



Forterra plc

Results Presentation

Year ended 31 December 2018

12 March 2019



THE ORIGINAL
LONDON
BRICK

ECOSTOCK
BRICK

BUTTERLEY

CRADLEY
BRICK & BLOCK

RED BANK

THERMALITE

CONBLOC

JET FLOOR

INNOVATORS IN
FORMPAVE
PERMEABLE PAVING

BISON PRECAST

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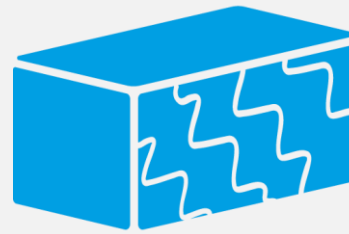
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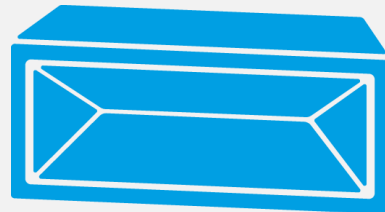
Forterra at a glance



Leading UK producer of manufactured masonry products

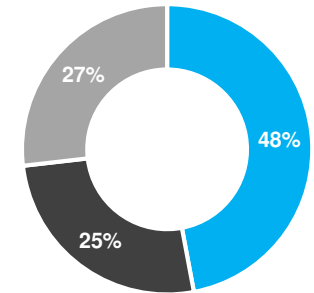


Focus on bricks and blocks with complementary range of bespoke clay & concrete products



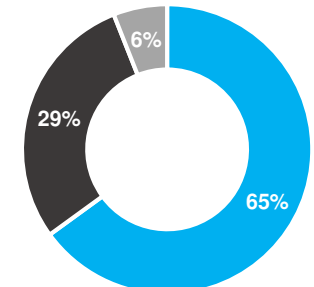
Sole manufacturer of iconic Fletton bricks sold under the London Brick brand

Revenue by segment (%) (2018)



- Bricks
- Blocks
- Bespoke Products

Revenue by end use (%) (2018)

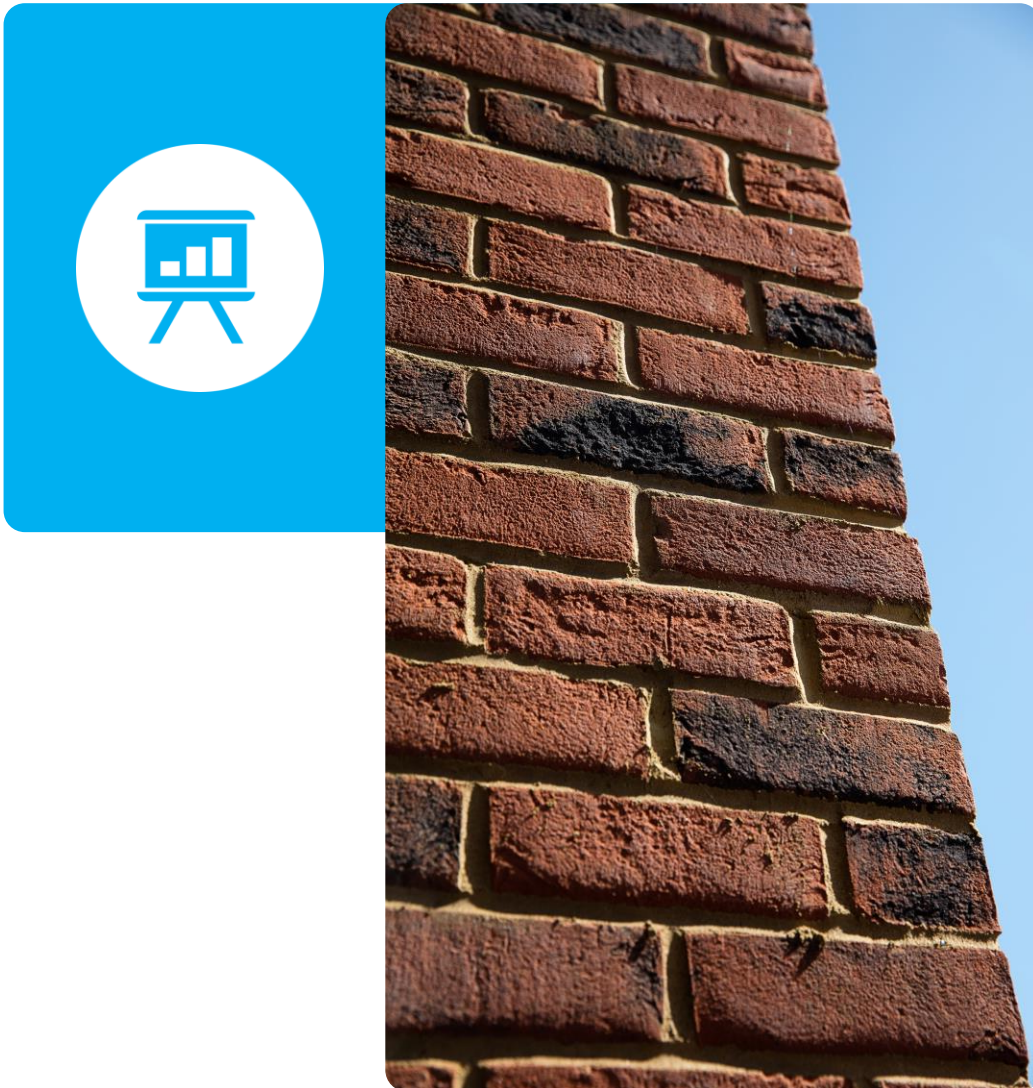


- Residential new build
- Residential RM&I
- Commercial

Highlights

- Good underlying growth in revenue reflecting the sustained strength of the new build residential market
- EBITDA up £3.4m to £78.8m due to a strong performance in Bricks and Blocks driven by an increase in volumes and prices, partly offset by higher operating costs
- Sustained improvement in productivity within Bison Precast in the last quarter as integration of newly acquired facility gained traction
- PBT before exceptionals up 6.1% to £64.8m due to good operating result and lower interest cost arising from significant reduction in net debt
- Strong cash flow performance resulting in a further reduction in net debt to £38.8m at 31 December 2018, representing 0.5 times EBITDA
- Total dividend proposed of 10.5 pence per share, an increase of 10.5% over 2017
- Current year trading in line with expectations

Financial review



Financial highlights



£m	FY 2018	FY 2017	Change (%)
Revenue	367.5	331.0	11.0%
PBT before exceptionals	64.8	61.1	6.1%
EPS before exceptionals (pence)	26.5p	24.5p	8.2%
Operating cash flow	79.8	90.2	(11.5)%
Net debt	38.8	60.8	36.2%
Total dividend (pence per share)	10.5p	9.5p	10.5%

Summary Profit & Loss



£m (before exceptionals)	FY 2018	FY 2017
Revenue	367.5	331.0
EBITDA		
- <i>Bricks and Blocks</i>	75.8	69.1
- <i>Bespoke Products</i>	3.0	6.3
- Total	78.8	75.4
<i>EBITDA margin (%)</i>	21.4%	22.8%
Depreciation and Amortisation	(11.7)	(10.9)
Operating profit	67.1	64.5
Finance expense	(2.3)	(3.4)
Profit before tax	64.8	61.1
<i>Effective tax rate (%)</i>	18.5%	20.0%
Earnings per share (pence)	26.5p	24.5p

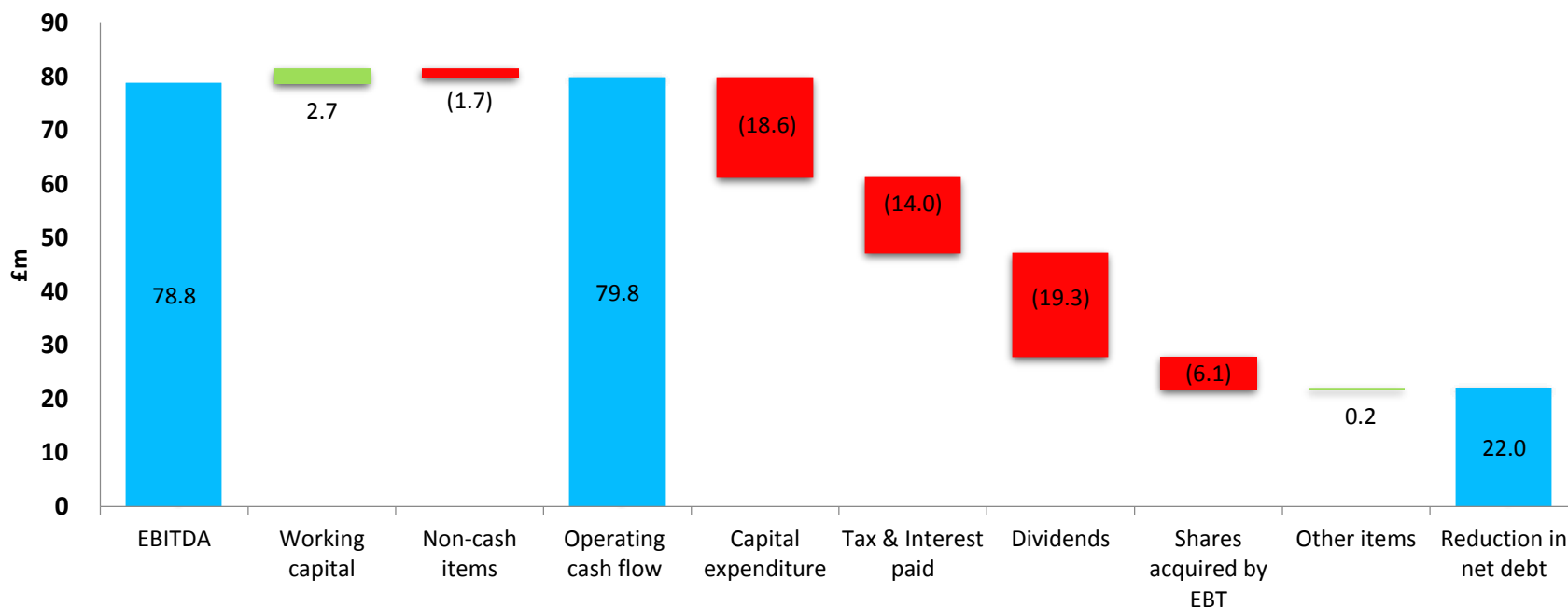
Implementation of IFRS 16 (Leases)



The Group has assessed the impact of IFRS 16 on its consolidated financial statements and has estimated that the total transition adjustment at 1 January 2019 will be as follows:

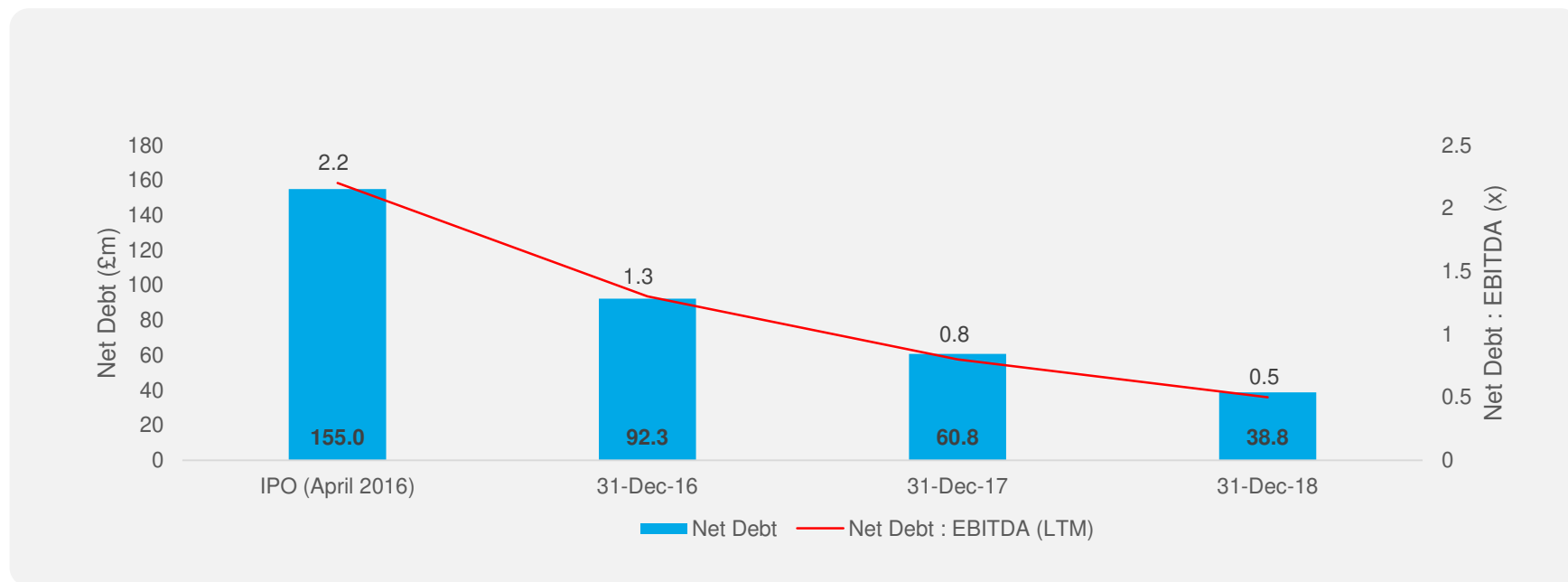
- Recognition of a right of use asset and lease liability, both in the region of £14-18m
- No significant impact to profit before tax for the year ending 31 December 2019; with an increase in EBITDA of approximately £6m offset by a similar increase in interest and depreciation
- Covenant calculation under existing Debt Facility Agreement excludes effect of IFRS 16 on leases in place at 1 Jan 2019

Group Cash Flow



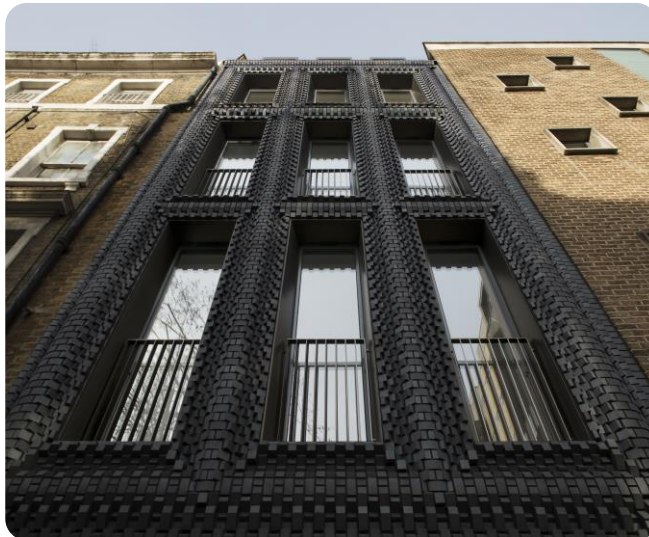
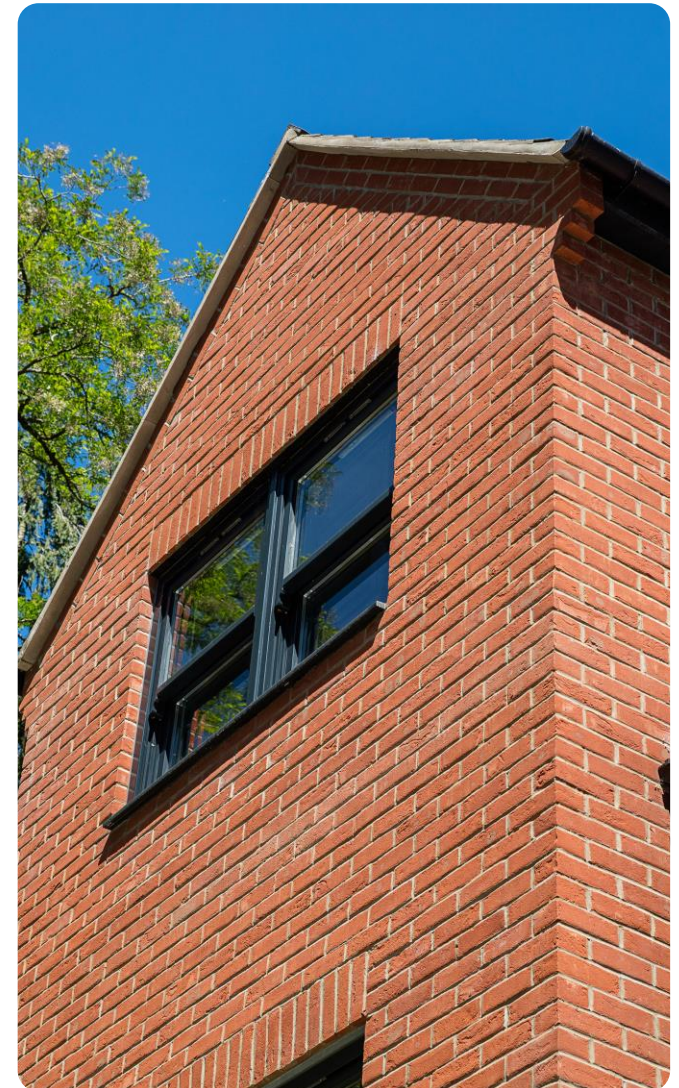
- Strong operating cash flow with a cash conversion of 91%
- Strategic capex of £10.1m included the modification of the Hams Hall aircrete facility, purchase of long-term clay reserves at an investment of £4.5m for the London Brick facility, the completion of the brick debottlenecking project at Accrington, and the preparation work for the major capacity increase project at Desford
- Maintenance capex totalled £8.5m and included further investment in improving IT systems
- During the year, 2.2m shares were purchased by the Employee Benefit Trust. This programme is continuing in 2019 with a purchase of approximately 450,000 shares per month to July 2019

Net Debt, Facilities and Capital allocation

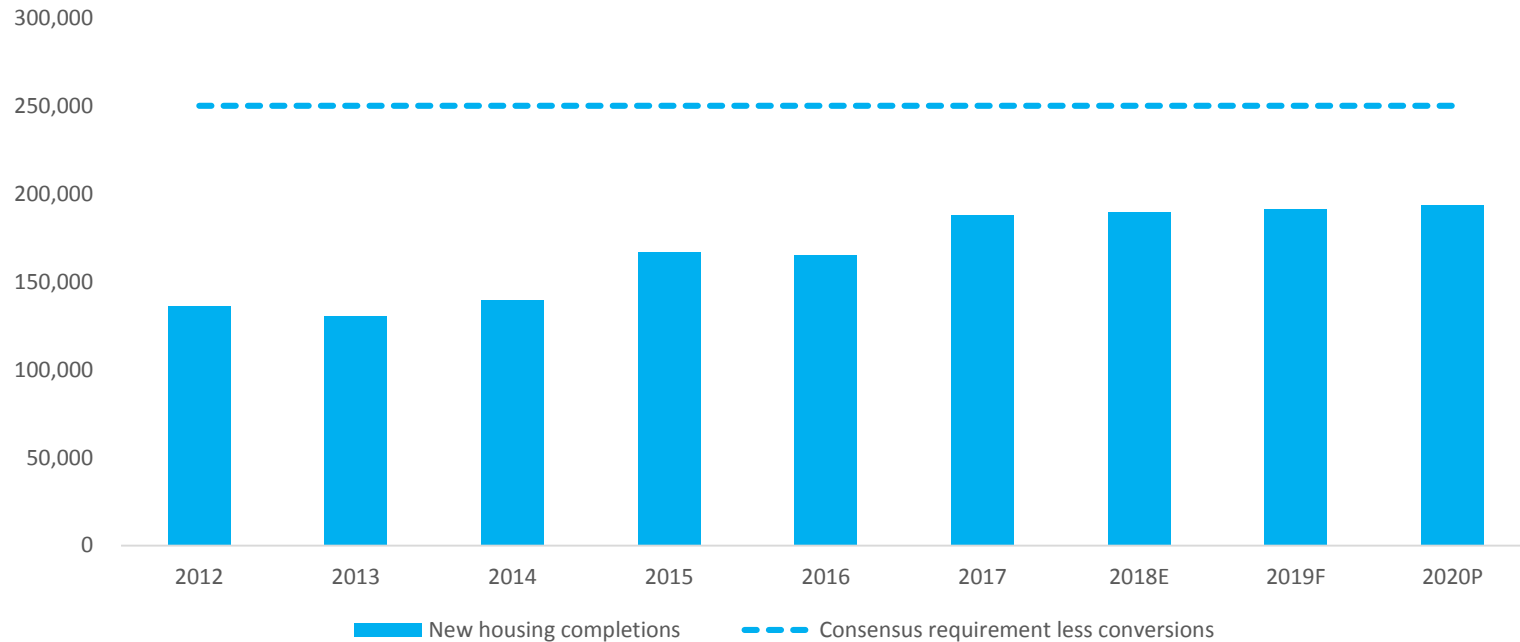


- Since the IPO, the business has generated over £175m of free cash flow. This has funded organic investment in the business, the Bison acquisition and enabled a progressive dividend policy whilst reducing net debt
- Committed Revolving Credit Facility of £150m in place, with a term to July 2022, plus a £50m accordion facility
- Priorities for allocating capital:
 - Organic investment (including new Desford facility)
 - Progressive dividend
 - Acquisitions

Business review



New housing completions vs. requirement

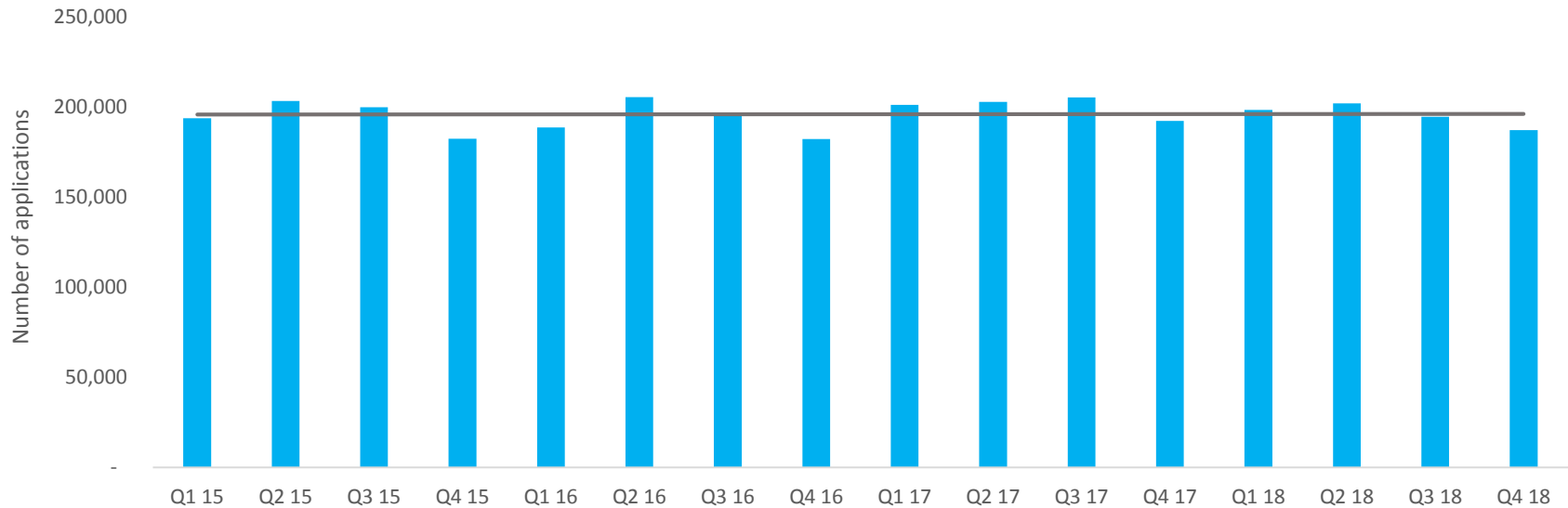


Source: MHCLG, CPA Forecast Winter 2018/19

Note: CPA Forecast states Great Britain completions data

- The 2017 white paper on housing and subsequent budgets have reiterated the Government's commitment to adding 300,000 additional dwellings per annum to Britain's housing stock. It is estimated c50,000 will be delivered through conversions
- Step up required in building to meet the target

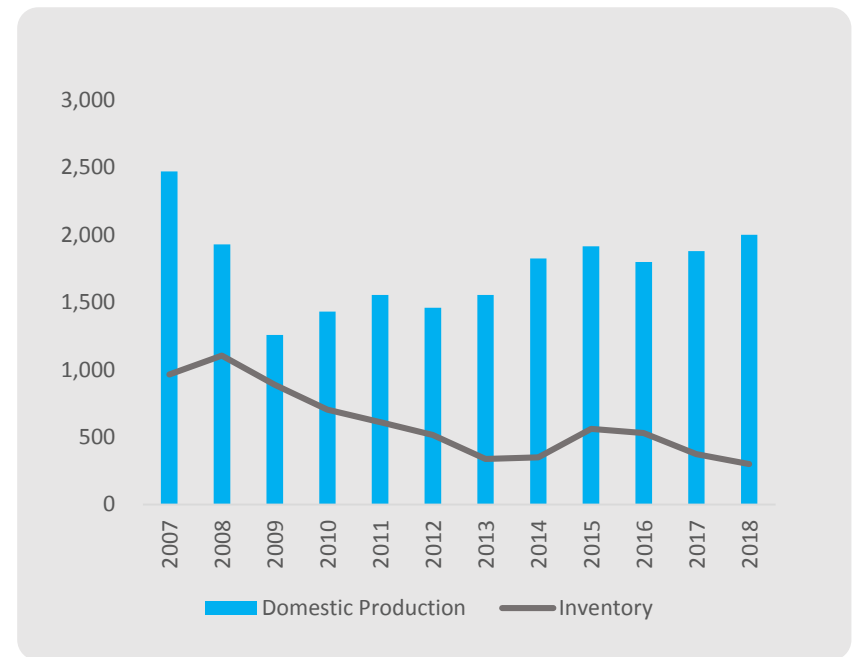
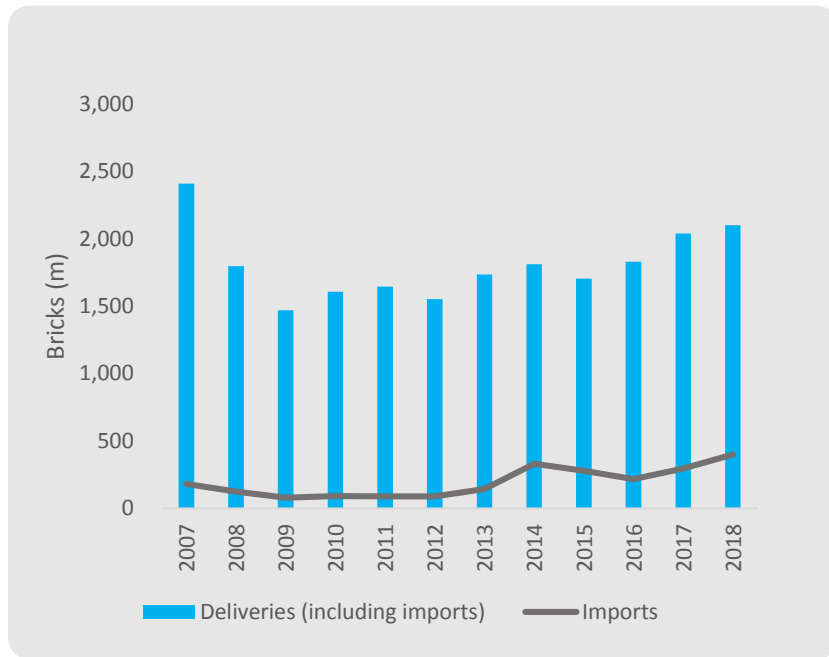
RMI Market: Planning applications of less than £100k



Source: Barbour ABI

- Planning applications of up to £100k are a useful proxy for the element of the RMI market relevant to Forterra, where, reassuringly the trend remains stable

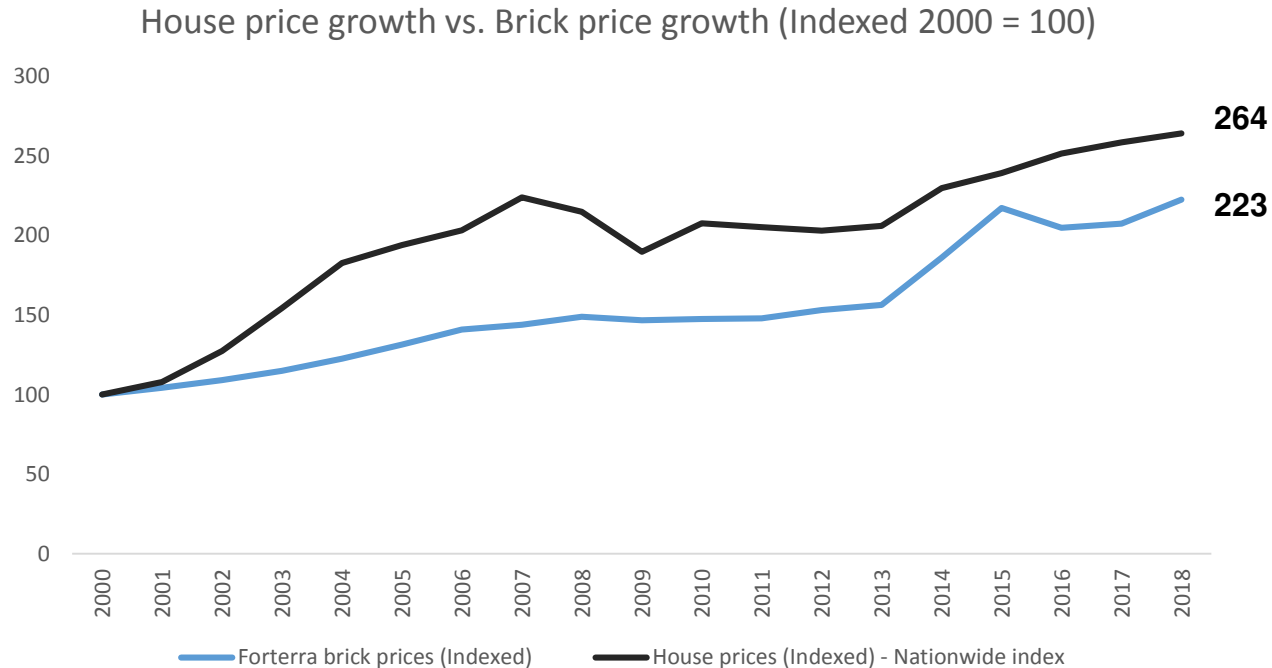
Brick market dynamics



Source: HMRC, ONS

- Imports have grown over the past 5 years in order to fulfil excess demand over capacity constrained domestic supply
- Inventory in the industry is at its lowest level in recent years
- Supports the planned investment in new capacity at Desford

Brick price growth



Source: Company information, Nationwide index

- Increases in house prices have outstripped brick price inflation over the past two decades
- The cost of bricks typically represents a small percentage, often less than 1%, of the overall value of a new house, however plays a critical part in an overall housing project
- The recent Forterra price reflects the mix impact of proportionately higher sales to housebuilders

Bricks and Blocks

£m	FY 2018	FY 2017	Change
Revenue	269.4	249.5	8.0%
EBITDA	75.8	69.1	9.7%
EBITDA margin %	28.1%	27.7%	

- Revenue increased by 8.0% as a result of the benefits of higher volumes and prices
- Brick volumes were modestly ahead in 2018 following the strong growth achieved in 2017 due to the ongoing strength of the new build residential market
- Block volumes were also ahead of prior year, with the switch from aircrete to aggregate blocks seen in 2017 being reversed
- Price increases were achieved across each of the product lines in line with our expectations
- EBITDA increased by £6.7m due to the higher volumes and prices partially offset by increased operating costs, particularly for gas, electricity, fuel and carbon credits which all increased in double digit percentage terms. Forward purchasing of gas and electricity previously put in place helped to mitigate the effect of this. Repair and maintenance costs were also higher

Desford expansion project update

Desford

- In May 2018 the Board approved a project to build a new extruded brick factory at Desford with a capacity of 180 million bricks per annum at a capital cost of £95 million
- Preparation work for this project prior to receiving planning consent is well-advanced with tenders being evaluated from both equipment suppliers and contractors, and a dedicated project team being assembled under a clear governance structure. The existing plant, which has a capacity of 85 million bricks per annum, will remain operational until the new facility built alongside is completed
- It is anticipated that planning consent will be received this year and that the new plant will commence full production during 2022

Capacity – Current vs planned

Million bricks	Current	Planned
Desford	85	180
Other brick sites	505	505
Total	590	685
Increase		16.1%



New plant at Desford; artists impression



Aircrete raw materials

- 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 contract to purchase conditioned PFA, and implementation of this project will provide greater flexibility and resilience of production for aircrete blocks
- A similar upgrade costing £3.4m is underway at the Newbury aircrete facility, to be completed in 2019

Debottlenecking

- Debottlenecking projects across the four brick facilities are now complete. These projects delivered a c.40m increase in brick capacity per annum at a capital cost of c.£9m

Clay reserves



- 8 active clay reserves with associate brickmaking facilities
- 1 active standalone clay reserve
- 2 future reserves suitable for establishment of new brickmaking facilities
- 1 inactive standalone clay reserve

9
active

Source: Company information

Reserves Position

- The group has in excess of 50 million tonnes of clay reserves across 12 quarries in the UK, 8 of which are located within approximately one mile of the Group's manufacturing sites
- At the current production rates this is estimated to be the equivalent to over 30 years of brick production

Recent investment

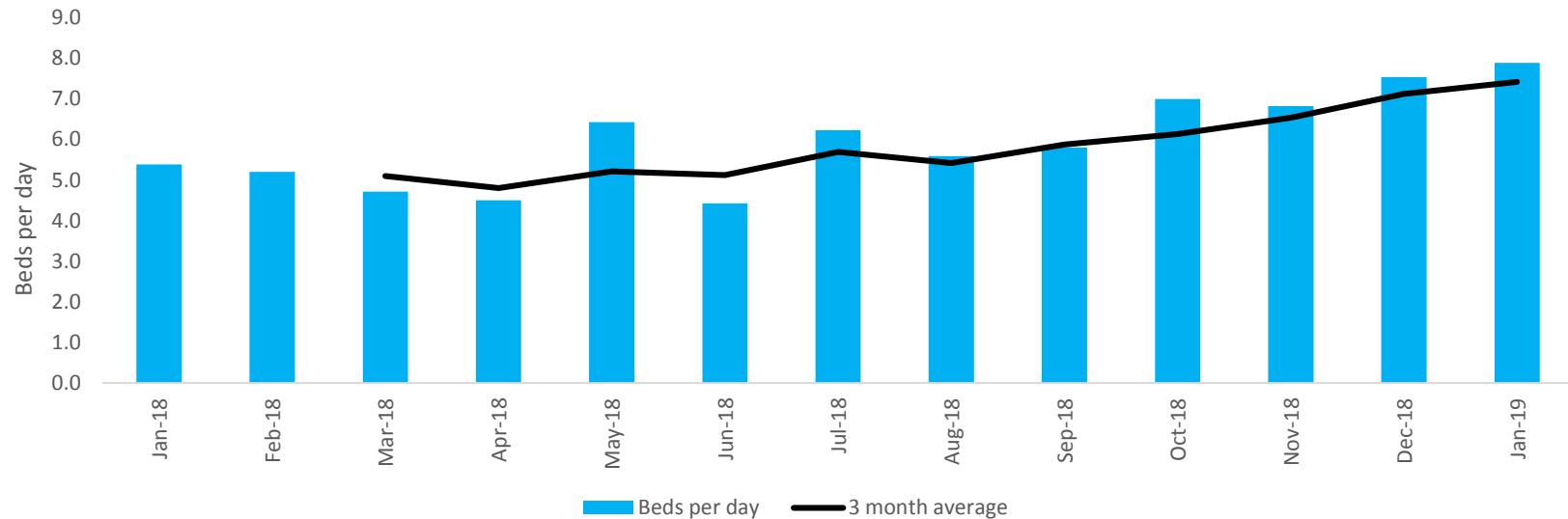
- During 2018, an additional £4.5m investment in reserves was made at Kings Dyke, the Group's London Brick facility, demonstrating the continued commitment to investing in the future of the business

Bespoke Products

£m	FY 2018	FY 2017	Change
Revenue	100.3	83.6	20.0%
EBITDA	3.0	6.3	(52.4)%
EBITDA margin %	3.0%	7.5%	

- Overall revenue grew by 20% to £100.3m mainly due to the acquisition of the Bison Swadlincote site in September 2017
- EBITDA fell by £3.3m to £3.0m as the integration of the new precast site was slower than anticipated and also due to the weather-related delays in the first half which were not fully recovered

Swadlincote (Bison) productivity



Source: Company information

Note: A bed in this context is the casting surface of the manufacturing process

- Integration of the Swadlincote site and specifically, improvement in productivity, was made more challenging during the year due to severe weather in Q1, with overall sales into single unit family homes recovering more quickly than multi-occupancy dwellings
- A revised plan was implemented in the second half of the year under a new management team and the business performance has improved gradually. Daily production at Swadlincote has increased from 5 to 6 beds of precast concrete per day to a sustained level of 7.5 beds per day in the last quarter
- Productivity improvements have also been achieved at our Hoveringham flooring beam production facility

Summary and Outlook



- 2018 was a year of good progress for the Group, with a strong performance from the Bricks and Blocks businesses and the integration of Bison gaining traction following a slow start. We also approved a £95m investment to build a new brick manufacturing facility that will increase our existing capacity by 16%
- Trading in the current year has been in line with our expectations. The improvement in productivity seen at Bison Precast in the last quarter has been sustained into the first two months of 2019 and the business is performing well. As anticipated, price increases have now been agreed with most customers in order to cover the increase in our cost base
- Based on our current order book and indications from major customers, the Board's expectations for 2019 are unchanged
- Whilst we are watchful of the impact of the current political and economic uncertainty on our end markets, the Board remains confident that the business is well positioned to take advantage of the attractive market fundamentals in order to continue delivering sustainable shareholder value





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

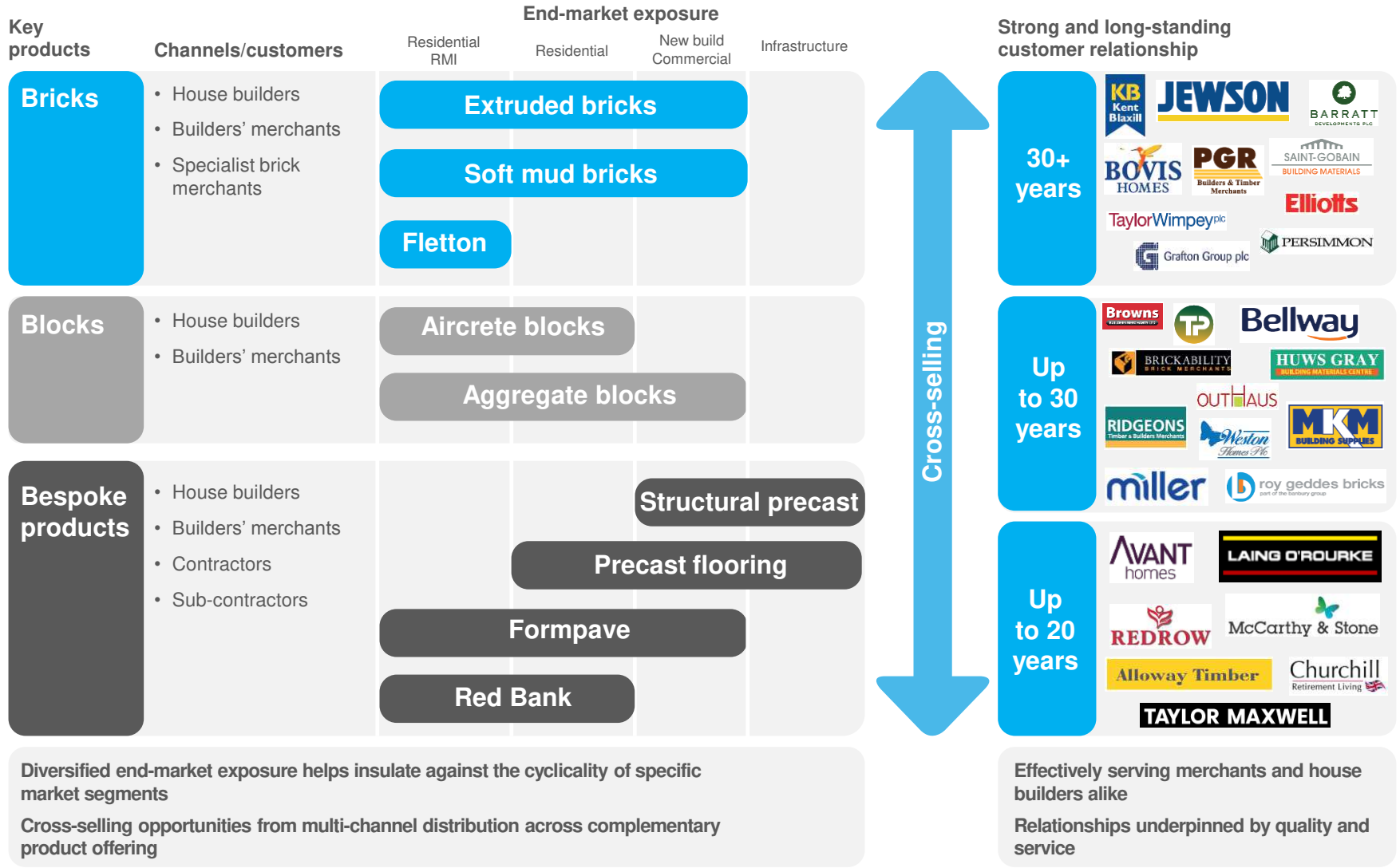
6.

Leadership team
possesses
strong industry
experience

Track record of
delivery

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

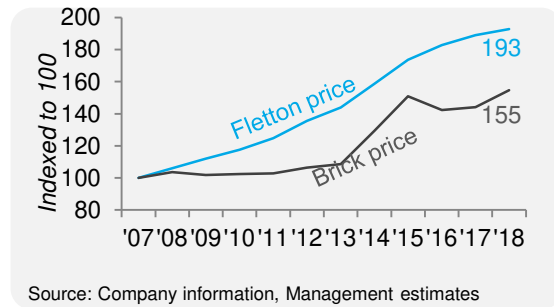
We serve the UK building construction markets across all distribution channels



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 2018/19

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

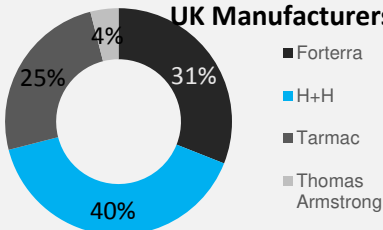
Competitive advantages

- 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^(a)



Highly consolidated market

Market currently running at >95% capacity utilisation

Aggregate blocks

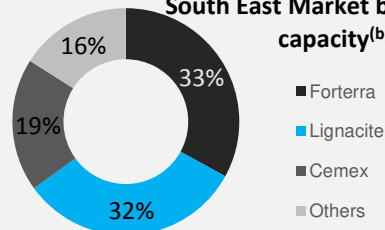
- Quick, easy, cost-effective build solution for both inner-leaf and facing requirements of walls
- High content of locally-sourced recycled/sustainable materials
- Widely used within RMI, general and retaining wall projects, housing, commercial and structural projects

- 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^(b)



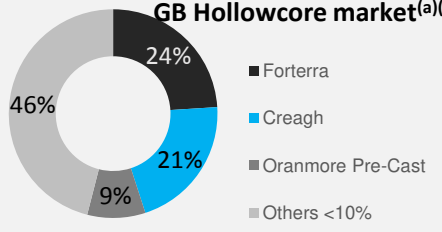
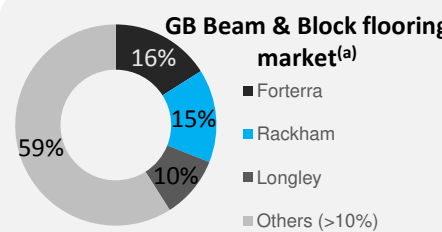

Fragmented market nationally, but consolidated in E & SE England where we operate

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

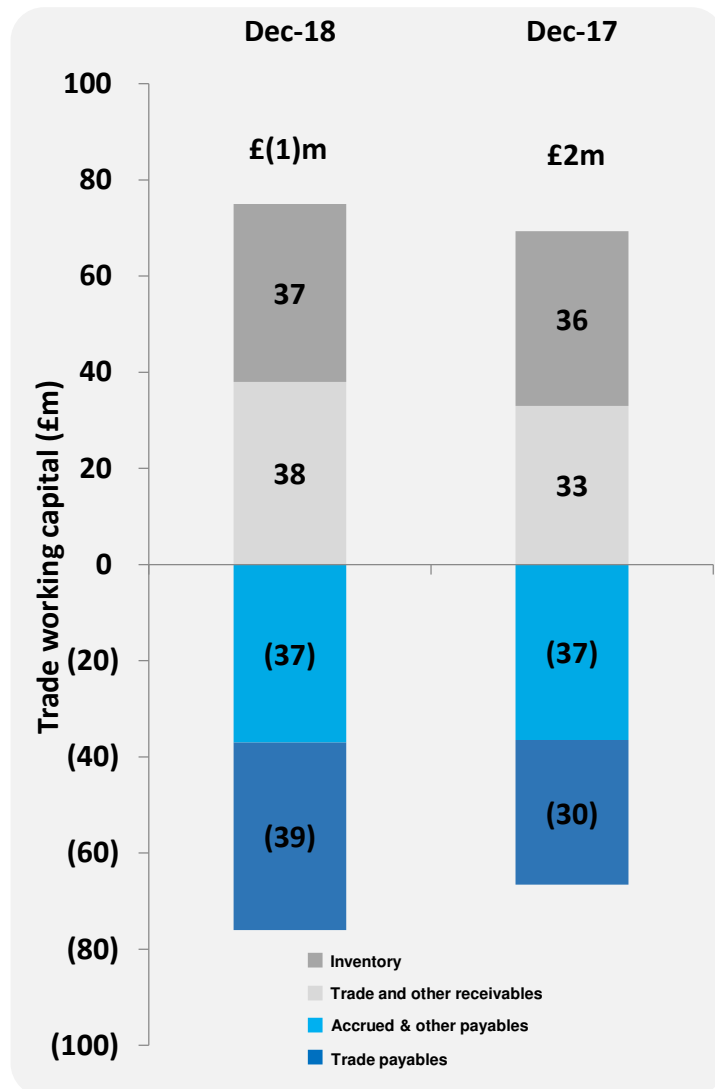
	Hollowcore Flooring	Beam & Block Flooring	Other precast																				
Description	<ul style="list-style-type: none"> Flooring solution used across the residential sector, typically in multi-unit dwellings Ideal structural section due to reduced deadweight whilst also providing maximum structural efficiency 	<ul style="list-style-type: none"> UK's first system (Jetfloor) to use expanded polystyrene blocks combined with a structural concrete topping Primarily used in ground floor residential setting due to high levels of thermal insulation 	<ul style="list-style-type: none"> Stairs and landings (complimentary to hollowcore solution) Crosswall frames Stadia components Columns and beams Bespoke precast units Wall panels 																				
Demand drivers	<ul style="list-style-type: none"> Residential market (especially flats) Building code changes Commercial construction 	<ul style="list-style-type: none"> Residential housebuilding market 	<ul style="list-style-type: none"> Commercial construction market Infrastructure market 																				
Competitive advantages	<ul style="list-style-type: none"> Flexibility of design approach Enhanced spans Factory produced to high quality standard Preformed site services Speed of erection Reduction of in-situ concrete Sound resistance 	<ul style="list-style-type: none"> High level thermal insulation Flexible 'u' value performance Reduced excavation and spoil removal Increased speed of build No specialist construction skills required 	<ul style="list-style-type: none"> Flexibility of design approach Speed of erection Fire resistance Slip resistance values Off site manufacturing reduces the need for wet trades and materials on site 																				
Competitive advantages	<p>GB Hollowcore market^{(a)(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 <10%</td><td>46%</td></tr> </table>	Company	Market Share	Forterra	24%	Creagh	21%	Oranmore Pre-Cast	9%	Others <10%	46%	<p>GB Beam & Block flooring market^(a)</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 (>10%)</td><td>59%</td></tr> </table>	Company	Market Share	Forterra	16%	Rackham	15%	Longley	10%	Others (>10%)	59%	
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(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	31 Dec 2018	31 Dec 2017
Inventory days	60	67
Debtor days	41	40



Summary Balance sheet



£m	Dec 2018	Dec 2017
Intangible assets	17.3	15.8
Property, plant and equipment	170.5	165.2
Total non-current assets	187.8	181.0
Current assets		
Inventories	37.4	36.3
Trade and other receivables	37.9	33.0
Cash and cash equivalents	26.0	29.0
Total current assets	101.3	98.3
Total assets	289.1	279.3
Trade and other payables	(72.0)	(61.2)
External borrowings	(64.8)	(89.8)
Other liabilities	(18.1)	(23.6)
Net assets	134.2	104.7

Summary Cash Flow



£m	2018 FY	2017 FY
EBITDA	78.8	75.4
Change in working capital	2.7	10.6
Other movements	(1.7)	4.2
Operating cash flow	79.8	90.2
Tax and Interest	(14.0)	(12.6)
Capital expenditure		
- maintenance	(8.5)	(7.6)
- strategic	(10.1)	(3.2)
Acquisition of Bison	-	(20.0)
Dividends	(19.3)	(13.8)
Purchase of shares	(6.1)	-
Other movements	0.2	(1.5)
Net cash flow	22.0	31.5
Adjusted free cash flow (before dividends, share purchases, acquisition and strategic capex)	57.5	68.5