Breedon Annual Results 2021 presentation transcript

Company Participants

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John Fraser-Andrews, Analyst

Sam Cullen, Analyst

Tobias Woerner, Analyst

Presentation

Rob Wood

Good morning everybody, and welcome to our 2021 Results Presentation. It's great to see some of you in person again after such a long time. I'm joined here this morning by James, our CFO. We will take half an hour or so to run through our presentation and then open things up for your questions. All in all, 2021 has been an outstanding year for Breedon and one that I'm very proud of. We navigated the second year of the pandemic well to deliver record volumes, revenues and earnings. It's a performance that we couldn't have delivered without the extraordinary commitment of everyone at Breedon and I thank all of my colleagues across the Company.

We've built on the recovery that began in the second half of 2020 and demand levels for our products remained robust throughout the year. Cost headwinds were largely mitigated through dynamic pricing and progressive hedging. We continue to be highly cash generative and de-levered significantly, which facilitated the payment of our maiden dividend and at the same time, as reported at our Capital Markets event in November, we accelerated our sustainability agenda and evolved our strategy.

I'll now pass you on to James to run through his financial review.

James Brotherton

Good morning everyone and thank you, Rob. As you heard earlier, the Group delivered a record performance in 2021, but as pleasing as that headline is, is also notable how consistently we performed last year across our whole range of financial metrics. Revenue grew by 33% to GBP1.2 billion and our underlying EBIT improved by 75% to just over GBP133 million. On a like-for-like basis, compared with 2019, our revenue has increased by 15% and our underlying EBIT by 6%. The EBIT margin recovered strongly to 10.8% in the year, significantly ahead of 2020 and starting to progress back towards the levels that we saw in 2019.

That reported margin was slightly impacted by the performance of the Cemex asset, which as you will recall, has a lower margin assets than the core business for now and by a slight pricing lag. Return on invested capital is a key metric for us and it's great to be able to report that it has recovered strongly in 2021 to 9.5%, 70 basis points ahead of where we were in 2019 and driven by the improvements in profitability and good control over the capital base. As importantly, our return strengthened through 2021 with the year-end figure being some 30 basis points ahead of where we were at the half year.

Free cash flow generated was just over GBP127 million, slightly behind last year's GBP140 million benefiting from deferral of CapEx into 2022, but our free cash conversion came in at 59% of EBITDA, Which is well ahead of our target of 50%. And that strong free cash flow allowed us to de-lever still further with our covenant leverage 0.8 times at the year-end. And to put some context around that metric, our covenant leverage has move below 1 times roughly 12 months ahead of where we'd forecast it to be at the time of the Cemex acquisition was announced. And you will recall, earlier in 2021, we refinanced our banking facilities, diversified our borrowing profile giving us access to over GBP430 million of liquidity at the year end.

Finally, we've announced dividend for the year of 1.6p which equates to a payout ratio of 27% of our underlying earnings per share, excluding the impact of the one-off 2021 deferred tax rate change of GBP17.3 million. And over time, as you know, we'll look to grow the dividend progressively towards a 40% payout ratio. So, record performance in 2021 but as importantly balanced across profit, cash generation and returns. We felt it was important to measure ourselves against where we were in 2019, given how disrupted the 2020 financial year was and these graphs helped to show how the Group has progressed on a like-for-like basis i.e., stripping out the impact of Cemex.

The headlines are that like-for-like we grew our revenue by 15% and our underlying EBIT by 6% over 2019. Breaking that down a little bit, over the two years, our core product volumes increased revenue by around 10% and the associated pricing by around 6%, with our surfacing business delivering revenue some 20% ahead of where it was in 2019, reflecting our increased focus on downstream pull-through of our products. And that pricing fully recovered core input costs over the two years, with the uplift in absolute profitability being delivered through the increased volumes, partially offset by some investment back into the business.

As we exited 2019, We saw a significant shock to both the top and the bottom lines in the first half of 2020. However, we recovered strongly in the second half and you'll recall that we always felt there was some uncertainty as to the underlying nature of that second half recovery in 2020, and how much of it was first half activity that have really been delayed and deferred and that's borne out when you look at the 2021 year. So in 2021, there was a significant rebound in the first half to take us to a mid-term LTM margin of 12.2% and then further topline outperformance in the second half, offset by that slight lag in pricing, taking us to a like-for-like margin for the year as a whole of 11.5% compared with the reported 2019 margin of 12.5%.

So overall Cemex acted as around 100 basis points of drag on the reported margin in 2021. However, we will start to see that reverse in the course of this year. Clearly, the cost backdrop is very different to where we were 12 months ago and these three graphs illustrate that fact. We've always operated a progressive hedging policy for our energy costs, to try to give the business as much cost certainty as we can. When markets move suddenly as they have in recent months, there is inevitably a degree of lag in pricing recovery. As you know, our wholesale energy costs are fully hedged for this year and we have good visibility on carbon, which in recent days has fallen quite materially.

However, fuel, oil and bitumen are clearly going to be more expensive for us in 2022. Labor costs are an increasing focus given the overall levels of inflation. However, colleague and staff costs are relatively small component of our overall cost base, at around 16%. So wage inflation has a relatively low impact on our cost base. This next slide shows the divisional margin recoveries in the year, and I think it also demonstrates the future opportunity that we have on margin, as we look to get back into the 12% to 15% margin range that we articulated at the Capital Markets Event. For the Group overall, our margin strengthened through 2021 from 9.4% at the half-year to 10.8% at the year end.

Both Ireland and Cement show margin improvement as the year progressed with GB remaining flat, reflecting the Cemex assets. Bear in mind that the cement margin as reported is slightly impacted by the high levels of imported cement that we distributed through our network during the course of the year. The reported margin for the Cement division would have been around 100 basis points higher without that distribution element, which clearly makes a very significant return on capital for us. In an inflationary environment, I make no apologies for bringing you back to this slide, which I shared with you at the Capital Markets event back in November. Pricing for our core aggregate output has consistently outpaced inflation over time. Our asset base sits on our balance sheet, a historical cost, but will be sold into the market at the current clearing price. We remain focused on ensuring that we sell our products and our services at a price point that reflects both the costs that we incur and the value that we add as a business. Coming into 2022, we have already implemented price increases and surcharges across the Group as required. And given the cost backdrop, I would expect to see further pricing actions as this year unfolds, and we remain confident, but provided the demand backdrop holds up, we will at least recover our input costs through price in 2022.

I talked earlier about our really strong cash generation in the year and this slide helps to show how that was generated. As you'll recall, we had a standout performance on working capital in 2020, generating inflows of GBP56 million and it was really pleasing how well we held on to those gains in 2021 as trading normalized. Of particular note is the strength of our receivables performance in the year. With the commercial and credit teams working closely together to manage our book of business and ensure that we collected the cash owed when it fell due. CapEx ended up a little bit behind where we targeted it to be, mostly due to lead times at the plant and machinery. At the year-end, we had over GBP26 million of committed capital spend and we intend to invest further across the businesses in 2022.

At the Capital Markets event in November, we set out our financial framework for the Group with a particular emphasis on improving and sustaining a higher level of return on invested capital. In 2021, we continue to replenish our reserves and resources, securing a number of important planning permissions and reserve extensions. In round terms, as a Group, we utilized 29 million tons of aggregates but we secured incremental reserves and resources of over 40 million tons at a cost of around GBP8 million. We also invested GBP65 million in plant and machinery and over the course of the 2021 and 2022 financial years combined, we expect our total investment in land, resources, plant and machinery will total around GBP170 million.

And this, as you know, is significantly more than Breedon has invested organically into the business at any time in its history. And it is that focus on how we deploy our capital that has enabled the strong strategic outcomes that we have delivered this year in terms of our profitable growth, our sustained cash flow and the strength of our balance sheet. And it's those outcomes in turn that give us as a Group significant optionality going forward. On this next slide, I've set out our technical guidance for the year ahead. Cemex will deliver the targeted GBP2 million of synergies this year, which is around 12 months ahead of the commitment that we made at the time of acquisition. And that business will continue to improve organically under Breedon's ownership.

We expect net interest charge of around GBP13 million and an effective tax rate of around 16%, with our cash tax payment slightly lower as a consequence of the super deduction. Looking forward, we expect our effective tax rate will increase in 2023 to 22% and then again in 2024 to around 24%. Given how early we are in the year and the wider geopolitical uncertainties that economies are facing, we're broadly comfortable with where consensus earnings numbers are. In terms of cash flow, we'll see a working capital build to the half year and across the year as a whole, we expect an outflow of between GBP10 million and GBP20 million.

CapEx for this year will be around GBP100 million with over GBP26 million of that spend already committed as we came into 2022, reflecting our intention to accelerate targeted investment back into the business. The final dividend will cost us around GBP18 million. So, total cash cost of dividends for this year will be approaching GBP30 million. In terms of where our net debt might end up for this year, if we ignore M&A, taking those various components, applying them to the consensus EBITDA number of GBP225 million for '22, you come out with a net debt number of around GBP170 million or GBP120 million post IFRS 16.

So to recap, in 2021, we made progress against each of our key metrics. We outperformed our markets, we saw a material recovery in our margin, we converted our profits into cash, we refinanced and we took our leverage below one times. We significantly improved our returns on capital and we paid our first dividend. In 2021, Breedon delivered record performance in a balanced manner and we remain on track to make further towards our financial goals in 2022.

I'll now pass you back to Rob. Thank you.

Rob Wood

Thank you, James. I will start the operational review looking at our markets. Let's first look at the UK markets, where the picture is one of strong demand despite some supply chain challenges and inflationary pressures. UK GDP is estimated to have grown by 7.5%, a stronger rebound than expected and one fueled in part by the construction sector. The CPI estimate that construction output grew by 12.7% with growth driven by infrastructure and housing demand. Confidence, as measured by the construction PMI has also been high. It peaked in June at 66%, which was the highest since 1997 and averaged 57% for the year, MPA volumes also reflected this confidence. Demand for aggregates, asphalt and concrete recorded double-digit growth during the year.

Turning next to the market in the Republic of Ireland, where again the picture is an encouraging one. Modified domestic demand is estimated to have grown by 5.5%, the additional lockdown in the first quarter in respect of non-essential construction had an impact on the recovery, however, activity levels picked up strongly from April. Euroconstruct estimate that construction output grew by 2.7%.

As with the UK, confidence post the additional lockdown was high. The construction PMI peaked to 67 in June, and averaged 57 for the second half of the year. Like GB, there were supply chain challenges and inflationary pressures, but again construction demand remained strong.

Moving onto our businesses, in GB, demand continued to recover during the year, leading to a strong year-on-year performance for our business. Our volumes grew strongly and the robust market conditions enabled dynamic price increases. These, coupled with our successful hedging strategy, helped to mitigate the impacts of input cost inflation. In addition, the Cemex assets were fully integrated during the year and actions were taken to implement Breedon best practice and enhance productivity. Lastly, as planned, we expanded our surfacing capacity.

Our Irish business bounce back from the first quarter lockdown. Our tendering activity increased and our surfacing and streetlighting businesses performed well. We made progress expanding our mineral reserves and resources by our extensions and new quarry openings. We produced materially more aggregates and we were able to supply more of our downstream operations with our own products. Lastly, like in GB, we were successful in recovering input cost inflation. 2021 was also a strong year for our Cement business, elevated demand and COVID related disruption provided the conditions for strong and profitable revenue growth across GB and Ireland. The performance was also underpinned by record plant reliability.

We increased alternative fuel use at both plants. This year, Kinnegad 's alternative fuel used average 75% and at times reached 80%. Addressing process emissions is an industry challenge and one we're embracing through our membership to the GCCA, the MPA and through our own actions. Hope, our plant in the Peak District is collaborating with the high net carbon capture and storage project in the North West of England, and as with other businesses, we successfully covered input cost inflation. Our strategy is designed to create sustainable value for all our stakeholders over the long term. We have three strategic priorities to embed a culture of sustainability, to continually optimize our assets and processes and to expand our geographical footprints and product portfolio. And all our strategic decisions are viewed through the lens of sustainability and governed by our disciplined financial framework to ensure our capital continues to be deployed appropriately. This sustained priority is all about embedding a culture of sustainability. As we said of the Capital Markets event, sustainability is not new to Breedon, it has always been close to our hearts, it's one of the highest priorities we have and then where we have a long history of taken positive actions from restoring land and promoting biodiversity, to operating cement plants with world-leading use of fossil fuel replacements, and supporting local community projects.

We take our responsibility as custodians of the scarce resources under our stewardship very seriously and during 2021, we established our sustainability framework with strong links to our purpose and values. We identified three key themes that were important to all our stakeholders, planet, people and places. These focus areas tackle how we will address the carbon-intensive nature of our business and the responsible use of natural resources, how we will develop and empower our diverse and talented workforce and engage with the communities in which we operate. And lastly, they address how we will develop a more sustainable products and services.

We will do all of this while behaving ethically complying with laws and regulations and above all, keeping our people safe and well. We have published to set of targets to ensure we measure performance and drive progress. They are grounded in reality and have clear roadmaps to ensure success. We have materially increased disclosures on transparency in this area in our 2021 Annual Report and have chosen voluntarily to adopt the TCFD disclosure recommendations.

We will continue to enhance disclosure and transparency going forward. The optimized priority is all about delivering continuous improvements by driving efficiency and increasing utilization. At Hyndford quarry in Scotland, we implemented automated blending of slow-moving infill sand and dust to achieve a consistent quality concrete sand that is in short supply. We also invested in conveyor belts to replace high trucks and plant reducing cost, airborne dust and the need for heavy machinery movements. We reopened Shap, a rail-linked quarry in Cumbria that had been dormant when we acquired it from Cemex, but can now provide rail-delivered aggregate to the North and the Midlands.

We have built a new railhead at Llandudno Junction in North Wales, which will enable us to convert waste from Welsh Slate into a salable product, which can be efficiently and sustainably delivered by rail, and we have approved the new asphalt plant at Mansfield, an investment that will improve sustainability and nearly double earnings capacity. Whilst these are just a few of many such examples, they do give a good insight into the levers we pull to optimize the business. The Expand priority is all about growing our geographical footprint and product portfolio through both organic investments and acquisitions.

Organic investment will remain core to our capital allocation model and this is reflected in our ambitious capital expenditure plans to facilitate growth. We are executing our GB surfacing strategy, which as I reported at the Capital Markets event, is all about pulling additional volume through the business. It will not be margin dilutive or change our risk profile, but will offer genuine growth prospects. We acquired Express Minimix that expanded our footprint and increased vertical integration. We have continued to pursue bolt-on opportunities in GB and Ireland, which would enable us to (inaudible) our current geographical footprints and we are progressing the third platform plans with the appointment on the ground in North America of a business development director who has significant industry experience.

We see that market as the most likely location for a third platform, given its good long-term growth prospects. In respect of the third platform, we intend to take our time to find the right business to build on that will enable Breedon to be as successful in the next decade as we have in the last. As we start 2022, the prospects for the UK and the Republic of Ireland look positive. Whilst our industry continues to navigate the fallout of supply chain bottlenecks and significant cost increases, the strong pipeline of construction work should support further growth. According to the CPA, output is forecast to rise by 4.3% in the UK and the MPA forecasts that aggregates, asphalt and concrete volumes will grow by 3%. According to Euroconstruct, output is forecast to rise by 8.4% in the Republic of Ireland.

In summary the demand environment is supportive. 2021 has been a great year for Breedon and one everyone across the business can take pride in. Looking forward, the key unknown is the macroeconomic impact of the tragic conflict in the Ukraine. However, the outlook for our markets is positive and is underpinned by public commitment to infrastructure and construction. Our order and inquiry levels are healthy and there is now greater confidence that the worst of the pandemic is behind us. Given all of this, I'm confident that Breedon will continue to deliver profitable, sustainable and cash generative growth in the coming year.

Thank you, We now welcome your questions.

Questions And Answers

Q - Gregor Kuglitsch

Thanks, Gregor Kuglitsch from UBS. So, the first question is just maybe again on the cost base. I think you gave some numbers. So, there is a GBP1 billion, I think roughly you mentioned wages, I think 16%, if we just break it down a little bit and sort of the expectation for inflation and the recovery there, that would be really helpful.

And then the second question is on that North America piece and your appointment there, just give us an idea, I mean I think at the CMD, you did kind of hint a little bit what you want to do aggregates led. I think it was the comment at the time, but maybe a little bit more color where, how, what size, is it perhaps, if you go down that route, what kind of risk are you prepared to take, I guess to enter a new market like this? Thank you.

A - James Brotherton

So I think in terms of the cost base in rough terms, our overall cost base is about GBP1 billion. We are expecting incremental cost to flow through the P&L of around GBP100 million. So roughly 10% of the cost base during the course 2022 and I think directionally that takes you to the order of magnitude of the price increases that will be necessary to recover those input costs.

Q - Gregor Kuglitsch

Could you break down the GBP1 billion a little bit more, if I could push you on that.

A - James Brotherton

So 16% as we talked about relates to wages around 20% sits around distribution of products, you have 7% - 8% sits around minerals and materials and power is around -- energy and power is around 10%.

A - Rob Wood

Shall I pick up the North American question, when we talked about it at the Capital Markets Day in November, we were very clear, we would look at the characteristics of the third platform and what we're now providing is a bit more clarity that North America seems to have the right characteristics and the right level of attractiveness to be a potential entry. We will be measured. We are talking about the next chapter and so it's very unlikely you will see material transactions in the short term. It's important to us to do it correctly and to do it well and that's why it was important for us to have feet on the ground and actually be in the marketplace.

Q - Gregor Kuglitsch

Thank you.

Q - Christen Hjorth

Good morning, guys. Christen Hjorth from Numis. I have three questions from me if that's okay. First of all, just on pricing, are you seeing markets competitors, et cetera, just being rational in terms of passing on cost inflation. I assume they are given the level of cost inflation, but just any color there.

Second, on -- a bit more color on the Cemex asset performance that you're seeing in 2021 and also as such what needs to happen from here to get those margins up to GB levels.

And then thirdly, a little bit more color on the UK surfacing opportunity?

A - James Brotherton

So, I will take one and two.

A - Rob Wood

Yeah.

A - James Brotherton

So, in terms of -- in terms of pricing, we've come with price increases from the start of this year and those have stuck. It's -- January and February are not bellwether months for us as a business or us as an industry. So, it's really what happens is the -- as trading picks up, as we enter the sort of the spring and summer season that will, that really determines the outcome for the year. But I think that what an inflationary environment does do, is it removes the ability of individual businesses to put road[ph] pricing in on quotes and on contracts, because everyone is facing consistent cost pressures across the industry.

In terms of Cemex, the nuts and bolts of the integration are now done and the business is, I would say fully integrated and we will now start to see the performance of those assets improve, both through a combination of synergy delivery, the GBP2 million that will deliver this year but also, as we start to improve that operational performance and efficiency of the Cemex business. We have had to invest into that business. If you recall, we bought a portfolio of assets. So it didn't come with the supporting infrastructure that you would get in a corporate transaction. So, we've invested into the business and as part of that integration process over the last couple of years and we'll start to see the returns on that come through during the course of 2022 -- during the course 2022, which is about 12 months ahead of where we had originally forecast them to be.

A - Rob Wood

In terms of surfacing, I mean, as you remember the conversation from the Capital Markets event, surfacing is something we have a strong business at in Ireland and in Scotland, and it was something that we were under-represented up in England. Following the asphalt portfolio that came with the Cemex acquisition, we now have the footprint to be able to participate more constructively in that market and timing-wise, the major thing in the horizon is the National Highways pavement framework, which is due to be tendered this year and I generally believe Breedon will have a significantly enhanced potential having now had the much better suite of assets.

Q - John Fraser-Andrews

John Fraser-Andrews, HSBC. I'll have three as well, please. Can I just push you on the Cemex synergies, James, to tell us how much more is to come in '22 and just roughly on that please.

Secondly, could we just have an update on Minimix, what the scope increase means. Thank you.

And finally order books, could you give a feel, please, Rob, on where they are in terms of volume and margin and perhaps you could enlighten on Ireland asphalt having been flat last year, whether that's now due a rebound in '22?

A - James Brotherton

So in terms of Cemex, we will see the GBP2 million delivered in 2022 and we'll start to see the operational performance improve. Over time, I would expect those assets to command a similar margin to that of the rest of the GB Materials businesses. Some of them are already there, but it's a question of bringing them all up, bringing the portfolio up to the kind of margin levels that we've seen across the GB Materials business.

A - Rob Wood

Shall I pick up on Minimix. Minimix is an important offering because it's part of the market that we didn't have a significant presence in and one we've been growing. Fundamentally it's a route to market for our aggregates and our Cement. And it's not a market that historically we've participated in, but we've been growing in the last few years and in terms of overall context of the Group, it's not material, but to the GB business, It's an important offering.

I think in terms of order book in inquiry levels, I mentioned just in closing that there are positive, inquiry levels are high, order book levels are positive. So as we sit here today putting to one side the discussion on the macro and the geopolitical risks, things are looking healthy for the year.

I think in terms of Ireland and asphalt, what we have to remember is, and we talked about this 12 months ago was that after the original lockdown in 2020, in the second quarter, given how seasonal that asphalt business and the pavement business is, we basically delivered the whole season in the second half of 2020 and historically Q1 in a year and particularly in the Republic of Ireland is around tendering and then you lay during the season. And that's why you don't see the tip up into '21, but '21 was a good year and we expect '22 be a good year as well, but you won't see the big increase that you saw elsewhere.

Q – Tobias Woerner

(inaudibe) from Stifel, three questions if I may. Maybe you can give us an indication of the exit prices at the end of '21 across your product range and the magnitude of increases at the beginning, whether mid single high single digit.

Secondly, your GBP100 million cost inflation, if you could give us a sense of the breakdown, you also talked about the typical 10% energy bill for heavy side company. I suspect in your case it is not the typical 50 - 50 split between electricity and fuels, is probably slightly more skewed to electricity, maybe you can give us an indication there.

And then just lastly construction waste recycling, what do you expect the impact to be for the industry and for aggregating -- excuse me, Breedon aggregates going forward? Thank you.

A - James Brotherton

So, in terms of pricing exiting last year coming into this year. If I answer it by referring back to my indications on the cost base and the conclusions of that lead you to that's where we were at so, high-single to low double. In terms of our power cost breakdown electricity and gas combined would be about 50% of our overall power cost of the Group faces and just to remind, we are fully hedged on both through 2022 and we have layers going out into 2023.

A - Rob Wood

I think your last question was to do with aggregate recycling and the use of secondary aggregates. I think the one thing I can say is that the UK, I think the latest numbers are high 20% that were published recently by the MPA for 2021 and I think it's fair to say that we in the UK probably recycle, we have the highest recycling levels in Western Europe. So I think there will be more opportunity, but I think the UK's leading Europe in terms of that.

Q - Sam Cullen

Good Morning, Sam Cullen from Peel Hunt. I have got three I think, a similar question to the power, in terms of the distribution costs you mentioned, what's diesel in that number would be interesting to know.

The second one is on the kind of pricing and your -- how quickly you can respond to changes in spot prices on the push back are not easy, some customers particularly given just that your construct numbers you put up on the slides and we can all lick our fingers and we go on the macro, but how you think that changes given the income squeeze it's coming on consumers in the coming year and what the potential pricing power of the whole industry will change.

And then thirdly on the North American kind of outlook for M&A, to your point that you're going to wait to do larger transaction, we should expect a larger M&A and so when should we expect smaller ones to dip your toe in the water in the intervening period or is that waiting for months, years, sort of time frame for one large transaction?

A - James Brotherton

So in terms of fuel and oil, that would be about 50% of those power costs. The other oil derivative that we obviously buy a significant amount of is bitumen and we -- in broad terms, we hedge about a third of those purchases. We will price out into individual contracts for the next third and for major contracts. So things like the A9 dualling contract up in Scotland, we would typically need to fix for the usage that will be required over the course of that contract.

A - Rob Wood

In terms of North America, I think the key message and it's consistent with the message we gave back in November is we're not going to bet everything on red or black, it's going to be a measured approach, slightly to be a beachhead, not putting significant capital at risk and then building from that and Sam, it's -- we're not expecting it to move quickly and we think we're doing it the right way. We think we're doing it by putting feet on the ground and understanding and evaluating the markets and we will not be putting investors' equity at risk.

Q - Sam Cullen

And your thoughts on the kind of evolving pricing dynamic, if we see economy slow in the coming year.

A - Rob Wood

I mean it -- I mean, so far given the cost inflation to-date, pricing has become more dynamic where we're pricing particularly on the products we're pricing as inquiries come in and we're progressing so that we can recover cost inflation. I think longer term, I think there's a lot of uncertainty at the moment and it's macro level uncertainty and I think it's sort of, it's impossible to comment as to what might happen longer term -- I just fundamentally believe that whatever happens that's we and I and James will continue to navigate the Breedon business through the challenge that's put in front of us as we've successfully done so over the last two years with all the other challenges that have been thrown at us.

Q - Sam Cullen

Thanks.

Q - Charlie Campbell

Charlie Campbell of Liberum. Just one quick one, just maybe just a follow on from Sam's question there, have you seen any kind of deferrals or cancellations to projects. I mean obviously, kind of cost of all construction projects are rising as the builds go up, any sort of scaling back or delays or cancellations you've seen at all?

A - Rob Wood

Not as yet is what I would say, but just as January and February aren't really bellwether months in terms of trading. They also don't tend to be bellwether months in terms of order book and order intake. So I think it will be interesting to see how they the -- how the spring season starts to unfold as people would typically go back on the building sites, get back on to infrastructure projects as to whether or not there is some deferral of demand that comes through at that point.

Q - Charlie Campbell

Thank you

A - Rob Wood

Are there any calls on the phone lines

Operator

Sure. (Operator Instructions) David O'Brien, Goodbody. Please go ahead.

Q - David O'Brien

Good morning, guys, thanks for taking my questions. Couple in the US and then one on the UK, if I could. Firstly, look, on the US you've talked about like the beachhead deal as initial entry, should we expect a lower growth compared to Group, when you take that entry point and when we think about that dynamic and the fact that -- the publicly listed guys attract double-digit multiples over there, it could be quite advantage to get involved. Is there a floor to the initial role you would be willing to accept on your first deal.

And secondly, when we think of the US, look it's a pretty variable regional dynamics, what part of the US is the key focus at the moment.

And then finally just on the opportunities in the UK and Ireland, have vendor expectations evolved much over the last number of months, given we're in change interest rate cycle, energy backdrop is more challenging, conflict in the East. So you've seen any change in their expectations or even the prices that you're willing to paying for opportunities at this stage?

A - James Brotherton

So, David, in terms of the ROIC, I am far more concerned about what the output ROIC is at the end of our integration of an acquisition than I am about the input ROIC on day one. So, we will look at any acquisition opportunity, whether it's bolt-on in the UK and Ireland or whether it's part of the third platform across those first three years post -- post acquisition and we will only go into it if we feel that over that period assuming stable markets and assuming a reasonable economic backdrop that we can get the levels and types of returns up to our core threshold levels of getting the Group ROIC over 10%.

A - Rob Wood

David, in terms of the US, I mean, look, it's early days. What I can say is that there is a number of attractive areas within the US, I think it's unlikely that we will go far West and it's -- it's been more Eastern and Central but really that's exactly why we've got the feet on the ground. And that's actually why we're out there doing it now, we're doing that work and as I said what I don't want people to do is to run before we walk. So we are very much in the preliminary stages of investigating that third platform.

I think in terms of vendor expectations in the UK, I mean nothing has really changed, in this uncertainty at the moment, given the conflict in the Ukraine, but at the moment, that's in the very near term and we still believe there are opportunities in the UK and Ireland to grow our business through M&A.

Q - David O'Brien

That's pretty[ph], thanks very much.

Operator

Thank you. I will take our next question from Clyde Lewis, Peel Hunt. Please go ahead.

Q - Clyde Lewis

Good morning both. Just one from me if I may, just I suppose really around just sort of CapEx thoughts and obviously given higher costs, whether diesel or electricity or general energy, are you starting to think harder about sort of again organic CapEx projects, where you can probably get better returns than you could 6, 12, 18 months ago in terms of sort of improving the kit that you've currently got on the ground and I suppose how quickly might that come through If you are starting to think more aggressively about sort of upping spend than I suppose the sort of scale numbers we might be talking about? Thank you.

A - Rob Wood

Yeah. Clyde. I mean there is sort of two considerations around CapEx. You're right that there is an attractiveness of investing back into the business and at the Capital Markets event, I gave an example of the investment that we're making into the Mansfield asphalt plant, which ticks a number of the boxes that we're looking to do in terms of improving the business sustainably in terms of improving our outputs, the quality of the product that we can put out there, improving the working environment for our colleagues and yet still delivering a significant return and that will remain a focus. We are investing more over '21 and '22 than we ever have as a business historically

And that focus doesn't stop just because we reached the end of this year. I think the near-term challenge about capital investment sits around supply chain. We had coming out of last year GBP26 million of committed capital spend and a good deal of that was plant and machinery that ideally we would have liked to have put in place during the course of 2021, but we just couldn't physically get hold of it and supply chains are elongated and are stretched across a whole range of subject matters, including capital investment.

Q - Clyde Lewis

Perfect, thank you.

Operator

Thank you. There are currently no further questions in the phone queue.

A - Rob Wood

I think we're done then, I'd just like to say thank you very much for either joining us here in the room today or joining on the webcast. And we look forward to updating you next at the half-year results and thank you.