

# FORTERRA PLC RESULTS PRESENTATION

HALF YEAR ENDED 30 JUNE 2020

10 SEPTEMBER 2020





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# AGENDA

1. Key points
2. Financial review
3. Business review
4. Outlook
5. Q&A



**Stephen Harrison**  
Chief Executive Officer



**Ben Guyatt**  
Chief Financial Officer

# KEY POINTS

- The health, safety and wellbeing of our employees remains our primary concern
- Decisive actions were taken throughout the pandemic to protect employees and preserve cash whilst continuing to serve customers
- Actions to right-size cost base completed; reducing fixed costs by £10.4m and affording greater flexibility going forward
- £55m equity placing and refinancing completed at beginning of July secures bank facilities out to 2024 and strengthens balance sheet
- Desford project funding secured with construction progressing
- Production has now resumed at all facilities operating in line with Government guidance to protect employees
- Trading since emerging from lockdown through to end of August has exceeded Management expectations. Although uncertainties remain, Brick and Block revenues were over 90% of the prior year in both July and August
- Subject to a continuation of current trading conditions, the Board expects full year EBITDA to be in the range of £27m-£32m



# FINANCIAL REVIEW





# FINANCIAL HIGHLIGHTS



- Revenue fell by 37% relative to the prior period due to the impact of COVID-19
- EBITDA before exceptional items decreased by £34.3m to £8.2m
- Result before tax and exceptional items decreased by £35.0m from a profit of £32.7m to a loss of £2.3m
- Exceptional items total £21.0m (of which £16.2m is non-cash) relating to impairment and the restructuring of the business as a result of the pandemic
- Net debt at 30 June 2020 and prior to the receipt of the proceeds from the equity placing of £80.3m (including IFRS lease liabilities of £11.7m)
- Refinancing and equity placing completed in July 2020 further strengthening balance sheet

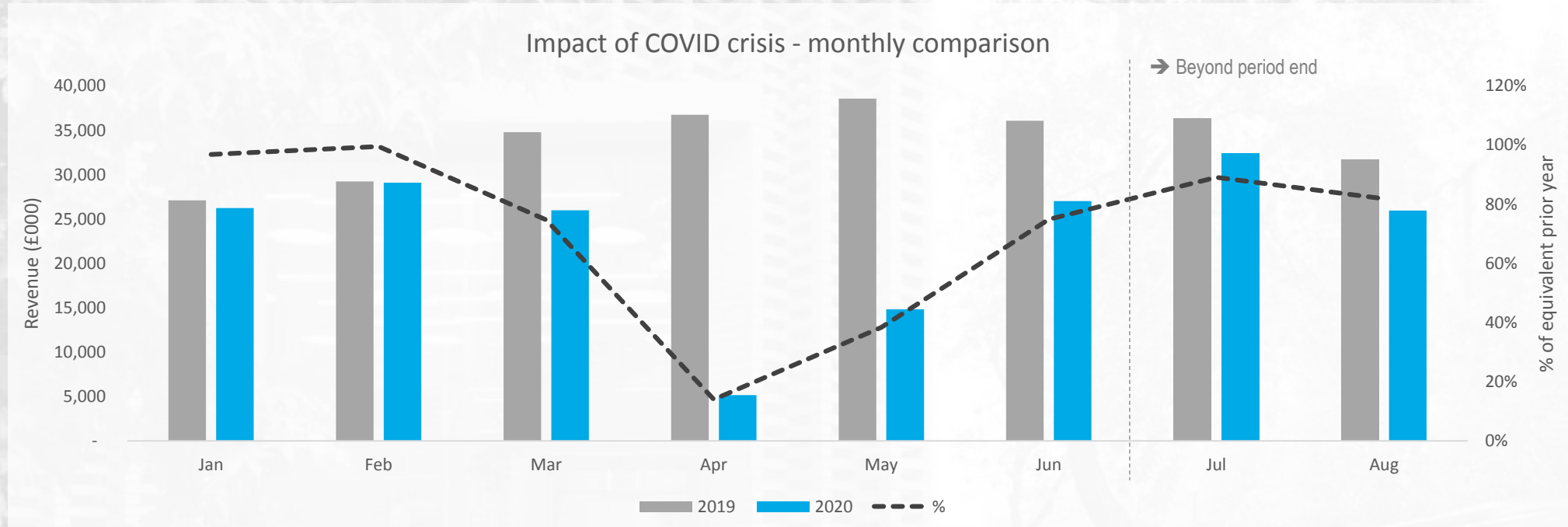
# KEY FINANCIALS

	Six months ended 30 June 2020			Six months ended 30 June 2019	
	Statutory	Exceptional items	Before exceptional items	Statutory*	Variance
£m (unless stated)					
Revenue	122.4	-	122.4	193.6	(36.8)%
EBITDA	(12.4)	20.6	8.2	42.5	(80.7)%
Operating (loss)/profit	(21.4)	20.6	(0.8)	33.9	
(Loss)/Profit before tax	(23.3)	21.0	(2.3)	32.7	
Earnings per share (pence)	(10.3)	10.3	-	13.6	
Net debt	80.3	-	80.3	49.6	30.7
Interim dividend (pence)	-	-	-	4.0	

*Note: There were no exceptional items in H1 2019 so these comparatives are directly comparable with the 2020 result before exceptional items*

Like-for-like

# COVID IMPACT – MONTHLY REVENUE



- During the heart of the lockdown period, revenue in April fell to 14% of the equivalent month prior year
- By June this had improved to 74%
- Bricks and Blocks revenues have recovered to over 90% of prior year in both July and August



# SEGMENTAL RESULTS: BRICKS AND BLOCKS

	Six months ended 30 June 2020			Six months ended 30 June 2019
£m	Statutory	Exceptional items	Before exceptional items	Statutory
Revenue	90.5	-	90.5	143.9
<b>EBITDA</b>	<b>3.4</b>	7.7	<b>11.1</b>	41.6
EBITDA margin	<b>3.8%</b>	-	<b>12.3%</b>	28.9%
Like-for-like				

- Trading started the year broadly in line with expectations following a slower end to 2019 driven by uncertainty around Brexit and the General Election
- Recovery in demand in May and June driven by the merchanting sector feeding off strong RM&I demand along with that from smaller housebuilders
- Demand from larger housebuilders strengthened in July and August as merchant demand stabilised
- Costs of exiting surplus energy contracts of £2.1m recorded as an operating expense

# SEGMENTAL RESULTS: BESPOKE PRODUCTS

	Six months ended 30 June 2020			Six months ended 30 June 2019
£m	Statutory	Exceptional items	Before exceptional items	Statutory
Revenue	33.0	-	33.0	50.9
EBITDA	(15.4)	12.5	(2.9)	0.9
EBITDA margin	(46.7)%	-	(8.8)%	1.8%
Like-for-like				

- Revenue decrease of 35% as a result of the pandemic
- We envisage a greater negative impact of the pandemic on multi occupancy and commercial construction which has greater relevance to the hollowcore business
- Majority of headcount reductions announced have been made from Bespoke products, particularly within Bison Precast and the mothballing of the hollowcore flooring facility at Swadlincote
- Infrastructure projects have proved more resilient and following on from the successful Wellingborough prison project we have now been awarded a large order working with Lendlease on the construction of the next new prison at Glen Parva in Leicestershire

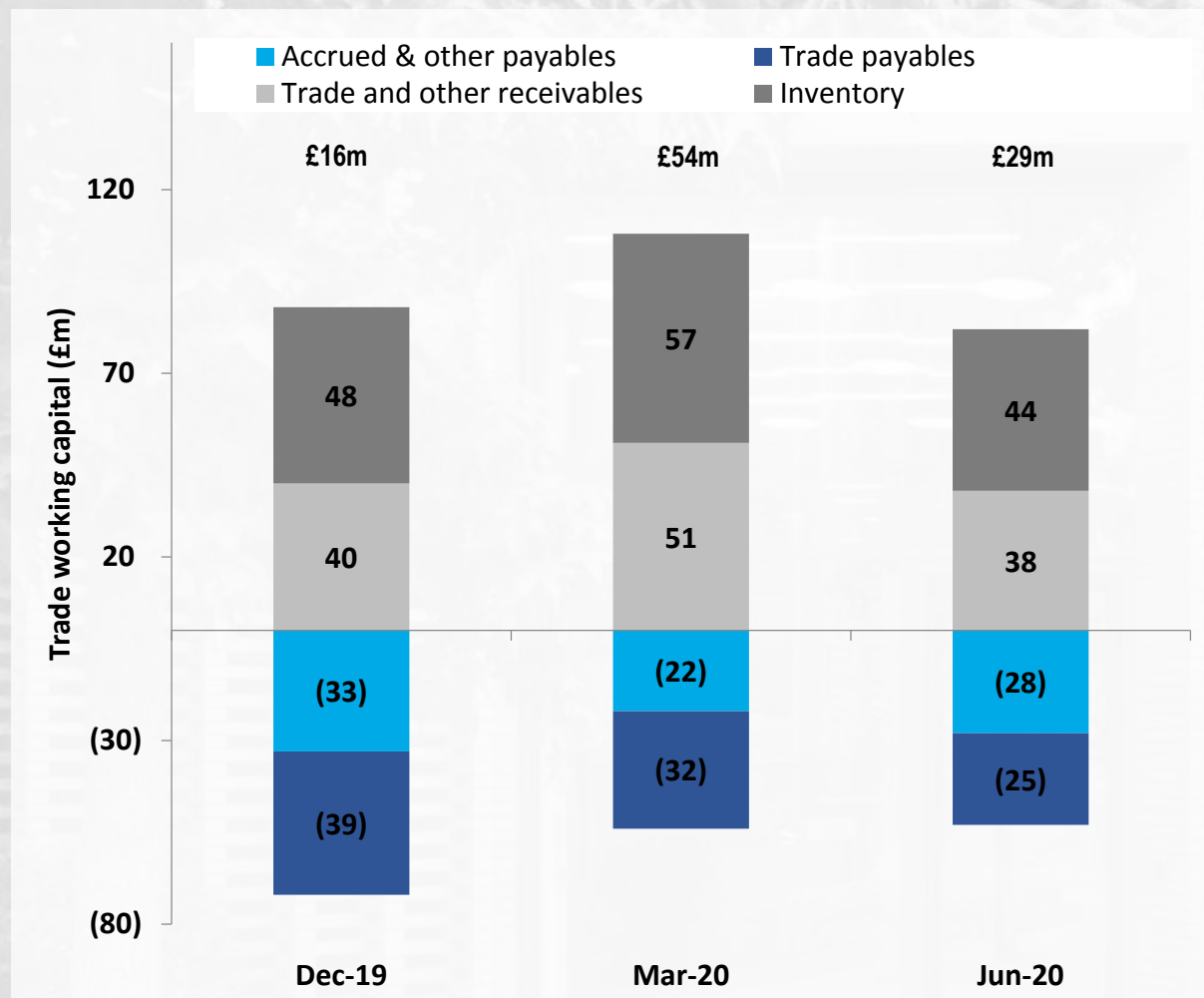


# COST SAVINGS / EXCEPTIONAL ITEMS

£m	Profit and loss charge			Cash outflows		
	H2 2019	H1 2020	H2 2020 (est.)	H2 2019	H1 2020	H2 2020 (est.)
Restructuring costs	3.6	4.4	-	-	0.6	7.4
Aborted transaction costs	0.7	-	-	0.7	-	-
Refinancing costs	-	0.4	2.9	-	-	3.1
Impairment charges	-	16.2	-			
	<b>4.3</b>	<b>21.0</b>	<b>2.9</b>	<b>0.7</b>	<b>0.6</b>	<b>10.5</b>

- Swift management action to reduce fixed cost base by £10.4m for one off cost of £4.4m
- Previously announced (2019) restructure at Kings Dyke London brick plant was completed in July 2020 with majority of cash outflow in H2
- Non cash impairment charges of £10.2m in respect of Swadlincote hollowcore facility and £6.0m of Formpave goodwill

# WORKING CAPITAL



- Working capital trend is seasonal with significant outflow in H1 (and in particular Q1)
- Strategy to match production to sales avoiding inventory growth in H2
- Customer payment patterns have returned to normal and no material bad debts incurred
- Half year working capital benefits from £5m of PAYE / CT deferrals paid in July 2020 and £0.7m of VAT to be paid in March 2021



# CASH FLOW

	2020	2019
£m	HY 2020	HY 2019
EBITDA	8.2	42.5
Change in working capital	(12.9)	(14.7)
Other movements	0.5	(0.2)
<b>Operating cash flow</b>	<b>(4.2)</b>	<b>27.6</b>
Exceptional items	(0.6)	-
Interest	(0.7)	(1.1)
Tax	(4.1)	(3.1)
Capital expenditure	(12.2)	(8.6)
EBT payments	(0.1)	(7.6)
Other movements	(1.1)	(3.4)
<b>(Increase) / reduction in net debt</b>	<b>(23.0)</b>	<b>3.8</b>

- Operating cash flow was significantly impacted by the effects of the pandemic with a net cash outflow from operations of £4.2m compared to an inflow of £27.6m in 2019
- During the lockdown the Group was able to protect its cash reserves and despite initial fears, was able to collect the overwhelming majority of customer receivables with only minor delays
- Current guidance on Desford spend:

<b>2019</b>	£12m
<b>2020</b>	£26m
<b>2021</b>	£24m
<b>2022</b>	£28m
<b>2023</b>	£5m
<b>Total</b>	<b>£95m</b>

# NET DEBT AND FACILITIES

£m	Net debt		
	AUG 2020	HY 2020	FY 2019
Cash and cash equivalents	22.3	81.9	26.6
Loans and borrowings	(40.4)	(150.5)	(69.8)
<b>Net debt excluding leases</b>	<b>18.1</b>	<b>68.6</b>	<b>43.2</b>
Lease liabilities	(11.0)	(11.7)	(14.1)
<b>Net debt</b>	<b>29.1</b>	<b>80.3</b>	<b>57.3</b>
<b>Net debt / EBITDA (x)</b>	<b>0.4</b>	<b>1.6</b>	<b>0.6</b>

- Net debt to EBITDA 1.6x at 30 June 2020 (FY19: 0.6x)
- Debt facility post refinancing now comprises a committed revolving credit facility (RCF) of £170m extending to July 2024



# BUSINESS REVIEW





# LONG TERM BRICK MARKET FUNDAMENTALS REMAIN SUPPORTIVE

## Short term



Source: MHCLG, CPA Forecast Summer 2020  
Note: CPA Forecast states Great Britain completions data

- There remains a shortage of housing in the UK with a clear gap in housing completions below the Government's target
- Housing market showing positive signs of recovery

## Long term



### UK Government supportive to demand

- Help to Buy in place to 2023
- SDLT holiday in place to March 2021
- Increase in PRS and mixed tenure housing



### Supportive demand side environment

- Population growth stimulating demand
- Potential re-focus on home environment / ownership post COVID



### Land availability

- UK Government initiatives to ensure release of development land



### Interest rate and credit availability

- Mortgage availability continues to be supportive alongside low interest rates



# HOUSING MARKET

Evidence suggests the housing market has exited lockdown strongly



*"The housing market has continued to experience remarkably high levels of activity. In the first week of August, sales subject to contract were at almost double their number the same time last year"*

”



*"Sales rates have shown strong recovery"*  
*"Construction activity now close to pre lockdown levels"*

”



*"House prices recover from recent dip to reach new all-time high in August (2020)"*

”

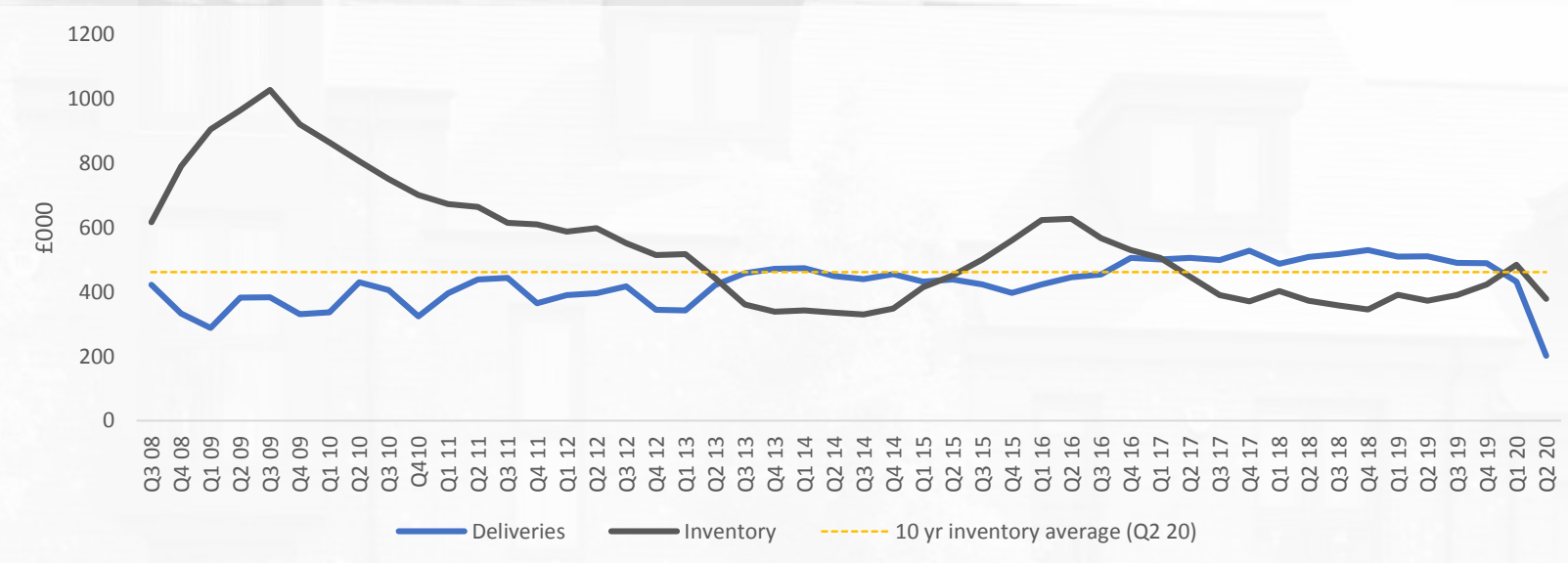


*"Following the reopening of the housing market on 13 May housing market activity is at record levels, with evidence of new home hunters coming into the market with changing needs as they reassess their priorities and further incentivised by the temporary stamp duty holiday."*

”

Source: Savills plc, Barratt Developments plc, Nationwide Building Society, Rightmove plc

Brick deliveries and inventory (domestic)



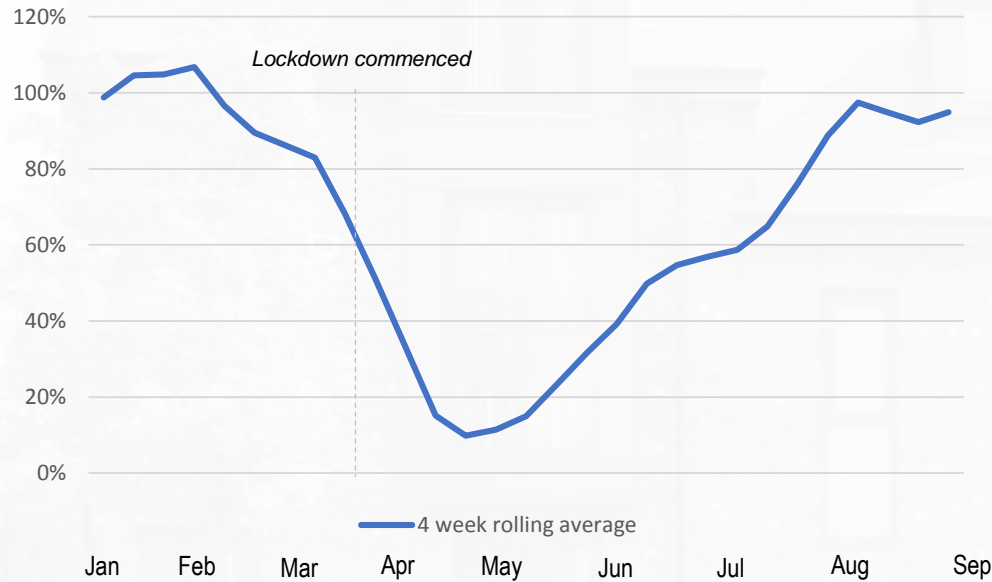
Source: Department for Business, Energy and Industrial Strategy

- Brick industry stocks have fallen during the pandemic reflecting reduced production across the period
- Imports in Q2 reduced by c.55% vs. the same prior year period
- Forterra sales volumes during the COVID crisis have reflected the market



# FORTERRA SALES VOLUMES

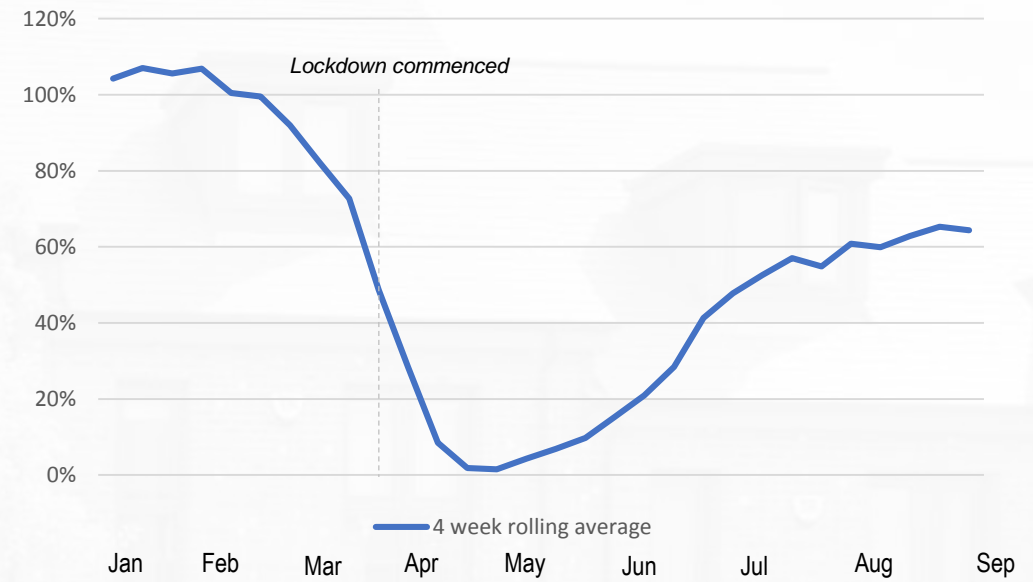
## Forterra Brick sales volumes



Source: Company information

- Forterra brick sales have recovered well having fallen significantly during the lockdown period
- Through July and August brick sales have been c.90% of prior year equivalent
- May / June focussed on finishing of existing plots with July / August seeing new housing starts

## Forterra Floor beam sales volumes



Source: Company information

- As one of the first products utilised in a residential build, flooring beam sales are a strong lead indicator for demand from housebuilders
- Floor beam sales continue to recover toward pre pandemic levels

# NEW DESFORD FACILITY

## Summary

- Project expected to generate attractive returns over the medium term and position the Group to benefit from the long-term growth in the housing market

## Progress update

- New factory building structurally complete
- £20.7m spent to date
- c.15% IRR over 20 years

## Revised timing

- Commissioning to commence in 2022
- Production to reach full run-rate in 2023
- First year of full production in 2024
- Full financial contribution expected from 2025





# SUSTAINABILITY

- Our Forterra sustainability update has been published today
- Focussing on developments across 3 key themes:

## PEOPLE

We care about the **Health, Safety** and **Wellbeing** of our people, their families and the **communities** we work within.



WE HAVE INVESTED IN OVER  
**3800**  
HOURS OF HEALTH & SAFETY TRAINING

OUR GRADUATE, APPRENTICE AND FURTHER EDUCATION DEVELOPMENT PROGRAMMES CURRENTLY SUPPORT  
**38**  
STAFF MEMBERS

WE HAVE SUPPORTED OVER  
**50**  
COMMUNITY AND CHARITY PROJECTS

WE HAVE DONATED OVER  
**80,000**  
BRICKS TO VOCATIONAL COLLEGES, SUPPORTING THE NEXT GENERATION OF SKILLED WORKERS

OUR BEST PRACTICE AWARDS CONTINUE TO RECOGNISE THE DETERMINATION OF OUR PEOPLE TO CONTINUALLY IMPROVE


“Did you realise... over 300 of our employees have more than 25 years service”



KEEPING BRITAIN BUILDING

## PLANET

We aspire to positively impacting our planet, **creating a better environment** for future generations to inherit.



WE ARE COMMITTED TO REMOVING ALL UNNECESSARY PLASTIC PACKAGING FROM OUR PRODUCTS, TARGETING ONE THIRD OF OUR BRICK SHIPMENTS DURING 2021  
**1/3<sup>RD</sup>**

OUR THERMALITE BLOCKS NOW USE RECLAIMED ASH, REDUCING OUR RELIANCE ON FUTURE CARBON PRODUCING POWER GENERATION

UPGRADING OUR FLEET TO **EURO 6** AND IMPLEMENTING IMPROVED TELEMATICS TO REDUCE MILEAGE AND CARBON EMISSIONS

SINCE 2015 WE'VE RESTORED LAND IN FOUR OF OUR QUARRIES TO PROVIDE NEW HABITATS FOR WILDLIFE

INTRODUCING SIGN ON GLASS AND E-ORDER ACKNOWLEDGMENTS HAS REMOVED OVER  
**170,000**  
PRINTED DOCUMENTS

“Did you realise...our active quarries cover over 385 acres and we're committed to restoring this land for future community use”



KEEPING BRITAIN BUILDING

## PRODUCT

Our products build and **enhance communities**, we continue to **develop new innovative and sustainable solutions**.



WE'RE INTRODUCING **NEW FACADE SOLUTIONS** FOR SAFE USE ON HIGH-RISE BUILDINGS

WE'RE TAKING CONSTRUCTION OFFSITE WITH OUR **BRICK FACED PRECAST PANELS**

WE ARE INVESTING **£95M** IN NEW BRICK FACILITIES WITH IMPROVED ENERGY EFFICIENCY

WE LAUNCHED **QUICKWALL** AN AESTHETIC OFFSITE SOLUTION FOR FLOOD DEFENCE PROJECTS

WE ARE ACTIVELY ADAPTING OUR CORE PRODUCTS TO REDUCE THEIR **CARBON IMPACT**

“Did you realise... annually our aggregate blocks utilise in excess of 100,000 tonnes of recycled process waste from other products manufactured across the group”



KEEPING BRITAIN BUILDING

- A further update with challenging new targets will be published in our 2020 annual report



OUTLOOK





- Confident in long term recovery of core markets
- Trading since lockdown has exceeded Management expectations
- Current recovery in housing market supported by welcome Government intervention
- The industry has made great steps in learning to operate in an environment where COVID-19 is present and our customers have adapted their ways of working which should mean that demand for our products will show greater resilience in future
- Subject to a continuation of current trading conditions, the Board expects full year EBITDA to be in the range of £27m-£32m
- Current levels of uncertainty prevent meaningful guidance for 2021





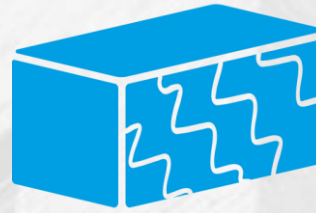
# Appendices



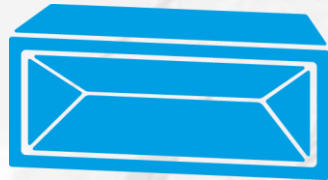
# AT A GLANCE



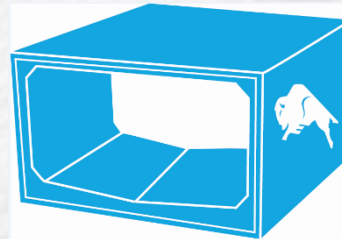
Leading UK producer of manufactured masonry products



Focus on bricks and blocks with complementary range of bespoke clay & concrete products

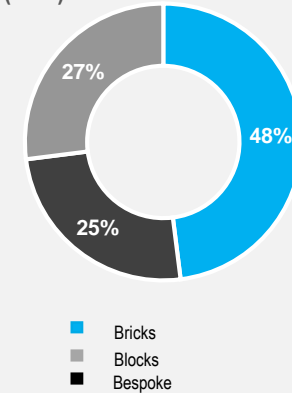


Sole manufacturer of iconic Fletton bricks sold under the London Brick brand

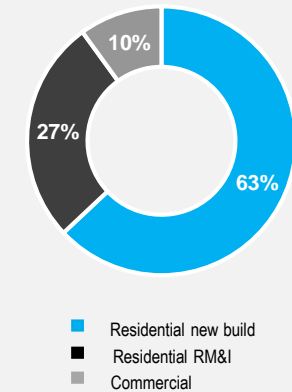


Precast concrete offering with associated high growth offsite manufacturing opportunities

Revenue by segment (%) (2019)



Revenue by end use (%) (2019)





# INVESTMENT CASE

## UK FOCUS

## RESILIENCE

## STRATEGY

## LEADERSHIP

### Iconic Fletton Brick

### Flexible production capacity

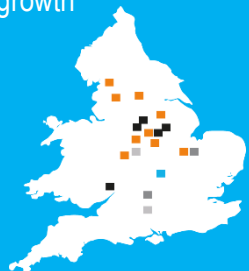
### Growth

### Efficiency

## 1. 100% in UK

Consolidated competitive landscape

Structural long-term growth



## 2. Sole manufacturer

Highest margins

Largely RM&I

Premium and resilient pricing

No imports available

## 3. Operational agility

Proven capability in matching capacity to market demand

Reacting quickly to ensure efficient operations

## 4. Well-equipped to deliver long-term growth through helping to meet the house building needs of the UK

Cash generative  
Capacity expansion in brick  
Able to progress appropriate acquisitions

## 5. An efficient manufacturing base is at the heart of our strategy

Debottlenecking projects completed across several facilities  
Continuously strive for operational efficiency through a lean manufacturing culture

## 6. Leadership team possesses strong industry experience

Track record of delivery

Ideally-equipped to ensure the business meets its long-term goals

# SUMMARY PROFIT & LOSS

£m	HY 2020	HY 2019	FY 2019
<b>Revenue</b>	<b>122.4</b>	<b>193.6</b>	380.0
<b>EBITDA</b>			
- Bricks and Blocks	11.1	41.6	80.4
- Bespoke Products	(2.9)	0.9	2.3
- Total	8.2	42.5	82.7
EBITDA margin (%)	6.7%	22.0%	21.8%
Depreciation and amortisation	(9.0)	(8.6)	(17.7)
<b>Operating (loss) / profit (before exceptionals)</b>	<b>(0.8)</b>	<b>33.9</b>	65.0
Finance expense	(1.5)	(1.2)	(2.5)
<b>(Loss) / Profit before tax (before exceptionals)</b>	<b>(2.3)</b>	<b>32.7</b>	62.5
Exceptional items	(21.0)	-	(4.3)
<b>(Loss) / Profit before tax</b>	<b>(23.3)</b>	<b>32.7</b>	58.2
Tax	2.8	(6.0)	(11.4)
<b>(Loss) / Profit after tax</b>	<b>(20.5)</b>	<b>26.7</b>	46.8
<b>Earnings per share (pence)(before exceptionals)</b>	<b>(10.3)p</b>	<b>13.6p</b>	23.8p



# SUMMARY BALANCE SHEET

£m	Jun 2020	Dec 2019
Intangible assets	11.3	18.2
Property, plant and equipment	182.7	182.6
Right-of-use assets	11.2	13.7
<b>Total non-current assets</b>	<b>205.2</b>	<b>214.5</b>
<b>Current assets</b>		
Inventories	44.2	47.8
Trade and other receivables	38.5	40.4
Cash and cash equivalents	81.9	26.6
Income tax receivable	2.9	-
<b>Total current assets</b>	<b>167.5</b>	<b>114.8</b>
<b>Total assets</b>	<b>372.7</b>	<b>329.3</b>
Trade and other payables	(60.8)	(71.5)
External borrowings	(150.5)	(69.8)
Lease liabilities	(11.7)	(14.1)
Other liabilities	(14.2)	(17.7)
<b>Net assets</b>	<b>135.5</b>	<b>156.2</b>



THE ORIGINAL  
**LONDON**  
BRICK

**ECOSTOCK**  
BRICK

**BUTTERLEY**  
BRICK

**CRADLEY**  
SPECIAL BRICK

**RED BANK**

**THERMALITE**

**CONBLOC**

**BISON PRECAST**

**JETFLOOR**

INNOVATORS IN  
**FORMPAVE**  
PERMEABLE PAVING

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