

INTERIM RESULTS  
PRESENTATION  
2019



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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.*

# Operational Overview & Plant Locations

*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
- UK operations with presence in northern Europe
- 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

# Highlights - At a glance

- Strong financial performance - upgrade for the full year outlook and increased dividend
- Strong cash generation and debt reduction
  - Targeting below 1x EBITDA
- Successful acquisition and integration of Floren, establishing a European presence
  - Financial contribution from Floren in line with forecasts
  - 'Bargain purchase' following valuation of assets and intangibles
- Adoption of IFRS 16 – increases tangible fixed assets and net debt by £1.3 million
- Continued investment in core business
  - Carlton automation Phase1 completed
  - Group IT –Investment in CRM & HR software
  - Updated BIM website



# 2019 Financial Highlights

TURNOVER

+ 17.4%

UNDERLYING GROSS MARGIN

+ 1.4%

UNDERLYING EBIT

+ 15.5%

UNDERLYING EBITDA

+ 18.0%

UNDERLYING PBT

+ 18.3%

UNDERLYING BASIC EPS

+ 8.3%

INTERIM DIVIDEND

+ 8.5%

CASHFLOW FROM OPERATIONS

+ 130.1%

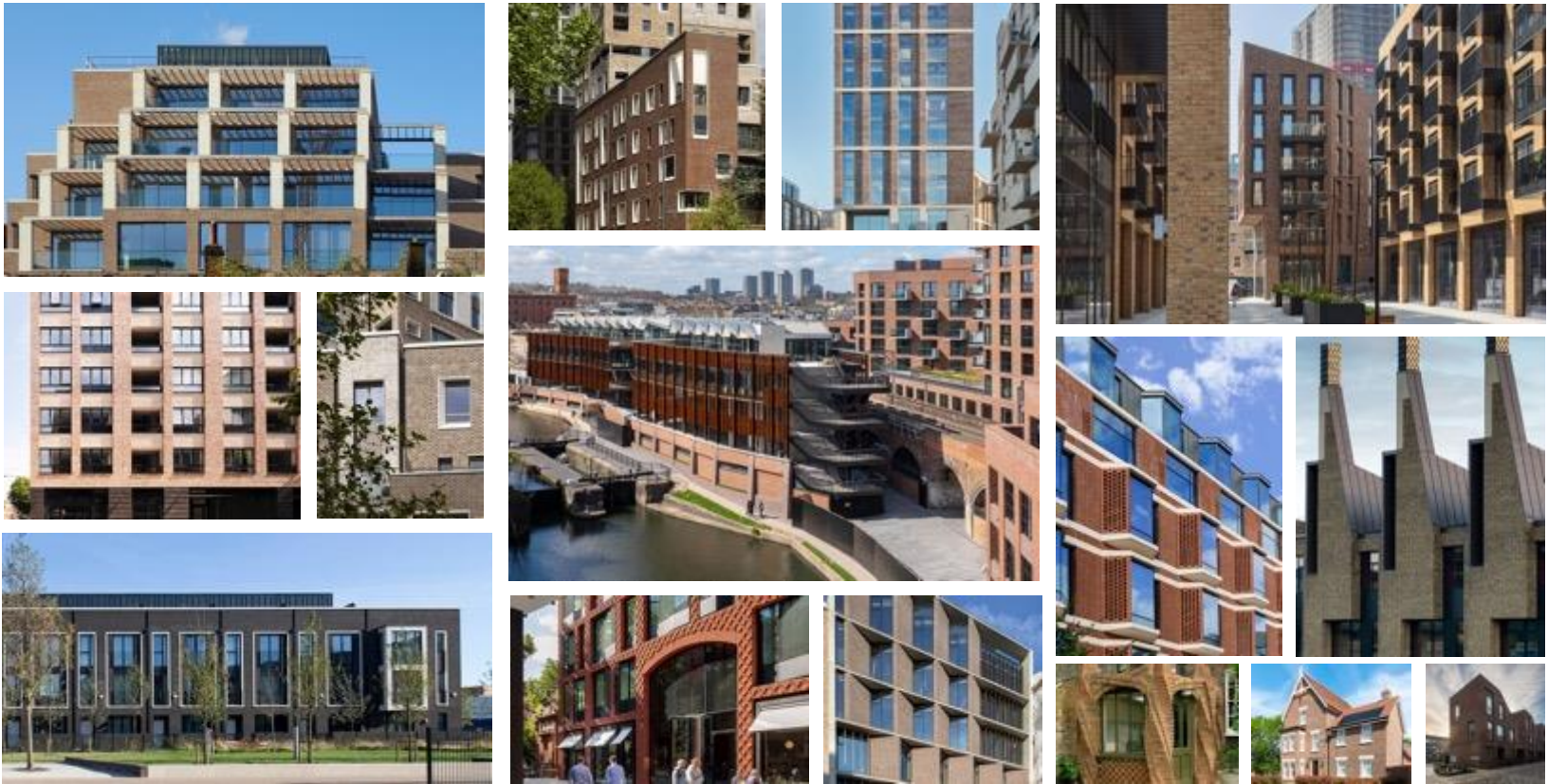
12 MONTH NAV

+ 7.7%

# Inspired Architecture

*Inspired Architecture. Enhancing the built environment*

BDA BRICK AWARDS, RIBA AWARDS, NLA AWARDS



18 SHORTLISTED NOMINATIONS AT 2019 BRICK AWARDS

# Underlying Income Statement H1 2019

	H1 2019/H1 2018	UNDERLYING H1 2019 £M	UNDERLYING H1 2018 £M	UNDERLYING 2018 £M
Turnover	+17%	27.2	23.1	46.3
Gross profit	+22%	11.4	9.4	18.0
<b>Gross margin</b>	<b>+1.4%</b>	<b>41.9%</b>	<b>40.5%</b>	<b>38.9%</b>
Central costs	26.5%	(6.1)	(4.8)	(9.0)
Other income	-	0.1	0.1	0.1
Operating profit	+16%	5.4	4.7	9.1
<b>EBITDA</b>	<b>+18%</b>	<b>6.6</b>	<b>5.6</b>	<b>11.0</b>
Finance expense	-	(0.3)	(0.3)	(0.6)
Profit before tax	+18%	5.2	4.4	8.5
Basic Earnings per share	+8.3%	4.55p	4.20p	6.76p
Dividend per share	+8.5%	1.15p	1.06p	3.20p



# Reported Income Statement H1 2019

## Reconciliation to underlying Income Statement

					H1 2019	H1 2018	2018 FY
	UNDERLYING	FAIR VALUE ADJUSTMENT	ACQUISITION	IFRS 16	£'000	£'000	£'000
Revenue	27,165				27,165	23,136	46,324
Cost of sales	(15,783)	(770)		9	(16,544)	(13,775)	(28,305)
Gross profit	11,382	(770)	-	9	10,621	9,361	18,019
Administrative expenses							
<i>Underlying</i>	(6,045)			4	(6,041)	(4,774)	(8,994)
<i>Exceptional</i> <sup>1</sup>					-	(930)	(930)
<i>Amortisation of intangibles</i>	(569)				(569)	(569)	(1,138)
	(6,614)		-	4	(6,610)	(6,273)	(11,062)
Other income	53				53	81	97
<b>Operating profit</b>	<b>4,821</b>	<b>(770)</b>	<b>-</b>	<b>13</b>	<b>4,064</b>	<b>3,169</b>	<b>7,054</b>
<b>Exceptional Item</b>							
<i>Bargain purchase</i>			828		828	-	
<i>Acquisition costs</i>			(567)		(567)		
Finance expense	(237)			(59)	(296)	(312)	(617)
<b>Profit before taxation</b>	<b>4,584</b>	<b>(770)</b>	<b>261</b>	<b>(46)</b>	<b>4,029</b>	<b>2,857</b>	<b>6,437</b>
<b>EBITDA</b>	<b>6,617</b>	<b>(770)</b>	<b>-</b>	<b>330</b>	<b>6,177</b>	<b>3,738</b>	<b>8,192</b>

<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 30 June 2019

	2019 30 JUNE £M	2018 30 JUNE £M	2018 31 DEC £M
Intangible fixed assets <sup>1</sup>	22.4	23.5	22.9
Tangible fixed assets	64.3	51.5	52.4
Net working capital	9.7	11.7	9.0
Net debt <sup>1</sup>	(15.1)	(18.1)	(11.8)
Deferred tax	(11.9)	(8.5)	(8.7)
NET ASSETS	69.4	60.1	63.8
NAV per share	75.1 p	69.7 p	73.7 p

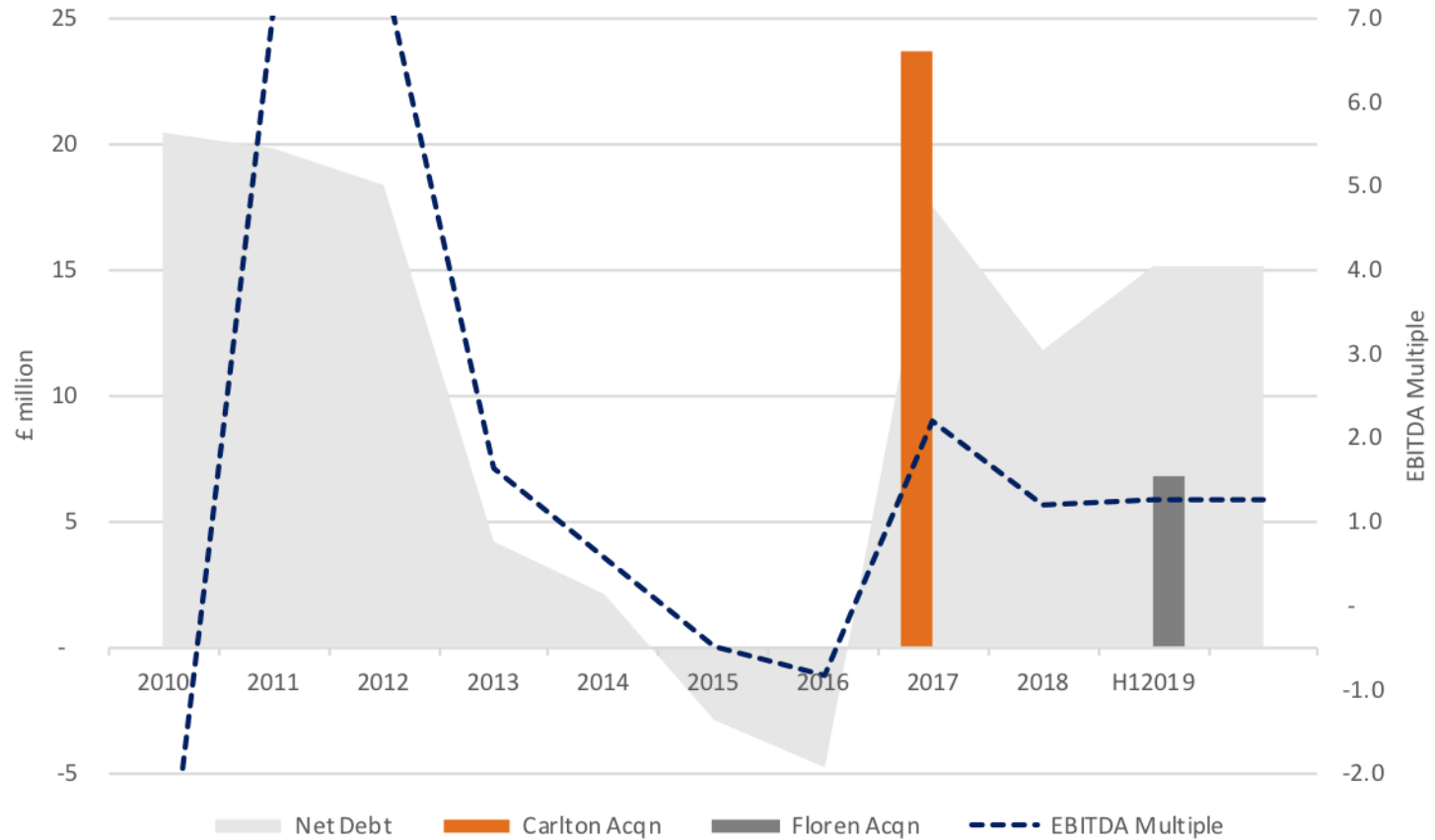
<sup>1</sup> Includes £1.3 million in respect of IFRS16 lease liability and fixed assets



# Cash Flow Summary 2019

	H1 2019 £M	H1 2018 £M
Net cash generated by operations	6.1	2.7
Tax paid	(0.7)	(0.9)
Interest paid	(0.2)	(0.3)
Purchase of property, plant and equipment	(0.8)	(0.3)
Proceeds of share placement	4.7	-
Acquisition of Floren (net of cash acquired)	(6.8)	-
Euro Loan drawn	5.3	-
Debt repaid	(1.5)	(0.9)
Dividend paid	(2.5)	(1.9)
Net increase/(decrease) in cash and cash equivalents	3.6	(1.6)
<b>Net debt</b>	<b>(15.1)</b>	<b>(18.1)</b>
<b>LTM EBITDA Multiple</b>	<b>1.25</b>	<b>1.70</b>

# Debt Profile 2010 - 2019



# Floren Financial Overview

Normalised financial results since acquisition

	UNDERLYING	FAIR VALUE ADJUSTMENT <sup>1</sup>	REVALUATION DEPRECIATION <sup>2</sup>	H1 2019
	£000	£000	£000	£000
Revenue	2,173	-	-	2,173
Cost of sales				
<i>Underlying</i>	(1,160)	(770)	(62)	(1,991)
Gross profit	1,013	(770)	(62)	182
Administrative expenses	(428)	-	-	(428)
Other income	19	-	-	19
<b>Operating profit</b>	604	(770)	(62)	(227)
<b>EBITDA</b>	776	(770)	-	6

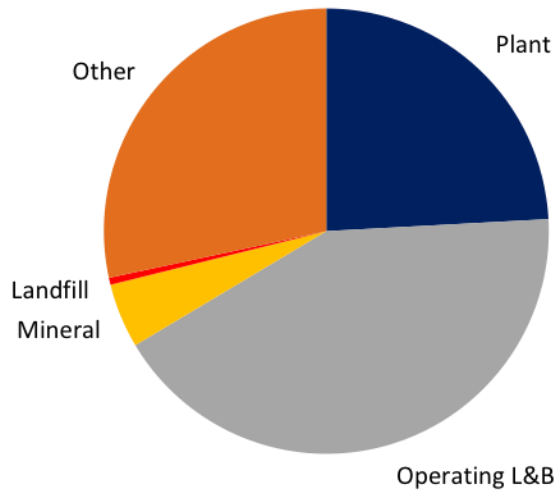
<sup>1</sup> Fair value of brick stocks reversed to reflect trading performance

<sup>2</sup> Additional depreciation on fair valued tangible fixed assets

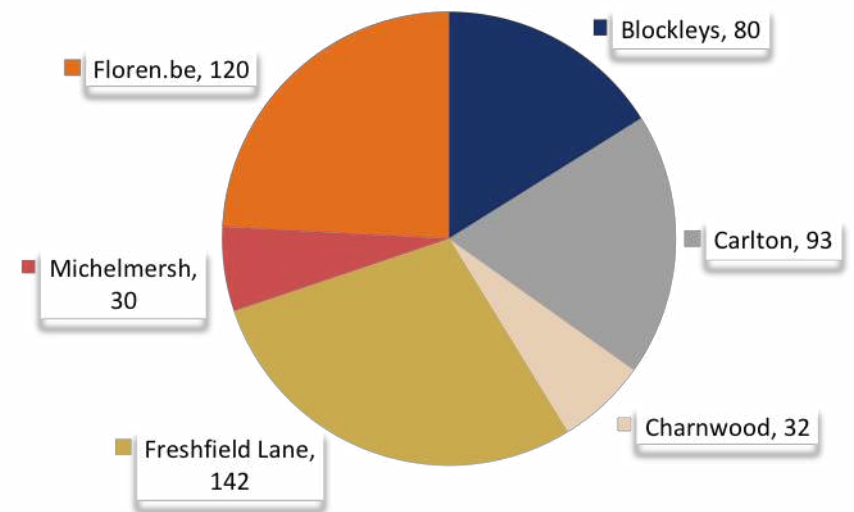
# Fixed Asset Summary H1 2019

*Strong asset base*

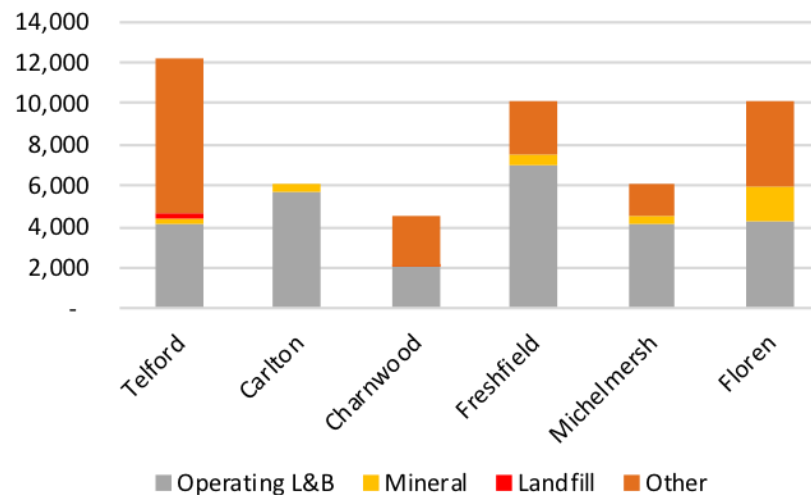
Group Fixed Assets by Category



Landholdings (Acres)



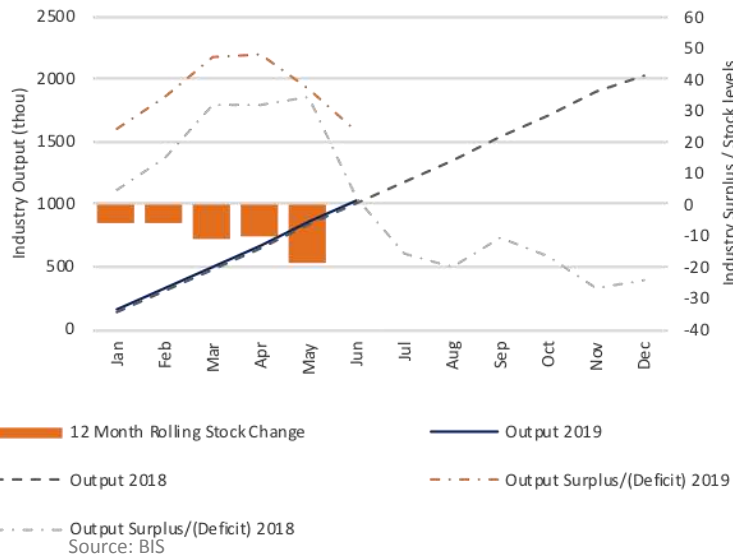
Land Assets by Location



# UK Brick Manufacturing - Current Trends

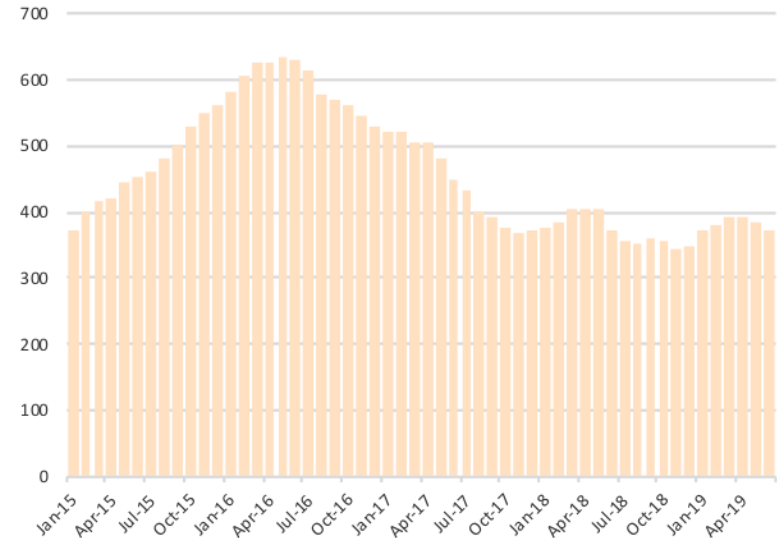
Logical market – market equilibrium

## 2018 AND 2019 CUMULATIVE OUTPUT AND EXCESS OVER OUTPUT

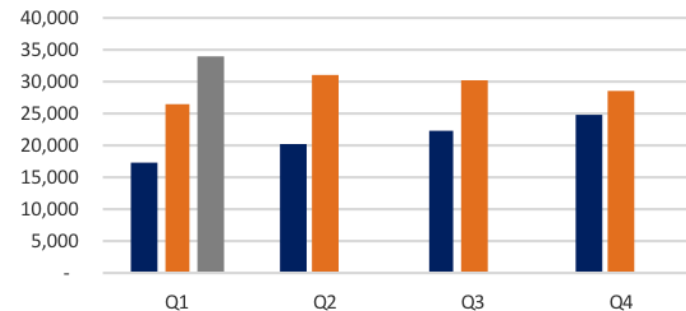


- H1 2019 Output up 2% on H1 2018
- H1 2019 Despatch = H1 2018 Despatch
- H1 2019 – Output > Despatches 23 million bricks
- Imports still increasing

## INDUSTRY BRICK STOCKS (MILLION)

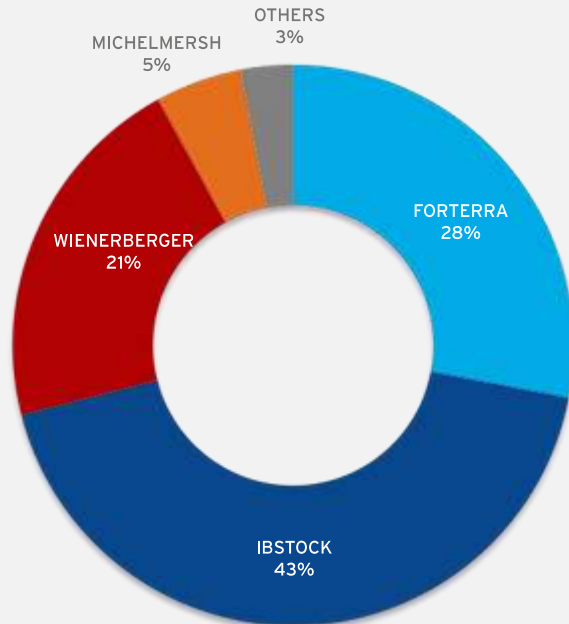


Brick Imports 2017 - 2019 (Source: BIS)

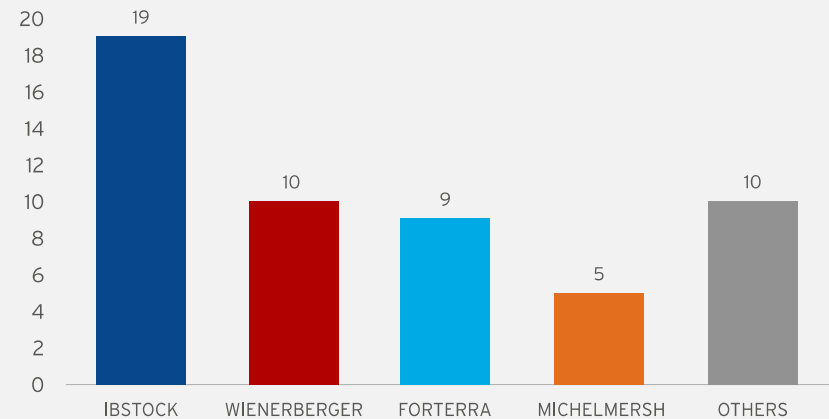


# UK Brick Manufacturing – Market

## UK BRICK MANUFACTURERS MARKET SHARE



## UK BRICK WORKS



Source: Published statistics and management estimates

- UK brick manufacturing highly concentrated
- UK Capacity c. 2 billion
- Group ASP at a premium of 35% to the 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

## INDUSTRY

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

## MICHELMERSH

- Positive outlook – looking to capitalise on the recent success of enlarged Group with enhanced geography
- Conversion of strong balanced H2 order book covering RMI, housing, specification and commercial sectors
- Manage debt down in balance with efficiency based investment
- Maintain a balanced and strong progressive dividend stream
- Continued focus on capital projects to further enhance efficiencies and output across our plants
- Explore new opportunities to complement current business strategy post Floren





# APPENDICES

# 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

Wembley Park



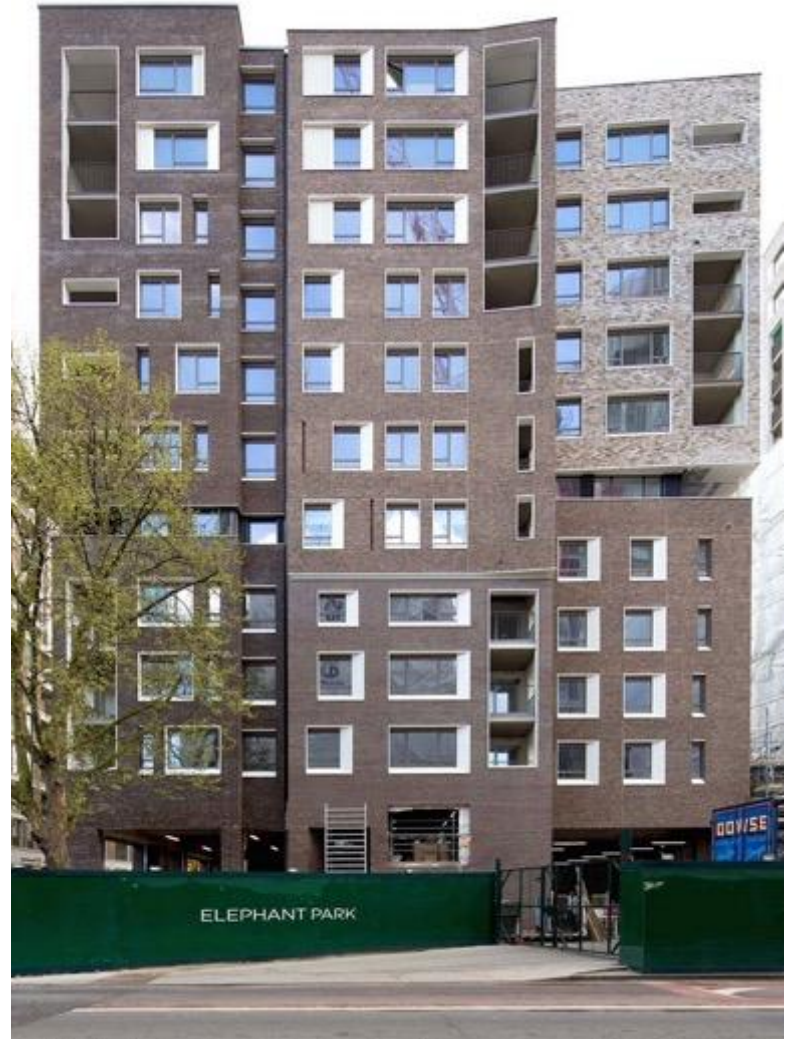
# Off – site panel systems

*University College London Hospital*



# City Apartments

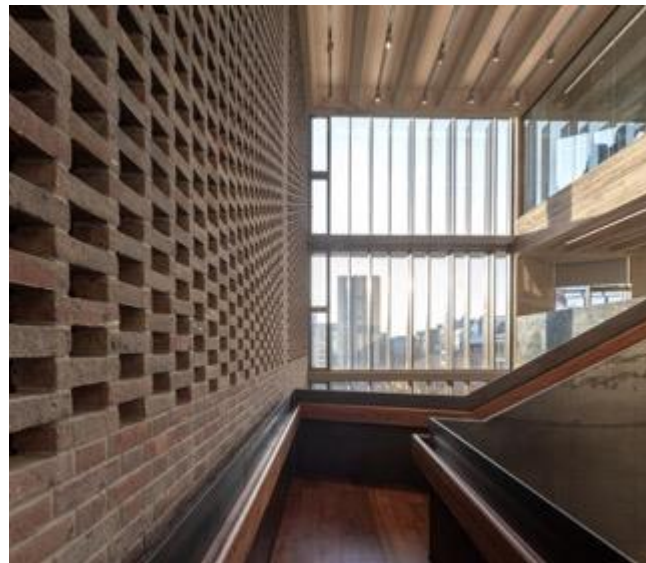
*Orchard Gardens, West Grove South*





# Inspired Architecture

*College of Pathologists*



# Aspirational Client Build

*Kenley Grange*



# Quality New Homes

*Longcross, The Grove, Kings Weald, Bewley Homes, Dujardin Mews*



# Education Sector

*Conservatoire of Music, Birmingham University*



# Commercial

*Buckingham Green*



# Acquisition of Floren - Overview

*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 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)



**MICHELMERSH**  
Britain's Brick Specialists

Freshfield Lane  
Danehill  
Haywards Heath  
Sussex  
RH17 7HH

Tel: 0844 931 0022  
[www.mbhplc.co.uk](http://www.mbhplc.co.uk)