



# Investor presentation Q1 2018

17 May 2018

**H+H**

# Introduction

## Forward-looking statement

The statements on the future in this presentation, including expected sales and earnings, are associated with risks and uncertainties and may be affected by factors influencing the activities of the Group, e.g. the global economic environment, including interest and exchange rate developments, the raw material situation, production and distribution related issues, breach of contract or unexpected termination of contract, price reductions due to market driven price reductions, launches of competitive products and other unforeseen factors.

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All presented numbers includes special items unless otherwise stated.

## Agenda

- Highlights
- Financial performance
- Outlook and long-term financial targets
- Segments and market development
- Share capital increase
- Q&A

### ABOUT H+H

H+H's core activity is the manufacture and sale of wall building materials, with a revenue in 2017 of DKK 1.6 billion before acquisition of the calcium silicate product line. The main product lines are aircrete blocks and since 2018 calcium silicate units used for the residential new building segment. H+H has 28 factories in Northern and Central Europe and Northwest Russia with a total output of more than 4 million cubic metres of products annually and has a leading position in most of its markets. H+H has around 1,600 employees and is listed on Nasdaq Copenhagen.

# Highlights

## Organic growth

- Organic growth of 5% in the first quarter
- Extreme weather conditions in markets in the Western European segment

## EBITDA\*

- DKK 40 million in the first quarter against DKK 37 million last year
- Adverse impact from the planned standstill of the Borough Green factory

## Acquisitions

- Closing of the HDKS transaction 28 February 2018, i.e. one month included in the Q1 report
- Closing of the Grupa Silikaty transaction 4 April 2018, i.e. no impact on the Q1 report

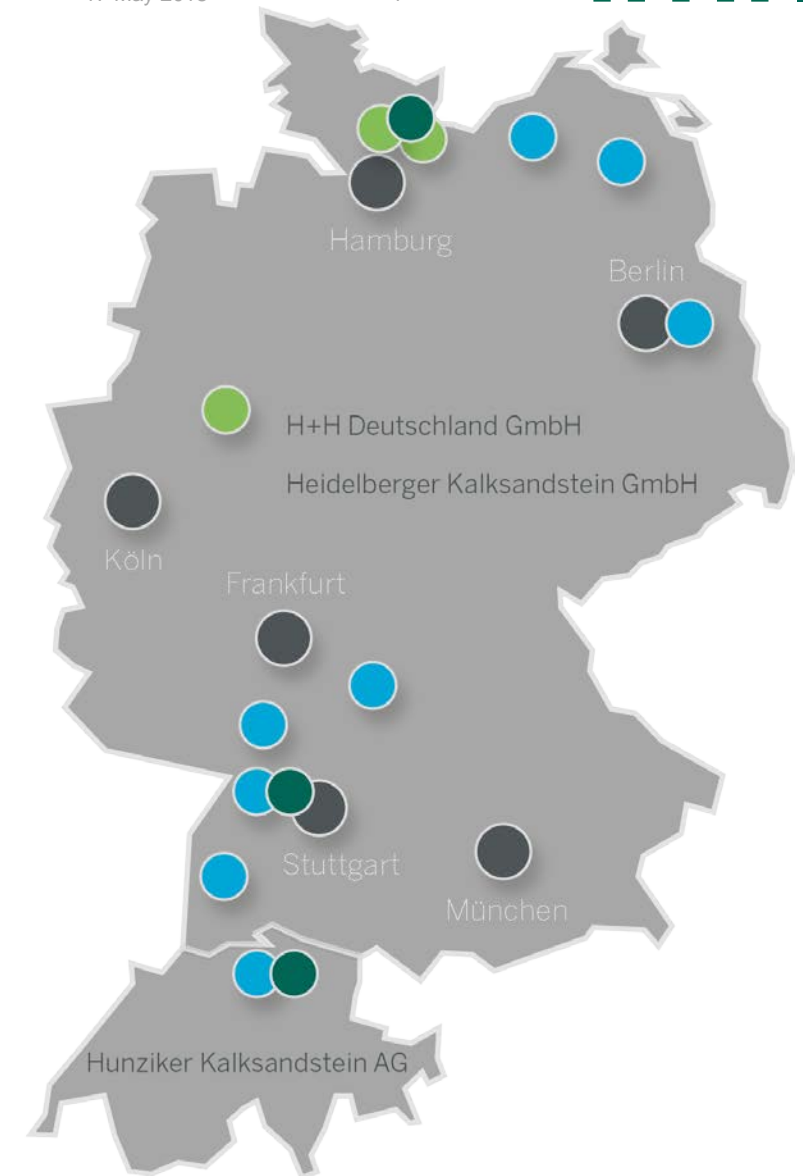
## Capital structure

- AGM approval of new shares with net proceeds of around DKK 500 million
- Will be executed in near future, assuming unchanged market conditions

\* Before special items

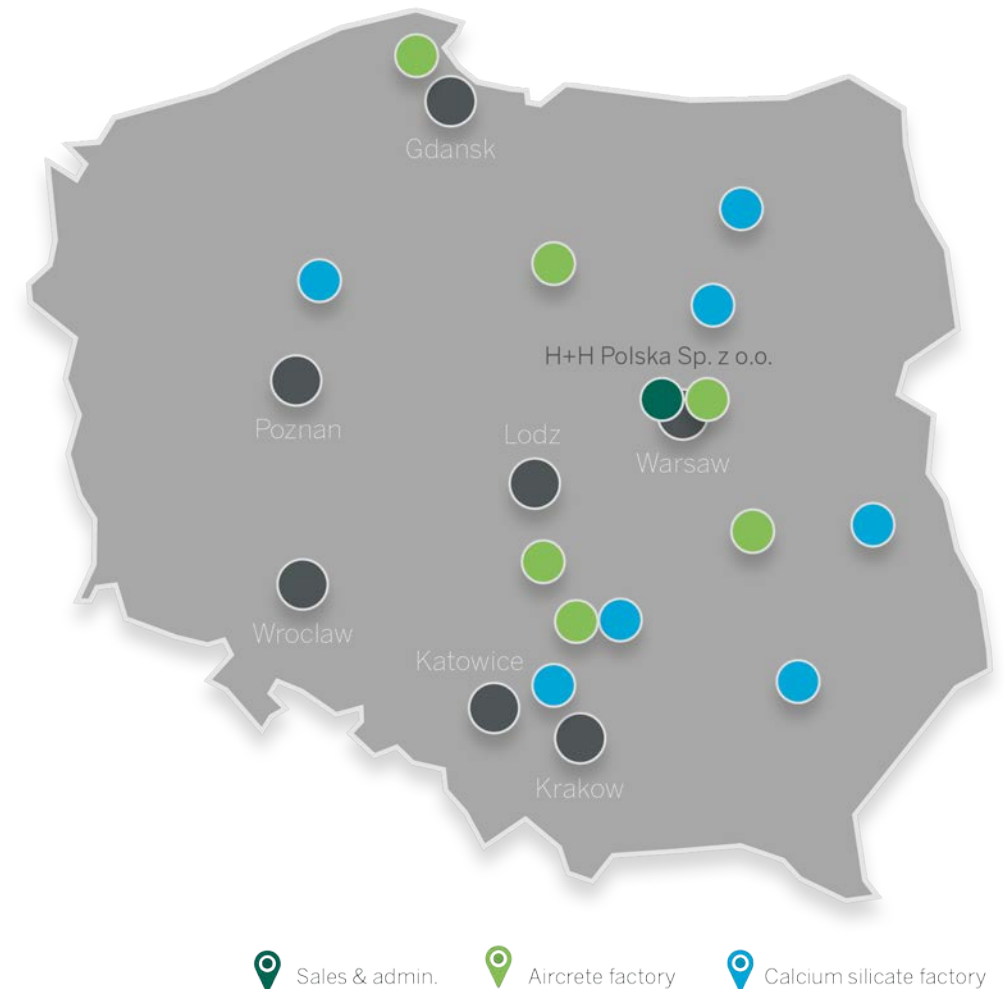
## Acquisition of HDKS

- HDKS is the second largest producer of CSU in Germany and operates seven factories. Further, HDKS is present on the Swiss market and has one factory in Switzerland.
- The acquisition was closed 28 February 2018.
- HDKS had revenue in 2017 of around DKK 500 million and EBITDA of around DKK 100 million.
- The market share in the CSU market is around 14% and the company has around 200 employees.



## Acquisition of Grupa Silikaty

- Grupa Silikaty is the second largest producer of CSU in Poland and operates seven factories.
- The acquisition was closed 4 April 2018.
- Grupa Silikaty had estimated revenue in 2016 of DKK 157 million and EBITDA of DKK 11 million.
- The market share in the CSU market is around 30% and the company has around 300 employees.



# Financial performance

DKK million		Q1		
		2018	2017	Variance
Revenue	Actual	434	377	15%
	Organic	394	377	5%
Gross margin *		22%	23%	(1%)
EBITDA	Before special items	40	37	3
	After special items	24	32	(8)
EBIT margin	Before special items	3%	5%	(2%)
	After special items	(1%)	3%	(4%)
Return on invested capital		12%	14%	(2%)
Investments **		29	23	6
Free cash flow **		(99)	(94)	(5)
Net interest-bearing debt	DKK million	1 352	483	869
	Financial gearing	6.6x	2.3x	
Equity		370	323	47

- *adjusted for special items gross margin was 24% for Q1 2018 and 24% for Q1 2017. Adjusted for the planned stand-still of the Borough Green factory gross margin was around 26% in Q1 2018*

\*\* *excluding acquisitions and divestments*



# Outlook 2018 – re-iterated

## Outlook 2018

- Growth before acquisitions and measured in local currencies is expected to be around 5%
- EBITDA before special items is expected to be DKK 350-390 million
- Approximately DKK 25-30 million cost are expected to be incurred as a result of the Borough Green factory upgrade and resulting need to import products from sister companies. The increased transportation costs will be expensed at the point of sale and treated as a special item
- Approximately DKK 35 million for transaction and integration costs for HDKS will be expensed as special items
- Approximately DKK 5 million for transaction and integration costs for Grupa Silikaty will be expensed as special items
- Investments excluding mergers, acquisitions and divestments are expected to be in the region of DKK 150 million of which approximately DKK 35 million relates to an investment required at one of the HDKS plants damaged by fire during the acquisition process. A similar amount was covered by a reduction in the purchase price

## Specific assumptions for outlook 2018

- Continuous economic growth in our geographical footprint
- The commercial and operational excellence programmes continue to deliver improvements
- Exchange rates, primarily for GBP, EUR PLN and RUB, hold at their mid-May 2018 levels
- Energy and raw material prices rise only in line with inflation from their mid-May 2018 levels
- The geopolitical situation does not result in changed market conditions
- Acquisition and integration of the calcium silicate business and upgrade of the Borough Green factory according to schedule

# Long-term trends

## Long-term financial targets

**EBIT MARGIN**  
(Operating margin before special items)

Min. 11%

**ROIC**  
(Return on invested capital)

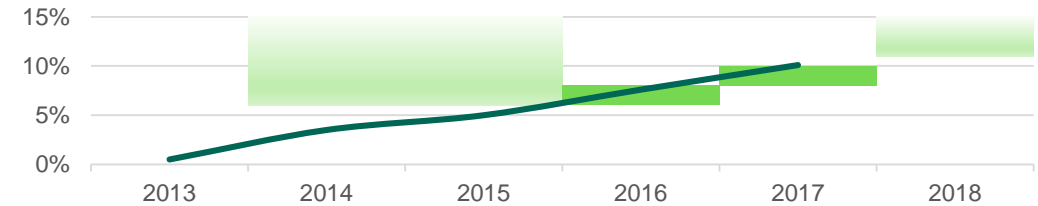
Min. 12%

**FINANCIAL GEARING**  
(Net interest-bearing debt / EBITDA before special items)

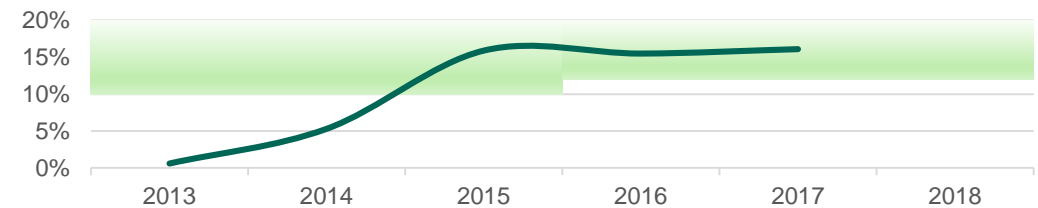
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## Long-term financial performance

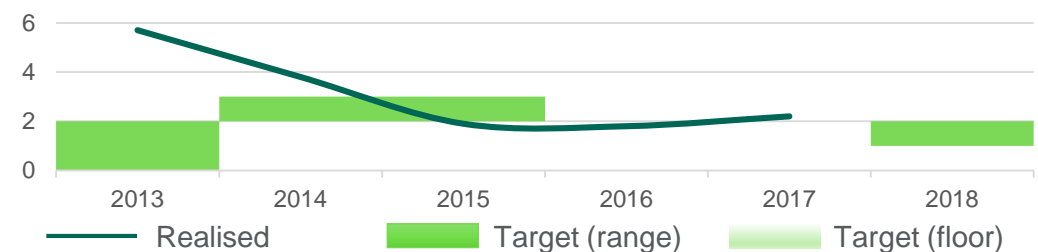
EBIT margin



Return on invested capital (ROIC)



Financial gearing





## Other selected items

### Special items

- DKK 7 million related to import of products to the UK
- DKK 9 million related to acquisition and integration costs

### Solvency ratio

- Solvency ratio at 15% at 31 March 2018
- Diluted from acquisition(s) until the anticipated share capital increase is completed

### PPA, HDKS

- Goodwill from HDKS of DKK 133 million
- Deferred tax liability from goodwill

### Pension obligation

- Actuarial gain in the quarter of DKK 15 million
- The pension obligation at 31 March 2018 amounts to DKK 150 million including the acquired business

## Western European segment

DKK million		Q1		
		2018	2017	Variance
Revenue	Actual	307	288	7%
	Organic	271	288	(6%)
EBITDA	Before special items	34	40	(6)
	After special items	19	34	(15)
Investments		28	19	9



- Adverse organic growth in the quarter due to lower sales volumes caused by extreme weather conditions in March
- Prices are higher than same period last year in all markets in the segment

- EBITDA adversely impacted by the planned standstill of the Borough Green factory
- Ramp up of the Borough Green factory is running to schedule
- Maximum output from the Borough Green factory to be achieved by the end of second quarter 2018

## Eastern European segment

DKK million		Q1		
		2018	2017	Variance
Revenue	Actual	127	89	43%
	Organic	125	89	41%
EBITDA	Before special items	22	6	16
	After special items	21	6	15
Investments		1	4	(3)



- Strong growth in the Polish market and both price and volume development is favorable to last year
- Sales volumes limited by production output
- Additional capacity expected from competition
- Negative organic growth in Russia due to price pressure
- Fragile market outlook
- Russia successfully delivering products to the UK to utilize the capacity at the plant in Russia

# Intention of a preemptive share capital increase of DKK 500 million

## Use of proceeds

- Reduce the increased interest-bearing debt following the acquisition of HDKS
- Strengthening of the balance sheet
- Should the right opportunities occur in 2018 or 2019, funds are available to participate in further market restructuring

## M&A activities

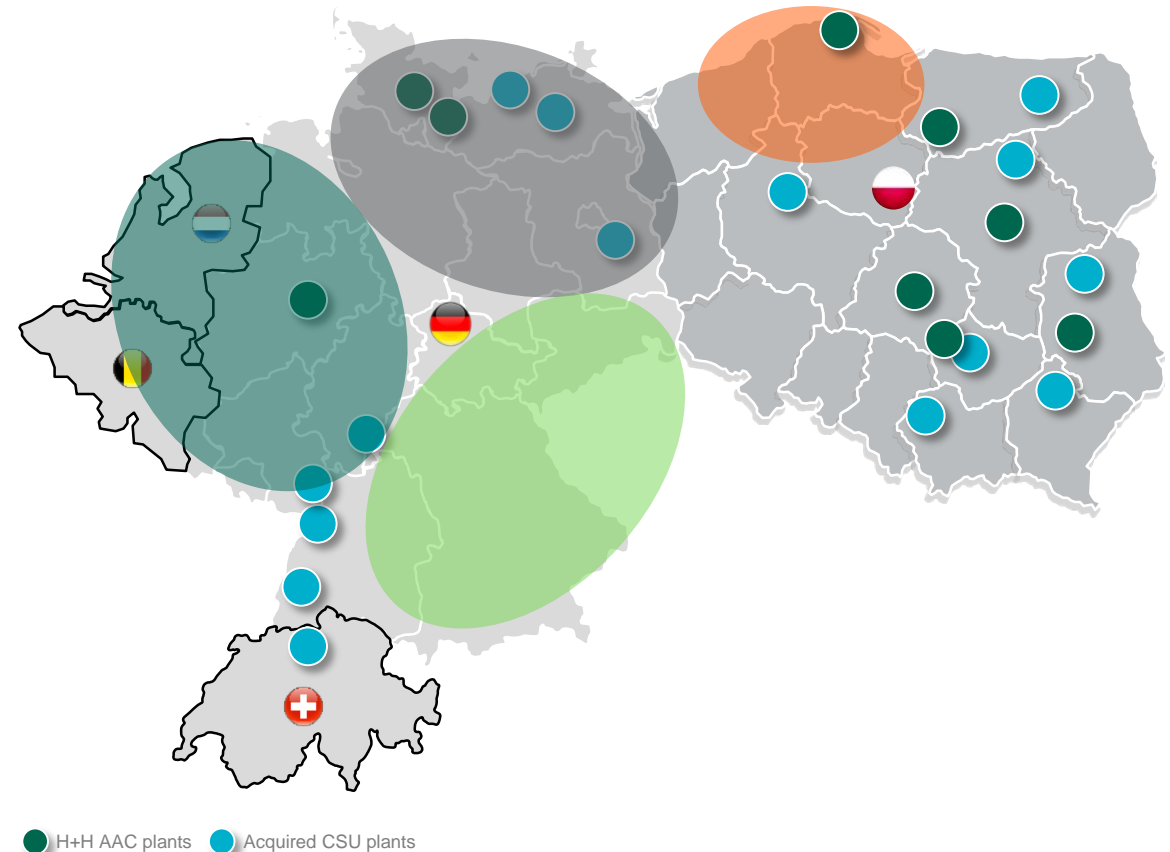
- Potential acquisition targets identified
- Ongoing high-level dialogue with some of these targets
- Flexibility on financing is a strong sign for the sell-side
- The ability to complete future acquisitions and the timing hereof will naturally depend on the market development and other factors outside the control of H+H

# Unique opportunity to participate in market restructuring

## H+H is in a unique situation

- Overcapacity in the German aircrete market
- Proven track record in successful restructuring
- Target list includes
  - Companies suffering from over capacity
  - Family-owned businesses with succession issues
  - Businesses that are subsidiaries in groups where wall-building materials is non-core
- Limited impact from anti-trust regulation in Germany

## Geographical focus



# Q & A

# Thank you

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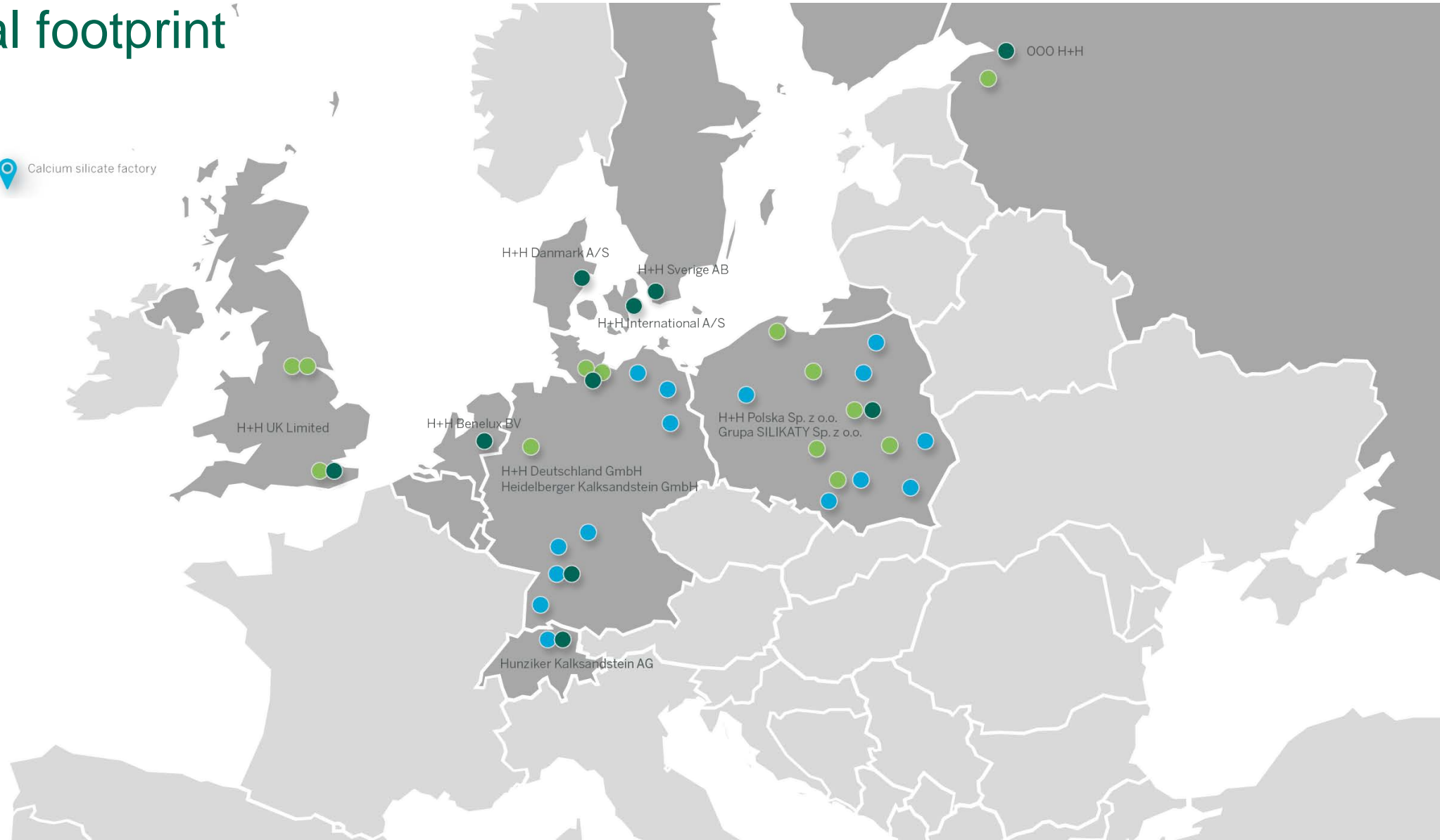
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# Appendices



# Geographical footprint

- Sales & admin.
- Aircrete factory
- Calcium silicate factory



# External growth drivers

- GDP growth
- Inflation
- Governmental stimuli of housebuilding



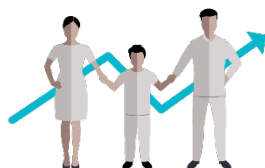
MACROECONOMIC DEVELOPMENT

- Capacity utilisation in the aircrete industry
- Capacity utilisation in the building materials industry
- High entry barriers



CAPACITY UTILISATION

- Urbanisation
- Housing stock
- Demand for high-rise/low-rise



DEMOGRAPHY

# Risk factors

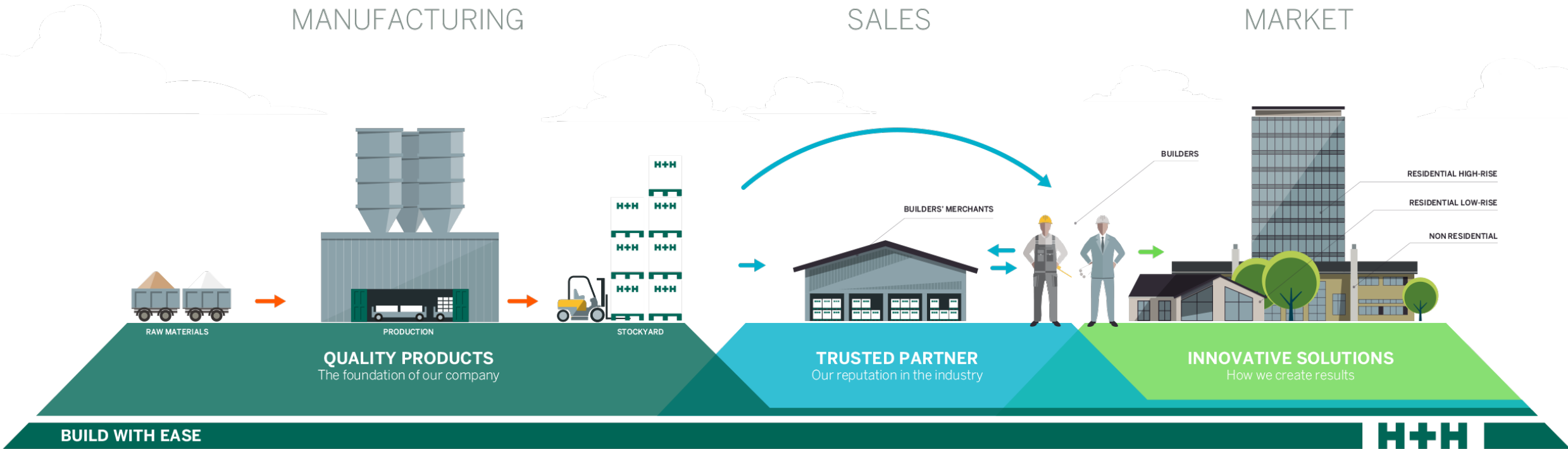
Risk	Probability	Impact	Scenario
Market			With significant operational gearing and fixed costs, demand has a noticeable effect on H+H's financial performance. Developments in the global economy and especially the construction sector, as well as political risks such as Brexit, initiatives such as taxes or tax deductions targeting the building industry or home owners, or changes to the mortgage system, have a significant direct and indirect impact on H+H.
Production			A major production breakdown or fire in a factory could cause a long-term loss of production. This shortfall would have an effect on sales unless made up by other H+H factories.
Raw materials & energy			Production is dependent on the supply of raw materials. Production costs are exposed to the effects of higher energy prices on the cost of transportation and price changes for cement, sand and lime.
Competition and pricing			H+H is the second-largest player in the European aircrete market. This market position could be endangered by mergers between competitors. Excess production capacity in some markets could result in a price war.
Foreign exchange rates			H+H's earnings are primarily in GBP and EUR, while its borrowings are primarily in DKK, PLN and EUR. Any developments in the financial markets, especially in GBP, could have a significant impact on H+H.
Capital structure & cash flow			Net interest-bearing debt amounted to DKK 459 million at the end of 2017 and H+H will remain dependent on external financing in the future.
UK pensions			The UK defined-benefit pension scheme is closed but has accrued benefits and a pension deficit. Each year the pension assets and liability are revalued. A change in the discount rate of 0.1 percentage point would change the obligations by approx. DKK 13 million. A change in the rate of inflation would change the obligation by approx. DKK 7 million, both affecting equity.

# The business model

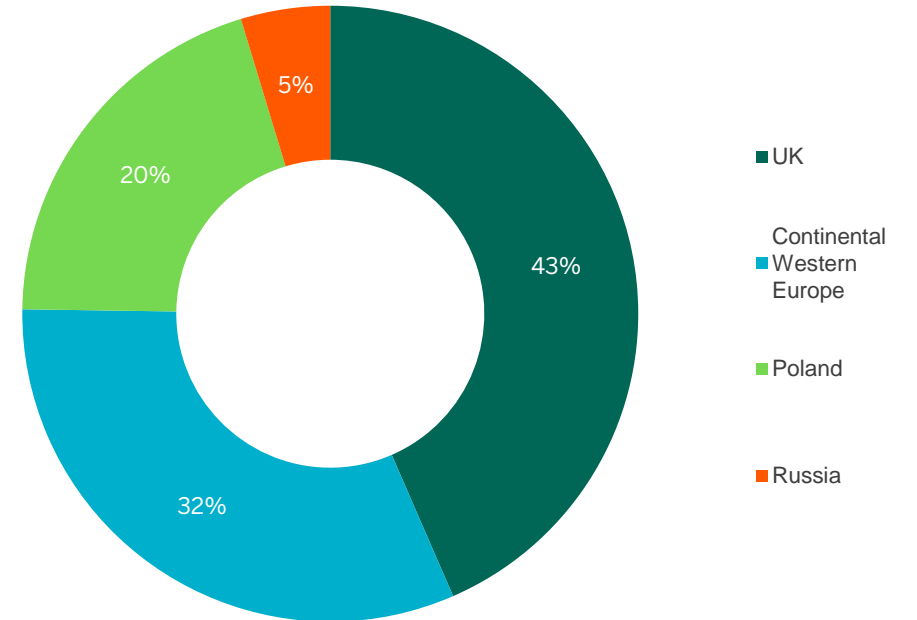
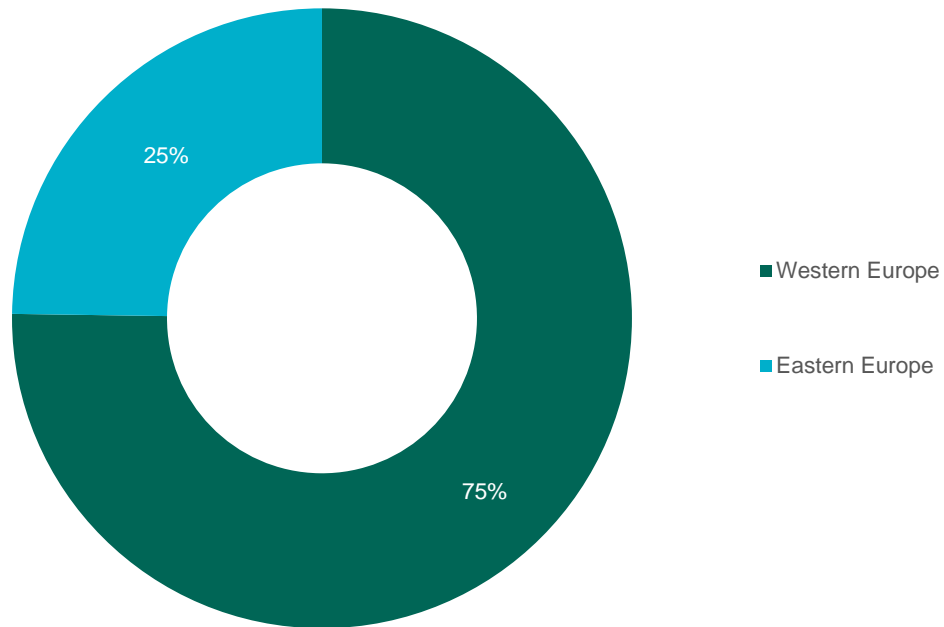
MANUFACTURING

SALES

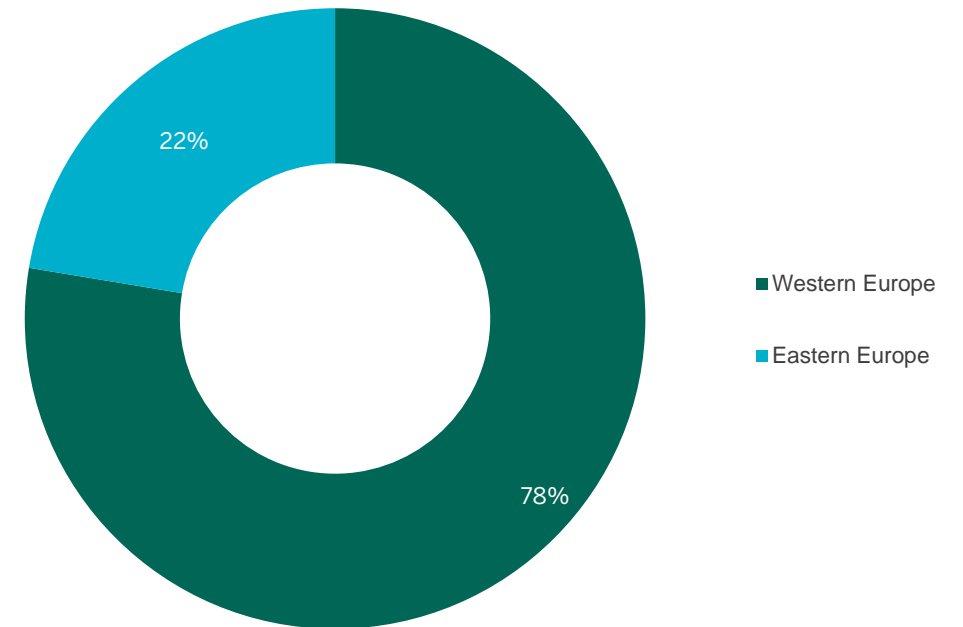
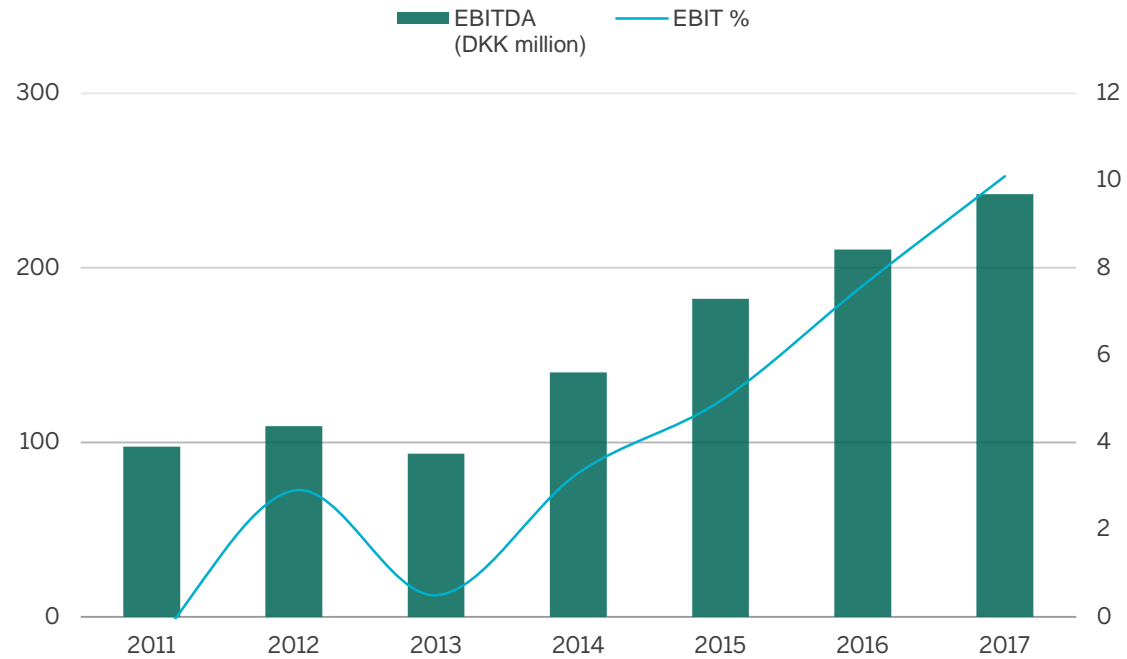
MARKET



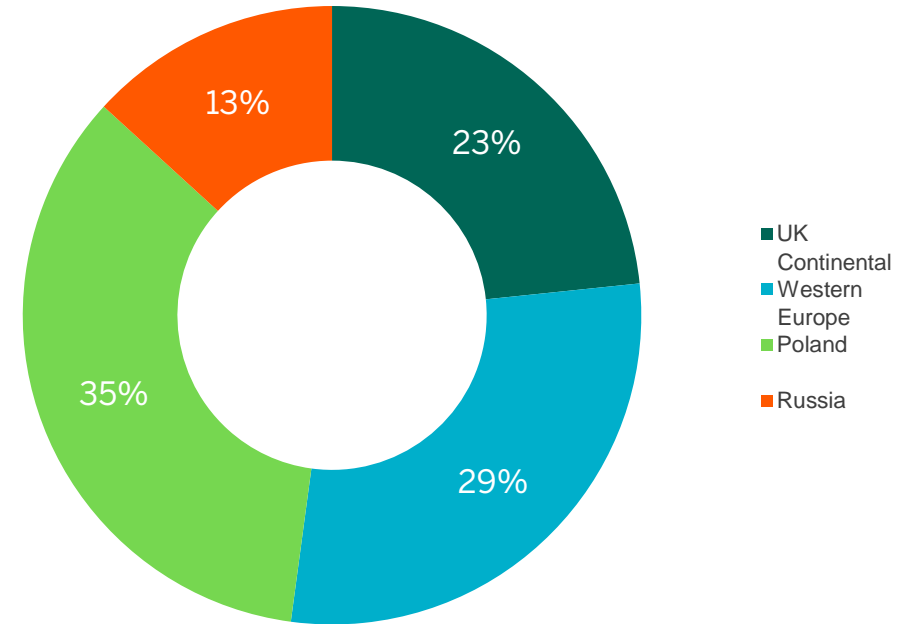
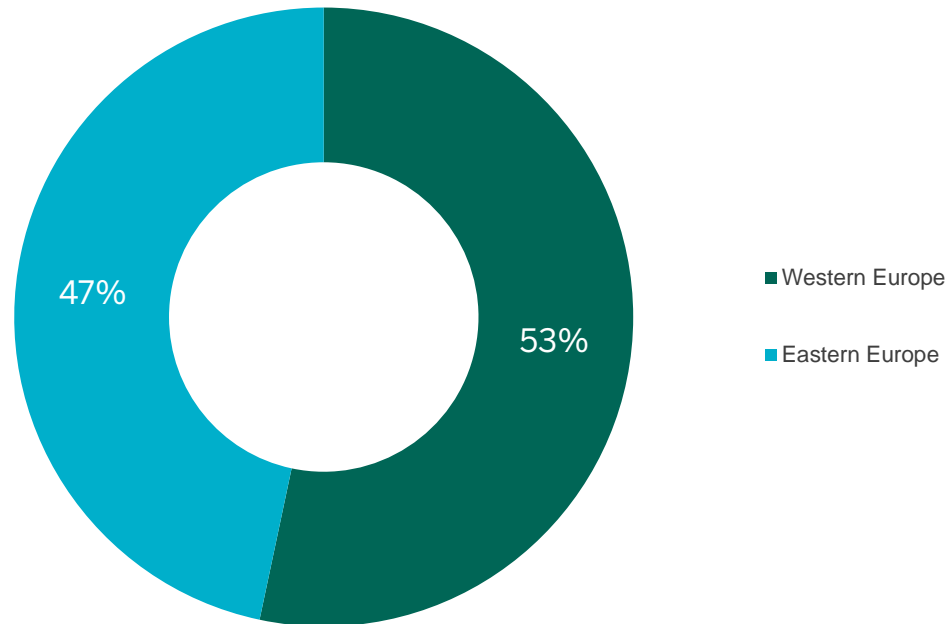
# Revenue allocation 2017



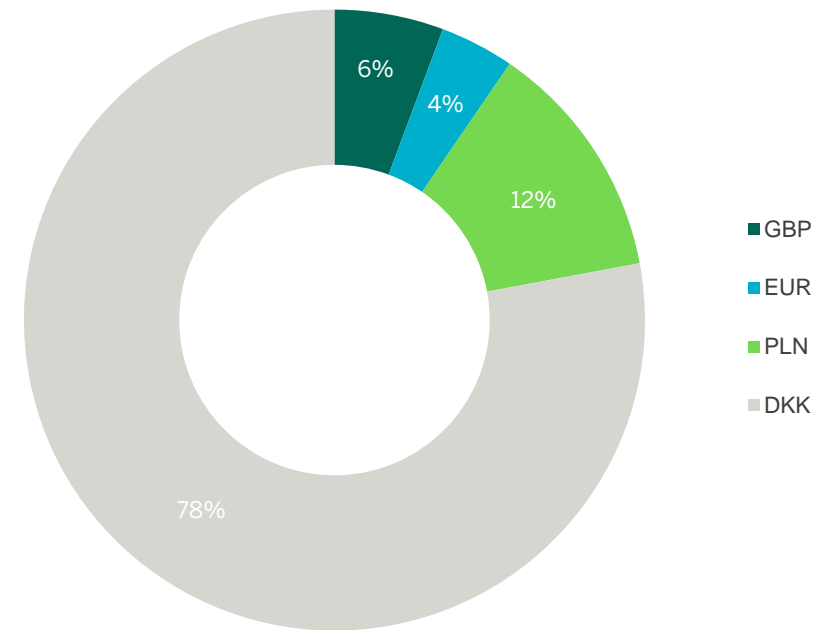
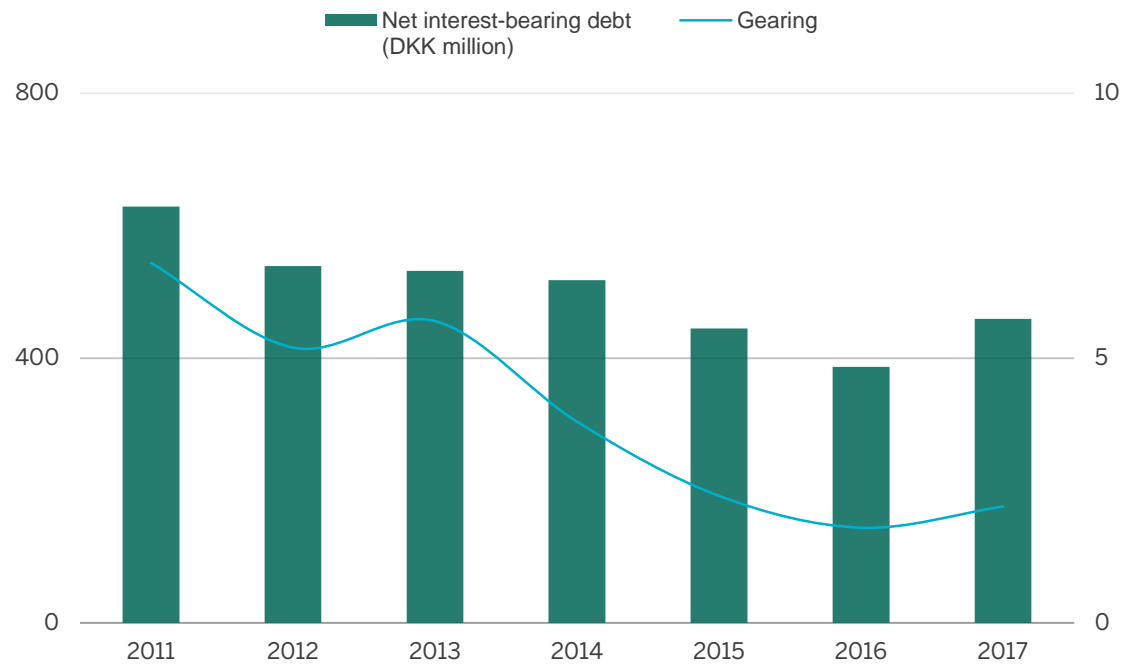
# EBITDA and EBIT margin development and EBITDA allocation 2017



# Non-current asset allocation as of 31 December 2017



# Net interest-bearing debt development and allocation as of 31 December 2017



## Strategic rationale for the CSU acquisitions

- Create a more balanced geographical footprint
- Expand the product offering, mainly within residential high-rise, becoming the second largest European player within CSU
- Harvest synergies with the aircrete business, create scale and operational improvements
- Benefit from best practice sharing across the German/Polish operations of the CSU businesses
- Platform for further market consolidation

