FORTERRA
BUILDING MATERIALS

14 September 2020

FORT.L

186p

Market Cap: £425.3m

SHARE PRICE (p)

12m high/low	372p/148p

Source: LSE Data

KEY DATA

Net (Debt)/Cash[1]	£(68.6)m *(at 30/06/19)*
Enterprise value	£493.9m
Index/market	LSE
Next news	Update (TBC), Nov
Shares in Issue (m)	228.6
Chairman	Justin Atkinson
Chief Executive	Stephen Harrison
Finance Director	Ben Guyatt

[1] Pre-IFRS 16, prior to £55m placing

COMPANY DESCRIPTION

UK's second largest brick maker, inc. high margin 'Fletton'; also leading manufacturer of concrete building products

forterraplc.co.uk

FORTERRA IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYST

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com

Post-lockdown bounce "exceeds expectations"

Trading since lockdown has "exceeded management expectations", brick and concrete products group Forterra has confirmed in its HY results to June. Brick and block volumes have recovered strongly, buoyed by strong housebuilding and refurbishment, while production has commenced at all plants – giving the Group sufficient confidence to recommence financial guidance for FY 2020E. We believe recovery in demand is likely to gather pace, fuelled by Government support for housebuilding.

- **Decisive actions in face of lockdown.** Revenue fell by 37% Y/Y due to the lockdown in April and the Group registered a small loss before taxation and exceptionals. However, demand has recovered sharply over the past two months and the Group has acted decisively, cutting fixed costs by £10m. Pre-IFRS 16 net debt rose from £34.5m to £68.6m before the £55m in an equity placing and refinancing on 1 July.
- **Recovery driven by housing.** The strongest recovery in demand has been in the Bricks & Blocks division – now down less than 10% Y/Y – mainly for single family homes, whereas the Group's 'hollowcore' concrete flooring has been suppressed by lower demand for apartments and offices. Almost all housing data, including the recent RICS survey, points to a widespread increase in demand (page 8). We believe the Government is committed to supporting growth in housebuilding to underpin economic recovery.
- **Guidance resumed.** The stronger trading has given the group confidence to resume financial guidance, albeit currently only for FY 2020E, when it expects EBITDA in a range of £27 - 32m, assuming no further Covid disruption. We have forecast in the middle of that range and we expect pre-IFRS 16 YE 2020E net debt of £23m – less than 1x EBITDA. We feel it is too early for us to forecast beyond this year, due to economic and political uncertainty, but believe Government support for private and affordable housing, including a £12bn affordable homes programme, will outweigh disruption from, for instance, the transition of the Government's Help to Buy support for housebuilding in March 2021.
- **Long-term attractions remain.** Our view remains that potential attractions are: the Government's commitment to boost housebuilding volumes and infrastructure; a consolidated brick and concrete product market (only three main producers); the group's highly efficient plant and a record of strong cash generation since the 2016 IPO (page 11).

FYE DEC (£M)	2016	2017	2018	2019	2020E
Revenue	294.5	331.0	367.5	380.0	272.5
Adj EBITDA	70.6	75.4	78.8	82.7	29.9
Fully Adj PBT	54.3	61.1	64.8	62.5	8.9
Fully Adj EPS (p)	21.4	24.3	26.1	25.5	3.4
EV/Sales (x)	1.7x	1.5x	1.3x	1.3x	1.8x
EV/EBITDA (x)	7.0x	6.6x	6.3x	6.0x	16.5x
PER (x)	8.7x	7.7x	7.1x	7.3x	54.1x

Source: Company Information and Progressive Equity Research estimates

This publication should not be seen as an inducement under MiFID II regulations.

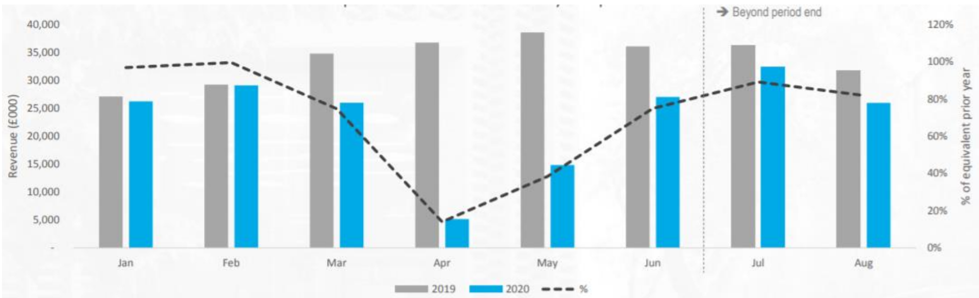
Please refer to important disclosures at the end of the document.

Demand recovery supports earnings recovery in H2

Sales recovering after 86% Y/Y fall in April, immediately post-lockdown

The group has given a month-by-month comparison of Y/Y revenue trends. In March sales fell to 74% of prior-year levels, only partly reflecting the lockdown, announced on 23 March. April saw the steepest fall, 86% Y/Y, but demand recovered in May, driven predominantly by the builders' merchants where strong sales were underpinned by a recovering Repair Maintenance & Improvement (RMI) market along with demand from smaller housebuilders. By June and July most major housebuilders had restarted on site, but initially finishing pre-sold homes, which had mostly had the bricks and blocks installed.

Revenue recovery



Source: Company results presentation

Most major housebuilder have now started new phases of their developments, albeit cautiously. Importantly, brick stock levels have been falling and we believe demand should be supported by Government support (see page 8).

Bricks & Blocks: Q2 hit by shutdown and energy hit

Exiting onerous energy forward contracts during production halt costs £2.1m

Revenue in the first half decreased by 37% Y/Y, falling to as low as 16% of prior year levels in April. EBITDA margins fell from 28.9% to 12.3%. Production at was severely disrupted though April and May, resulting in a cost of £2.1m in respect of onerous energy contracts. The business makes use of forward contracts to fix the price of its electricity and gas purchases. Where activity levels did not require the levels of energy which had been forward purchased, the Group was able to sell the unused commodity back to the market at the prevailing market rate realising a loss of £2.1m. It is currently anticipated that the energy forward purchased for the second half of the year will be utilised and the cost of energy will be charged to the P&L, rather than accounted for as a non-underlying item, at the contracted rates in the second half.

Bespoke Products: restructuring to address low margins

Restructuring tackles division's low margins

Total revenue for Bespoke Products fell by 35% in the period, falling to almost zero in April and only partly recovering in May. Volumes recovered further in June although the recovery, especially in floor beam products, lagged behind that seen in Bricks & Blocks. The division, which has always had lower margins than Bricks & Blocks, incurred a loss of £2.9m.

Focusing more on infrastructure and less on office or apartment products

As the Group has previously reported, trading conditions in the hollowcore flooring market have been deteriorating for the last few years, resulting in weakening margins. The Group believes a probable outcome of the Covid crisis in the medium term is that there is likely to be a reduction in demand for both apartments and offices, building types that utilise hollowcore flooring in their construction.

Infrastructure products have proved more resilient. Manufacturing continued throughout lockdown on key government infrastructure projects including the new prison at Wellingborough where Forterra recently supplied a large quantity of bespoke precast components. In addition, the division supplied the Hinkley Point nuclear power station project along with a flood defence scheme in Leeds. The segment has now been awarded a large order working with Lendlease on the construction of the Ministry of Justice's next new prison construction project, at Glen Parva in Leicestershire.

Forecasts: short-term rebound in FY 2020E

We are assuming revenues in Bricks & Blocks during H2 2020E to remain at near the current rate of -10% Y/Y, but for Bespoke Products to continue trading at lower levels while continuing to recover for the rest of the year.

We expect steady margin recovery in Bricks & Blocks in H2 2020E and thereafter, and believe management action will result in Bespoke Products breaking even at EBITDA level in H2 2020E. Management has guided to a further £3m of exceptionals in H2 2020.

Outlook for 2021E and beyond: uncertainties loom but underlying growth

Next year is likely to involve a number of major uncertainties:

- Economic progress, in particular employment, consumer confidence and mortgage lending appetite
- The projected transition of Help to Buy, which has supported upwards of half of some housebuilders' private sales, to first time buyers only
- The end of the Stamp Duty holiday

However, many people in work and doing so from home have saved significant sums and there appears to be a genuine desire to move outwards to larger homes, with gardens. Housing secretary Robert Jenrick has announced a £12bn affordable housing-led scheme to build 150,000 homes.

We believe, in the absence of a second lockdown, volumes are more likely to increase than fall back in FY 2021 and that the new homes programme will continue to underpin demand over the next five years.

Pricing should be underpinned by falling brick industry stock levels, although we are not expecting significant rises, supporting margins, while 'self-help' should support a return to profitability in Bespoke Products. In the results webcast, CFO Ben Guyatt said the aim was to return Brick & Block margins eventually to pre-pandemic levels.

HY and FY revenue and profit

Year-end December (£m)	**2017**	**2018**	**2019**	**2020E**	**H1 19**	**H2 19**	**H1 20**	**H2 20E**
Revenue								
Bricks & Blocks	249.5	277.5	279.1	207.9	143.9	135.2	90.5	117.4
Change (%)	*12.7%*	*11.2%*	*0.6%*	*-25.5%*	*5.3%*	*-4.0%*	*-37.1%*	*-13.2%*
Bespoke Products	83.6	92.2	103.5	67.3	50.9	52.6	33.0	34.3
Change (%)	*11.8%*	*10.3%*	*12.3%*	*-35.0%*	*14.9%*	*9.8%*	*-35.2%*	*-34.8%*
Intersegment	(2.1)	(2.2)	(2.6)	(2.6)	(1.2)	(1.4)	(1.1)	(1.5)
Group revenue	**331.0**	**367.5**	**380.0**	**272.5**	**193.6**	**186.4**	**122.4**	**150.1**
Change (%)	*12.4%*	*11.0%*	*3.4%*	*-28.3%*	*7.6%*	*-0.6%*	*-36.8%*	*-19.4%*
Cost of sales	(196.8)	(230.2)	(243.8)	(195.6)	(121.4)	(118.1)	(91.9)	(103.7)
Gross profit	**134.2**	**137.3**	**136.2**	**76.9**	**72.2**	**68.3**	**30.5**	**46.4**
Expenses	(69.7)	(70.2)	(75.5)	(65.0)	(38.3)	(37.2)	(31.3)	(33.7)
EBITDA								
Bricks & Blocks	69.1	75.8	80.4	32.8	41.6	38.8	11.1	21.7
Margin (%)	*27.7%*	*27.3%*	*28.8%*	*15.8%*	*28.9%*	*28.7%*	*12.3%*	*18.5%*
Bespoke Products	6.3	3.0	2.3	(2.9)	0.9	1.4	(2.9)	-
Margin (%)	*7.5%*	*3.3%*	*2.2%*	*-4.3%*	*1.8%*	*2.7%*	*-8.8%*	*0.0%*
EBITDA, pre-exc & g/w	**75.4**	**78.8**	**82.7**	**29.9**	**42.5**	**40.2**	**8.2**	**21.7**
Margin (%)	*22.8%*	*21.4%*	*21.8%*	*11.0%*	*22.0%*	*21.6%*	*6.7%*	*14.5%*
H1/H2 (%)					*51.4%*	*48.6%*	*30.3%*	*72.6%*
Depreciation & amort.	(10.9)	(11.7)	(17.7)	(18.0)	(8.6)	(9.1)	(9.0)	(9.0)
EBIT, pre-exc	**64.5**	**67.1**	**65.0**	**11.9**	**33.9**	**31.1**	**(0.8)**	**12.7**
Margin (%)	*19.5%*	*18.3%*	*17.1%*	*4.4%*	*17.5%*	*16.7%*	*-0.7%*	*8.5%*
Exceptionals	(1.8)	-	(4.3)	(24.0)	-	(4.3)	(21.0)	(3.0)
Net interest	(3.4)	(2.3)	(2.5)	(3.0)	(1.2)	(1.3)	(0.4)	(2.6)
PBT, reported	**59.3**	**64.8**	**58.2**	**(15.1)**	**32.7**	**25.5**	**(22.2)**	**7.1**

Source: Company information and Progressive Equity Research estimates

Other financial items in H1 2020 include:

- **Exceptionals** of £21m, including: the mothballing of the hollowcore flooring manufacturing facility at Swadlincote, with the loss of c. 225 jobs, primarily from our Bespoke Products division and an exceptional charge for redundancy and severance costs of £4.4m; an exceptional non-cash impairment charge of £10.2m in respect of an impairment in the carrying value of the Swadlincote; and a further impairment charge of £6.0m is recognised in respect of the historic goodwill balance relating to the Formpave business; which was created on HeidelbergCement's acquisition of Hanson in 2007. Most of the cash costs of the exceptionals will occur in H2 2020E. Management has guided to a further £3m of exceptionals in H2 2020.
- **No dividend.** The 2019 final dividend was cancelled at the start of the pandemic, preserving £14.2m of cash. The Board does not anticipate declaring a dividend for the financial year 2020 with the current strategy "focussed on maintaining a strong balance sheet whilst continuing with the construction of the new Desford brick factory". The Board, however, is "fully aware of the importance of dividend payments to shareholders and will endeavour to resume distributions as soon as the current levels of uncertainty subside and results allow".
- **Desford expansion continues.** Construction of the new Desford brick manufacturing facility in Leicestershire – destined to be one of the most efficient plants in Europe – continued through lockdown albeit with a likely delay of six months, with commissioning now expected to commence towards the end of 2022. A further £8.5m was spent on the project in the period taking total spend at 30 June 2020 to £20.7m. Forterra's current expectation for the timing of the cash outflows on the project is as follows: £26m in 2020, £24m in 2021, £28m in 2022 and £5m in 2023. The Group is currently taking a more cautious stance on non-Desford investment, according to the results presentation.
- **Placement and refinancing.** On 1 July 2020, the Company completed a £55.0m equity raise by way of issuing 28.2 million ordinary (14.1% of issued share capital) in a non-preemptive placing. After fees, the Company received net proceeds of £52.6m. This equity issuance also facilitated a refinancing of the Group's debt facilities with the £150m RCF expiring in July 2022 being increased to £170m with expiry extended to July 2024. The refinancing also provides a package of covenant relaxations covering the next fifteen months with covenants returning to normal in December 2021. Normal covenants are net debt: EBITDA of < 3 times and interest cover of > 4 times

P&L and per share data

Year-end December (£m)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**
Group revenue	290.2	294.5	331.0	367.5	380.0	272.5
COGS	(167.7)	(175.2)	(196.8)	(230.2)	(243.8)	(195.6)
Gross profit	**122.6**	**119.3**	**134.2**	**137.3**	**136.2**	**76.9**
Operating expenses	(61.4)	(59.1)	(69.7)	(70.2)	(71.2)	(65.0)
Group operating profit	**61.1**	**60.2**	**64.5**	**67.1**	**65.0**	**11.9**
Exceptionals	(11.6)	(8.9)	(1.8)	-	(4.3)	(24.0)
Interest	(27.3)	(14.2)	(3.4)	(2.3)	(2.5)	(3.0)
PBT, reported	**22.2**	**37.1**	**59.3**	**64.8**	**58.2**	**(15.1)**
Underlying tax	(4.2)	(11.3)	(11.8)	(12.0)	(12.2)	(1.6)
Underlying tax rate (%)	*12.2*	*20.8*	*19.3*	*18.5*	*19.5*	*18.3*
Tax on exceptionals		1.7	0.3	-	0.8	4.4
Reported tax	(4.2)	(9.6)	(11.8)	(12.0)	(11.4)	2.8
Net attrib. profit	**18.0**	**27.5**	**47.5**	**52.8**	**46.8**	**(12.3)**
PBT, pre-exc & g/w	**34.1**	**54.3**	**61.1**	**64.8**	**62.5**	**8.9**
Year-end shares	200.0	200.0	200.6	200.4	200.4	228.6
Wtd. ave. shares (million)	200.4	200.0	200.0	199.2	196.6	209.1
Diluted shares (million)	201.2	200.8	202.9	202.3	197.4	211.5
EPS, basic (p)	9.0	13.8	23.8	26.5	23.8	(5.9)
EPS, pre-exc & g/w (p)	14.9	21.5	24.7	26.5	25.6	3.5
EPS, dil., pre-exc, g/w (p)	**14.9**	**21.4**	**24.3**	**26.1**	**25.5**	**3.4**
DPS - declared (p)		**5.8**	**9.5**	**10.5**	**11.5**	**-**
Dividend cover (x)		3.7	2.6	2.5	2.2	na
EBITDA	**70.5**	**70.6**	**75.4**	**78.8**	**82.7**	**29.9**
FCFPS (p)	3.9	14.4	34.6	24.8	15.3	2.1
TNAV (p)		27.8	44.3	58.3	68.8	80.9

Source: Company information and Progressive Equity Research estimates

Adjusted cashflow statement and summary balance sheet						
Year-end December (£m)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**
Adjusted cash flow statement						
Op profit inc exceptionals	49.5	46.6	62.7	67.1	65.0	11.9
Dep & amortisation	9.1	10.4	10.9	11.7	17.7	18.0
Other	4.1	0.2	6.0	(1.7)	(1.7)	(13.1)
WC changes	(13.1)	(1.0)	10.6	2.7	(17.2)	-
Operating cash flow	**50.0**	**56.2**	**90.2**	**79.8**	**63.8**	**16.8**
Capex (maintenance)	(12.4)	(8.7)	(8.4)	(16.3)	(22.5)	(6.0)
Interest, net	(26.4)	(12.4)	(3.3)	(2.2)	(2.4)	(3.0)
Tax	(3.3)	(6.3)	(9.3)	(11.8)	(8.8)	(3.5)
Free cashflow	**7.9**	**28.8**	**69.2**	**49.5**	**30.1**	**4.3**
Expansion capex (f-cast)	-	-	-			(26.0)
Acquisitions	-	(0.1)	(21.8)	(2.1)	(1.8)	-
Dividends - paid	-	(4.0)	(13.8)	(19.3)	(22.0)	-
Financing, other	(4.7)	7.3	(60.8)	(31.1)	(5.7)	46.4
Chg cash/net debt (fcast)	**3.2**	**32.0**	**(27.2)**	**(3.0)**	**0.6**	**24.7**
Summary balance sheet						
Intangible fixed assets	13.3	13.7	15.8	17.3	18.2	11.4
Tangible fixed assets	149.5	147.2	165.2	170.5	196.3	207.1
Investments	1.8	0.4	-	-	-	-
Working capital	(0.0)	18.4	8.1	3.3	16.7	16.7
Provisions, others	6.3	(18.2)	(23.6)	(18.1)	(17.7)	(6.1)
Pensions	-	-	-	-	-	-
Net cash/(debt)[1]	(381.4)	(92.3)	(60.8)	(38.8)	(57.3)	(32.6)
Net assets	**(210.5)**	**69.2**	**104.7**	**134.2**	**156.2**	**196.5**
Net debt, pre-IFRS 16					*(43.2)*	*(20.9)*

Source: Company information and Progressive Equity Research estimates 1 including IFRS 16 lease liabilities

Strong and broad-based rebound in housing market

In recent weeks there has been a steady flow of positive data from almost every aspect of the housing market, ranging across activity and pricing in the secondhand market, newbuild housing volumes and falling brick inventory levels across the industry. We believe this provides an encouraging backdrop for brick and block demand and, potentially in the RMI market, for the higher margin 'Fletton' brick range.

Secondhand market: pent-up demand and Stamp Duty holiday stoke demand

Buyer enquiries and sales activity have been recovering strongly in past three months

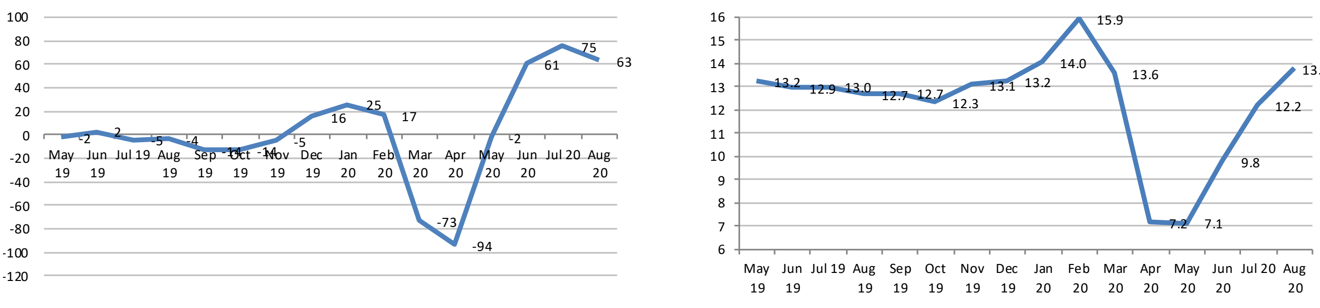
In the secondhand market, which supports RMI and ultimately liquidity for mid-market newbuild, buyer demand, vendor instructions, sales agreed and price expectations have all surged, according to the recent RICS Residential Market Survey (link). Buyer enquiries (below, left), the earliest leading indicator, showed a net balance of 63% of surveyors saw an improvement on a seasonally-adjusted basis during the month. This is marginally lower than the previous month's all-time high of 75%, but still signifies growth. Sales per surveyor, measured later in the process, increased to 13.8 per branch over the three months to August, up from 12.2 for May to July.

The healthy levels of demand, activity and pricing were broadly-based, across most regions of the UK. RICS supported Forterra's and a wide range of industry observers' views, that there has been increasing demand for homes with gardens and less for apartments. 83% of respondents anticipated demand increasing for homes with gardens over the next two years. On the same basis, net balances of -62% and -75% expect demand to decline for homes located in highly urban areas and tower blocks respectively.

Desire for bigger homes and RMI recovery support brick demand and higher-margin Fletton outlook

There has been a wide range of other statistics from other sources, including what many observers have described as surprisingly good data on house prices from mortgage lenders Halifax and Nationwide. These and other trends support Forterra's profits in two regards. Detached family homes, potentially larger outside city centres, imply more bricks per home. (An average 4-bed home uses c. 10,000 bricks compared with c. 2,000 for an apartment.) Meanwhile, the improving RMI trend could, in our view, boost demand for Forterra's unique and high margin Flettons, under the London Brick brand. According to webcast, London Brick demand has held up relatively well post-lockdown, as has that for basic aggregate concrete blocks.

Buyer enquiries, increase in latest month, SA (index), LHS; house sales per survey, last three months, SA (number), RHS



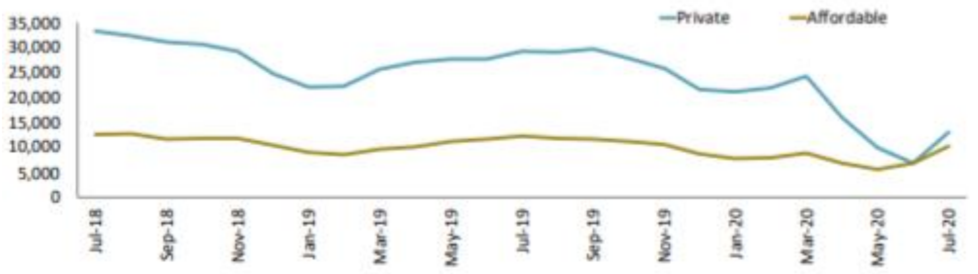
Source: RICS

Housebuilding volumes start recovering

Data on housebuilding starts is scarce, but indicating steady growth trajectory

There has been scant official data on housing starts, due to the Housing Ministry suspending its data, and only limited data from the National Home Building Council in a recent report (below). However, this does support anecdotal evidence of modest growth in volume output by housebuilders.

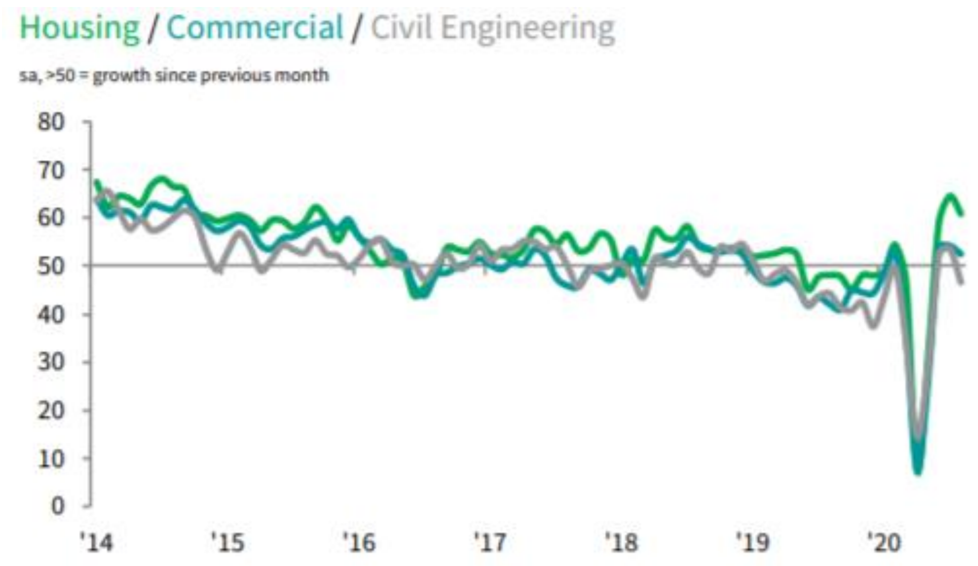
NHBC: New housing starts, rolling 3 months



Source: NHBC

The latest IHS Markit/CIPS Purchasing Managers' Index showed that Housebuilding continued to post the fastest growth of the three newbuild sectors it monitors (link). The seasonally adjusted Housing Activity Index was 60.7, well inside expansion territory, but slightly down on July. The high prior month, in our view, could reflect a rush by housebuilders to finish stalled homes, before a returned to more measured growth in new activity. The equivalent figures for commercial work was 52.5, while civil engineering activity, at 46.6, showed slight weakening.

Activity Index by construction category (index)



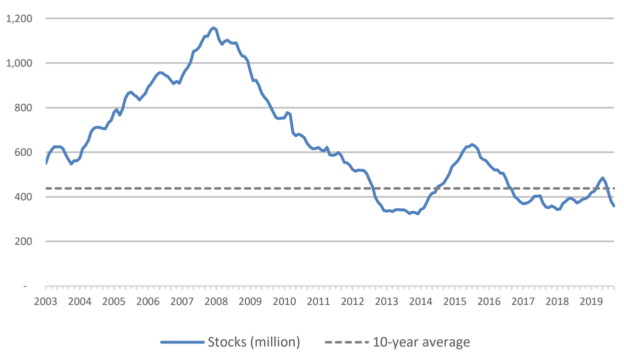
Source: IHS Markit / CIPS

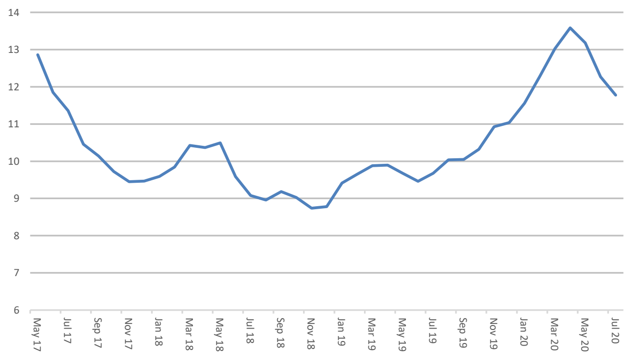
Brick stock levels fall toward recent lows

Industry stock levels heading back towards cyclical lows, supporting pricing power, in our view

Importantly for the highly consolidated brick industry, stock levels are falling again, in our view, supporting pricing power. Inventory levels fell for the fourth consecutive month in July and for the first time since lockdown on a Y/Y basis, according to the latest Monthly Statistics of Building Materials and Components from the Department for Business, Energy & Industrial Strategy (link). Inventories fell to 359 million in July, down 26% from the 485 million in March – which had only just hit the 10-year average after several months of slower housebuilding activity amid political uncertainty (below, left). On a more representative Y/Y basis, the latest figure reduced by 5.5%. This reflects 12% Y/Y fall in deliveries but a 26% Y/Y fall in production (the latter recovering steadily from a near-complete industry shutdown in April). Expressed in weeks of deliveries, the latest stock level represents 10.0 weeks at the latest month annualised – down from an exaggerated 90 weeks in April, when deliveries plunged. On the more representative, but lagging, basis of comparing with the cumulative rolling 12-month basis, it is 11.8 weeks, down from 13.6 weeks in April and 19% below the 10-year average of 14.5 weeks (below, right).

Brick stocks (millions), LHS; stocks vs deliveries (weeks[1]) , RHS





Source: Department for Business, Energy & Industrial Strategy [1] Latest stocks ÷ cumulative 12 month of deliveries x 52 weeks

In the results webcast CEO Stephen Harrison said he believed that brick import levels could fall by approximately half.

Investment overview: basic attractions

Second largest brick maker, aiming mainly at 'mid market'

Forterra is the UK's second biggest brick maker, with nine plants with an annual capacity of 590 million bricks pa and further expansion planned for the Desford plant in Leicestershire. It is also a major producer of concrete and specialist products for housing in particular. The former Hanson Building Products returned to the stock market in April 2016.

Its main brick ranges are economical 'mid-market' products aimed at volume housebuilders. It has a unique niche in high margin 'Fletton' bricks, which were used to build around 5 million homes in the Post-War housebuilding boom, approximately a quarter of the current housing stock of England, and required by many planners for repairs and extension of homes built during the era. The concrete blocks, including lightweight and energy-efficient Themalite range are widely used for the inner sections of walls in newbuild housing. Other specialist components in the Bespoke Products range are used in other sectors, including Commercial and Infrastructure.

Basic products, in consolidated market, with long-term growth prospects

We highlight the basic attractions of Forterra and its positioning:

- **A fundamental product.** Brick is the overwhelming product of choice for UK housebuilding.
- **Consolidated, disciplined industry.** The industry is dominated by three main players: Ibstock, Forterra and Austria's Wienerberger, plus the more niche Michelmersh. There are fewer competitors than in past cycles and, we believe, a greater focus on cashflow and returns rather than on expanding market share.
- **Long term growth prospects.** The Government is committed to significantly boost housebuilding volumes. HS2 and other infrastructure projects and product innovations could boost Bespoke Products.
- **Simple and low risk.** Forterra is exposed to one country, the UK. Its output is dominated by one main market, housing. There is minimal foreign currency exposure and only moderate energy risk. There is no meaningful pension deficit. There are a limited number of routes to market (direct sales or through builders' merchants of brick 'factors'); and there is a flat management structure. Although exporters and companies with foreign earnings have benefited from the current weakness of sterling, we note the relative lack of potentially risky variables in Forterra's case.
- **Efficient and cash generative.** Other than the Desford project, the company has channelled most of its investment into projects that increase either energy efficiency or fixed cost recovery, rather than increasing volumes. Several 'de-bottlenecking' projects since the IPO have raised efficiency at modest cost. Since the IPO, until the unique challenges of Covid, the company has regularly exceeded cashflow expectations.

Financial Summary: Forterra

Year end: December (£m unless shown)

PROFIT & LOSS	**2016**	**2017**	**2018**	**2019**	**2020E**
Revenue	294.5	331.0	367.5	380.0	272.5
Adj EBITDA	70.6	75.4	78.8	82.7	29.9
Adj EBIT	60.2	64.5	67.1	65.0	11.9
Reported PBT	37.1	59.3	64.8	58.2	(15.1)
Fully Adj PBT	54.3	61.1	64.8	62.5	8.9
NOPAT	47.7	52.0	54.7	52.3	9.7
Reported EPS (p)	13.8	23.8	26.5	23.8	(5.9)
Fully Adj EPS (p)	21.4	24.3	26.1	25.5	3.4
Dividend per share (p)	5.8	9.5	10.5	11.5	0.0
CASH FLOW & BALANCE SHEET	**2016**	**2017**	**2018**	**2019**	**2020E**
Operating cash flow	56.2	90.2	79.8	63.8	16.8
Free Cash flow	28.8	69.2	49.5	30.1	4.3
FCF per share (p)	14.4	34.6	24.8	15.3	2.1
Acquisitions	(0.1)	(21.8)	(2.1)	(1.8)	0.0
Disposals	N/A	N/A	N/A	N/A	N/A
Shares issued					
Net cash flow	32.0	(27.2)	(3.0)	0.6	24.7
Overdrafts / borrowings	148.5	89.8	64.8	83.9	83.9
Cash & equivalents	56.2	29.0	26.0	26.6	51.3
Net (Debt)/Cash[1]	(92.3)	(60.8)	(38.8)	(57.3)	(32.6)
NAV AND RETURNS	**2016**	**2017**	**2018**	**2019**	**2020E**
Net asset value	69.2	104.7	134.2	156.2	196.5
NAV/share (p)	34.6	52.2	67.0	77.9	85.9
Net Tangible Asset Value	55.5	88.9	116.9	138.0	178.3
NTAV/share (p)	27.8	44.3	58.3	68.8	78.0
Average equity	214.6	(7.0)	(219.5)	(70.7)	87.0
Post-tax ROE (%)	12.8%	(680.4%)	(24.0%)	(66.2%)	(14.2%)
METRICS	**2016**	**2017**	**2018**	**2019**	**2020E**
Revenue growth	1.5%	12.4%	11.0%	3.4%	(28.3%)
Adj EBITDA growth	0.1%	6.8%	4.5%	4.9%	(63.8%)
Adj EBIT growth	(1.5%)	7.1%	4.0%	(3.1%)	(81.7%)
Adj PBT growth	59.3%	12.5%	6.1%	(3.5%)	(85.8%)
Adj EPS growth	44.0%	13.5%	7.4%	(2.3%)	(86.5%)
Dividend growth	N/A	63.8%	10.5%	9.5%	(100.0%)
Adj EBIT margins	20.4%	19.5%	18.3%	17.1%	4.4%
VALUATION	**2016**	**2017**	**2018**	**2019**	**2020E**
EV/Sales (x)	1.7	1.5	1.3	1.3	1.8
EV/EBITDA (x)	7.0	6.6	6.3	6.0	16.5
EV/NOPAT (x)	10.4	9.5	9.0	9.4	50.8
PER (x)	8.7	7.7	7.1	7.3	54.1
Dividend yield	3.1%	5.1%	5.6%	6.2%	N/A
FCF yield	7.7%	18.6%	13.4%	8.2%	1.1%

Source: Company information and Progressive Equity Research estimates. [1] Post IFRS 16; YE 2020E pre-IFRS 16 = £20.9m.

Progressive EQUITY RESEARCH

14 September 2020

Disclaimers and Disclosures

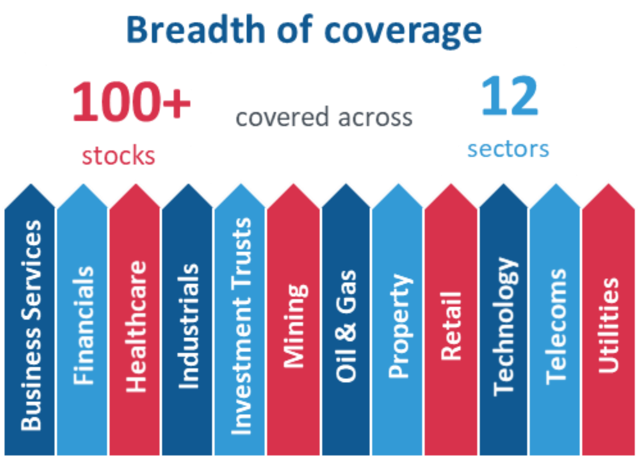
Copyright 2020 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

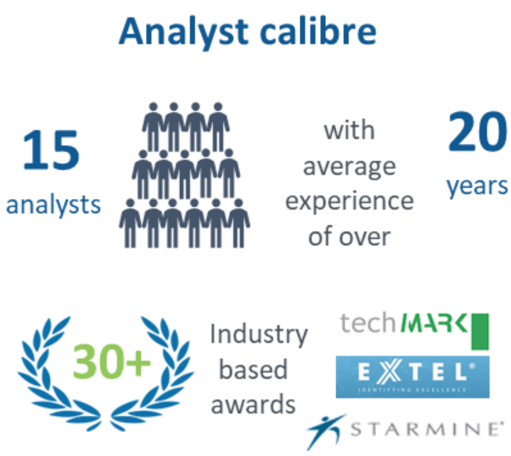
This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.





To arrange a meeting with the management team, or for further information about Progressive, please contact:
Emily Ritchie
+44 (0) 20 7781 5311
eritchie@progressive-research.com