winning formula that in 2018 enabled MADG to secure orders worth £404m (vs £321m in 2017) representing book to bill ratios of 1.7x and 1.4x respectively. In turn registering a **record backlog of £774m** as at the end of March 2019, and equating to >3.3x 2018 LFL revenues (adjusting for Aeropeople). Similarly, for 2019 this already represents circa 93% of MADG's targeted sales.

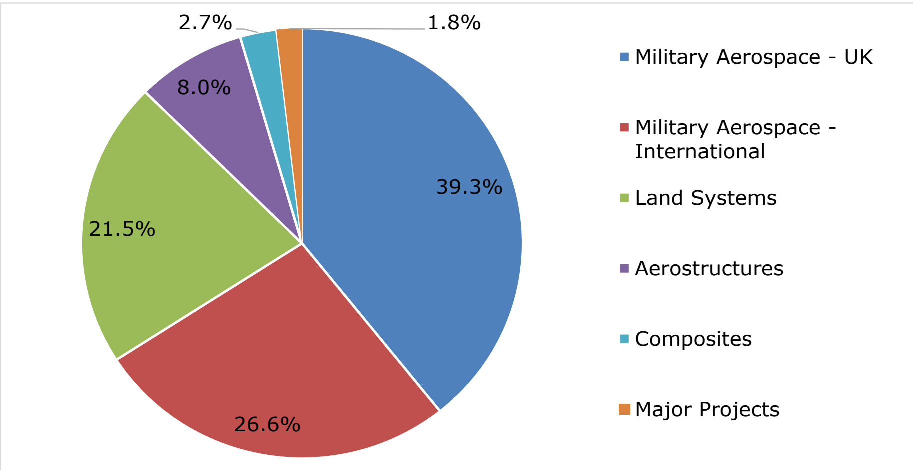
£774m orderbook (Mar'19) providing excellent visibility (£m)



Source: Equity Development. Orderbook excludes Aeropeople Ltd (2018 turnover £14.5m)

By unit:

Breakdown of MADG order-book



Source: Equity Development

Military Aerospace

A large part of this involves modifications and the ongoing maintenance of **C-130 Hercules aircraft.** These versatile 4 turbo-prop planes are manufactured by Lockheed Martin, and designed to transport troops, medical staff and cargo. One of their greatest strengths is they can take-off & land on short, unprepared runways.

Indeed, MADG maintains all of the RAF's fleet of C-130s at either Cambridge or Brize Norton, along with supporting another 16 customers abroad, such as in Sweden, Netherlands, France, Bahrain and Bangladesh.

Strategically, the division is seeking to add other military airframes apart from the C-130. For example, there may be opportunities to modify the RAF's fleet of 5 forthcoming early warning & control Boeing E-7 AEW aircraft.

Aerostructures

Aerostructures produce composite fuel tanks for the Boeing P-8 marine surveillance plane (see below) to increase the aircraft's range and efficiency. Not only did the fuel system need to meet stringent strength and safety standards, but also needed to be lightweight, leaving as much flexibility as possible for the integration of other critical equipment.

Using proprietary and pre-approved honeycomb technology that has been developed to meet the latest civil and military airworthiness regulations, MADG developed a complete auxiliary fuel tank system to meet the P-8 aircraft's demanding needs. Around 700 have been delivered to date, achieving 100% on time delivery, with many more anticipated in the future.

P-8 maritime patrol aircraft with auxilary fuel tank

Source: Company

Land Systems

Land Systems design and manufacture bespoke shelters that can be easily moved by truck, for use as battle field hospitals, command & control centres, workshops, stores or anything else. Recent contract wins include a flagship £100m deal with the Dutch army for 1,400 shelters & ancillary support over 14 years, and another with the Danish military.

Furthermore, Land Systems manufactures state-of-the-art simulators that are used to train turret crews on the British Army's AJAX programme - a new family of medium armoured fighting vehicles.

In April the unit was awarded a £36m contract for the UK's Gasket programme. An upgrade of the MOD's counter chemical, biological, radiological, nuclear and explosive vehicle fleet. This order is **in addition to the £774m backlog**, and represents **another significant endorsement of the unit's capabilities and technological expertise.**

Advanced Composites

This unit designs and manufactures high quality carbon fibre parts for submarines, Eurofighter Aircraft (Typhoon) helmets (see below) and other equipment from its factory in North Yorkshire. Indeed, for subsea applications the lightweight, anti-corrosive materials are designed to operate in extreme environments – incorporating the latest stealth technologies.

Parts supplied for the RAF's F-35 Typhoon pilot's helmet

Source: Equity Development

According to research house Data Bridge, the global Aerospace Composites market is forecast to expand at a CAGR of 9.4% between 2018-25; reaching $57.0bn in 2025 vs $26.9bn 2017.

Major Projects

Here, MADG designed and delivered a range of extremely complex engineering solutions to retrofit a standard corporate jet into a far more high-tech aircraft to meet the customer's exacting requirements.

The work is highly specialised and difficult to replicate. That is not to say there isn't the occasional surprise – as was the case 2-3 years ago with a challenging Bombardier Global 6000 business jet conversion project.

Some painful lessons were learned along the way, yet most of the work has now been completed and the legacy issues resolved. Indeed today, the first aircraft has been delivered, the second successfully flight-tested, and an in-territory support contract recently signed. Implying to us, the client relationship remains strong.

The good news is that MCH can now leverage these hard-learned capabilities across a wider footprint, with the aim of signing more '***Major Projects***'.

Aeropeople

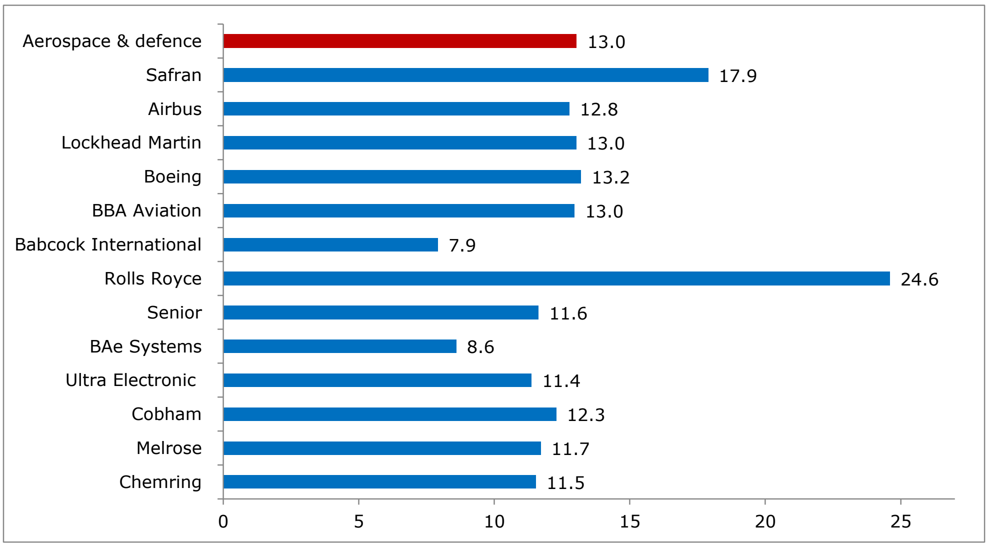
Recruitment & technical training of engineers across the aviation, automotive, motorsport & defence verticals. Although 2018 results were disappointing, the business has been reinvigorated under new leadership.

MADG is worth more than MCH's entire market value

All told, **MADG's adjusted EBIT climbed 11.3% to £15.3m** (vs £12.8m) last year - augmented by self-help measures undertaken following a couple of tough years. In 2019, there are plans to merge Composites, Land Systems and AeroStructures into a single entity, which should drive x-selling synergies, customer focus and efficiencies. Longer term, we believe EBIT margins can rise from 6.2% in 2018 to 8.0% by 2023 - with diversification outside of the C-130 being a key strategic aim.

So how much is MADG worth? In the context of the multi-year orderbook, the long cycle nature of the industry, we rate the division on an 11x EV/EBIT multiple, **equivalent to 343p/share (or £202.9m).**

Current year EV/EBIT multiples

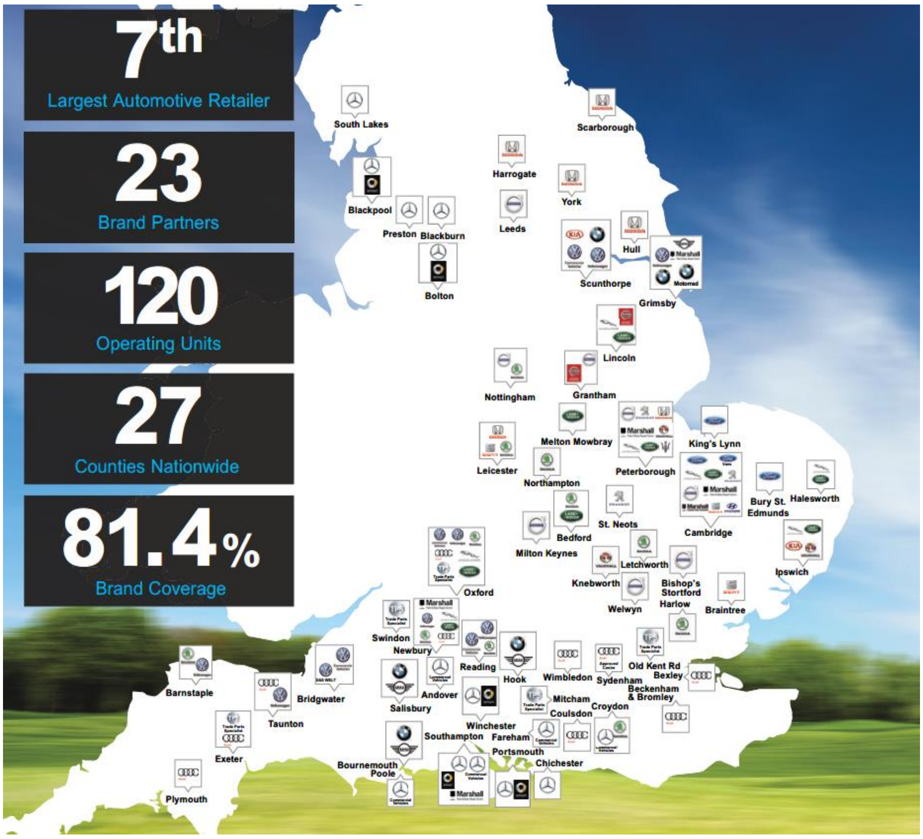


Source: Equity Development

Marshall Motor Holdings plc (AIM: MMH)

Likewise, we think that there is a significant hidden value within MCH's 64.46% investment in Marshall Motor Holdings plc (AIM: MMH), the UK's 7th largest car dealership with its own independent board.

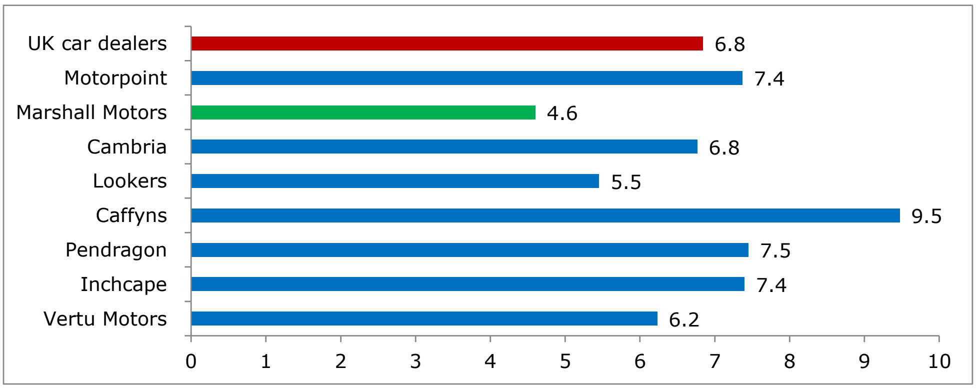
Nationwide coverage



Source: Company

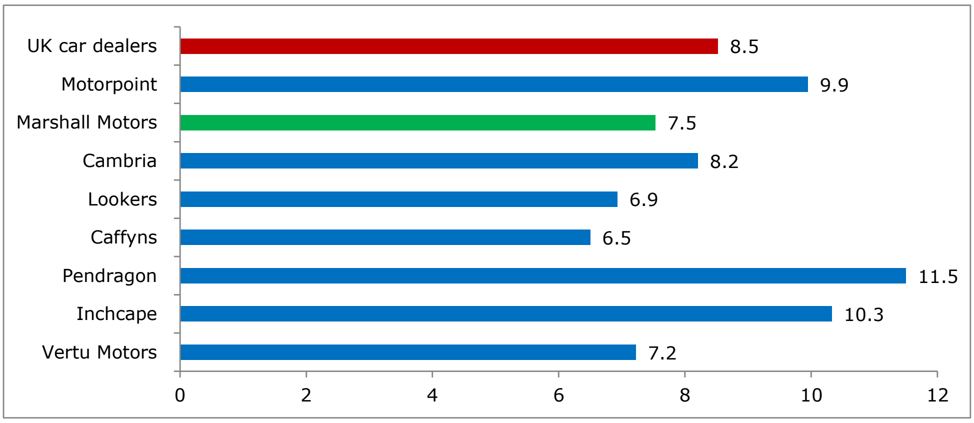
In fact, despite out-performing its 4 closest rivals (Lookers, Pendragon, Inchcape and Vertu) by circa 35% over the past 2 years, the stock is surprisingly lowly rated as the cheapest in the sector based on EV/EBIT.

Current year EV/EBIT multiples



Source: Equity Development

Current year PERs



Source: Equity Development

Conservatively pitched forecasts

For 2019, we are predicting MMH's adjusted EBIT to come in at £27.0m (vs £31.9m LY), or circa 10% below consensus of £30.0m-£31.0m. This is not because there is anything specific to worry about. It is because we have overlaid a heavy dose of Brexit related uncertainty, consumer reticence to buy new cars and a relatively warm winter's weather that might have nudged down repair revenues - compounded by Pendragon's profit warning on 17th April.

MMH 2018 sales & gross profit breakdown by product line

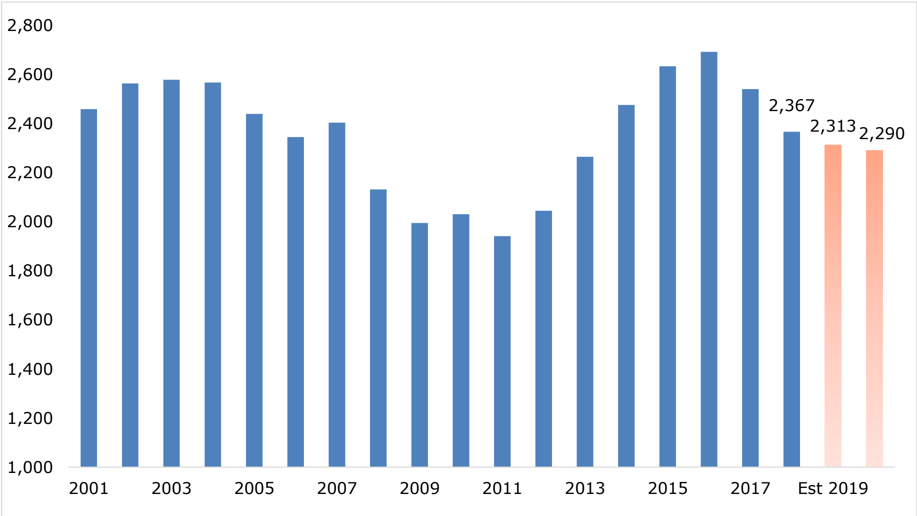
£'000s	Revenues	% split	Gross profit	% split	GP margin
New cars	1,045	48.0%	75.0	30.0%	7.2%
Used cars	893	41.0%	65.4	26.1%	7.3%
Servicing, repair & maintenance	241	11.0%	109.8	43.9%	45.7%
Other	-44		0.3		
Total	**2,135**		**250.5**		**11.7%**

Source: Marshall Motors plc

Equally, though, we recognise that by setting the bar low, there is a chance of upgrades as the year progresses – ie in the event our worst fears do not transpire. MMH has a rock solid balance sheet too, including £125.3m of freehold/long leasehold property, £200.4m of net assets and only £5.1m of net debt (Dec'18). Meaning it could also become a key strategic 'king-maker' in the next wave of industry consolidation.

All the same, 2018 was undoubtedly a challenging period for the sector as a whole. The Society of Motor Manufacturers and Traders (SMMT) reported a 6.8% decline in new vehicle registrations to 2.37m vs 2.54m in 2017 (see below) - and similarly are indicating another 2.3% reduction in 2019. Worse still, the steep 29.6% drop in diesel sales, has had most impact on the premium segment (eg Land Rovers, 4x4s) where profit margins are greatest.

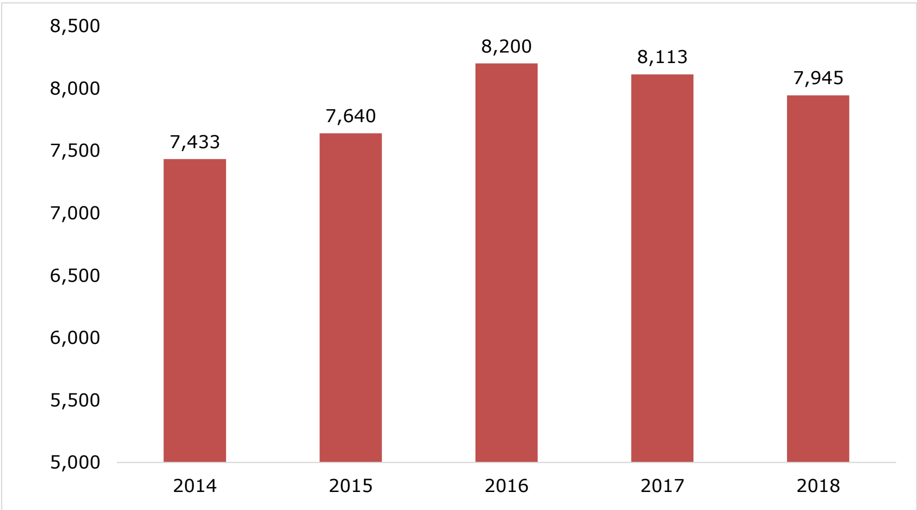
UK New car registrations (units 000s)



Source: SMMT

Fortunately, the used vehicle market (see below) has held up relatively well, yet even here there was a slight contraction in volumes of 2.1% in 2018:

UK used car sales (units '000s)



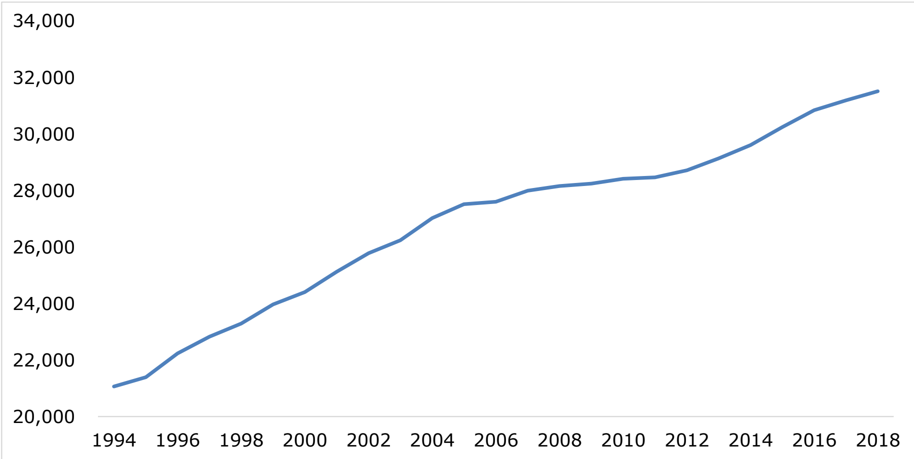
Source: SMMT

The UK 'carpark' continues to expand

Nor is it all bad news for car vendors. The UK carpark continues to rise, with **31.5m privately owned cars on the road** according to the Department for Transport. Plus, as vehicles become increasingly 'smarter', more things can go wrong, such as sensors, electronics, telematics and entertainment systems.

Thus helping to grow the size of the £21.6bn UK automotive aftermarket, probably in tandem with GDP.

Increasing number of privately owned cars (31.5m 2018)

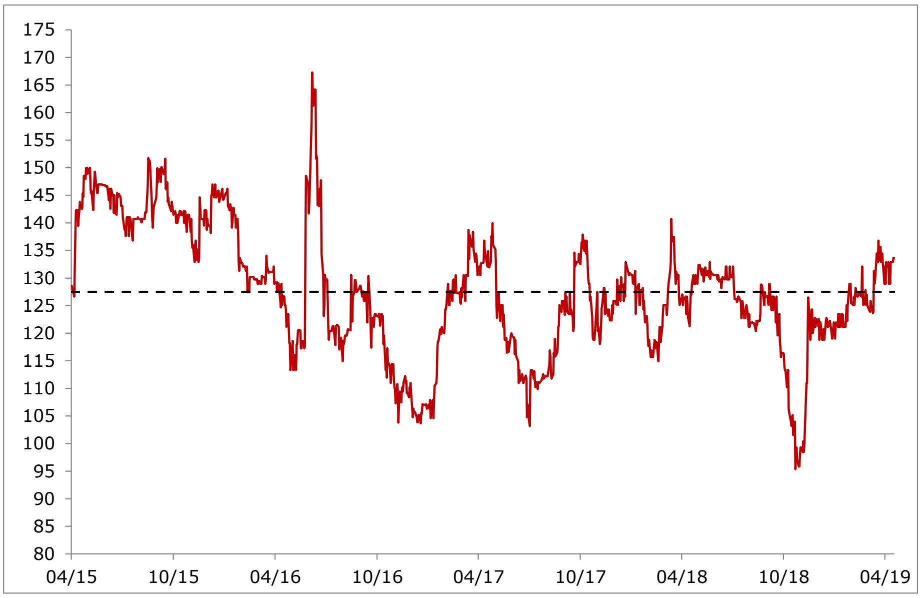


Source: DVLA

In summary

In our view, there should be no reason why MMH cannot continue out-performing its competitors. Consequently, we rate the company on a 6x EV/EBIT multiple, with **MCH's 64.46% stake therefore being worth £95.9m** (or 162p/share) compared to today's marked-to-market valuation of £86.4m (see below).

Marshall Motors market capitalisation (£m)

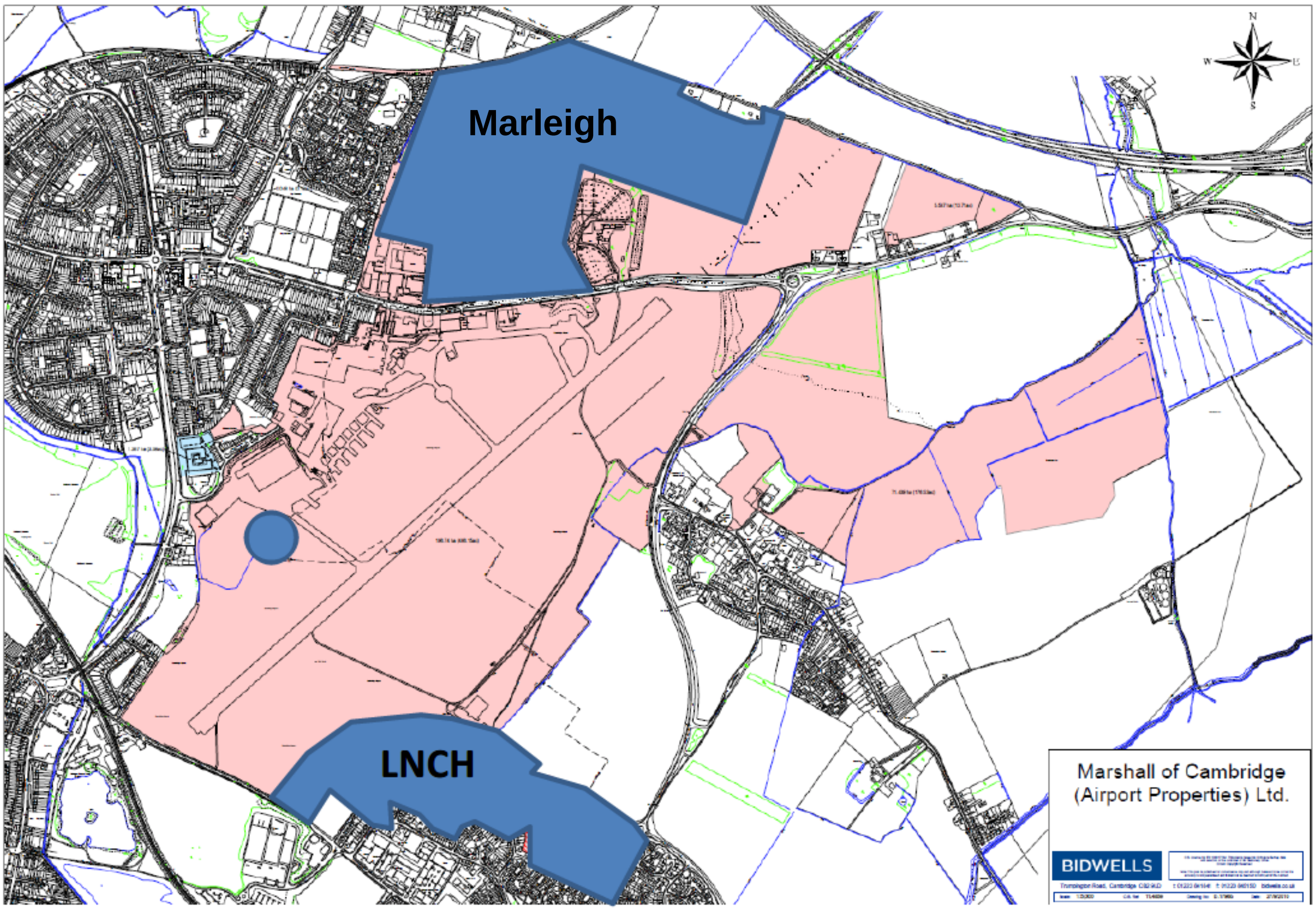


Source: Equity Development. Dotted line indicates average of £127.5m

Property developments under way

Coming back full circle, MCH's third major growth pillar is its fledging property interests. Here, its first two signature schemes (see below) – known as **'Marleigh'** (160 acres; 1,300 homes) and **Land North of Cherry Hinton** (LNCH - 1,200 units, of which 700 are on Marshall land; 70 acres) – outline 'planning permission' has been obtained for the Marleigh scheme whilst a planning application has been submitted for LNCH with a decision expected later in 2019. The first of 3 Marleigh phases is being developed in conjunction with partners Hill Residential via a 50:50 JV LLP.

Marshall land ownership (900 acres)



Source: Company

In aggregate, these projects involving 230 acres of MCH land are intending to construct 2,500 new homes over the next decade, coupled with primary and secondary schools, nursery facilities, sports fields, allotments and commercial infrastructure. Providing a much-needed source of quality accommodation for Cambridge residents.

One key milestone is the creation of an Aircraft Ground Running Enclosure (re indicated by the blue circle above). This is planned for completion in autumn 2019, thus satisfying a crucial planning condition. A non-recourse £22m loan from Homes England (2.5% plus ECB base rate) has been obtained by the Hill Marshall JV LLP to fund the work and the initial infrastructure for Marleigh. Houses should be available for occupation towards the end of 2020.

Artist's impression of Marleigh

Source: Company

How much could this be worth?

We suspect that the eventual development value of the two sites **could be over £1.25bn**, of which c. £200m in cash should flow back to the group from 2022 onwards. Moreover, for every 100 acres of additional land that is freed up, we estimate this could add an incremental £40m.

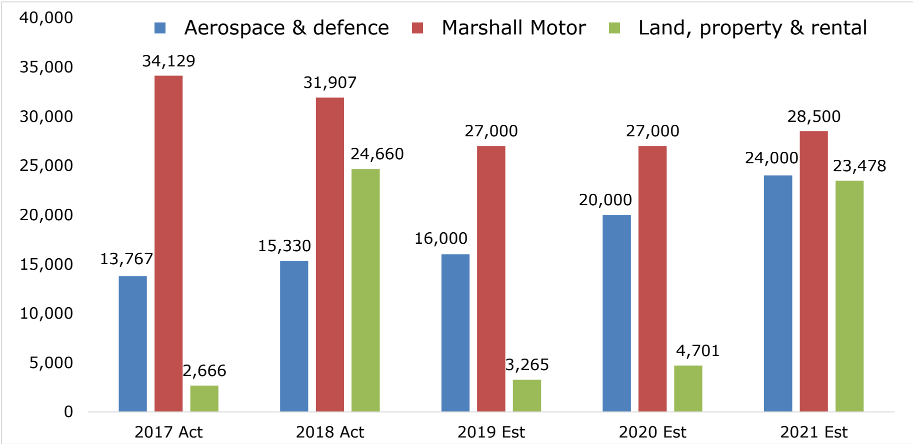
Quality of life is good around 'Silicon Fen'

Is Brexit causing tremors across the wider UK housing sector? The answer is certainly 'yes' in many salubrious neighbourhoods of central London, but far less so in world-acclaimed university cities like Cambridge.

Here, demand for residential property far exceeds supply, interest rates remain at rock bottom levels, Help to Buy has been extended until 2021, mortgage availability is robust and wages have begun rising in real terms.

Three growth pillars

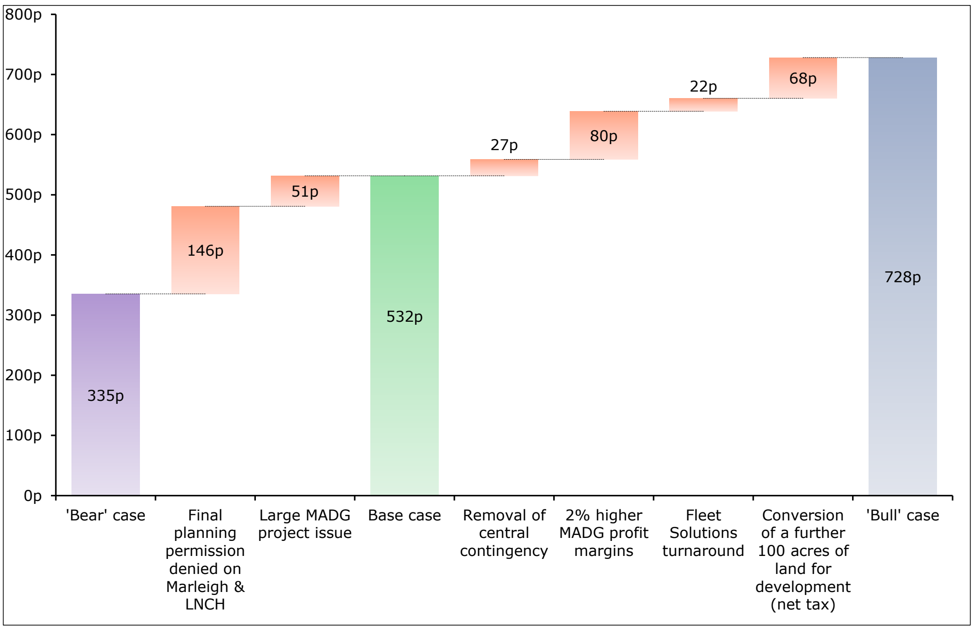
Adjusted EBIT (£'000s)



Source: Equity Development

In light of these **3 growth pillars**, we believe that this diversity of high quality assets helps create a healthy 'margin of safety' for investors, should events go quite to plan - as indicated by our '**Bear' and 'Bull' case scenarios of 335p and 728p** (see below).

Sensitivity analysis (p/share)



Source: Equity Development.

Provides natural strength for the group

In addition, MCH possesses a **robust balance sheet** - sporting net assets of £188.9m and minimal net debt (£2.4m Dec'18) - meaning the downside looks minimal vs today's group value.

Financials

Considering the value of these assets, why is there a large disconnect between MCH's price and our assessment of its inherent worth?

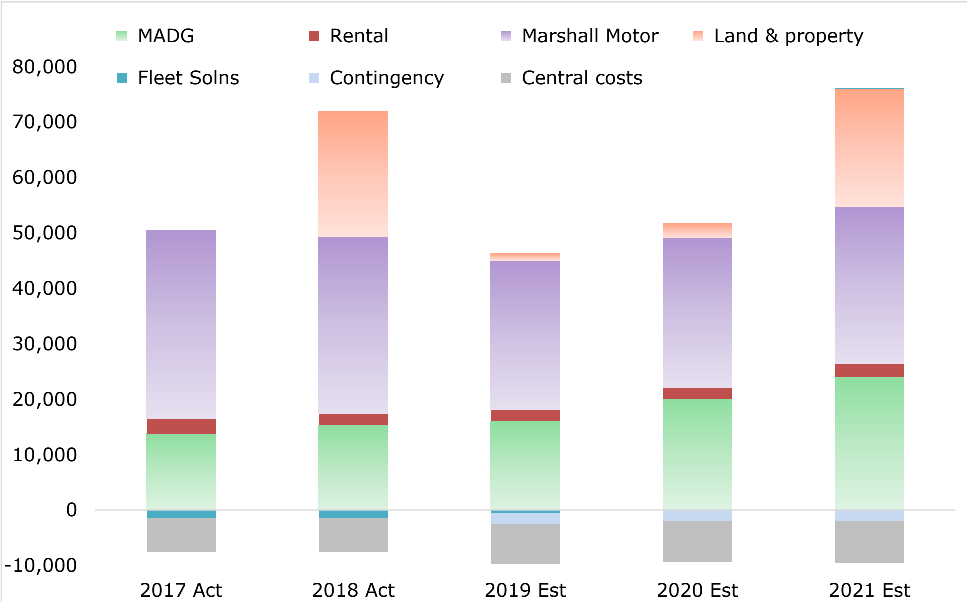
We think that the simple answer is that MCH has simply 'flown under the radar' with few investors hearing about it. Let alone knowing whether it is possible to buy shares, and how. Going forward, however, this should change, particularly as the group's upbeat 2018 results were an important indicator of things to come.

Encouraging 2018 results and outlook

Adjusted EBIT and EPS jumped 50% and 112% respectively to £64.4m (vs £43.0m 2017) and 66.7p (31.4p). Albeit a large part of this was due to a £22.6m gain from Marleigh land sold into the 'Hill Marshall JV LLP', augmented by improving results at MADG. Elsewhere MMH experienced tougher conditions, which like its rivals, saw new vehicle sales fall, reflecting the introduction of tighter emissions standards (re diesel) and UK consumer restraint.

Separately, MCH also rents out nearby commercial buildings and land for farming/agricultural activities - recording revenues and EBIT of £8m and £2m annually.

Divisional breakdown of adjusted EBIT (£'000s)



Source: Equity Development.

Elsewhere, we think that there is scope to enhance productivity and reduce central overheads as the organisation scales.

Whilst at the same time rightsizing the loss-making Fleet Solutions arm (eg sales/servicing of refrigerated units on delivery vehicles for food/pharma distribution) and lifting results at Cambridge airport, which are rolled up into MADG as a cost centre. The latter generating landing fees, along with providing the necessary airstrip to service the RAF's C-130 fleet.

Corporate venturing opens another tech-door

Additionally, MCH operates two small venture capital funds (Martlet and MarQuity), which invest in high-tech start-ups situated near Cambridge (eg University spinouts). As at Dec'18, these two portfolios had a combined worth of £6.6m. This seems to be a smart move, as we hope innovation created in these fledgling businesses might well be integrated across the wider group.

Fleet Solutions getting back on its feet

This is the UK's largest independent refrigeration (mostly for food), tail lift and commercial vehicle fleet support organisation, which posted 2018 revenues of £47.4m vs £42.8m 2017. Servicing customers such as Tesco's online delivery vans, reselling of Thermo King equipment and employing c. 200 mobile engineers, together with a national call centre.

24-7 and 365 day national coverage for UK customers

Source: Company

The company is one of the few that offers countrywide fleet management, breakdown support, repair and routine maintenance. Although it has been loss making for some time, partly due to tough price competition, we think there is scope to increase product differentiation, shift further up the value chain, enhance pricing, reduce overheads and win market share.

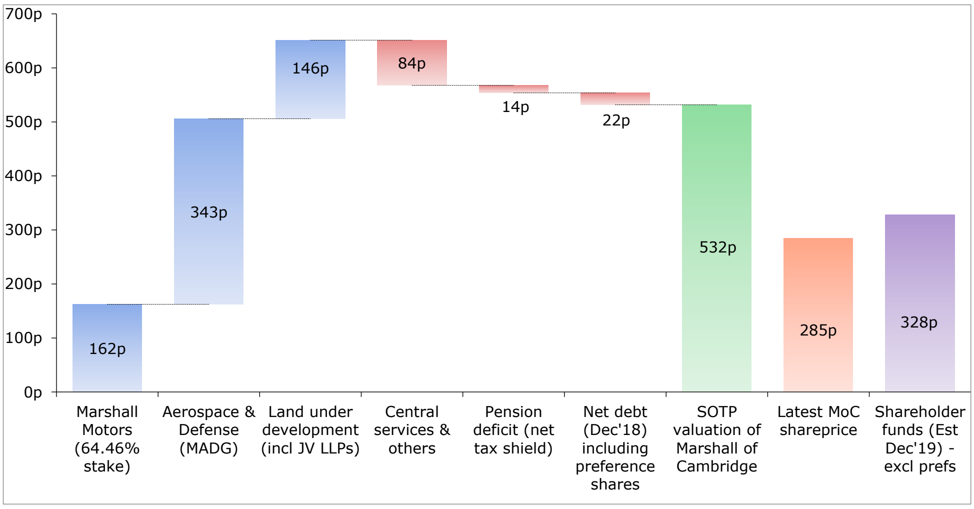
Moreover, a new leadership team was appointed in late 2018 and is tasked with turning around the business and importantly improving ROCE - assisted by the increasing popularity of grocery home deliveries. If successful, then we suspect MFS could eventually churn out EBIT margins of 7% - although none of this has been baked into our forecasts.

Valuation

Our sum-of-the-parts (SOTP) comes out at 532p/share (see below) – 87% higher than the most recent traded price of 285p.

Moreover, it is noteworthy that this excludes any further upside arising from additional land being made available for redevelopment.

SOTP valuation Marshall of Cambridge (p/share)



Source: Equity Development

Assumptions underpinning our valuation

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

Source: Equity Development

Capital discipline at the heart of the group

Lastly, it is well worth mentioning the Board of Directors, who in our opinion are not only investing in the right areas, but also prepared to take tough decisions and set appropriate targets for management.

Executive Chairman, Alex Dorrian brings a wealth of aerospace/defence experience, gained from a career with BAe Systems and Thales. **CFO, Sean Cummins** (ACA) possesses 30 years' experience, and was previously GFD at WYG plc. While **Vice Chairman, Robert Marshall** spent time working in the US with Lockheed Martin before joining the Group in 1994. Robert was CEO from 2012 to 2019.

The Group operates with plc standards of corporate governance, with a number of FTSE100/250 experienced non-executive directors on the Board and its committees.

Careful stewardship by the Marshall family

In summary, we think that MCH's NVPOs offer patient investors substantial capital appreciation, allied to a steady income stream.

Additionally, given the size of the Marshall family's holding, third party shareholders should feel reassured that MCH's prospects are in capable hands and interests aligned.

Finally, further opportunity could exist in the longer term as the remaining 700 acres of land, located within 3 miles of Cambridge city centre, is opened up for development.

Projections (£'000s)

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

Source: Equity Development

Key risks

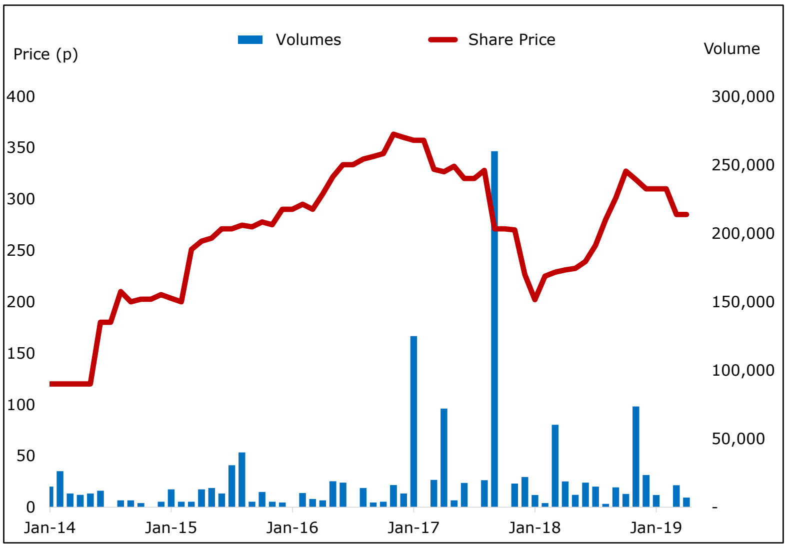
- Contract delays, overspends, compensation and reputational damage, as a result of major problems undertaking complex engineering projects.
- Recession, which could crimp the UK Motor industry and housing demand.
- Brexit – this has not materially impacted results to date, although it is possible future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

APPENDICES

Stock liquidity for patient investors

Volumes are reasonable for a private company, with 815,500 NVPOs traded between Jan'17-Dec'18. In aggregate equivalent to £2.385m, or an average price of 292p (see below).

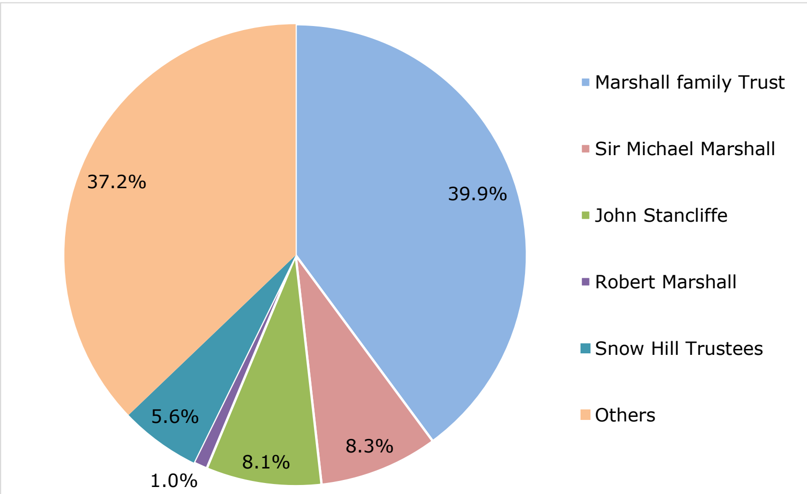
Price and trading volumes for NVPOs



Source: Company

The ordinary voting shares (13.8m) are substantially held by the Marshall family/trust, albeit the 45.3m NVPOs are entitled to an extra 2p dividend.

Breakdown of NVPO stockholders

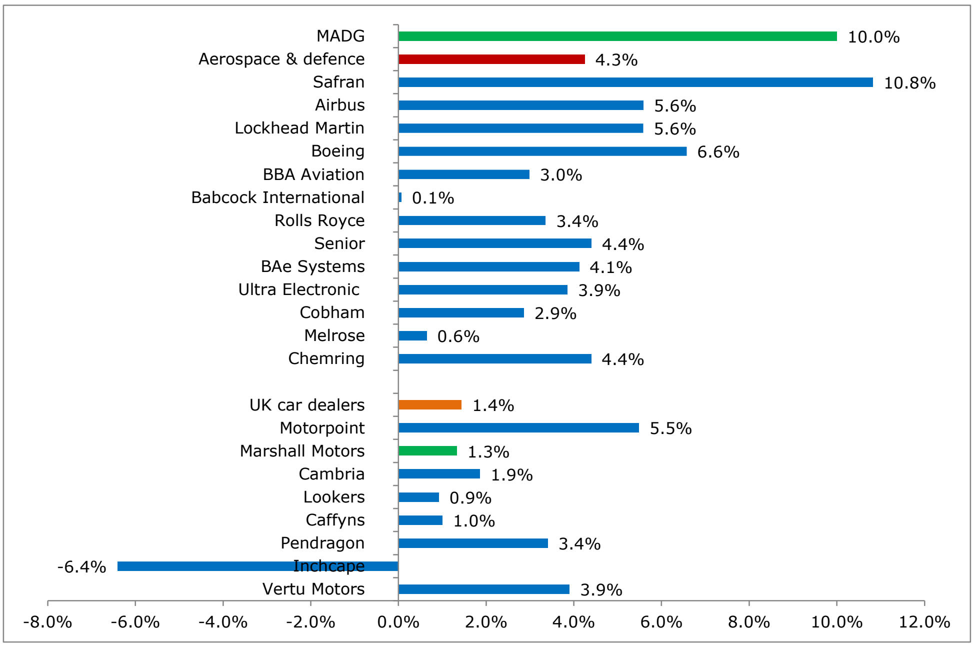


Source: Company

VALUATION BENCHMARKS & INDUSTRY KPIs

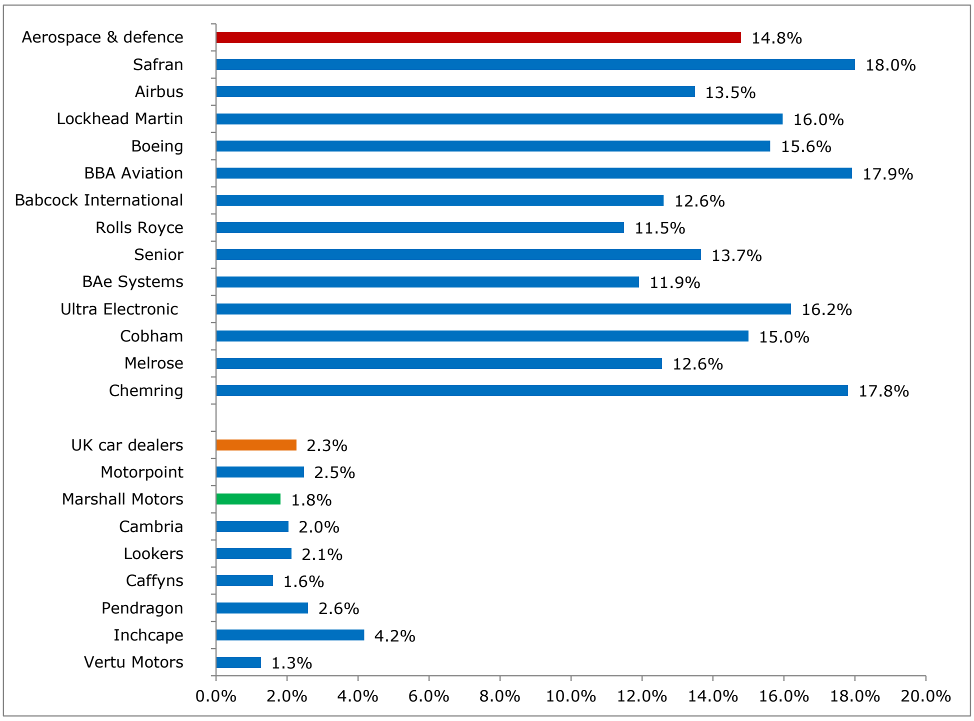
Aerospace and UK motor dealerships

Current year + 1 sales growth rates



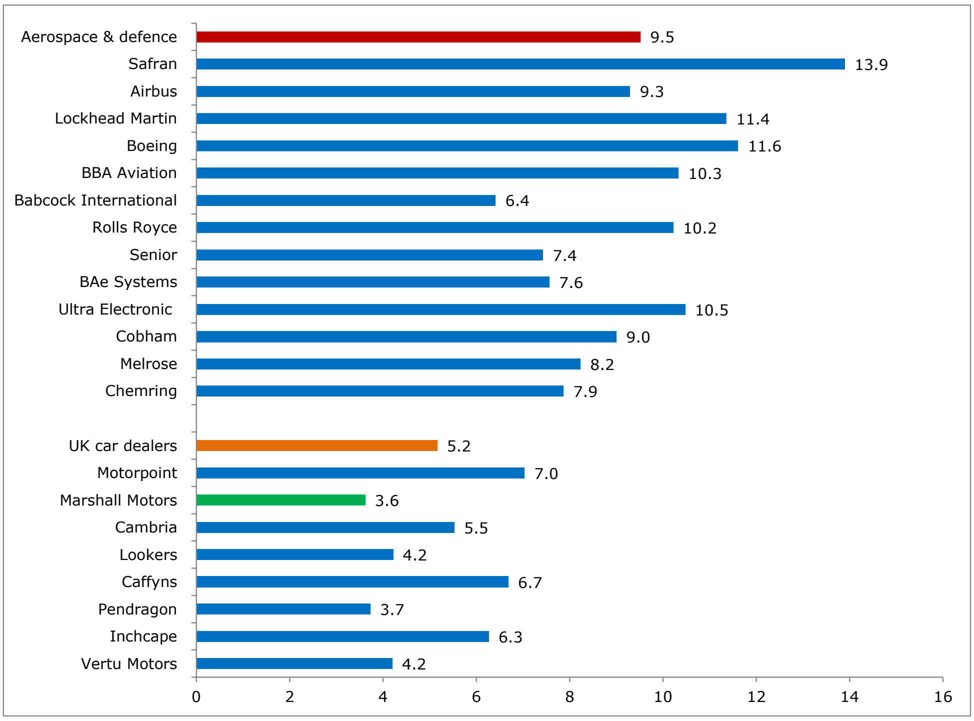
Source: Equity Development

Current year EBITDA margins



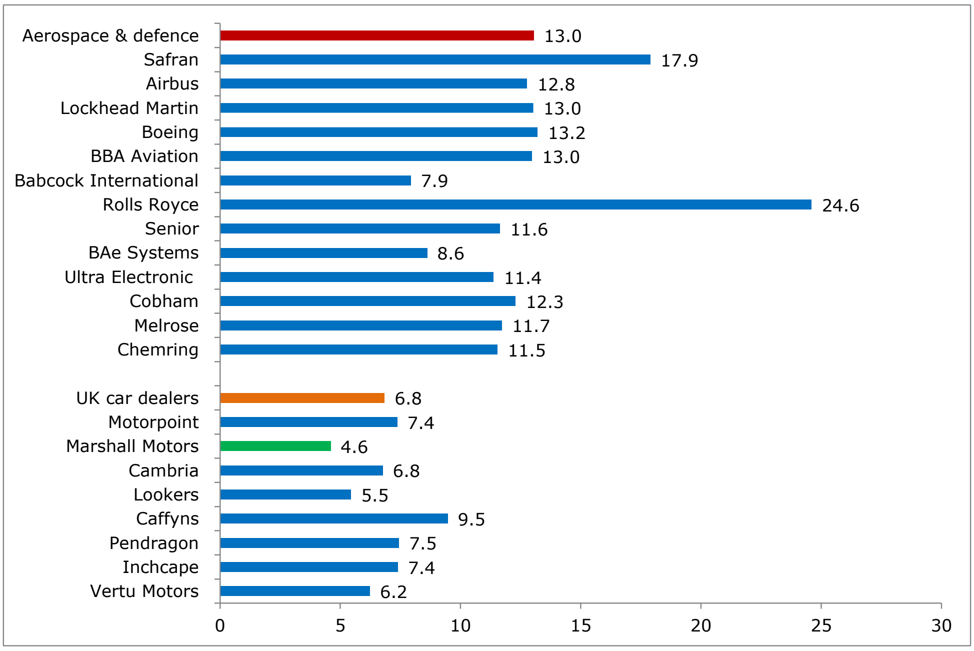
Source: Equity Development

Current year EV/EBITDA



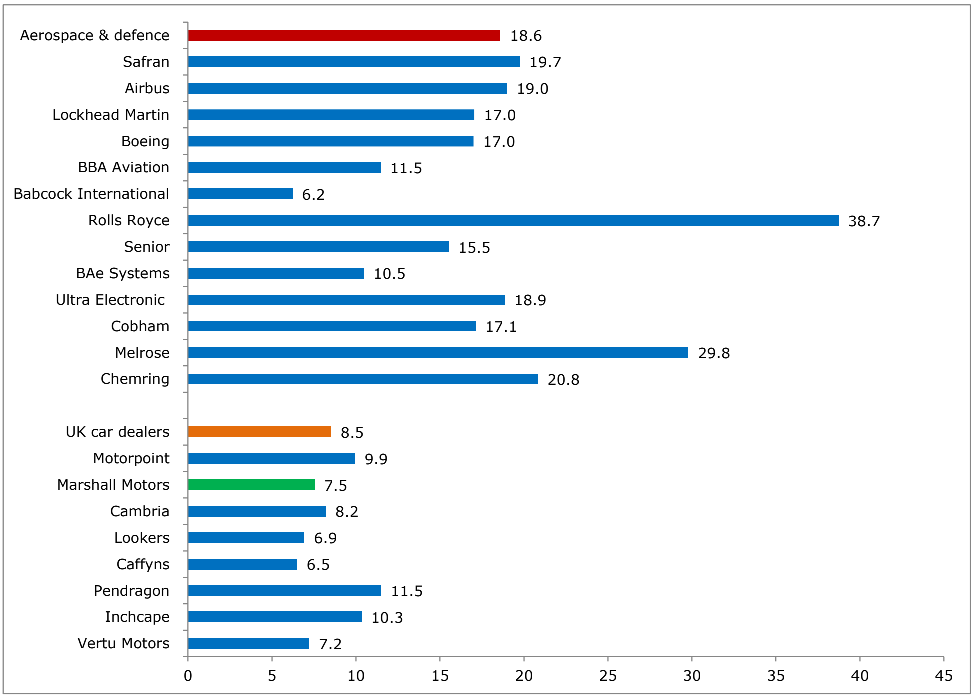
Source: Equity Development

Current year EV/EBIT



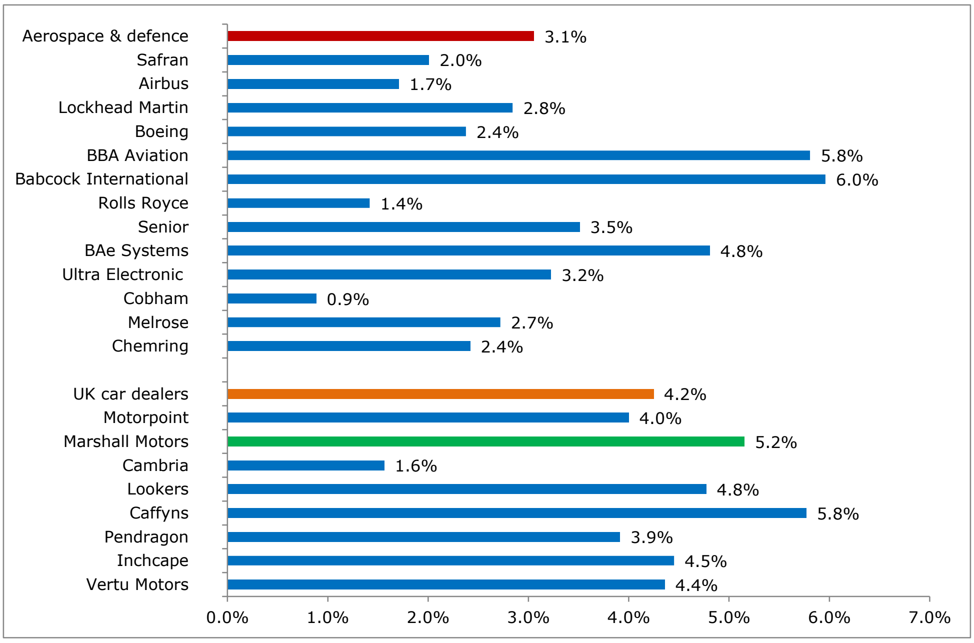
Source: Equity Development

Current year PER



Source: Equity Development

Current year dividend yield



Source: Equity Development

Joint Venture property accounting

The key accounting entries and cash streams of the JVs (eg Hill Marshall LLP) and MCH are summarised below:

1. Firstly, land is held at book value by MCH, with any preliminary work/costs (eg planning applications) being capitalised, rather than expensed to the P&L.
2. Next, at the point development commences, the JV buys the land at market rates, with half the monies owed, shown as within long term debtors in MCH's balance sheet. Under UK GAAP, only 50% of the profit can be recognised immediately, with the rest released to the P&L as/when properties are sold.
3. 50% of the cash payment for the transferred land is received up-front, with the payment received once the homes have been sold.
4. MCH's 50% stake in the JV is treated as a long-term 'investment'. The JV debt is non-recourse, secured against the land, and therefore not consolidated into MCH's books.
5. The JV's development costs are also capitalised within WIP, and funded primarily via third party loans. Thus relatively little MCH equity is required.
6. Once profitable, 50% of the JV's earnings are reported as a single line in MCH's P&L before PBT.
7. Finally, after the JV LLP has completed all its work, the entity is wound up with any cash leftover being distributed between both partners.

Investor Access

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