



**Forterra plc**

Results Presentation

Half year ended 30 June 2018

30 July 2018



THE ORIGINAL  
**LONDON**  
BRICK

**ECO STOCK**  
BRICK

**BUTTERLEY**

**CRADLEY**  
SPECIAL BRICK

**RED BANK**

**THERMALITE**

**CONBLOC**

**JET FLOOR**

INNOVATORS IN  
**FORMPAVE**  
PERMEABLE PAVING

**BISON PRECAST**

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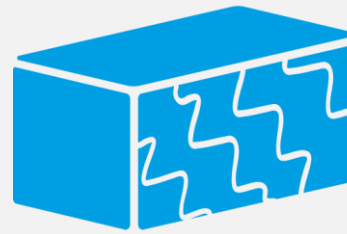
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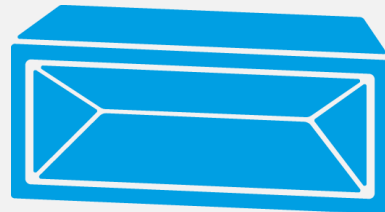
# Forterra at a glance



Leading UK producer of manufactured masonry products

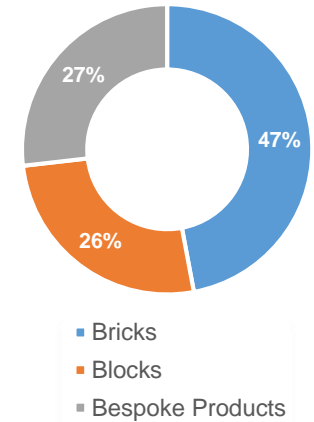


Focus on bricks and blocks with complementary range of bespoke clay & concrete products

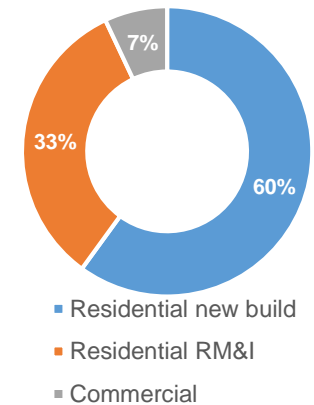


Sole manufacturer of iconic Fletton bricks sold under the London Brick brand

Revenue by segment (%)



Revenue by end use (%)



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## Highlights



- Increase in sales of 10.6% due to the Bison acquisition in H2 2017, higher aircrete block volumes and price increases applied to offset cost inflation
- Profit before tax ahead of prior year by 2.9% due to a good performance from Bricks & Blocks and a lower finance cost
- Precast concrete business result affected by slow industry-wide recovery from the severe weather in Q1, which slowed the integration of the newly acquired Bison business
- Good cash flow performance resulting in further reduction of net debt to £51.9m at 30 June 2018, representing 0.7 times last twelve months EBITDA
- Major expansion project announced to build new brick facility at Desford with a capacity of 180m bricks pa, more than doubling current site capacity at a capital cost of £90-95m
- Interim dividend declared of 3.3 pence per share, an increase of 6.5% over 2017

# Financial review



# Financial highlights



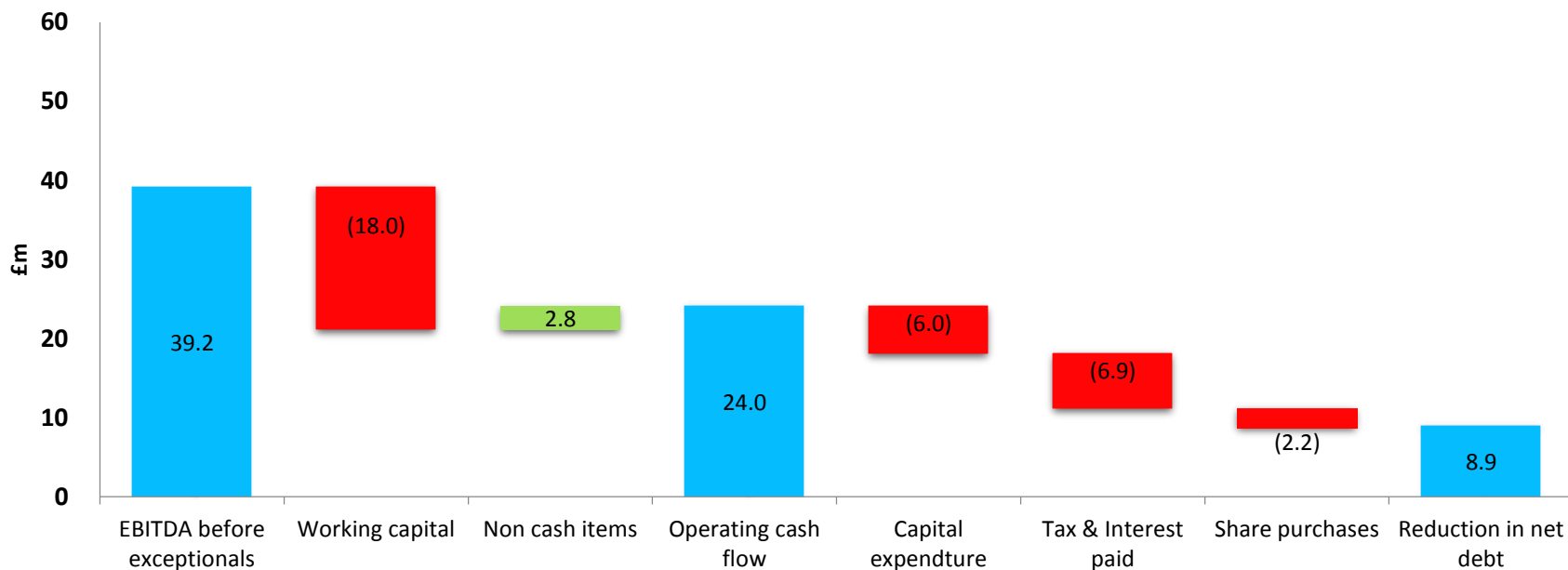
£m	<b>HY 2018</b>	HY 2017	<b>Change (%)</b>	FY 2017
Revenue	<b>180.0</b>	162.7	<b>10.6%</b>	331.0
PBT before exceptionals	<b>32.3</b>	31.4	<b>2.9%</b>	61.1
<b>EPS before exceptionals (pence)</b>	<b>13.0p</b>	12.6p	<b>3.2%</b>	24.5p
Operating cash flow	<b>24.0</b>	31.8	<b>(24.5)%</b>	90.2
Net debt	<b>51.9</b>	69.4		60.8
<b>Interim / total dividend (pence per share)</b>	<b>3.3p</b>	3.1p	<b>6.5%</b>	9.5p

# Summary Profit & Loss



£m (before exceptionals)	HY 2018	HY 2017	FY 2017
<b>Revenue</b>	<b>180.0</b>	162.7	331.0
<b>EBITDA</b>			
- Bricks and Blocks	<b>38.5</b>	35.7	69.1
- Bespoke Products	<b>0.7</b>	3.0	6.3
- Total	<b>39.2</b>	38.7	75.4
<i>EBITDA margin (%)</i>	<b>21.8%</b>	23.8%	22.8%
Depreciation and Amortisation	<b>(5.7)</b>	(5.1)	(10.9)
<b>Operating profit</b>	<b>33.5</b>	33.6	64.5
Finance expense	<b>(1.2)</b>	(2.2)	(3.4)
<b>Profit before tax</b>	<b>32.3</b>	31.4	61.1
<i>Effective tax rate (%)</i>	<b>19.7%</b>	20.0%	20.0%
<b>Earnings per share (pence)</b>	<b>13.0p</b>	12.6p	24.5p

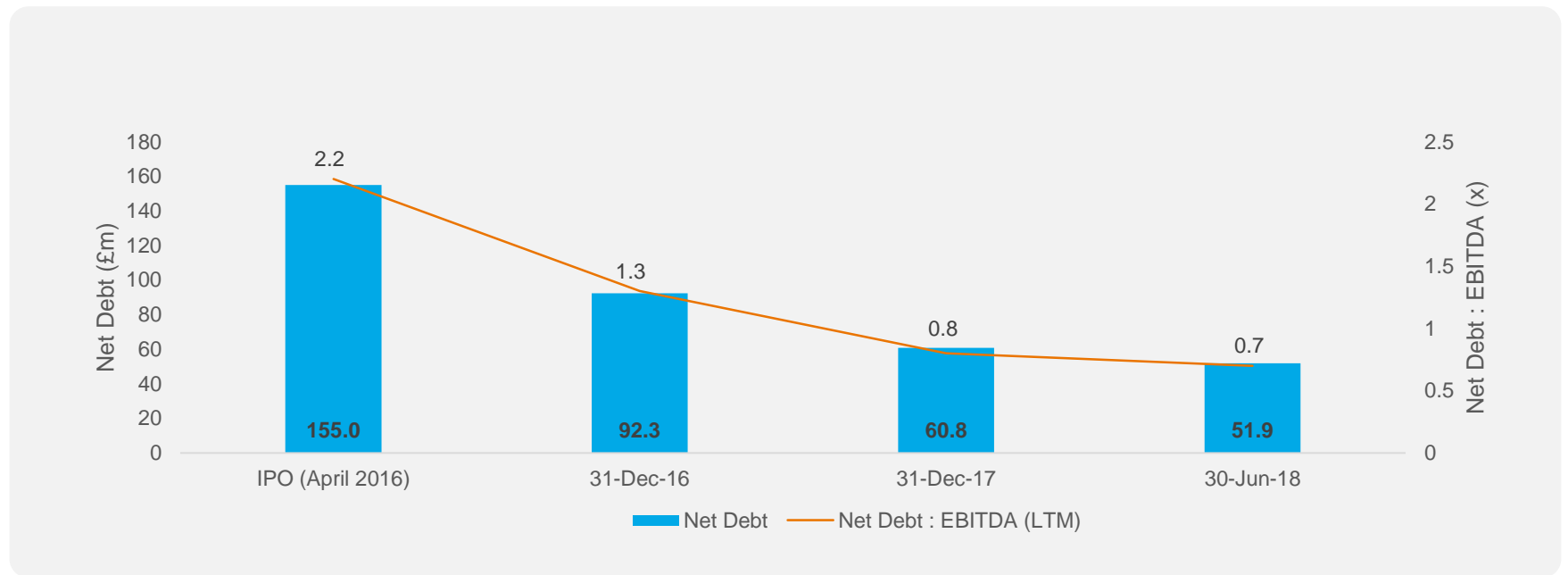
# Group Cash Flow



- Working capital increased as anticipated due mainly to higher sales arising from the spring selling season and the Bison acquisition
- Capital expenditure of £6.0m included £2.5m on strategic capex at the Hams Hall aircrete facility and the bricks facilities at Accrington and Desford
- During H1, 720,000 shares have been purchased and held by the Employee Benefit Trust at a cost of £2.2m. This will continue under a purchasing programme of 240,000 shares per month

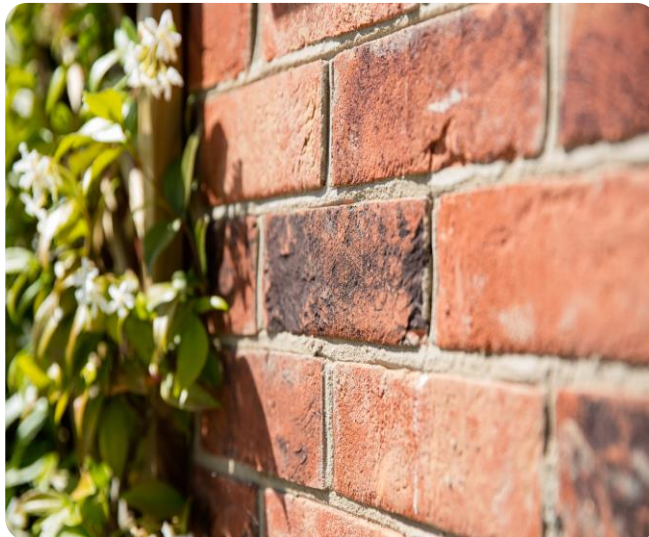


# Net Debt and Facilities

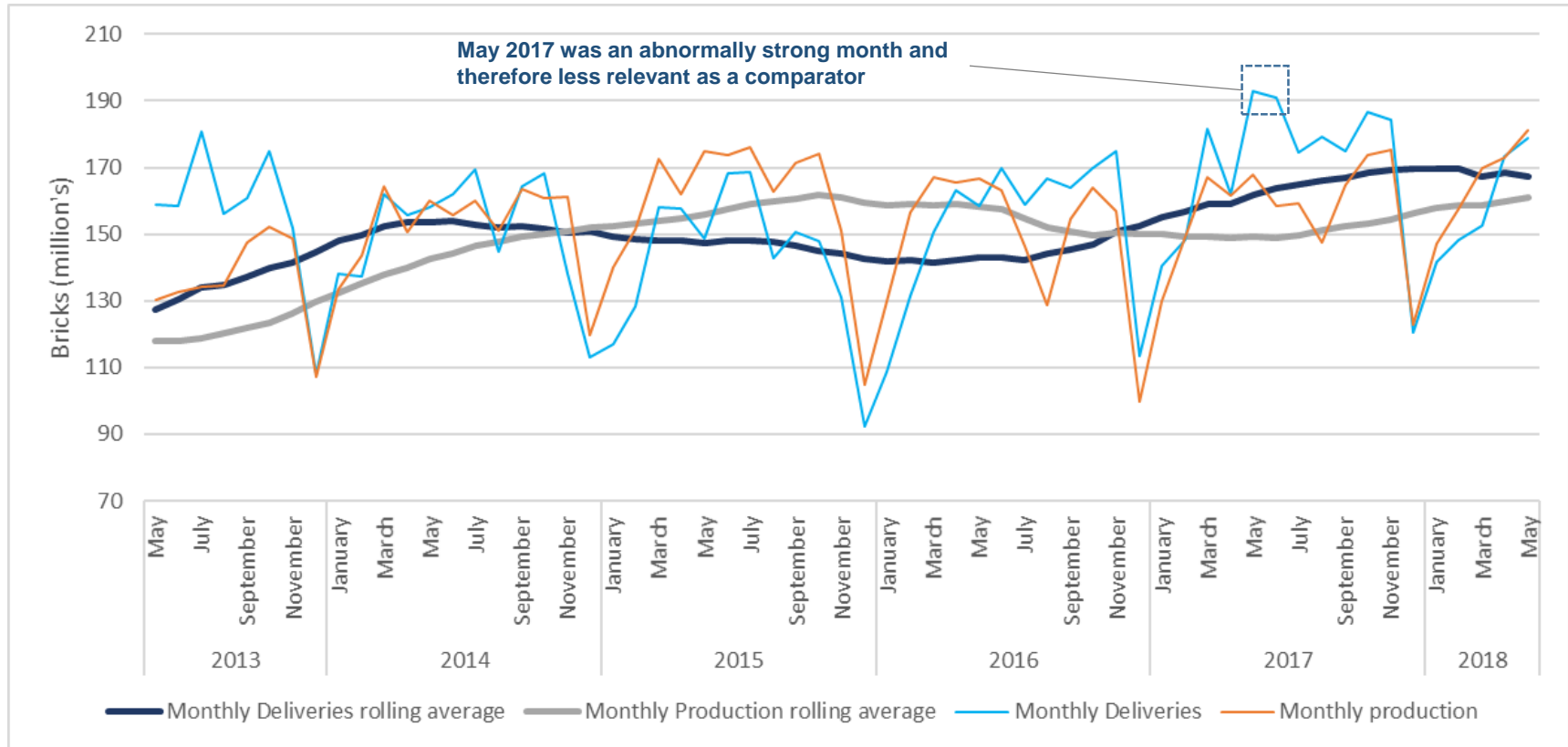


- Net debt reduced by over £100m since IPO after Bison acquisition, capital investment in the business, dividends and share purchases
- Committed Revolving Credit Facility of £150m in place, with a term to July 2022
- Strong balance sheet position enables continued investment in the business, including major brick capacity expansion

# Business review



# UK domestic brick deliveries and production

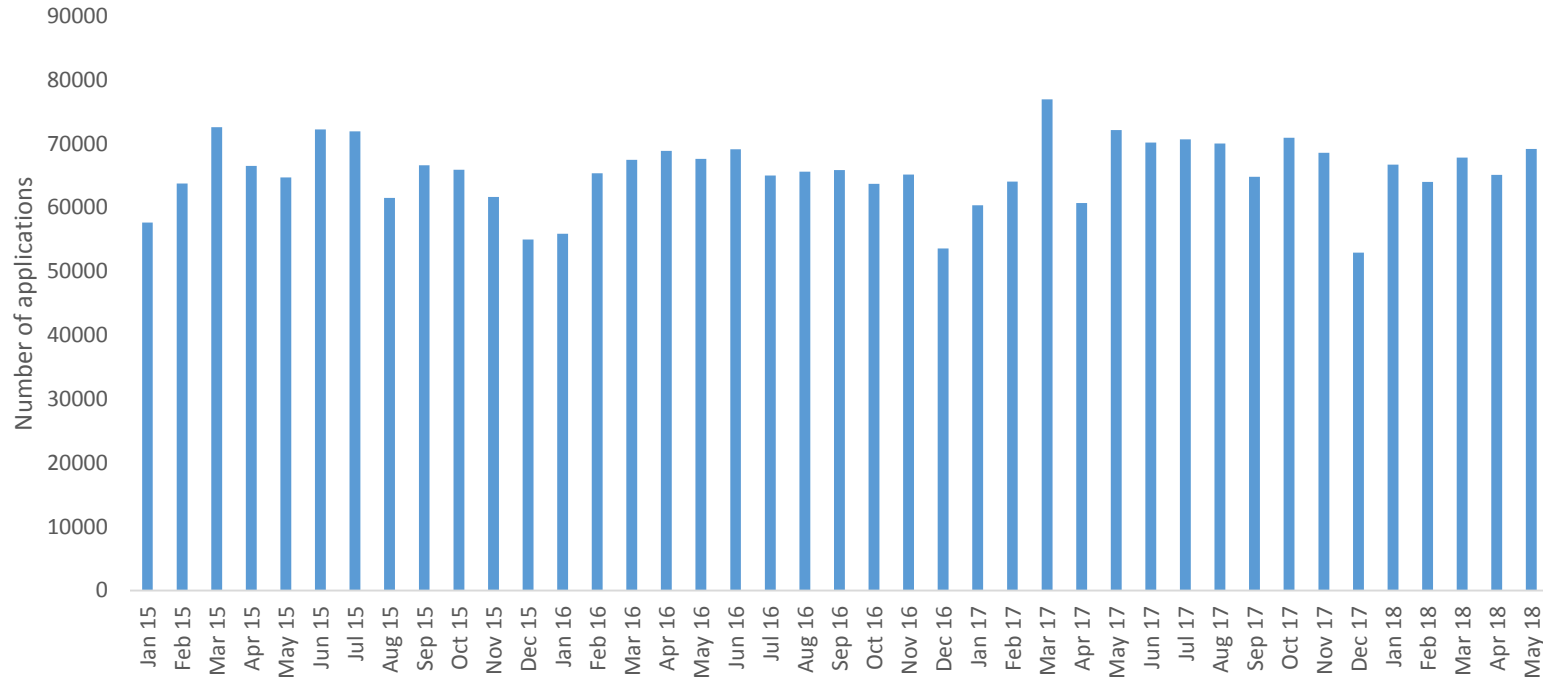


Source: ONS

- Production and deliveries have continued to increase since the introduction of Help to Buy in 2013
- During 2018 production has grown faster than sales as the industry has reacted

Monthly average 12m to May	2018	2017	Change
<b>Production (m)</b>	<b>160.9</b>	<b>149.1</b>	<b>7.9%</b>
<b>Deliveries (m)</b>	<b>167.2</b>	<b>161.9</b>	<b>3.3%</b>

# RMI Market: Planning applications of less than £100k



Source: Barbour ABI

- Planning applications of £100k and below are a useful proxy for the element of the RMI market relevant to Forterra, where, encouragingly the trend remains flat

## Bricks and Blocks

£m	HY 2018	HY 2017	FY 2017
Revenue	<b>132.4</b>	123.7	249.5
EBITDA	<b>38.5</b>	35.7	69.1
EBITDA margin %	<b>29.1%</b>	28.9%	27.7%

- Revenue up by 7.0% compared with H1 17. Activity levels were affected in Q1 by severe weather, and there was a catch-up from April onwards although this was tempered by the availability of labour within the construction industry and distribution capacity
- Brick sales volumes were largely flat overall for H1 reflecting both the impact of the weather and also a strong comparative performance in H1 17
- Aircrete volumes increased strongly following the weakness seen in H1 17 and the reversal of the substitution by aggregate blocks. Consequently aggregate block volumes reduced to more normal levels
- Price increases were applied across the product range to offset the effect of input cost inflation
- EBITDA increased by £2.8m due to the higher revenue and disciplined cost management with brick production increasing by double digits. Effect of higher cost of energy and carbon credits mitigated by forward purchases of energy previously put in place, but expected to lead to small adverse effect in H2 and further higher cost in 2019

## Hams Hall

- The project to convert the Hams Hall, Birmingham aircrete facility to use conditioned (wet) Pulverised Fuel Ash (PFA) as well as dry PFA was successfully completed in July 2018 at a capital cost of £2.2m
- The Group has entered into a long term contract to purchase conditioned PFA, and implementation of this project will provide greater flexibility and resilience of production for aircrete blocks

## Desford

- The project to upgrade the kiln at the Desford brick facility was completed in early 2018 to budget and added an extra 5m bricks per annum to the plant capacity prior to the planned major expansion project, details of which are included in the following slides

## Accrington

- The debottlenecking project at Accrington is on target to be completed in the second half, providing an increase in capacity of 10m bricks per annum



Upgraded Hams Hall Aircrete facility

# Desford – Planned expansion summary

## Capacity – 2018 vs proposed

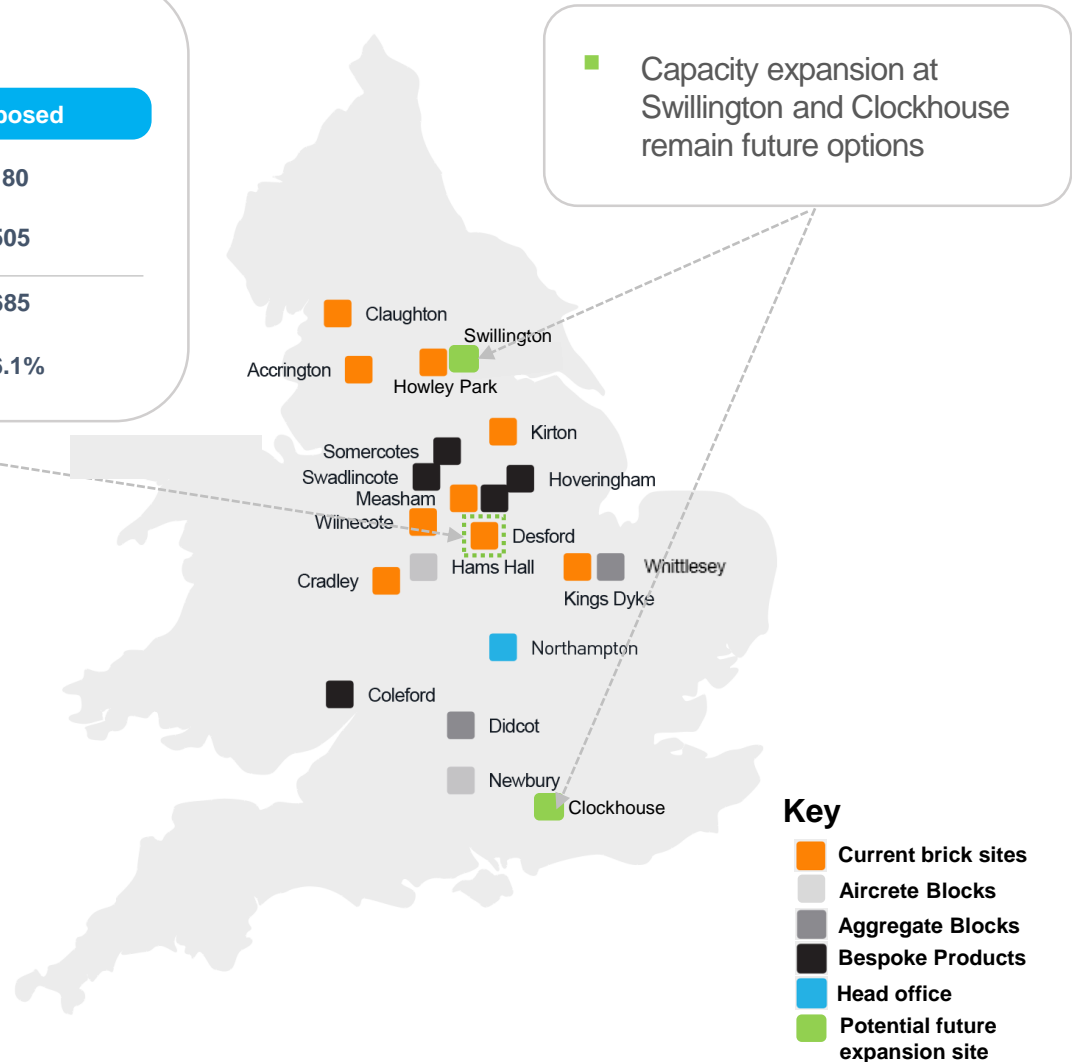
Million bricks	2018	Proposed
Desford	85	180
Other brick sites	505	505
<b>Total</b>	<b>590</b>	<b>685</b>
<b>Increase</b>		<b>16.1%</b>

## Desford range

Desford currently produces a range of 21 extruded brick types which are very popular with the housebuilding market



Above: Desford red (left) and buff (right) Brick range examples



### Customers

- Flexibility to continue serving customers
- Ability to meet demand as the market grows and support the Government's commitment to housebuilding
- Existing product range strongly established and widely used

### Manufacturing excellence

- Replaces existing extruded capacity at lower production cost
- Able to flex production through 2 kiln operation
- Plant overhead spread across increased output
- Experienced team in place to deliver the project

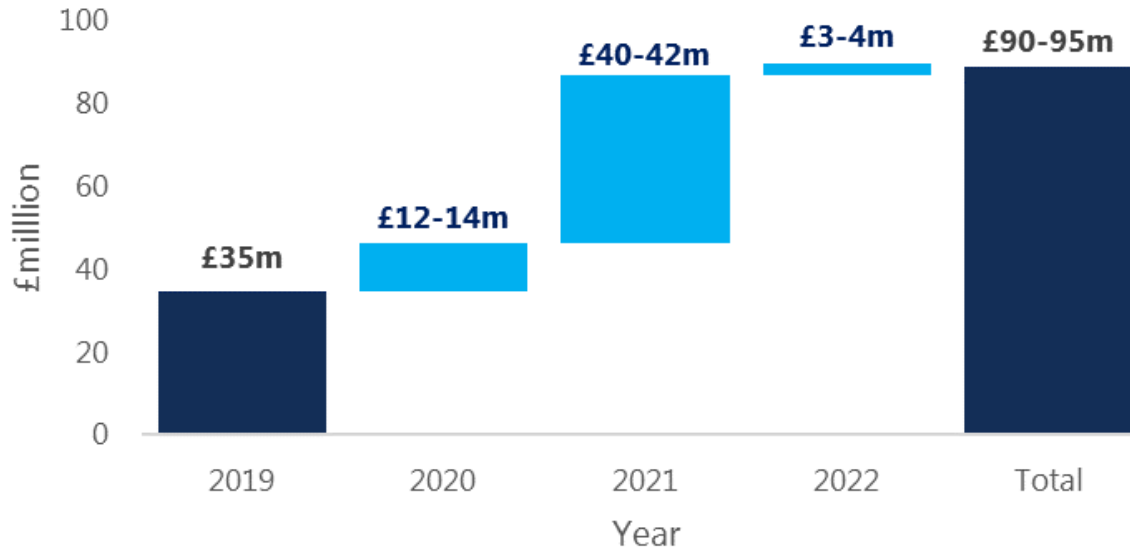
### Financial

- IRR over 20 years > 15% (after tax)
- Maintains cost leadership in the market through state-of-the-art facility
- Funded from free cash flow generated by business, backed by existing debt facility



# Desford - Expected capex and timing

Project cost profile



Project timing – key dates

Enabling and planning	2018
Planning consent	2018 - 2019
Infrastructure development	2019
Plant installation	2020 - 2021
Plant commissioning	2021
Full production commences	2022

## Bespoke Products

£m	HY 2018	HY 2017	FY 2017
Revenue	<b>48.5</b>	40.0	83.6
EBITDA	<b>0.7</b>	3.0	6.3
EBITDA margin %	<b>1.4%</b>	7.5%	7.5%

- Increase in revenue for Bespoke Products of 21.3% compared with last half year was due to price increases and the inclusion of the Bison Swadlincote facility acquired in September 2017
- Sales volumes of precast concrete were below plan due to the severe weather in the first quarter and with slow recovery thereafter as construction sites pushed back delivery dates

## Bison Precast short term market factors

- Adverse weather conditions across Q1 (particularly March 2018) left construction sites behind schedule. Construction delays continued into Q2
- Product is manufactured to customer schedules and timing between manufacture and delivery, typically up to two weeks, has been significantly higher in recent months. This resulted in a build up of inventory as customer loads remained in Forterra stock yards awaiting despatch
- Whilst utilisation has increased, yard congestion at the newly acquired Swadlincote site has led to inefficiency and prevented this reaching planned levels

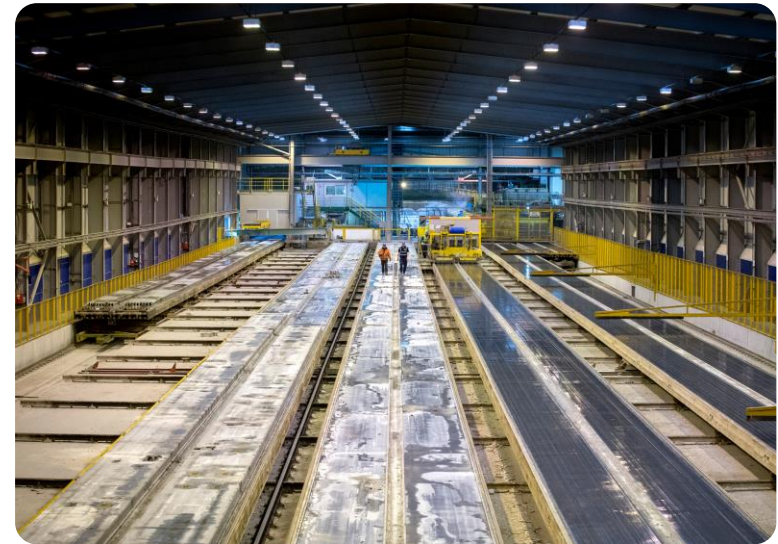
- Overall sales have been weighted towards single unit housing, impacting hollowcore sales volumes. This is highlighted in the YTD change in house type registrations

Type	2017	YTD 2018	Change
<b>Detached</b>	31%	34%	3%
<b>Semi-Detached</b>	25%	27%	2%
<b>Terraced</b>	17%	16%	-1%
<b>Flats</b>	27%	23%	-4%

(Source: NHBC Note: YTD18 = data to April)

- The combination of lower despatches and productivity has reduced profitability in H1
- Despite these challenges, the current orderbook remains strong and under new leadership the team is focused on executing a clear plan which will deal with short term industry issues, successfully integrate Bison and drive improved future performance

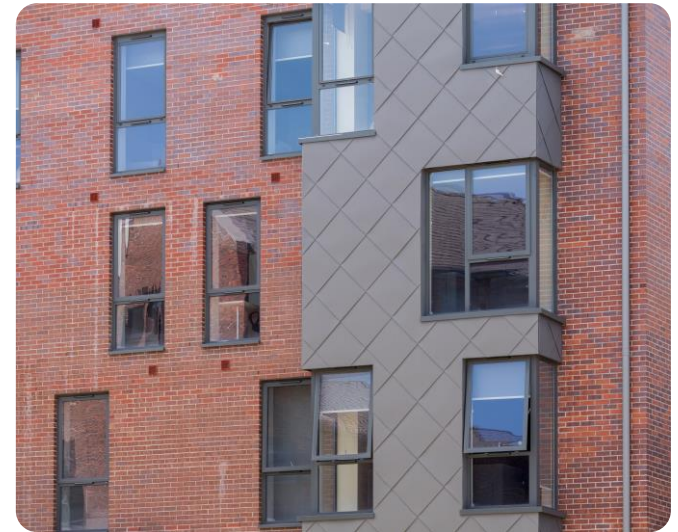
# Bison Precast Strategy



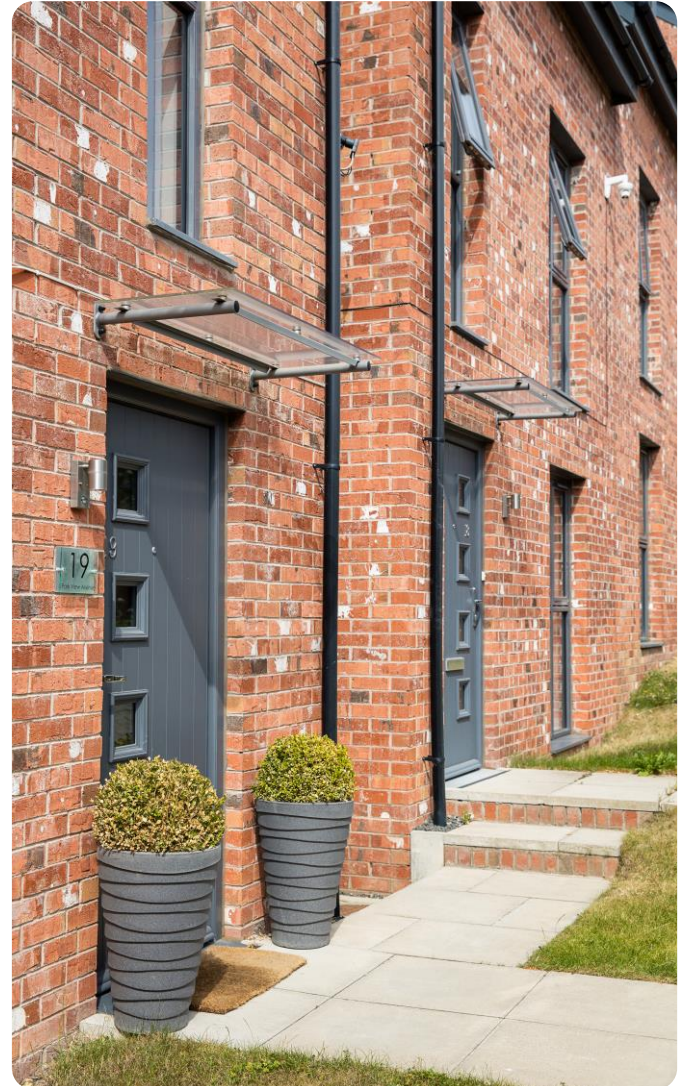
## The strategy of acquiring precast capacity remains supported by a number of factors:

- Projected continued growth in new housing
- Expected greater proportion of multi-occupancy residential as private rental sector and social housing volumes grow, increasing the longer term demand for hollowcore
- Expectation that the structural precast market will continue to grow as an off-site solution, with major infrastructure projects such as HS2 further benefitting the market for structural precast

# Outlook




- The Group delivered a solid performance in the first half, supported by a good result from the Brick and Block product lines
- Continued levels of activity from the new build single unit residential market lead us to anticipate a Brick and Block performance in line with our expectations for the second half
- The outlook for Bespoke Products is predicated on the expected recovery of precast sales and the conversion of the order book into deliveries as that segment of the market recovers
- As a result we anticipate the Group's profit before tax for the full year to be in line with the Board's expectations



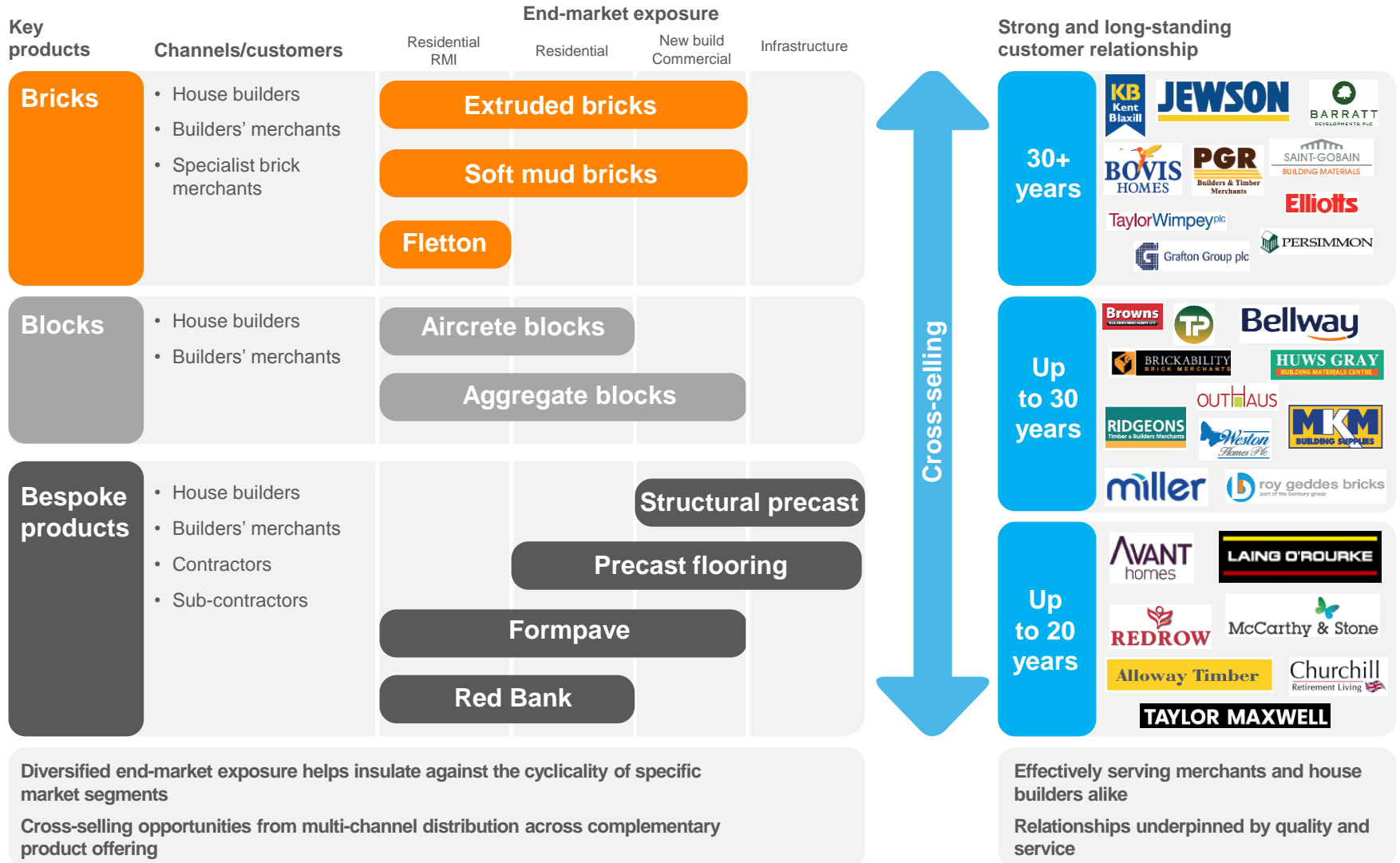




# Investment case

Pure UK focus	Growth		Resilience		Efficiency	
	Cash generation enabling investment	Further growth from cross-selling	Iconic Fletton brick	Ability to flex production capacity to meet market demand	Efficient core brick manufacturing	High return / – low risk capex
<p><b>1.</b> 100% in UK</p> <p>Consolidated competitive landscape</p> <p>Structural long-term growth</p> 	<p><b>2.</b> Capex projects and potential to be acquisitive</p> <p>Capacity expansion in brick</p> <p>Able to investigate relevant bolt on acquisitions</p>	<p><b>3.</b> 93% of sales from the housing market</p> <p><b>Volume growth</b></p> <p>Highly complimentary products across the housebuilding market</p> <p>Bricks (outer wall cavity)</p> <p>Blocks(inner wall cavity)</p> <p>Concrete flooring Chimney/roofing</p>	<p><b>4.</b> Sole manufacturer</p> <p><b>Volume growth</b></p> <p>Highest margins</p> <p>Largely RM&amp;I</p> <p>Premium and resilient pricing</p> <p>No imports available</p>	<p><b>5.</b> Operational agility</p> <p>Proven capability in matching capacity to market demand</p> <p>Reacting quickly to ensure efficient operations</p>	<p><b>6.</b> Superior output per facility; highly efficient operations</p> <p>Measham (c.105m capacity): the most efficient soft mud plant in UK</p> <p>Brick capacity per facility: c.64m</p> <p>Sales per facility: c.£18m</p>	<p><b>7.</b> Priority given to low cost incremental capacity additions</p> <p><b>£0.25 m per million bricks</b></p> <p>(vs a new factory of c£0.6m per million bricks)</p> <p>Major expansion at Desford now being progressed</p>

# We serve the UK building construction markets across all distribution channels



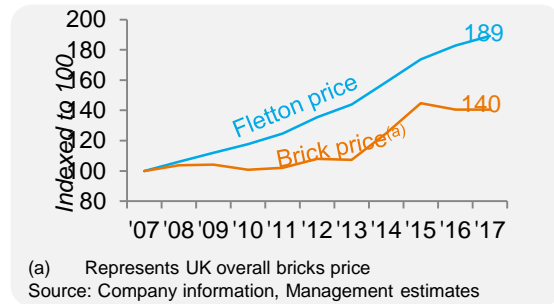
Effectively serving merchants and house builders alike

Relationships underpinned by quality and service

# The sole producer of the iconic Fletton brick



## Product line benefits from strong pricing



## Significant heritage - produced since 1877



## Competitive advantage secured by unique manufacturing process

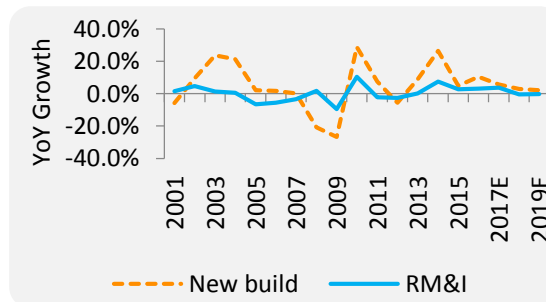
- Strategic and sole access to Fletton-specific clay reserve
- London Brick Company brand
- 130 million production capacity p.a.
- Unique technical knowledge and skilled workforce
- Bespoke production equipment maintained in Forterra's own workshops

## Additional benefits

### Cross-selling opportunities

- Nearly all English builders' merchants hold inventories of Fletton bricks
- Sole producer of Fletton bricks strongly positions Forterra with customers

### Primary exposure to the more stable RMI market in GB



### c.23% of existing English homes built with Fletton bricks



Source: Company information, Management estimates, CPA Report Winter Forecast 2017/18

# Market view: Blocks

## Aircrete blocks

### Description

- Cost effective solution for wall, floor and below-ground constructions
- Up to 80% recycled content
- Lightweight features enabled accelerated speed of build

### Demand drivers

- Residential market
- Building code changes
- Enhanced detailing

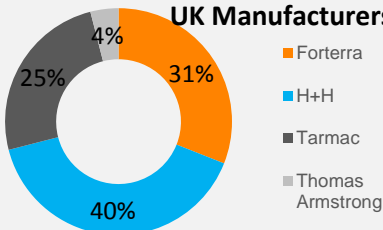
### Competitive advantages

- High thermal and sound insulation
- Good compressive strength
- Light weight
- Moisture resistance
- Easy-to-achieve u-value targets
- Lower CO2 emissions

**THERMALITE**

### Competitive advantages

#### UK Manufacturers' share<sup>(a)</sup>



Highly consolidated market

Market currently running at >95% capacity utilisation

## Aggregate blocks

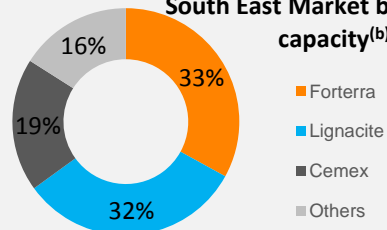
- Quick, easy, cost-effective build solution for both inner-leaf and facing requirements of walls
- High content of locally-sourced recycled/sustainable materials
- Widely used within RMI, general and retaining wall projects, housing, commercial and structural projects

- Residential market, new build and RMI
- Commercial and architectural technical specifications

- Excellent structural strength
- Easy to install
- Acoustic benefits
- Cost effective

**CONBLOC**

#### South East Market by installed capacity<sup>(b)</sup>



Fragmented market nationally, but consolidated in E & SE England where we operate

SE market currently running at c.85% capacity utilisation

(a) Aircrete market share calculated based on estimates of GB production capacity in 2016 prepared by BDS (Dec 2017).

(b) Aggregate market share calculated based on estimates of East and South Eastern production capacity in 2016 prepared by BDS (Dec 2017) and therefore does not include volume sold into the region by Plasmor via their rail linked plants. Source: Company information, Management estimates, BDS (Dec 2017).

# Market view: Precast products

	Hollowcore Flooring	Beam & Block Flooring	Other precast																				
Description	<ul style="list-style-type: none"> <li>Flooring solution used across the residential sector, typically in multi-unit dwellings</li> <li>Ideal structural section due to reduced deadweight whilst also providing maximum structural efficiency</li> </ul>	<ul style="list-style-type: none"> <li>UK's first system (Jetfloor) to use expanded polystyrene blocks combined with a structural concrete topping</li> <li>Primarily used in ground floor residential setting due to high levels of thermal insulation</li> </ul>	<ul style="list-style-type: none"> <li>Stairs and landings (complimentary to hollowcore solution)</li> <li>Crosswall frames</li> <li>Stadia components</li> <li>Columns and beams</li> <li>Bespoke precast units</li> </ul>																				
Demand drivers	<ul style="list-style-type: none"> <li>Residential market (especially flats)</li> <li>Building code changes</li> <li>Commercial construction</li> </ul>	<ul style="list-style-type: none"> <li>Residential housebuilding market</li> </ul>	<ul style="list-style-type: none"> <li>Commercial construction market</li> <li>Infrastructure market</li> </ul>																				
Competitive advantages	<ul style="list-style-type: none"> <li>Flexibility of design approach</li> <li>Enhanced spans</li> <li>Factory produced to high quality standard</li> <li>Preformed site services</li> <li>Speed of erection</li> <li>Reduction of in-situ concrete</li> <li>Sound resistance</li> </ul>	<ul style="list-style-type: none"> <li>High level thermal insulation</li> <li>Flexible 'u' value performance</li> <li>Reduced excavation and spoil removal</li> <li>Increased speed of build</li> <li>No specialist construction skills required</li> </ul>	<ul style="list-style-type: none"> <li>Flexibility of design approach</li> <li>Speed of erection</li> <li>Fire resistance</li> <li>Slip resistance values</li> <li>Off site manufacturing reduces the need for wet trades and materials on site</li> </ul>																				
Competitive advantages	<p><b>GB Hollowcore market<sup>(a)(b)</sup></b></p> <table border="1"> <tr><th>Company</th><th>Market Share</th></tr> <tr><td>Forterra</td><td>24%</td></tr> <tr><td>Creagh</td><td>21%</td></tr> <tr><td>Oranmore Pre-Cast</td><td>9%</td></tr> <tr><td>Others &lt;10%</td><td>46%</td></tr> </table>	Company	Market Share	Forterra	24%	Creagh	21%	Oranmore Pre-Cast	9%	Others <10%	46%	<p><b>GB Beam &amp; Block flooring market<sup>(a)</sup></b></p> <table border="1"> <tr><th>Company</th><th>Market Share</th></tr> <tr><td>Forterra</td><td>16%</td></tr> <tr><td>Rackham</td><td>15%</td></tr> <tr><td>Longley</td><td>10%</td></tr> <tr><td>Others (&gt;10%)</td><td>59%</td></tr> </table>	Company	Market Share	Forterra	16%	Rackham	15%	Longley	10%	Others (>10%)	59%	
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Others (>10%)	59%																						

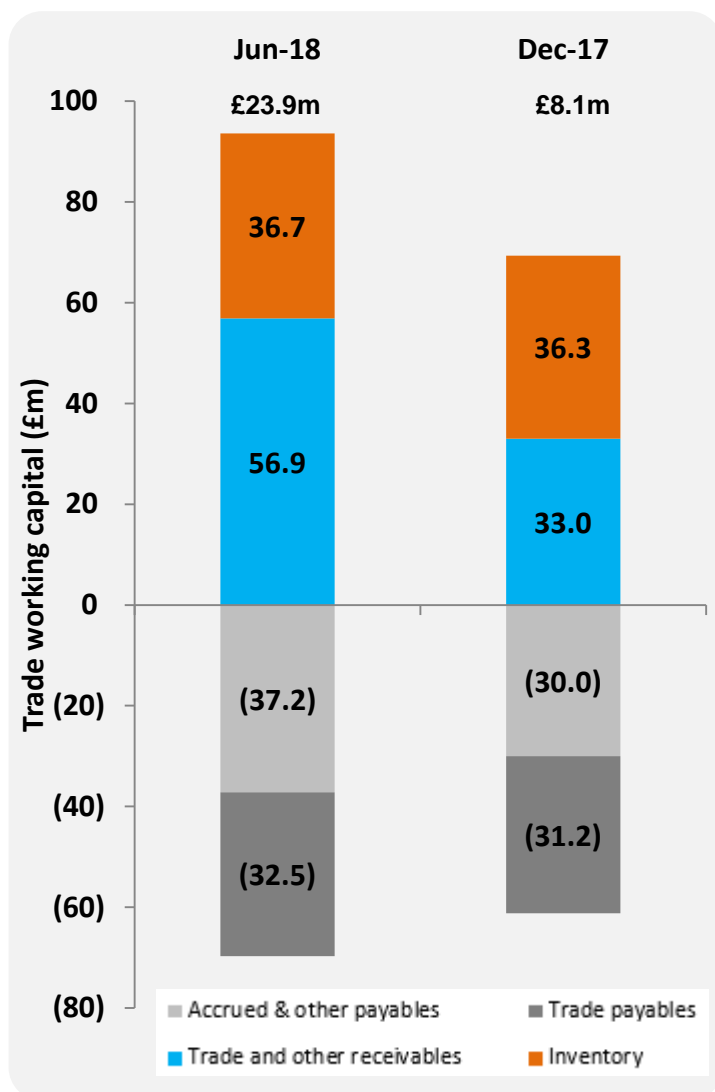
(a) Market share calculated based on estimates of GB production capacity in 2016 prepared by BDS.  
 (b) Hollowcore market share is based on BDS reports with the addition of Management estimates due to the Bison acquisition.  
 Source: Company information, Management estimates, BDS (June 2016).

# Trade Working Capital

## Trade working capital breakdown

£m	30 Jun 2018	31 Dec 2017
Inventory days	60	67
Debtor days*	40	40

\*Count back basis



Note: Excludes dividend liabilities

# Summary Balance sheet



£m	Jun 2018	Jun 2017	Dec 2017
Intangible assets	16.7	13.9	15.8
Property, plant and equipment	164.4	144.5	165.2
Deferred tax asset	-	0.1	-
<b>Total non-current assets</b>	<b>181.1</b>	<b>158.5</b>	<b>181.0</b>
Current assets			
Inventories	36.7	37.2	36.3
Trade and other receivables	56.9	46.0	33.0
Cash and cash equivalents	27.9	69.3	29.0
<b>Total current assets</b>	<b>121.5</b>	<b>152.5</b>	<b>98.3</b>
<b>Total assets</b>	<b>302.6</b>	<b>311.0</b>	<b>279.3</b>
Trade and other payables	(82.5)	(56.7)	(61.2)
External borrowings	(79.8)	(138.7)	(89.8)
Other liabilities	(23.4)	(20.7)	(23.6)
<b>Net assets</b>	<b>116.9</b>	<b>94.9</b>	<b>104.7</b>

# Summary Cash Flow



£m	2018 H1	2017 H1	2017 FY
EBITDA before exceptionals	39.2	38.7	75.4
Change in working capital	(18.0)	(8.1)	10.6
Other movements	2.8	1.2	4.2
<b>Operating cash flow</b>	<b>24.0</b>	31.8	<b>90.2</b>
Tax and Interest	(6.9)	(5.7)	(12.6)
<b>Capital expenditure</b>			
- maintenance	(3.5)	(2.3)	(7.6)
- strategic	(2.5)	(0.7)	(3.2)
Acquisition of Bison	-	-	(20.0)
Dividends	-	-	(13.8)
Purchase of shares	(2.2)	-	-
Other movements	-	-	(1.5)
<b>Net cash flow</b>	<b>8.9</b>	23.1	<b>31.5</b>
<b>Adjusted free cash flow</b> (before dividends, share purchases, acquisition and strategic capex)	<b>13.6</b>	23.8	<b>68.5</b>