

Forterra plc Results Presentation

Full year ended 31 December 2019

10 March 2020



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AGENDA

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



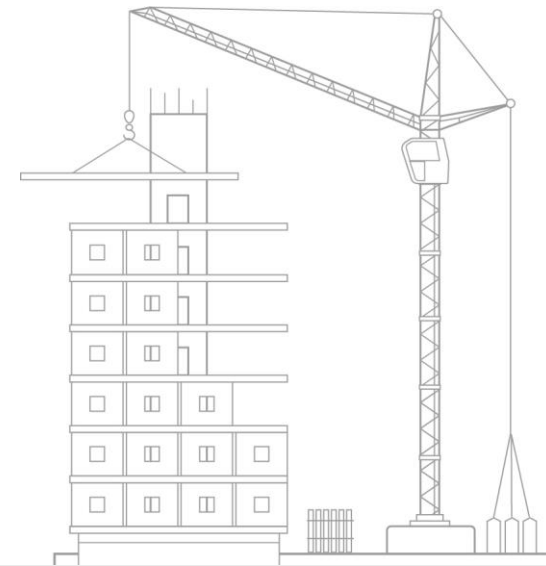
Stephen Harrison
Chief Executive Officer



Ben Guyatt
Chief Financial Officer

KEY POINTS

- Resilient performance against a challenging market backdrop
- Revenue increase from Bricks and Blocks despite slightly reduced sales volumes
- Strong revenue increase from Bespoke Products, albeit at lower margin
- Robust balance sheet – net debt to EBITDA 0.6x (2018: 0.5x)
- Construction of new Desford brick factory progressing well
- Dividend increase of 9.5%





KEY FINANCIALS

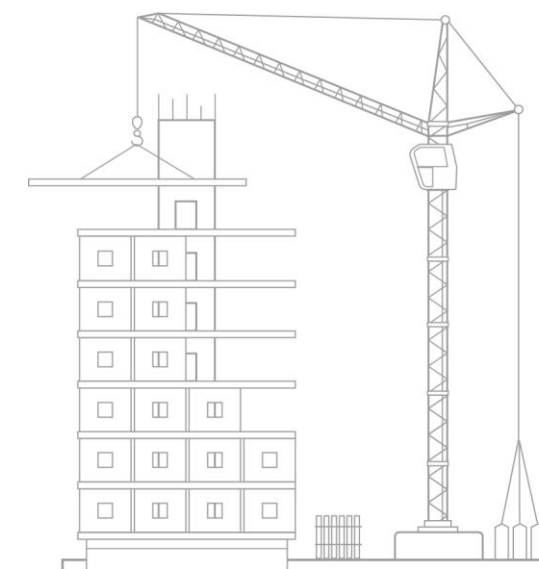


£m	Before exceptional items and IFRS 16		Statutory	
	FY 2019	FY 2018	FY 2019	FY 2018
Revenue	380.0	367.5	380.0	367.5
EBITDA	76.4	78.8	78.4	78.8
Profit before tax	62.5	64.8	58.2	64.8
Earnings per share (pence)	25.6	26.5	23.8	26.5
Net debt	43.2	38.8	57.3	38.8
<i>Net debt / EBITDA (x)</i>	0.6	0.5	0.7	0.5
Total dividend (pence)			11.5	10.5

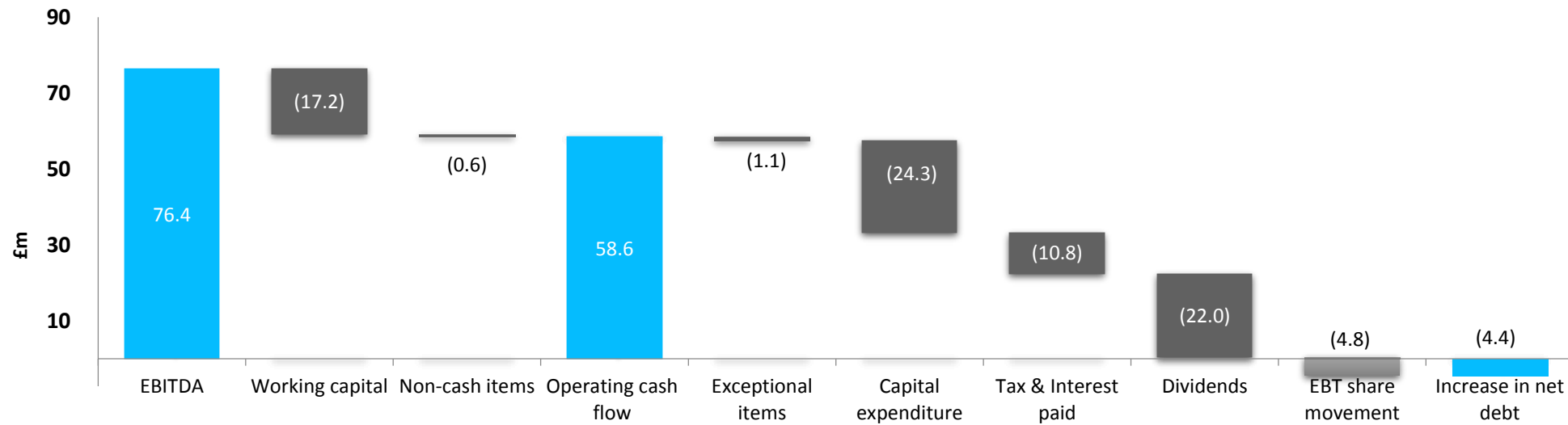


SUMMARY PROFIT & LOSS

£m	2019			Like-for-like	
	Statutory	IFRS 16 impact	Exceptional impact	2019 Before IFRS 16 and exceptional	2018 FY 2018
Revenue	380.0	-	-	380.0	367.5
EBITDA					
- Bricks and Blocks	77.1	(5.7)	3.3	74.7	75.8
- Bespoke Products	2.0	(0.6)	0.3	1.7	3.0
- Unallocated exceptional cost	(0.7)	-	0.7	-	-
Total	78.4	(6.3)	4.3	76.4	78.8
<i>EBITDA margin (%)</i>	20.6%			20.1%	21.4%
Depreciation and Amortisation	(17.7)	5.9	-	(11.8)	(11.7)
Operating profit	60.7	(0.4)	4.3	64.6	67.1
Finance expense	(2.5)	0.4	-	(2.1)	(2.3)
Profit before tax	58.2	-	4.3	62.5	64.8
<i>Effective tax rate (%)</i>	19.5%			19.3%	18.5%
Earnings per share (pence)	23.8p	-	1.8p	25.6p	26.5p



GROUP CASH FLOW



- Operating cash flow £58.6m (2018: £79.8m)
- Strong cash collections from customers. Debtor days of 40 (2018: 41)
- Working capital increase £17.2m, primarily resulting from inventory build
- £11.4m cash spend on the expansion project at Desford
- Net cash outflow includes dividends paid in the year of £22.0m and net purchase of shares by the Employee Benefit Trust (EBT) of £4.8m



NET DEBT AND FACILITIES

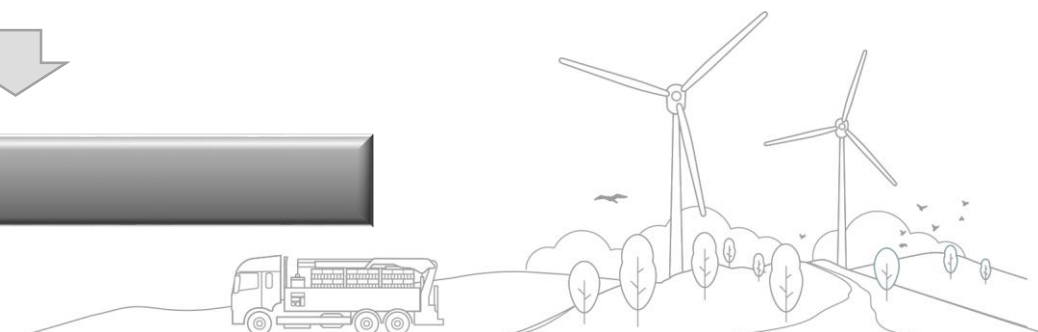
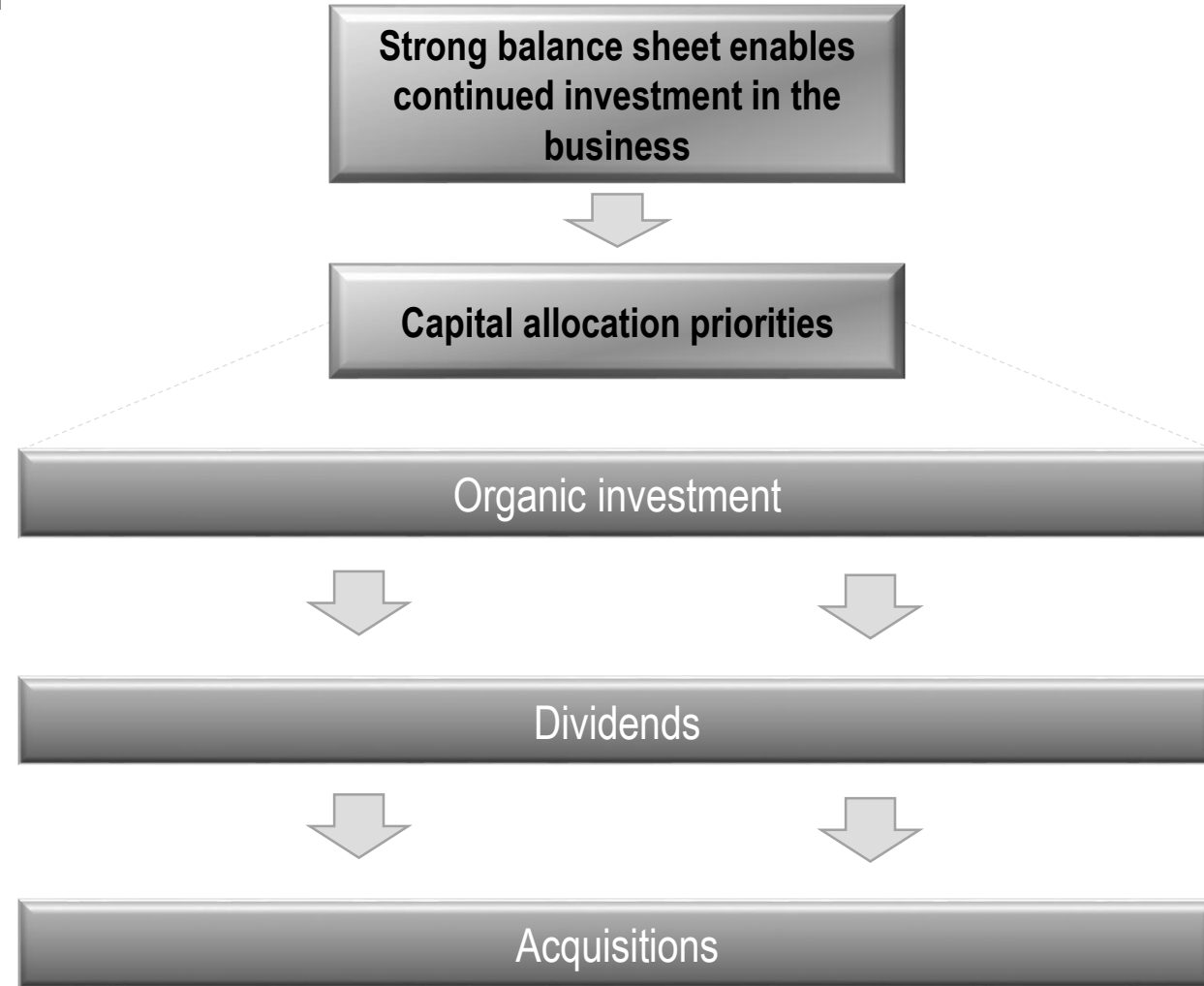


£m	Before exceptional items and IFRS 16		Statutory	
	FY 2019	FY 2018	FY 2019	FY 2018
Net debt	43.2	38.8	57.3	38.8
Net debt / EBITDA (x)	0.6	0.5	0.7	0.5

- Increase in net debt reflects spend on Desford project
- Net debt to EBITDA 0.6x (2018: 0.5x)
- Debt facility comprises a committed revolving credit facility (RCF) of £150m extending to July 2022. At 31 December 2019, £80m of the facility was undrawn
- On adoption of IFRS 16 the Group recognised a liability of £14.6m in respect of leases previously classified as operating leases
- Strong balance sheet enables continued investment in the business



CAPITAL ALLOCATION





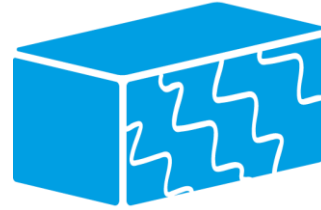
Business review

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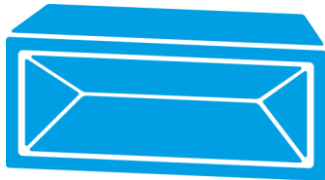
AT A GLANCE



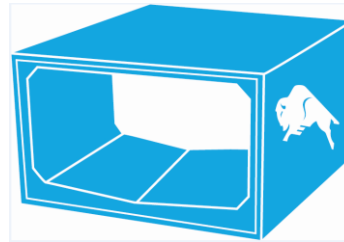
Leading UK producer of manufactured masonry products



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

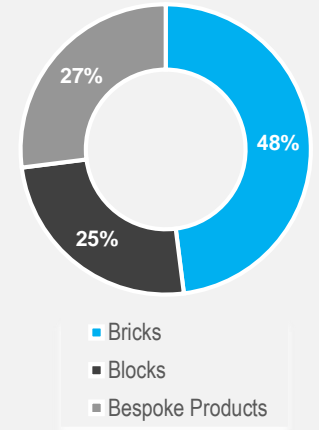


Sole manufacturer of iconic Fletton bricks sold under the London Brick brand

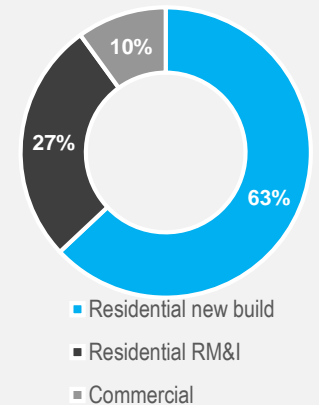


Precast concrete offering with associated high growth offsite manufacturing opportunities

Revenue by segment (%)



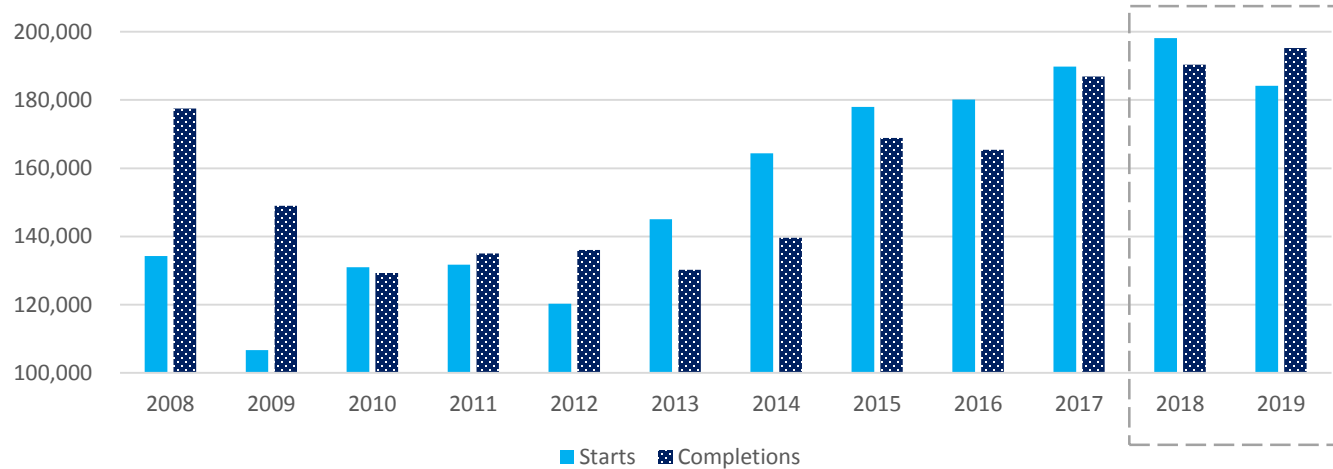
Revenue by end use (%)



MARKET DRIVERS

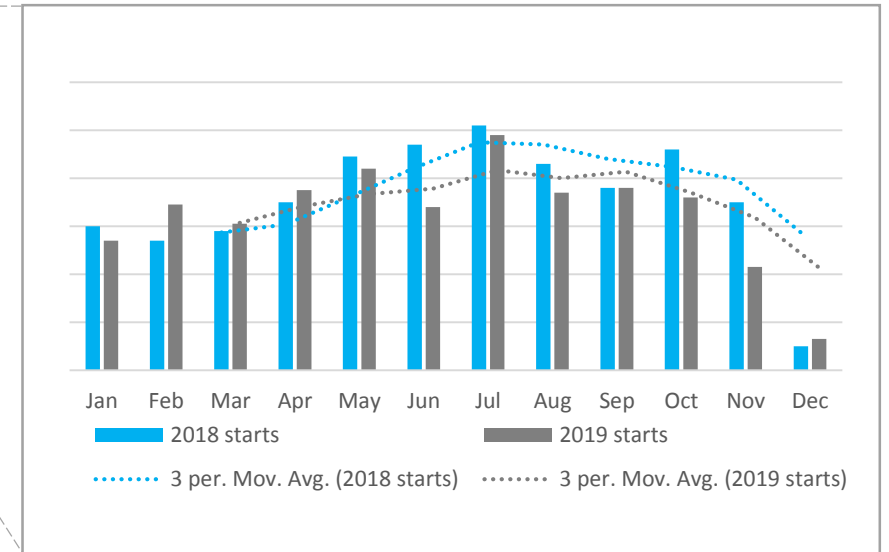
Residential starts and completions

Annual

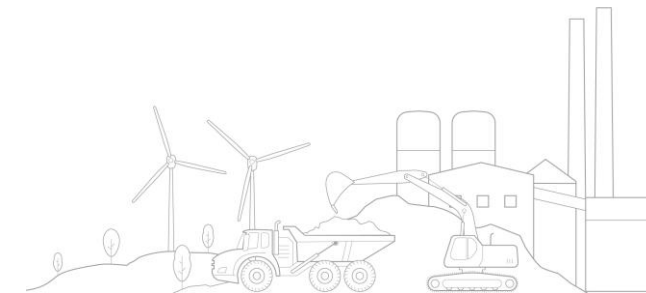


Source: Department for Business, Energy and Industrial Strategy, NHBC

Monthly starts (2018-2019)



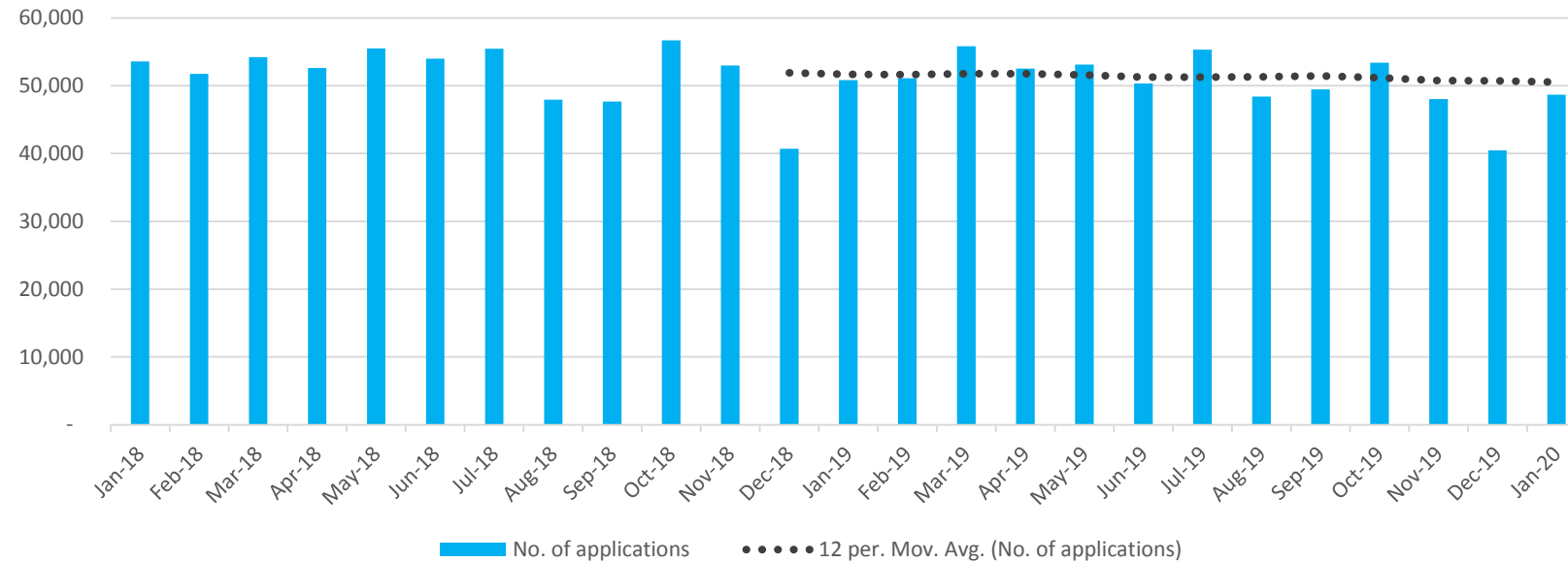
- Housing starts fell by 8% in 2019 (2019: 143,350, 2018: 155,100)
- Monthly data highlights the particular impact seen in H2
- In February 2020 the IHS Markit/CIPS UK Construction PMI index turned positive (>50) for the first time in ten months



MARKET DRIVERS



Residential planning applications for projects below £100k



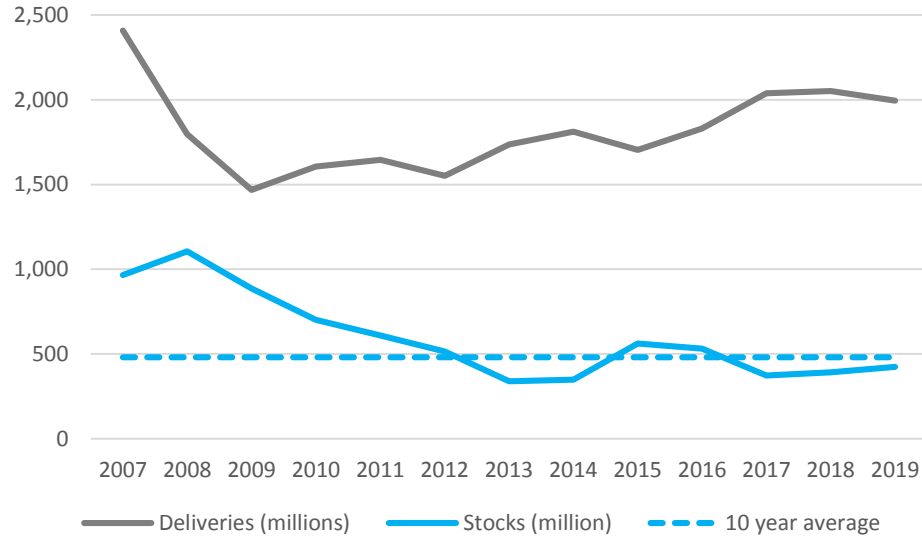
Source: Barbour ABI

- Planning applications for residential projects below £100k are used as a proxy for Repairs, Maintenance & Improvement demand



BRICK MARKET

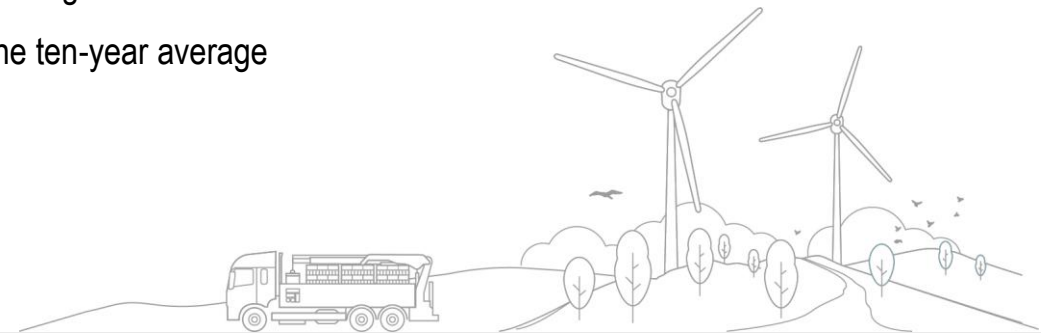
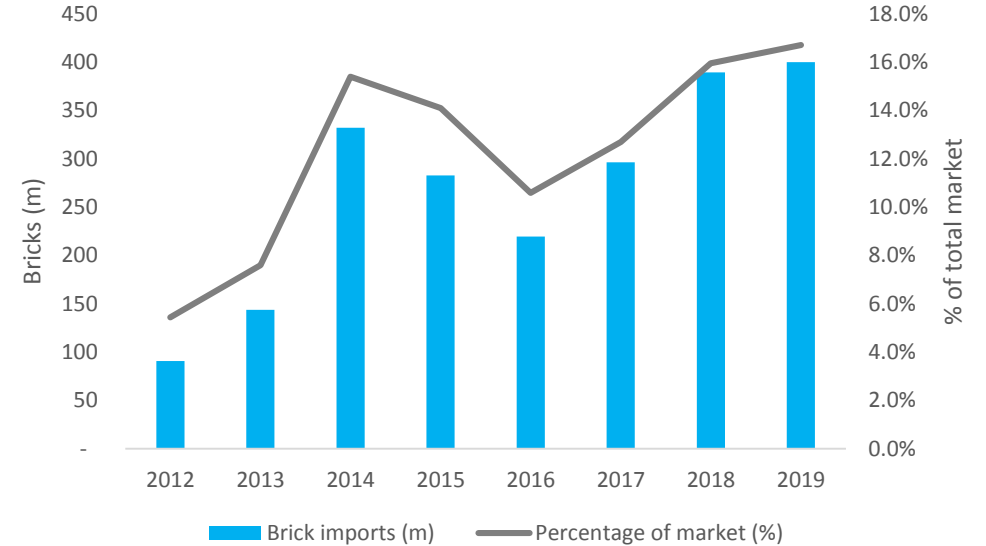
Brick deliveries and inventory (domestic)



Source: Department for Business, Energy and Industrial Strategy

- Brick industry stock levels continued to rise into early 2020, reflecting the slowdown in activity during H2 2019
- Stock levels at December 2019 were 20% higher than the previous year. This remains below the ten-year average
- Increased inventory facilitates improved customer service
- Imports broadly flat in 2019

Brick imports



BRICKS AND BLOCKS



£m	2019	2018	Change
	Before exceptional items and IFRS 16	FY 2018	
Revenue	279.1	277.5	0.6%
EBITDA	74.7	75.8	(1.5)%
EBITDA margin %	26.8%	27.3%	

- Segment impacted by weakening market in H2 2019
- Revenue remained broadly stable, with the selling price increases offsetting volume decline
- Block volumes fell by more than brick, due a competitive market driven by under-utilised capacity and higher level of supply chain inventory
- EBITDA margin remained strong and broadly consistent with prior year



NEW DESFORD FACILITY

Investment in new £95m brick facility continues at pace

- Capacity of 180m bricks per annum (25,000 new homes) adding 16% to brick production capacity

Progress update

- Significant transformation over the year:
 - demolition of a redundant area of the existing plant
 - substantial ground works completed
 - new factory building structurally complete
- Project allows the existing plant to remain operational during construction

Benefit and timing

- Commissioning to commence in 2021
- Production to reach full run-rate in 2022
- First year of full production in 2023
- Full financial contribution expected from 2024



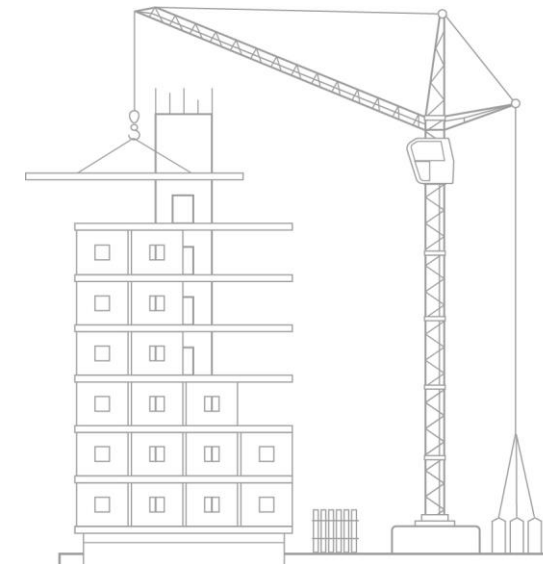
PRECAST CONCRETE MARKET



	EBIT margin movement (%)	
	2017	2018
Year-on-year movement	(6.9%)	(29.3%)
Competitors with margin growth	5	3
Competitors with margin decline	17	17

Source: Company Information, Companies House data

- Financial data from UK precast concrete competitors shows margins in the sector to have declined notably in recent years
- In 2017, 68% of companies experienced margin decline, rising to 87% in 2018
- Similar trend expected in 2019
- Encouragingly, significant precast concrete volumes expected from HS2



BESPOKE PRODUCTS



	2019	2018	
£m	Before exceptional items and IFRS 16	FY 2018	Change
Revenue	103.5	92.2	12.3%
EBITDA	1.7	3.0	(43.3)%
EBITDA margin %	1.6%	3.3%	

- Revenue growth from Bison Precast
- Despite growth, a challenging market and weaker margins did not deliver the anticipated EBITDA
- Management actions being taken to improve performance





OFF-SITE SOLUTIONS

Quickwall system

- An innovative and unique new product development
- 2019 saw the supply of prefabricated, single skin brick walls to a significant flood alleviation scheme in Derby
- We believe this solution focused development could be pioneering within the sector
 - Offsite produced walls reduce labour requirement onsite
 - Installation time reduced by 75%

OFF-SITE SOLUTIONS

Surebrick

- Our SureBrick façade system, a mechanically fixed fully non-combustible solution suited to projects both below and above 18 metres
- Further developed towards market launch in 2019
- Expanding our offering in alternatives to conventional brickwork



Precast panels

- Produced at our Somercotes factory in Derbyshire which has been re-focused upon offsite walling products often incorporating a brick façade
- Significant progress in this area culminated in a major contract at Wellingborough Prison

SUSTAINABILITY

- Initial 10 year targets set in 2010 coming to an end
- New stretching targets to be set in the coming year around:
 - People
 - Planet
 - Products

OUR TARGETS 2010-2020

	Change since 2010
Reduce Energy Use – Kwh per tonne by 10%	-3.9%
Reduce Carbon Emissions – Kg per tonne by 10%	-17.8%
Reduce our Waste to Landfill – Kg per tonne by 85%	-91.6%
Reduce our Mains Water Consumption – Litres per tonne by 25%	-41.9%





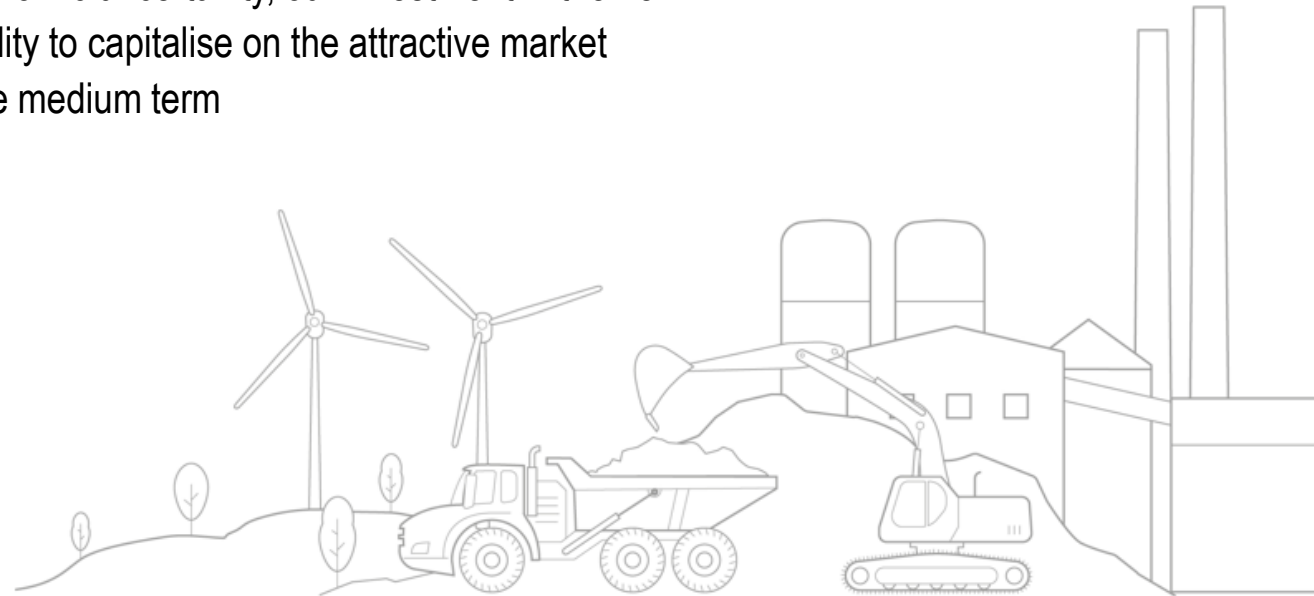
Outlook

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OUTLOOK



- We remain optimistic that demand will recover through the year although this may take some time given an extremely wet winter
- The Board continues to expect the challenging market conditions experienced in the second half of 2019 to gradually improve but anticipates that the Group's performance in the first half of 2020 will be below that achieved in the first half of 2019
- Whilst the Board remains watchful of any further political and economic uncertainty, our investment in the new Desford brick manufacturing facility, reflects confidence in our ability to capitalise on the attractive market fundamentals and to deliver sustainable shareholder value over the medium term





Q&A

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Appendices

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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

TECHNICAL GUIDANCE

Desford / capex cash spend guidance

- We expect 2020 to be the largest year of spend within the Desford project
- Total capex for 2020 expected to be around £56m
 - routine capex of £14m in addition to Desford spend of £42m

Period	Spend (£m)
Already spent	12
2020	42
2021	35
2022	6
Total Desford spend	95

Tax guidance

- Tax outlay of £8.8m was lower in 2019 due to receipt of historic refunds
- 2020 will see an extra tax outflow in the region of £6m (beyond normal levels) due to changes in HMRC rules around timing of payments



SUMMARY BALANCE SHEET

£m	Dec 2019	Dec 2018
Intangible assets	18.2	17.3
Property, plant and equipment	182.6	170.5
Right-of-use assets	13.7	-
Total non-current assets	214.5	187.8
Current assets		
Inventories	47.8	37.4
Trade and other receivables	40.4	37.9
Cash and cash equivalents	26.6	26.0
Total current assets	114.8	101.3
Total assets	329.3	289.1
Trade and other payables	(71.5)	(72.0)
External borrowings	(69.8)	(64.8)
Lease liabilities	(14.1)	-
Other liabilities	(17.7)	(18.1)
Net assets	156.2	134.2



SUMMARY CASH FLOW



	2019	2018
£m	Before exceptional items and IFRS 16	FY 2018
EBITDA	76.4	78.8
Change in working capital	(17.2)	2.7
Other movements	(0.6)	(1.7)
Operating cash flow	58.6	79.8
Exceptional items	(1.1)	-
Tax and Interest	(10.8)	(14.0)
Capital expenditure		
- maintenance	(9.9)	(8.5)
- strategic	(14.4)	(10.1)
Dividends	(22.0)	(19.3)
EBT share movement	(4.8)	(6.1)
Other movements	-	0.2
(Increase) / reduction in net debt	(4.4)	22.0



THE ORIGINAL
LONDON
BRICK

ECOSTOCK
BRICK

BUTTERLEY
BRICK

CRADLEY
SPECIAL BRICK

RED BANK

THERMALITE

CONBLOC

BISON PRECAST

JETFLOOR

INNOVATIONS IN
FORMPAVE
PERMEABLE PAVING

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