An introduction to Breedon Aggregates

October 2013

Peter Tom
Simon Vivian

Essential products ◆ Scarce resources

Introduction

- The investment case in 2008
- Background to Breedon Aggregates
- The UK Aggregates market
- Financial performance 2013
- Future growth opportunities
- Outlook 2013-15

The investment case in 2008

- Previously 9 listed ‘big name’ UK building materials companies
  – none remaining
- UK dominated by global cement companies
  – many looking to divest non-core businesses
- Smaller end of heavyside market highly fragmented
  – 200+ businesses, some up for sale
- Opportunity for smaller, focused independent player
  – increase market share through 1st class local service
- Strong recovery potential as leading independent producer

Case proven over five years

The story to date

2008 Marwyn Materials created and listed on AIM

- Strategy to consolidate smaller end of heavyside building materials industry
- Experienced management with track record in delivering shareholder value

2010 Acquisition of Breedon Holdings for £160m EV

- Breedon Aggregates created – UK's largest independent aggregates business
- Oversubscribed £50m equity placing & renegotiated debt

2011 Acquisition of C&G Concrete for £10.15m

2012 Acquisition of Nottingham Readymix
Launch of 1stMix
Acquisition of St Michaels
£15m share placing to fund future acquisitions
Launch of Mobile Concrete Solutions

2013 Acquisitions of Aggregate Industries & Marshalls assets for £53m

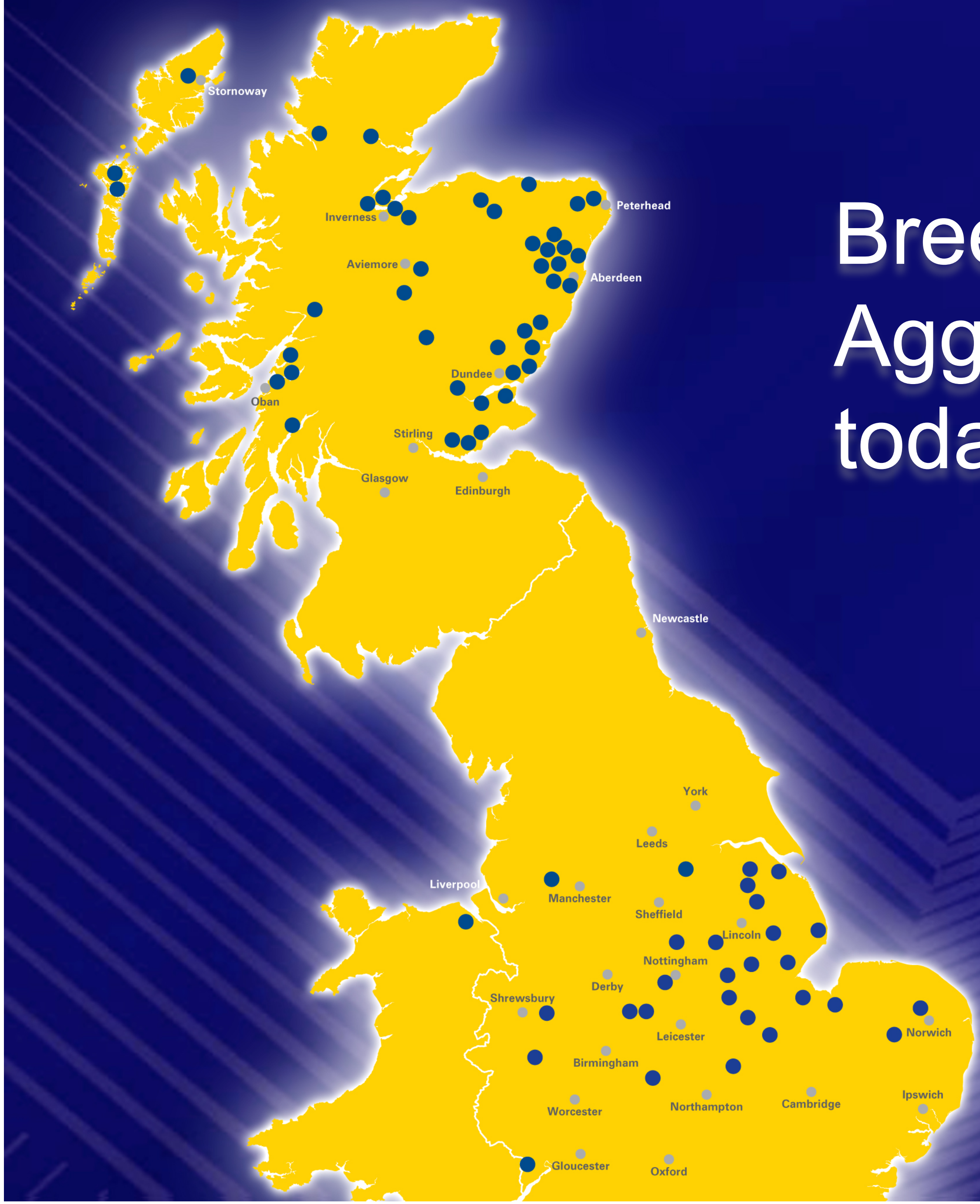
- Oversubscribed £61m equity placing

Breedon Aggregates today

- Fully integrated aggregates business : 5th largest in UK
  – 37 quarries
  – 22 asphalt plants
  – 48 readymix & mortar plants
  – 2 concrete block plants
- Strong management team leading 1,000 employees
- Fully invested operations
  – £12m annual fixed asset depreciation
- 400m tonnes of owned or controlled mineral reserves & resources
- Fixed assets totaling £187m at 30 June 2013
- Strong regional market positions in England and Scotland

Breedon Aggregates today

BREEDON AGGREGATES



Highly experienced management team

BREEDON AGGREGATES

Executive chairman	**Peter Tom** Aggregate Industries
Group chief executive	**Simon Vivian** Hanson & Mowlem
Group finance director	**Ian Peters** Hanson
Chief Executive – England	**Tim Hall** Tilcon & Tarmac
Chief Executive – Scotland	**Alan Mackenzie** Wimpey, Tarmac

Key achievements 2010-13

- Platform for acquisitive growth successfully created
- Six earnings-enhancing acquisitions completed for total £70m
- Annual revenues increased by 21% to £174m (2012)
- EBITDA increased by 47% to £20.2m (2012)
- EBITDA margin lifted by 2.1 pts to 11.6%
- £13m of surplus land & equipment sold
- Debt reduced by 22% to £72m : 3.1 x EBITDA
- Reserves and resources more than doubled to 400 million tonnes
- Significant improvements in Health & Safety : accidents down 75%

Share price performance

The UK Aggregates market

The UK Aggregates market

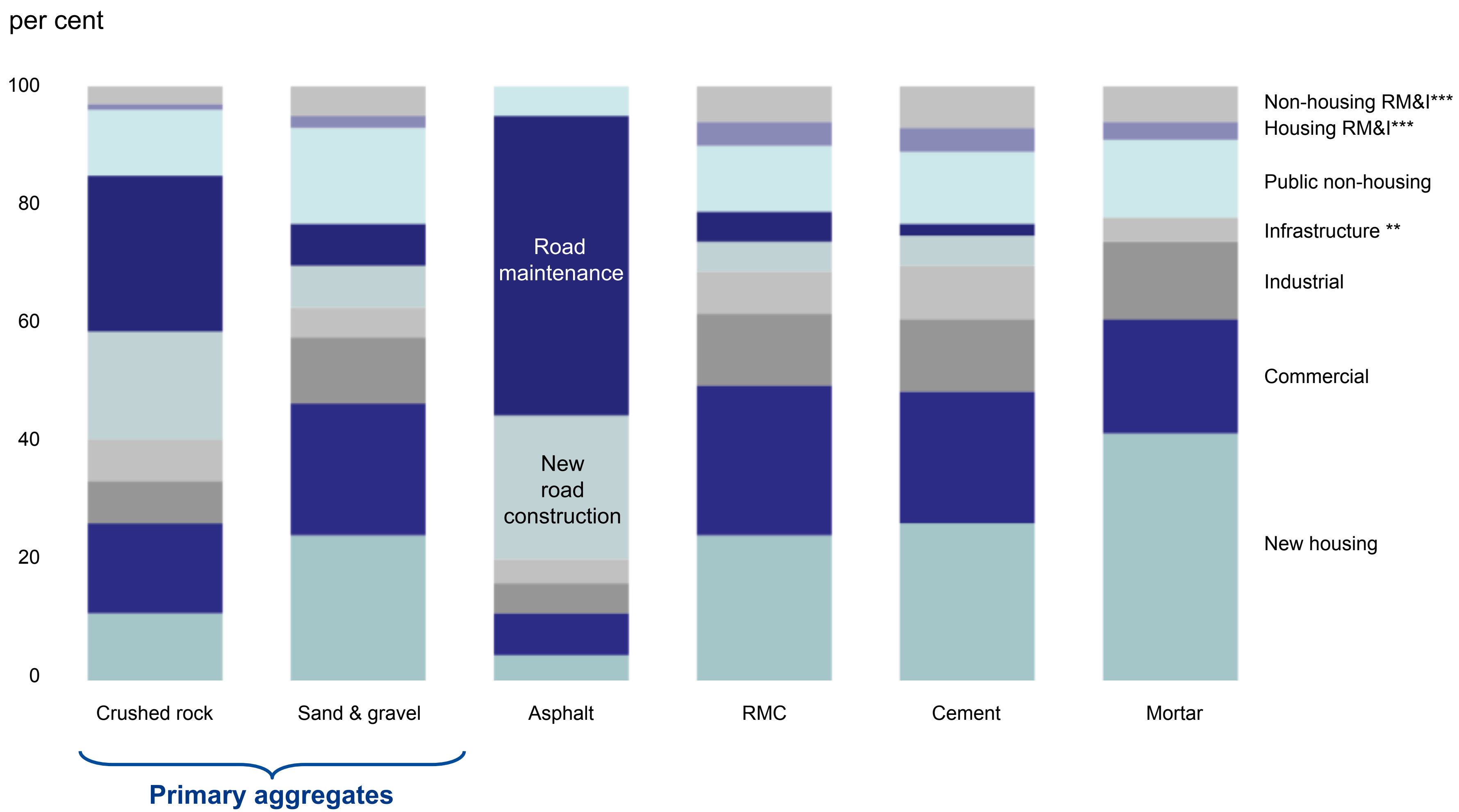
BREEDON AGGREGATES

- The Aggregates industry in the UK is part of the wider Construction sector which accounts for 7% of GDP (Manufacturing 11%, Services 77%)
- Aggregates are industrial minerals that are quarried, processed and supplied to the customer in their natural state or used to manufacture other products such as readymix concrete (RMX) or asphalt
- The industry is an essential part of the UK's Construction sector; improving our built environment means using aggregates. The building of houses, schools, hospitals, railways, airports and other infrastructure projects all require significant quantities of aggregates
- Aggregates are also used in a variety of specialist applications too, such as scrubbing carbon emissions, agricultural fertilisers, the production of paint and even in toothpaste
- In 2012 the UK consumed around 189m tonnes of aggregates, of which around 50m tonnes was recycled

More about Aggregates

- The two main types of Aggregates are crushed rock and sand and gravel. Rock is produced by blasting, crushing and screening, while sand and gravel normally only requires screening. Different sizes of aggregate are produced which are used for a variety of different purposes
- Recycled aggregates recovered from demolition waste and other sources are an increasingly significant part of the supply chain and now account for around 29% of all aggregates in the UK
- Aggregates are supplied to customers direct or mixed with cement to produce RMX, or mixed with bitumen and heated to produce asphalt for roads and car parks
- RMX and asphalt are closely related to aggregates and Breedon, like most suppliers in the UK, produces all three products
- Aggregates are also supplied to manufacture concrete products such as blocks, pipes and railway sleepers
- The range of customers is very large, since these products are used in many different applications

2009 market volumes by end-use sector*



* UK example
** Excluding new road construction
*** Excluding road maintenance

Source: BDS Marketing

Some History

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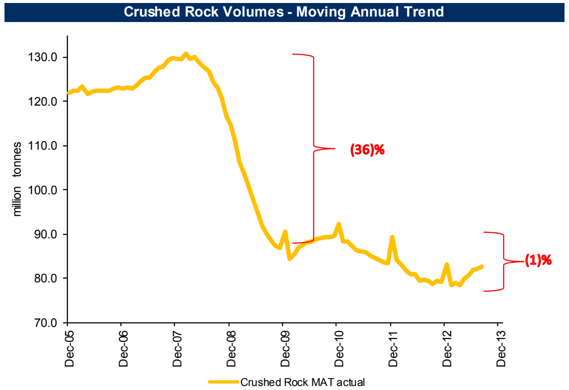
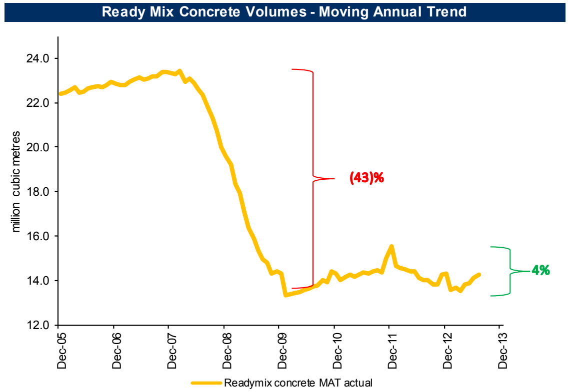
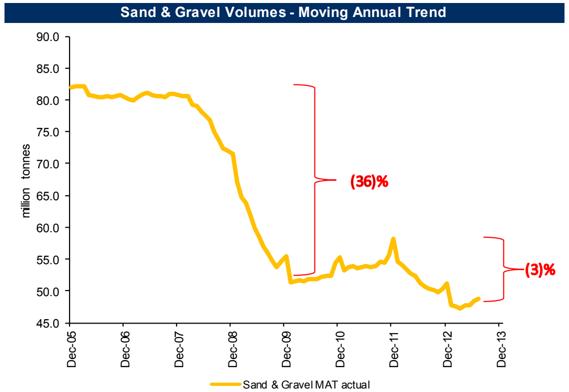
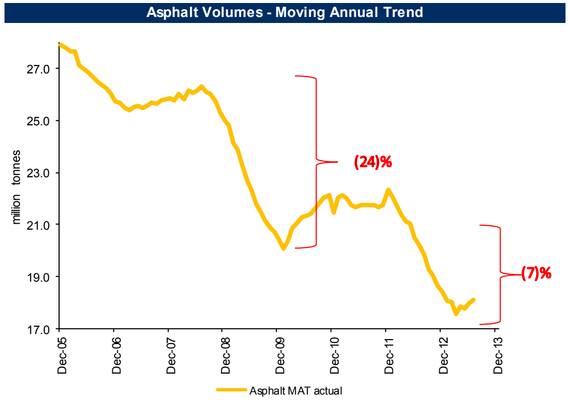
- Around 15 years ago there were many public listed companies in the industry; names such as Blue Circle, Rugby, RMC, Tarmac, Redland, Hanson and ECC have now disappeared
- The process of global consolidation now means that the industry in the UK is dominated by international cement companies
- Lafarge (France), Cemex (Mexico), Holcim (Switzerland) and Heidelberg (Germany) now dominate the market. Between them these companies have a market share of 70% – 80% in all main product categories
- Hope Construction Materials is a new market entrant following its purchase of cement and RMX assets from Lafarge/Tarmac
- Breedon is the only listed aggregates company and is No. 5 behind the four majors, but national market shares in all products are only 2%-3%

Volume declines during recession









Features of the aggregates industry

- Markets are local – most products do not travel more than 30 miles before becoming uncompetitive due to transport costs
- Barriers to entry are high due to the constraints of the planning regime – no new rock quarries planned in last 15 years
- Consolidation has facilitated capacity reduction during the recession: majors have closed/mothballed many plants. No wholesale price collapse
- There is little if any product differentiation – products are sold on price and service
- Industry is capital intensive: continuing investment required in plant and equipment
- High fixed costs mean that any increase in volume will have a significant impact on earnings
- A lot of haulage capacity has been taken out over the last few years – this will take time to replenish as the market recovers

H1 2013
Financial review

2013 H1 Highlights

BREEDON AGGREGATES

Sales Revenue	EBITDA	PBT
£100.2m	**£13.0m**	**£5.3m**
+20.8%	+34.0%	+£3.2m

EBITDA margin	Acquisitions	Net Debt
12.9%	**EBITDA**	**£72.2m**
+1.2pt	£1.6m	-£1.9m

EBITDA, PBT and EBITDA margin all exclude non-underlying items

Detailed Profit & Loss Half-Year to June 2013

BREEDON AGGREGATES

	2012 £'000	2013 £'000	Variance v 2012 £'000	Variance v 2012 %
Revenue	82,977	100,205	17,228	+20.8%
EBITDA	9,684	12,973	3,289	+34.0%
Depreciation & Amortisation	(5,764)	(6,329)	(565)	(9.8)%
Underlying Operating Profit	3,920	6,644	2,724	+69.5%
Share of Associate	497	535	38	+7.6%
Interest	(2,253)	(1,837)	416	+18.5%
Underlying Profit Before Tax	2,164	5,342	3,178	+146.9%
Exceptional costs	570	(976)	(1,546)	
Profit Before Tax	2,734	4,366	1,632	+59.7%
Taxation	(632)	(996)	(364)	-57.6%
Minority Interest	(24)	(24)	-	-
Retained Profit	2,078	3,346	1,268	+61.0%
Underlying basic EPS	0.28p	0.55p	0.27p	+96.4%

Analysis by Division Half-Year to June 2013

	2012 £'000	2013 £'000	Variance v 2012 £'000	Variance v 2012 %
Revenue				
England	44,043	50,821	6,778	+15.4%
Scotland	38,934	49,384	10,450	+26.8%
Total	**82,977**	**100,205**	**17,228**	**+20.8%**
EBITDA				
England	5,451	7,166	1,715	+31.5%
Scotland	5,737	7,317	1,580	+27.5%
Head Office	(1,504)	(1,510)	(6)	(0.4)%
Group Total (pre Associate)	**9,684**	**12,973**	**3,289**	**+34.0%**
EBITDA Margin	**11.7%**	**12.9%**	**+1.2pt**	

Volumes Half-Year to June 2013

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	2012 '000 tonnes	2013 '000 tonnes	Variance v 2012 %
England	1,124	1,561	+38.9%
Scotland	951	1,176	+23.7%
Aggregates	2,075	2,737	+31.9%
England	367	373	+1.6%
Scotland	219	243	+11.0%
Asphalt	586	616	+5.1%
England	117	160	+36.8%
Scotland	90	122	+35.6%
Concrete ('000m3)	207	282	+36.2%

Closing Balance Sheet at 30 June 2013

	June 2012 £'000	Dec 2012 £'000	June 2013 £'000
Tangible Fixed Assets	147,027	144,895	187,198
Investments	914	887	1,422
Goodwill	2,143	2,143	13,772
Intangible Assets	162	152	444
Total Non-Current Assets	150,246	148,077	202,836
Current Assets	48,595	49,547	68,527
Creditors Less than One Year	(39,342)	(35,974)	(43,694)
Net Current Assets	9,253	13,573	24,833
Creditors Greater than One Year	(83,869)	(82,301)	(84,875)
Net Assets	75,630	79,349	142,794

Analysis of Net Debt at 30 June 2013

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	Dec 2011 £'m	June 2012 £'m	Dec 2012 £'m	June 2013 £'m
Term Loans	72,607	63,111	62,822	62,733
Bank overdrafts	3,115	1,561	-	-
Cash	(921)	(712)	(5,048)	(4,817)
Bank Debt	74,801	63,960	57,774	57,916
Finance Leases (over 1 year)	16,262	12,606	11,468	9,618
Finance leases (less than 1 year)	5,122	5,243	4,816	4,642
Finance Leases	21,384	17,849	16,284	14,260
Net Debt	96,185	81,809	74,058	72,176
Multiple of EBITDA	5.6x	4.4x	3.7x	3.1x

Future Opportunities

Future opportunities

- Breedon's strategy continues to focus on developing the business through a combination of acquisitions and greenfield investment
- There remain a large number of independent smaller and medium-sized aggregates businesses in the UK
- Acquisitions will only be made where Breedon can identify opportunities to add value and deliver improved performance
- The majors remain "loose holders" and will continue to selectively divest
- The AI acquisition has provided a small foothold in concrete products. Other opportunities exist in this sector
- The acquisition of Marshalls' quarries provides the opportunity for further downstream investment in new geographic areas
- The recent CC findings are likely to result in the disposal of a further cement plant in the UK. Breedon will consider whether this represents an opportunity to add value for shareholders

Delivering the Strategy – C & G Case study

- Acquisition cost £10.8m in July 2011(Net cost £8.6m after disposals)
- Business improvement plan implemented quickly – business had generated EBITDA of just £300k in the 12 months prior to acquisition and has delivered £2m in 2012 which is 4 years ahead of schedule
- Transport costs reduced – average age of truck fleet was 13 years and has been brought down to c6 with new trucks under operating lease and second-hand trucks bought and refurbished
- Business restructured and relocated to Norton Bottoms – new office for management and sales administration installed in long-term quarry operation. Headcount reduced by 10%
- Surplus plant & equipment disposed of -significant scrap value achieved and reinvested in refreshing truck fleet and equipment at key operations
- Land sales – 2 farms surplus and 2 cottages surplus to operational requirements sold for c£2.2m
- Transaction significantly value adding

Integration update – Marshalls/AI

- Both businesses have been connected to Breedon's IT systems and are trading normally
- Positive response from all employees – pleased to be part of a core business with plans to grow
- AI business starved of capital over the last 4 years – significant investment required; £1.2m approved to date. Productivity improvements will be delivered
- Very pleased with the quality of staff who have come with the businesses; strengthens Breedon's team
- Group now has c1,000 employees
- Procurement savings on cement and bitumen agreed
- Looking at opening some closed units in Scotland

Competition Commission referral

- Following Breedon's acquisition of the AI business in Scotland, the OFT notified the company that they wished to review the transaction due to some overlap areas in some parts of Scotland
- The Breedon Board had carefully considered this possibility prior to the acquisition and concluded that there were only limited issues in one product category (RMX). This remains our position
- On 24th September the OFT decided to refer the transaction to the Competition Commission (CC)
- Breedon believes that the OFT review failed to take account of a number of important conclusions reached by the CC in their recent market review of the industry and precedents established in the recent Lafarge/Tarmac merger
- Breedon believes that the CC will consider these facts fully as part of their review
- The consequences of the referral are further management distraction and delayed integration benefits. However the Breedon/AI business is currently performing well.

Outlook & Conclusion

Outlook

BREEDON AGGREGATES

- Breedon is in a strong financial position with an experienced management team, well placed to take advantage of any future opportunities and ideally positioned to benefit from any market recovery
- All key macro-economic indicators have improved significantly over the past six months. GDP growth, inflation, unemployment and PMI all positive
- There are definite signs of improvement in the underlying economy and the construction sector; the CPA forecasts 2% growth in construction output in 2014, rising to 5% in 2016, following a decline of 10% in 2012/13. The MPA forecasts that Aggregates demand will grow by 2%-4% in 2014 and 4%-6% in 2015
- There is a growing political recognition that infrastructure investment cannot be postponed indefinitely and the sector has a key role to play in the recovery and future growth. The 2015 election is likely to be preceded by some investment
- The outlook in Scotland from 2015 looks particularly strong with the Aberdeen ring road (£700m+) and the A9 upgrade (£2bn) both in Breedon's heartland
- Breedon remains confident of making continued progress this year and next

Conclusion

- The UK Aggregates and Building materials sector has many attractions for investors but there are limited opportunities in listed companies
- Market conditions are definitely improving as the industry emerges from the deepest recession since the War
- High barriers to entry in aggregates (planning issues) and local nature of markets mean that imports are not a viable option as volumes start to recover
- The industry has an important role to play in the plans to improve and upgrade the UK's infrastructure (Crossrail, HS2, Heathrow etc)
- The dominance of the global majors represents an opportunity for Breedon to build market share by looking after customers and adopting a more nimble approach
- Breedon always has a pipeline of potential acquisition and investment opportunities and would expect to close several deals each year. There is unlikely to be much competition from the majors who remain over-leveraged and more focused on emerging markets