Breedon Aggregates

Full-year 2013 results

4 March 2014

Delivering ready-mixed concrete to the Beauly to Denny Power Line

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Overview

Peter Tom CBE

Chairman

2013 presentation

Results overview	Peter Tom
Financial review	Ian Peters
Operational review, summary, outlook	Simon Vivian

Q&A

Delivering value

- Further value-adding growth delivered in 2013
- Improvement in EBITDA margin
- Two transformational acquisitions completed
- Balance sheet further strengthened
- Business positioned for both organic and acquisitive growth

Breedon's 'Golden Rules'

1. **Stay local** Easy to do business with at every site
2. **Stay nimble** Keep ahead of our markets & develop new ones
3. **Devolve responsibility** and decision-making to regional teams
4. **Squeeze our assets** Maximise return from every tonne of rock
5. **Eliminate underperformance** If a plant is not performing, fix it
6. **Keep central overhead to a minimum** Flat structure
7. **Don't pay rent** Locate our offices in our quarries
8. **Deliver value from acquisitions** Always enhance earnings

2013 Highlights

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Sales revenue
+29.5% to £224.5m

EBITDA
+40.1% to £28.3m

PBT
+121.4% to £12.4m

EBITDA margin
+1 pts to 12.6%

Acquisitions
EBITDA £5.3m

Net debt
-26.5% to £54.4m

PBT, EBITDA and EBITDA margin all exclude non-underlying items

Financial Review

Ian Peters

Group Finance Director

Detailed profit & loss 2013

	2011 £'000	2012 £'000	2013 £'000	Variance v 2012 £'000	Variance v 2012 %
Turnover	168,888	173,457	224,546	51,089	+29.5%
EBITDA	17,063	20,183	28,267	8,084	+40.1%
Depreciation & Amortisation	(11,375)	(11,343)	(13,646)	(2,303)	(20.3)%
Underlying Operating Profit	**5,688**	**8,840**	**14,621**	**5,781**	**+65.4%**
Share of Associate	659	1,033	1,383	350	+33.9%
Interest	(4,840)	(4,274)	(3,606)	668	+15.6%
Exceptional costs	(122)	195	(1,386)	(1,581)	
Profit Before Tax	**1,385**	**5,794**	**11,012**	**5,218**	**+90.1%**
Taxation	(186)	(507)	(1,622)	(1,115)	
Minority Interest	(24)	(31)	(42)	(11)	
Retained Profit	**1,175**	**5,256**	**9,348**	**4,092**	**+77.9%**
Basic Earnings Per Share	**0.21p**	**0.85p**	**1.08p**	**0.23p**	**+27.1%**

Analysis by division 2013

	2011 £'000	2012 £'000	2013 £'000	Variance v 2012 £'000	Variance v 2012 %
Turnover					
England	86,158	91,278	114,886	23,608	+25.9%
Scotland	82,730	82,179	109,660	27,481	+33.4%
Total	**168,888**	**173,457**	**224,546**	**51,089**	**+29.5%**
EBITDA					
England	9,090	11,562	15,760	4,198	+36.3%
Scotland	10,316	11,345	15,868	4,523	+39.9%
Head Office	(2,343)	(2,724)	(3,361)	(637)	(23.4)%
Group Total (pre Associate)	**17,063**	**20,183**	**28,267**	**8,084**	**+40.1%**
EBITDA Margin	**10.1%**	**11.6%**	**12.6%**	**+1.0ppt**	

Sales volumes 2013

	2010 '000 tonnes	2011 '000 tonnes	2012 '000 tonnes	2013 '000 tonnes	Variance v 2012 %
England base	1,947	2,222	2,319	2,959	+27.6%
England acquisition	-	-	-	652	n/a
Scotland base	1,668	1,879	1,972	1,830	(7.2)%
Scotland acquisition	-	-	-	683	n/a
Aggregates	**3,615**	**4,101**	**4,291**	**6,124**	**+42.7%**
England	736	868	761	874	+14.8%
Scotland base	467	510	441	455	+3.2%
Scotland acquisition	-	-	-	50	n/a
Asphalt	**1,203**	**1,378**	**1,202**	**1,379**	**+14.7%**
England	99	202	266	331	+24.4%
Scotland base	171	206	224	212	(5.4)%
Scotland acquisition	-	-	-	77	n/a
Concrete (000'm3)	**270**	**408**	**490**	**620**	**+26.5%**

Closing balance sheet at Dec 2013

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	2011 Dec £'000	2012 Dec £'000	2013 Dec £'000
Tangible Fixed Assets	151,984	144,895	183,542
Investments	792	887	1,332
Goodwill (Breedon, NRMX, Marshalls, Scotland AI)	1,449	2,143	14,652
Intangible Assets	199	152	424
Total Non-Current Assets	154,424	148,077	199,950
Current Assets	43,477	49,547	77,914
Creditors Less than One Year	(41,769)	(35,974)	(48,048)
Net Current Assets	1,708	13,573	29,866
Creditors Greater than One Year	(97,100)	(82,301)	(80,823)
Net Assets	**59,032**	**79,349**	**148,993**
Gearing	**163%**	**93%**	**37%**

Cashflow 2013

	2012 £'000	2013 £'000
Profit before Interest and Tax	10,068	14,618
Income from associate	(1,033)	(1,383)
(Profit) on disposals	(1,084)	(1,647)
Depreciation and amortisation	11,390	13,679
Other non cash (PSP/option shares)	359	378
Movement in Inventories	111	309
Movement in Receivables	(1,421)	(12,478)
Movement in Payables	(2,982)	12,479
Movement in Provisions	(910)	(1,020)
Net Cashflow from Operating Activities	**14,498**	**24,935**

	2012 £'000	2013 £'000
Net Interest Paid	(3,870)	(3,372)
Taxation	-	-
Dividends Received / (Paid)	938	888
Investment in Fixed Assets	(7,323)	(12,542)
Acquisitions	(1,546)	(53,990)
Fixed Asset Disposal Proceeds	6,204	4,644
Cashflow before Financing	**8,901**	**(39,437)**
Equity Raised	14,747	59,927
Debt repaid/new loans	(10,121)	(3,089)
Net HP Capital Repayments	(6,285)	(4,999)
Net Cashflow	**7,242**	**12,402**

Analysis of net debt at Dec 2013

	Dec 2011 £'000	Dec 2012 £'000	Jun 2013 £'000	Dec 2013 £'000
Term Loans	72,607	62,822	62,733	59,833
Bank overdrafts	3,115	-	-	-
Cash	(921)	(5,048)	(4,817)	(17,450)
Bank Debt / (Cash)	74,801	57,774	57,916	42,383
Finance Leases (over 1 year)	16,262	11,468	9,618	7,701
Finance leases (less than 1 year)	5,122	4,816	4,642	4,330
Finance Leases	21,384	16,284	14,260	12,031
Net Debt	**96,185**	**74,058**	**72,176**	**54,414**
Multiple of EBITDA	**5.6x**	**3.7x**	**3.1x**	**1.9x**

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Operational Review

Simon Vivian

Group Chief Executive

2012 Market background

Economic recovery postponed – again

Demand at lowest levels in living memory: consumption of primary aggregates down 50pc from 1989 peak

Poor weather: record rainfall in Q2

No uplift in infrastructure spending

Extended holidays during Jubilee and Olympics

Further sharp UK-wide volume declines in all major product groups

Unit closures, layoffs and profit warnings across the industry

2013 Market background

What a difference a year makes

Economic recovery gathered pace

Steady pickup in construction activity after slow Q1

2012 the low point in the cycle

Volumes 4-11% ahead in main product categories

Increased investment in industry capacity & fleet

2014 Q1 price increases expected to hold

‘Self-help’ important in good times as well as bad

Breedon gathering momentum

- EBITDA margin 12.6% : improved profitability in both divisions
- Sales volume growth ahead of MPA (excl. acquisitions)
- Previous acquisitions ahead of expectations
- Continuing H&S improvements: accidents cut by further 40%
- Capital expenditure increased to £13m
- Refurbishments/upgrades at Leaton, Cloud Hill, Norton Bottoms, Craigenlow
- £4.6m surplus land & equipment sold: on target for £20m by 2015
- Planning consent secured for significant housing scheme on Telford site
- Oversubscribed £61m fundraising & two transformational acquisitions

Breedon Aggregates England

The new entrance at Leaton quarry

England – Summary financials

	2012 £'000	2013 £'000	Variance %
Turnover	91,278	114,886	+25.9%
EBITDA	11,562	15,760	+36.3%
Operating Profit	6,021	8,969	+49.0%
EBITDA Margin	12.7%	13.7%	+1.0%
Operating margin	6.6%	7.8%	+1.2%

Volumes

+55.7% Aggregates
+14.8% Asphalt
+24.4% Concrete

- EBITDA excl. Marshalls comfortably ahead of prior year
- Marshalls trading in line with expectations
- Significant operational efficiency improvements delivered
- 1stMix performing well, contributing valuable margin to concrete plants

England: achievements

- No Lost Time Injuries (since August 2012)
- 172kt of sub-base/capping & 11km^3 RMX supplied to A453
- 18kt of asphalt supplied to Jaguar Land Rover at i54
- Cloud Hill aggregates production boosted by 10% following upgrade
- Further 10mt of reserves released at Cloud Hill: now totalling 20 years
- Planning approval for extended hours at Leaton
- Commercial operation restructured: sharper regional focus
- Continuing recruitment of owner-drivers
- Asset disposals completed, continuous cash generation

England: outlook & priorities for 2014

- Continue focus on health & safety to drive zero accident tolerance
- Maximise value of Marshalls acquisition
  - remove lignite at Astley Moss
  - planning at Clearwell & Saredon
  - washing of scalpings at Clearwell
- Integrate and maximise use of West Deeping, Clearwell concrete & Norton plant upgrade
- Optimise transport fleet and minimise hired-in transport costs
- Optimise working capital and minimise credit risk
- Focus on margin and customer service in a better market
- Pursue bolt-on acquisitions and organic growth opportunities

Buy well. Sell well

Breedon Aggregates Scotland

Innovative Breedon Spectrum asphalt laid at Halbeath Park & Choose near Dunfermline

Scotland – Summary financials

	2012 £'000	2013 £'000	Variance %
Turnover	82,179	109,660	+33.4%
EBITDA	11,345	15,868	+39.9%
Operating Profit	5,548	9,013	+62.5%
EBITDA Margin	13.8%	14.5%	+0.7%
Operating margin	6.8%	8.2%	+1.4%

Volumes

+27.4% Aggregates
+14.5% Asphalt
+29.0% Concrete

- AI acquisition completed 1 May – strong performance despite OFT/CC distraction
- Efficiency gains in all products from margin improvement & cost control
- Contracting restructured & performed ahead of expectations

Outcome of OFT/CC review

- Provisional findings in aggregates & concrete largely as expected
- Likely remedies:
  - Behavioural remedy: pricing formula for asphalt in Inverness
  - Sale of concrete plant at Peterhead
  - Sale of asphalt plant in Aberdeen
- No significant overall impact on value of acquisition to Breedon

Scotland: achievements

- Improved cost control via targeted capital investment
- Improved contracting result despite no major contracts
- Haulage fleet expanded & enhanced to self-deliver, with improved fuel efficiency
- Planning extensions secured at Orrock (2.8mt) & Shierglas (1.1mt)
- Craigenlow, Orrock & North West crushers upgraded
- 25km^3 of concrete supplied at excellent margin for Beauly to Denny power line
- BEAR and Alba both ahead of plan
- BEAR 4G North West contract commenced in April

Scotland: outlook & priorities for 2014

- Fully integrate AI business and complete divestments speedily
- Deliver cost reductions & meet production targets on mobile crushers
- Currently pricing large volumes for AWPR – planned 2015 start
- Operational cost savings & carbon reduction from new fine aggregates & RAP storage sheds
- Busy year anticipated at MCS, with several large projects
- BEAR currently awaiting outcome of tender for NE and SE contracts
- Current lack of transport spending, but Independence Referendum likely to be followed by 'feel good' investment whatever the outcome

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Outlook

Outlook

- Improving business confidence: forecast GDP +2.7% in 2014; CPI, RPI & unemployment continuing to fall
- Continuing strong housing recovery
- Strong manufacturing investment in Central England
- National Infrastructure Plan set to increase investment from £309bn to £375bn+ (Highways Agency to become separate legal entity with funding backed by legislation)
- Several major pending projects in Scotland and England
- Industry settling down following Lafarge Tarmac merger & CC market investigation
- Benefits of increased scale following acquisitions in 2013 & new downstream product opportunities to be exploited
- Strong demand should allow price increases to recover input costs
- Further potential acquisitions: ongoing discussions with several parties

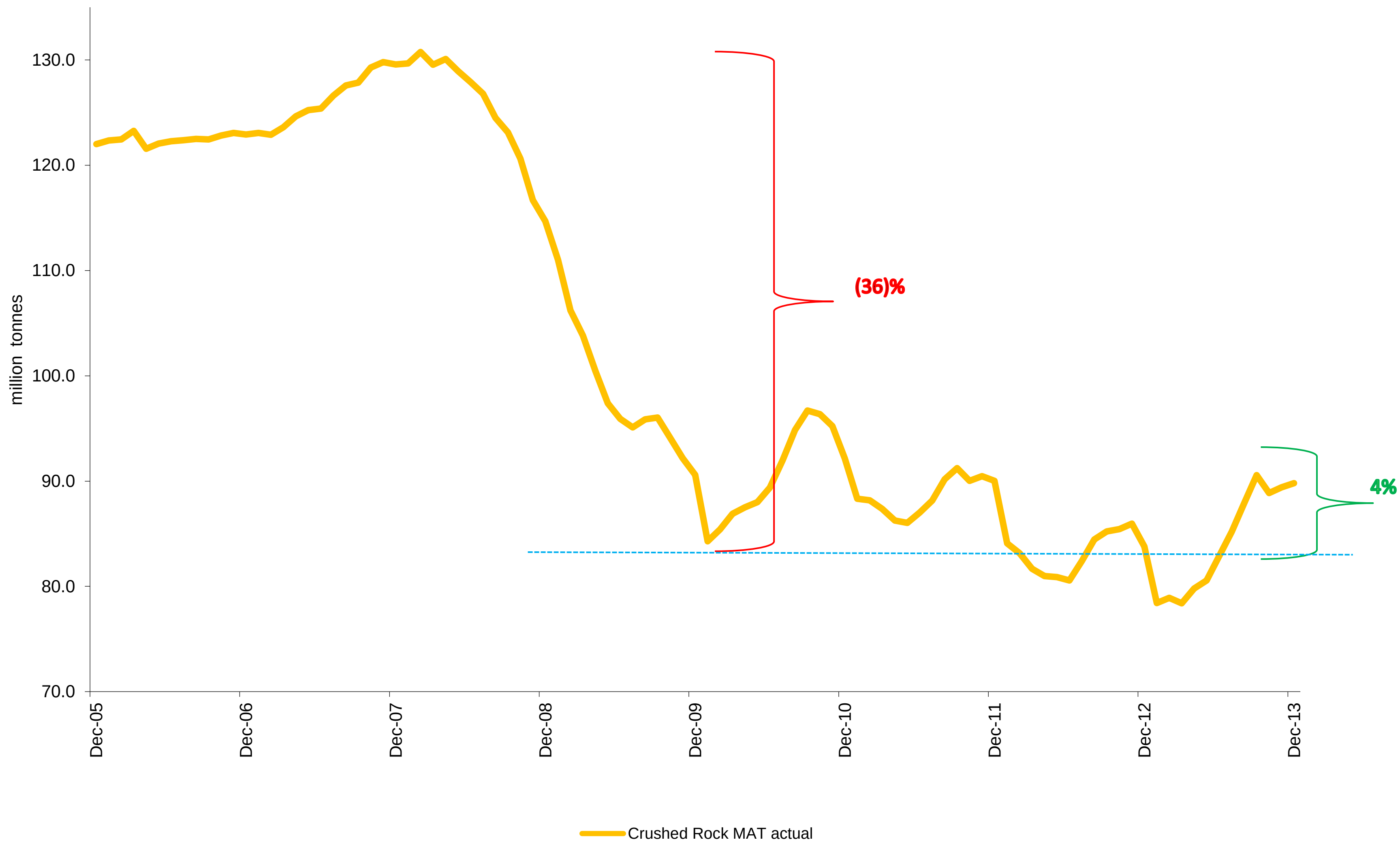


Appendices:

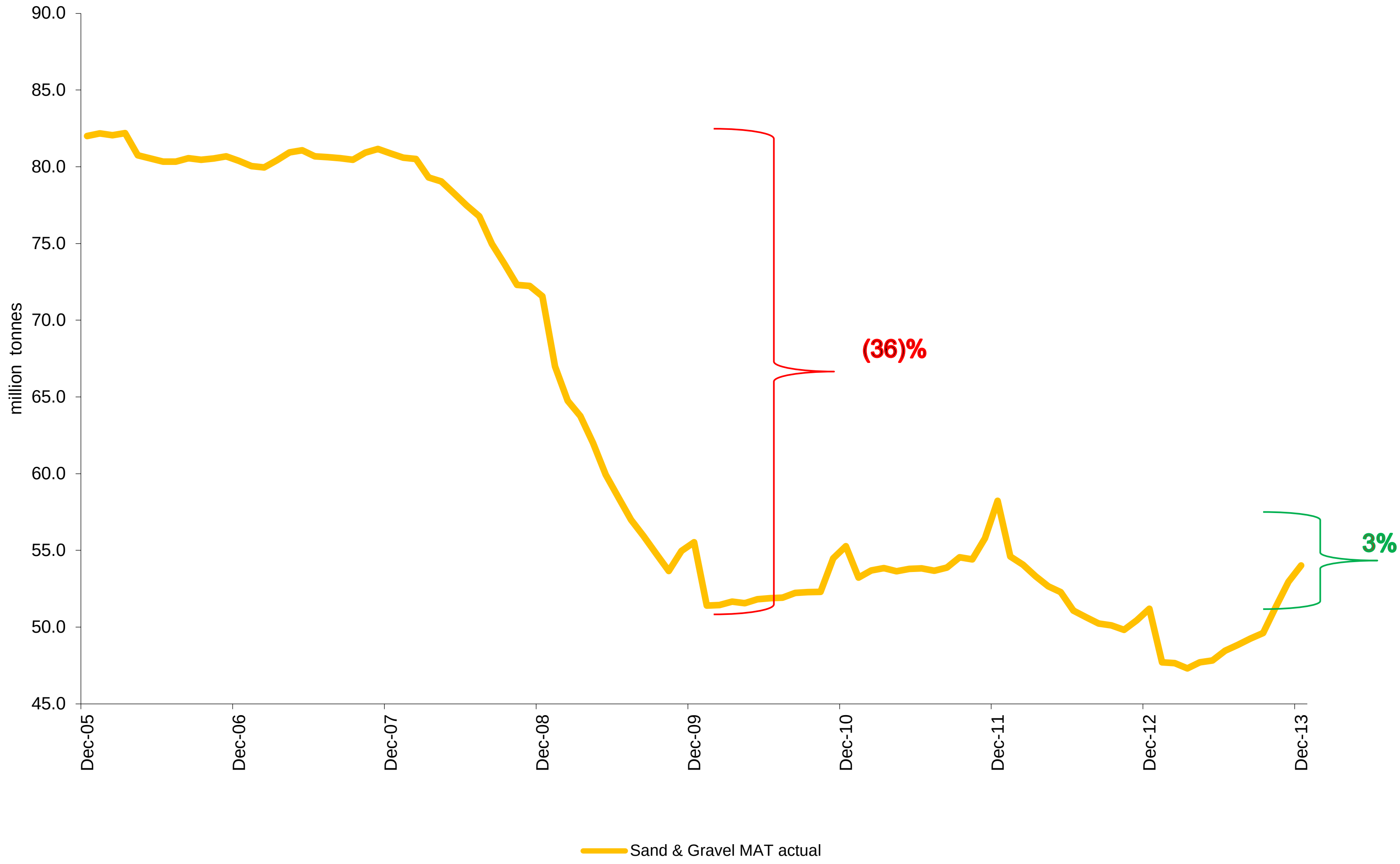
MPA volumes

Breedon Aggregates relative volumes

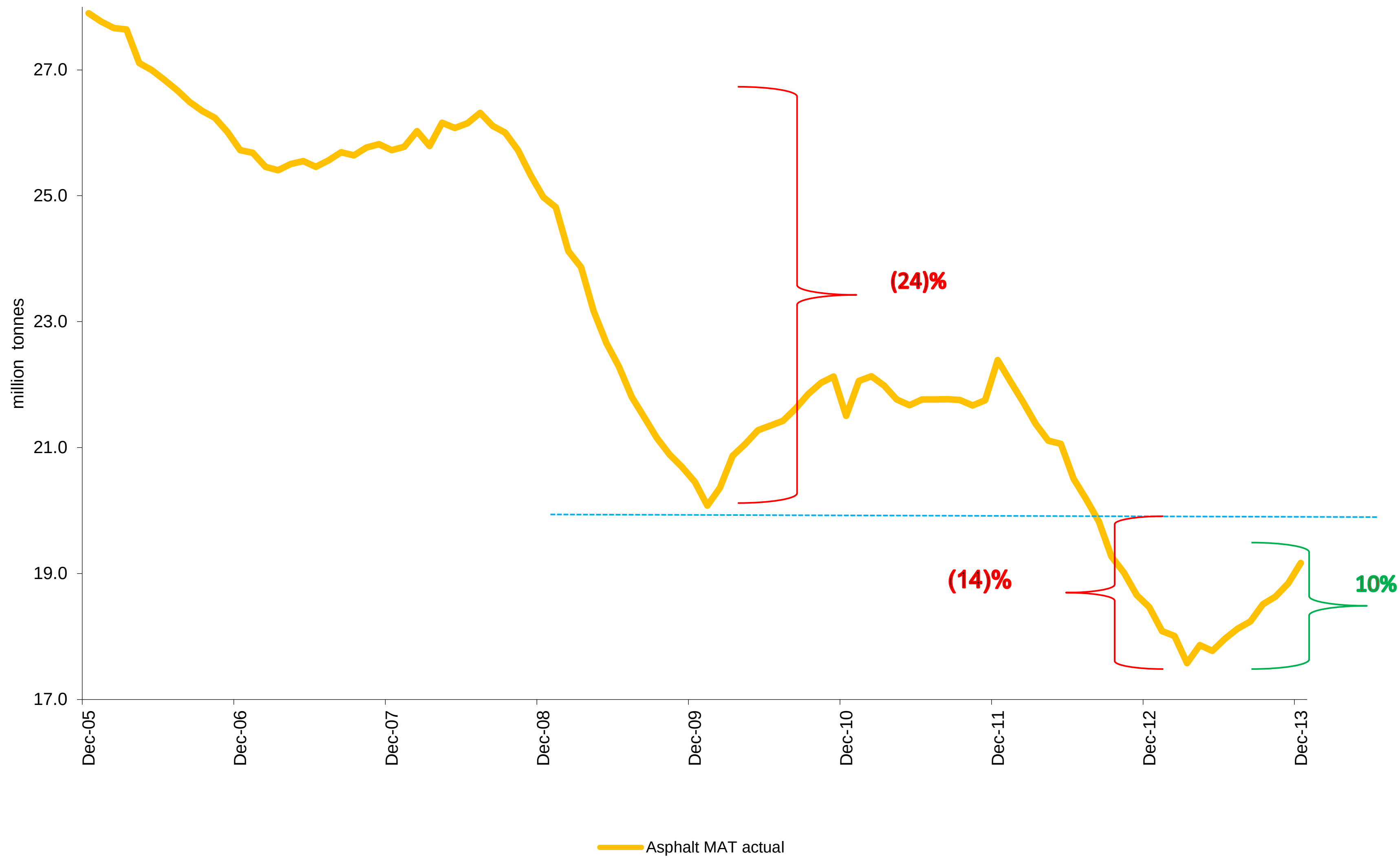
MPA crushed rock volumes – moving annual trend



MPA sand & gravel volumes – moving annual trend



MPA asphalt volumes – moving annual trend



MPA readymix volumes – moving annual trend