

Marshall Motor Holdings

Driving out of lockdown

With the government allowing car dealerships to reopen from 1 June 2020, Marshall Motor Holdings (MMH) has issued a trading update and plans to progressively return to full operation in a COVID-19 secure fashion. The protection of both its employees and customers remains the company's paramount consideration. Financially MMH appears to have weathered the shutdown well with adjusted net debt (excluding IFRS 16 leases) of £3.2m at 31 May, although it expects to report an H120 loss before tax in August. The major question is the pace of demand recovery and that still depends on the uncertainties caused by the pandemic. Guidance was withdrawn as lockdown started and, given the uncertain H220 prospects, we are not reinstating estimates yet. MMH looks well positioned to resume trading.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	2,186.9	24.7	26.3	8.54	4.4	7.4
12/19	2,276.1	22.1	22.9	8.54	5.0	7.4
12/20e	N/A	N/A	N/A	N/A	N/A	N/A
12/21e	N/A	N/A	N/A	N/A	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H120 trading unsurprisingly tough

The imposition of lockdown in England disrupted sales from 23 March 2020, the busiest new car registration month of the year, and largely eliminated trading in April and May. The furloughing of 90% of staff and other mitigation measures helped to reduce operating costs by 50% during lockdown. A focus on cash management reduced discretionary spend, deferred capex and lowered working capital, supported by manufacturers and other partners. Trading was ahead of plan before the dealerships were shut and one of the busiest trading weeks of the year was lost, although MMH outperformed the new UK car market. With limited Q220 trading management expects to report a loss before tax for H120.

Secure return to operations

Aftersales operations reopened to all last week. Now all 117 showrooms and other operations are reopen following stringent risk assessments, the adoption of new operating procedures and protocols, and mandatory staff training. Initially around 50% of employees should return to work, and more will do as markets hopefully recover to more normal demand levels. Banks and other lenders appear supportive and the refinancing of the £120m RCF due in June 2021 is progressing, with a likely temporary revision to covenants and a market-led increase in interest rates.

Valuation: Should recover with demand

Even in the good times automotive retail groups are normally afforded major discounts to their retail peers, largely in anticipation of cyclical shocks such as the current pandemic. As trading recovers the multiples should return to normal levels through a combination of rising EPS and share prices, that should be accompanied by healthy support from the future resumption of dividend payments.

Reopening of showrooms

Automobiles & parts

2 June 2020

Price 115p
Market cap £90m

Adjusted net debt (£m) at 31 May 2020	3.2
Shares in issue	78.2m
Free float	35%
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	15.0	(26.3)	(30.3)
Rel (local)	7.5	(19.9)	(19.7)
52-week high/low		167p	85p

Business description

Marshall Motor is the seventh largest UK motor retailer, operating 117 franchises spread across 24 brands in 28 counties. It is one of six UK dealership groups that represent each of the top five volume and premium brands. The group has a strong presence in eastern and southern England.

Next events

AGM	16 July 2020
H120 results	August 2020

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H120 trading environment

Strength of trading before lockdown

Trading in Q120 had been encouraging until the imposition of lockdown measures from 23 March 2020 when all showrooms were shut. March is traditionally the strongest month of the year for new car sales as the registration plate changes year, usually accounting for around 20% of annual registrations. Management had been confident of an 'excellent operational and financial performance' in Q120 up to that point. The loss of the completion of sales and deliveries in the final week of the first quarter is normally the busiest period. MMH still outperformed the new car market in the UK with new car like-for-like unit sales down 10.6% (UK new vehicle registrations down 31.0%), with like-for-like used car sales down 9.7% broadly in line with the market. Aftersales revenues also suffered from a lost week of trading and were 3.1% lower despite losing around 9% of trading days. Overall group like-for-like revenues were down 6.9%.

Response to COVID-19 and lockdown

The key measures MMH put in place during the lockdown were:

- All showrooms were shut from 23 March 2020, with an online and phone operation supporting retail customer engagement
- Teams were retained to support fleet and online customers
- 62 aftersales operations remained open to support essential vehicle mobility for key workers, services and vulnerable people
- 90% of MMH's 4,300 staff were placed on furlough through the government-backed Coronavirus Job Retention Scheme (CJRS), topped up by the company
- Voluntary pay reduction for board members and senior staff in line with those on the CJRS, with non-furloughed staff receiving 100% of normal pay

MMH supported employees who had been furloughed by topping up CJRS to 100% of pay in March, 90% of pay in April and 85% in May. The £2,500 per month CJRS cap was not applied. With all employees experiencing some impact from the pandemic, the importance of staff engagement during lockdown for mental wellbeing was recognised and communications were stepped up to update furloughed staff on developments and the actions being taken.

In May 2020, MMH was once again confirmed as being a 'Great Place to Work' by the Great Place to Work Institute. It was 12th out of 30 large companies that were ranked, the sixth year running it has been ranked.

The aftersales operation generated a small loss due to the limited level of operation. Its continuation was important during the national emergency and a response to the unprecedented financial support from government.

Trading and financial performance in lockdown

Adjusted net debt (excluding IFRS 16 leases) fell to £3.2m at the end of May 2020 compared to £30.6m at the start of the year. The improvement was largely the result of an unwinding of working capital before lockdown, as high start of year debt levels related to the fleet operations were paid down (c £10m). The subsequent focus on cash management during the lockdown included a significant reduction in debtors which should reverse as trading picks up. The CJRS furlough scheme and temporary relief on business rates provided substantive cash cost reductions unavailable in previous downturns. These were supported by more usual cash preservation

measures including a reduction in sales and marketing and other discretionary spend, as well as agreeing mutually beneficial arrangements with some landlords and suppliers.

The company has achieved some limited sales during the period of lockdown, taking bookings for some 3,500 new and used vehicles orders across its retail and fleet segments, which compares to around 19,000 in the same period of 2019. Used vehicle demand has been the stronger segment primarily because a large proportion of new vehicle sales are associated with expiring financing agreements which have typically been extended by vehicle funders during lockdown.

The company expects to announce H120 results in August 2020, which management expects to show a loss before tax. Adjusted net debt is likely to be significantly higher than the 31 May 2020 level as working capital consumption increases to more normal levels in support of sales. The company has suspended dividend payments for now. We do not expect payments to resume until the FY20 payment at the earliest.

In terms of funding, the company is close to agreeing an extension of its £120m revolving credit facility (RCF) due to terminate in June 2021, which will be on revised and amended terms. The lower profitability in 2020 is likely to require a temporary waiver and amendment of covenants as net debt levels are expected to increase as trading recommences and debtors return to more normal levels. The banks are likely to seek increased margin in line with market increases.

The road ahead

We expect there to be pent up demand for both car purchase and service activities, which should mean a decent bounce-back in volumes of activities.

As already mentioned, new car demand may experience initial support as the mechanism of renewing finance contracts (including PCPs – personal contract purchase) reaching term, some of which have been extended during the lockdown, creates a wave in demand for new replacement cars. We expect a similar effect in used car markets. In addition, there may be an element of increased interest in both new and used car ownership as a result of the less favourable prospect of using public transport. Offsetting these we would expect some impact from the less supportive economic situation, especially regarding employment levels, and there could be a larger volume of used cars coming off finance plans across the market which could affect resale margins despite stronger demand.

Service plans and delayed MOTs should support the higher-margin aftersales business and MMH notes an encouraging pick up in bookings since workshops were reopened to everyone in the last week in May.

In the remainder of 2020 and into 2021 we would expect to see business volumes return to more normal levels, although it could take time for confidence to fully return in the retail and business car markets. Following the 2008/09 financial crisis, 2011 was the low point for new car registrations in the UK.

In the context of the overall UK automotive retail market we still expect the larger dealership groups such as MMH to be more favourably positioned to transition into recovery. We certainly expect the new normal to include continuing changes to the way customers engage with new car purchases and retail groups need to adjust accordingly. However, for now a physical presence to allow product inspection and test before purchase is unlikely to disappear. Some value-creating opportunities to extend networks may present themselves as smaller operators decide on value optimisation strategies.

Exhibit 1: Financial summary

	£m	2018	2019
Year end 31 December		IFRS	IFRS
PROFIT & LOSS			
Revenue		2,186.9	2,276.1
Cost of Sales		(1,933.6)	(2,015.3)
Gross Profit		253.2	260.8
EBITDA		52.3	52.0
Operating Profit (before amort. and except).		34.3	32.0
Intangible Amortisation		(0.3)	(0.4)
Exceptionals		(6.7)	(2.4)
Other		0.0	0.0
Operating Profit		27.3	29.2
Net Interest		(9.6)	(9.9)
Profit Before Tax (norm)		24.7	22.1
Profit Before Tax (FRS 3)		17.7	19.2
Tax		(4.7)	(4.1)
Profit After Tax (norm)		20.5	17.9
Profit After Tax (FRS 3)		13.1	15.2
Average Number of Shares Outstanding (m)		77.7	78.2
EPS - normalised (p)		26.3	22.9
EPS (p)		25.5	22.2
EPS - (IFRS) (p)		16.8	19.4
Dividend per share (p)		8.54	2.85
Gross Margin (%)		11.6	11.5
EBITDA Margin (%)		2.4	2.3
Operating Margin (before GW and except.) (%)		1.6	1.4
BALANCE SHEET			
Fixed Assets		262.9	390.2
Intangible Assets		112.2	119.3
Tangible Assets		150.7	162.9
Right of use asset			108.0
Investments		0.0	0.0
Current Assets		466.3	560.5
Stocks		384.0	470.7
Debtors		71.9	79.7
Cash		1.2	0.1
Other		9.2	10.0
Current Liabilities		(502.2)	(608.4)
Creditors		(501.5)	(582.8)
Short term borrowings		(0.6)	(25.6)
Long Term Liabilities		(30.8)	(139.9)
Long term borrowings		(5.7)	(5.0)
Lease Liabilities		0.0	(108.1)
Other long term liabilities		(25.2)	(26.8)
Net Assets		196.3	202.3
CASH FLOW			
Operating Cash Flow		39.2	43.6
Net Interest		(2.1)	(1.0)
Tax		(4.7)	(4.1)
Capex		(23.4)	(19.5)
Acquisitions/disposals		1.6	(27.4)
Financing		(1.0)	(0.9)
Dividends		(5.0)	(7.2)
Other		(7.6)	(9.0)
Net Cash Flow		(2.9)	(25.4)
Opening adjusted net debt/(cash)		2.2	5.1
HP finance leases initiated		0.0	0.0
Other		0.0	0.0
Closing adjusted net debt/(cash)		5.1	30.6
Net financial liabilities (including lease liabilities)			138.6

Source: Company accounts

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