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# Capital Markets Day

## Company Participants
Rob Wood, Chief Executive Officer
Donna Hunt, Head of Sustainability
James Brotherton, Chief Financial Officer

## Other Participants
Cedar Ekblom
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Graeme Kyle
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John Fraser-Andrews
Sam Cullen

## Rob Wood
## Presentation
Good afternoon, everyone. I don't think I'll get bored of watching that and I may have even once asked to play it again at the end. But I've been told I can't. I'm Rob Wood, Breedon's CEO and I'm delighted to welcome you to our Capital Markets Event, whether you have joined us in the room or via the webcast, I thank you for taking the time to join us.
Over the next hour or so, I will update you on our growth strategy and progress to-date. Donna Hunt, our Head of Sustainability, will talk to you about what we are doing at Breedon on this subject, and James Brotherton, our CFO, will present our financial framework that will underpin our strategy. Then, we will open things up to questions. The three of us are joined in the room today by Amit Bhatia, our Non-Executive Chairman; Mike Pearce, the MD of our GB Materials business -- yes, and James Haluch, the MD of GB Surfacing business and by Jude Lagan, the MD of our Cement business.

For those of you in the room, you'll have the chance to chat with them following the events. So, I'm going to type my discussion of our strategic approach progress in three pieces, where we've come from, what differentiates us today and how we are thinking about the future. So, why'd you only so far? Breedon is a great business. Since formed a decade ago, we have grown impressively, both organically and through acquisition into a leading, vertically-integrated construction materials group in Great, Britain and Ireland.

When I joined the business in 2013, revenues were in the region of 200 million, EBIT was 15 million and we had 1,000 employees. Since then, these have increased six-fold to ?1.2 billion over eightfold to ?129 million and over threefold to 3,500 respectively. Acquisitions have ranged from small bolt-ons to transformational deals. Acquiring Hope, double the size of our business, in 2016, while Lagan in 2018 gave us our second platform, Ireland. At every stage, M&A activity has been complemented by organic growth. What's pleasing is how balanced both aspects of a growth have been over the past decade. Our business is asset-backed. We are underpinned by one billion tons of reserves and resources and two well invested cement plants. In terms of reserves of resources, that's enough to sustain the business for the next 30 years or 40 years. In an industry, where planning restricts the supply of new reserves, our position provides a significant barrier to entry. Likewise, the capital cost of new cement capacity affords us similar protection.

Let me give you some context in respect of Great Britain. The few new crushed rock quarries that have been permitted over the last 20 years have been slow to come on stream. One search was our North Drumboy Quarry near Glasgow, which opened in 2018 and took 14 years to deliver from concept to operation. It's a similar story with cement. No new facilities have been brought on stream since 2004, and the planning construction and commissioning of a new one would take well over a decade. These are challenges for our business, but they also demonstrate the value of the permits and the assets that we have. What is also interesting is that the planners are usually much more sympathetic to reserve extensions, which reports further protection to existing operators.

Our business has national reach. For map, you see on the slide charts the growth over the last decade. In Great Britain, we now operate a nationwide network extending from Stornoway in the Hebrides to Hampshire in the South of England. In Ireland, our network covers both the North and the South. In total, we have 350 sites across our two platforms. Our business is exposed to strong long-term growth markets. The main end-use exposure across our two platforms is to infrastructure and housing. Both these sectors have good long-term growth prospects, underpinned by the British and Irish government spending commitments in response to generational under investment and population growth. This underinvestment is demonstrated by aggregate in cement per capita consumption, which in the UK has consistently been amongst the lowest in Europe, 32% and 45% respectively below the European average based on the latest numbers I've seen for 2018.

The British and Irish governments have committed to address these issues. The UK government recently published a 10-year infrastructure spending pipeline worth up to ? 650 billion. And the Irish government has agreed EUR165 billion national infrastructure plan to 2030. Lastly, and I know everyone says, their people are the most precious assets. But at Breedon, that really is true is true. Our business is underpinned by our people. We have 3,500 well-motivated and passionate people. It takes a special kind of committed and talented person to be up and busy at one of our sites at 6:00 AM on a dark, cold and wet winter morning.

Pride and skill in our work is the backbone of what we do. I'm particularly pleased by the results of this year employee engagement survey, in which 84% of our people told us, they felt their work contributed the overall success of Breedon. They are right. It does, they do. I also love this picture as it shows some of our latest cohort of graduates and demonstrates our commitment to invest in people. So that has been Breedon's path at this point.

Now, I want to talk to you about what has and what continues to make us stand out from the crowd. To us, this is that we are at Breedon. This starts with our local focus. We have a local sales and distribution model, and local accountability, which mirrors the nature of our products that generally don't travel far. It's all about our managers understanding the local market and having full P&L responsibilities, so that they have full price and cost visibility. We have an entrepreneurial culture. We are nimble and agile, and able to adapt quickly. We are also unbureaucratic. Decisions can be made in hours or days, not months. And local managers are empowered to use their judgment rather than passing up the chain of command. We also focus on providing best-in-class customer service and solutions is often our ability to troubleshoot on behalf of clients that wins us contracts.

Our ability to make quick decisions is evident in our capital investment process. James and I do not sit on requests, and if Board approval is required, we're able to secure it promptly. In summary, good projects don't get held up. We're also prepared to think out of the box when working with our customers and are prepared to invest to find an optimum solution for them. This could involve as investing in dedicated plants or operating customer assets. But we balance this with our financial framework. We maintain effective controls without compromising our local focus or entrepreneurial culture. I believe the business has matured over the last decade and we now have the appropriate governance in place for a group of our size and ambition.

We are vertically integrated. We offer value-added products, which provide margin enhancing routes to market for our core products. It's all about extracting value at each stage of the process, from extraction through to the sale of products and services. A simple example is ready-mixed concrete, where the sale of it secures the margin on its sale and the upstream aggregate, and cement margin. We are a trusted owner of assets. We're often seen as a good custodian of a vendor's assets, especially when those assets include people.

Our people are paramount. We strive to keep them safe, motivated and proud to be a part of Breedon. We have a robust health safety and well-being policy that is focused on making sure all our people go home safe and well at the end of every day. The foundations of this ethos have changed very little over the years. Back when I joined Breedon, there were eight golden rules. They were stay local, stay nimble, devolve responsibility, own our assets, squeeze our assets, keep central overhead to a minimum and deliver value from acquisitions. The words may have changed slightly over the years, but the sentiment shines through in the purpose and values, our own people helped us define last year.

Given our acquisitive background, we felt it was increasingly important to bind ourselves together through a shared purpose and common values that distinguish us from our competitors. Without involving an army of expensive consultants, we wanted to articulate clearly and authentically, what it means to be a Breedon person. We undertook a wide ranging internal consultation, the results of which was the agreement of a clear purpose to make a material difference for all our stakeholders. And the adoption of four values to straightforwardly and practically set down, who we are, what we believe in and how we behave.

Firstly, keep it simple. A simple philosophy, right product, right place, right time and for the right price. Secondly, make it happen. Our attitude is if there's a will there's a way. Thirdly, we strive to improve, we recognize that we could always be better at what we do. And fourthly, we show we care, we look out for each other. These represent the Breedon DNA. The final output of our work on purpose and values was our updated vision to be a leading vertically-integrated international construction materials group. So, wanted my third piece, what next? When I took over as CEO, the message I gave in respect of strategy was one of evolution, not revolution. This shouldn't have come as a surprise given, I'd been an integral part of Breedon's strategic thinking for over seven years.

Today, our strategy remains to create sustainable value for all our stakeholders over the long-term and the three main priorities of it are: priority one to sustain, to embed a culture of sustainability. Sustainability is something that is not new to Britain. It is something that has been close to our hearts over the last decade and is something that we consider to be our number one priority alongside health safety and well-being, but it's not something that we have done well at communicating, that's changing. Over the last year, we've appointed Carol Hui as designated Non-Executive Director responsible for sustainability. We have appointed Donna as Head of Sustainability, from whom you will hear shortly. And as I communicated at the interims, we have identified our key ESG focus areas, these been the planet, people and places.

Priority two, to optimize to deliver continuous improvement by driving efficiency and increasing utilization. We carefully manage our fine item, valuable reserves and resources. We seek to minimize waste and maximize the value of every ton of material we quarry. This is as much about deploying commercial acumen as it is about working the cost side. Let me manage our state sensibly adding to our reserves to ensure we have long-term visibility and maintain our license to operate.

A good case study showcasing how we optimize as the CEMEX acquisition from last year, where we have undertaken numerous business improvement initiatives. Increasing reserves, we have gained a significant extension of reserves (inaudible) a quarry in Southwest England, which was the flagship quarry acquired. Enhancing utilization, we have open reopened Shap a rail and quarry in Cumbria that has been dormant, but can provide high-quality aggregates to the North and the Midlands. Maximizing value, we have transferred Breedon's ready-mix concrete plants in the Yorkshire region onto CEMEX local aggregate, freeing up existing higher value aggregate for use in the Midlands. Another example of maximizing value is what we have done at our Hyndford Quarry in Scotland, where we have implemented automated blending of slow-moving infill sand and dust to achieve a consistent quality, blended concrete sand that is in short supply. Improving commercial acumen, the Breedon local sales and distribution model has been adopted, gone is the call centre. These are just a few of the many such examples, the benefits of which are starting to be reflected in margins and give me the confidence to say that time will prove that this was another cracking acquisition for Breedon.

Priority 3 to expand to grow both our geographical footprints and product portfolio, both through organic investments and acquisitions. What's mentioning growth? I think it's appropriate to elaborate on our GB Contracting strategy. Our GB Contracting strategy is all about pulling additional volume through the business and about the laying of asphalt. It will not be margin dilutive or change our risk profile, but will offer genuine growth prospects. Actually, contracting is a name is not the right one and we have changed it to surfacing.

In terms of acquisitions, bolt-ons within the existing platforms are likely to be aggregate led or offers cement vertical integration and we have opportunities across both platforms. These range from opportunities, the size of our traditional bolt-ons, low tens of millions to a few that are of a comparable size to the CEMEX when we did last year low hundreds of millions. What is clear is that as the group grows, the definition of what a bolt-on is grows as well. James will revisit this subject later when he talked about investment growth opportunities.

Done well, the optimized and expanded elements of our strategy will be complementary.

As you can see from the case study on CEMEX that I just covered. And everything we do will be viewed through a sustainability lens and subject to Breedon's financial framework. I now want to talk about how we could realize the international ambition of our updated vision.

As you would expect, we remain alert to potential opportunities, but I want to reassure you that any move into a third platform will be measured and subject to clear criteria. We will focus only on those markets, which are characterized by long-term growth prospects, robust legal systems, reliable planning regimes and benign local cultures with minimal political risk. We will also only embark on the development of a third platform if we are confident that the Breedon model can be replicated in the new geography.

In closing, I would like to highlight the following. We've achieved a lot over the first decade. We have an asset-backed business model offering exposure to long-term growth markets. We are different from our competitors and we have a clear growth strategy focused on sustainability, optimization and expansion. Thank you for your attention.
And with that, I'll hand you over to Donna on the subject of sustainability.
(Audio Video Presentation)

## Donna Hunt

Thank you, Rob and good afternoon, everyone. I'm Donna Hunt, Breedon's Head of Sustainability. And I joined Breedon just 18 months ago, having spent around 20 years delivering strategy and sustainability-related business change across the energy, the aerospace and most recently, the construction sectors.

So, I'm delighted to be here today to share with you the latest progress that we've made at Breedon to embed a credible and a robust approach to sustainability throughout our organization. And over the next 20 minutes or so, I'm going to cover four main points.

One, I'll show you that Breedon has a history of taking positive action for sustainability. I'll explain how we're going to have a robust and credible approach in forming our framework and I'll let you know what our key focus areas are, and why they're important to us. Three, I'm going to share with you our brand-new 2030 targets and some of the actions that we're going to be taking to achieve them. And fourth, I'll tell you how we've already started to embed this throughout our organization and how we plan to report on our performance in future. But first, let's just pick up on Rob's earlier point about sustained being a key part of our strategy and more specifically, the fact that sustainability is not something new for us. That brief video that you saw just as I came on showed some of our colleagues, and their interactions with schools and it showed some of our sites that have been restored and managed to enhance nature.

As part of my induction time if you like when I joined Breedon last year, in my first few weeks, I went out to see sites to and spoke to lots of people to better understand what it is that needed to be done. And I discovered that the company had already done some pretty impressive stuff. Let me tell you about a few examples. The quarry right near our head office is right in the middle of a sensitive village location. So, the sites have been looking at ways that they could extract minerals without having to blast. They combined a Rock Hog machine, which is able to take up really fine layers of product, and they added on a Grydale mobile dust collector, which as the name suggests collects all the dust. And this combination ensures that there's 99.9% clean air, lower noise and much lower carbon emissions too and that was the first solution of its kind in the UK.

Another first, I found out that the quarrying industry was actually the first sector in the UK to implement a biodiversity strategy. I also learned that our own quarries adjust the areas of operation for nature. And each year, they leave some of the quarry faces open. So that Saint Martin's can nest there over the summer. And this has helped establish some thriving colonies across many of our sites. Many of our colleagues are involved in volunteering. They visit schools to deliver stem sessions. They generally support a range of community projects. And last year, our community fund in Whitemountain, which is an island. They supported 21 different biodiversity and community projects. And since the fund has been running since 2007 and since then, it's distributed ?9.2 million worth of funding to over 200 different projects across Ireland.

Our sites have also been working to make their operations more efficient. So, they've invested in new vehicles and new equipment to lower emissions. Lagan bitumen plant in Dublin reuses water with a closed loop water system and our Kingscourt Bricks site, invested in a new machine that makes palletless brick bales, and that's totally eliminated paper use and reduced the number of wooden pallets by 80%. So that's 20,000 fewer wooden pallets, just from that factory alone, not required anymore. So, not having any pallets also means the brick bales are a lot lighter, so that saves on transport and shipping costs too.

Our materials and surfacing business delivered product called Recofoam that reprocesses the plainings that are taken up from the surface of the road, mixes it with a proprietary foamed bitumen and creates a fully compliant recycled road. One that incorporates up to 85% of recycled content and reduces CO2 by 50%. And on the topic of CO2, we have two cement plants one in the Peak District, Hope, and one in Ireland, Kinnegad. Both of our cement plants have been working to reduce their carbon emissions for many years now. Hope was in fact the first plant in the UK to pioneer the burning of tie chips as fuel. And our Hope plant has been successful in replacing around 40% of their fossil fuels, with the lower carbon renewable alternative fuels.

Our Kinnegad plant is currently achieving a world-leading rate of around 75% replacement for fossil fuels. So, you can see Breedon has already taken lots of positive sustainable action with our operational processes, on our land, with our products and for our communities. But as Rob said, we've not been very good at telling people about it. So, we've identified lots of pockets of good practice and we want to embed these further across our organization, and we recognize that our customers value this too. Transport Scotland, National Highways, Transport Infrastructure Ireland, High Speed 2, Tier 1 contractors like Morgan Sindall, Skanska, Balfour Beatty, Eurovia. They really want to know from us, but we as their suppliers, can do to help them achieve their own sustainability goals. And this is becoming increasingly evident in the way that we're winning work. So last year, we set out to develop a sustainability framework, that would be intrinsically linked to our company strategy and purpose. And that would focus our efforts on the areas, where we can make a positive difference to our company and for our stakeholders. To ensure that we set a solid foundation, we undertook a materiality assessment exercise to understand the topics that are internal and our external stakeholders, felt were the most important and the most impactful for us to focus on to create shared value. We shared this materiality graph in our last Annual Report. Since then, we've grouped the 21 key topics that we've identified into four themes. These are tied into our company purpose, making a material difference to the planet, to people, to places and all of those are underpinned by some fundamental operating principles. Successful sustainable companies focus on topics that are relevant to their sectors and more specifically to their own business.

So, let me tell you now, how each of our chosen focus areas is relevant to Breedon. Under planet, our focus is on three things, carbon, responsible use of natural resources and biodiversity. The nature of our business is energy and carbon intensive. We've got more than 50 asphalt plants, 200 ready mix plants, 100 quarries, two cement plants. Lots of logistics including road, rail and shipping, and all of these have got an environmental impact that we want to manage responsibly.

With a cost of carbon credits, having risen from EUR8 a ton in 2018 to hitting almost EUR70 a ton this week. There's not only an environmental driver, but also a very strong financial driver to reduce energy and fuel use, and the associated emissions. Our CFO, James Brotherton, will go into more detail later about our hedging strategy. We have close to 1 billion tons of mineral reserves in the ground. These are finite natural resources and we want to manage them responsibly, ensuring that there's little ways just possible and that we're encouraging a more circular approach in terms of reuse and repurposing, and we have over 100 quarries and that's thousands of hectares of land for us to manage.

Typically, quarries operate between 10 years and 20 years, but some of them for over hundreds of years. So, there's a fantastic opportunity for land stewardship and the enhancement of nature and biodiversity over those decades. On people, our focus is on our workforce and on the communities around us. As Rod said before, we've got outstanding people at the heart of our business. And we know that we need to attract, develop and retain even more outstanding people to help us achieve our long-term aims, and we want to ensure that our workforce is representative of the communities, in which we work.

Most of our 350 operational sites have people living nearby, and we also want to be a good neighbor to those communities, ensuring that we are operating in a way that's compliant, ethical and responsible. Some places are focuses on research and development, innovation and collaboration to provide our customers with products that will contribute to a more sustainable built environment. Our products are used to build homes, offices, schools, hospitals, roads, runways, reservoirs and all of those last for many decades, which is why we want to produce high-performance, resilient-efficient -- resource-efficient and resilient products that provide solutions for the future. And we also recognize that it's hard as a customer to know, which product is best suited for today or for the future.

So, we want to help our customers understand how best they can achieve their goals to create a sustainable built environment. Those three focus areas are underpinned by some fundamental operating principles. The way we just work day-to-day to ensure, we're being sustainable; first and foremost, keeping our people safe and well. Robust governance to ensure that we've considered sustainability throughout our organization, operating compliantly, ethically, transparently, continuing to provide quality products and improvements, and keeping up the engagement with our stakeholders.

To make this new framework deliver value, we need to set targets, we need to take action and we need to monitor our progress, because we've had a number of acquisitions over the past decade, and because this is the first time that we have an overarching sustainability framework in place. There are some parts of our company, where we don't have much historical data. For instance, for years now, we've been investing time and money into training and developing people volunteering in schools, planting trees, creating habitats. But for some of our sites, they didn't capture that data. They were doing those things, because they believe they were the right things to do. But we don't want to wait until that we have that full set of historical data for each site. We want to start making a positive difference now.

So, we're taking a credible approach, setting targets that are grounded in reality and with clear steps planned to achieve improvements. And once we've gathered a few rounds of performance data against this new framework, then we fully intend to ratchet up our targets wherever possible. So today, I'm pleased to share with you our brand-new overarching 2030 targets for planet, for people and for places and show you a road map of some actions that will help us to achieve these targets and deliver benefit that goes beyond our own operational boundary.

Let's start with planet. Breedon is committed to achieving net zero by 2050. Of our carbon emissions, the principal contributor of CO2 is our cement business. That most significant proportion of CO2 originates from their process emissions, which by its chemical nature is very difficult to do carbonize. Difficult, but not impossible. As you can see from the graph, we've already made great improvements since the original 1990 baseline. Our Hope plant has effectively reduced their emissions by third for each ton of cementitious product.

2005 was the first operating year following the commissioning of our Kinnegad plant. So, we've set our new 2030 target from that point on. And focusing on both our cement plants together, our 2030 target is to achieve a 30% reduction in our growth carbon intensity per ton of cementitious product. Between now and 2030, we've got several actions that we'll be taking to contribute to that target. Further increasing the use of alternative fuels to replace fossil fuels, procuring decarbonized energy, improving operational power efficiencies; for example, on the really big turning equipment and we will be focusing on reducing the clinker element on our cement product. That's the ingredient that is strength creating, but the most carbon intensive and we plan to do that by using lower emitting alternatives. And still ensuring that the quality of our products remains as high and consistent as it is today.

You'll notice on the graph at after 2030, there's still some way to go to reach net zero by 2050. At that stage, we will focus on further fuel switching, but particularly, on biomass fuels, as these presenter possibility of enabling the business to go beyond net zero. Other potential routes to decarbonization for us include hydrogen, electrification and carbon capture use and storage, CCUS. But these technologies and the national infrastructures that are needed, still need to be developed at scale for our sector to use.

However, this is not a Breedon only challenge. This is an industry-wide challenge and we are not standing by waiting for the solution. We've already been working with government on how CCUS can be applied to disperse sites such as our Hope plant, which is in the middle of the Peak District. And we're collaboratively working on a project, which is tied into the high net project in the northwest. More details on that will be revealed in due course. In addition to our target for our cement business, we have targets to drive improvements across the rest of our divisions too, to achieve energy and transport efficiencies, implement water and waste improvements for our key sites to achieve ISO 50001 and for our top 20 sites to put in place biodiversity action plans.

So, moving on to people. I was in a meeting with some of our major customers recently and it was clear that activities with a positive societal impact are becoming increasingly valued by them and by their customers too. In fact, recently, when we were bidding to win some work on an infrastructure project up to 80% of that bid was weighted towards this added value particularly, that associated with carbon reduction or with social value enhancement that we, as a supplier to that project, could deliver leaving just 20% of the bid decision based on price.

So, Breedon has a really good opportunity to have a positive impact on social value through our direct employment of 3,500 people, the graduates and apprentices we support our focus on health safety and well-being, our work with local small and medium businesses and all the volunteering in schools and communities that we do. But we've not been very good at capturing that either. So, our new target to positively impact 100,000 people by 2030 is quite stretching. But it will drive us to put in place a mechanism to record and quantify impacts and to continually improve these, and it will help us to communicate this better to our stakeholders. And whilst that's our overall social target, we have a range of other targets and actions to support further improvements. We will continue to focus on achieving a diverse and inclusive workforce. Gender diversity in particular is a challenge for us. Women currently make up just 13 % of our workforce, but this is a shared challenge, right across the building and construction industry.

We will also continue to increase the number of apprentices and graduates that we support. This year, we are recruiting 70 more apprentices, 34 of whom are driver apprentices. And we will enable more of our employees to volunteer in the community and we'll implement good neighbor plans at all of our key sites.

On to places, by 2030, 50% of our concrete and asphalt sales revenue will be from products that have got enhanced sustainability attributes. Our customers are increasingly asking us for eco or low carbon products. So, for this target, we are focused on the products, where we can change the way that they're manufactured. We want to provide products that meet the required performance criteria and which also have the potential to be more durable, longer-lasting, have a better performance, or a lowered -- a lower embodied carbon over their whole life. In addition to research and development, and trial of new products, we'll be looking at how we can engage early with our customers to help them make the best product choices.

And we also want to educate the market and influence technical standards and specifications to consider newer more sustainable products. Underpinning each of these three pillars, we have some targets associated with our fundamental operating principles and these targets are to continue to ensure zero fatalities to continually reduce our injury, frequency rates and ensure that in addition to health checks, our employees are offered well-being assessments as well. And we have targets focused on ensuring compliance, reducing supplier risk and improving our stakeholder engagement.

Some of these challenges are really big are really big and cannot be tackled by an individual company. Achieving net zero by 2050, we will require significant collaboration across the wider construction, energy and transportation sectors and we're working on this together with our fellow members of the Global Cement and Concrete Association and the Mineral Products Association. And along with 560 companies worldwide, we're pushing to reverse nature loss in this decade, ensuring that our actions to reduce carbon take into account any impacts on nature too. And to ensure that our industry sources goods and services ethically, we're working collaboratively with 40 other construction companies across the UK to eradicate slavery and labor exploitation from the supply chains across the building industry.

And going forward, we will be more transparent about our performance. We already published our energy and carbon data, and we provide a range of information to various stakeholders when they request it. However, we understand the value of reporting to an externally recognized sector specific standard and in making our performance data more consistently and transparently available to our stakeholders. So, we will start publishing annual performance data against our new targets and we aim to report these against a recognized standard such as SASB. We also aim to wherever possible align our targets to the science-based target initiative, and we plan to complete our TCFD climate-related scenario assessment and publish that next year too. We've already mapped our focus areas and targets against the United Nations sustainable development goals, and we can demonstrate contributions to 13 of those global goals.

For Breedon, sustainability is not something that we think of as a short-term initiative or campaign. Over the last 18 months, we've appointed a Non-Executive Director to our Board, to have responsibility for sustainability. We've appointed the Head of Sustainability. We've issued a range of new group policies that make our expectations clear to our colleagues and our suppliers. We've created a new sustainability framework that is linked to our strategy and purpose, and we've put group-wide targets in place that are linked to remuneration executive incentives. And our leaders are totally committed to this strategy. They've already started to establish their own division, specific KPIs and targets, and they've set up working groups to look at data and operational improvements in their divisions. They've also made allocations in their operational budgets for sustainability-related improvements such as installing renewable energy projects or adapting their facilities to be able to process more recycled material. Our CFO, James will give you more detail on that shortly. So, we're taking this approach to ensure that a consideration for sustainability is effectively embedded in our organization, so that we can make a real difference, to our company, to our stakeholders and for wider society.
So, in closing, and before I hand over to James, I just want to restate four main points; one, although we are communicating more about it now, sustainability has always been important to Breedon; two, we have now formalized our sustainability framework, we've taken a credible and robust approach, and we've tied it into our company strategy and purpose; three, we've set a range of stretching targets to align our focus and to drive further improvements; and four, we're embedding this across our organization and we will be reporting on our performance more transparently next year. So overall, we are now well positioned to achieve additional value for our company and for our wider stakeholders in the coming decade. And it's not just me saying this, this has got the full commitment of our leaders too. Thank you.

(Audio Video Presentation)

## James Brotherton

Good afternoon, everyone and thank you, Donna and Rob. So, we've come a long way in the last 10 years and you can really see that in our growth profile, from less than ?170 million of revenue in 2011 to a business that will deliver over ?1.2 billion of revenue in 2021. From an operating margin of less than 4% in 2011 to a business that will deliver a margin in excess of 10% in 2021 and has scope for further expansion. And yes, that growth has been underpinned and enabled by acquisitions, but it has been delivered through a balance of organic expansion supported by the integration of every business we've acquired and with a consistent focus on incremental improvement. And what makes Breedon stand out as a business is our absolute level of cash generation and the rate at which we convert our profits into cash. Consistently achieving free cash flow conversion from EBITDA in excess of 50% and what that cash generation means is that when we have identified, executed and integrated a major acquisition. We have managed to de-gear the balance sheet rapidly thereafter and position the group to take advantage of future opportunities as they present themselves.

So, Breedon offers balanced growth that delivers profit and that in turn converts to cash. When I joined Breedon in January of this year, I felt that we needed to take a look at how our balance sheet was structured. Our expansion to-date have been financed through the bank lending market, supported by periodic equity issuance. And this model had served the group well, but it was clear that we needed to diversify our sources of finance. And in particular, how we access debt finance in order to position ourselves for future growth. And the refinancing we completed earlier this year achieved three key objectives.

First, diversifying our sources of finance such that we are no longer solely reliant on the bank lending market. Second, securing significantly longer-term lending arrangements that reflect the durability and longevity of our business. And thirdly, being able to lock in that financing at structurally attractive low levels of interest rates.

Our U.S Private Placement was some 10 times oversubscribed and we were really pleased with the reception we had, and what was a new market for us. And with the quality of the institutional interest in our business and we look forward to working with all our lending partners in the years to come. So, we've talked about how we've got here, how we generate our returns and how our balance sheet is positioned.

And now, I want to talk to you about our financial framework and how we link our strategy including sustainability to our approach to capital allocation. So, what does our financial framework set out to do? But it's designed to give the business and our investors, and our lenders are clear understanding of the financial principles that govern how we implement our strategy. So, yes. We want to continue to grow both organically and through acquisition, but in a balanced way. That ensures we integrate the businesses we acquire and that we prioritize returns on investment and profitability. We will use our own cash resources as well as external sources of finance, but we will always use leverage responsibly and prioritize a strong balance sheet that gives us optionality and flexibility. And we use our financial framework to drive our decision-making and a key element of that is how we as a group think about capital allocation.

As you would expect, it all starts with the strategy. How will this project or this investment, or this acquisition help us to advance the strategy and in time enable us to make a material difference. And as part of that, we consider our end markets are likely demand profiles and we run scenario analyses. We evaluate the proposed investment and consider where it ranks in terms of our portfolio priorities. We think about our capital structure, what makes most sense for the balance sheet whilst retaining that future optionality.

So, it's important to stress that we can see the capital allocation through various different lenses, and not simply as something that solely dependent on short-term financial returns.

We see investment as a differentiator for Breedon in our markets, and provided we deploy our capital appropriately, investment in our business will help us to grow sustainable shareholder value. Discipline capital evaluation and deployment through each of our investment categories leads to the achievement of our strategic financial objectives and ultimately, to the generation of excess capital, which can be used for debt reduction or return to shareholders in the form of dividends. And as you know, we instituted a dividend payment earlier this year as a first step to providing a structured cash return to shareholders in the form of a committed and progressive dividend policy. That dividend policy targets a payout ratio of 40% of underlying earnings per share over time. And we've committed to a total dividend for this year of not less than 1.5 pence. And this generation of excess capital is achieved by our colleagues deep and longstanding local relationships, their high levels of productivity and throughput and a genuine desire to deliver the right solution at the appropriate price point for all of our clients and customers. So, where and why do we invest our capital, we invest to support our organic and acquisition growth ambitions and organically, it all starts with our reserves and resources.

Our direct spend here is relatively small. We'll spend around ?10 million this year. So, you might legitimately ask why do we consider this to be such a priority for investment. The defining feature of our business is the 1 billion tons of reserves and resources that we own, or we have the right to extract and it's that investment that secures our future. And Rob talked earlier about the latent value that we have an incumbency.

Opening a new quarry is challenging if not impossible, but securing incremental permits and contiguous parcels of land next to an existing site is very achievable, and it's something that we do well. Again, utilizing the strength of those local relationships and the marginal cost of that investment is relatively small, when you compare it to a transaction that involves a payment for goodwill.

As important is that we restore the landscape appropriately as we work through those sites and ensure that we replenish the right reserves and resources, not only replacing what we have utilized, but also anticipating our future needs and demands over a long term time horizon, ensuring that the decisions we take today position Breedon sustainably for tomorrow. An investment back into the business is also critical.

Our assets and our colleagues have to operate in harsh and abrasive environments with extremes of temperature, and the wear and tear on machinery is significant. So yes, we work our assets hard, but we also maintain them well. We look at investment requirements across the cycle and we will always seek to upgrade capital equipment long before it becomes inefficient or obsolete. And we are increasingly investing in our digital capability. It's also the area that we have the greatest opportunity to make a difference to how we operate sustainably as a business. So, investing around ?10 million in alternative raw material capabilities at Hope or ?5 million in solar farm capabilities at Kinnegad, being two examples of the larger individual sustainability linked projects that we will undertake over the next couple of years. And we've also earmarked to capital pot within our overall capital expenditure budget for investment in numerous smaller sustainability projects each year to ensure that we continue to drive those incremental improvements. The sustainability commitments that Donna outlined earlier are capable of being funded out of our cash flow to 2030, the longer-term commitments to 2050, those that depend upon technological advances and commercialization of industry-wide solutions will have to wait and see, and we view all of our investment projects through a sustainability lens, because targeted investment in our business can improve and update our capabilities, make us more efficient, support innovation, help us to increase digital solutions for customers, improve the working environment for our colleagues, as well as help us achieve our sustainability targets and to drive returns.

Across these reserves of resources and business investment on its opportunities, we will invest in total around ?170 million this year and next, in aggregate with an emphasis on sustainability linked projects. And as you all know; this represents a significant increase on the amount that we have historically invested as a business. It is this sustained investment that will drive our operational performance, our margins and our returns over the course of the next five years.

Turning now to acquisitions and how we look at M&A. Both on acquisitions are a part of what Breedon does. Whether buying a local business to infill a geography, extending routes to market through the acquisition of related downstream businesses that can utilize our core outputs or broadening our portfolio and our bolt-on acquisitions are sourced by our businesses. They're typically conducted off market, and they come through the strength of our local relationships and our reputation. And we apply the same disciplines in evaluation criteria to a bolt-on acquisition as we do to a larger acquisition.

The target must be profitable, cash generative and have resilient attractive growth opportunities. The target must complement our business and be capable of integration into Breedon as well as bringing us high-quality talented colleagues, who we hope would want to build a career with Breedon. And then there are the larger transactions we've acquired and we'll look to acquire again.

Typically, more defining for the group as a whole, which offer Breedon the kind of opportunities to make a step change to our business. Hope, bringing scale and cement for the first time and significant reserves. Lagan bringing a new geography and a worldclass cement business. CEMEX bringing national coverage and talented colleagues, and each of them fully integrated following acquisition and consistently generating improved performance under our ownership. And we believe there are a number of further CEMEX sized opportunities that remain in the UK and Irish markets, that could become available to us. And as Rob mentioned earlier, we're starting to think about how we might apply the Breedon model in other jurisdictions and each of our acquisitions, where the bolt-on or larger must make us a better business, not merely lead to an increase size of business.
The ?6.5 million investment in our new asphalt plant in Mansfield that we approved last month is an excellent example of our organic investment strategy in action. The existing plant is over 25 years old, and has a well-established customer base, across the East Midlands. But the new plant will offer 25% higher output. We'll be able to use gas or oil as a fuel source and will operate the lower cost per ton.

It will emit less dust and make less noise, providing our colleagues with a safer working environment, and will utilize up to 50% recycled asphalt. Using our local quarry outputs, we'll significantly reduce the truck miles required to bring the aggregates to site. And our new plant will also support our GB Surfacing solutions business as it bids for work on the national highways network. And this significant investment will generate a rapid incremental return and payback.
So, a capital project that helps optimize an existing part of our business allows for expansion and internalization of returns, which makes us more sustainable as a business,

as well as delivering an attractive financial return through our financial framework and all financial framework is about more than just about how we allocate our capital. It's also about how we manage our costs to provide our business with visibility and certainty.
So, we hedge our electricity and gas costs out for a minimum of 12 months, and we now have coverage extending into 2023. We took the decision to go into the UK carbon allowance market as soon as it opened in May, and we now hold sufficient allowances to cover us for both the 2021 and 2022 production years in both the UK and Ireland.

With bitumen, we adopt a three-pronged strategy, we buy forward a core amount for up to 12 months. When we secure a major project, such as the A9. We will look to lock in the pricing for the duration of that contract. And then we'll top up with spot purchases to secure the balance of our requirements and as you know, the key question with bitumen isn't the absolute price that you pay for it as a raw material. It's the delta that you can generate from it. And we purchase our fuel spot and we pass those on in the market.

Now, the aim of our hedging policy isn't to try to second-guess the market. It's designed to ensure that each business can properly understand its cost base and how it's likely to evolve over the course of the coming 12 months, such that it can plan for the future. But the greatest cost certainty that we provide our business with is the knowledge that we have access to those billion tons of reserves and resources. And those assets were acquired at historic cost, in some instances, many, many years ago. But they will be sold at the prevailing market price. And as you all know and this graph on the right underscores the point, historically aggregates pricing has consistently moved ahead of inflation.

So, even in the very dynamic cost environment with significant relative volatility that we all expect to see in 2022. We remain confident in our ability to manage our input costs and to react appropriately in the market. So, how does our financial framework translate into targets and aspirations to underpin our future growth. We will continue to grow both organically and through acquisition with an aspiration to outperform in our markets and delivering that balanced growth that has characterized our performance over the course of the past 10 years.

We are an inherently profitable business and should be capable of generating EBIT margin of between 12% to 15%. We're not there yet. But as CEMEX delivers and as our investments come through, you will see our profitability improve and grow into that target range over the course of the next three years to five years. And where we sit within that range and for how long will impart depend on the nature of the assets we acquire and the opportunities for synergy delivery and margin improvement that exist within them.

We are confident that we will improve each business that we acquire. And so we are prepared to accept near-term margin dilution on acquisition, provided that we can see a clear path to future improvement. We are highly cash-generative and we'll target to convert over half of our EBITDA after regular capital investment into free cash in a typical year. We've consistently achieved this target in the past and we will continue to do so in the future. We'll remain disciplined with our core leverage, typically remaining between one times to two times to give us balance sheet flexibility. We'd only go above that range for truly compelling acquisition opportunities that have a very clear path to deleveraging.

And if we were to remain below that range for a sustained period of time with limited visibility on future acquisitions, then we would consider ways of returning that surplus capital to shareholders. And that means that we would have the potential capacity of between ?250 million to ?350 million to make acquisitions off the balance sheet over the course of the next couple of years should the right opportunities present themselves. And we'll target year-on-year improvements to our return on invested capital, with a view to achieving our ROIC consistently in excess of 10%, significantly ahead of our cost of capital, ensuring that we continue to create value for all stakeholders. And as you know, we've committed to that 40% payout ratio.

So, we have a strategy for growth and an ambition to continue to outperform our markets. We have a clear financial framework that underpins that strategy and ambition. A capital allocation process that supports our business and gives our colleagues clear guidelines, under which to operate and a hedging policy that offers a degree of cost certainty and visibility in a fast-changing environment. We have an aspiration to deploy our balance sheet, such that we can continue to make a material difference and for Breedon to be as successful in the next decade as we have been in the last.
I'd now like to hand you back to Rob to sum up. Thank you.

## Rob Wood

Thank you, James. Now that you've heard from me on our growth strategy from Donna on our sustainability journey and from James on our financial framework, I would like to draw the formal part of the event to a close. But before I do, I want to take the opportunity to recap the key messages from today. We've achieved a lot over the first decade. We have an asset-backed business model offering attractive exposure to long-term growth markets. We are different from our competitors. We have a clear growth strategy, focused on sustainability, optimization and expansion.
Sustainability is front and center to everything we do, and we are embedding a culture of improvement and transparency. We have a financial framework that underpins our strategy. And lastly, we have the ambition to outperform and are ready for the next chapter.
Thank you. We now welcome your questions.

# Questions And Answers

## A - Rob Wood

So we'll take questions first in the room before going to the webcast.

## Q - Gregor Kuglitsch

Thanks. Gregor Kuglitsch from UBS. So, can we just go back to the cement slide and the CO2, I mean, I guess what sort of striking from that is that it sort of suggests the majority of the improvement has kind of been done in between now and 2030, I guess, when we can't see the exact numbers, but it looks like a pretty flat curve. So I guess the question is how do you think you're squaring up against the competition, because I guess that will be really be kind of one of the key differentiators on your variable costs given the price of carbon today?

And then the second question is on M&A and vertical integration, obviously talking about surfacing or contract surfacing. Is there other things in the downstream that you're considering? And I'm thinking, I don't know, concrete product, anything -- I mean, I know you have some stuff in there, but just give us a sense if that's sort of the line you're thinking or is it really staying more with the core kind of upstream and then perhaps really laying down that particular product or would you go down further downstream? Thank you.

## A - Rob Wood
Okay. Thank you for that. And Donna, would you like to pick up the first one, $CO_2$?

## A - Donna Hunt
Yes, sure. Gregor, you're right. We have had -- that's a relatively small amount of production still to come over this decade. And the reasons are we have achieved a huge amount already. So 53% of the industry has decarbonized already. So these new things that we're doing around increasing the alternative fuels at Kinnegad plant is already at world-class rates, and there's some technology transfers that we can take from one plant to another. But it is -- we need to compare apples with apples, plants all different around the world and at different stages. So, if you were to look at Hope's kiln reliability, that is world-class. So in a market where we're looking for the product, that's where Hope stands out. So -- and then going forward, we've said we will plug into the technologies and the infrastructure projects that are required in future.

## A - Rob Wood
In terms of the M&A and the further vertical integration, we do say that we were likely to be aggregate led or where it will offer vertical integration for our cements. So, concrete related products and things would be things that not only we would be interested in, but we also already do. And so, I think the distinction there would be we're a B2B business.
And so, any vertical integration is likely to stay within the B2B space.

## Q - Gregor Kuglitsch
Thank you.

## Q - Cedar Ekblom
Thanks. It's Cedar Ekblom from Morgan Stanley. Just a few follow-up questions on the sustainability points. You talk about rolling out the Eco brand of products. Can you give us a little bit more understanding of how those products differ from what your primary products are today, maybe as it relates to $CO_2$ intensity? And can you also talk about what you're doing from a regulatory perspective in the UK as it relates to build
ing codes, et
cetera product standards to help drive adoption of those products?
And then on the points on M&A. I think you said that increasing surfacing as percentage of the group wouldn't be margin dilutive upfront. And can you just elaborate a little bit on that question or on that comment? And then also just more broadly, how do we think about vertically integrating into surfacing when it seems that the industry is going more down the cost plus route from a sort of contract term perspective? Is there actually value for your cement aggregates concrete business in being or what is that value? Isn't it just a route to market? And then finally on M&A –

## A - Rob Wood
If I could ask Donna to pick up the Eco brand and maybe the codes.

## A - Donna Hunt
Yes, sure. Okay. So, our Eco range, we are looking at asphalt and concrete products, because that's where we can make the biggest difference in terms of how we manufacture and produce them. Some of the things that will make them Eco is the percentage of recycled content that goes into it. We've excluded waste materials only as we believe that should form its sort of primary purpose first. We will look at products where we can

change them to be a low-temperature product or a cold process product instead of just the high heat products, and then also looking at the whole life of that product and how it performs either longer or is more resilient and then can ultimately be recycled itself and reuse. So that's for us, what would make something an Eco product.

As we've done some benchmarking already as to what we think we can do. And these plants, as we talked about the Mansfield Asheville plant to now take on the capability to produce 50% more wrap, that is going to help feed into us being able to make these Eco products.

And then just on the building standards, we work with the Mineral Products Association along with the other representatives across this industry. And there's a lot of work going on directly to try and have a consistent voice with government and with policies and building standards. We're forming a low-carbon labeling approach to make sure that the thresholds we have for carbon are clear. Pretty much like you have a sticker on your electrical appliance at home that says it's ABCD whatever rated. We're looking at how we would apply that to construction products as well to be clear, because at the moment, customers can't really easily compare like-for-like, EPDs are different, LCAs are different. So it's mainly through that.

## A - Rob Wood

Your question on the surfacing, and I think there were couple of questions, but I think they come back to the same point has done well, we will be laying our asphalt which has our aggregates in it. And so ultimately, we will be collecting the margin and securing the margin on the aggregate on the asphalt and then on the surfacing. And that's why if done well, it will not be margin diluting.

## Q - Christen David Hjorth

Christen Hjorth from Numis. Two for me if that's okay. Interesting hearing about potentially moving into the third platform. I was just wondering how you ensure that you can continue to be so very nimble and non-bureaucratic when you move more internationally potentially. And the second one just on returns on organic investment and that CapEx there. How should we think of that from a financial point of view? But also should we think of sort of maybe lower returns if it's more sustainable type investments? Just sort of the metrics around them. Thank you.

## A - Rob Wood

If I pick up the first one, and then James, you can pick up the second one. Look, in terms of the first one and whatever businesses and whatever platforms we develop, we will stay local, we will have local management. If you look back and look back to 2018 when we acquired Lagan. We acquired a management team, one of whom's in the here today with us. And it's all about culture, it's all about our DNA. And part of our due diligence will be about making sure we acquire, and we do the due diligence on the people to make sure that they fit the mould of the Breedon DNA.

## A - James Brotherton

I think most fields -- a really interesting example as I touched on in my presentation, I think it accomplishes a number of goals for the business across a whole number of facets as well as being extremely financially attractive. And you can look at it one of two ways, because there's obviously there's an opportunity cost for us that if we don't make that investment, then effectively we would forego the EBITDA contribution that that plant makes into our business. But by making this investment, not only do we hold on to that existing EBITDA, but we also capture that incremental investment. And it will make -- that incremental EBITDA, and it will make a significant double-digit return for us. And I think what it illustrates and demonstrates is that just because we're doing sustainability linked projects, we can accomplish our sustainability ambitions, but we can also improve our returns by investing in that way.

## Q - Clyde Lewis

Thanks. Clyde Lewis at Peel Hunt. I can't let you get away with not telling us a little bit more about the third platform. I mean the criteria are about as vague as you can get in terms of its developed world. Can you be a bit more specific with the USB part of the geographies you'd look at? With Australia, would you go as far as that South Africa go and be part of that? And is it aggregates led or would you be prepared to lead with cement? Because obviously that has some very different connotations for the group's ESG criterion in particular.
And I suppose the other question I had was, obviously there was a fair bit of focus on the reserve base widely so. But obviously the more reserves you hold, the more sort of capital cost that there is and obviously deteriorates the returns that you generate there. How do you juggle that as a sort of as a Board decision? Is it site by site? Is it sort of region by region or in different way?

## A - Rob Wood

So, I'll pick up the first one, and James will pick up the second one. And I think, you're asking, what would be led by and where are we going? Well, I thought we'd sign posted it quite well. And so, I was clear, and I will be clear and just reinforce it now. It's highly likely to be aggregates led as opposed to cement led in terms of core products for exactly the reasons you said Clyde. As to where the main, I think, developed world is, you've got there. You might get a bit narrower in that. I think, Australasia and places I think are too far and too remote. But there are some territories sort of East and West of where we are that could be quite compelling.

## A - James Brotherton

I think in terms of the reserves and resources, the most important thing is that we're replenishing the right reserves and resources. So it's not just a simple an equation to say that we use 25 million or 30 million tonnes this year, and we've replenished 25 million to 30 million tonnes, because it needs to be the right reserves and resources. So looking at it on a national or even a regional level actually tends not to work. So it needs to be done either site by site or very local region by region in order to make sure that we've got the right reserves in the right place.

Part of that actually comes down to the individual quarry manager, making sure that he or she is picking the right route within the quarry, and which bank and which face is he going to tackle next, in order to ensure that we're not quarrying ourselves out of inability to source the right resources at the right time.

## Q - John Fraser-Andrews

Thanks. John Fraser-Andrews, HSBC. Two for me, please. The first one is on margin, the 12% to 15% range. Is that the current mix of the business? And what are the drivers for that? Obviously CEMEX, the synergy is still to come. Perhaps, what have you learned

through COVID, the new practices that may be offering? Is your business higher margin as a result of new ways of working? So perhaps you could just elaborate on where that margin is coming from? And if the top-end of that range is possible within the existing mix of the business. So, that's the first question.
The second is on, it's more on bolt-ons rather than where you might go next. But looking at the map, it looks like Southern England and London is probably your ripest area for geographic expansion. Is that the case and a target area? And are there any others within GB?

## A - Rob Wood

Okay. So in terms of the margin range, historically as you'll all be aware, we had an absolute EBIT margin target of 15%. We've got close to achieving that in one year. But in most years, the group has fallen some way short. So, we felt that rebalancing it to a range was appropriate to do. We certainly feel that range is achievable with the existing business, particularly as those CEMEX improvements come through. To put some context around the CEMEX assets, we're generating at the moment a return from those in the mid single-digits. And so some way behind at the moment where the rest of the group is at, and indeed some way behind where those assets were in the years before we acquired them.

But we've always been clear that 2021 was going to be about a year of investment back into that business. We acquired it with no back office, no head office. And so, it required investment into the business in the short-term. Over time, that business will generate both synergies, but we will also see its operational margin improve certainly back to the kind of levels that we see across the rest of the GB business, and perhaps in time to something that's even a little bit ahead of that.

So what that means is that we will get to within that range, within the next three to five years. Where we sit within that range and for how long fundamentally depends on the sort of a nature of the future acquisitions that we may or may not do. If we make an acquisition of another CEMEX type business, then that would intuitively dilute that margin in the short-term. If we acquire something that is perhaps higher margin, then that may allow us to go closer to the top of the range sooner.

So where we sit within the range will impart be influenced by the nature of the businesses that we buy. But we won't shy away from buying a business purely on the basis of the fact that it's a low margin business today. If it's a low margin business today and we think it will remain one, we won't buy it. But if it's a low margin business today, and we feel we can improve it, then we might

## A - James Brotherton

I'll just build on the COVID point actually, because it's an interesting one. We went into COVID, we all had challenges during that period. But the one thing we had always said to people is that Breedon was a lean business, and I think COVID proved that. We came back strongly, but we didn't come back thinking we had excess overhead and excess people in the business. We were right-sized before COVID, and we came back and we're now right-sized again.

In terms of the bolt-ons and in GB, I mean, you are right in terms of there being a GAAP in our portfolio in the South. So, it's a logical area of expansion. And I must remind you we do have a presence in London through capital concrete, a joint venture we have in

London. But I also must remind you that a lot of our products don't travel very far, and it's all about local markets. And we have opportunities to infill throughout GB.

So, whilst they might look as if the maps busy, you have to remember that most of our concrete doesn't go further than 10 miles of a ready mixed plant in most of our aggregates and most of our asphalt unless it's going by rail, which not a lot of it does probably doesn't go more than 20 or 30 miles. So it's a very local market, and we still have significant in-fill opportunities.

## Q - Charlie Campbell

Thanks. This is Charlie Campbell at Liberum. I've got two questions, both I think fairly big picture I think. So the first one just looking out, just wonder what your view is on U.K. volumes, it's a general question because I suppose with prices rising does not eat into to kind of existing budgets. And how do you see kind of capacity constraints amongst kind of, we might call, installed base? This is first question. The second question is -- sorry, just on CapEx. Just thinking about that, I mean clearly one of the attractions of the industry has been that in downturns, you've been able to sustain quite low levels of CapEx. And clearly with the move to sustainability, that kind of implies that the minimum annual spend goes up a bit. So, I just wonder what the kind of the lower end of that kind of CapEx range is now going forward with those extra investments in sustainability.

## A - Rob Wood

So, I'll cover the first one and James will pick up the second one. And in terms of the outlook, I mean, I think it's the most simplest -- if you look at CPA and look at their forecasts, they're forecasting growth this year, they're forecasting growth into next year on the back of infrastructure, housing. And where do we -- do we see the challenges there, do we see they're been capacity constraints. It's quite clear that the market will tighten, and particularly around some of the areas that are important to us. For example, the Midlands with some of the spending and some of the volumes going on to HS2. But in an inflationary world, there is technically a risk that investment decisions could be deferred or budgets could be sort of ring-fenced and have an impact on volumes. But as we sit here today, we genuinely believe that there will be further growth in the market next year and going forward. And we generally believe that the government is committed to infrastructure spending.

## A - James Brotherton

I think in terms of CapEx, Charlie, the investment that Breedon has historically done, and the success of that investment was actually born out in 2020. When there was a short-term need to turn off the spending taps within the business. And the business didn't suffer as a consequence, which demonstrated the level and the quality of investment that happened therefore. I think you're right. I think that the industry wide commitment to sustainability does mean that there's probably a core level of CapEx that has to remain even in the event of market downturns. But I would hope that I'll have a couple of years under my belt as CFO before I have to start worrying too much about that.

## Q - Graeme Kyle

Graeme Kyle, Shore Capital. I'm going to take you all the way back to Slide 21, and the CO2 reductions as you said is very flat progress over to 2030. So I'm just wondering, if you've modeled your carbon credit cost so to 2030, and what kind of prices you're assuming there. And secondly on the same point really, have you been able to pass through the cost so far? Are you able to pass through them in the future you think?

## A - Rob Wood
So, do you want to pick up the sort of carbon cost sort of elements?

## A - James Brotherton
Yes. So, I'll pick up carbon costs. So, I think in terms of carbon costs, we've looked out to 2030. We expect this isn't a forecast, but we would expect carbon cost to continue to rise, and that it would not be unreasonable to expect carbon clearing cost north of 100 pounds per tonne in the not too distant future. We will continue to take a conservative view as to how we approach that in terms of hedging, and our hedging strategy to give due to business as much cost visibility and certainty as we can. But we would expect that in time, that will drive some differences in customer behaviors, because cement as a product is going to get more expensive.

## A - Rob Wood
I think in terms of pricing and recovery, I'm going to have to sort of hide behind the capital. I mean -- sorry, the cement market data order and say we're not really in a position to talk about that. But you will see our numbers in due course, and you have seen our half year numbers as well.

## Q - Sam Cullen
Hi. Sam Cullen from Peel Hunt. I've got two also. Going back to kind of wider ESG, I mean you've talked how it helps in the bid process. Are you able to extract a premium price from your customers for more ESG-friendly products or on to their embedded carbon? And then secondly, you kind of indicated that going into adjacent product areas would be probably via bolt-on. What's stopping you doing that organically in concrete products, for example?

## A - Rob Wood
So actually -- I mean, I'll answer the wide areas too, I hope you don't mind, Donna. But I'll say, Donna gave a really good example, and it was about a tender where 80% was on quality. And by default, that means that price was actually not the major component of it. So the focus on a lot of things we're doing is on about, in effect, making sure we qualify and secure and we're successful, and it is about doing things and it's not just about price any longer. ESG is front and center of a lot of our customers' minds at the moment, and will continue. In terms of adjacencies, can you -- sorry, can you just mention the question again?

## Q - Sam Cullen
You kind of indicated the product adjacencies will be via bolt-on acquisitions (Multiple Speakers) organically.

## A - Rob Wood
Oh yes, sorry. Yes. But it will also be -- I mean, we're saying it's a mix. Organic growth will be routes as well. And interestingly, there are projects that we are considering, which will be more in the product area, which will be organically developed. So all we're saying is it will be complementary.

## Q - Sam Cullen

Thanks.

We've got no more in the room, there's plenty on the webcast. Try and pick these off by subject. Goodbody are asking about the deal pipeline, asking again about the regions that you're considering, but also asking about the time frame.

## A - Rob Wood

I presume -- are they talking about the pipeline? Well, there's two things. We'll answer it two ways. One is that within our existing platforms, we have an active pipeline. As we've said to you all before, we're not in total control as when we would close those transactions, but we're confident that we'll be making further bolt-ons in the months and years to come. In terms of third platform, if they're talking about it, I think what I would reinforce to everyone here today is that the words we've used are about measured and evaluating. And so, we're highly unlikely to be transacting into a third platform in the coming months.

## Q - Webcast

So then looking at some of the sustainability commentary, they're asking about the price and margin profile of those products, which picks up on the previous question, but also then the cost per annum to reach our sustainability targets as well.

## A - James Brotherton

Well, in terms of reaching the targets for 2030, we are more than capable of funding those out of cash flow. It's actually quite difficult to disaggregate what is a pure sustainability project from what is a more general business improvement project, and Mansfield is a good example of that. What I would say is that we have ring-fenced centrally two pots of cash that are available to the businesses. One is an OpEx pot, where businesses -- where the business can come forward and suggest sustainability projects that perhaps have no financial return, but which are the right thing for the business to do. And the other is a capital pot, which again is designed to tackle those projects that perhaps have less of a financial return for the group, but it's still worthwhile for us today. They're relatively modest in the context of our overall capital spend and indeed in the context of our overall OpEx. But the reason for that is that within the businesses and within the business plans, we have a number of financially attractive sustainability-linked projects that we can do out of our existing cash flows.

## Q - Webcast

Okay. Drawing on some of the metrics, questions from a number of sources asking about -- further on the capital intensity of the business. Is it increasing? And how that may relate to CapEx spend? And how that then further relates to the cash conversion target.

## A - James Brotherton

So yes, I would say the capital intensity of our business and of our industry is increasing. If you look at what we are looking to invest over 2021 and 2022, it's significantly more than we've ever invested as a business historically, and I think that's being reflected elsewhere. But I think what allows us to do that is the cash-generative nature of our business and the cash-generative nature of our industry. And I think historically, too many businesses in our industry have taken that cash generation for granted and have taken the approach that you can take that cash off the table and not invest a proportion of it back into your business. And that's a mistake, and it's not a mistake that we're going to make.

## A - Rob Wood

We should do one more then, I think

## Q - Webcast

There's quite a lot here. I think the one that hasn't been addressed in the room is about capacity utilization, talking about in order to meet our 15% margin target, can that be achieved organically or do we have to add capacity in order to be able to achieve that?

## A - Rob Wood

Look, I think we've said before, and we -- when we had the 15% target before we've moved to the range historically, what we said is that we genuinely believe organically we can get the business to that. But it's not necessarily in the best interest of our shareholders or in terms of value creation to look over some of these value-adding acquisitions. So, we genuinely believe the range is now there to make sure we can marry, acquiring attractive acquisitions that might be underperforming or have lower margin with our range now of targets.

Good. Well, look, just actually on behalf of the three of us, with the Breedon team in the room and the team back in the business, thank you very much for your time today, and we look forward to seeing you soon.