Breedon Interim Results call 2024

Breedon participants

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

Other participants

- Andy Murphy, Edison Research
- Aynsley Lammin, Investec
- Cedar Ekblom, Morgan Stanley
- Christen Hjorth, Deutsche Numis
- Harry Dow, Redburn
- Ken Rumph, Goodbody
- Marcus Cole, UBS
- Robert Chantry, Berenberg
- Sam Cullen, Peel Hunt
- Tobias Woerner, Stifel Nicolaus Europe

Presentation

Rob Wood

Good morning everybody. It's great to see so many people here today. It must be the most people we've had in this room for three or four years now. So welcome everyone. James and I will take about 20 minutes or so to guide you through our presentation and then open things up for questions.

I'm pleased to report that we've delivered another resilient performance against the backdrop of a challenging GB market and wet weather across the group. A strong performance in Ireland and a positive maiden contribution from our US business offset the GB weakness and ensured that we delivered positive earnings momentum. For my team to deliver such a resilient performance given the challenging GB market conditions we have faced is an incredible achievement and I'm truly proud of what they've achieved and thank them for their efforts.

So what has contributed to our performance? I would highlight five things. Firstly, market conditions in the first half weakened further in GB and construction activity across the group was impacted by wet conditions. Secondly, Ireland benefited from the resumption of a governing assembly in the north and a strong tendering season in the south. Thirdly, we successfully executed our entry into the US market through the acquisition of BMC. And in the few months since the transaction completed, BMC has made a positive contribution. Fourthly, we doubled down on our business model. We have kept close to our customers, we have accelerated our drive for efficiencies, and we have strengthened our operations. And fifthly, we continued to strategically invest for growth, completing three acquisitions and continuing organic investments.

We knew back at the beginning of the year that the macroeconomic landscape, particularly in GB, was uncertain, and that the near-term outlook was finely balanced. What we didn't know was the impact the weather was going to have. And whilst this has clearly impacted our performance, what also shines through is the resilience of our business and people.

In parallel to delivering our first half performance, I'm pleased to report that we've made progress on our three strategic priorities and that's what I want to show you here. I'm delighted by the progress you see here. Given the progress made, I will start with our Expand in priority. As already touched on, we delivered a major strategic objective in March, entering the US and establishing our third platform with a transformative acquisition of BMC, creating the foundation from which we will build out our US business.

In GB, we completed the acquisition of Eco Asphalt, a Merseyside Asphalt supplier

strategically located within the region where we service the National Highways pavement framework. In GB, we also acquired Phoenix Surfacing, enhancing our presence in the midlands and reinforcing our regional surface capabilities. And over and above all this, we have continued to invest in the minerals, the lifeblood of our business.

In respect of our Sustain priority, we have progressed a range of initiatives. Keeping our people safe and well is our number one priority and to ensure our practices are industry leading, we have evolved our safety and commitments with clearer and firmer rules, promoting a proactive culture of safety and risk elimination. Having set our ambition to achieve net zero by 2050, in 2023, we submitted our targets and methodology for validation. This year, we were awarded our first CDP ratings of B for climate change and C for water security, placing us at the forefront of our sector and we continue to engage with SBTi as we await formal validation of our targets and our cement operations continually seek ways and find ways to reduce their carbon footprint. We continue to increase the use of alternative fuels. We are progressing solar projects. CEM II now accounts for a third of our cement sales and we are a partner in the peak cluster carbon capture and storage project.

In respect of our Optimise priority, we have continued to drive efficiency and profitability. The implementation of a quarry improvement program from face to gate to deliver efficiencies and process improvement is a great example of what we're doing. Notable successes of this include process reengineering at our Leaton and Cloud Hill quarries in GB, which resulted in targeted capital investment to negate the need for contract crushing. So, in summary, real strategic progress in the first half.
I'll now pass over to James and his financial review.

James Brotherton

Good morning everyone, and thank you, Rob.

Revenue in the period increased by 3%, which was supported by the contribution from BMC. However, on a like-for-like basis contracted by 6%, principally reflecting the state of the more challenging GB market. In the first half, our underlying EBIT improved by 2% to GBP71.6 million, with the margin being broadly maintained at 9.4%. Contributions from each of Ireland, cement and BMC all helping to mitigate the impact of lower volumes in Great Britain. Our post-tax return on invested capital at 8.8% is impacted by the short-term dilution from the BMC acquisition and by further increases in corporate tax rates. We saw a modest free cash outflow in the period and indebtedness at the half year is significantly higher than this time last year, due to the acquisition.

Covenant Leverage at 1.6 times is in line with our expectations and sits comfortably within our target range, so we retain significant balance sheet flexibility as we come into the second half of the year. And our interim dividend has increased by 13%, reflecting our confidence in the group's long-term prospects. In terms of, how that revenue growth of 3% is built up, pricing contributes 2% of the increase, the majority of which is a tailwind from 2023. Our like-for-like volumes overall were down as expected by around 8%, with aggregates and asphalt down 4%, cement down 12%, and ready mix concrete volumes significantly impacted by GB market conditions, and by the weather down 18% against what was a fairly tough comparative.

Acquisitions contributed around GBP66 million pounds to revenue, the majority of which relates to BMC, who have seen mid-single-digit volume and price expansion across their product set, in the period under our ownership compared with last year.

Turning to the profitability bridge, the cost environment this year is notably different to last. The equivalent incremental cost movement into the business that we saw in the first half of 2023 was nine times higher at GBP69 million, which compares with just over GBP7 million that you can see on the slide in the first half of 2024. Pricing more than offset the incremental costs incurred and despite the operational gearing impact of those lower volumes dropping through, at around 24%, we broadly maintained our EBIT margin overall.

In terms of divisional outcomes, GB had a tough first half. However, Ireland delivered a notably strong performance, increasing their revenue, their EBIT contribution, and their

margin. And that GBP13.7 million of EBIT reported by the Irish business is by some distance the strongest first half, that that business has delivered since our acquisition back in 2018.

Cement saw 60 basis points of margin expansion in the period, principally due to lower energy costs, which brings the margin back towards, where it was into half one of 2022. Headline pricing in the division was impacted by carbon surcharges coming off due to the lower cost of carbon credits, and BMC has made a promising contribution in its first few months of ownership.

We've seen the usual expansion in working capital to the half year, slightly higher than in 2023 in absolute terms, due to the inclusion of BMC, which has a similar working capital profile to the rest of the group. Interest paid is higher for obvious reasons and our capex profile reflects the investments we're making in the business, most notably the ARM project at Hope.

Overall, we saw a free cash outflow in the period of around GBP10 million, with the most significant movement below free cash flow being the net indebtedness taken on to finance the acquisition of BMC. We've taken the opportunity this year to refinance our revolving credit facility, and the new RCF is an increased GBP400 million facility together with GBP100 million Accordion. The facility will run for at least four years and has an option for extensions and this gives us immediate access to liquidity of over GBP200 million before any exercise of the Accordion. We retain our existing US private placement note program, which has extremely competitive fixed rates of interest and matures between 2028 and 2036. I'd like to thank our existing relationship banks and welcome those who have joined the syndicate. We remain very grateful for their support.

So, as usual, I've summarised our technical guidance to cover the balance of the year. Interest for the full year will be at the low end of the range, guided to in March at GBP25 million following the refinancing. We're now expecting a blended effective tax rate of around 22% for this year, with cash tax payments materially in line with that. Bear in mind, that US statutory tax rates are higher than the group average, so I would expect the group tax rate to continue to trend up over time. Cash exceptionals, which principally comprise acquisition and integration costs, will total around GBP12 million and our capex guidance for the year is now GBP130 million, with the cash cost of the dividend being GBP48 million.

We'll see the usual working capital unwind over the balance of the year and expect the overall year-end position to be a modest net capital working capital outflow of around GBP30 million, mostly due to the impact of inflation on the balance sheet, and that should lead you to a net debt number for the full year absent further M&A of around GBP430 million, retaining significant covenant headroom. We're still expecting profitability for the year to be slightly more weighted towards the second half. Historically, that weighting has been around GBP43 million to GBP57 million and our expectations remain unchanged for the year as a whole.

So, in summary, our covenant leverage is 1.6 times at the very peak of our in-year working capital cycle and it remains comfortably within our target range. We've continued with our program of targeted, proactive investment back into the business and are well underway with the process of integrating BMC into the group. We continue to meet our strategic objectives, most notably in the establishment of our third platform. Despite challenging markets in our largest division, we've extended and increased our debt capacity and we continue to progress returns to shareholders through the dividend. We retain significant balance sheet flexibility and we're well positioned for the second half.

Thank you, and I'll now pass back to Rob.

Rob Wood

Thanks, James.

I'll start the operational review by highlighting three central themes of short-term macroeconomics uncertainty, a shifting political landscape, and wet weather. Whilst there's nothing we can do about the weather, the political landscape is becoming more certain.

Let's look first at our UK market where the picture in the first half is mixed. The economy is moving into positive territory, confidence is improving, but construction is yet to turn. After the shallow recession in the second half of last year, UK GDP has grown to 0.7% above where it was in June 2023. Construction output over the last year has grown by 0.8%, but at the new work level, it's actually declined by 4.0%, and the latest available data for the MPA volumes Q1 has confirmed that demand for mineral products is still declining, with the Q1 2024 versus Q1 2023 volumes down 8% for aggregates in asphalt and 21% for concrete. The weather impact being most pronounced for concrete, but confidence, as measured by the construction PMI, has moved into positive territory in recent months and stands at 52% in June. All this is reflected in our UK performance in the first half, and I will talk more about this in the business review shortly.

But before I do that, I want to turn next to the market in the Republic of Ireland, where the operating environment was more positive. Modified domestic demand grew by 1.7% over the year to March 2024. Construction output in the first quarter is estimated to have contracted but was impacted by weather. The construction PMI index stood at 48 in June, but this appears to be an outlier. It was 53 in April.
Housing activity is growing, new orders are rising and firms are optimistic on the outlook for the coming year. Putting the weather to one side, our businesses in the Republic of Ireland benefited from this growth backdrop, and I'm pleased to report that for the first time in the last few years, the benefits of this were compounded at the island of Ireland level by growing levels of activity following the resumption of the governing assembly in the north.

Lastly, before moving to our businesses, I want to touch on the market in the US. At the macro level although moderating, the economy remains one of steady growth, with GDP growing 1.4% in the year to March 2024. In Missouri, our home state, it grew by 1.6%. Construction was a leading contributor to this growth in 10 states, one of which was Missouri. And whilst there is no US construction PMI index, recent surveys highlight that the second quarter was pressured by weather, but that demand and pricing environments for construction materials are healthy otherwise.

Moving on to our businesses and to GB. Our GB business delivered a resilient performance in a challenging market. Declining volumes were baked into our expectations but then the wet weather drove further declines. Pricing remained resilient and we were able to fully recover input cost increases, the resulting EBIT decline being the result of operational leverage. However, against this backdrop, we maintained our disciplined focus on operational excellence and self-help and the surfacing business performed well.

As a reminder, our surfacing business delivers our own high-quality materials pulled through our vertically integrated model. Our Irish business had a strong half year. As already mentioned, for the first time in a few years, there was positive demand across the island of Ireland. Volumes reflected this scene but were, like GB, impacted by weather. Pricing was robust and enabled full recovery of import costs. The resulting underlying EBIT improvement reflected the volume and pricing benefits. As in GB, we maintained our disciplined focus on operational excellence and self-help.

Moving on to our US business, which I've already said made a positive contribution. Whilst weather also had a part to play, volumes and pricing have been favourable. The focus in the first few months has been on integration and implementing an organizational structure to facilitate future growth. In summary, a good start from the business, and no surprises to report.

Last but not least, moving on to our cement business which had a challenging first half. This primarily reflecting our GB performance and in particular its exposure to concrete.

Volumes in GB reflected this, but in Ireland, they were more resilient.

Pricing progressed in both markets and the underlying EBIT declined, being the result of operating leverage. Lastly, operationally both cement plants performed to exceptionally high levels of reliability and we undertook two planned kiln maintenance shutdowns in the first half.

I want to move away now from the first half and look forward. Across our three platforms, it is clear that the short-term, uncertain macroeconomic and political landscape is improving. Growth is returning and interest rates are expected to fall. There is now political clarity in the UK and the newer government appears supportive of the construction industry. On the island of Ireland, the Republic of Ireland's government recently affirmed their commitment to housing and infrastructure, and having Stormont operating is a positive.

And whilst there's still an election to come in the US later this year, there is a clear desire from both parties to address the significant housing and infrastructure deficits there. I believe Breedon is well placed to benefit from this improving landscape on both sides of the Atlantic. The only real uncertainty is timing, about when we will see further improvements. Today, our expectations for the full year remain unchanged, but underlying EBIT will be slightly more weighted to the second half.

I would like to close by reminding you that the business remains highly cash generative and has a healthy balance sheet. These two factors provide us with the strategic flexibility to invest for growth, maintain our progressive dividend policy, and execute bolt-on acquisitions across each of our three platforms, where we have well populated and active M&A pipelines. And when growth is restored to all our platforms, Breedon will benefit from structural tailwinds. In summary, I remain confident in our ability to continue to deliver.

Thank you. We now welcome your questions.

Questions and Answers

Q – Robert Chantry

Hi, Robert Chantry from Berenberg. Thanks for the presentation. So, yeah, just three questions for me. Firstly, could you provide a bit more detail on the margin sensitivities in GB and Ireland? I know historically you had a CMD target for 12% to 15%. But can you break out, I guess, what are the drop-through margins in each at the moment and how you see the potential aspirational margin for those divisions, given the volume environment?

Secondly, in Ireland, clearly great, great result, best EBIT of the first half since acquisition. Could you just talk strategically a bit about what you're missing in that market to kind of take more advantage of the buoyancy of the Irish market? Is there any areas you think you could have more exposure to?

And then thirdly, on the US, what do you know about the US market that you didn't know six months ago when you didn't have assets on the ground? Thanks.

A - Rob Wood

So, Robert, in terms of the margin, we've always said that to get into that target range, we need volume recovery, and that certainly hasn't come through in the first half of this year in GB, and I think it would be a stretch to expect it to come through over the year as a whole. But we do think that as markets recover, and hopefully that could be from 2025 onwards, that we will see those volumes coming back, and then you see a drop through of anything between sort of 25% and 30% coming through. So with volume recovery, I think you would see some really quite rapid progress back towards that margin target. If you look across the other three divisions, they're all there or thereabouts in the context of the margin, cement is slightly higher than the others. But both BMC and the Irish business very much within those ranges. So the real key is going to be volume growth in our largest division in GB.

A - James Brotherton

I think in respect of your second question, Rob, Ireland, and I think the question was really more about the M&A strategy in Ireland. We've been very clear over the last few years. We have wanted to grow our aggregates business in Ireland, and you'd have seen a step with that with Robinson's last year. We want to continue to build out our presence. If you remember, when we acquired Lagan in 2018 in the Republic of Ireland, we really didn't have an aggregates business, and we had a number of assets that were acquired with the deal that we've mobilised in the last few years.

And we now have quite a promising aggregates business, across the island of Ireland. So number one would be more aggregates. And to complement that, we would want to build out our vertically integrated model, which is highly likely to involve further building products, and less likely to involve asphalt, because we have a very good business in Ireland for asphalt. But I think that gives you a pretty clear steer.

A - Rob Wood

I think the third question is interesting. What do we know now about the US that we didn't know six months ago? Six months ago it was largely theoretical, and six months ago it was very much a case study and due diligence on the market. Here I am sat after, I think James referred to 16 weeks in. We have a great management team there. We have a great beachhead in Missouri, in the midwest, and the scope of the opportunity and the long-term fundamentals for the market in that part of the US are even more compelling than, when we pressed the button on it back in March.

Q – Cedar Ekblom

Hi, Cedar Ekblom from Morgan Stanley. Two questions. Can you talk about what level of gearing you have in mind, when we should think about more flexibility for either M&A or buybacks or dividends? What kind of gearing level do we need to get to?

And then in terms of the cash flow profile into next year, is there anything that we need to think about that might blunt the cash recovery as volumes come back? Do we need to see a step up in capex? Is there any costs that have been really reined in in an environment of weaker volumes that will come back that'd be useful?

A - James Brotherton

Okay, so in terms of gearing, Cedar, you know, we have a target, a leverage target of between one and two times. We're sort of in the middle of that at the moment, and I think we would historically we have gone up as high as 2.5 times on the back of M&A transactions. I don't think we would choose to go there in the current interest rate environment, but we certainly retain incremental capacity at the moment to make further acquisitions or indeed investments back into the business off the balance sheet.

I think sort of looking forward, historically, we've always delevered relatively quickly after transactions. We would hope that that would be the case now. The difference being that we now pay a dividend, whereas at the time of the Hope and the Lagan and the Cemex acquisitions, we weren't paying a dividend. In terms of the cash flow profile into a recovery, I don't think you'll see it change materially. We have, over the course of the last three years, we've significantly stepped up the capital investment. In any event, part of that is project-specific with things like the ARM project at Hope, but more generally, what we haven't been doing over the last couple of years is cutting back on our investment into the business. So I actually think that we will be as well positioned as anyone as those volumes come back, because the ability to add that capacity is effectively already there.

Q – Ken Rumph

Hi, Ken Rumph, from Goodbody's. On the capex side, could you say anything more about the opportunities in the States, for instance, from a capex as opposed to M&A point of view? Are there ways to monetise more of the big aggregate space to get more into infrastructure, say, as opposed to -- or is acquisition the only way to do that? And also

maybe if you could say a bit more about the ARM project at Hope and the timing and kind of any benefits that accrue from that? And then a separate question. Just the extent to which you could kind of divide weather from macro in GB, and sort of the scope for sort of work that's been delayed due to ground conditions to be caught up in the second half.

A - Rob Wood

I think there were three questions then, not two, but it's a good way of doing it, Ken. So, I'll pick up the first one, James, and then pass over to you. Look, in Breedon, we've always had a pretty balanced strategy and it's M&A and organic growth. With BMC, if you remember, we acquired over 400 million tonnes of reserves and resources. So I think it's highly likely, over time, there will be investment in capital to expand our production capacity and to grow our aggregates business. But I think it's also fair to say, as we vertically integrate that business, we will always look at organic opportunities as opposed to M&A opportunities. I mean, the old adage, it tends to be half the risk and twice the return. So it will be very much business as usual for Breedon, which will be organic, complementing M&A.

A - James Brotherton

In terms of the ARM project. the timing on that is for completion early in 2025, and what the project is really doing is allowing us to bring in alternative raw materials into the cement manufacturing process. So it's building the infrastructure, effectively the railhead infrastructure, to allow us to do that. And in turn, what that will do is improve the quality of the emissions that come out of the stack. The thing it doesn't do is, it doesn't address carbon emissions. So it's the other emissions that come out of the cement manufacturing process.

In terms of weather and macro, I think that factually, it's been wetter. The Met Office said that there have been 15 more weather-impacted days in the first half of 2024, compared with 2023. I think it's fair to say that whilst you can make up a day or a couple of days of wet weather, I think when you have that many days, and to the extent that a number of sites, particularly in the first quarter of the year, were so waterlogged that people couldn't actually get onto them.

It's difficult to see how a gap of that magnitude gets caught up. So I think that whilst we're optimistic that we will see better weather in the second half of 2024, and that there is a slight softer comparative for the GB business in the second half because of the changes to the housing regulations that happened at the end of the first half of last year. And clearly, a big element of political uncertainty has been resolved. So I think that the second half for GB shouldn't be as bad as the first half was. But I think it's quite difficult to see how that gap gets closed over the balance of this year.

Q – Tobias Woerner

Tobias Woerner from Stifel. Two topics, if I may. Number one, when you look at Ireland, you can actually see in June that prices went up sequentially in cement by almost 6%, aggregates another 4% to 5%. Is this data correct? Have we seen a mid- year price increase or June price increase in Ireland? And if so, are you tempted to, or is the industry tempted to follow suit in GB? That's the first topic. The second question around the US, maybe just remind us where the heritage volumes and prices are in the US. We know that the second quarter in the US, when you look at the national level, volumes were down roughly 9% to 11% and prices were up 6% to 7% across the heavy side.

A - Rob Wood

I will comment on both of those James would like to add anything. Please do. And Ireland, We have made progress on cement pricing in Ireland in 2024. I'm not in a position to comment, where the market is. I don't think it's appropriate for me to comment. And unfortunately, when it comes to GB, I'm just going to hide behind the cement market data order and say I'm not able to talk about cement pricing in GB at all. Sorry, but it's -- I'd like to keep here and not locked away somewhere. In terms of heritage volumes in the US, look, all we can talk about is the BMC business, and what I can say is that the business is

performing and volume and prices contributing that, ahead of the plan, that we set and ahead of where they were 12 months ago. And so hopefully that gives you a flavor of where the business is.

Q - Christen Hjorth

Yes, Hi. Two questions from me. The first is partly related to pricing, but maybe you might address James, just the cost outlook. You know, it's obviously a reasonably good H1, you might just address H2, and any initial comments on the first half of next year. And then just in relation to the US beachhead that you've established there, you know, what's been your feeling in the last couple of months around discussions with potential opportunities? Has there been good feedback, bad feedback? Is the pricing environment fairly reasonable or because you're out there now, or people trying to squeeze the lemon with you? What's been your experience there?

A - Rob Wood

Yes, I think in terms of the cost outlook for the second half, I'd say it's broadly similar to what we've seen in the first half. We're clearly well past the hump in terms of inflation coming into not just our business, but into the market more generally. So I think the cost outlook for the second half is roughly the same as we've seen in the first half.

A - James Brotherton

In terms of US and M&A, I would say. I'd say three things. One is that the management team had an existing pipeline that is still live. Two is that we, as Breedon, had a pipeline which is now focused predominantly on the midwest, but that's active. But the third thing is that there's been a significant uptake in inbound opportunities following the entry to the us market on the 7th of March. So activity wise, a lot going on, valuation-wise, it's probably not appropriate for me to comment, too much on that. But what I can say is that we're only going to execute transactions, if we believe we can deliver returns to our shareholders.

Q – Aynsley Lammin

Thanks. Aynsley Lammin from Investec, just one for me. Could you find a bit more color just on the kind of three-end markets in GB? So in the infrastructure, residential and then the private and commercial industrial? And as you look out into kind of next year, just how you -- where you're most hopeful for the recovery, talked about the uncertainty around time and would it be which of those end markets are you more kind of comfortable when you talk to customers, look at order books in the industry its actual effect [ph]?

A - Rob Wood

So given the impact in the first half and particularly where it's manifested itself, is on ready mix, which I think, James, you gave it was minus 18% and I talked about the market being down 21% in the first quarter in GB. A lot of that is weather, but the rest of it is around house building primarily, and I think it's going to be house building, as we move into 2025 and onwards that will have the strongest recovery. I mean, the infrastructure side of the market is fairly resilient and relatively strong, and an industrial and commercial, our exposure to those areas is smaller.

Q – Christen Hjorth

That's everything. Christen Hjorth from Deutsche and Numis. Two from me, please. First of all, just maybe tying in various questions around cost and price. If you look at the first half, price was well ahead of cost coming through to the EBIT line. If we look forward to H2, is it a similar type of benefit, or do you sort of see price and cost broadly washing their face? And then the second one, we've talked a bit about how GB's volumes are under pressure, but if you look at the market and your exposure, where do you think volumes are relative to a normalised level of activity? Just to help us understand what the recovery opportunity is? Thank you.

A - James Brotherton

So I think optically you'll see slightly higher pricing in the second half as a function of the carbon surcharges that came off in the first half of this year. The second, they started to come off at around the half year of last year. So you will see a little bit more price come through, I think, across the year as a whole. As I said when Rob asked the question earlier, we're expecting a similar sort of cost backdrop. So I think overall you might see a little bit more drop-through in terms of net price cost in the second half. Do you want to talk about volumes versus historic, Rob?

A - Rob Wood

In the context of GB or in the context? Well, then, look, let's turn you to slide 28. You've all got the packs in front of you. I think this shows you where we are in terms of volumes in -- in GB. I mean, the one, I would call out there, and this is up until the end of the first quarter, is the ready mix volume. And if you now, look, we're now 8% lower than the trough following the global financial crisis. And so, I genuinely believe that the risk-risk, it can only really be on the upside. You know, the market really hasn't got a lot more to give.

Q – Sam Cullen

Thanks. Morning. Sam Cullen from Peel Hunt. I've got two. First one is kind of an extension to Aynsley's question. And in terms of the trajectory of recovery, can I push you for your view on what it might look like? Is it materially different to the CPA numbers that you've put in the pack? And if it is, what's your capacity to respond to higher volumes than those CPA forecasts? That's the first one. And the second one is on bolt-ons in GB. Firstly, I'm assuming you're still looking for them. Secondly, if you are, does a recovering market do anything to the multiples your potential vendors are looking to achieve or the structure of any deals, are they going to be more earn outweighted, for example?

A - James Brotherton

So in terms of the recovery, look, I think it's a pretty live discussion at the moment. I think everyone believes it's coming. I think we're all looking forward to clarity and the first movement on interest rates. And a week ago, there was talk of August and -- and now people are saying, actually, maybe it won't be August now, it's going to be later in the year.

I think there's going to be a number of factors that come in and play in the next few months. One will be interest rates. One will be seeing the government actually execute some of the statements that they've made in the last few weeks since they've got into power. But the fundamentals in the medium term, moving out of '24 into '25 and '26, I think, are for a housing-led construction recovery.

And I think the CPA will be updating their numbers as they speak. I think their latest forecast is due out, if not the end of this month, it's going to be in August. But I think you will start to see some modest progression in those forecasts.

I think in terms of bolt-ons, we do have opportunities in GB. As I said, we have opportunities across the US, Ireland, and GB now. So we look forward to --we've always talked about GB and said there's areas in GB and there's products within GB where we've got more opportunity, and that's where our efforts are going to be focused.

Q – Marcus Cole

Hi, I'm Marcus Cole, UBS. Two questions as well. Just on post-tax returns, given what you said in terms of your technical guidance, where do you think the sustainable rate is for post-tax returns over the medium term? And then, as we think about acquisitions, how quickly should acquisitions get to that group target?

A - James Brotherton

So I'll take the second one first. Ideally, after two years, we would hope that our acquisitions would achieve our right target. That's generally the approach that we take when modeling a transaction. Every transaction is different, though, and you sometimes get synergies

quicker than you were expecting, and sometimes synergies take longer to come through. Clearly, with BMC, there are no synergies. In fact, there are dissynergies from the start. In terms of the right target, it remains at the moment at 10%. And our suite of targets that we set out at the capital markets day, nearly three years ago, all remain valid. We're doing a follow-up capital markets day later this year, and I think that would be the appropriate time to look up all of the targets in the context of that day and really set out the framework for the next three years to five years for the group.

Q – Harry Dow

Thanks, Harry Dow from Redburn Atlantic. I think just a couple of questions. Firstly, just on if you could talk a bit more about Q2 volumes, maybe specifically, and maybe the exit rate, and I suppose current trading in line with that, whether we saw any improvement over that period. Maybe there's sort of the like-for-likes imply a slight improvement in Q2.

Secondly, would just be around pricing, again, specifically in the US. Again, a lot of US, if you want to call them peers, talking about mid-year price increases. I don't know if that's something that you're looking to put through, potentially, especially if you see, I suppose, upstream, particularly in cement, some price increases coming through.

And then thirdly, just on carbon emissions, you mentioned briefly, I think the UK has made a couple more noises around introducing a carbon border tax, things around free allowances. I don't know if there's anything sort of interesting to highlight to an industry level around conversations, sort of, on carbon allowances and things like that. Thanks.

A - James Brotherton

So I don't think in terms of run rates, I wouldn't say that Q2 was any different, certainly in GB compared to Q1. The difference being that Q2 is a more important quarter than the first quarter of the year. I would say that July has been a little bit better, but I wouldn't necessarily draw, the conclusion that we've reached a genuine inflection point. But it certainly doesn't feel any worse, if you like.

In terms of US pricing, there was some pricing put in place at the start of the year. I think we will continue to monitor what's happening in terms of the inputs, Clearly, if the input costs come through at an elevated level, then we would, in all our markets, look at the pricing and the pricing structure.

I think in terms of the carbon border adjustment mechanism, I think it's encouraging that the government are taking it seriously. There was a concern a while back that potentially, we would end up with a carbon border in Europe, but not have one in the UK. I think it's pretty clear that there will be an appropriate mechanism put in place. We would hope it would come in at the same time as the European border mechanism because it doesn't seem to make a great deal of sense to have a gap, but clearly that's now down to the government to implement policy there.

And I think if you look at what's happened with carbon credits and which had -- we'd seen a real dislocation between the GB market and the European market. Over the course of the last 18 months, the last few weeks, there does seem to be a trend up, certainly in UK trading costs and therefore more alignment than there has been between the two markets.

Q – Ken Rumph

Ken Rumph from Goodbody's. On the RCF extended and upsized, where would US private placement money look now? And indeed, what I think is there maybe a US bank added to the RCF is, is the kind of, now that you're actually in the States as an operator, is there a different appetite do you think there? Would that be the next thing that you might, if you needed to do is kind of return to the US private placement market? Thanks.

A - James Brotherton

Yes, I think the US private placement market has served us well and we're very grateful for that, for the support of the note holders that came into the capital raise that we did a

couple of years ago. It's a neat way of putting in place long-term financing with long-term committed lenders. So I would, if you look over, say, the next 12 months, it wouldn't surprise me if we were to do something else in that market over the course of that period. Yes. In terms of the RCF, we have bought in a US bank to come into -- come into the RCF. And, you know, I think over time, as our business over there grows, I would expect to see potentially some more US banks coming into the club in due course.

Rob Wood

Conscious of time. But I just wondered if there's any calls on the lines at all? Sorry, any questions on the lines still?

Operator

Thank you. (Operator Instructions) We do have a question now from Andy Murphy from Edison Research. Please go ahead.

Q – Andy Murphy

Thank you. Good morning. Just one question for me. I mentioned your slide back on page 21. You highlight some progress in your decarbonisation project. I wonder if you could just talk a little bit about that progress and highlight it. Secondly, on the same sort of subject, whether you think the change of government is going to cause you to perhaps accelerate or decelerate your interest in this space. Thank you.

A - Rob Wood

Thank you, So in terms of the projects and the things that we allude to on there, we start with alternative fuels. And this is very much about replacing fossil fuels in terms of our major source of heat. And, you know, we as a business have really been at the cutting edge of alternative fuel use. Our Kinnegad plant has been touching. Well, I think it's averaged 80% in the first half, you know, fossil fuel replacements, and we've continued to make progress at Hope as well. So we're somewhere in the region of 50% replacement of coal.

But some of the other projects are increasing the sales of the CEM II product that I talked about, which is a lower clinker content and therefore a less carbon-intensive cement. We've also just in the process of constructing a solar farm at Kinnegad, which went live in 2025, will probably save our electricity costs somewhere in the region of 20%. But in the summer months, we'll replace the grid electricity for the majority of our requirements.

And the other one we talk about, which almost as a segue into the government question, is the peak cluster. This has an opportunity to capture somewhere in the region of, I think, 40% of the carbon emissions in GB. It's a partnership with a number of other emitters in the Peak District, and discussions are commencing with the new government to ensure that the appropriate support and regulatory regime is in place to allow us to make the investment decisions and to pursue feed.

Q – Andy Murphy

Thank you very much.

Operator

Thank you. There are no further questions over the telephone at this time.

A - Rob Wood

Good. Well, I think time is almost up. Thank you very much for joining us this morning. I'd just like to leave you with a couple of messages. You know, we're really pleased with the performance challenging GB, but a great performance in Ireland and a strong, you know, and a positive first contribution from the US. You know, we do see the outlook in the US and Ireland to be favorable for Breedon, and we do see the challenging environment in GB turning. We're not in control of the timing, but we are getting to the stage where we're getting

to the bottom of the market in GB. And I think we, as Breedon, have a real opportunity in the next few years to be supported by favorable tailwinds across all three of our platforms. And so for us, the future is exciting. Anyway, thank you very much, and see you all again soon.