



2022 Interim Results

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## Presentation Team

**Frank Hanna**

**Joint Chief Executive Officer**

**Ryan Mahoney**

**Chief Financial Officer**

### **Britain's Brick Specialist**

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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.

**125m+**

Manufacturer of diverse premium brick products

**Strong core market**

RMI, Housing, Commercial, Urban Regeneration, Specification

**3 lifetime revenue sources**

- Bricks
- Landfill
- Investment land

**Robust distribution policy**

Pioneering Select Order Process

**Margin focus**

Not market share

**Industry Leading**

BIM Bricks brand V3



Site	Product	Output (M)
1. Blockleys	Wirecut Bricks / Clay Pavers	23
2. Carlton	Wirecut Bricks	36
3. Charnwood	Handmade Stock Bricks / Bespoke Terra Cotta	4
4. Floren.be	Specification Wirecut Bricks	21*
5. Freshfield Lane	Clamp-Fired Stock Bricks	34
6. Michelmersh	Hampshire Stock Bricks	7

Hawley Wharf London

\* Waal format output

2021 Multiple Industry Award Winner





## Highlights

### Positive H1 2022 performance and confidence in outlook

- Revenue of £34.0m (up 13.7%) and Gross Profit £12.8m (up 6.7%) (2021: £29.9m and £12.0m)
- Adjusted\* EBITDA of £8.1m with an EBITDA margin at 23.8%, broadly in line with medium-term margin target
- Strong operational cash generation of £8.0m delivers cash conversion to adjusted\* EBITDA of 98.8%, cash of £9.9m at the half year (FY21: £7.7m) strengthens position for future growth options
- Interim dividend of 1.30p, up 13% vs 2021, demonstrates commitment to progressive dividend policy and resilient outlook
- Focused management of input costs, over 90% energy costs hedged in 2022 with 50% hedged for 2023 and with further positions into 2024 and 2025
- Strong and well-balanced forward order book with resilient order intake momentum continuing into early H2

\*The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. Adjusted results exclude exceptional items, costs associated with acquisitions and the amortisation of acquired intangibles. The term adjusted is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

## HY22 Financial Highlights

HY21 Comparative

Turnover

**£34.0m**

£29.9m

Gross Margin

**37.7%**

40.1%

Adjusted EBIT

**£6.2m**

£5.7m

Adjusted  
EBITDA

**£8.1m**

£7.6m

Profit Before Tax

**£5.6m**

£5.0m

Cashflow from  
operations

**£8.0m**

£6.7m

Basic EPS

**4.64p**

4.12p

Adjusted EPS

**5.12p**

4.74p

NAV per share

**89.0p**

85.4p



## HY22 Operational Highlights

- Positive performance in H1, with results for the period ahead of record 2021 comparison
- Resilient business fundamentals expected to continue due to diversified end customers covering multiple channels
- Input and haulage cost pressures managed on a risk-based approach, with energy costs continuing to be hedged in volatile markets
- Portfolio price increase implemented on 1 July to mitigate ongoing higher inflation rates
- Consistent operational cash generation has supported capital investment focused on production efficiency and incremental output improvement
- Group cash position and undrawn borrowing facilities underpin financial resilience, strategic options and flexibility to pursue acquisition opportunities

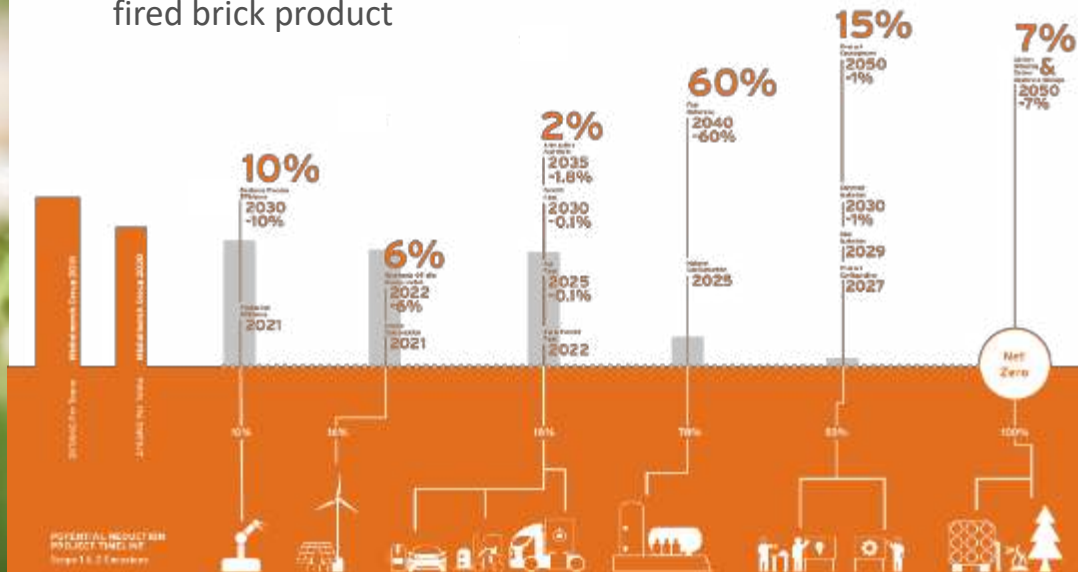
# Net Zero by 2050

Potential project reduction timeline

## HY22 Sustainability Highlights

Our goal is always to reduce, then seek alternatives and finally offset any remaining carbon emissions.

- Remain committed to delivering against our strategy laid out in our 2021 Sustainability Report
- Doubling solar capacity at Floren, with c.50.0% of electricity requirements met by solar from January 2023
- Scoping of 3 solar projects in the UK to build pipeline of sustainability projects for 2023
- New electric forklifts rolled out across the UK during H1 to replace diesel capacity
- Won Government Innovation competition and funding with UK Government on a research project to investigate potential use of Hydrogen fuel in brick manufacturing
- Launch of HyBrick trial, the world's first 100% Hydrogen fired brick product





# Financial Review



University of Winchester, Winchester



## Income statement

Compared to 2021 half year, which was a record period for the business

	ADJUSTED H1 2022 £M	ADJUSTED H1 2021 £M	Change
Revenue	34.0	29.9	13.7%
Gross profit	12.8	12.0	6.7%
Gross margin	37.7%	40.1%	(2.4%)
Central costs <sup>1</sup>	(6.6)	(6.6)	-
Other income	-	0.3	(100.0%)
Adjusted operating profit <sup>1</sup>	6.2	5.7	8.8%
Adjusted EBITDA	8.1	7.6	6.6%
Finance expense	(0.1)	(0.1)	-
Adjusted profit before tax <sup>1</sup>	6.1	5.6	8.9%
Adjusted basic earnings per share	5.12p	4.74p	8.0%

<sup>1</sup> Excluding amortisation of intangible assets

## Balance Sheet

Strong balance sheet position provides financial resilience and flexibility to pursue strategic initiatives and acquisition opportunities

	2022 30 Jun £M	2021 30 Jun £M
Intangible fixed assets	19.7	20.8
Tangible fixed assets	63.8	61.3
Net working capital	7.0	8.2
Net cash/(debt)	9.9	4.1
Lease liability	(0.9)	(0.5)
Deferred Tax	(14.2)	(14.0)
Net Assets	85.3	79.9
NAV per share	89.0 p	85.4 p

- Included with tangible fixed assets are land and buildings used in operations with a carrying value of £48.9m



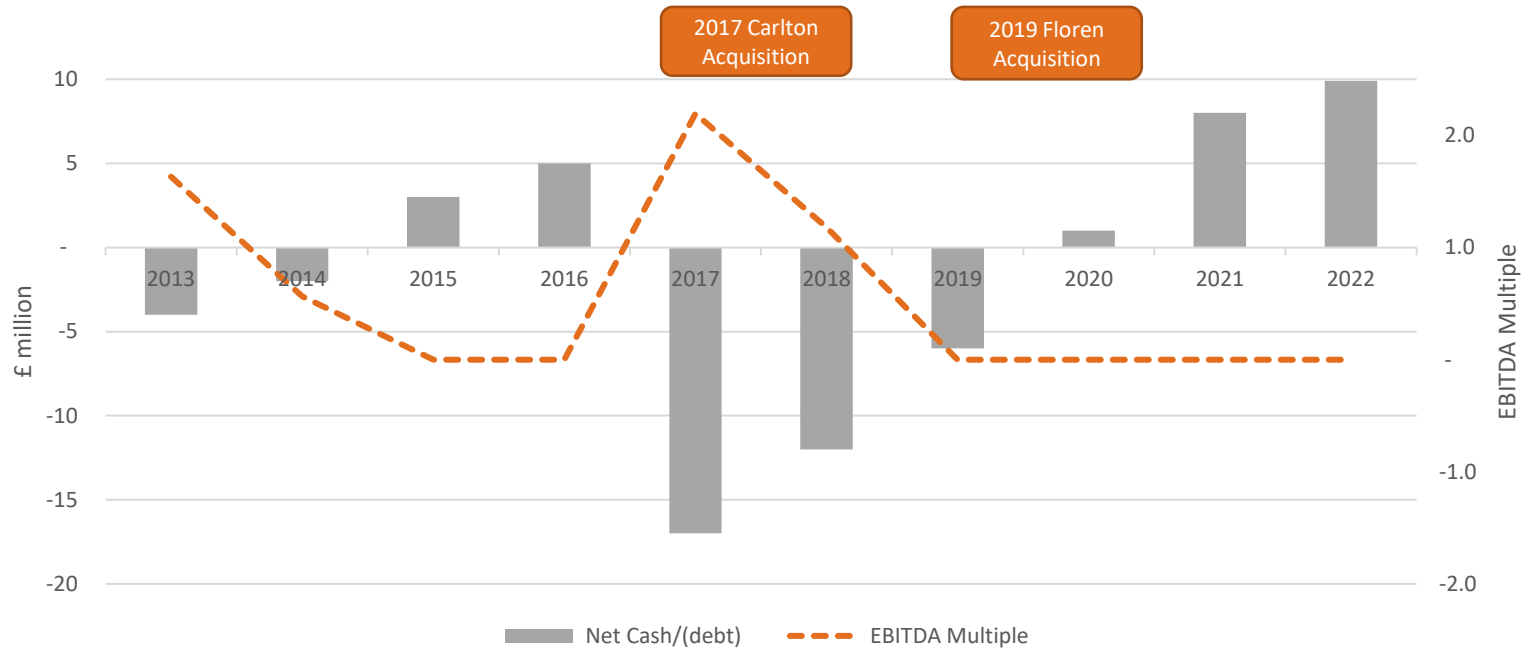
## Cash Flow

Consistent quality of the fundamental cash generating ability of the business with adjusted EBITDA cash conversion of 98.8%

	2022 £M	2021 £M
Net cash generated by operations	8.0	6.7
Tax paid	(1.3)	(1.1)
Interest paid	(0.1)	(0.1)
Purchase of property, plant and equipment	(1.7)	(2.0)
Debt repaid	(0.8)	(0.8)
Purchase of own shares	(1.2)	-
Lease payments	(0.4)	(0.2)
Dividend paid	(0.9)	-
Other	(0.1)	-
Net increase in cash & cash equivalents	1.5	2.5
Net cash/(debt)	9.9	4.1

## Net Cash/Debt 10 Year Profile

Strong Group cash position of £9.9m and undrawn committed RCF of £20m underpin financial resilience, strategic optionality and flexibility to pursue acquisition opportunities



- Strong working capital management supports fundamental characteristics of operating cash conversion and historic swift debt repayment profile
- £9.9m of net cash at June 2022 together with an undrawn £20m committed debt facility provides flexibility to pursue acquisition opportunities that meet our commercial and financial criteria
- Strong balance sheet underpins capex profile to support well invested manufacturing facilities and progressive dividend policy to reward our shareholders



## Sector Review



## Market Fundamentals

### UK Housing Dynamics

#### Strong demand for new housing

- Government and opposition parties committed to the fundamentals of the requirement to support the construction of new homes
- Positive housing market expected to continue despite economic backdrop with the imbalance between demand meeting supply constraints
- Continued shortage of new housing from long-term underbuilding
- Mortgage availability remains robust & market view of interest rate outlook remains historically favourable
- Government Home Building Fund loans of between £250k and £250m to cover development or infrastructure costs

#### Major UK political parties all wedded to increased housing supply

- 
- Government expected to renew commitment to increase housebuilding above historic norms
  - 'Help to Buy' remains in place until 2023
  - 100,000 affordable publicly owned homes per annum by 2023
  - Renewed commitment to quality Social Housing schemes

#### Repair, maintenance & improvement

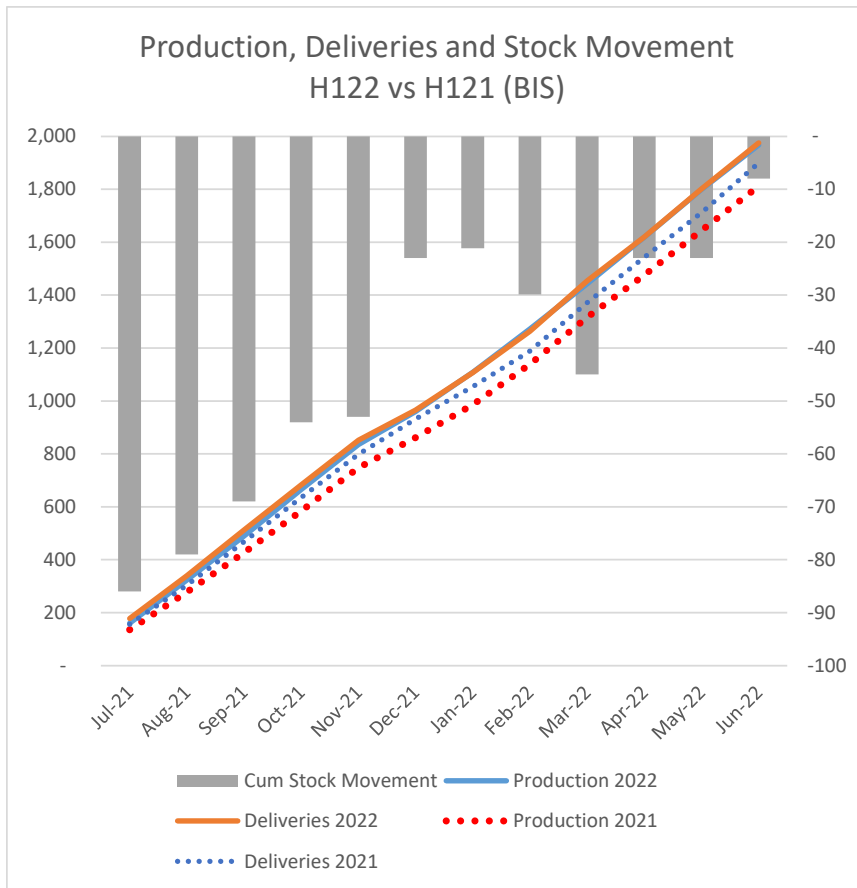
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- Ageing UK housing stock increasing our RMI opportunity
  - Brick a favourable material of choice for high rise cladding remedial work
  - Forecast for market outlook of interest rates expected to remain below historic norms in support of our RMI demand
  - Stability in demand for infrastructure and communal housing projects

# UK Brick Manufacturing – Current Trends

Strong and consistent demand for bricks over the last 12 months has kept stocks at historic lows

## 2022 & 2021 Cumulative output and excess over output

(Source: BIS)



- Current UK brick industry stocks remain at or around all time lows of c. 285m reflecting strong customer demand across the sector
- Broadly balanced production and despatch performance throughout 2022 with inventory drawdown evidenced in 2021 with deliveries ahead of production throughout the period
- Resilient despatch and customer demand alongside industry price increases of c. 30% since the start of the year
- Imported brick volumes continue to supplement UK supply and demand imbalance, with c. 25% imports across H1 2022 underlining the importance of brick



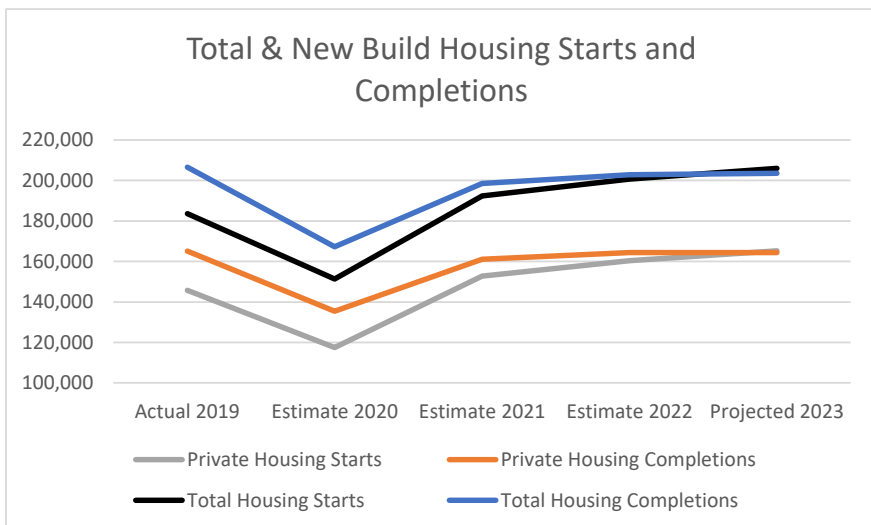
Hampton Place, Surrey

# UK Residential Market Update

Stable projections for housing starts and completions, with positive RM&I output expected over the medium term

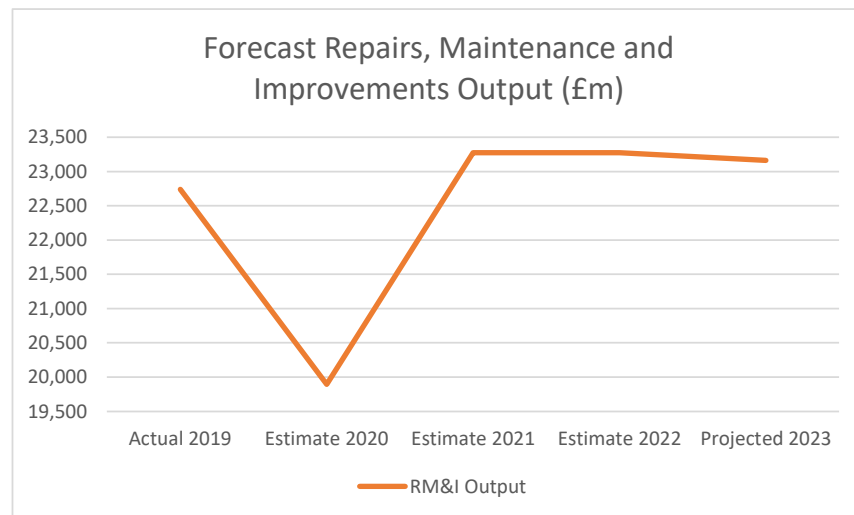
Actual 2019 to Forecast 2023 Housing Starts and Completions

(Source;MHCLG, ONS, CPA)



Actual 2019 to Forecast 2023 RM&I Output

(Source;MHCLG, ONS, CPA)



- Actual and estimated total housing completions below Government target for every year in outlook cycle
- Government policy targeting increased housing completions by mid-2020s requires significant increase on projected 2023
- Repairs, Maintenance and Improvements output expected to remain resilient given UK housing stock
- Strong and well-balanced forward order book for H2 with order intake in-line with expectations across first 2 months of H2



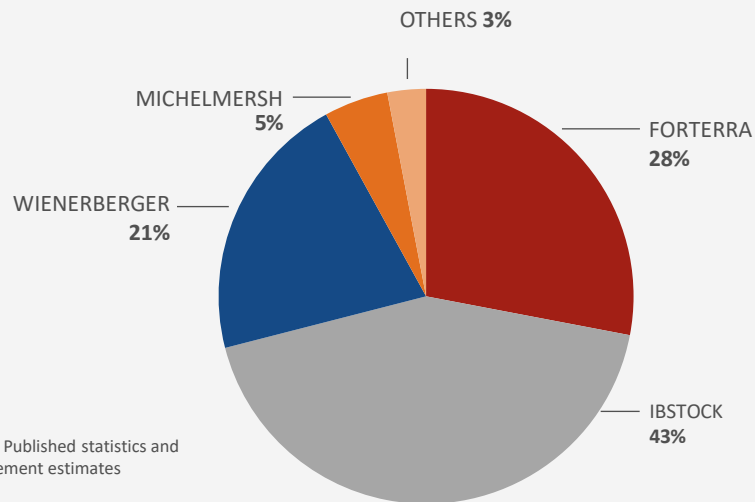
UK brick manufacturing highly concentrated

Current UK capacity c. 1.95 Billion

Michelmersh ASP at a premium of c. 20% of market

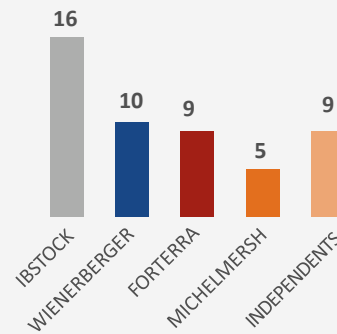
## Market Structure

### UK brick manufacturers Market Share



Source: Published statistics and management estimates

### UK Brick works





Walton Court Garden, Walton on Thames

## Clay Brick Industry

Market presence and influence

- **84%** (over 205,000) of new homes in the UK were built using clay brick in 2021.
- **c.1.95** Billion clay bricks UK manufacturing capacity.
- **c. 2.50** Billion clay bricks used annually in the UK
- **150-200** years minimum life expectancy for clay bricks.
- **12,000** clay bricks used in the construction of the average 2 story semi-detached house equates to c. £5,500.



## Why Brick?

Why brick is the UK's external façade material of choice:

### Low lifetime cost

- £ Low cost & strong value
- 🔍 Low maintenance
- 📄 Financially underwritten
- 🏠 Competitive whole-life cost

### Sustainability

- ⌚ Longevity
- 🛡️ Durability
- ♻️ Recycled content
- 🎯 Low operational carbon
- 🔄 Adaptability
- ♻️ Reusable
- ☁️ Climate resilience
- 📍 Locally sourced

### Industry Preference

- 🏠 Matches UK vernacular
- ★ Favoured by planners
- ✅ Product quality standards
- 🔨 Established supply chain
- 👁️ Aesthetics
- 👍 Forgiving of tolerance
- 🌈 Variety of colours

### High Product Performance

- 🔥 Thermal performance
- 🌬️ Air quality
- 💧 Flood resilience
- 🔥 Overheating
- 🚫 Non-combustible
- 🏠 Cavity Wall Construction
- 🏠 Class O fire rating above 18m



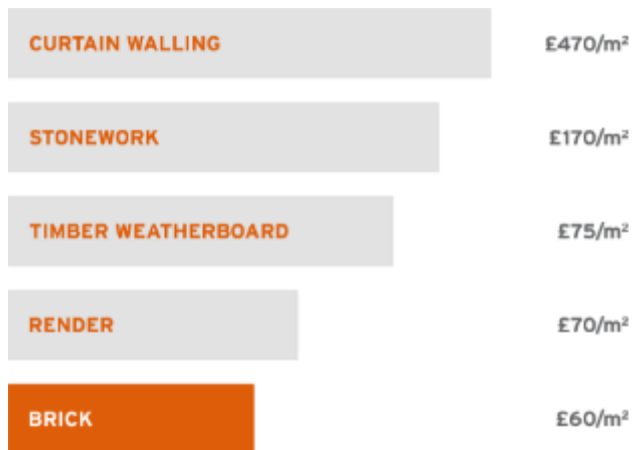


## Why Brick?

Why brick is the UK's external facade material of choice:

The Cost of Comparative Cladding Materials' by the RICS Building Cost Information Service (BCIS)

Material cost comparison:



The Group has invested over **£7.7m** since 2016 on efficiency and sustainability related improvements.



# Outlook

## Industry

- Continued UK housing dynamics of short supply to meet strong demand
- Brick continues to be the façade material of choice
- Resilient demand across diverse end markets
- Capital intensive and complex barriers to entry

## Michelmersh

- Positive trading outlook – order intake in line with expectations across first few months of H2
- Conversion of balanced forward order book for H2 covering RMI, housing, specification and commercial sectors from deep and loyal customer and distributor relationships
- In collaboration with our customers, we introduced our timetabled price increase from the start of July to mitigate risks to our input costs
- We have secured over 90% of the Group’s energy requirements for H2, with 50% in 2023, and further energy contracts out to 2024 and 2025
- Strong balance sheet provides considerable financial resilience and flexibility to pursue future strategic investments and potential acquisition opportunities
- Commitment to progressive dividend policy demonstrates the Board’s confidence in the positive outlook for the business
- Despite uncertain macro conditions and construction sector sentiment, the quality fundamentals in our business provide resilience, and underpinning our outlook and giving us confidence for the second half and beyond.



Royal College of Pathologists, London.

## Appendices



## Good corporate citizen

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**.

## Michelmersh Core Values - IRIS





# Sustainability

## Shaping Genuine Sustainability

The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. Michelmersh realises the importance of these goals and has set progressive targets against 13 relative aims for positive change to reshape our future.



### GOOD HEALTH AND WELLBEING

Ensuring healthy lives and promoting the wellbeing for all at all ages is essential to sustainable development.



### QUALITY EDUCATION

Obtaining a quality education is the foundation to improving people's lives and sustainable development.



### GENDER EQUALITY

Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world.



### CLEAN WATER AND SANITATION

Clean, accessible water for all is an essential part of the world we want to live in.



### AFFORDABLE AND CLEAN ENERGY

Energy is central to nearly every major challenge and opportunity.



### DECENT WORK AND ECONOMIC GROWTH

Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs.



### INDUSTRY, INNOVATION, AND INFRASTRUCTURE

Investments in infrastructure are crucial to achieving sustainable development.



### REDUCED INEQUALITIES

To reduce inequalities, policies should be universal in principle, paying attention to the needs of disadvantaged and marginalised populations.



### SUSTAINABLE CITIES AND COMMUNITIES

There needs to be a future in which cities provide opportunities for all, with access to basic services, energy, housing, transportation and more.



### RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible Production and Consumption.



### CLIMATE ACTION

Climate change is a global challenge that affects everyone, everywhere.



### LIFE ON LAND

Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.



### PEACE, JUSTICE AND STRONG INSTITUTIONS

Access to justice for all, and building effective, accountable institutions at all levels.





 **HyBrick™**

Michelmersh is proud to announce Hybrick™ –  
The world's first 100% hydrogen fired clay bricks..

## Education Sector

The Oaks Student Accommodation, Coventry & Royal Birmingham Conservatoire



## Public

Devon & Cornwall Police Headquarters, Exeter





## Volume Housing

Westoe Crown Village, Tyne & Wear





# Affordable Housing

Temple Gardens, St. Annes, Port Loop, Larner Road



# Urban Regeneration

St.Bedes Mews, London





# Luxury Developments

Poundbury, Dorchester



## High-end Individual Housing Specification

Corner House, London





