FORTERRA

FORTERRA PLC

FULL YEAR RESULTS PRESENTATION

9 MARCH 2023

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AGENDA

STEPHEN HARRISON
Chief Executive Officer

BEN GUYATT
Chief Financial Officer

FULL YEAR HIGHLIGHTS

FORTERRA

- Resilient trading delivered strong FY22 results ahead of pre-pandemic comparator

- 2022 brick sales volumes broadly in line with 2021, primarily limited by capacity constraints

- Dynamic pricing model implemented to recover severe cost inflation

- Particularly strong performance from Bison flooring business doubled Bespoke Products EBITDA prior to overhead allocations

- Energy cost inflation successfully managed through active procurement strategy

- Continued strength of operating cash flow drives strong liquidity position; with closing net debt of £5.9m before leases after returning £64.2m to shareholders in the year

Recommending final dividend of 10.1p bringing total 2022 dividend to 14.7p, a c.50% increase on 2021

INVESTMENT HIGHLIGHTS

FORTERRA

01

New Desford brick factory now operational with first brick despatches expected shortly

02

£30m Wilnecote brick factory redevelopment commenced with recommissioning expected in Q4 2023

03

Contracts signed for £12m facility to manufacture clay brick slips at Accrington with first production in H1 2024

Work continues to progress our pipeline of further investment projects

FINANCIAL REVIEW

KEY FINANCIALS

	Period ended 31 December *		
£m	2022	2021	Change
Revenue	**455.5**	**370.4**	**23.0%**
EBITDA	**89.2**	**70.4**	**26.7%**
EBITDA margin	*19.6%*	*19.0%*	60 bps
Operating profit / EBIT	72.7	54.0	34.6%
Profit before tax	**70.6**	**50.7**	**39.3%**
Earnings per share (pence)	26.4	17.5	50.9%
Cash flow from operations	89.0	81.2	9.6%
Net (debt) / cash before leases	(5.9)	40.9	
Dividend – total (pence)	14.7	9.9	48.5%

**Before exceptional items*

Statutory results			
Profit before tax	72.9	56.8	28.3%
Earnings per share (pence)	27.2	19.9	36.7%

PROFIT AND LOSS

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	Period ended 31 December*		
£m	2022	2021	Change
Revenue	**455.5**	**370.4**	**23.0%**
EBITDA			
- Bricks and Blocks	85.5	70.5	21.3%
- Bespoke Products	3.7	(0.1)	
Total	**89.2**	**70.4**	**26.7%**
EBITDA margin	*19.6%*	*19.0%*	60 bps
Depreciation and Amortisation	(16.5)	(16.4)	
Operating profit / **EBIT**	**72.7**	**54.0**	**34.6%**
Finance expense	(2.1)	(3.3)	
Profit before tax	**70.6**	**50.7**	**39.3%**
Effective tax rate	*19.3%*	*21.3%*	(200) bps
Earnings per share (pence)	**26.4**	**17.5**	**50.9%**

Before exceptional items

SEGMENTAL RESULTS: BRICKS AND BLOCKS

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- Revenues of £370.2m, 24.2% ahead of 2021 (£298.1m)
- Sales volumes broadly in line with 2021, limited by production capacity and low inventories, with market demand slowing only at the end of the year
- EBITDA of £85.5m, 21.3% ahead of 2021 (£70.5m)
- Majority of brick prices increased on three occasions, aggregating to over 50% in order to recover cost inflation
- EBITDA margin of 23.1% (2021: 23.6%) fell as sales price increases followed cost increases, with production challenges at the old Desford brick factory and within the aircrete block business
- Energy cost inflation managed through active procurement strategy

	Period ended 31 December *		
£m	2022	2021	Change
Revenue	370.2	298.1	24.2%
EBITDA before overhead allocation	**109.5**	**90.5**	21.0%
EBITDA margin before overhead allocation	29.6%	30.4%	(80) bps
Overhead allocation	(24.0)	(20.0)	20.0%
EBITDA	**85.5**	**70.5**	21.3%
EBITDA margin	23.1%	23.6%	(50) bps

* *Before exceptional items*

SEGMENTAL RESULTS: BESPOKE PRODUCTS

- Revenue in the year was £90.1m (2021: £76.1m)
- Floor beam sales volumes increased 9% on 2021 as we maximised output from the single flooring factory
- Strong result driven by the strength of performance within the Bison flooring business with the Hoveringham factory delivering a record result
- EBITDA before overhead allocation increased by over 100%
- EBITDA stated before allocation of group overheads was £9.7m (2021: £4.8m), benefitting from a newly implemented dynamic pricing model, regularly adjusting selling prices on account of rising input costs

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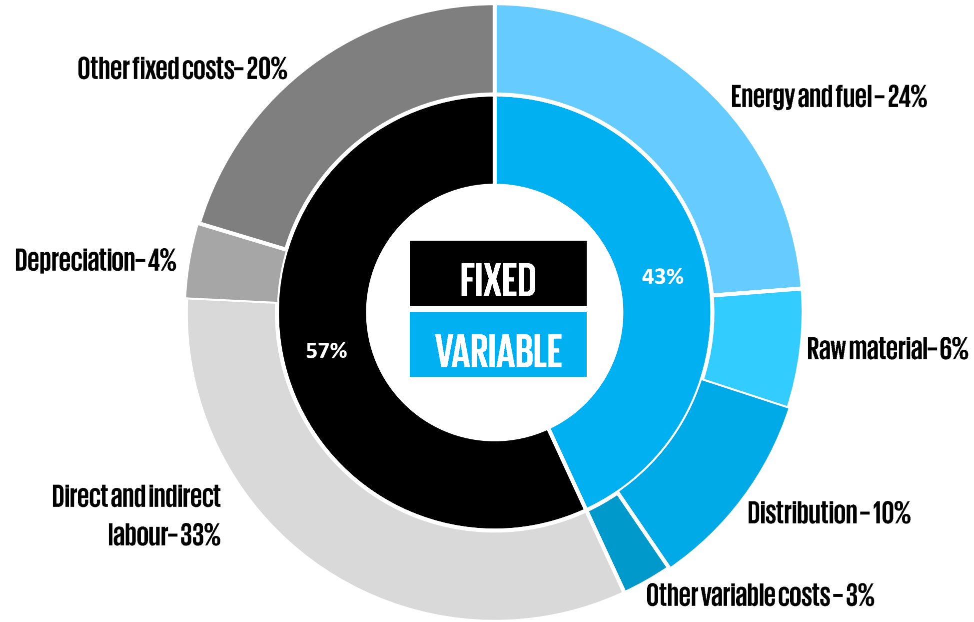
	Period ended 31 December*		
£m	2022	2021	Change
Revenue	90.1	76.1	18.4%
EBITDA before overhead allocation	**9.7**	**4.8**	102.1%
EBITDA margin before overhead allocation	10.8%	6.3%	450 bps
Overhead allocation	(6.0)	(4.9)	22.4%
EBITDA	**3.7**	**(0.1)**	
EBITDA margin	4.1%	-	

* *Before exceptional items*

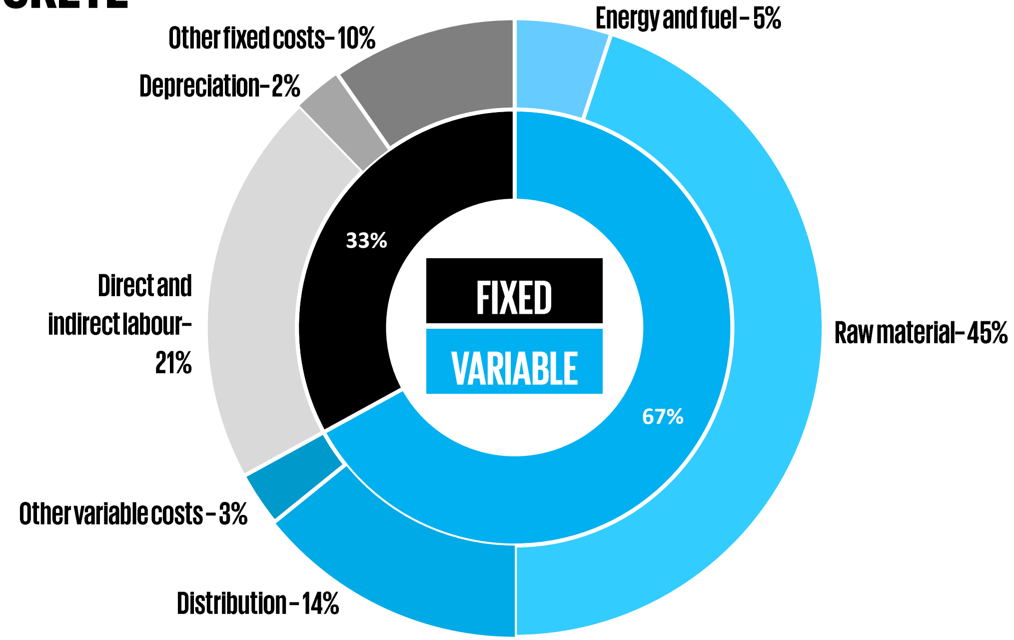
2022 COST BASE

- Stability appears to be returning to our cost base after 2 years of exceptional inflationary pressure
- We are comfortable that current selling prices are currently matched to our anticipated 2023 cost base
- At least 80% of our energy secured although with costs ahead of 2022 levels
- Optionality to flex our fixed cost base having done so in 2009, 2016 and most recently 2020

CLAY



CONCRETE



CASH FLOW

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- Performance highlights the Group's continued ability to generate strong cash flow, totalling £89.0m, compared to £81.2m in 2021
- Share buyback returned £40m of capital to shareholders in the period
- New lease liabilities primarily relate to new distribution vehicles as we regularly renew our fleet with efficient and cleaner delivery vehicles

	Period ended 31 December	
£m	2022	2021
Operating cash flow before exceptional items	**89.0**	**81.2**
Interest	(2.4)	(2.8)
Tax	(11.0)	(9.6)
Capital expenditure – maintenance	(10.5)	(5.7)
Capital expenditure – strategic	(33.6)	(28.9)
Dividends paid	(24.2)	(13.7)
Share buyback	(40.3)	-
Net payments to Employee Benefit Trust	(11.8)	(3.8)
Other movements	0.8	(0.3)
Net proceeds from exceptional land sales	2.5	13.8
New lease liabilities	(6.8)	(12.4)
(Increase) / decrease in net debt	**(48.3)**	**17.8**

CAPEX GUIDANCE

	Capex commitment	
£m	2023	2024*
Desford	8.9	-
Wilnecote redevelopment	20.0	3.0
Accrington brick slip facility	5.0	6.0
Maintenance	14.0	14.0
Total capex	**47.9**	**23.0**

***** *2024 spend may increase if additional strategic projects are announced*

WORKING CAPITAL AND INVENTORY

- Working capital remains flat year on year
- Inventory increase driven by valuation rather than quantity, with low levels of inventory persisting at the year end
- Inventory build of up to £25m is envisaged in 2023 dependent on demand

BALANCE SHEET POSITION AND FACILITIES

FORTERRA

- Robust balance sheet with net debt of only £5.9m before leases
- £40m drawn against £170m RCF facility at year end leaving £130m headroom
- £64.2m of capital returned to shareholders in the year through dividends and a £40m share buyback
- Credit facility recently extended to January 2027 with a further 18-month option thereafter. Reduction in margin where leverage falls below 0.5x
- Sustainability linkage added to facility embedding our sustainability targets of decarbonisation, plastic reduction and employee development
- Lease liabilities principally relate to distribution vehicles

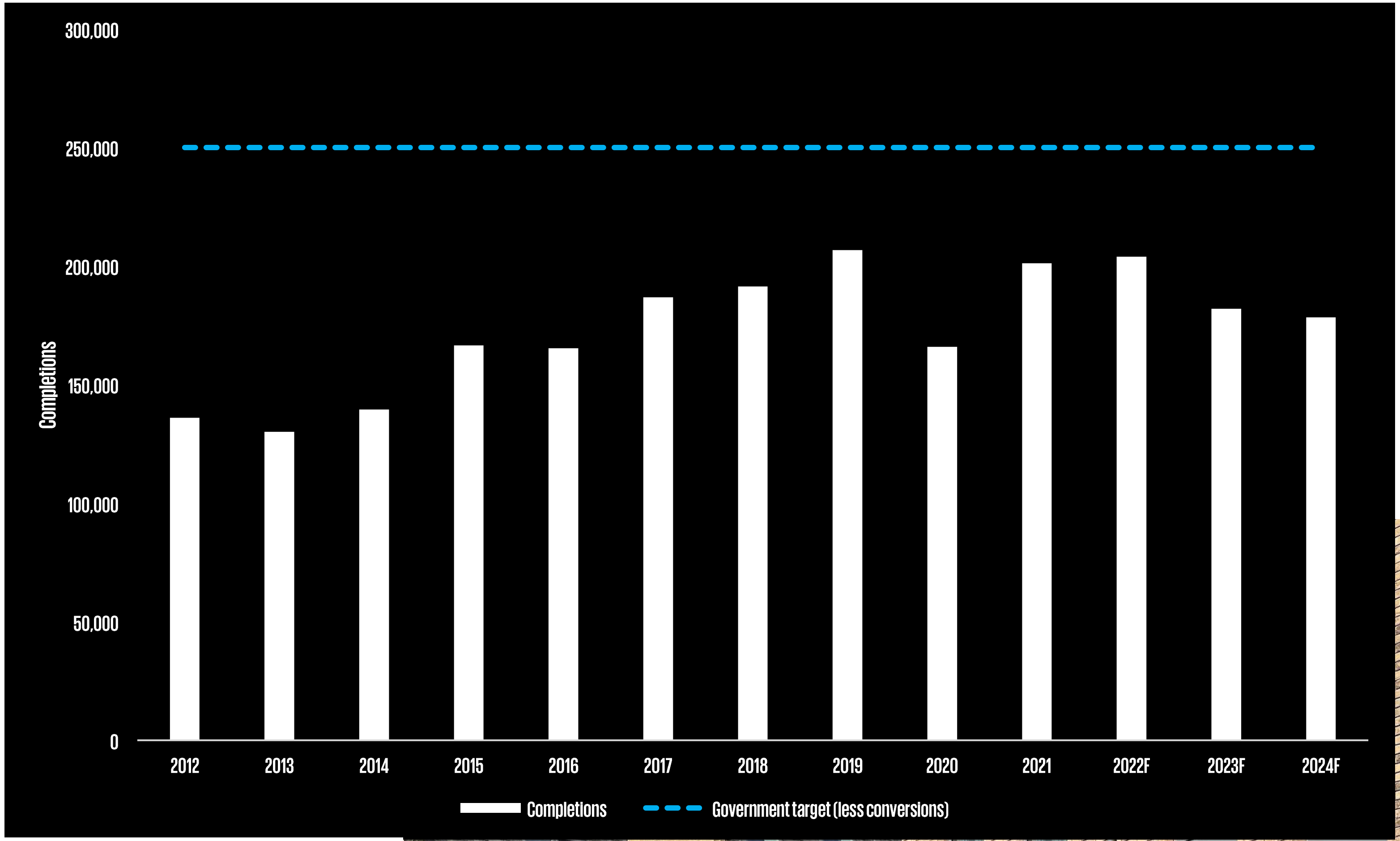
	At 31 December		
£m	2022	2021	Change
Cash and cash equivalents	34.3	41.5	(7.2)
Loans and borrowings	(40.2)	(0.6)	(39.6)
Net (debt) / cash before leases	**(5.9)**	**40.9**	**(46.8)**
Lease liabilities	(18.0)	(16.5)	(1.5)
Net (debt) / cash	**(23.9)**	**24.4**	**(48.3)**

OUR MARKETS

STRUCTURAL HOUSING MARKET FUNDAMENTALS SUPPORTING DEMAND

- 204,000 new homes estimated to have been completed in Great Britain during 2022
- Whilst an increase on 2021 (198,500), this continues to fall short of the recently reiterated Government target of 300,000 new homes annually across the UK
- The CPA have forecast an 11% fall in housing completions in 2023
- Many analysts and commentators expect demand to fall further than the CPA has forecast and our working assumption is a scenario whereby underlying demand falls by 20%

New build housing completions

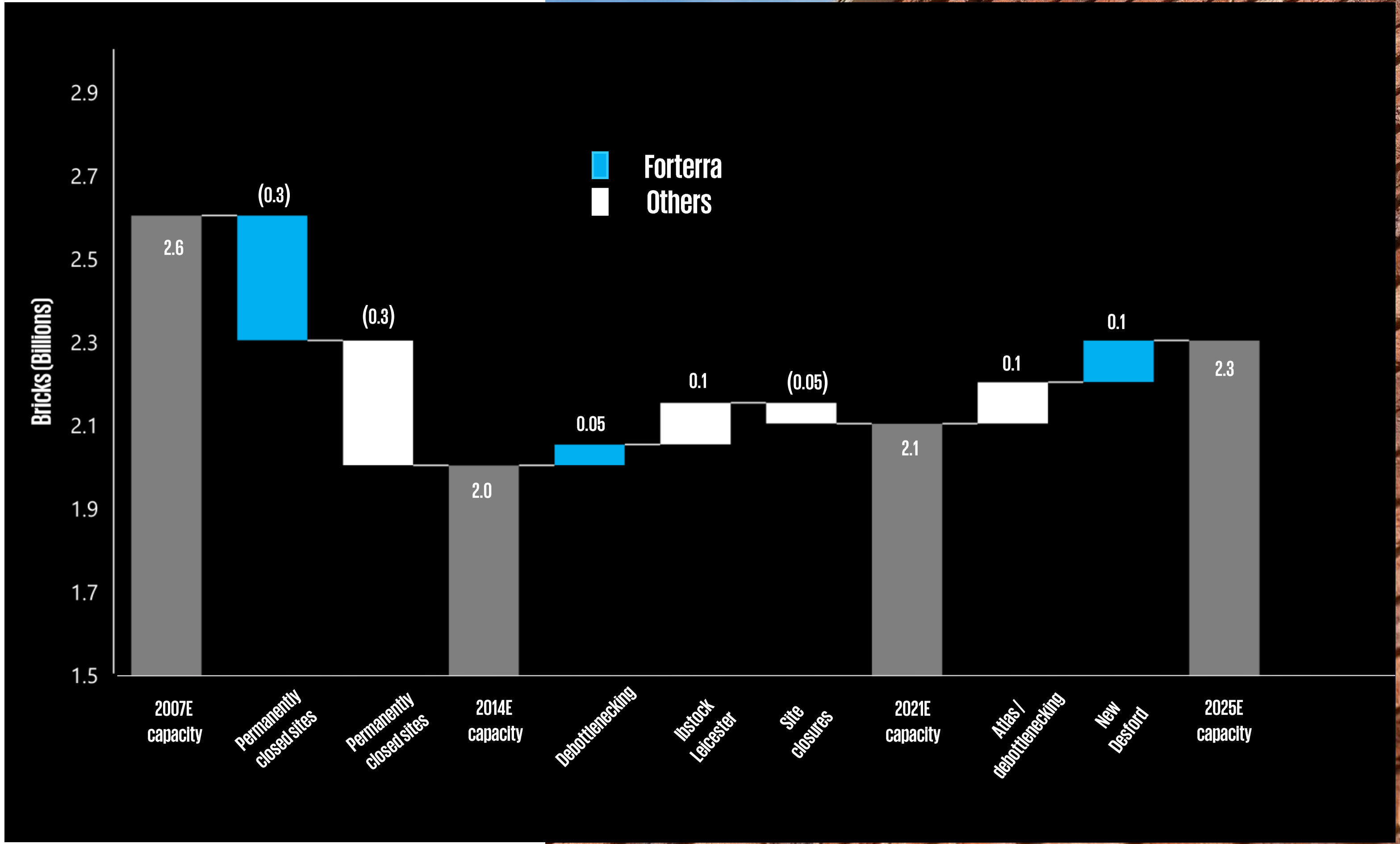


Source: CPA Winter Forecast 2022/23

UK BRICK MARKET OPERATING AT CAPACITY

- Industry capacity was rationalised during the global financial crisis with Forterra playing the leading role in this
- Despite current and announced capacity investments, the UK brick industry still lacks the capacity required to meet demand
- The number of imported bricks increased by 35% relative to 2021

Evolving domestic brick market capacity



Source: Forterra estimates

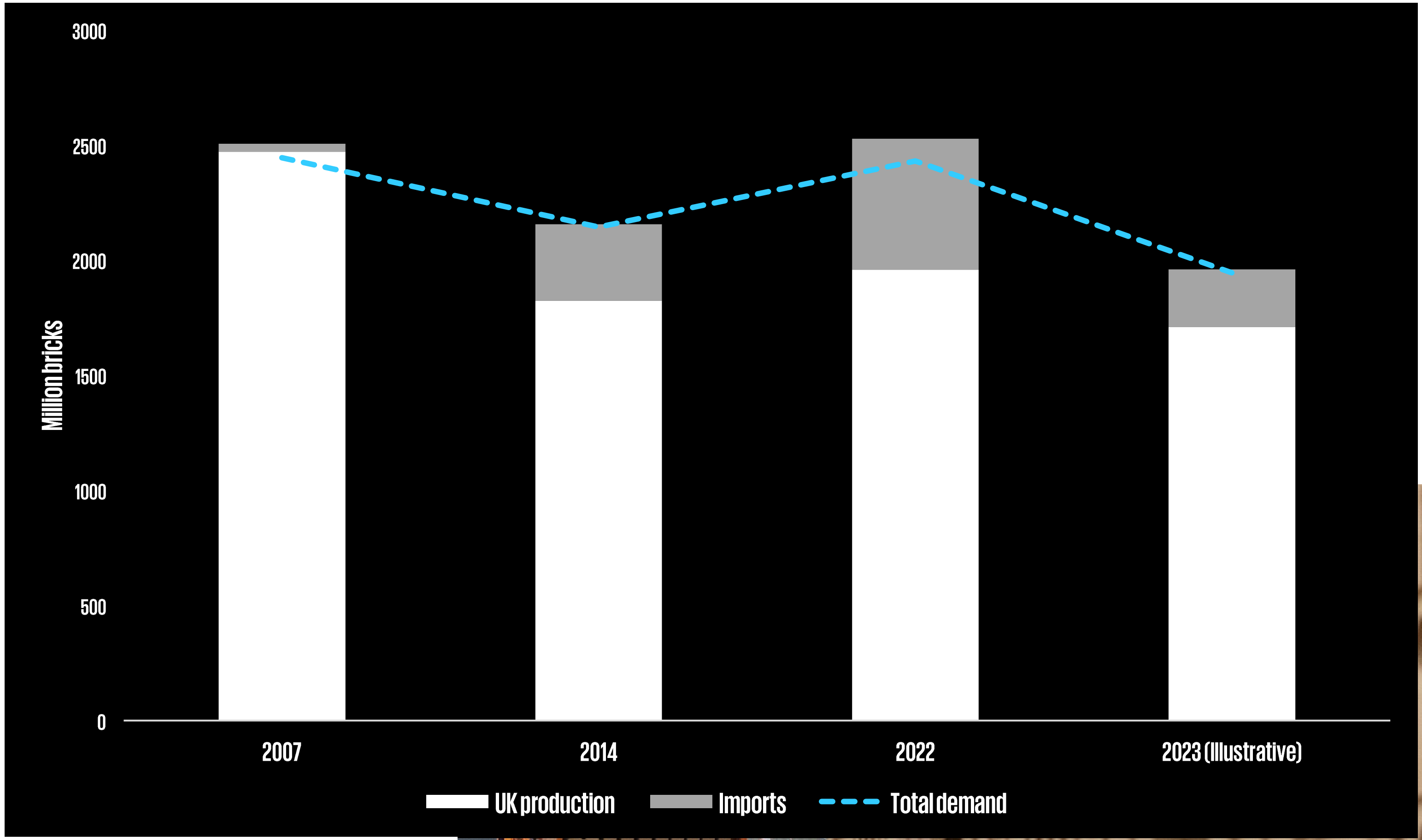
IMPORTS AT A RECORD HIGH WITH SCOPE TO FALL IN 2023

- Total UK brick consumption in 2022 is estimated at 2.5bn bricks of which a record 570m (representing 23% of total market demand) were imported

- Illustrative scenario for 2023 shows a 20% fall in demand being at least partially absorbed by imports falling back

- Customer inventory reduction is expected to impact H1 despatches. With mortgage rates now reducing and the major housebuilders reporting a steady recovery in reservation rates, we are optimistic that demand for our products will recover as we head through 2023 and into 2024

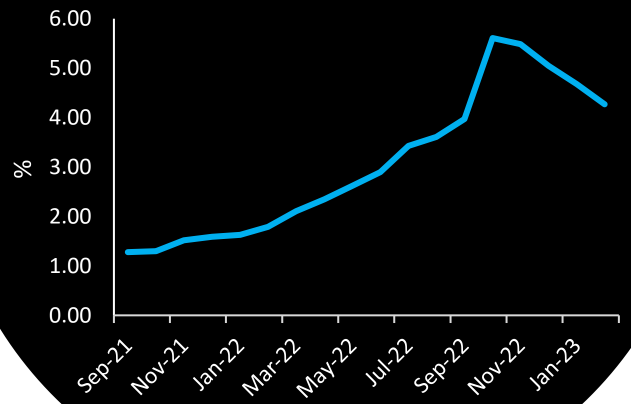
Import progression since 2007



Source: BEIS, HMRC

EARLY SIGNS OF IMPROVEMENT IN THE MARKET

MORTGAGE RATES



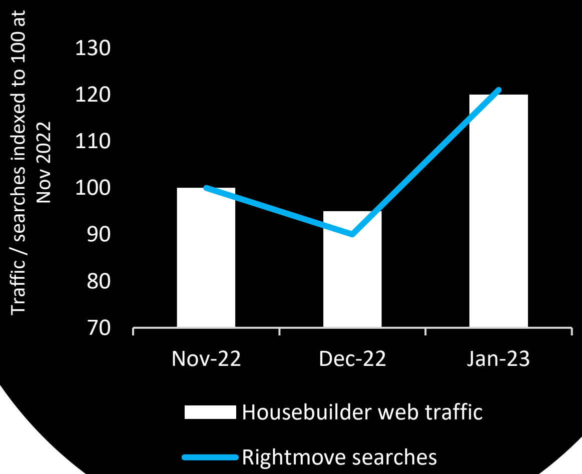
Source: Lloyds, Nationwide BS, Santander, NatWest, Barclays, HSBC, Coventry BS, Yorkshire BS

CUSTOMER SENTIMENT

"Visitor numbers and reservation rates in January have improved from the levels in the fourth quarter of calendar year 2022" – ***Bellway (9 Feb 2023)***

"Whilst still early in the year at the start of the Spring selling season, current trading shows some signs of improvement from the fourth quarter of 2022" – ***Taylor Wimpey (2 Mar 2023)***

HOUSEBUILDER WEB TRAFFIC



Source: SimilarWeb

Spring new house selling season to be a key determinant of 2023 sector activity levels

STRATEGIC UPDATE

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A CLEAR AND FOCUSED STRATEGY ACROSS THREE STRATEGIC PILLARS

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Strengthen the core

Grow capacity, cost efficiency and improved sustainability

STRATEGY IN ACTION
Desford Brick Factory

- £95m investment now operational
- Increase effective brick production capacity by 22% (c.120m bricks per annum)
- Market leading efficiency
- Core product for our housebuilding customers
- 25% less carbon per brick

Range expansion

Access new higher margin market segments

STRATEGY IN ACTION
Wilnecote Brick Factory

- £30m investment
- Improved efficiency
- Increased breadth of product range
- Expansion into the commercial and specification market
- 30% less carbon per brick

Innovation and development

Develop and launch new products

STRATEGY IN ACTION
Brick Slips

- £12m investment
- Up to 48m slips per annum
- Cost effective entry into a new market
- Significantly improved sustainability credentials versus cutting bricks

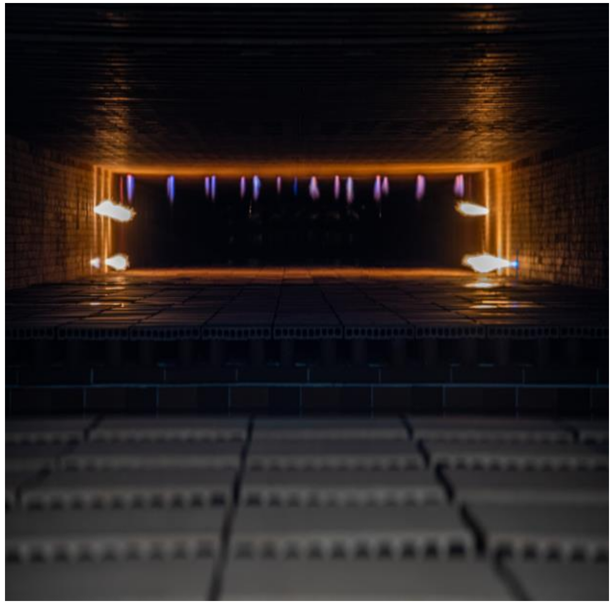
NEW DESFORD BRICK FACTORY OPERATIONAL

FORTERRA

Strengthen the core

Progress and timing
- Factory now operational with bricks being manufactured
- Second kiln to be commissioned in the spring
- First despatches due shortly on completion of product certifications

Returns
- Designed to provide market leading efficiency
- Product range suited to large scale housebuilding
- Expected to generate attractive returns with expected annual incremental EBITDA (vs. 2022) of c.£25m in 2025, dependent on market conditions
- We retain the ability to flex production at our facilities maximising the output of our most efficient facilities at times of weaker market demand



Lighting of the kiln

Initial production at Desford

£30M WILNECOTE BRICK FACTORY REDEVELOPMENT

Range expansion

- Complete redevelopment of existing factory
- Focused on the higher value commercial and specification product range including the famous Staffordshire blue bricks
- Improved efficiency and 1% increase in factory capacity
- Expected capital cost of c.£30m, increased from the initial estimate of c.£27m
- Factory closed at end of September 2022 with recommissioning expected in Q4 2023
- Expected to deliver £7m incremental EBITDA

School project - Wilnecote blue brick

Sheffield Hallam University - Wilnecote dark multi smooth

£12M INVESTMENT IN BRICK SLIP MANUFACTURING CAPABILITY

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Innovation and development

Project

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

Timing

- Expect to be manufacturing brick slips in H1 2024

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 high-rise 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

The SureBrick brick slip system

CAPITAL ALLOCATION

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

1. Strategic organic capital investment to deliver compelling returns
2. Attractive dividend policy with a pay-out ratio of 55% of earnings
3. Bolt-ons as suitable opportunities arise in adjacent or complementary markets
4. Supplementary shareholder returns as appropriate

£64.2M
returned to shareholders in 2022

10.1p
final dividend – 2022 total of 14.7p

£44.1M
capital expenditure in 2022 (£33.6m strategic)

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SUSTAINABILITY

COMMITTED 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 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

Recently embedded our sustainability targets into our sustainability linked credit facility and also future awards under the Performance Share Plan

PEOPLE

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

PLANET

- CO_2 emissions / tonne targets (2019-2030):
  - 32% overall CO_2 intensity 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

COMMITTED TO RENEWABLE ENERGY

- In March 2022 we 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

- A long term commitment will provide us with price security and stability alongside clear sustainability benefits

- Construction of this facility is now underway and we have exercised an option to receive power from this facility from April 2024

- Recently commenced the installation of roof mounted solar arrays at the new Desford factory at an additional cost of c.£2.5m providing approximately 16% of the factory's electricity requirement going forward without the significant costs of network transmission

Management site visit to build site

Construction ongoing at Tiln, Nottinghamshire

PROGRESSIVE TECHNOLOGIES

Carbon capture
- During the year we partnered with a company offering innovative carbon capture technology and are already exploring the deployment of this technology at one of our brick factories

Alternative fuel trials
- We are progressing the trials of hydrogen and biomass as alternative fuels for in our kilns

- Our hydrogen trials were delayed by shortages of hydrogen in the UK but have now commenced and we believe these are some of the first trials in the UK brick industry under industrial rather than laboratory conditions

Alternative materials
- Research utilising calcined clay as a cement substitute progressing well and we continue to analyse technologies and materials working towards further scalability

Brick factory of the future
- We often refer to our pipeline of organic investment projects beyond those currently in progress and we are active in progressing designs and technology for what we aspire to be zero emissions brick factory using alternative fuels and carbon capture

30

OUTLOOK

OUTLOOK

- Based on our assumption of an underlying fall in demand of 20% relative to 2022, the Board's expectations for the Group's 2023 performance remain unchanged
- The underlying decrease in market demand is expected to be mitigated to some extent by substitution of imported bricks, although customer inventory reduction presents an additional short-term headwind, which leads us to believe that full year revenue and profitability performance will be H2 weighted
- Well-practiced in managing production capacity utilisation and cost base
- Spring new house selling season to be a key determinant of 2023 sector activity levels
- Further selling price increases successfully implemented at the beginning of 2023
- Continued confidence in attractive medium-term fundamentals of housing undersupply and a shortage of domestically produced bricks

INVESTMENT CASE
DELIVERING LONG-TERM SHAREHOLDER VALUE

FORTERRA

Established leading market positions in core products

- Broad, complementary product range comprising clay bricks, aircrete and aggregate blocks, flooring products and more
- Unique, trusted and respected heritage brands including London Brick and Thermalite
- High barriers to entry supported by secure long-term mineral reserves
- Well-invested, efficient and profitable asset base
- Strong customer relationships enhancing order book visibility

Long-term structural demand and supply factors underpins market growth

- Market demand driven by structural, through-cycle new housing shortage and resilient RM&I markets
- Undersupply of domestically produced bricks and other key building products provide opportunity for growth and insulate from short-term market cyclicality
- Resilience through exposure to RM&I market
- Consolidated brick and block market structures
- Industry leading cost of brick production

Investment pipeline to deliver capacity growth, efficiency and decarbonisation

- Three large scale projects commissioning in the next 2 years will start to progressively deliver significant profit and cash returns from 2023
- £200m pipeline of attractive projects to leverage asset base being invested over the next decade
- Proven delivery of innovation, manufacturing excellence and productivity improvement underpins profit growth

Commitment to sustainability leadership

- Inherently sustainable and durable products
- Ambitious ESG targets to 2030 and beyond under the ‘Product Planet People’ framework
- 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
- Attractive dividend policy with pay-out ratio of 55% of earnings
- Balance sheet strength allows selective bolt-on acquisitions even with pipeline of investment projects
- Leverage expected to remain at or below 1x EBITDA
- Supplementary returns to shareholders as appropriate. £40m share buyback completed in 2022

APPENDICES

BALANCE SHEET POSITION AND FACILITIES

FORTERRA

£m	Period ended 31 December 2022	2021	Change
Intangible assets	23.6	17.7	5.9
Property, plant and equipment	233.7	201.4	32.3
Right-of-use assets	18.1	16.5	1.6
Total non-current assets	**275.4**	**235.6**	**39.8**
Current assets			
Inventories	43.0	32.8	10.2
Trade and other receivables	44.3	39.1	5.2
Cash and cash equivalents	34.3	41.5	(7.2)
Other assets	0.6	1.0	(0.4)
Total current asset	**122.2**	**114.4**	**7.8**
Total assets	**397.6**	**350.0**	**47.6**
Trade and other payables	(89.6)	(75.6)	(14.0)
External borrowings	(40.2)	(0.6)	(39.6)
Lease liabilities	(18.0)	(16.5)	(1.5)
Other liabilities	(29.3)	(22.5)	(6.8)
Net assets	**220.5**	**234.8**	**(14.3)**

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FORTERRA

THE ORIGINAL LONDON BRICK

ECOSTOCK BRICK

BUTTERLEY BRICK

CRADLEY SPECIAL BRICK

RED BANK

THERMALITE

CONBLOC

BISON PRECAST

INNOVATORS IN FORMPAVE PERMEABLE PAVING