

FULL YEAR  
RESULTS  
2019



## Presentation Team

Frank Hanna – Joint CEO

Stephen Morgan – Group Finance Director

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## Britain's Brick Specialist

*Michelmersh strives to be a well-invested, long term, sustainable and environmentally responsible business dedicated to delivering quality products to its long-term customer base. The Group aims to provide training, security and career progression for all of its employees, whilst acting as a responsible corporate citizen and keeping stakeholder value at the forefront of every decision. The Group aims to lead the way in producing Britain's premium clay products, enhancing the built environment and adding value to the architectural landscape for generations to come.*

# Michelmersh Brick Holdings plc



*We are not the market....we ensure the right volume of the right product for the right sector*

- Manufacturer of diverse premium brick products – 120 million +
- Three lifetime revenue sources – bricks, landfill, investment land
- Margin focus, not market share
- Strong core market – RMI, Housing, Commercial, Urban Regeneration, Specification
- Robust distribution policy – pioneering Select Order Process
- Industry leading BIM Bricks brand V3

SITE	PRODUCT	OUTPUT (M)	STRONG REGIONAL AND NATIONAL PROFILE
Blockleys	Wirecut Bricks / Clay Pavers	23	
Carlton	Wirecut Bricks	36	
Charnwood	Handmade Stock Bricks / Bespoke Terra Cotta	4	
Floren.be	Specification Wirecut Bricks	19.5*	
Freshfield Lane	Clamp-fired Stock Bricks	34	
Michelmersh	Hampshire Stock Bricks	7	

\*European size

# 2019 Financial Highlights

TURNOVER

+ 15.5%

GROSS MARGIN

+ 2%

UNDERLYING EBIT

+ 12.8%

UNDERLYING EBITDA

+ 18.0%

REPORTED PBT

+ 61%

CASHFLOW FROM OPERATIONS

+ 42.2%

BASIC EPS

+ 62.8%

UNDERLYING EPS

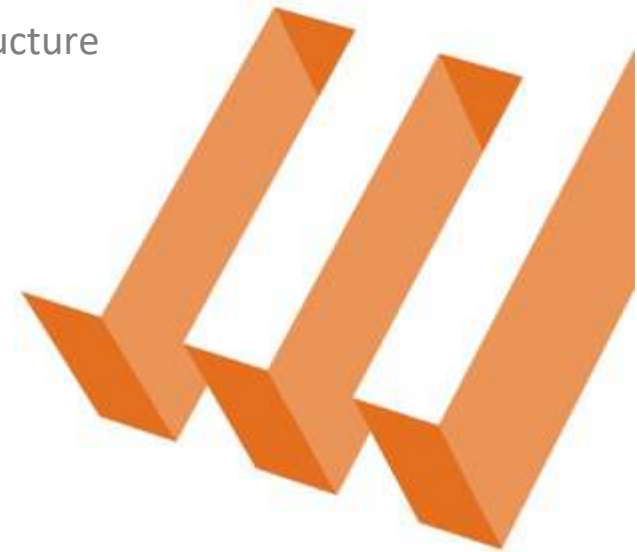
+ 31.2%

NAV

+ 11.6%

# 2019 Corporate Highlights

- Acquisition Belgian brick business – Floren
  - Expanded geography and product range
- Completed phase 1 Carlton expansion- new robotic kiln unloading and packaging plant
- Strong bounce-back of Michelmersh plant following restructure in 2018
- Achieved ROSPA diamond level in H&S performance
- Introduced new IT platforms for CRM and HR



# Covid-19: Trading Update 25 March 2020

- Very strong start to 2020
- Response to virus has been measured, but swift
- Financial stress testing of forecasts and identification of cash preservation options, including reluctant cancellation of dividend
  - Strong financial position - substantial cash and good covenant headroom
  - Projected to see out a period stretching beyond current UK Government forecast
  - No committed capex projects at this time
- Early identification of employees in vulnerable groups with ongoing monitoring of isolation cases
- Immediate and effective off site relocation of most administrative departments
- Orderly and safe suspension of production/deliveries at all plants – prepared for swift restart
- Order processing, delivery scheduling and accounts functions continue remotely
- Return to operations after 3 week suspension period & in line with Govt. guidance

# Income Statement 2019

	REPORTED 2019 £M	ADJS £M	UNDERLYING <sup>2</sup> 2019 £M	UNDERLYING <sup>3</sup> 2018 £M
Turnover	53.5		53.5	46.3
Gross profit	21.9		21.9	18.0
<b>Gross margin</b>	<b>40.9%</b>		<b>40.9%</b>	<b>38.9%</b>
Central costs	(12.9)		(12.9)	(10.1)
Other income	0.2		0.2	0.1
Bargain Purchase/ acquisition costs	(1.9) <sup>1</sup>	(1.9)	-	-
Operating profit	11.1		9.2	8.0
<b>EBITDA</b>	<b>15.5</b>	<b>(2.5)<sup>1,2</sup></b>	<b>13.0</b>	<b>10.9</b>
Finance expense	(0.7)	(0.1) <sup>2</sup>	(0.6)	(0.6)
Profit before tax	10.4	(1.9) <sup>1</sup>	8.6	7.4
Basic Earnings per share	9.41p		8.87p	6.76p

<sup>1</sup> Relates to the exclusion of the Bargain purchase and costs of acquisition re Floren

<sup>2</sup> Includes an impact of £600,000 re EBITDA, £117,000 interest, and de-minimis change to cost of sales and central costs

<sup>3</sup> Excludes costs of restructuring Michelmersh plant in Romsey - £930,000 in Central costs

# Balance Sheet 31 December 2019

	IFRS element included in 2019	2019 31 DEC £M	2018 31 DEC £M
Intangible fixed assets		22.6	22.9
Tangible fixed assets	1.2	65.3	52.4
Net working capital		7.6	9.0
Net debt	(1.2)	(7.5)	(11.8)
Deferred tax		(11.9)	(8.7)
NET ASSETS		76.1	63.8
NAV per share		82.2 p	73.7 p



# Cash Flow Summary 2019

	2019 £m	2018 £m
Net cash generated by operations	16.6	11.7
Tax paid	(2.1)	(1.8)
Interest paid	(0.7)	(0.6)
Purchase of property, plant and equipment	(2.4)	(1.9)
Proceeds of shares issued	4.7	-
Leases paid – IFRS 16	(0.6)	-
Acquisition of Floren	(6.2)	-
Net increase /(reduction) in debt	3.1	(4.5)
Dividend paid	(2.4)	(1.8)
Net increase in cash and cash equivalents	9.9	1.1
<b>Net debt</b>	<b>(7.5)</b>	<b>(11.8)</b>
<b>EBITDA Multiple (underlying)</b>	<b>0.6</b>	<b>1.1</b>

# Michelmersh Brick Holdings – Outlook

*We are not the market... we ensure the right volume of the right product for the right sector*

## INDUSTRY

- Current market disruption relating to COVID-19
- Potential impact on global imports – return to local products for local markets
- Continued constrained market capacity when imports taken into account
- Barriers to entry
- Continued demand for residential development and latent RMI market

## MICHELMERSH

- Manage business through COVID-19 to protect the welfare of employees and all stakeholders – Group has a robust balance sheet
- Objective to maintain strong balanced order book covering RMI, housing, specification and commercial sectors
- Continued focus on enhancement of efficiencies and output across our plants
- Manage debt down in balance with efficiency based investment
- Return to a balanced and strong progressive dividend stream
- Explore new opportunities to complement current business strategy





APPENDICES

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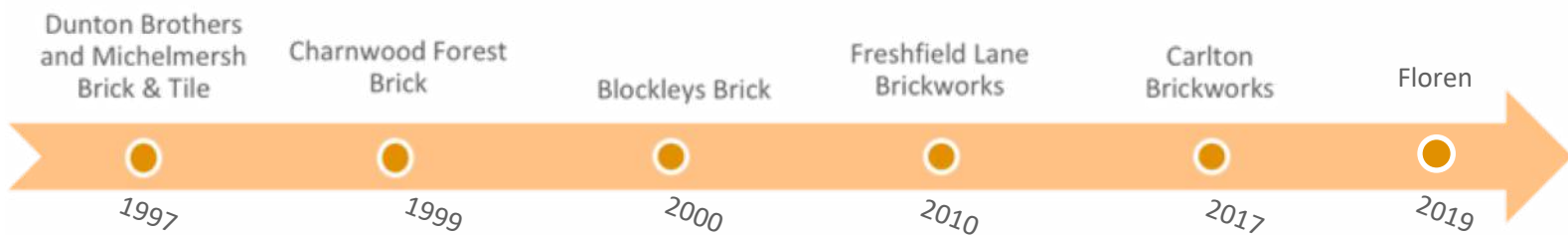
# Michelmersh's Growth Story To Date

*Combination of organic and acquisitive strategies*

## Background and strategy overview

- Experienced senior management team with successful track record of:
  - acquisitions
  - improving capacities & efficiencies
  - integration
  - the utilisation of 'plug & play' processes
- A commitment to sustainable ongoing investment across our factories has increased operational efficiencies and output
- Strong product development & innovation

## The Group's acquisition timeline



# Floren Financial Overview

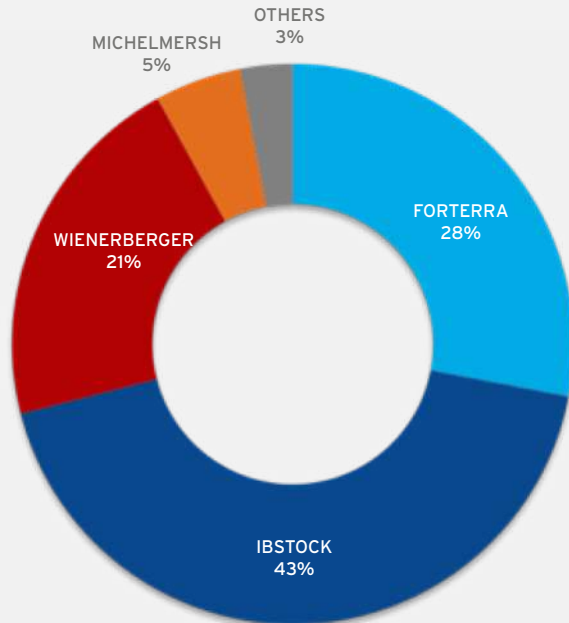
	FLOREN 2018 €'000	FLOREN 2019 €'000	MBH contribution 2019 £'000
Turnover	5,677	5,990	4,790
Gross profit	2,458	2,769	1,960
Gross margin	43.2%	46.2%	40.9%
Operating costs	(1,280)	(1,421)	(981)
Other income	53	46	16
Operating profit	1,238	1,394	995
EBITDA	1,757	1,882	1,630
EBITDA %	30.9%	31.4%	34.0%

Floren 2018 and 2019 Euro results for 12 months

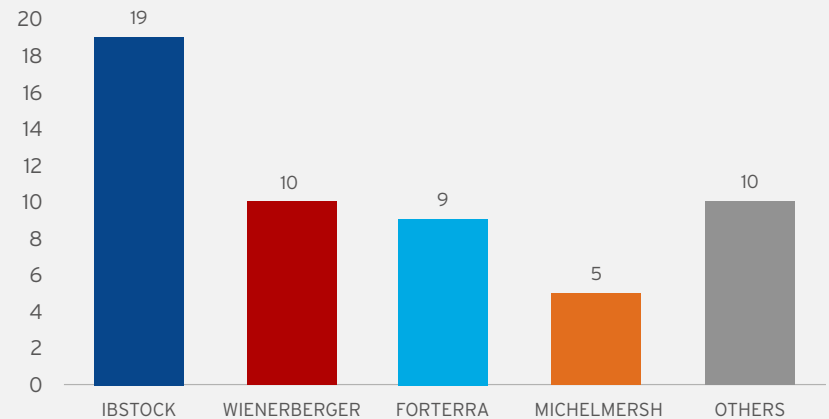
MBH contribution 2019 – Sterling contribution to Group accounts; different accounting treatment of costs and additional depreciation and amortisation of revalued assets

# UK Brick Manufacturing – Market Structure

## UK BRICK MANUFACTURERS MARKET SHARE



## UK BRICK WORKS



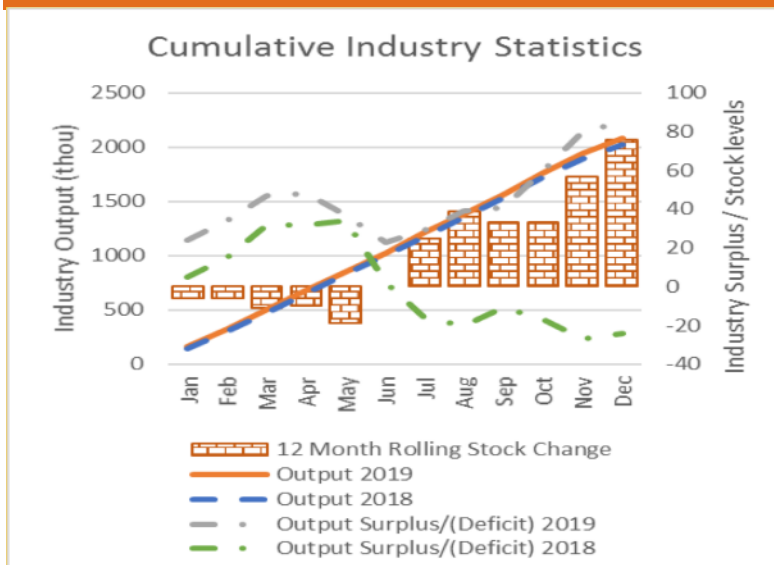
Source: Published statistics and management estimates

- UK brick manufacturing highly concentrated
- UK Capacity c. 2.1billion
- Michelmersh ASP at a premium of 35% of market

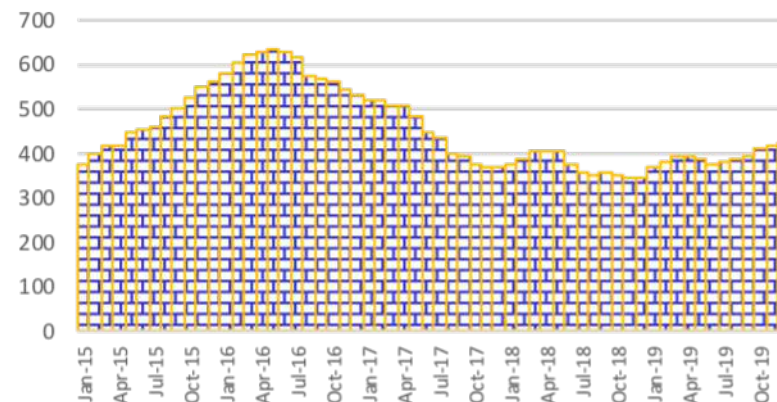
# UK Brick Manufacturing – Current Trends

Logical market – market equilibrium

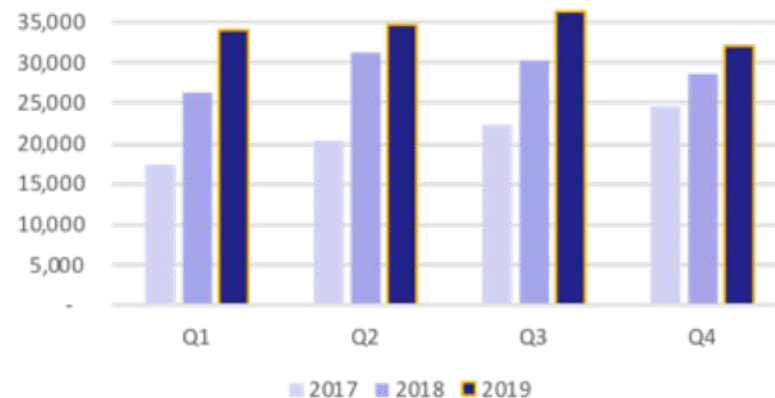
## 2018 AND 2019 CUMULATIVE OUTPUT AND EXCESS OVER OUTPUT



## INDUSTRY BRICK STOCKS (MILLION)



## BRICK IMPORTS (£'000)



Source: BIS

- 2019 Output up 3% on 2018
- 2019 Despatches fell by 3% - recovery of stocks
- Imports up c. 18% over 2018

# Market Fundamentals

## UK Housing Dynamics

### STRONG DEMAND FOR NEW HOUSING

- Continued shortage of new housing from long-term underbuilding
- Mortgage availability has remained good
- Supportive Government policies remain in place

### MAJOR UK POLITICAL PARTIES ALL WEDDED TO INCREASED HOUSING

- 'Help to Buy' in place until 2023
- 1 million new homes to be built between 2015-2020
- Further 500,000 new homes between 2020-2022
- 100,000 affordable publicly owned homes pa by 2023
- Strong renewed commitment to Social Housing schemes

### REPAIRS MAINTENANCE & IMPROVEMENT

- Ageing UK housing stock increasing our RMI opportunity
- Back drop of low interest rates & stamp duty driving our RMI
- Infrastructure projects such as HS2 etc.



# Good corporate citizen

The Group believes it has a corporate responsibility to contribute to charities across the country. Donating funds, food products, children’s toys, resources and a wealth of clay products to deserving institutions and organisations that require aid and support. Michelmersh has continued to support over 40 different community-based charities during 2019 including many local to its operations. These charities include the Salvation Army, British Heart Foundation, Save the Children, Cancer research, Variety, Barnados, Guide Dogs for the Blind, Hospice and many more.

Michelmersh have a historic association with charities and associations such as ‘The Wellies’ who’s fundraising initiative will buy a Nanoknife machine used to deliver treatment for pancreatic cancer and GI cancers that have spread to the liver. Frank Hanna, Joint Chief Executive Officer of Michelmersh, said: “There is hardly a family, a friend, a work colleague, or neighbour who has not been affected in some way.”

Frank Hanna, Peter Sharp and the Board, said: “we are delighted to support such a wide range of deserving charities during 2019. As a British manufacturer we understand the impact that this support offers to local charities, who often cannot continue to improve the lives of many in our community without Industry backing. Michelmersh aims to continue acting as a good corporate citizen and will endeavour to extend our support in 2020.”

## Michelmersh Core Values - IRIS



Innovation



Respect



Integrity



Sustainability

### Years of dedicated service:

Michelmersh appreciate the dedication and loyalty of its long-standing staff members. In 2019 two employees reached 45 years of service, a further two achieved 48 years of service and another had reached the grand accolade of 50 years of service. We are thrilled to retain the loyalty of many of our employees, who become extremely valued members of our team.

### Promoting health and wellbeing of employees:

Human Resources are dedicated to the promotion of increasing the wellbeing of staff, promoting the Group’s core values and to offer filled advice and support leaflets (for all sites) on an array of help topics ranging from mental health, to marriage, to parenting.

# Sustainability

Sustainability is one of Michelmersh's four company core values. With a continuous programme of investment, the Group has shown a strong commitment to sustainability and efficiency improvements.

With over 500 acres of land, Michelmersh encourages the re-introduction of habitats and wildlife to its former quarry sites, to allow nature reserves, lakes and natural spaces to flourish. All its UK and European plants adhere to strict environmental codes of practice with well-maintained clay resources which are stringently operated in cohesion with its surroundings.

Sustainability is key for Michelmersh as it strongly upholds its responsibilities to nurture our land and the environment around us. Through rolling investment programs its modernised plants are streamlined and automated, maximising efficiency and product output.



**Sustainable products = sustainable architecture = sustainable future**

Using **modernised production methods** that emphasise **sustainable building solutions** and adhere to the most **stringent production requirements**, Michelmersh guarantees **high quality** product standards with a **low ecological footprint**.

# Sustainability

The Group's substantial programme of continuous improvements saw an **investment** of almost **£3m** over the last 24 months of which **67%** directly resulted in **improvements in energy efficiency**.



Investment in new de-hacker and packaging line machinery in 2019 has **reduced** the amount **plastic packaging** on Carlton brick products by **42%**.



More than **60%** of the Group's products are made in factories using **re-cycled** and/ or surface **rain water**.



Over **80%** of the Group's raw materials are sourced from **less than 2.5km** of our manufacturing plants.

The Group runs a fleet of 9 **FORS certified** delivery lorries which are regularly renewed to ensure they meet all the **latest efficiency** and emissions requirements.



**100%** of Michelmersh, Freshfield Lane and Carlton delivery pallets are sourced **second-hand** and intended for **multiple re-use**.



**100%** of UK products are supplied from factories certified under the **BES 6001** Responsible Sourcing standard, **ISO 14001** Environmental, **ISO 50001** Energy and **ISO 9001** Management Systems. **100%** of Floren products are independently certified to national standards.

# Sustainability

- Reduce waste in every sector of the production process.
- Improve energy efficiency by investing in new equipment and process control.
- Continue to provide local products to local communities.
- Achieve zero workplace accidents.
- Continue to lead the industry in reduction of plastic packaging.
- Increase the amount of recovered water through rain water harvesting measures.
- Continue to invest in alternative, renewable sources of energy production.



## Investing in our Environment:



The company is committed to the protection of the environment, biodiversity, ecosystems, and minimisation of pollution. We will ensure compliance with all legal, regulatory and other obligations; report any breaches transparently; and will monitor, control and report our relevant greenhouse gas emissions in line with our regulated targets.

By adopting sustainable resource and energy planning, we aim to minimise waste and ensure efficient use of energy, resources, water and raw materials. Where practical, the use of local materials and suppliers is encouraged.

Energy performance will be a key factor in the design, purchase and operation of equipment, vehicles and services.

Our Environment, Energy and Responsible Sourcing policies operate in conjunction with other company policies and procedures, including Health and Safety, Quality, Code of Ethics, Corporate Governance, Bribery, Sponsorship and Charitable Donations.



# Sustainability



1152 solar panels installed producing 25% of electricity for Floren



All group sites operate independently verified management systems.



Our local products travel on average 60 miles from factory to site



Clay products have a life span of at least 200 years and can be re-used and re-cycled



500+ acres encouraging the re-introduction of habitats and wildlife to allow nature reserves to flourish

WATCH OUR **SUSTAINABILITY** VIDEO & LEARN MORE ABOUT **MICHELMERSH'S** PRODUCTS



# Training & Education

The Group aims to provide training, security and career progression for all of its employees, whilst acting as a responsible corporate citizen and keeping stakeholder value at the forefront of every decision.

## Health & Safety Awards:

Michelmersh won multiple awards at the British Ceramic Confederation (BCC) Pledge Awards, including two for Blockleys; rewarded for measures to address manual handling issues through building a mono rail system above the brick dryer system to reduce the manual handling of motors, fans and burners and also for measures to improve visitor management by building a visitor booth at the works entrance so visitors can have a central contact centre and can then be escorted safely thereon. Two further awards were given to the Freshfield Lane site, for steps taken to reduce working at height risks on the clamp and for the implementation of an initiative for the real-time assessment of forklift truck drivers.

Michelmersh was awarded the **ROSPA Diamond Award (Level 5)**, far exceeding the ambitious target of achieving Level 4 in the QSA audit. Having achieved 75% level 2 status in their previous audit, 2019 saw Michelmersh achieve an overall Health and Safety Performance Rating of 93.5%.

## Education and training awards in Clay Technology:

Scott Todd won the ICT Education and Training Trust Keith FR Mortan Award 2019. The award is in memory of the work and commitment that Keith FR Mortan gave to the industry. The award is given in recognition of an individual who best exemplifies exceptional Education and Training achievement in Clay Technology via the Technical Certificate, Foundation Degree, Higher Apprenticeship, Diploma programmes or Honours Degree. Lee Horsfield was awarded the 'Highest Grade Level 2' with Jamie Brownlie being awarded 'Highest Grade Level 3'.



# PLEDGE 100

100,000 bricks for future bricklayers in 2020

## Corporate training/support declarations:

- Pledge 100,000 bricks each year to bricklaying courses across the Country to support education.
- All works managers are trained to NEBOSH: General Certificate.
- All Department Managers are trained to IOSH: Managing Safely.
- 5.5% of our UK workforce currently engaged in apprenticeships covering all areas of the business from Business Administration to Operational Performance to Engineering.
- 89% of our apprenticeship training is at Level 3 or above.

# The case for Brickwork

*Why Brick is the UK's external cladding material of choice*

DEVELOPER/RMI/SPECIFIERS	END USER/CUSTOMERS/CLIENTS
<ul style="list-style-type: none"><li>▪ Low cost &amp; strong value at point of use</li><li>▪ Forgiving of tolerance</li><li>▪ Suits UK vernacular</li><li>▪ Favoured by planners</li><li>▪ Tried and tested against standards (e.g. NHBC)</li><li>▪ BIM</li><li>▪ Established strong supply chain</li></ul>	<ul style="list-style-type: none"><li>▪ Low Maintenance/low cost of ownership</li><li>▪ Durability</li><li>▪ Aesthetics</li><li>▪ Matches existing residential landscape</li><li>▪ Financially underwritten</li><li>▪ Certainty and longevity</li><li>▪ Competitive whole life cost</li></ul>



# Inspired Architecture

*Inspired Architecture. Enhancing the built environment*

BDA BRICK AWARDS, RIBA AWARDS, NLA AWARDS





# Urban Regeneration

*Monnier Road & New Union Wharf*



# Off – site panel systems

*University College London Hospital*





# City Apartments

*King Edwards Road, Hackney*



# Inspired Architecture

*Caxton Road, Buckingham Green*





# Commercial projects

*Oxford Hotel*



# Quality New Homes

*Waterman's Reach, Longhouse*





# Aspirational Client Build

*Woodcote House*



# Education Sector

*Kings College*





# Acquisition of Floren

*Successfully executed Q1 2019*

- €9.4 million cash paid on completion
  - Total consideration up to £8.7 million - deferred consideration of 400,000 Michelmersh ordinary shares over 24 months if EBITDA targets are met (max. value €500,000)
- Represented below 6x normalised EBITDA
- Funded by successful placing of £5.0m with new and existing shareholders, alongside existing debt facilities
- Transaction completed 18 February 2019
- Vendors to stay with the business for 24 months
- Integration strategy underway



# Acquisition of Floren

*An excellent strategic fit*

THE BUSINESS	<ul style="list-style-type: none"><li>Established, profitable, clay brick manufacturing business with core markets in both Belgium and the UK</li><li>Generated €1.7 million normalised EBITDA in 2018 with revenues of €5.7 million</li></ul>
SITE	<ul style="list-style-type: none"><li>120 acres of land (only 50% in current operational use) – indicative values at circa €9 million</li><li>Clay reserves of 25 years at current output</li></ul>
SCALE	<ul style="list-style-type: none"><li>21.6 million bricks produced in (2018 19.5)</li><li>The site is operationally scalable with an opportunity to increase production with further investment</li></ul>
PRODUCT	<ul style="list-style-type: none"><li>A quality core range consisting of over 70 different colours, manufactured in 8 different sizes</li><li>Complements the Group's premium centric market strategy</li></ul>
OPERATIONS	<ul style="list-style-type: none"><li>Well established production &amp; sales team</li><li>Operates to stringent European standards covering process/environment/H&amp;S/product codes</li></ul>
MARKET	<ul style="list-style-type: none"><li>The business operates within an established c. 650 million P/A Belgian sector</li><li>Strong European and UK distribution partnerships</li><li>Opportunity to open new sales channels within the Benelux and German regions</li></ul>

# Floren Site Location

*Brecht, Antwerp, Belgium*

✓ Strong road network/access

✓ Close proximity to Antwerp shipping port

✓ Situated adjacent to the Campine Channel

✓ Last remaining brick plant in Brecht

✓ 14 minutes from Brecht to Antwerp main railway



FLOREN, BRECHT, ANTWERP



BRECHT, ANTWERP, BELGIUM

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