Breedon interim results 2022 Earnings Call

Company Participants

James Brotherton, Chief Financial Officer
Rob Wood, Chief Executive Officer

Other Participants

Christen Hjorth, Analyst
Clyde Lewis, Analyst
John Fraser-Andrews, Analyst
Pierre Rousseau, Analyst
Tobias Woerner, Analyst

Presentation

Rob Wood

Good morning everybody. I'm delighted to welcome you to our Interim Results Presentation. And I'm grateful for those of you in the room who navigated today's train strike. James and I will take you through our presentation and then open things up for questions. We've delivered a strong first half, successfully navigating numerous challenges to deliver higher revenue earnings and returns. I know I've said it before, but I do need to say it again, it's a performance to be proud of that we couldn't have delivered without the extraordinary commitment of everyone at Breedon. And for that, I thank all my colleagues.

So what drove the higher revenue earnings and returns? We benefited from structurally attractive markets, particularly infrastructure, industrial, and housing where central governments are committed to reversing long-term under investment. We benefited from a rational environment where our disciplined pricing strategy, and forward hedging program combined to ensure we offset input inflation, advanced margins, and drove high returns. In parallel to this, I'm pleased to report that we've made progress on our three strategic priorities that you can see on the right hand side of the slide in yellow.

In respect of our Sustain priority, we have progressed a range of initiatives, and are taking steps to enhance transparency and disclosure, most notably taking the decision to commit to developing Science Based Targets. In respect of our Optimise priority, we have continued to drive efficiency and increased utilization and doing this safely. And lastly, in respect of our Expand priority, we have enhanced the lifeblood of our business, namely our reserves and resources and complemented this with organic investments and bolt-on M&A.

In summary, as I said at the beginning, we've delivered a strong first half at Breedon. I'll now pass you on to James to deliver his financial review.

James Brotherton

Good morning everyone and thank you, Rob. We've had a good strong first half, increasing our revenue by 12% to just over GBP670 million. And we saw an improvement in our underlying EBIT to GBP66.9 million. Encouragingly, despite the well-documented cost backdrop, we've improved the margin to 10%, reflecting the successful changes we have made to our pricing model over the course of the past 12 months.

You'll recall that at our Capital Markets Event in November last year, we set out a target for return on invested capital of 10%. And we've managed to hit that target around 12 months earlier than we originally planned. As expected, we saw a free cash outflow in the first half of GBP22 million due to investment in working capital, our planned step-up in CapEx and purchases of carbon allowances. Our net debt ended the half at GBP208 million, with our covenant leverage fractionally below one times, slightly higher than at 31 December, but lower than this time 12 months ago.

Finally, we've increased the interim dividend by 40% to 0.70p per share, reflecting our progressive dividend policy and in line with our plans to grow our payout ratio to 40% over time. Our overall growth in revenue came through the GB and Cement divisions with Ireland recording a slight decline. As you would expect, compared with half one of last year, which benefited from the recovery in demand post the Covid lockdowns, volumes were lower in most categories, around 6% overall. However, if you look back

to half one of 2019, our like-for-like volumes, so excluding Cemex, have increased by 7% in aggregates, 15% in asphalt, and 7% in cement, with only ready-mix showing a 6% like-for-like decline, reflecting the actions we've taken over the last couple of years to close less profitable sites and to drive returns.

So the key driver for our growth in revenue is down to price. And as you know, we've moved to a more disciplined and dynamic pricing model. And this in turn has allowed us to grow our EBIT well ahead of revenue by 19% to nearly GBP70 million and to deliver a first half EBIT margin of 10%. As you can see, the cost environment remains quite daunting.

And while strategy costs have moderated from the peaks that we saw at the end of the first quarter, it's clear that input costs are likely to remain elevated for some time to come.

In the first half, we benefited from our strategic hedging program, which allowed an element of that pricing we secured to drop through to the bottom line. We remain fully hedged for our power requirements through to the end of this year and have hedges in place for the substantial majority of our power needs in 2023. And whilst these future hedges are at higher levels than we were able to secure for '22, they are well below the peak spot costs that were seen earlier in the year. Availability of bitumen was a challenge for us in the first quarter, however alternative sources of supply have now come on stream, and this is felt to be less of a risk for the second half of the year.

As a reminder, we typically look to fix the bitumen elements of large contracts at the start of each contract in order to give us price certainty and our customers cost certainty. With carbon, we bought further allowances in the market to cover our expected emissions, and have implemented a surcharge that's linked to the market cost of carbon that gives our customers certainty and clarity and allows them to plan with confidence. Our most effective hedge of course, remains the 1 billion tonnes of reserves and resources that we control. And in the first half, we fully replenished our production. And as you would expect, we will continue to scrutinize our cost base closely as the remainder of this year unfolds.
And if required in the second half, we will use that dynamic pricing to protect and enhance our margins and our returns.

Each of the divisions has contributed to the improved EBIT performance and to the overall recovery in margins that we've seen. And just to confirm, other than the amortization of intangibles and gains on property, we book nothing below the line in the course of the first half. GB Materials has successfully maintained its EBIT margin at 8.8% and delivered GBP1 million of synergies from the Cemex transaction in the period, principally through increased utilization of those acquired assets.

In Ireland, the reported EBIT and margin improved slightly with the business well positioned for the second half. And the Cement division recorded a good drop through on its top-line improvement to enhance its margin by around 50 basis points. And just as a reminder, we've returned to our normal pattern of cement kiln shutdowns this year with two occurring in the first half and the third scheduled for the autumn. So overall, a 12% increase on the top-line, and a 19% increase on the bottom line, leading to that 60 basis points improvement to our EBIT margin.

As expected, we saw a free cash outflow during the course of the first half. The working capital component of GBP77 million is perhaps slightly higher than you might expect and is made up of three key components. First our usual seasonal working capital outflow, as trading volumes picked up through the half, and as we replenished inventories relative to last year. Second, the impact of inflation on our working capital balances. And third, the acquisition of UK carbon allowances for cash in the period due to a lack of liquidity in the forward market.

We paid just over GBP10 million more in tax in the year, sorry, in the period, principally due to timing differences. And our net CapEx has increased threefold to around GBP33 million in the first half, reflecting some deferment of spend from last year due to capital supply chain challenges and our continued commitment to value enhancing investment. We also paid our final dividend for '21 in the period, which led us to a net debt figure at 30th June of GBP257 million or GBP208 million excluding IFRS 16. We've also extended our banking facilities for a further 12 months to June 2025, and we retain the option of a further extension to June 2026.

Turning now to our technical guidance for the balance of the year. As I mentioned earlier, we've realized around GBP1 million of Cemex synergies in the first half, and expect to generate the same in the course of the second half. Net interest expense for the full year will be around GBP13 million, with substantially all of our drawn facilities at fixed rates. Our net cash interest paid will be closer to GBP10 million. We expect an underlying effective tax rate of 16.4% and our cash tax payments to be broadly in line with that effective rate. And while there's less overall market visibility than we would like, I'm expecting a revenue

split for the full year broadly in line with the last couple of years of 49 to 51 across the full year with a slightly greater weighting towards second half profitability consistent with previous years. And that should lead you to an EBIT number around the top end of the range of expectations for 2022.

Given the lack of market visibility, it's probably a bit too soon to draw conclusions about the '23 numbers and beyond. In terms of cash flow, I'm expecting a slightly higher working capital outflow for the year, reflecting that inflation and the carbon purchases previously discussed. And as previously indicated, our CapEx for the full year will total around GBP100 million. Taking into account the acquisitions, we've announced since the half year and the payout of the dividend that should lead you to a year-end net debt number of around GBP195 million or GBP145 million excluding IFRS 16.

So in summary, we've had a really good first half with further progress made towards both our targets and our commitments. We've continued to invest in the business as we set out in the financial framework at the Capital Markets event last year. Across the Group, we've retained our close focus on cost recovery and margin improvement, and it's that which has delivered a significant expansion in our profitability and by extension to our returns on invested capital. It's this focus and associated delivery that has allowed us to meet that medium term ROIC target that we set out in November, much more quickly than we had envisaged. The challenge for us as a business is now to sustain that achievement in a much less certain world and in time to enhance it still further.

Thank you. And I'll now pass you back to Rob.

ROB WOOD

Thanks, James. I will start the operational review looking at our markets. Let's first look at our UK market, where the picture is one of resilient demand despite the inflationary pressures. GDP grew in May by 0.5% and by 3.5% over the year to May. Construction output increased by 1.5% in May, and by 4.7% over the year to May, and is now 4.1% above its pre-Covid level. The latest data available from the MPA volumes, the first quarter confirmed that demand for mineral products remained robust. Yet while demand has been robust and market confidence as measured by the construction PMI is waning, it fell to 52.6 in June from 56.4 in May. However, it's important to note that while market confidence is weakening, construction activity does continue to grow.

Turning next to the Republic of Ireland, where again the picture is a similar one, although complicated slightly by different metrics and reporting periods. Modified domestic demand grew by 5.8% in 2021, but declined by 1% in the first quarter of '22 due to a fall in consumer spending. Construction output declined modestly in 2021 due to the impact of the non-essential construction Covid restrictions early in the year. However, construction output increased by 0.3% in the first quarter of 2022. Like the UK, market confidence as measured by the construction PMI is falling and the construction sector moved into negative territory in June for the first time in 14 months with a PMI of 46.4.

Moving onto our businesses. In GB demand was underpinned by resilient end markets. Our first half volumes reflected a post Covid normalization of demand to some extent, along with our desire to focus on optimization over volume and deliver outstanding customer service. Our disciplined pricing strategy enabled double-digit increases, which ensured cost inflation recovery. Notable contract successes in the first half included the Transport Scotland Northern Network Management Contracts. Also the aggregate supply for the Britishvolt gigaplant in Blyth. This being sustainably supplied by rail, from our Shap quarry, which was dormant at the time of the Cemex acquisition in 2020. We also continued to invest in our business, organically for example our Mansfield asphalt plant, and through acquisition, whereas James has mentioned, we have in July extended our concrete footprint and enhanced our growing surfacing business.

Turning to our Irish business, it started the year more slowly. In the North, volumes reflected the well-documented delays in awarding contracts as the Department for Infrastructure revised its procurement process. The good news is that we were successful in the first round awards securing the Down District Term Surfacing contract. In the South, volumes were impacted by what appears to be the return of pre-Covid local authority tendering patterns, which tend to face activity in the second half of the year. Against this backdrop, I'm pleased to say we maintained an effective mechanism for passing through input costs. During the half, we also successfully re-branded the Whitemountain and Lagan businesses as Breedon to unify our market presence. We exited the civil engineering business to focus on lower risk, higher return materials and servicing activities and we stepped up our M&A activities.

Moving onto our Cement business, it's had a strong first half. Demand for cementitious products

remained strong during the half. And the well-publicized inflationary backdrop supported multiple price increases, which ensured cost recovery. Our proactive maintenance schedule resumed the normal cycle delivering two kiln shutdowns in January on time and budget. And both plants maintained exceptional performance levels recording kiln reliability in excess of 96%. We continued to focus on de-carbonization, working to promote lower clinker content products, continuing to substitute fossil fuels with alternative fuels. We are now close to reaching 50% substitution across the business, which is market leading. And at Hope, we are a member of the Peak Cluster, which is collaborating with the HyNet carbon capture project.

Moving away from the businesses, I know I touched on our strategic priorities earlier, but I'd like to focus for a moment on sustainability. We have been delivering on our sustain strategy in the first half, and progressing the three pillars; Planet, People, and Places. This slide captures some of the progress we have made. A couple of highlights from me. First, under the People pillar, I would like to share with you the findings of our recent colleague engagement survey. Over 2,600 or 75% of our colleagues responded, 77% of them feel engaged, they are proud to work for Breedon. They are motivated to do a good job, and they would recommend Breedon as a great place to work. These scores were a significant improvement on the 2021 survey, and are remarkably high given the dispersed nature of our business.

This is great news and something that I'm very proud of. But I know we have more to do. And I'm grateful for the constructive feedback colleagues have given, so that we're able to improve further engagement going forward. Secondly, I wanted to flag the work we are doing in respect of health, safety, and well-being of all our people. Our Home Safe and Well campaign brings together best practice from across the group, the sector and embraces new and innovative technologies with the ambition to become a reference company in our industry. And our performance in the first half delivered further progress from a solid foundation with improvements in both lagging and leading indicators as the group safety culture continues to mature.

Focusing back on strategy, we are making a material difference. You have seen this slide before, I share it again because our strategy is unchanged. And I can report that we are delivering against it. We have clear values, we have a clear purpose, we have a clear vision, and we have a strategy that has three strategic priorities to embed a culture of sustainability, to continually optimize our assets and processes and to expand our geographical footprint and product portfolio. There is one specific aspect of strategy that I would like to comment on now, and that is a possibility of establishing a third platform in the US during the next chapter. Our activity at this stage remains exploratory as we patiently seek an appropriate vehicle to enter the US market. In the near term, the M&A pipeline therefore favors bolt-on transactions in GB and Ireland.

I want to turn now to look forward into the second half and beyond. The headline here is that growth is moderating. In the UK, through -- and the Republic of Ireland growth and construction output expectations have been revised downwards due to rising inflation and interest rates. Market confidence is waning and uncertainty is increasing. Yet UK construction output is still forecast to rise by 2.5% this year and 1.6% next year. The same is true in the Republic of Ireland where construction output is still forecast to rise by 4.9% this year and 4.1% next year. But it is noticeable that construction demand has remained remarkably resilient in recent years. And that construction output growth forecast are underpinned by infrastructure, industrial and housing, the areas Breedon is most exposed to. Given this, we remain optimistic for the remainder of 2022 and expect to deliver underlying EBIT at the top end of market expectations. As you would expect, we have limited further visibility at this stage.

So to briefly summarize before opening to questions, we've delivered a strong first half, we've advanced margins and delivered higher returns. In parallel, we have made good progress on our strategic priorities. Market confidence is waning and yet and there is also increasing uncertainty. Yet our end-use exposure is supportive and our order and inquiry levels remain healthy. Whatever materializes, our colleagues will continue to embrace the challenges presented, remaining focused on responding nimbly to local market requirements, driving efficiencies and delivering first-class service to our customers.

Now more than ever, I believe our agile and entrepreneurial DNA will set us apart and enable us to outperform the markets. Thank you. We now welcome your question.

Questions and Answers

Q – John Fraser-Andrews

Thank you. Good morning. It's John Fraser-Andrews from HSBC. I'll have three please. The first one is

to James, if we could have a recap on your -- on the significant buckets of your cost structure and you've given an indication James on power of how you're hedged, perhaps you could touch on fuel and any other sort of forward purchasing or hedging that you can do on that? So that's the first one.

The second is on your margin. In this cost environment, is 12.4% the 2019 out-turn, is that still a realistic medium-term target and what can you do to achieve that over and above the Cemex synergies and perhaps on that subject, you could just touch on where Cemex margin is versus the GB margin in half one?

And then finally, in your -- the statement has informed us of customer order books being healthy and inquiries being encouraging, perhaps, Rob you can sort of elaborate on where that stands year-on-year and perhaps drill into some of the key end markets that you've touched on in your statements infrastructure, house building, and industrial? Thank you.

A - James Brotherton

Starting with cost structure John. So the broad buckets remain as they were, so distribution comprises about 20% of our cost base. Materials and minerals around 30% of which bitumen would be a third of that. Staff cost is about 15%, power around 10%. And then the remaining 25% made up of smaller buckets, contracting, repair and maintenance, admin, depreciation, each 5% and the balance of 5% there.

In terms of how the hedges work. So for electricity and gas, we have a proactive hedging program that takes us out in principle at least, sort of 12 months ahead. As I touched on in my comments, we are fully hedged for 2022. And we had the substantial majority of hedges in place for those in 2023. For other fuels, we generally buy at spot and we pass those through to the customers through pricing. Where we come across larger contracts we may put in place fixes particularly for bitumen in order to deliver those projects and to give customers cost certainty. And as an example, we secured some work in East Anglia, which I'm sure will appeal to you in terms of upgrading part of the road network there. That's a project that will run into 2023 and we've fixed the bitumen for that particular project across the life of that project.

Turning to margin, is 12.4% still a realistic target? I think technically the target starts at 12%. But I think it is a realistic target. It's a target that is out there for the medium-term. In order to get there, we probably need a more stable set of end markets. But I'm confident that if we continue to progress, if we maintain our dynamic pricing model, if we stay close to our costs that over time we can continue to progress the margin and get closer to that level that we saw back in 2019.

In terms of Cemex, the Cemex assets are now fully integrated into the overall business. And they are starting to perform as we had hoped. I touched in my comments about the fact that the synergy delivery has really come through increased utilization of those Cemex assets. As an example, the Shap quarry, which was dormant on the day that we acquired the business is now fully opened for business and is supplying products, and that's a mini case study, which is replicated across the business, and across those assets that we've acquired of how we've gone out and improved the utilisation of the Cemex assets that we acquired back in 2020. The margin is still behind the overall GB Materials margin, but it is progressing towards it. So -- and we would expect that to continue to be the case over the coming years.

Do you want to talk about order books and end market?

A – Rob Wood

Yes, as I said earlier, our order books and inquiry levels are healthy. If I look at the GB and the Irish markets. In GB we had success in the first half with the framework agreements up in Scotland that I've told you. And James has referred to some contract work in East Anglia. We are currently bidding as you are aware on the National Highways framework agreement, which is unlikely to impact on this year meaningfully, because the contracts will only -- and the awards will only be announced in November. But you can see as we're trying to grow our surfacing business, what we will be doing is pulling through volume from our existing business as well. So we're excited and we are positive. In Ireland, I mean, I think the first half, there were delays for different reasons in the North and South, but tenders have been awarded. And you know, we're confident on the outlook for the second half.

In terms of the major exposures, I mean, the infrastructure spending and the sort of the rise of the sustainable agenda, the industrial space, particularly warehousing are all areas that are sort of -- are really in our sweet spot. And so, we remain optimistic for 2022. We just at this stage, not in a position to want to give further guidance for '23.

Q – John Fraser-Andrews

(Technical Difficulty) given what's in your backlogs and what you got visibility on, do you expect to see a nudge up in volumes achieved in half two?

Rob Wood

I think I won't comment specifically on GB, but I think overall I think the comp in the second half on volumes year-on-year will be more balanced than it was in the first half.

Q – Tobias Woerner

Good morning. Tobias Woerner from Stifel. A couple of questions from my side please. Probably to James first, with regard to pricing, just give us a sense of the overall impact for the Group, and a sense then by division? And then secondly maybe talk us through, in terms of the volumes in the UK side or in Great Britain on the aggregates side being down 9%, asphalt down 2%, and concrete down 9%. What are the main drivers of this? Is it simply comes as Rob just sort of mentioned or is there anything else going on?

A - James Brotherton

So in terms of pricing, volumes for the Group down about 6%. So pricing mid to high teens to get you back to that 12% growth in terms of the top-line. Pretty balanced actually across the businesses and across the product sets in terms of the pricing, no marked outliers either way. In terms of volumes, yes, the year-on-year volumes are down, but that is principally due to those tough comps.

And if you go back to 2019, which is our last genuine reference year, the volumes are ahead across each of the key product categories other than ready-mix. And I think that when you look at how both our margin performance has improved as a group and our returns performance has improved as a group, ready-mix gives a really good case study of how we have looked at our business differently since Covid. And we have been very focused on ensuring one that we give best-in-class customer service, but two, that we are selling our products at the right price point for the local market, and that we're generating the returns that we need to do so. And where that's meant that we've walked away from business, we've been prepared to do that.

Q – Tobias Woerner

Thanks. You alluded to best practice in terms of selling your products, some of your peers in the same space are moving to solutions based approaches in their products. Is this something you're pursuing already or are actively aiming for in future, maybe just give us a sense there?

A – Rob Wood

I think our strategy has been consistently applied, which is all about sort of geographical expansion and vertical integration for our core outputs. And solutions to us is something that we've always done, but we've done it in the context of trying to solve customers' problems. And quite often, and you will have seen from case studies in the past where we've been different is we've come up with innovative solutions to solve clients' problems. Sometimes that involves us actually putting plants up on their sites, sometimes it involves different ways of working. But is that the solutions you're referring to Tobias, or are you talking about something else?

Q – Tobias Woerner

Well, it's just providing the customer service across the whole gamut of products basically. But your peers are talking increasingly about that angle, so yes.

A – Rob Wood

Yeah. And we do. As time goes on, we are more and more about providing customer solutions. I mean, if I look at the Britishvolt giga factory, it was all about trying to come up with a sustainable solution that met the customers' requirements, and that's what our solution does.

Q – Clyde Lewis

Good morning. Clyde Lewis at Peel Hunt. I'm not quite sure how many questions I've got. So I'll just keep asking. Just coming back on the comment about pricing, listening to the sort of high teens, mid to high teens comment there. How much of that would be, what you would define as surcharges as opposed to underlying increases, I suppose, maybe also useful to understand sort of where the end of the half spot was versus the start?

The second one I had was really around sort of CapEx and the projects were useful to sort of get an update as to where you are with some of your major CapEx projects and whether there have been delays around getting hold of kit and equipment on that front? The comment around the orders, would you have spotted any difference between private and public sector in terms of sort of any delays, any sort of variances, public sector budgets obviously more likely to be fixed, private, might be a little bit more flexible, if they want to get the work done, I suppose.

And there was also a comment I think you made about rationalizing on closing some of your ready-mix plants, again presumably the loss-making struggling ones. Is that the start of a bigger process or is that just a bit of ongoing maintenance or not maintenance housekeeping that you'd like to keep on top of?

A – James Brotherton

So in terms of pricing, the surcharge is purely on cement products. So the pricing in the GB and Irish business is all price. Within Cement, it's probably around 20%, I would say of the pricing that we saw in the first half would relate to surcharges. And the important thing about the surcharge is that obviously, if the external indices take a dip, then we will be passing that back to customers, it's very much a -- it's a two-way process in terms of that.

In terms of CapEx, the delays were really in towards the back end of last year coming into this year. So we're aware we wanted to be at the half year in terms of delivery of kit and cash going out of the door. The big projects are going well, we talked obviously at the Capital Markets Day about the Mansfield asphalt plant, that is nearing commissioning. And the various installations there have been progressing well. We've also been looking at the CapEx and particularly sustainable CapEx. So ie, things that can help enhance our overall sustainability agenda.

As an example, we're installing around 50 CEM II silos around the country, which will allow us to use CEM II, which uses a much lower clinker content, and put that out into the network and there is a fair amount of investment going in behind that. We've signed off on new primary crushers at a couple of our big quarries. And that in turn will allow us to produce aggregate at a much lower cost per tonne, much more efficient, much more sustainable et cetera.

Do you want to talk about orders and...

A – Rob Wood

Yeah. So look on orders, we -- and you asked particularly about delays, I could replay a conversation from a few years to you, from I mean, delays are normal part of our business, whether it's large infrastructure projects, whether it's more local projects often get delays, and we're used to having delays. But generally as we look out in the infrastructure space, as we look at in the industrial space, and even you, I mean, you're seeing every day the major house-builders reporting and the confidence they have. We aren't seeing major delays or any fundamental changes there. It's something we've become quite used to and we adjust accordingly there.

I can think of projects where local authorities might have deferred projects. Every time we stand up here and talk to you, James and I would be able to tell you that. And so nothing over and above that. And I think moving on to your question about the rationalizing the ready-mix plants, I mean, this is just our optimise strategy and execution. We will always continually reassess, we will always consider what we should be doing around the margins and making sure that we constantly strive to improve efficiency. So not material in terms of the overall scale of the operation. But it's fine-tuning and we will continue to do that in the months and years ahead.

Are there any calls on the line?

Operator

Thank you. (Operator Instructions). We will now take our first question from Christen Hjorth from Numis. Please go ahead.

Q – Christen Hjorth

Thank you. Good morning guys. Three questions from me, if that's okay. First one, just on the M&A pipeline. You touched, I was just mostly going to be focused on the GB and Ireland. And you've obviously done two small deals already. How should we think about the potential size of deals in that pipeline?

The second one just on surfacing. And you've obviously put the tenders in and expect to hear later this year. If we look at it versus over 3 year to 5 year view, how should we think about the size of that opportunity?

And then just finally on the local authority piece, just how you're thinking about budgets there and the potential impacts of cost inflation in terms of volume levels in the quarter if we look forward over a 12 month? Thank you.

A – James Brotherton

Shall I?

A – Rob Wood

Do you want to do M&A?

A – James Brotherton

So in terms of M&A pipeline, I think the first thing to say is that, there is a lot more interest in M&A now than there was this time a year ago. I think coming out of Covid people have been very focused on running their businesses. And therefore there was less inclination to engage. So the pipeline is considerably fuller now than it was 12 months ago, both in GB and in Ireland. In terms of size, we're looking at a complete range from the very small transactions like the two that we announced at -- since the half-year. But also some potentially more significant ones. Ultimately M&A depends upon a willing buyer and a willing seller. We can be a very willing buyer of businesses, but we need people to be willing sellers, and to be willing sellers at a realistic price point.

A – Rob Wood

On the surfacing question. And I think the question was very much about what are our aspirations and what could it look like? And we've just done the bolt-on of Thomas Bow, it's a twin track strategy on our surfacing business, which is firstly to grow our regional business in England and Wales. And secondly then be able to participate more meaningfully in the framework agreements with Highways England, sorry, National Highways. What is our aspiration? We don't have a hard-and-fast target for this year, for next year, but it's to meaningfully improve our exposure and grow that business.

And if we can grow that business, we're not talking single-digit millions, we're talking tens of millions and maybe in a few years' time, it could even be into the hundred type million. But it's something that we would do on that using this twin track strategy. And hopefully over the next few years grow that business. And the real prize in that is the pull-through. And the pull-through of the materials. And so, which significantly enhances what would otherwise be a diluting margin of just the surfacing operation. So it's a win-win we can grow revenue and we can enhance Group margin.

I think your third question was on the local authorities and budgets. And whilst there is an argument and there is a scenario, which says that there are finite budgets and with inflation running through material costs, there is a risk -- there'll be less budgets. I think I would counter that with, it's not our biggest end use exposure. We're very much into the broader infrastructure space, we're into the industrial space, and we're into the housing space. So whilst there might be a risk there, we think the growth drivers in the other parts of the industry that we're exposed to will offset that.

Q – Christen Hjorth

Thanks very much.

Operator

We will now take our next question from Pierre Rousseau from Barclays.

Q – Pierre Rousseau

Yes, good morning gentlemen. Thank you for taking the time. First question would be a follow-up on the Cemex margin. And do you need the volumes to -- the market volumes to increase a lot to drive a lot of margin improvement from where you are now, or can you do this in a relatively lower demand environment going forward?

And the second question would be more about potential impact of a recession. Don't have much reference point from 2009 in the case of Breedon, so, and what would you expect the volumes could do and what would be your main priorities to defend the earnings in a recession scenario? Thank you.

A – James Brotherton

Thank you, Pierre. So in terms of the Cemex margin, I think the core Cemex margin can continue to progress to the GB Materials margin without the need for a significant increase in volume. I think as we talk -- as I talked about earlier, I think to get up towards that 12% margin target for the Group as a whole, we probably do need a more supportive volume and market backdrop over time. In terms of the impact of a recession, more difficult one to quantify. I think the most relevant example was the impact of Covid on the business, and the fact that the business was able to manage what was an extreme impact on demand. And was able to move very quickly to adapt to a significant change in market circumstances. And as importantly, as volumes came back and as the market came back to respond to that, and to be able to -- to be able to come back and switch on as quickly as it had switched off.

So I think the business has demonstrated that it has the ability to manage its cost base, manage how it responds to an extreme collapse in demand. Clearly in a recession, you wouldn't necessarily expect to see something as extreme as we saw in Covid. But I think we've demonstrated that we have the tools in the locker to be able to tackle challenges as and when they arise. And I think the history of Breedon has very much been about playing what's in front of the business and ensuring that we react appropriately to market conditions, whether those are good market conditions and buoyant demand or less good market conditions and lower demand.

A – Rob Wood

I would then add on the recession that we're in a very different place than we were sort of 12, 13 years ago. And there is a chart in the back, and you can look at your leisure, it's on Slide 31. And you can look where the starting point is. And the level of activity and the volumes in the business are really if you look at the dip, which is broadly 40% since the previous sort of crash and recession. On the ready-mix volumes, they're only marginally above where they were then. And even on the aggregates and asphalt, you know, we're talking, they're only halfway back to those levels.

So we've got a different starting point, but also we've got a different in agenda at the moment, you know, a public agenda, which is about infrastructure spending, which is about projects like HS2, which is about fuel security now, which is about sustainability now. And we're in a very different position, the banks are in a very different position. And we genuinely believe that infrastructure spending, housing spending, and the need for housing spending are going to have to be front and center, if things turn tough and we move into a recession. So we genuinely believe the outlook for our sector and our exposure is relatively defensive.

Operator

And I would like to turn the call back to Rob Wood for any additional or closing remarks.

A – Rob Wood

Okay. That's all the questions on the line, is it? Okay. Well look, thank you very much. We look forward to updating you in November with our normal trading update. And hopefully look forward to seeing even more of you in the room next March with no Covid and no train strikes. Thank you very much.