FORTERRA plc

Forterra plc

Results Presentation

Half year ended 30th June 2017

THE ORIGINAL LONDON BRICK | ECOSTOCK BRICK | BUTTERLEY BRICK | CRADLEY SPECIAL BRICK | RED BANK | THERMALITE | CONBLOC | JETFLOOR | INNOVATORS IN FORMPAVE PERMEABLE PAVING

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Leading UK producer of manufactured masonry products

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

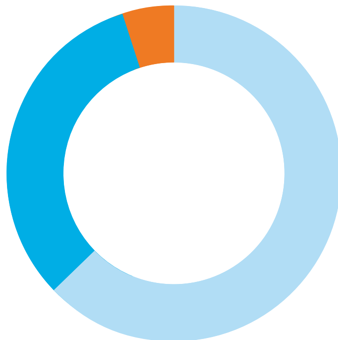
Sole manufacturer of iconic Fletton bricks sold under the London Brick brand

Balanced exposure to the new build and RM&I UK residential markets

Revenue by segment - H1 2017 (%)

Clay Bricks	49%
Concrete Blocks	27%
Bespoke Products	24%

Revenue by end use - H1 2017 (%)



Residential new build	64%
Residential RM&I	31%
Commercial	5%

- Double digit increase in brick and block revenue reflecting good demand from the new build residential market
- EBITDA ahead of prior year comparative due to higher volumes and increased prices which mitigated higher input costs, partially offset by sales mix
- Result included budgeted cost increases of £1.7m to enable the business to operate stand-alone since listing. The growth in EBITDA over 2016 was 5.7% after adjusting for this
- Strong cash flow performance resulting in reduction of net debt of £22.9m to £69.4m at 30 June 2017, representing 1.0 times LTM EBITDA
- Interim dividend declared of 3.1 pence per share (2016 interim: 2.0 pence)
- Agreement in July 2017 to acquire the trade and assets of Bison Manufacturing Ltd, a UK market leading manufacturer of hollowcore precast concrete flooring
- New five-year Revolving Credit Facility of £150m agreed in July 2017 on improved terms

£m (pro-forma basis)	**2017 H1**	**2016 H1**	Change	**2016 FY**
Revenue	162.7	146.0	11.4%	294.5
EBITDA before exceptionals	**38.7**	**38.3**	**1.0%**	**69.4**
EBITDA margin %	23.8%	26.2%	(240bps)	23.6%
PBT before exceptionals	**31.4**	**30.4**	**3.3%**	**53.1**
EPS before exceptionals (pence)	**12.6**	**12.0**	**5.0%**	**21.0**
Operating cash flow before exceptionals	31.9	24.9	28.1%	69.8
Net debt	**69.4**	**119.0**	**(41.7%)**	**92.3**
Interim/Total dividend (pence)	**3.1**	**2.0**		**5.8**

Pro-forma adjustments

£m	2017 H1	2016 H1	2016 FY
EBITDA before exceptionals	**38.7**	**39.5**	**70.6**
Additional PLC costs in 2017	-	(1.2)	(1.2)
EBITDA before exceptionals (pro-forma basis)	**38.7**	**38.3**	**69.4**
Depreciation & amortisation	(5.1)	(4.9)	(10.4)
Operating profit before exceptionals (pro-forma basis)	**33.6**	**33.4**	**59.0**
Finance charge (based on debt structure at IPO for full period)	(2.2)	(3.0)	(5.9)
PBT before exceptionals (pro-forma basis)	**31.4**	**30.4**	**53.1**
Tax charge at effective rate	(6.3)	(6.4)	(11.1)
Earnings before exceptionals (pro-forma basis)	**25.1**	**24.0**	**42.0**
Number of shares	200.0	200.0	200.0
EPS before exceptionals (pro-forma basis)	**12.6p**	**12.0p**	**21.0p**

Pro-forma basis is stated after making the following adjustments:

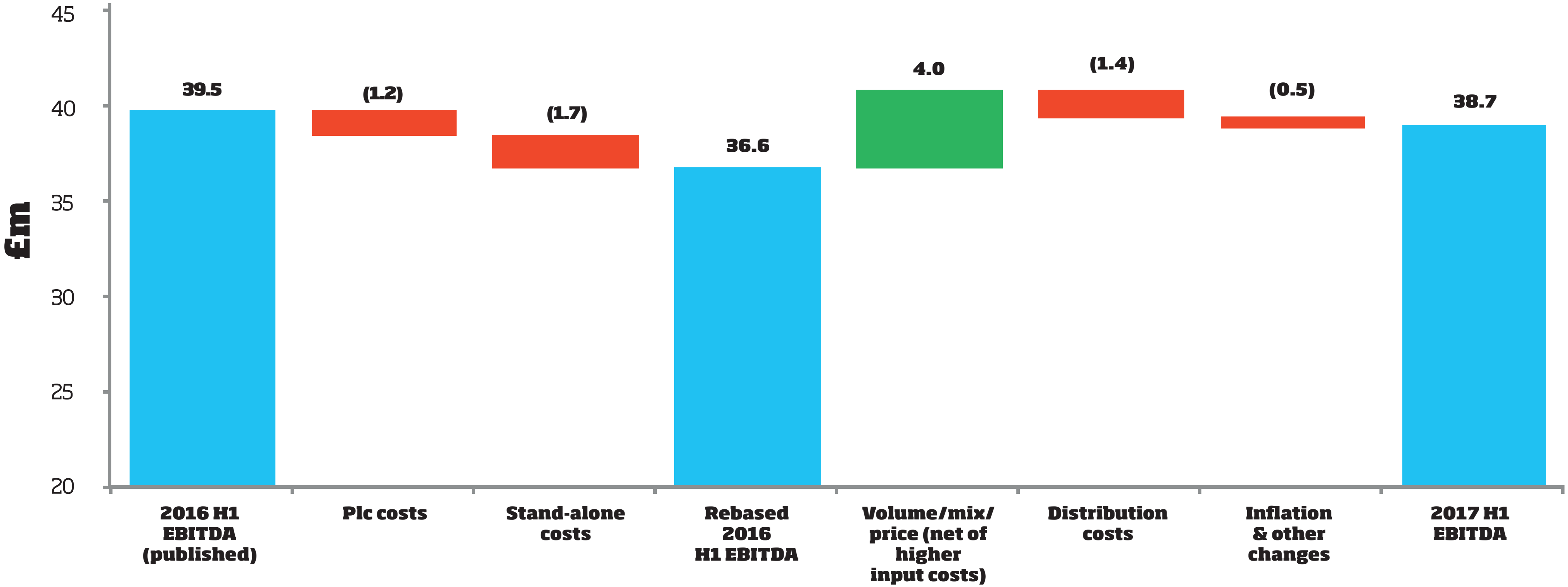
In 2016 deducting additional plc overheads to make results comparable with 2017

Finance charges are deducted in 2016 assuming that the debt structure at IPO was in place throughout the year

For 2016, assuming that the equity structure post IPO was in place throughout the year

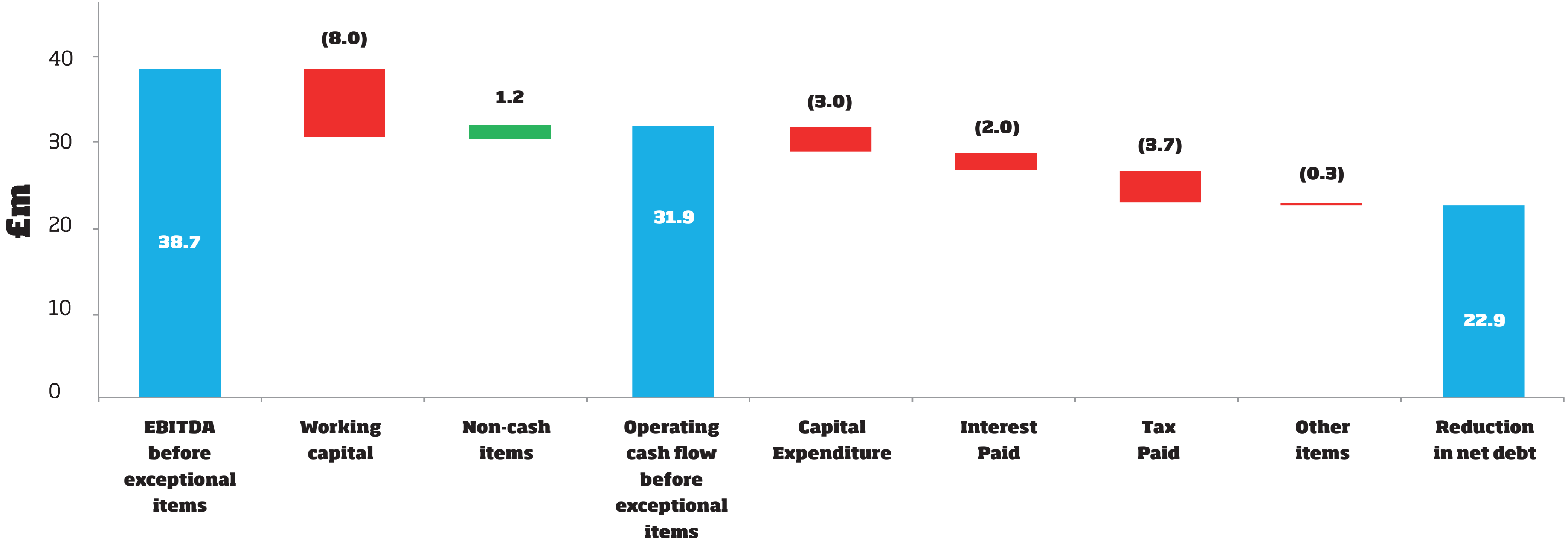
Excluding exceptional items

EBITDA bridge



- Investment made in specific overhead areas (eg IT, sales & marketing, HR and business development) to take business forward as a stand-alone entity post-listing
- Sales volumes of bricks, aggregate blocks and precast products up on last year, driven by increased sales to housebuilders. Partially offset by aircrete block sales which, though lower than last year, performed more consistently
- Selling price increase achieved in line with expectations, adverse mix impact due to higher sales to volume housebuilders
- Increase in raw material costs principally due to PFA for aircrete and expanded polystyrene (EPS), cement and steel in precast
- Distribution costs increase due to higher volumes, increase in fuel price and increased proportion of third party fleet

Cash flow



- Strong operating cash flow generation of £31.9m up £7m compared to same period in 2016
- Increase in working capital entirely due to seasonality
- Capital expenditure included £0.7m relating to Claughton, balance to be spent H2

£m	30-Jun-17	31-Dec-16
Intangible assets	13.9	13.7
Property, plant and equipment	144.5	147.2
Deferred tax asset	0.1	0.4
Total non-current assets	**158.5**	**161.3**
Current assets		
Inventories	37.2	39.0
Trade and other receivables	46.0	31.6
Cash and cash equivalents	69.3	56.2
Total current assets	**152.5**	**126.8**
Total assets	**311.0**	**288.1**
Trade and other payables	(56.7)	(51.5)
Trade and other payables to related parties	-	(0.7)
External borrowings	(138.7)	(148.5)
Other liabilities	(20.7)	(18.2)
Net assets	**94.9**	**69.2**

£m	30-Jun-17	31-Dec-16
Net debt	69.4	92.3
Financing costs capitalised	1.9	2.2
Net debt (excluding financing costs)	71.3	94.5
EBITDA (12 month rolling)	69.8	70.6
Net Debt : EBITDA (Times)	**1.0**	**1.3**

- Further reduction in net debt from £92.3m at year end 2016 to £69.4m due to strong cash generation
- Net debt:EBITDA of 1.0x lower than covenant requirement of <3.5X at 30 June 2017
- No DB pension scheme

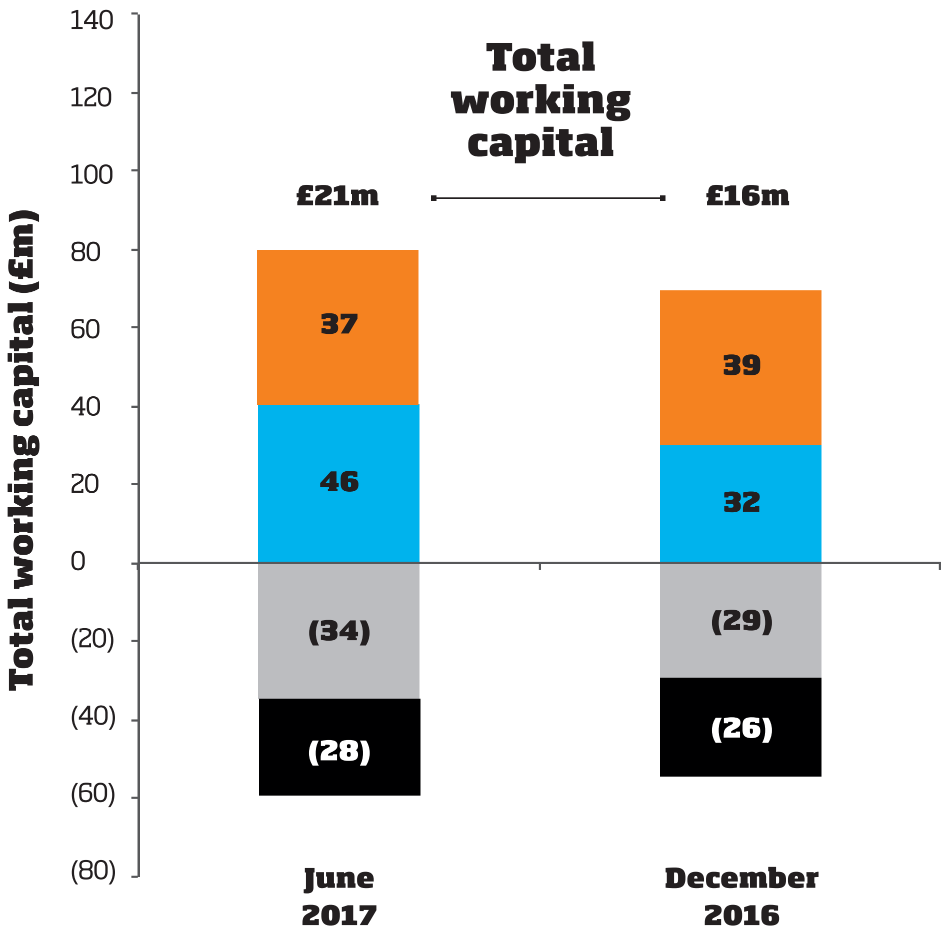
New debt facility

	New	IPO facility
Term Loan	-	£140m
RCF	**£150m**	£30m
Total Committed	**£150m**	**£170m**
Accordion	**£50m**	-
Term	**July 2022**	April 2021
Margin range	**125 - 225 bps**	150 - 250 bps
Amortisation	-	£10m pa
Number of banks	**5**	7

New facility agreed in July 2017 with a group of 5 international banks (HSBC, Santander, RBS Natwest, Lloyds and Bank of Ireland)

Covenants unchanged - require interest cover of at least 4.0 X and net debt : EBITDA to be below 3.0 X

RCF facility more efficient and flexible in meeting Group's funding requirements



Trade working capital breakdown

- Inventory
- Trade & other receivables
- Accruals & other payables
- Trade payables

	June 2017	Dec 2016
Inventory days*	78	83
Debtor days*	35	39

* Count back basis

- Reduction in brick inventories due to good trading conditions
- Strong reduction in debtor days

- Good progress in the period, supported by continued strength of new build market
- Strong cash generation, with operating cash conversion of 86% and double digit free cashflow yield
- Robust balance sheet, with reduction in Net debt:EBITDA to 1.0 times
- New RCF facility will provide flexibility and lower costs of funding
- Progressive dividend policy being followed by the Board

Business review

£m	**2017 H1**	2016 H1	% Change	**2016 FY**
Revenue	**123.7**	108.7	13.8%	221.3
EBITDA before exceptionals (pro-forma)	**35.7**	34.8	2.6%	62.7
EBITDA margin % (pro-forma)	**28.9%**	32.0%	(310bps)	28.3%

- Strong revenue growth reflecting good demand from new build market and relatively weaker comparator
- Brick volumes up by double-digit % and soft mud volumes in particular were strong
- Excellent performance by aggregate block business on back of increased sales volume, facilitated by additional shift and capacity utilisation at the Oxfordshire plant in particular
- Aircrete block sales volumes lower but business performed more consistently, assisted by securing a number of alternative raw material supply sources. Inventory rebuilt to maintain customer service
- EBITDA increased by £0.9m due to higher volumes and prices, offset partially by mix, higher input costs and stand-alone overheads. Repair costs at Measham higher as for comparative period they were included in late 2015 to coincide with the shut down for major improvement project

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- Claughton dryer upgrade commenced April 2017.
- Project completed on schedule with total cost expected at £3.3m, £0.2m lower than the initial estimate
- Claughton kiln was re-lit in last few weeks and production will resume in H2
- Production efficiency improvements and additional capacity of 5m bricks per annum (c 11%)


THE ORIGINAL
LONDON
BRICK
a Forterra brand
CELEBRATING
140
YEARS
ANNIVERSARY

An awareness campaign of the most iconic brick brand in the UK has injected real impetus in the market place and resonated with key stakeholders.

THE ORIGINAL LONDON BRICK

- Multi Layered campaign targeting merchants, builders and homeowners
- Sponsorship of SkillBuild 2017
- London Brick Roadshow - mini events at merchant sites
- Engagement through pro builder and social media channels
- Celebrity endorsement, gaining further reach within the social media platforms

£m	**2017 H1**	2016 H1	% Change	**2016 FY**
Revenue	**40.0**	38.1	5.0%	74.8
EBITDA before exceptionals (pro-forma)	**3.0**	3.5	(14.3%)	6.7
EBITDA margin % (pro-forma)	**7.5%**	9.2%	(170bps)	9.0%

- Underlying revenue grew by 5.0% due to continued positive performance in precast flooring, supported by demand from new build housing
- Precast business affected adversely by higher cost of EPS which was not fully recovered by price increase. Extra costs incurred on implementing a lean manufacturing project at Hoveringham which will result in increased output in the second half
- Formpave successfully installed a new block press machine on time and to budget. This will improve quality, enable higher production and greater efficiency. Performance in the period was affected by aggressive competitor pricing, especially for its main Aquapave product
- Red Bank has seen a positive trading first half, benefiting from the implementation of an enhanced sales, estimation and design service in early 2017

Business overview

- Bison is the UK market leading manufacturer of hollowcore precast concrete flooring with a highly automated manufacturing facility located at Swadlincote, Derbyshire
- The business has been under Laing O'Rourke management since 2008

Brand

BISON

- The Bison brand is highly respected and valued within the precast market

Products

- Flooring
- Structural Precast Components

Financials*

Revenue:	£22.8 m
EBITDA:	£(1.1)m
Gross assets:	£10.0 m

*All quoted figures are those deemed attributable to the asset subject to the transaction (in financial statements of seller)

Overview

Consideration: £20 million

Structure: Agreement signed to acquire the trade and assets of Bison Manufacturing Ltd from Laing O'Rourke plc

Assets: The primary asset is the state of the art highly automated Swadlincote manufacturing facility in Derbyshire, opened in 2006. We estimate that constructing a similar facility on a greenfield site would cost in excess of £35m.

Return: Following completion during Q3 2017, Forterra expects to generate a return in excess of its cost of capital by 2019

Strategic rationale

- This Acquisition provides a unique and immediate opportunity for Forterra to take a leadership position in the UK precast concrete market whilst also expanding its currently capacity-constrained business

- Enables Forterra to take advantage of the growing residential, commercial and infrastructure markets for these concrete products; markets which are underpinned by government initiatives to tackle the country's housing deficit and improve infrastructure.

- Leverage of the Bison brand which is highly respected and valued in the precast market and should benefit the current Forterra business going forward

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Future benefits

- Bison facility currently operating at c50% capacity utilisation - allows Forterra to expand its own precast concrete business and increase sales across the range of concrete products
- Forterra to benefit from production efficiencies and economies of scale as a result of:
  - Proposed consolidation of production between sites
  - Efficiency improvements
  - Leveraging of purchasing synergies
  - Positive impact of the Bison brand within the market
- The acquisition provides an opportunity to partner with Laing O'Rourke, a leading innovator in construction and pioneer of off-site construction methods
  - a five year commercial agreement has been negotiated as part of the transaction for Forterra to supply hollowcore and other precast products to Laing O'Rourke

1 – Bison Manufacturing – Swadlincote

2 - Forterra - Measham (brick facility)

3 - Forterra - Hoveringham

4 - Forterra - Somercotes

Forterra: delivery against our priorities

Priorities	Actions
Embed **manufacturing excellence**	› Implement facility optimisation programmes › Invest in modern process technology › Continual focus on Health and Safety and Sustainability
Align **capacity and utilisation to market conditions**	› Respond to market conditions › Flex cost base where necessary
Deliver **operational efficiency**	› Continuous improvement programmes covering: • Resource usage / Energy efficiency • Supply chain management • Distribution optimisation
Product and service ***innovation***	› Develop new products and services › Enhance our customer service and build on existing relationships
Product range ***enhancement***	› Expand housing construction product footprint › Investigate bolt on acquisitions

- Pleased with first half performance:
  - increased sales through strong brick and aggregate block volumes, underpinned by robust activity levels in the new build residential market, albeit against a relatively weaker volume comparator due to supply chain destocking which unwound during 2016
  - underlying price increases which mitigated increases in the operating cost base
- Current levels of activity from our housebuilder customers and our order book continue to be positive, but we remain watchful over any negative impact from a weakening of consumer confidence on the housing and RMI markets
- The Board expects to continue to make progress in the second half, and our expectations for the full year are unchanged

Q&A

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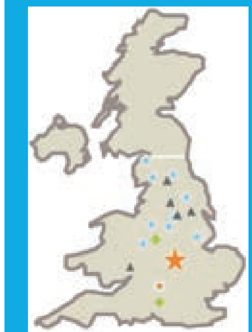
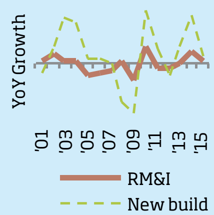
Pure UK focus	Growth		Resilience		Efficiency	
	Room for volume growth in core bricks	Further growth from cross-selling	Iconic Fletton brick	Substantial exposure to a more stable RM&I market	Efficient core brick manufacturing	High return / low risk capex
1	2	3	4	5	6	7
100% in UK Disciplined market Consolidated competitive landscape Structural long-term growth	**Clear runway for growth with limited short term capex requirements** **Volume growth** available spare capacity **Short-term** normalisation of import levels; destocking of supply chain working through **Medium term** capacity expansion options **Price growth** moderate but steady price growth	**95% of sales from the housing market** Highly complementary products across the housebuilding market Bricks (outer wall cavity) Blocks (inner wall cavity) Concrete flooring Chimney/roofing	**Sole manufacturer** Highest margins Largely RM&I Premium and resilient pricing No imports available	**Resilient RM&I balancing newbuild**	**Superior output per facility; highly efficient operations** Measham (c.105m capacity): the most efficient soft mud plant in UK Brick capacity per facility: c.61m Sales per facility: c.£15m	**Immediate focus on low cost incremental capacity additions** **£0.21 m per million bricks** (vs a new factory of c£0.6m per million bricks) Larger capacity projects available but not required in short term





Source: Company information, Management estimates

We offer a complementary range of manufactured masonry and bespoke building products

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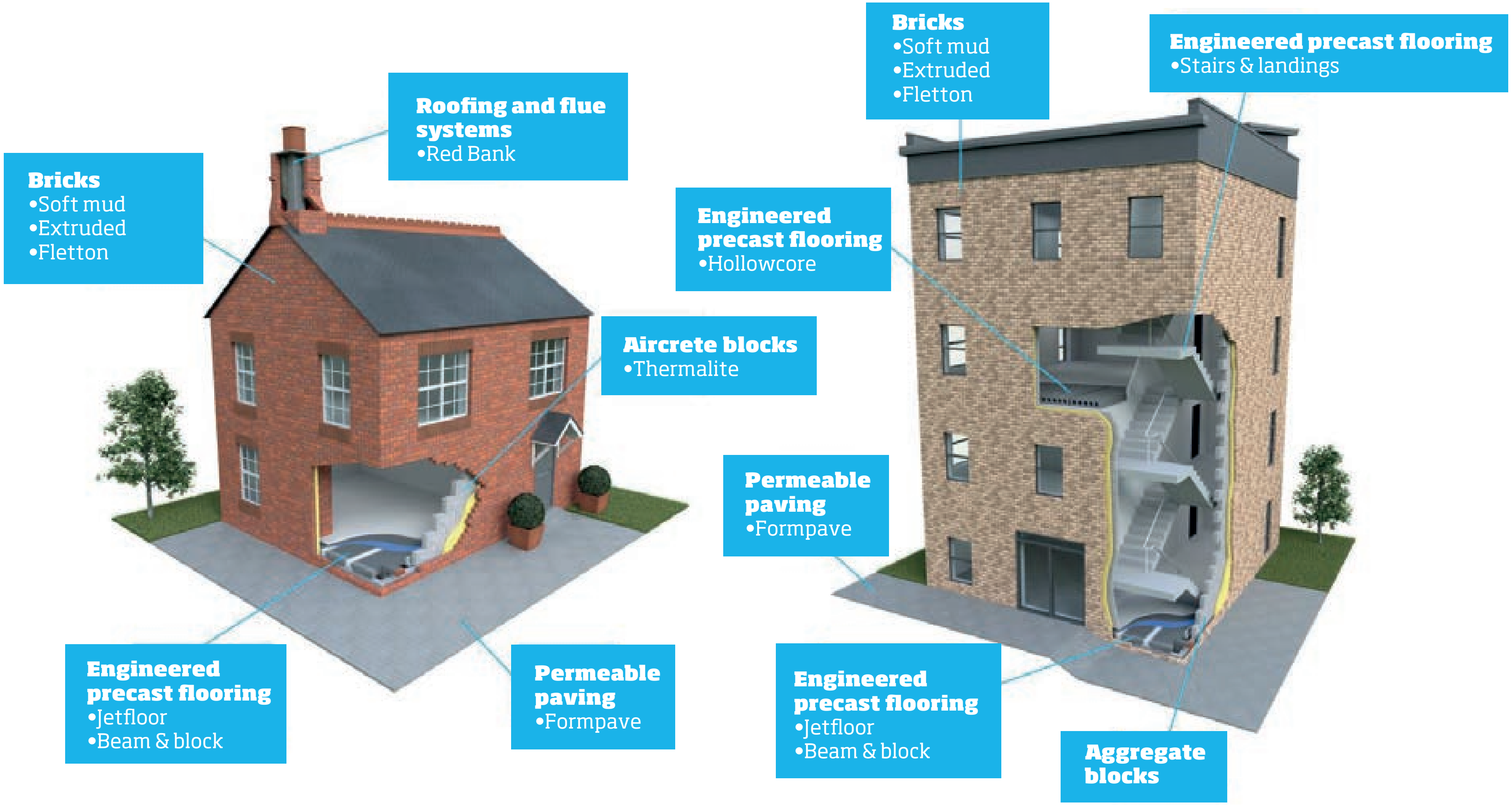
Forterra product range



Broad product offering addressing a wide range of critical applications in housing construction

Source: Company information

We serve the UK building construction markets across all distribution channels

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Key Products	Channels / customers	Residential RMI	Residential Newbuild	Commercial
		End-market exposure		
Bricks	• House builders • Builders' merchants • Specialist brick merchants	Extruded & Soft mud	Extruded & Soft mud	Extruded & Soft mud
		Fletton		
Blocks	• House builders • Builders' merchants	Aircrete blocks	Aircrete blocks	
		Aggregate blocks	Aggregate blocks	Aggregate blocks
Bespoke Products	• House builders • Builders' merchants • Contractors • Sub-contractors		Precast (Flooring)	Precast (Flooring)
		Formpave	Formpave	Formpave
		Red Bank	Red Bank	

Cross-selling

Strong and long-standing customer relationship

30+ years
- Kent Blaxill
- Jewson
- Bovis Homes
- Grafton Group plc
- Saint-Gobain Building Materials
- Taylor Wimpey plc
- Persimmon
- Elliotts
- PGR Builders & Timber Merchants
- EH Smith Builders Merchants
- Barratt Developments plc

Up to 30 years
- Browns Builders Merchants Ltd
- TP
- Bellway
- Outhaus
- Brickability
- Huws Gray Building Materials Centre
- miller
- Ridgeons Timber & Builders Merchants
- ET Clay Products Ltd
- MKM Building Supplies
- Weston Homes Plc
- in touch with Bricks
- roy geddes bricks

Up to 20 years
- Avant homes
- Redrow
- Alloway Timber

Diversified end-market exposure helps insulate against the cyclicality of specific market segments
Cross-selling opportunities from multi-channel distribution across complementary product offering

Effectively serving merchants and house builders alike
Relationships underpinned by quality and service

Network of scale manufacturing facilities across strategic locations

9 brick facilities

1.4x larger than Ibstock

Avg. 2015 capacity per facility in GB

Company	Capacity
Wienerberger	52m bricks p.a.
IBSTOCK PLC	43m bricks p.a.
Michelmersh	20m bricks p.a.
FORTERRA	**61m bricks p.a.**[(a)]

2 aircrete block facilities

#2 in the UK (capacity)

Avg. 2015 capacity per facility in GB

Company	Capacity
H+H	3.7m m^2
TARMAC A CRH COMPANY	2.7m m^2
FORTERRA	**3.6m m^2**

2 aggregate block facilities

Whittlesey regional largest

Avg. 2015 capacity per facility in SE and E England

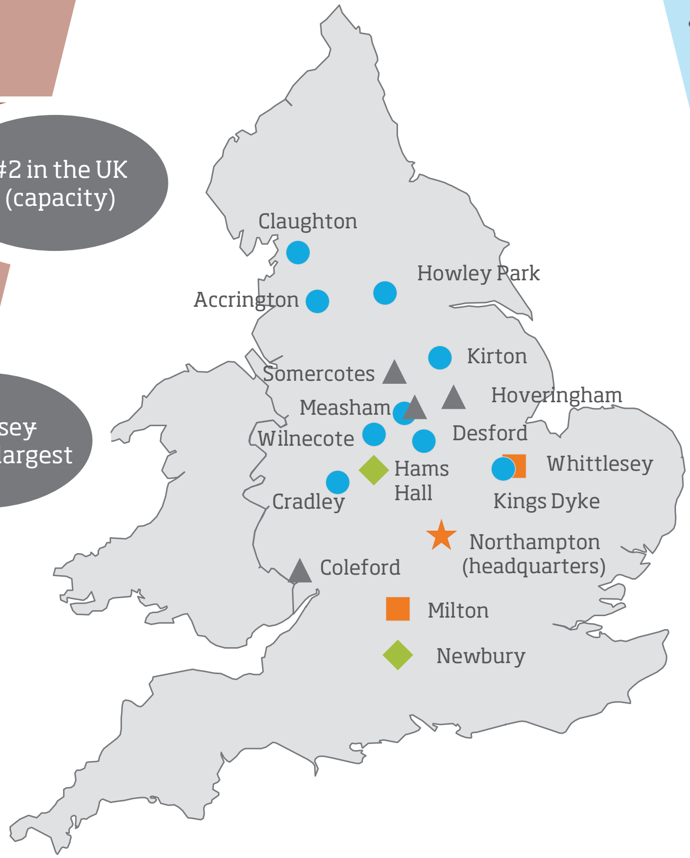
Company	Capacity
LIGNACITE Sustainable Masonry	1.3m m^2
TARMAC A CRH COMPANY	1.0m m^2
CEMEX	0.9m m^2
FORTERRA	**1.4m m^2**

4 bespoke products facilities

Long term clay resources

# clay reserves:	12 quarries
Clay resources:	c.85m tonnes
Sufficient for:	c.55 years

Forterra's manufacturing footprint



Focus on Measham

- State-of-the-art **largest, most modern** and **fully automated** soft mud brick manufacturing facility in UK
  - New Measham facility opened in 2009
  - Manufactures soft mud bricks
  - Total initial investment of c.£55m

Closure of 3 inefficient old facilities

Old Measham	20m bricks capacity p.a.
Clockhouse	47m bricks capacity p.a.
Tilmanstone	30m bricks capacity p.a.

Single facility

86m bricks capacity p.a. now increased to **105m** from Jan-16 with c.£4m incremental investment

✔ **Meaningfully more efficient**

Optimal production cost estimated to be **c.40%** lower

✔ **Fully automated** with only 6 production staff per shift

Note: Average production capacity of each company calculated as total production capacity of that company in 2015 divided by the total number of facilities held by such company in the relevant area
(a) (a) Includes the Cradley brick facility (c.1m brick production capacity p.a.) which focuses on special shaped bricks
Source: Company information, BDS (Jan-2016), Management estimates

Incremental brick capacity from de-bottlenecking projects

Status	✔ Completed	✔ Commenced	✔ Completed	Potential	
	Measham expansion	**Desford gas supply upgrade**	**Claughton dryer replacement**	**Accrington kiln buffer extension**	
Selected examples					
Description	• Completed in Jan-2016 • Expand the Measham facility by an additional c.19m p.a.brick production capacity	• Ensure sufficient gas volume and pressure to service increased production • Includes on site works to pipework, metering, external grid reinforcement and kiln burners	• Dryer upgrade as current dryers are at the end of life • Required improvement to allow increased production	• Project to be carried out in 2018+	**Total**
Est. downtime	8 weeks	8 weeks	14 weeks	2 weeks	
Est. capex required	c.£4m	c.£3.5m	c.£3m	c.£2.5m	**c.£13m**
Est. capacity increase	c.19m p.a.	c.10m p.a.	c.5m p.a.	c.10m p.a.	**c.45m p.a.**
Est. completion	Jan-2016	2016 / 2017	2017	2018	

Identified smaller efficiency projects to achieve c.45m capacity expansion; lower risk and smaller capex requirements

P&L pre-exceptionals

£m	2017 H1	2016 H1	2016 FY
Revenue	162.7	146.0	294.5
Cost of Sales	(94.4)	(83.3)	(175.2)
Gross Profit	**68.3**	**62.7**	**119.3**
Distribution Costs	(24.4)	(21.2)	(43.7)
Administrative expenses	(10.4)	(7.3)	(16.2)
Other operating income	0.1	0.4	0.8
Operating Profit	**33.6**	**34.6**	**60.2**
Add back: depreciation & amortisation	5.1	4.9	10.4
EBITDA	**38.7**	**39.5**	**70.6**
Additional costs in 2017 as a stand-alone PLC	-	(1.2)	(1.2)
EBITDA (pro-forma basis)	**38.7**	**38.3**	**69.4**

D&A and exceptional items

£m	2017 H1	2016 H1	2016 FY
EBITDA before exceptionals	**38.7**	**39.5**	**70.6**
Depreciation	(5.0)	(4.7)	(10.1)
Amortisation	(0.1)	(0.2)	(0.3)
Exceptional items	-	(10.3)	(8.9)
Operating profit	**33.6**	**24.3**	**51.3**
Net finance expenses	(2.2)	(11.3)	(14.2)
Income tax expenses	(6.3)	(4.2)	(9.6)
Net profit for the period	**25.1**	**8.8**	**27.5**

Exceptional items:	**-**	**(10.3)**	**(8.9)**
Transaction costs	-	(9.1)	(9.1)
Separation costs	-	(1.2)	(1.3)
Indemnity payment received	-	-	1.6
Loss on disposal of Structherm	-	-	(0.1)

Summary cash flow statement

£m	2017 H1	2016 H1	2016 FY
EBITDA before exceptionals	38.7	39.5	70.6
Working capital	(8.0)	(14.8)	(1.0)
Non-cash movements	1.2	0.2	0.2
Operating cash flow before exceptionals	**31.9**	**24.9**	**69.8**
Cashflows relating to exceptionals	(0.1)	(11.0)	(13.6)
Cash generated from operations	**31.8**	**13.9**	**56.2**
Interest paid	(2.0)	(10.1)	(12.4)
Tax paid	(3.7)	(1.9)	(6.3)
Net cash flow from operations	**26.1**	**1.9**	**37.5**
Capital expenditure	(3.0)	(4.5)	(9.1)
Proceeds from sale of PP&E	-	0.2	0.3
Dividends paid	-	-	(4.0)
Net cash flow before financing	**23.1**	**(2.4)**	**24.7**

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