

FULL YEAR  
RESULTS  
2018



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## 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	

# 2018 Financial Highlights

TURNOVER

+ 22%

GROSS MARGIN

+ 3.5%

UNDERLYING EBIT

+ 45%

UNDERLYING EBITDA

+ 38%

REPORTED PBT

+ 93%

BASIC EPS

+ 118%

DIVIDEND

+ 49%

CASHFLOW FROM OPERATIONS

+ 70%

NAV

+ 7%

# 2018 Corporate Highlights

- Full operational integration of the Carlton plant
- Successful restructure of operations at the Michelmersh plant
- Strong, balanced forward order book into Q1 2019 – 10.5% ahead of H1 2018
- Contract signed for Carlton project targeting enhanced efficiency & output
- New, key, high-value products introduced to the market
- Post-2018 period, completed acquisition of Floren giving access to European markets





# Award Winning

*Inspired Architecture. Enhancing the built environment*

## BDA BRICK AWARDS, RIBA AWARDS, NLA AWARDS



# Income Statement 2018

	UNDERLYING 2018 £M	ADJS <sup>1</sup> £M	2018 £M	2017 £M
Turnover	46.3		46.3	37.9
Gross profit	18.0		18.0	13.4
<b>Gross margin</b>	<b>38.9%</b>		<b>38.9%</b>	<b>35.4%</b>
Central costs	(10.1)	0.9	(11.0)	(8.6)
Other income	0.1		0.1	-
Operating profit	8.0		7.1	4.9
<b>EBITDA</b>	<b>10.9</b>		<b>10.0</b>	<b>7.3</b>
Finance expense	(0.6)		(0.6)	(0.3)
Exceptional aqn charges	-		-	(1.2)
Profit before tax	7.4		6.4	3.3
Basic Earnings per share	6.77p		5.78p	2.64p

<sup>1</sup> relates to the change of manufacturing operations at the Michelmersh plant – exceptional costs of redundancy and write down of fixed plant



# Balance Sheet 31 December 2018

	2018 31 DEC £M	2017 31 DEC £M
Intangible fixed assets	22.9	24.1
Tangible fixed assets	52.4	52.6
Net working capital	9.0	8.8
Net debt	(11.8)	(17.5)
Deferred tax	(8.7)	(8.6)
NET ASSETS	63.8	59.4
NAV per share	78.7 p	68.9 p

# Cash Flow Summary 2018

	2018 £m	2017 £m
Net cash generated by operations	11.7	6.9
Tax paid	(1.8)	(1.8)
Interest paid	(0.6)	(0.3)
Purchase of property, plant and equipment	(1.9)	(1.0)
Proceeds of sale of investments/fixed assets	-	2.8
Acquisition of Carlton	-	(23.7)
Net (reduction)/increase in debt	(4.5)	18.1
Dividend paid	(1.8)	(1.6)
Net increase/(decrease)in cash and cash equivalents	1.1	(0.6)
<b>Net debt</b>	<b>(11.8)</b>	<b>(17.5)</b>
<b>EBITDA Multiple</b>	<b>1.1</b>	<b>2.0</b>

# 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>19.5 million bricks produced in 2018</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

# Floren Financial Overview

*Normalised financial results*

	FLOREN 2017 €'000	FLOREN 2018 €'000	MBH underlying 2018 £'000	PRO FORMA 2018 £M
Turnover	5,371	5,677	46,324	51,261
Gross profit	2,274	2,458	18,019	20,156
Gross margin	42.3%	43.2%	38.9%	39.3%
Operating costs	(1,404)	(1,280)	(10,132)	(11,245)
Other income	35	53	97	143
Operating profit	905	1,238	7,984	9,054
EBITDA	1,515	1,757	10,964	12,491
EBITDA %	31.8%	30.9%	23.7%	25.2%

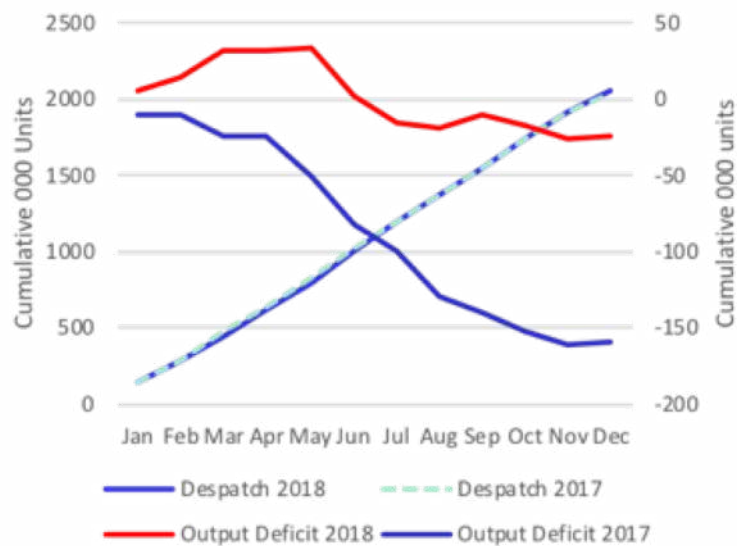
Source: VMB DD report, MBH published report



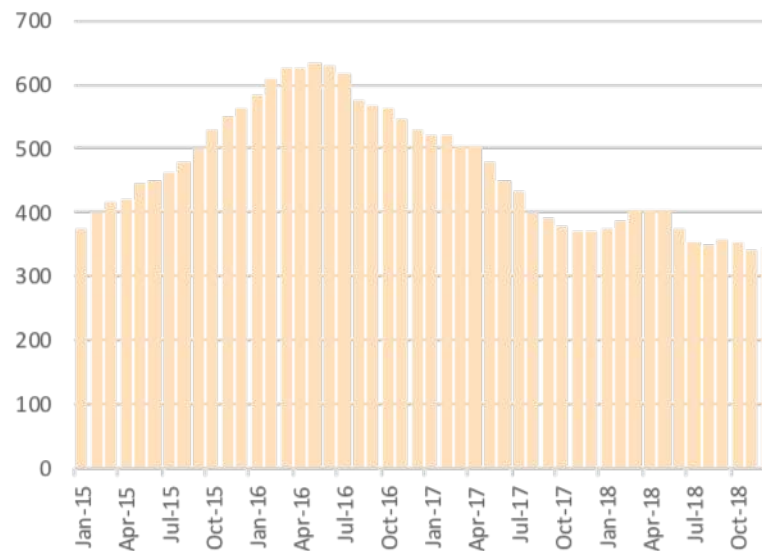
# UK Brick Manufacturing – Current Trends

Logical market – market equilibrium

2017 AND 2018 CUMULATIVE OUTPUT AND EXCESS OVER OUTPUT



INDUSTRY BRICK STOCKS (MILLION)

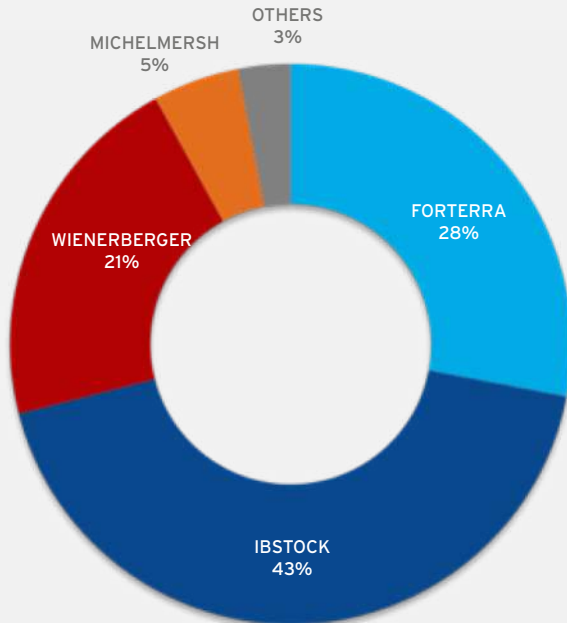


Source: BIS

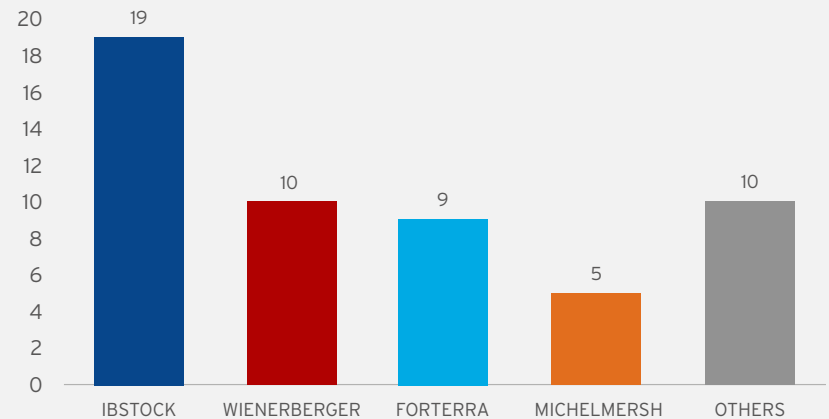
- 2018 Output up 8% on 2017
- 2018 Output = Despatches
- Imports up c. 37% over 2017

# UK Brick Manufacturing – Market

UK BRICK MANUFACTURERS MARKET SHARE



UK BRICK WORKS



Source: Published statistics and management estimates

- UK brick manufacturing highly concentrated
- UK Capacity c. 2billion
- Michelmersh ASP at a premium of 35% of market

# Market Fundamentals

## UK Housing Dynamics

### STRONG DEMAND FOR NEW HOUSING

- Continued shortage of new housing from long-term underbuilding
- Mortgage availability remains good
- Government & Labour both committed to increasing housing supply
- Supportive Government policies (Help to Buy) 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
- 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.



— GB HOUSEHOLD FORMATIONS (000'S)

■ GB HOUSING COMPLETIONS (000'S)

Source: CPA

# Michelmersh Brick Holdings – Outlook

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

## INDUSTRY

- Continued constrained market capacity
- Barriers to entry
- Continued demand for residential development and latent RMI market

## MICHELMERSH

- Positive outlook – looking to capitalise on the 12 month success of enlarged Group
- Conversion of strong balanced order book covering RMI, housing, specification and commercial sectors
- Continued focus on capital projects to further enhance efficiencies and output across our plants
- Manage debt down in balance with efficiency based investment
- Maintain a balanced and strong progressive dividend stream
- Explore new opportunities to complement current business strategy post Floren





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# APPENDICES

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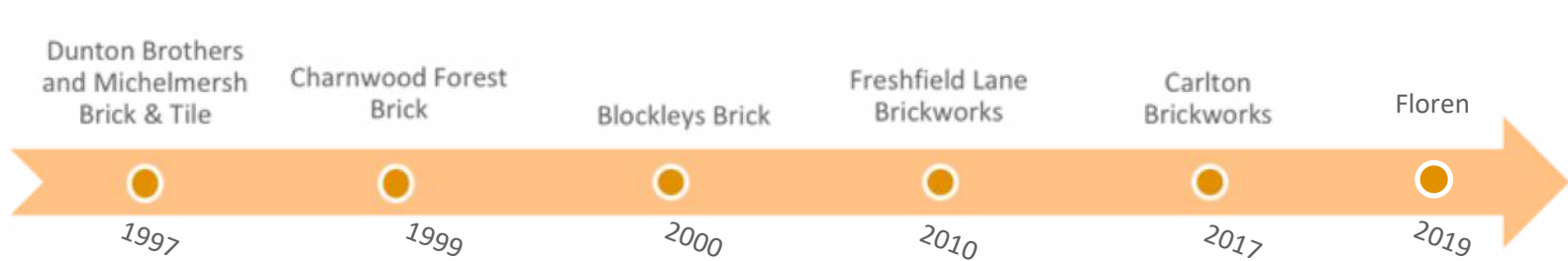
# Michelmersh's Growth Story To Date

*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





# 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>

# Urban Regeneration

*Battersea Power Station*



# Off – site panel systems

*University College London Hospital*



# City Apartments

*Bailey Fields Student Accommodation & Material Store*





# Inspired Architecture

*Buckingham Green*



# Aspirational Client Build

*Cobham, Surrey*





# Quality New Homes

*Longcross*



# Education Sector

*Brighton College & Charterhouse Science Centre*





# Commercial

*Hodgson Hall*



# Floren offers a premium product range



METEOR LF TAILOR MADE MECHELEN



TARTUFO REF EPEGEM



BRUNELLO MEETKERKE



ALPHEN AD RIJN AGAATH



PALLAS IN GRIMBERGEN



ANGLIA NIEUWERKERKEN



PALLAS IN GRIMBERGEN (2)



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