

KEEPING BRITAIN BUILDING



**FORTERRA PLC
FULL YEAR RESULTS PRESENTATION**

10 MARCH 2022

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AGENDA



1. Highlights
2. Financial review
3. Our markets
4. Strategic update
5. Sustainability
6. Outlook
7. Investment case



Stephen Harrison
Chief Executive Officer



Ben Guyatt
Chief Financial Officer

FINANCIAL HIGHLIGHTS



- Strong trading throughout the year with FY21 results slightly ahead of expectations
- Full year brick sales volumes 33% ahead of 2020 and 1% ahead of 2019
- Continued strength of operating cash flow drives strong liquidity position; with closing net cash before leases of £40.9m
- H2 cost inflation not fully recovered in the short- term leading to temporary margin decline relative to 2019 although significant double digit selling price increases delivered by 1 January 2022 with further double-digit price increases effective 1 April 2022
- Recommending final dividend of 6.7p bringing total 2021 dividend to 9.9p
- £40m share buyback programme commenced in January 2022 with £5.5m returned to date

STRATEGIC HIGHLIGHTS



- New Desford brick factory now expected to deliver a 22% effective increase in brick production output from 2025; anticipated incremental EBITDA increased to c.£25m from c.£15m. This increase primarily driven by the reduced performance of the old factory as well as the benefit of increased selling prices
- Announcement of a highly cost-effective £12m investment to manufacture clay brick slips at Accrington factory
- Sector-leading investment in renewable energy generation through a Power Purchase Agreement (PPA) with a c.£50m commitment over 15 years securing around 70% of our electricity requirement from a dedicated Forterra solar farm



KEY FINANCIALS

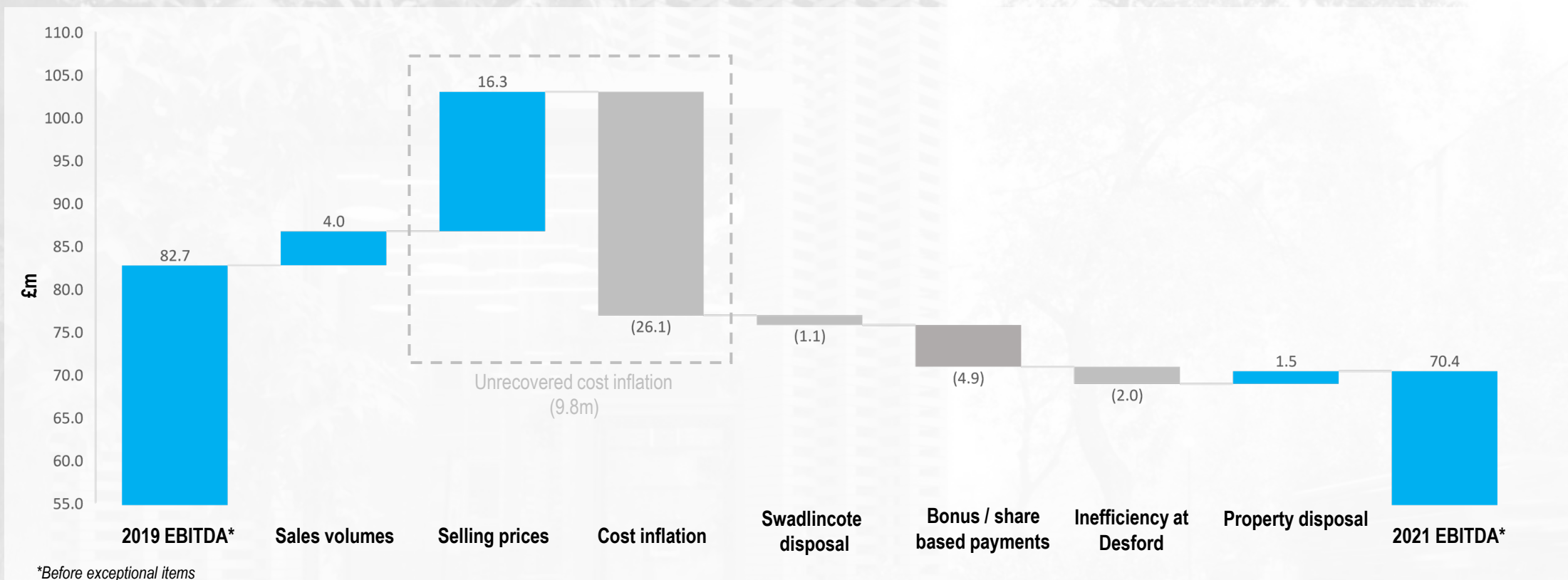
£m	Year ended 31 December*		
	2021 £m	2020 £m	2021 change vs 2020
Revenue	370.4	291.9	27%
EBITDA	70.4	37.9	86%
Operating profit	54.0	20.8	160%
Profit before tax	50.7	17.4	191%
Earnings per share (pence)	17.5	6.6	165%
Cash flow from operations	81.2	53.9	51%
Net cash before leases	40.9	16.0	156%
Dividend – total (pence)	9.9	2.8	254%
<i>*Before exceptional items</i>			
Statutory results			
Profit / (loss) before tax	56.8	(5.4)	n/a
Earnings per share (pence)	19.9	(2.6)	n/a

PROFIT AND LOSS

£m	Year ended 31 December*		
	2021 £m	2020 £m	2021 change vs 2020
Revenue	370.4	291.9	27%
EBITDA			
- Bricks and Blocks	70.5	40.3	75%
- Bespoke Products	(0.1)	(2.4)	
Total	70.4	37.9	86%
<i>EBITDA margin (%)</i>	19.0%	13.0%	
Depreciation and Amortisation	(16.4)	(17.1)	(4)%
Operating profit / EBIT	54.0	20.8	160%
Finance expense	(3.3)	(3.4)	(3)%
Profit before tax	50.7	17.4	191%
<i>Effective tax rate (%)</i>	21.3%	18.4%	
Earnings per share (pence)	17.5	6.6	165%

*Before exceptional items

COMPARISON OF RESULT TO 2019



- EBITDA before exceptional items for the year of £70.4m compares to a 2019 comparative of £82.7m
- As highlighted above the key driver impacting margins was cost inflation which in the short-term was not recovered

SEGMENTAL RESULTS: BRICKS AND BLOCKS

£m	Year ended 31 December*		
	2021	2020	Change
Revenue	298.1	223.1	34%
EBITDA before overhead allocation	90.5	54.9	65%
EBITDA margin before overhead allocation	30.4%	24.6%	
Overhead allocation	(20.0)	(14.6)	
EBITDA	70.5	40.3	75%
EBITDA margin	23.6%	18.1%	

*Before exceptional items

- Revenue increased by 34% relative to 2020, increase of 7% on 2019 (£279.1m)
- Strong market demand throughout the year; production capacity and available inventory were limiting factors to further growth upon 2019
- 23.6% EBITDA margin a significant improvement on the prior year (2020: 18%) though short of 2019 (29%) primarily as a result of rapidly increasing costs in the second half of the year which in the short term have not been recovered
- Significant, double-digit selling price increases already delivered by 1 January, with further double-digit price increases effective 1 April

SEGMENTAL RESULTS: BESPOKE PRODUCTS

£m	Year ended 31 December*		
	2021	2020	Change
Revenue	76.1	71.7	6%
EBITDA before overhead allocation	4.8	1.2	300%
EBITDA margin before overhead allocation	6.3%	1.7%	
Overhead allocation	(4.9)	(3.6)	
EBITDA	(0.1)	(2.4)	
EBITDA margin	-	-	

**Before exceptional items*

- Revenue increased by 6% relative to 2020, 27% below 2019 primarily driven by the restructure of the Bison business
- Swadlincote hollowcore factory closed in mid-2020 and the co-located bespoke precast manufacturing facility closed in late 2021, allowing a strategy to maximise the profitability of this segment and focus on margin improvement
- Demand for precast concrete floor beams recovered strongly during the year, 88% of 2019 levels and constrained by production capacity

£m	Year ended 31 December	
	2021	2020
Operating cash flow before exceptional items	81.2	53.9
Cash payments made in respect of exceptional items	13.8	(8.8)
Interest	(2.8)	(2.8)
Tax	(9.6)	(5.2)
Capital expenditure	(34.6)	(24.9)
EBT payments	(3.8)	(0.1)
Dividends	(13.7)	-
Other movements	(0.3)	(0.6)
Net proceeds from issue of shares	-	53.0
New lease liabilities	(12.4)	(0.6)
Increase in net cash	17.8	63.9

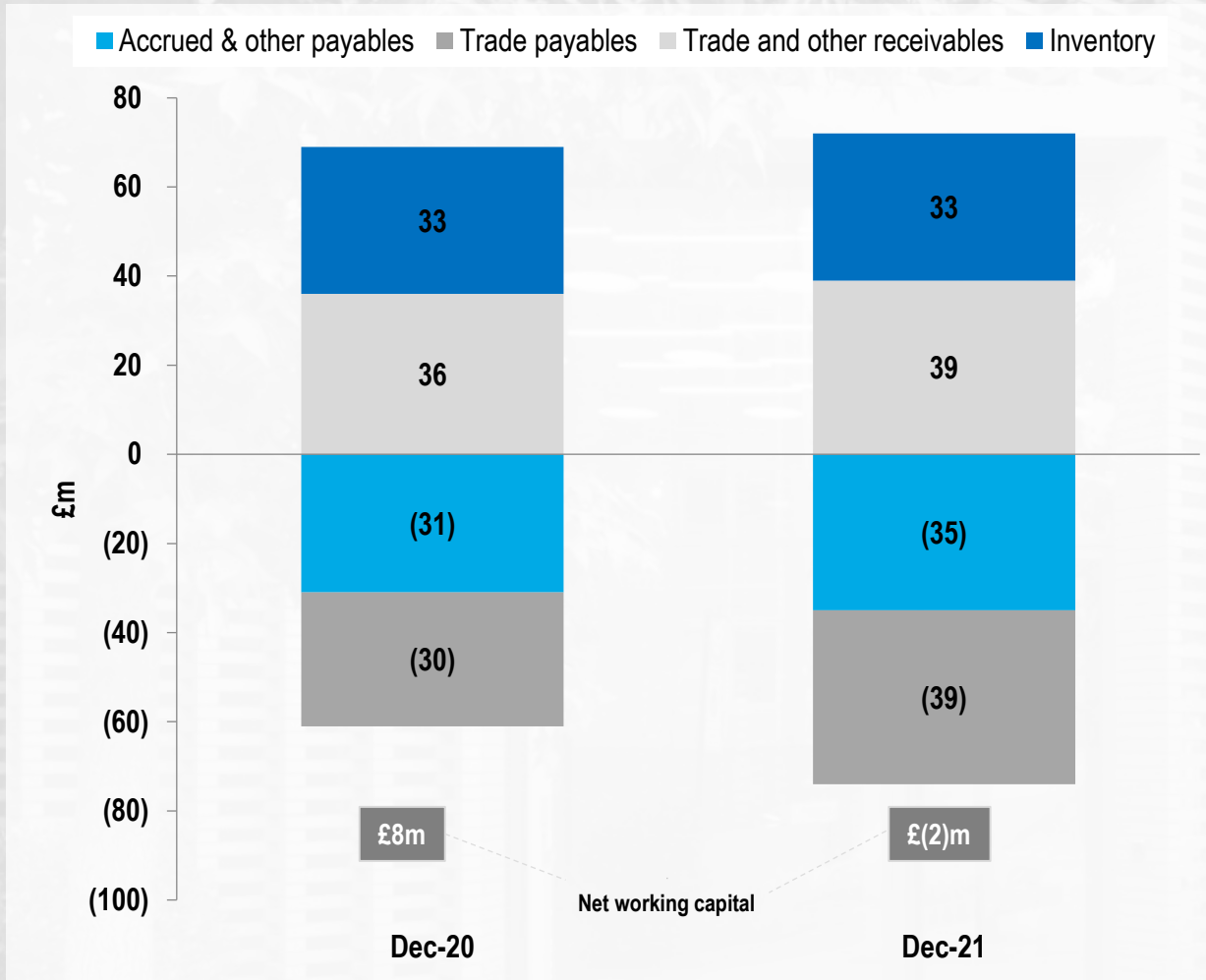
- £81.2m of cashflow before exceptional items demonstrates the Group's ability to consistently generate strong cashflow
- Full year capital spend was £34.6m including £28.9m of strategic capital spend of which £27.2m related to the New Desford brick factory and £1.7m related to Wilnecote

CAPEX GUIDANCE

£m	Capex	
	2022	2023
Desford brick factory	31.0	5.0
Wilnecote refurbishment	12.0	13.0
Accrington slips	3.0	9.0
Maintenance	12.0	12.0
Total capex	58.0	39.0

- In 2022 and 2023 we expect to spend £58m and £39m respectively, inclusive of £12m of normal maintenance capex

WORKING CAPITAL

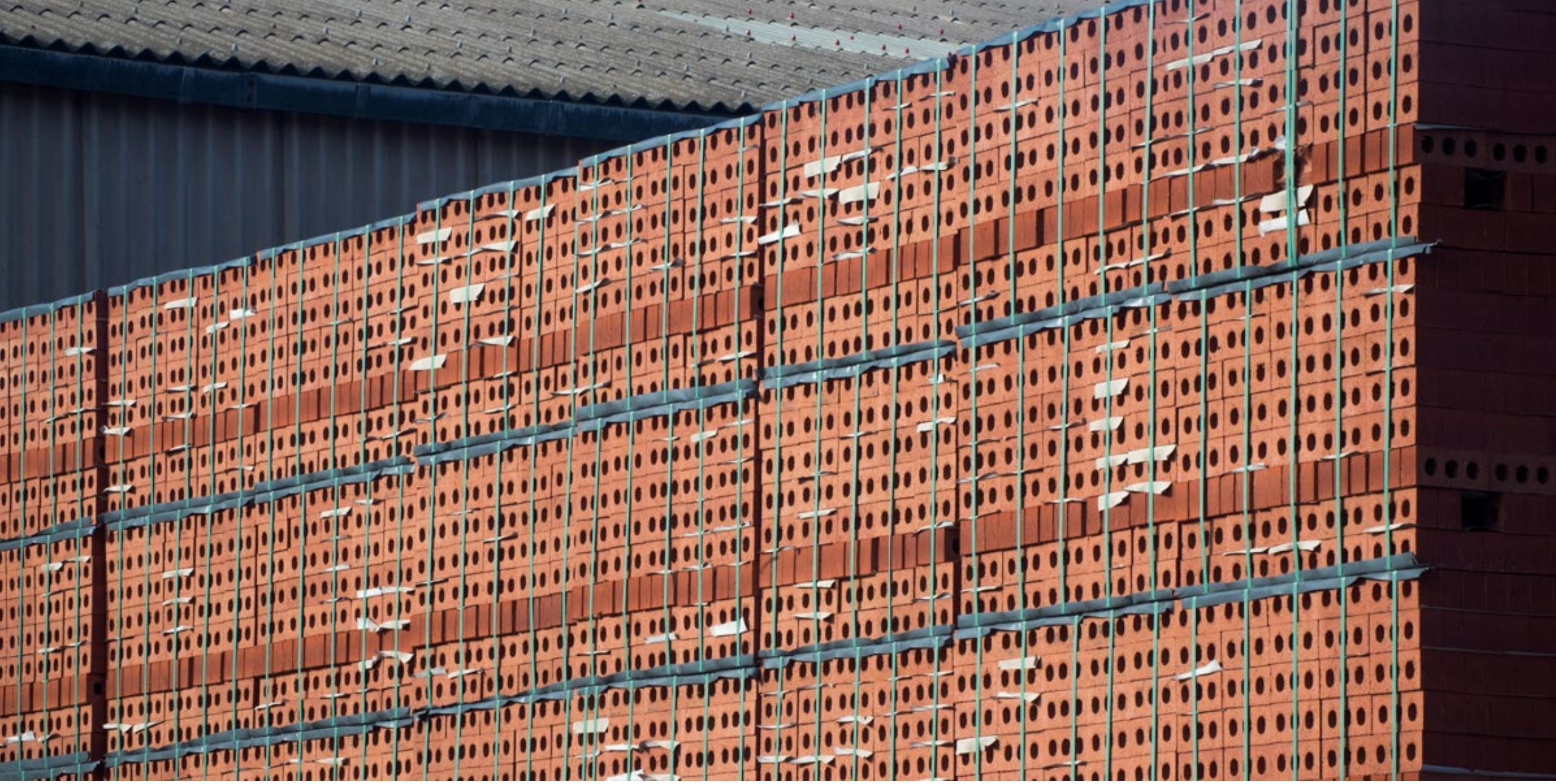


- Cashflow benefits from a £10m reduction in working capital in year driven by increase in payables, primarily a result of cost inflation
- With selling prices increased in Jan 2022 and again in April 2022 we would expect an increase in receivables in 2022.
- Inventory balance remains consistent with prior year, with valuation increases offsetting further reduction in quantities of inventory on hand

CASH POSITION AND FACILITIES

£m	Net cash	
	December 2021	December 2020
Cash and cash equivalents	41.5	31.5
Loans and borrowings	(0.6)	(15.5)
Net cash excluding leases	40.9	16.0
Lease liabilities	(16.5)	(9.4)
Net cash	24.4	6.6

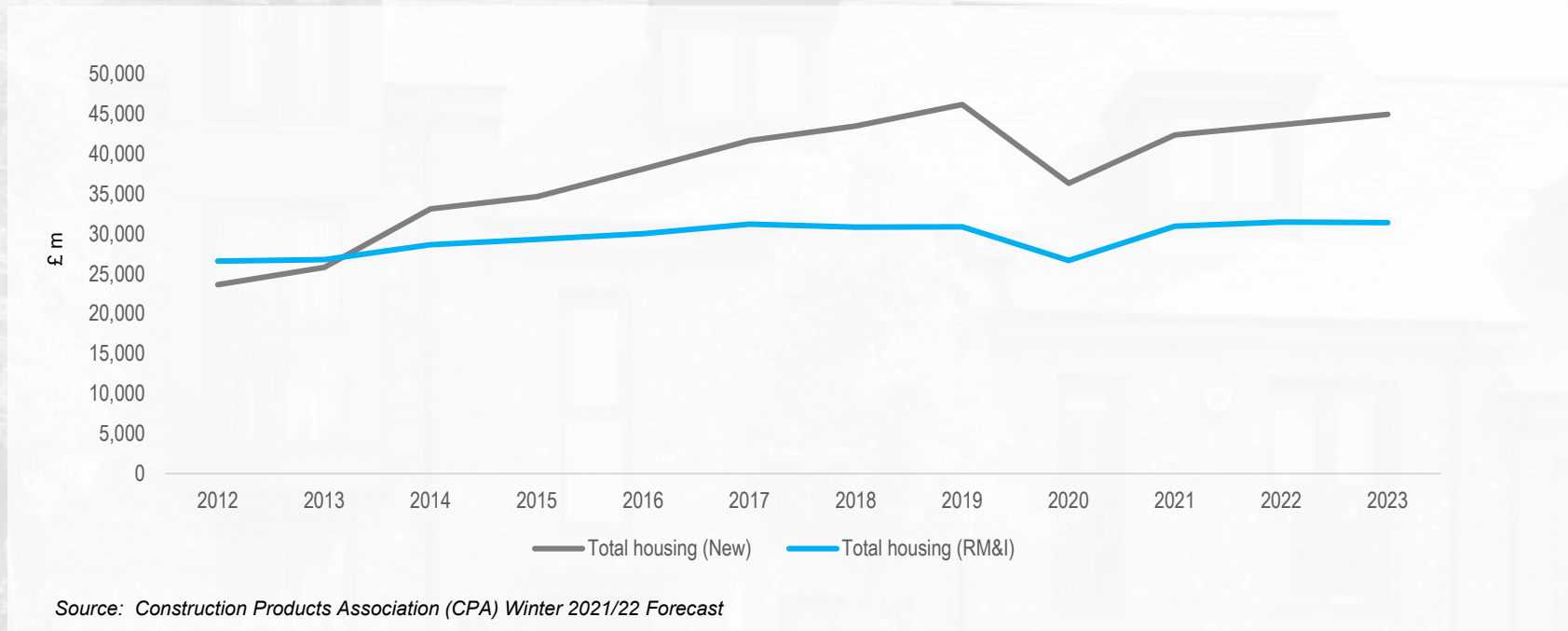
- Strong balance sheet position with net cash before leases of £40.9m
- Debt facility comprises a committed revolving credit facility (RCF) of £170m in place to July 2025
- Leverage target at or below 1x EBITDA



FORTERRA
Keeping Britain Building

OUR MARKETS

Forecast housing growth

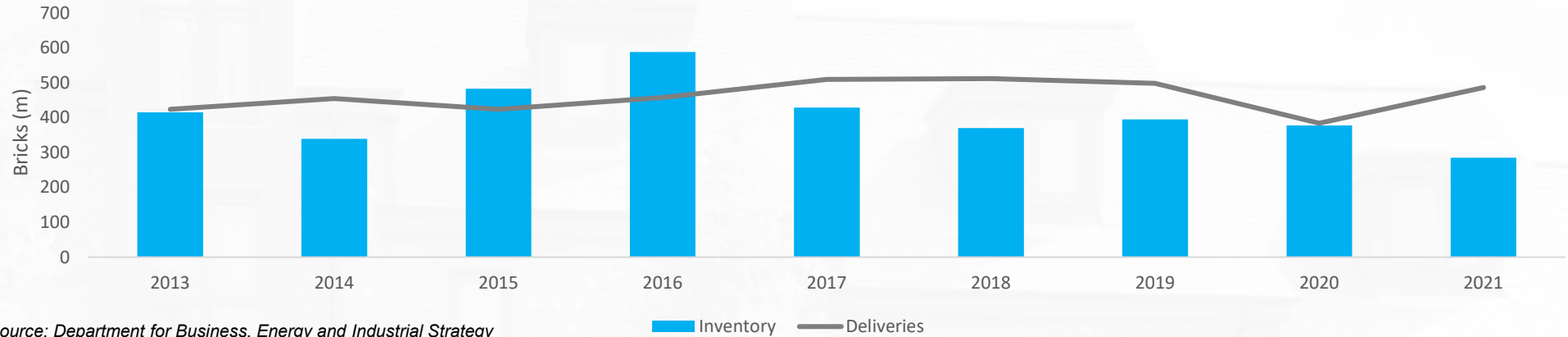


- Supported by core fundamentals; per the CPA, housing output in the UK is forecast to continue to grow across both new build and RM&I

UK BRICK MARKET

Brick industry stocks have fallen during the pandemic reflecting reduced production resulting from the first lockdown and subsequent strong recovery in demand

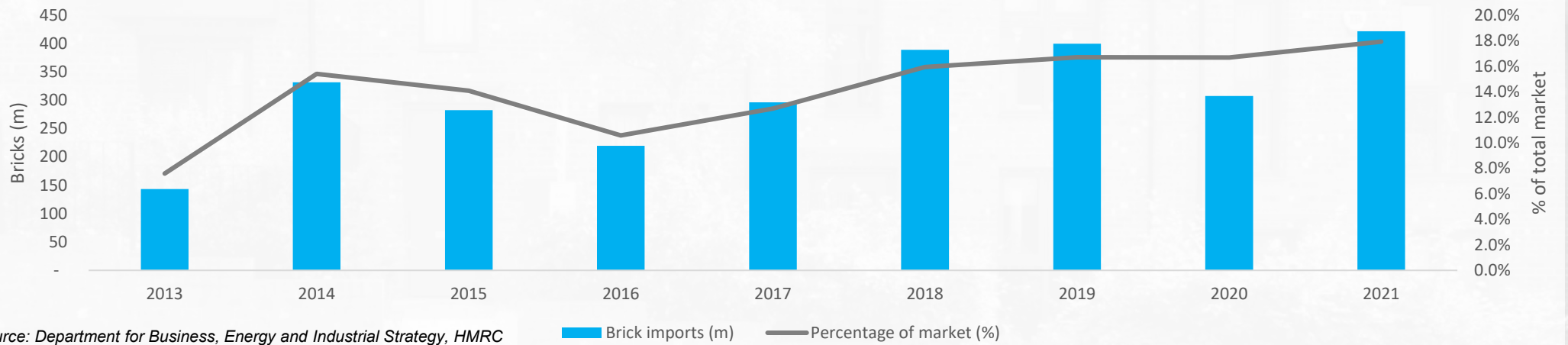
UK brick inventory and deliveries (quarterly average)



Source: Department for Business, Energy and Industrial Strategy

Record levels of imports seen in 2021, ending the year at a run rate of c.19% of the market

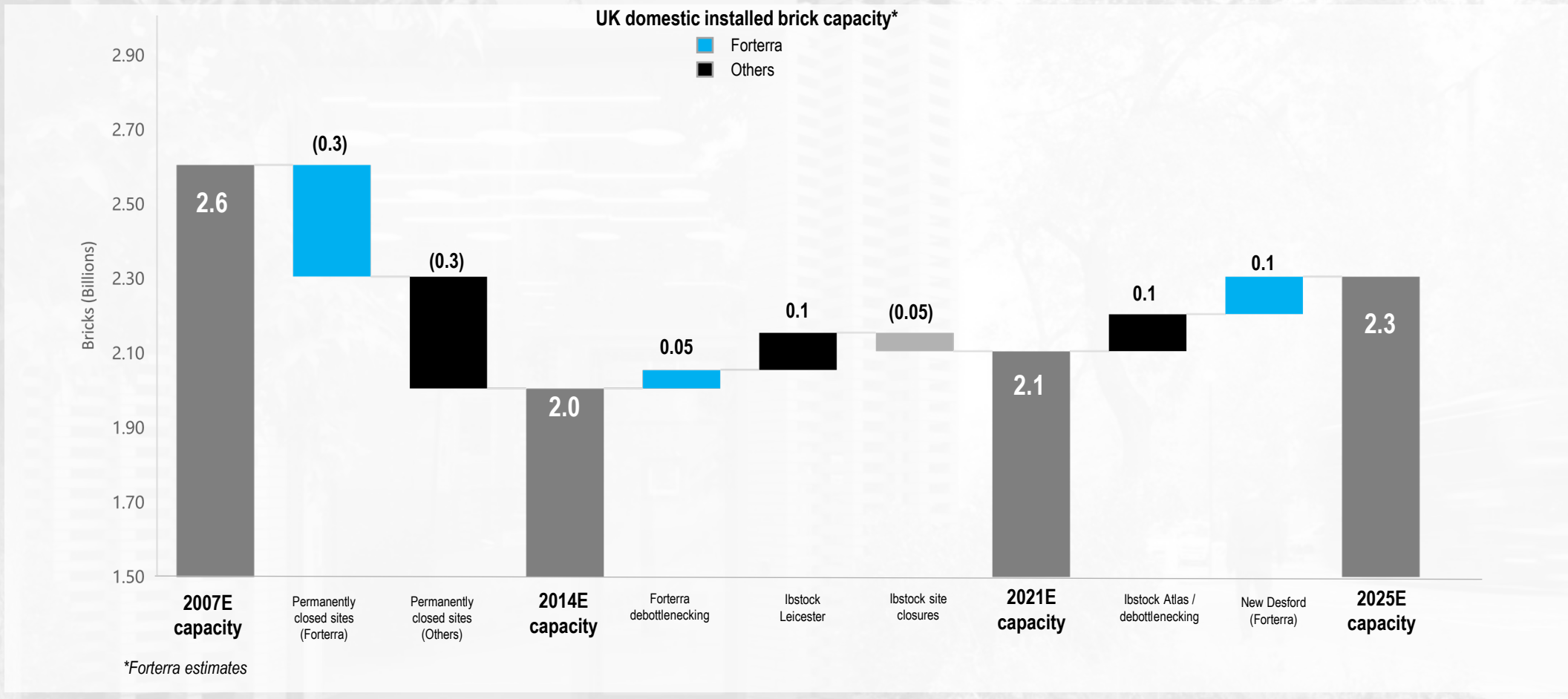
Imports



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

UK BRICK MARKET OPERATING AT CAPACITY

- Industry capacity was rationalised during the global financial crisis with Forterra playing the leading role in this





A CLEAR AND FOCUSED STRATEGY

- We are well positioned to capture profitable growth, benefitting from the structural dynamics of the markets in which we operate
- Our strategy for growth is focused upon organic investment across three interconnected pillars

1. STRENGTHEN THE CORE



Grow capacity, cost efficiency and improved sustainability

STRATEGY IN ACTION DESFORD BRICK FACTORY

- £95m investment
- Commissioning in 2022
- Increase brick production by 22% (120m bricks per annum)
- More efficient factory
- Core product for our housebuilding customers

2. RANGE EXPANSION



Access new higher margin market segments

STRATEGY IN ACTION WILNECOTE BRICK FACTORY

- £27m investment
- Improved efficiency
- Increased breadth of product range
- Expansion into the commercial and specification market

3. PRODUCT INNOVATION AND DEVELOPMENT



Develop and launch new products

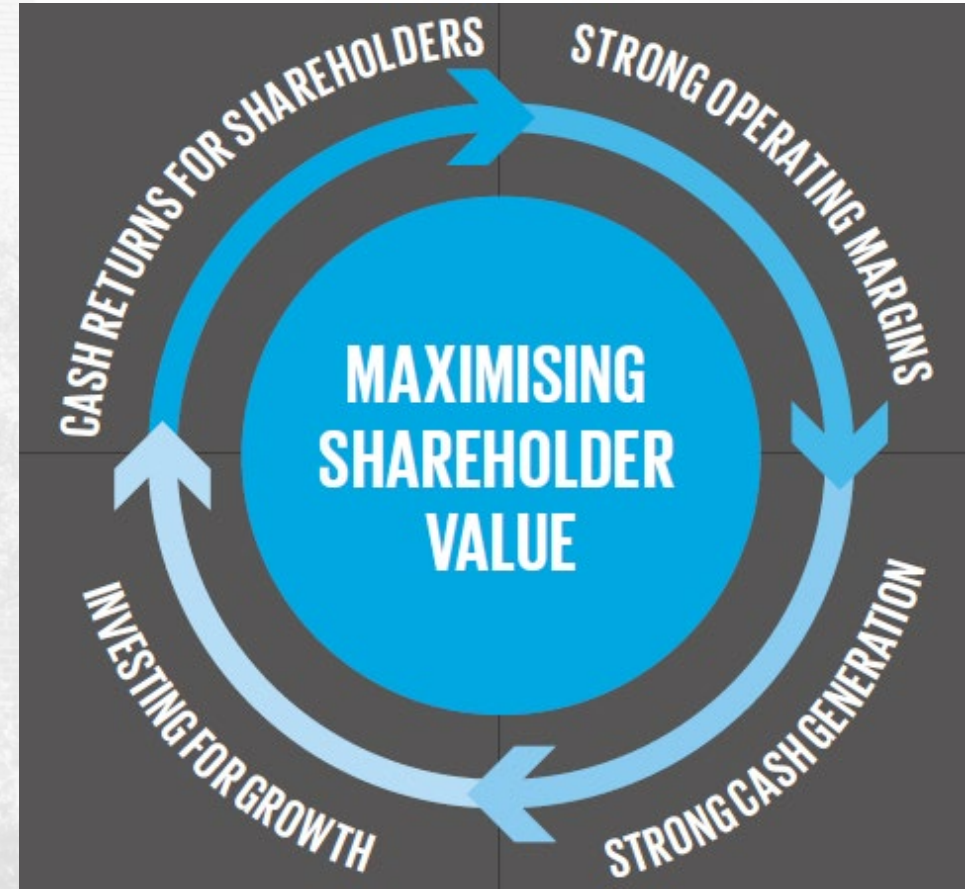
STRATEGY IN ACTION BRICK SLIPS

- £12m investment
- Up to 48m slips per annum
- Cost effective entrance into a new market
- Improved sustainability credentials vs. current slips in the UK market

CONTINUED STRONG CASH GENERATION

Continued strong free cash flow will be allocated in line with our capital allocation priorities

1. Strategic organic capital investment to deliver attractive returns
2. Progressive ordinary dividend with the pay-out ratio increasing to 55% of earnings from 2021 onwards
3. Bolt-ons as suitable opportunities arise in adjacent or complementary markets
4. Supplementary shareholder returns as appropriate



£25M INCREMENTAL EBITDA AT NEW DESFORD FACILITY

1. STRENGTHEN THE CORE



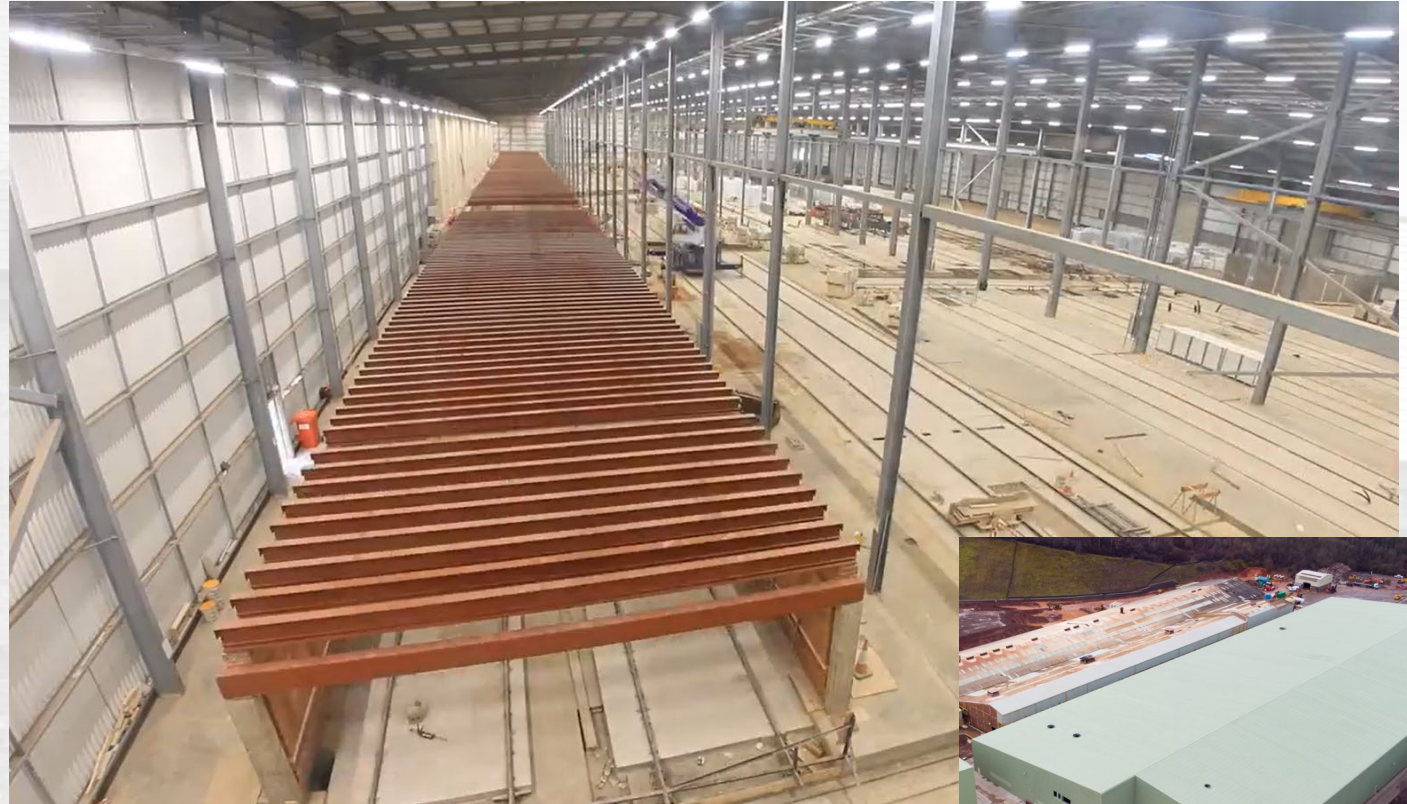
- £95m investment adding new efficient capacity, producing core products for our housebuilding customers

Returns

- Project expected to generate attractive returns over the medium term positioning the Group to benefit from the favourable long-term housing market fundamentals
- Expected annual incremental EBITDA of c.£25m
- Increased returns primarily driven by the reduced performance of the old factory as well as the benefit of increased selling prices

Progress and timing

- £59.3m spent to date (December)
- Commissioning expected Q4 2022
- Production to reach full run-rate in 2024
- Full financial contribution expected from 2025



£27M WILNECOTE BRICK FACTORY REDEVELOPMENT

2. RANGE EXPANSION



- Expansion into the commercial and specification markets, increasing product range and improving efficiency
- At an expected capital cost of c.£27m, redevelopment will allow production of a wider range of high specification products including greater numbers of the famous Staffordshire blue bricks
- The factory will close in July 2022 for a period of approximately 9 months, recommissioning in the second quarter of 2023 and will ultimately contribute £7m of incremental EBITDA to Group results

Below (left): Smooth Blue

Below (right): The Interlock using Forterra Blue brick



£12M INVESTMENT IN BRICK SLIP MANUFACTURING CAPABILITY

3. PRODUCT INNOVATION AND DEVELOPMENT



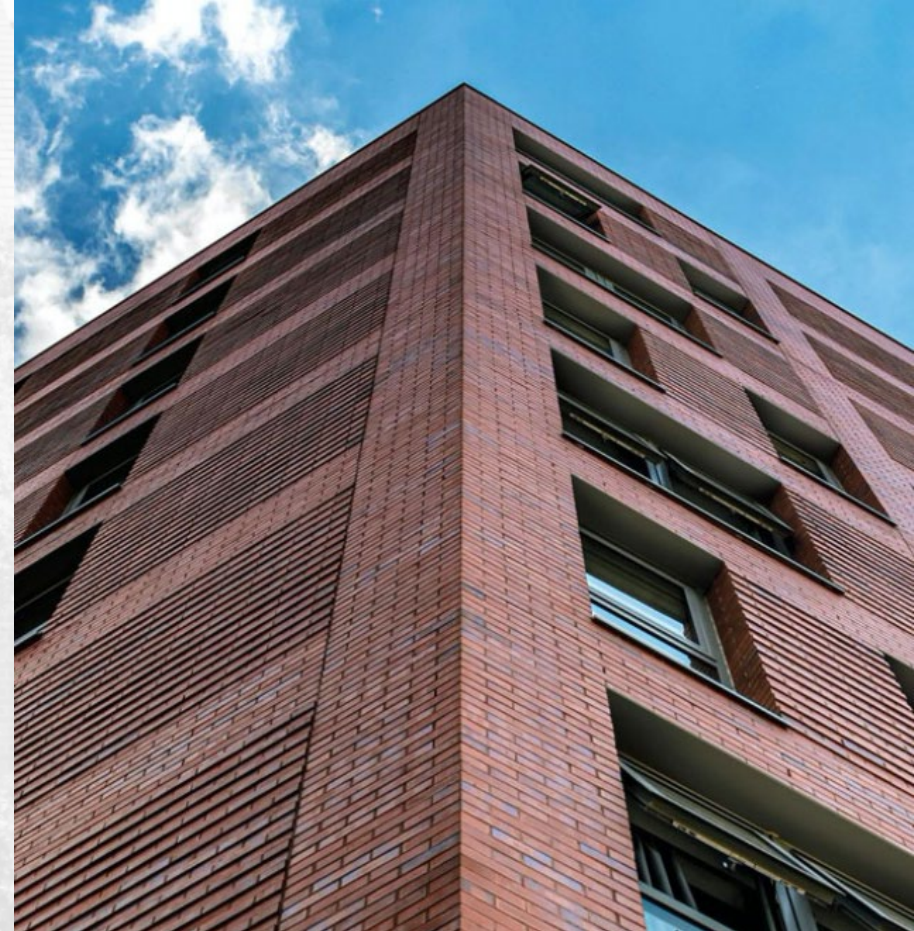
- Investment at our Accrington facility to enable the manufacture of brick slips
- c.£12m investment facilitating the manufacture of up to 48m slips
- Investment minimised through utilisation of an existing factory with only a small reduction in the number of bricks produced

Investment case

- UK market for brick slips is currently estimated at around 120m units annually with significant growth expected in the coming years
- Helping ensure the use of bricks within the multi-level commercial and modular markets
- Brick slips offer several sustainability benefits, reducing raw material and energy usage relative to the manufacture of traditional bricks, and with many slips currently being cut from traditional bricks

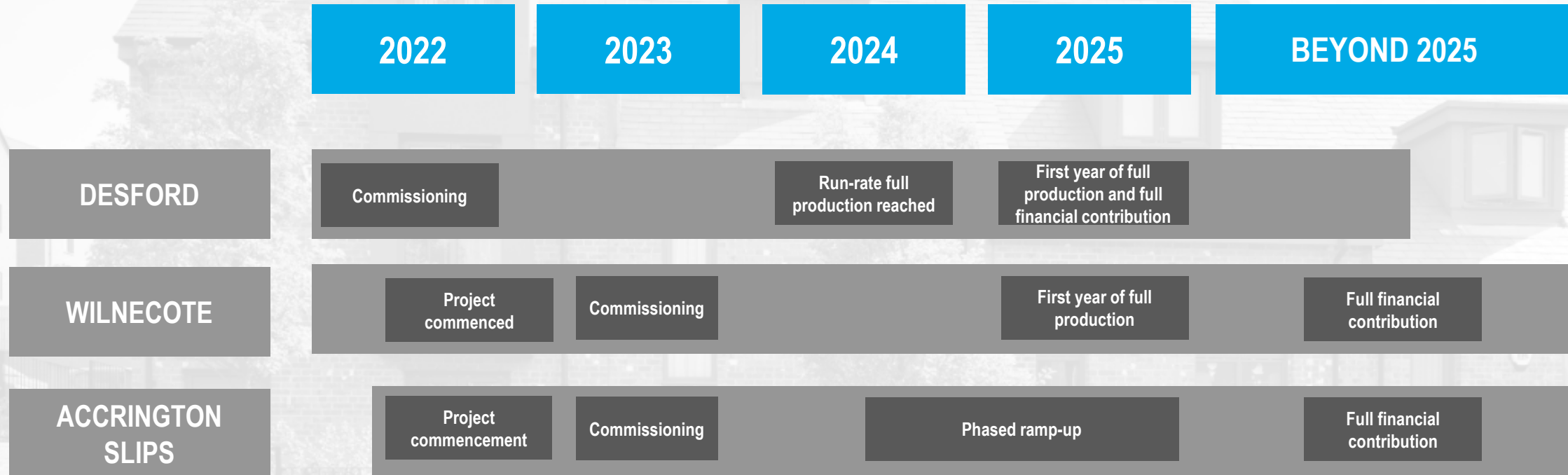
Timing

- Expect to be manufacturing brick slips in late 2023



PIPELINE OF ATTRACTIVE CAPEX PROJECTS

Organic investment pipeline




 Further pipeline of attractive organic investment options
 

£40M BUYBACK PROGRAMME

- On 26 January 2022 the Board announced the commencement of share buyback programme to repurchase ordinary shares of 1 pence each in the capital of the Company
- The intention is to repurchase and cancel £40m worth of shares through 2022
- Decision taken in line with the Group's capital allocation priorities reflecting the strength of the balance sheet with reported net cash (before lease liabilities of £40.9m) and the Board's confidence in the Group and its ongoing strength of cash generation
- 2.3m shares purchased to date

**£40M
SHARE BUYBACK**

**JAN 22
COMMENCEMENT**

**£5.5M
RETURNED TO DATE**



COMMITMENT TO SUSTAINABILITY

Operating sustainably is critical to our long-term success as a business and influences everything we do.

We have set out a number of challenging new targets across three key pillars:

People – we care about the health, safety and wellbeing of our people, their families and the communities within which we work.

Planet – we aspire to positively impact our planet, creating a better environment for future generations to inherit.

Product – our products build and enhance communities and we continue to develop new, innovative and sustainable solutions.



PEOPLE

- Zero harm ambition for health and safety.
- 5% of employees in “earn and learn” positions by 2025.
- Improved ethnic and gender diversity.



PLANET

- CO2 emissions / tonne targets (2019-2030):
 - 32% reduction
 - 33% reduction within clay products
 - 80% reduction within concrete products.
- Zero waste to landfill.
- 10% of electricity use generated from onsite renewable sources by 2025.



PRODUCT

- Plastic packaging reduction of 50% by 2025 (from 2019 baseline).
- 10% of revenue from new and sustainable products by 2025.
- Commitment to working with our suppliers to ensure they also adopt stretching reduction targets in line with our own carbon ambitions.

CONTINUED PROGRESS – SOLAR FARM ANNOUNCED

Forterra Solar Farm

- Entered into a 15-year Power Purchase Agreement (PPA) which will see us receive around 70% of our electricity from 2025 from a dedicated solar farm
- c.£50m commitment to renewable energy over the period of the agreement will provide us with price security and stability alongside the clear sustainability benefits

Progress in 2021

- Continue to work towards our target of a 32% reduction in our emissions over the next decade with 4.5% achieved vs. 2019 to date
- Trials underway to reduce our use of plastic packaging
- Hydrogen trials planned for H2, a key step in proving this breakthrough technology
- Utilising hydrogenated vegetable oil in mobile plant
- Progressing investments in onsite renewables





- Market conditions remain highly supportive with continued demand for new housing and constrained UK manufacturing capacity driving brick imports to record levels, despite increasing macro-economic uncertainty and supply chain pressures which have created a higher interest rate environment
- Order books remain strong, supported by robust customer sentiment and an ongoing housing shortage
- Selling price increases leave business well placed to recover cost inflation and benefit margins
- Approximately 70% of 2022 energy requirements secured with greatest coverage in winter months where volatility has been historically greatest
- Management expects the Group to achieve further progress in the coming year and beyond

DELIVERING LONG-TERM SHAREHOLDER VALUE

WELL-POSITIONED TO DELIVER PROFITABLE GROWTH

ESTABLISHED LEADING MARKET POSITIONS IN CORE PRODUCTS

- Broad, complementary product range
- Unique, trusted and respected heritage brands
- High production barriers to entry supported by secure long-term mineral and land reserves
- Well-invested, efficient and profitable asset base
- Strong customer relationships

LONG-TERM STRUCTURAL DEMAND AND SUPPLY FACTORS UNDERPINS MARKET GROWTH

- Market demand driven by structural housing shortage
- Undersupply of domestically produced brick and other key building products
- Consolidated market structure
- Industry leading cost of brick production

INVESTMENT PIPELINE TO DELIVER CAPACITY GROWTH, EFFICIENCY AND DECARBONISATION

- Three large scale projects commissioning in 2022 and 2023 will progressively deliver significant profit and cash returns from 2023
- Further £200m pipeline of attractive projects
- Proven delivery of innovation and manufacturing excellence

COMMITMENT TO SUSTAINABILITY LEADERSHIP

- Inherently sustainable and durable products
- Ambitious ESG targets to 2030
- 22% reduction in carbon emissions 2010-19
- Commitment to commercially robust ESG agenda including a further 32% carbon emissions reduction target 2019-30

STRONG PROFITABLE GROWTH, CASH GENERATION AND DISCIPLINED CAPITAL ALLOCATION

- Strong cash conversion supports organic investment model
- Free cash flow in excess of £600m expected to be generated 2021-30
- Progressive dividend policy
- Balance sheet strength allows selective M&A bolt ons
- Leverage expected to remain at or below 1x EBITDA
- Supplementary returns to shareholders as appropriate



KEY FINANCIALS (VS. 2019)

£m	Year ended 31 December*		
	2021 £m	2019 £m	2021 change vs 2019
Revenue	370.4	380.0	(3)%
EBITDA	70.4	82.7	(15)%
Operating profit	54.0	65.0	(17)%
Profit before tax	50.7	62.5	(19)%
Earnings per share (pence)	17.5	25.5	(31)%
Cash flow from operations	81.2	64.9	25%
Net (debt) / cash before leases	40.9	(43.2)	
Dividend – total (pence)	9.9	4.0	148%
<i>*Before exceptional items</i>			
Statutory results			
Profit before tax	56.8	58.2	(2)%
Earnings per share (pence)	19.9	23.6	(16)%

PROFIT AND LOSS (VS. 2019)

£m	Year ended 31 December*		
	2021 £m	2019 £m	2021 change vs 2019
Revenue	370.4	380.0	(3)%
EBITDA			
- Bricks and Blocks	70.5	80.4	(12)%
- Bespoke Products	(0.1)	2.3	
Total	70.4	82.7	(15)%
<i>EBITDA margin (%)</i>	19.0%	21.8%	
Depreciation and Amortisation	(16.4)	(17.7)	(7)%
Operating profit / EBIT	54.0	65.0	(17)%
Finance expense	(3.3)	(2.5)	32%
Profit before tax	50.7	62.5	(19)%
<i>Effective tax rate (%)</i>	21.3%	19.3%	
Earnings per share (pence)	17.5	25.5	(31)%

*Before exceptional items

SEGMENTAL RESULTS: BRICKS AND BLOCKS (VS. 2019)

£m	Year ended 31 December*		
	2021	2019	Change
Revenue	298.1	279.1	7%
EBITDA before overhead allocation	90.5	93.0	(3)%
EBITDA margin before overhead allocation	30.4%	33.3%	
Overhead allocation	(20.0)	(12.6)	
EBITDA	70.5	80.4	(12)%
EBITDA margin	23.6%	28.8%	

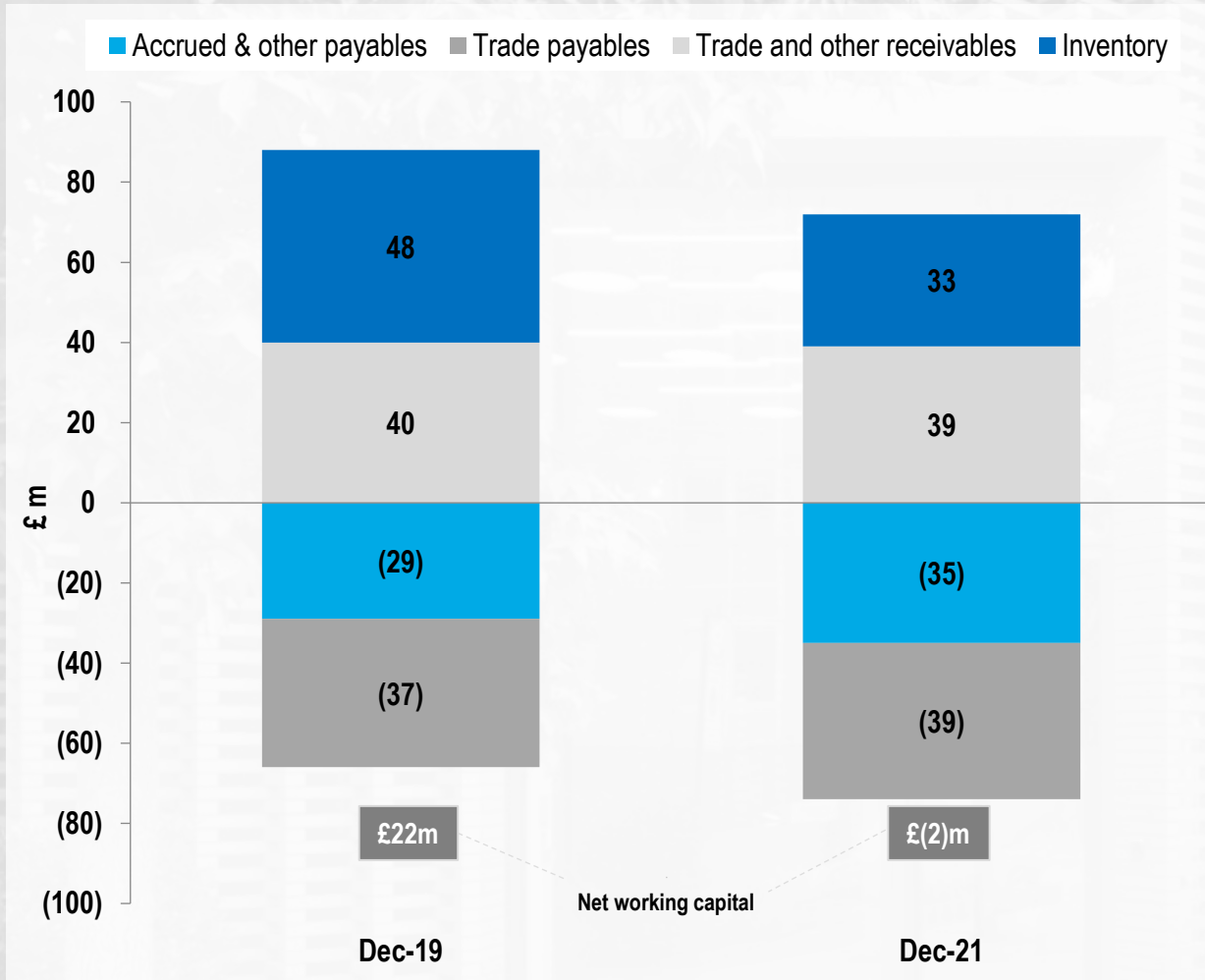
**Before exceptional items*

SEGMENTAL RESULTS: BESPOKE PRODUCTS (VS. 2019)

£m	Year ended 31 December*		
	2021	2019	Change
Revenue	76.1	103.5	(26)%
EBITDA before overhead allocation	4.8	5.4	(11)%
EBITDA margin before overhead allocation	6.3%	5.2%	
Overhead allocation	(4.9)	(3.1)	
EBITDA	(0.1)	2.3	
EBITDA margin	-	2.2%	

**Before exceptional items*

WORKING CAPITAL (VS. 2019)



SUMMARY BALANCE SHEET



£m	Dec 2021	Dec 2020
Intangible assets	17.7	11.0
Property, plant and equipment	201.4	187.1
Right-of-use assets	16.5	9.0
Total non-current assets	235.6	207.1
Current assets		
Inventories	32.8	33.0
Trade and other receivables	39.1	35.7
Cash and cash equivalents	41.5	31.5
Income tax asset	1.0	0.6
Total current assets	114.4	100.8
Total assets	350.0	307.9
Trade and other payables	(75.6)	(63.8)
External borrowings	(0.6)	(15.5)
Lease liabilities	(16.5)	(9.4)
Other liabilities	(22.5)	(15.1)
Net assets	234.8	204.1



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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