# H+H International A/S
# Q3 2023 Financial results – Conference Call

17 November 2023

H+H
PARTNERS IN WALL BUILDING

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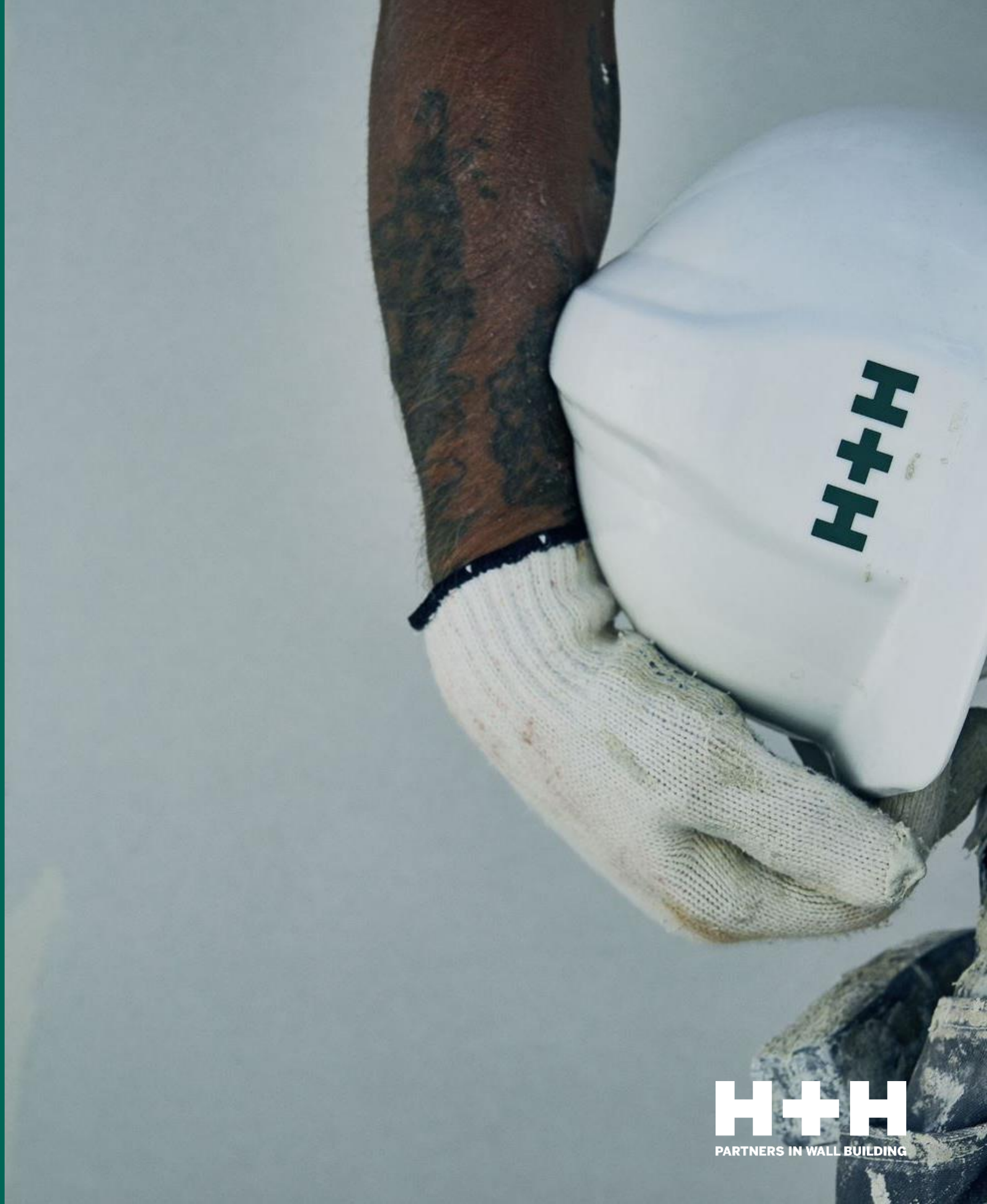



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# Introduction

1. Q3 Summary
2. Market development
3. Business improvement program
4. Financial performance & Outlook
5. Closing remarks
6. Question and answers

# Third quarter in line with our expectations

## Selected financial figures

**Figures in DKKm unless otherwise stated. Q3 2022 figures in brackets**

| Organic growth | Gross margin [1] | EBITDA margin [1] |
|---|---|---|
| -24% | 20% | 8% |
| (7%) | (23%) | (17%) |

| Free cash flow | Financial gearing | EBIT margin [1] |
|---|---|---|
| 54 | 2.6x | 2% |
| (36) | (0.5x) | (12%) |

## Q3 2023 key takeaways

1) Continued low building activity leading to a 27% volume drop
2) Positive free cash flow of DKK 54 million. Financial leverage impacted by lower run-rate EBITDA
3) Business Improvement Program showing effects. However, earnings are impacted by higher energy costs from unfavourable gas hedges
4) Before the impact of the gas hedges, EBITDA margin [1] was 12% and EBIT margin [1] was 6%

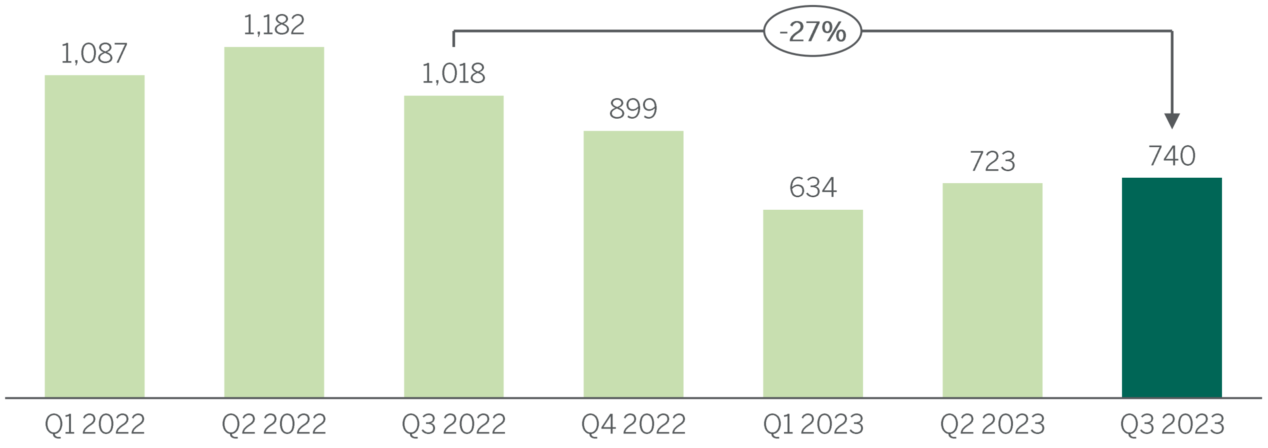


(1) Before special items

# Market environment

## Building permits and interest rates


## H+H consolidated volumes by quarter
### Thousand cubic meters




**Key development**

Permits have returned to 2008 levels, but interest rate changes happened with unprecedented speed

On top of this no effective government support programs in place. Only exception is the 2% safe credit loan program in Poland, which led to increased mortgage demand

Low volumes has led to a competitive environment with price adjustments in Poland and to some extent in Germany (mainly on projects)

For 2024 we see list price increases being announced in Germany



Source: OECD for Germany, Poland and the UK.

# Group business improvement program to drive efficiency of our operations

## Navigating the downturn

### Q1 2023
Permanently closed 5 plants across the network redirecting volumes to bigger and more efficient plants and adjusted our operations workforce by around 20%

### Q3 2023
Taking out further capacity by temporarily close production in three AAC factories and one CSU factory

### 2024 and beyond
Continuous focus on cost-saving measures in SG&A and procurement and further improving uptime and continuous improvement in our factories

## Key drivers going forward

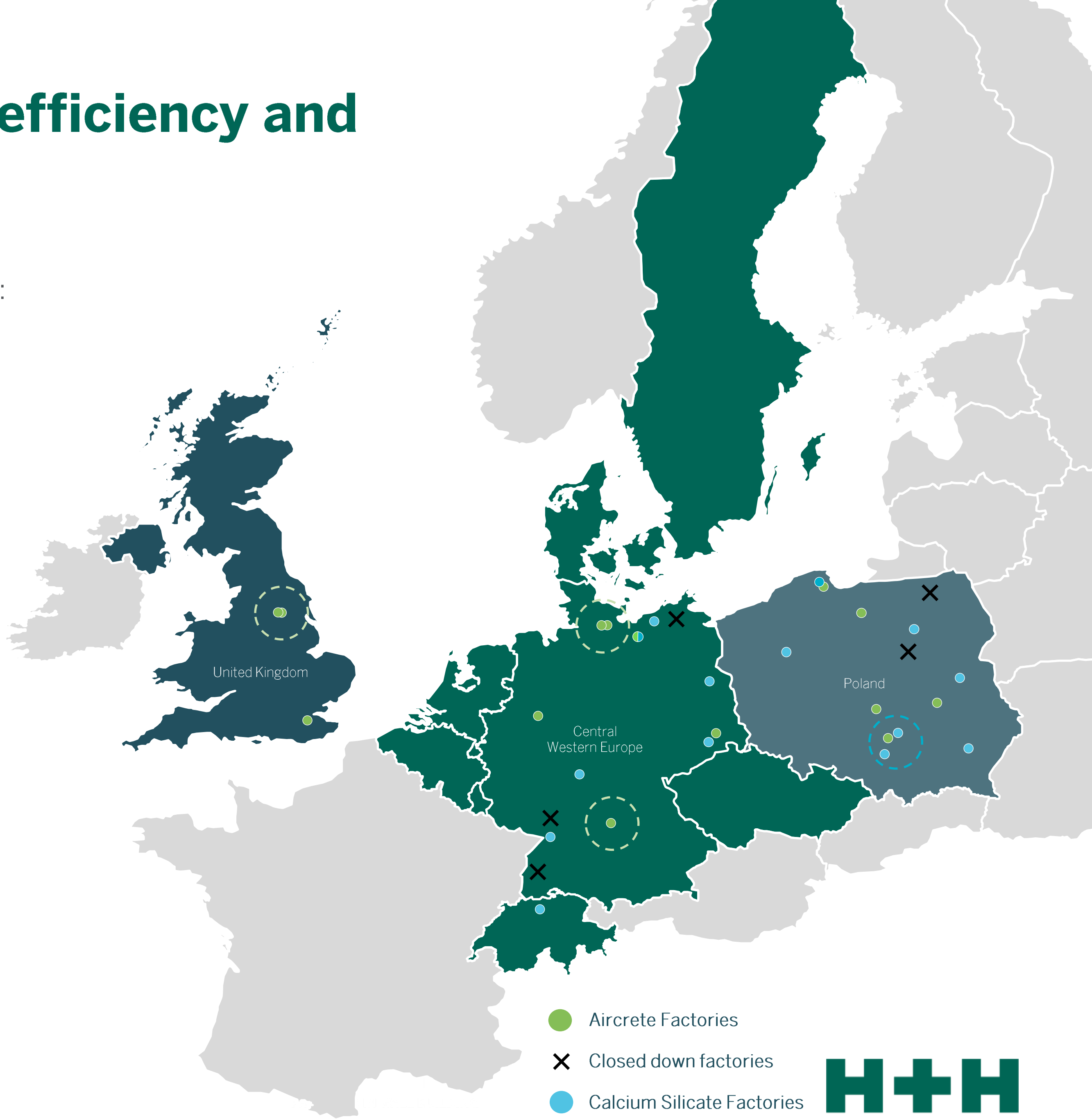
**Plant network efficiency.** Continuous emphasis on cost-saving measures and further improving uptime and continuous improvement in our factories.

**Procurement focus.** Utilising market opportunities for lower input cost. Guiding principle to defend contribution margin

**SG&A cost savings.** Implementing SG&A cost savings supported by standardized business processes and digital tools. Main focus on integrating CWE into ONE company after acquisitions in last 5 years

# Taking out further capacity to drive efficiency and stock decrease

- Temporarily close production in three AAC factories and one CSU factory:
    - One AAC factory in the Northern UK
    - One CSU factory in South PL (transfer volumes to nearby factory)
    - One AAC factory in the North DE
    - One AAC factory in South DE
      (logistics will stay open to serve our customers in South DE)
- Temporary closures increases the efficiency of the entire network
- Supply will be handled by nearby plants
- Maintaining a flexible approach to restarting production when market conditions improve
- Stock decrease in line with our cash management focus

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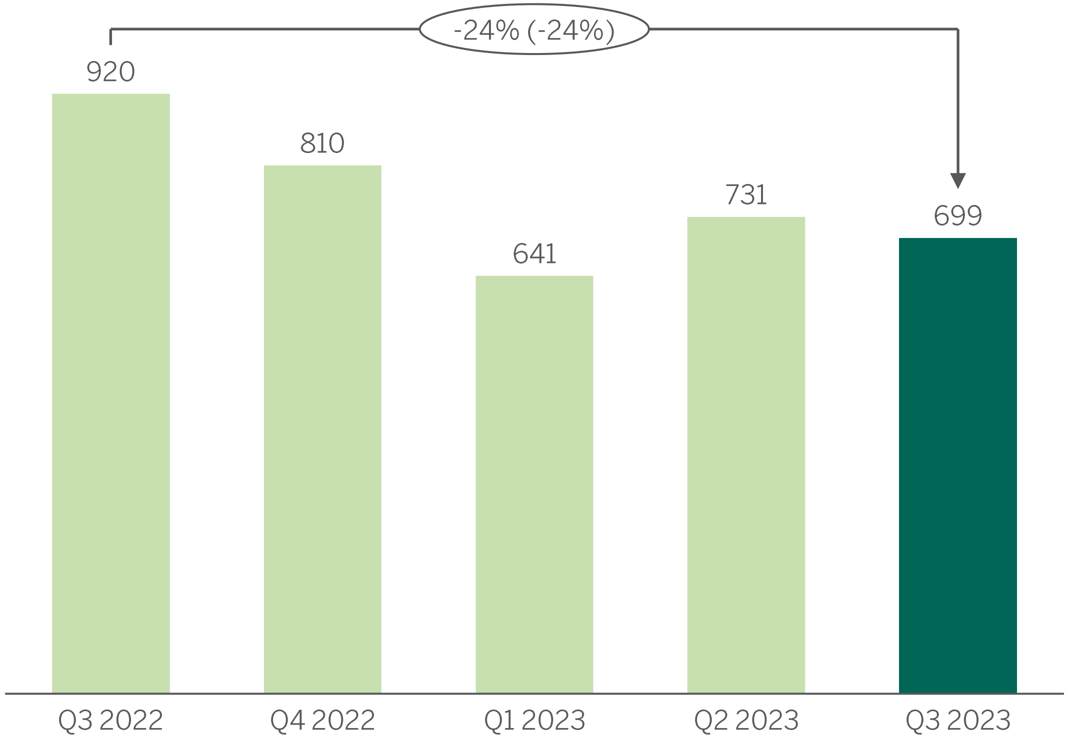
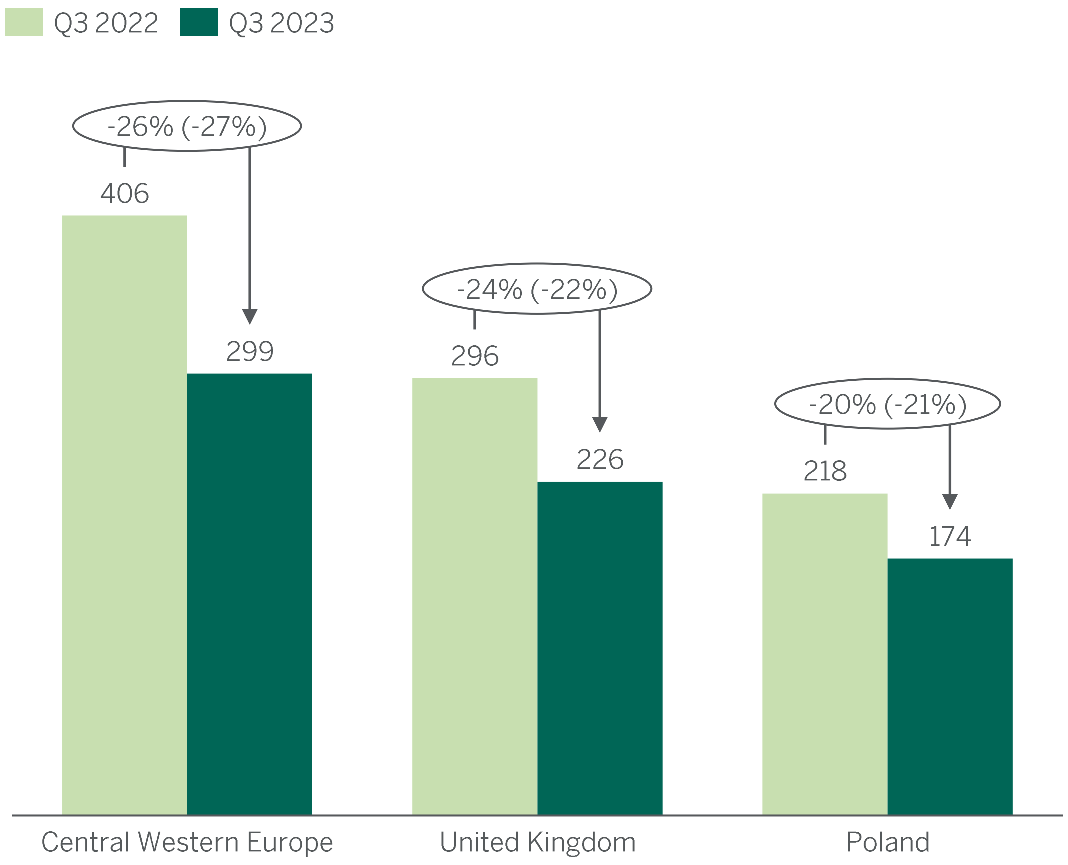
# Challenging conditions are causing a decline in revenue across all our markets

## Consolidated revenue by quarter
**DKKm. Revenue growth (organic growth)**




## Quarterly revenue by region
**DKKm. Revenue growth (organic growth)**



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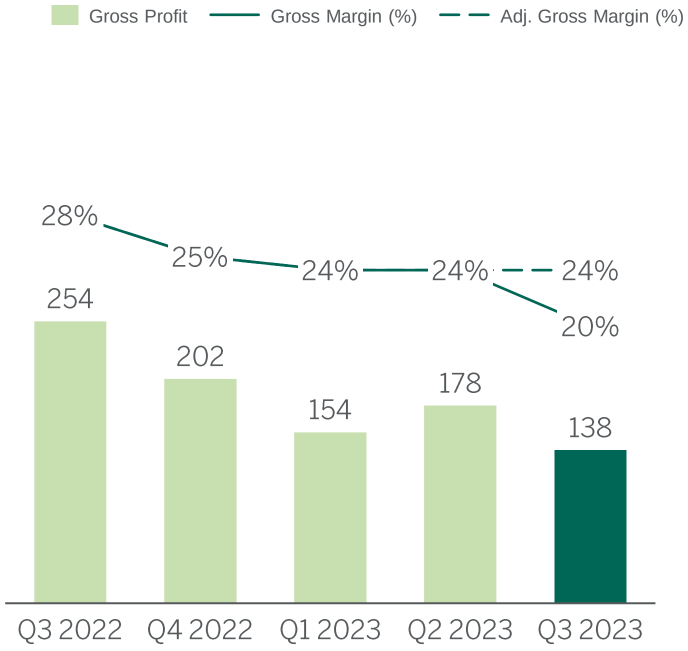
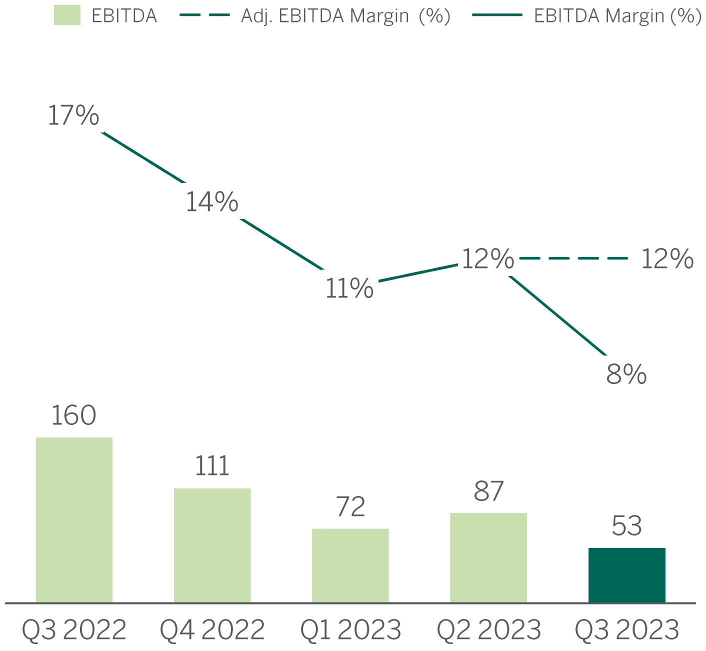
# Profitability impacted by low building activity and higher energy costs

## Gross profit and gross margin
DKKm and percent



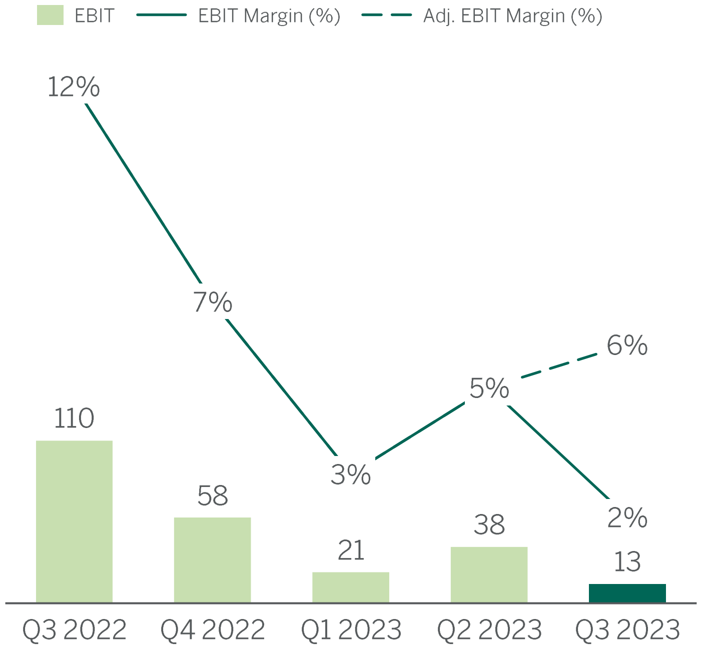

- Gross profit decreased by DKK 40 million to DKK 138 million quarter on quarter, corresponding to a gross margin of 20%
- The lower gross profit margin is driven by overhead cost spread over lower volumes and increased production costs including cost of energy

## EBITDA and EBITDA margin
DKKm and percent




- EBITDA before special items amounted to DKK 53 million compared to DKK 160 million in Q3 2022, corresponding to EBITDA margins of 8% and 12% respectively
- EBITDA was in Q3 impacted by unfavourable gas hedges. Adjusted for these hedges EBITDA before special items would be DKK 85 million corresponding to a margin of 12%

## EBIT and EBIT margin
DKKm and percent




- EBIT before special items amounted to DKK 13 million in Q3 2023, down from DKK 38 million in Q2 2023 corresponding to an EBIT margin before special items of 2%
- Adjusted for the gas hedges EBIT before special items would be DKK 45 million corresponding to a margin of 6%



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Note: All figures are before special items. Adjusted margin is before unfavourable gas hedges dating back to august 2022

# Special items and gas impact

## Special items

### Impairment

- As a result of the closure of plants, an impairment loss of DKK 99 million was acknowledged for production equipment in the first nine months

### Restructuring cost

- In Q3 2023, DKK 16 million in restructuring costs were recognised, primarily related to factory closings. Total recognition for the first nine months amounted to DKK 71 million
- Total restructuring costs is expected to be around 120 million and has an expected pay back of less than a year

### Unused gas

- Lower volumes led to the sale of unused gas in the market for the third quarter, resulted in financial losses classified as special items amounting to a net DKK 14 million. Total loss of unused gas for the first nine months was DKK 36 million

## Gas used in production

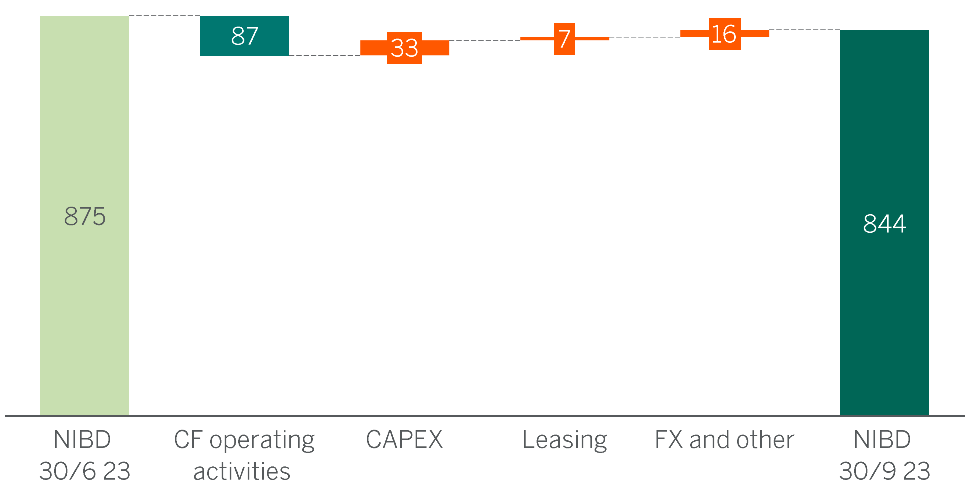
- During the third quarter, gas contracts dating back to summer 2022 led to increased production costs. These contracts are currently unfavourable to current market prices and increases production costs for the quarter by DKK 32 million
- Based on the current market prices and current production volumes, we expect our cost to be higher by around DKK 20 million for the fourth quarter 2023

| Special items, net in DKK million | Q3 2023 | Q1-Q3 2023 |
|---|---|---|
| Impairments of assets (Closed down factories) | 2 | 99 |
| Restructuring costs | 16 | 71 |
| Unused part of gas hedges | 14 | 36 |
| Total | 32 | 206 |



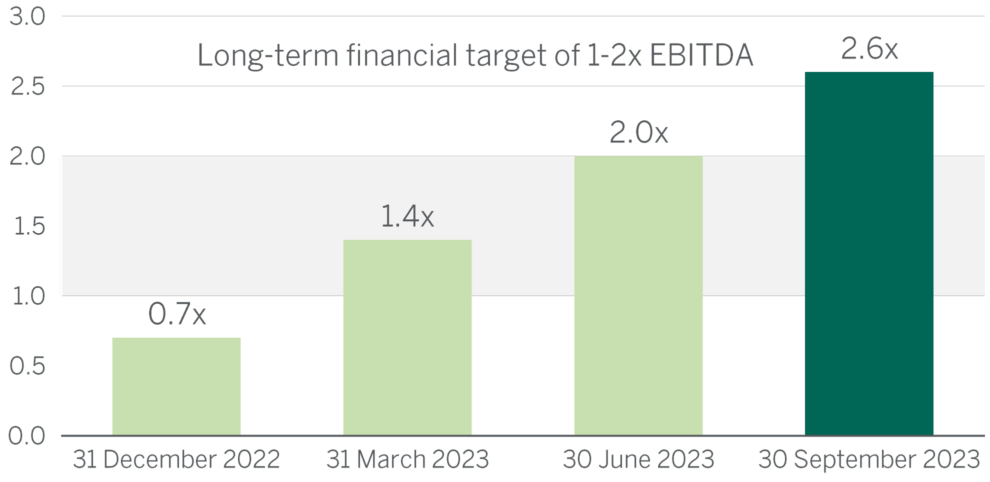
# Positive inflow from operating cash flow

## Net interest-bearing debt (NIBD)
DKKm.




- Net interest-bearing debt decreased from 30 June by DKK 31 million to a net cash position of DKK 844 million driven by positive operating cash flow in the quarter
- Positive cash flow driven by development in inventories, recievables and payables
- Carefully managing our cash position

## Financial gearing
NIBD to EBITDA before special items




- Current EBITDA level negatively impacts financial gearing
- Net interest-bearing debt totalled DKK 844 million on 30 September 2023 corresponding to an increase of DKK 352 million since 31 December 2022 and a decrease of DKK 31 million since 30 June 2023



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(1) Of the total net interest-bearing debt, lease liabilities amounted to DKK 88 million as of 30 September 2023

# Full year 2023 outlook narrowed

| Organic growth | EBIT before special items, mDKK |
|---|---|
| ~(25)% | 30 to 80 |
| (Previously -20% to -25%) | (Previously 30 to 100) |

Specific assumptions:

- Sales volumes expected to decrease around **-35%**
- Exchange rates, primarily GBP, EUR and PLN remain at end-November 2023 levels



# Key takeaways

1. Low building activity in line with expectations
2. First results from business improvement program coming through, however, higher energy costs also impact earnings
3. Next efficiency step initiated through temporary plant closures
4. Carefully managing our cash position

# Questions and answers

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