Breedon Annual Results call 2023

Breedon participants

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

Other participants

- Christen Hjorth
- Clyde Lewis
- Ken Rumph
- Marcus Cole
- Robert Chantry
- Tobias Woerner

Presentation

Rob Wood

Good morning, everybody, and welcome to Breedon's 2023 Results Presentation. James and I will take about 25 minutes to guide you through our presentation and then open things up for questions.

I'm pleased to report that we've delivered another strong market -beating performance at Breedon. The results are a real accomplishment and something that I'm extremely proud of. The challenging trading conditions our team faced required agile and bold responses, which they took with discipline and determination. And for this, I thank the whole team.

So, what contributed to our success? I would highlight three factors. Firstly, our key end markets proved resilient in the face of significant short-term headwinds. And although volumes moderated, the long-term structural growth drivers remain in place.

Secondly, whilst the macroeconomic conditions which drive volumes are beyond our direct influence, we increased our focus on carefully managing all factors within our control, namely pricing and operation and commercial excellence.

Thirdly, we continued to invest for growth, completing three earnings-enhancing acquisitions and continuing organic investments.

I'm also delighted to report significant progress in respect of our third platform, as you have seen by this morning's announcement, and James and I will brief you further on this a bit later. And I think it's fair to say that our vertically-integrated and sustainable growth model has again come to the fore and delivered in 2023.

In parallel to delivering the numbers, I am pleased to report that we've made progress on our three strategic priorities, and that's what I want to show you on this next slide. I'm delighted by the progress you see here. In respect of our sustain priority, we have progressed a range of initiatives. Our highest priority remains ensuring our colleagues and all those attend our sites go home safe and well every day. And I'm pleased to report that in 2023, we made real progress towards changing the cultural perceptions around our safety behaviours.

I'm pleased to report that our science-based targets are in the process of being validated. We've made our first submission for assessment by CDP. And I'm pleased to report that we've been awarded a rating of B for Climate Change and C for Water Security in only our first year of assessments. Our Cement business operated with industry-leading levels of alternative fuel substitution, achieving a combined rate of nearly 50% fossil fuel replacement. And our modern plant at Kinnegad exceeded over 90% at times. We increased our sales of CEM II cement, a lower clinker content product. Consequently, CEM II now comprises roughly a 25% of our cement sales.

Furthermore, we launched the Breedon Balance brand, which promotes a range – a broad range of products with sustainable attributes. As a result, we reduced our group carbon emissions per ton by 5% during 2023, and while our carbon intensity in revenue terms reduced by 15%.

Lastly, we hosted the launch of the Peak Cluster carbon capture project that aims to store over 3 million tonnes of carbon dioxide emissions each year by 2030, a move that will reduce UK emissions from the cement and lime industry by around 40%.

In respect of our optimise priority, we have continued to drive efficiency and utilisation. We have done this by implementing an operational and commercial excellence program across each business, revisiting the entire process from quarrying to customer, by utilising technology to enhance this program. For example, the electronic proof of delivery, which has removed 1.5 million paper tickets each year, reducing queries by 58% and generated a material working capital improvement, and by maintaining cement plant reliability, where Hope sustained its Plant Mastery status for a remarkable fifth consecutive year and Kinnegad maintained its strong reliability record, a creditable outcome given the high use of alternative fuels.

Lastly, in respect of our expand priority, we have continued to progress internal investment. We have replenished our strategically valuable asset base of mineral reserves and resources at 1 billion tonnes, which equates to around 35 years of production. Aside from today's acquisition news, we completed three earnings enhancing transactions in GB and Ireland, with a combined enterprise value of up to GBP £22m.

So, in summary, another strong year for Breedon, which has been delivered in tough markets and which is a testament to the resilience of our vertical model and our sustainable growth strategy. I'll now pass you over to James and his financial review.

James Brotherton

Good morning, everyone, and thank you, Rob.

We've delivered a further year of strong financial performance in 2023, recording our highest ever levels of revenue and underlying EBIT. Higher UK corporation tax rates led to an increase in our effective tax rate and meant that the post-tax return on invested capital remained broadly in line with our target. Our free cash flow increased by 38% to GBP £95m, with good progress made on cash conversion despite a further year of significant capital investment ahead of depreciation. And that free cash flow generation translated into a further reduction in our net debt and to covenant leverage of half a turn at the year end, giving us considerable balance sheet flexibility as we came into 2024. And we've increased our dividends significantly to reach our target payout ratio of 40%, bringing cash distributions to shareholders through dividends since 2021 to nearly GBP110 million.

So overall, another very pleasing year, ahead of market expectations and another balanced set of results.

You'll recall that this time last year I referred to the fact that it was important that necessary pricing to recover costs in 2023 could be held at a lower level than was required in both 2021 and in 2022. Pricing across the year contributed 9% increase to revenue in line with that requirement, moderating somewhat in the second half as pricing tailwinds from 2022 eased. Importantly, we once again managed to recover increased costs in full through price, despite our energy costs being significantly higher year-on-year once our hedges moved back in line with market.

Volumes were down around 5% in 2023, with the profile of the first half maintained across the balance of the year, and which in the context of our markets is a very creditable performance. The operational gearing of those lower volumes, combined with the impact of those energy hedges rolling off, did lead to some margin compression across the year. However, we remain confident that as volume growth returns, we will see meaningful progress on margins once more.

Turning now to divisional performance. The volume declines meant that each division was impacted by that margin compression. There was some mixed variation within the volume movements, with aggregates and asphalt less impacted in the second half compared with cement and concrete.

In GB, we recorded GBP £1bn of sales for the very first time, and a flat absolute result year-on-year, with the growth in our underlying EBIT coming through in both the Ireland and the Cement divisions. We delivered a further year of strong free cash flow generation where our focus on working capital led to a much improved level of free cash conversion.

We paid slightly more in cash taxes, partially offset by a reduced cash interest charge. Perhaps most notably, we've continued to invest back into the business spending over GBP £100m in capital expenditure for the second successive year, replenishing our reserves and resources and taking the long-term decisions to support our future growth, such as the investment in the Lisburn tile plant, the alternative raw material project at Hope, and targeted investment at our key flagship quarries.

And our balanced financial performance in 2023 is borne out by our progress towards our medium-term financial goals. We've delivered further growth in revenue, despite that challenging market backdrop. And whilst our margins did compress on the back of lower volumes, we remain confident that volume recovery will in turn lead to margin expansion over time.

We were really pleased with our cash flow performance in the year, making tangible progress towards our target free cash flow conversion. Our leverage gives us significant balance sheet flexibility and has allowed us to finance BMC from our existing banking facilities.

Our return on invested capital is broadly in line with our target, despite the increase in our effective tax rate. And today, we've announced an acceleration of our dividend payout ratio to 40%, that reflects our confidence in the future.

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

Rob Wood

Thanks, James.

I'll start the operational review by highlighting a central theme of resilience in the face of significant short-term headwinds, and although volumes moderated, the long-term structural growth drivers remain in place.

Let's look first at our UK market, where the picture in 2023 has been one of contraction. UK GDP is estimated to have been flat in 2023, and the economy is now estimated to have moved into a technical recession during the last quarter of the year. There was a meaningful loss of momentum in the second half of the year, as inflation and rising interest rates impacted on growth.

Construction output is estimated to have declined by 6.4% in 2023, impacted by a significant deterioration in housebuilding, as you can see on the charts. The latest data available for the MPA volumes has confirmed that demand for mineral products has declined as the year progressed, with their estimate for the year being a decline in aggregates of 5%, in asphalt of 7%, and in concrete of 6%.

Confidence, as measured by the construction PMI, reflected this and stood at 46.8% at December 2023. Considered against this backdrop, our UK performance in 2023 has been strong, and I will talk more about how it was achieved 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 is estimated to have grown by 2.2% in 2023, and construction output is estimated to have grown by 3.2% over the same period, as you can see on this chart.

The business in the Republic of Ireland benefited from this growth backdrop. Having said this, the benefits of this were partly masked at the Ireland level by the absence of a governing Assembly and more specifically spending in the Northern Ireland. And again, like the UK, confidence has been weak and the construction PMI stood at 45.1 in December 2023. But on a more positive note, confidence in the 12-month outlook has been strengthening.

Moving on to our businesses and to GB. Our GB business had a successful year, delivering a solid performance in a softening market. Volumes moderated during the course of the year in line with the broader industry but pricing progressed. Changes in the housebuilding regulations in the summer caused concrete volumes to soften in the second half.

And although infrastructure remained resilient, volumes for aggregates and asphalt were impacted by clients' budget constraints after a long period of building materials cost inflation. As I mentioned at the interims, we reinvigorated our self-help measures, implementing an operational and commercial excellence program.

We built out our downstream capability in 2023 still further, pulling more material through the business. And we continued to build a strong reputation for quality and reliability in airfield surfacing, leading to a four-year pipeline of commercial work with strong partners. The acquisition of Minster Surfacing also reinforced our regional surfacing airfields and recycled asphalt capability. As a reminder, our surfacing business delivers our own high-quality materials pulled through our vertically integrated model.

Our Irish business had a successful year, but below the surface two competing forces as flagged at the interims impacted on the business, namely the lack of the governing Assembly in the North and more activity and confidence in the South. Volumes reflected these themes, but again like GB pricing progressed. In the North, although significant pent-up demand exists, the absence of a governing Assembly limited the volume of tenders coming to market. In the South, tendering remained resilient.

Volumes also reflected the acquisition of Robinsons, which enhanced our aggregates position in the North and it came with 40 million tonnes of reserves and resources. Like GB, we implemented an operational commercial excellence review program in Ireland. And as I reported at the interims, we now operate as one Island of Ireland business.

Moving on to our Cement business, which had a strong year. Volumes declined in line with the markets, particularly in GB on the back of housebuilding, but pricing continued to be robust and offset the input cost inflationary pressures. In terms of operational performance, both plants delivered their planned maintenance shutdowns on schedule and within budgets. And as already mentioned, we maintained outstanding reliability. And in terms of our commitment to net zero, I have already touched on the progress we have made and that you can see on this slide.

I want to move away from 2023 now and look forward. I think it's now time to brief you in respect of our third platform and the acquisition of BMC. I'm delighted to announce the acquisition this morning and welcome BMC and its team to the Breedon family, and I look forward to working with them as we grow our third platform.

As you know, we have been evaluating a potential third platform for a couple of years, and when we embarked on this journey we set out clear criteria for our third platform. These being a long-term growth market, a robust legal system, a reliable planning regime, a benign local culture, and minimal political risk.

We also said that we would only embark on a third platform if we were confident that the Breedon model could be replicated in a new geography. As our evaluation progressed, we landed on the U.S. given our criteria. Compelling factors included the relative growth potential versus say continental Europe and the degree of fragmentation in the markets.

The top 10 players only accounting for approximately 40% of the market, significantly less than the concentration of the markets when we entered our two existing platforms. We have also been very clear that we needed a beachhead transaction that could probably be done on balance sheets, that we needed to acquire an experienced management team, and understanding that there would be few, if any, synergies with the first transaction, that the valuation and returns needed to be appropriate. The business also needs to be scalable.

In BMC, we believe we have found that transaction. Headquartered in St. Louis, Missouri, BMC is a leading regional concretes, aggregates and building products business. As you can see from this slide, it has a strong track record of organic and transaction led growth. It has a strong management team who we have got to know well over the last few months and who will be staying with the business and

are culturally well aligned to Breedon. Lastly, it is well-placed to benefit from construction growth and to expand its footprint regionally in the Midwest. In summary, the acquisition represents a compelling opportunity for Breedon to launch our third platform.

Given its history and strong management, there is significant cultural alignments and the acquisition is expected to be earnings enhancing in the first full-year and will not stretch our conservative and flexible balance sheets.

I will now pass you over to James, who will give you some more colour in respect of that last point.

James Brotherton

Thank you, Rob.

In BMC, we're buying a really good business. A headline enterprise value of US $300m on a cash-free, debt-free basis, split US $285m of cash and US $15m worth of shares, which the vendor will retain for at least 12 months, all subject to customary retentions and adjustments.

On an enterprise value to EBITDA basis, that equates to a valuation multiple of approximately 8.5x historic EBITDA. And that's within the range of multiples we've paid for our previous three principal acquisitions and compares favourably with precedent transactions in construction materials space in North America in recent years.

We expect that the transaction will be earnings-enhancing in the first full-year of ownership and our pro forma leverage at completion will be around 1.4x, retaining our balance sheet optionality to continue to invest in the business and to make targeted bolt-on acquisitions across each of our three platforms.

BMC has grown rapidly over the past 10 years, with a compound annual growth rate of 12% of revenue and around 22% for adjusted EBITDA, and that's through a broadly even blend of organic and inorganic growth.

Over that period, the business has maintained structurally strong EBITDA margin of around 20%, and so the acquisition should be margin-enhancing for the group as a whole, and we expect to complete the transaction before the end of this week.

In terms of technical guidance for 2024, the business will be consolidated for around 10 months this year. Transaction costs, which will be treated as non-underlying, will be approximately US $15m, and there will be some non-underlying one-off costs of integration to be incurred on top of that, which I estimate will be in the low-single digit millions.

As we've always said, for our first acquisition in a new geography, we expect to have to invest back into the business, so we expect to incur incremental above-the-line opex costs of around US $2m per annum within BMC. Even after that investment, the historic EBITDA multiple we've paid is below 9x.

The seasonality of the business will be similar to the two existing platforms, with the majority of trading occurring between March and October and lower activity levels seen in the course of the winter months. The marginal tax rate for the US business will be approximately 25% and we will issue around 3.2 million shares to the vendor.

In terms of guidance for the group this year, I expect capex will land between GBP £130m and GBP £140m, with working capital outflow for the year as a whole to be between GBP £20m and GBP £30m after the usual first half build.

There will be a higher interest charge of between GBP £25m and GBP £30m, reflecting our increased debt levels and I expect our blended tax rate to be around 23%. The cash dividend cost for this year will be around GBP £45m and that should lead you to a year-end net debt figure in the low-400s.

Coming into these results, we were broadly happy with where consensus underlying EBIT numbers were for the group for 2024. Clearly, the acquisition changes the shape of the group somewhat, and we'll obviously update you as the year unfolds and we gain improved visibility.

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

Rob Wood

Thanks, James.

In summary, we are both really excited about BMC and the commencement of our third platform. Putting BMC to one side for the moment, we enter 2024 in a strong position. The construction industry is widely recognised to be an important economic contributor, benefitting from cross-party government support, and we are encouraged by the recent reinstatement of a governing assembly in Northern Ireland.

The macroeconomic landscape, particularly in GB, remains uncertain, and the near-term outlook for the industry is finally balanced. However, in combination with our local model, deliberate pricing strategy, forward hedging policy, and our close relationship with our customers, will ensure we are well-positioned to respond.

In addition, the long-term outlook for our key end markets, infrastructure and housebuilding, are well-supported by structural growth dynamics, and we are confident we will see them return to growth in the medium-term.

Our GB and Ireland M&A pipeline remains well-populated, and active discussions and our healthy balance sheet and diverse funding will enable us to respond swiftly when the right transactions become available. Lastly, except for the adjustment in respect of BMC, the Board's expectations for the year are unchanged.

In summary, the Breedon model has once again proved its resilience, delivering an outstanding performance in challenging conditions, and we are confident in our ability to rapidly respond to the changing economic and political backdrop, and we look forward to embarking on our next chapter with three platforms.

Thank you, and we now welcome your questions.

Questions and Answers

Q - Christen Hjorth

Thank you. Christen Hjorth from Numis. Three from me, actually. Two on the acquisition. Could you please provide a little bit more colour on the BMC management background? Because clearly that's key to your move into the US was finding the right management team, so why you think this is the right team going forward?

Secondly, related, I mean, BMC obviously had quite a lot of growth through M&A. Is there a good pipeline there? How quickly would you be happy to sort of execute on bolt-ons for that deal?

And then finally, obviously, capex increasing for 2024, just a bit more colour on the buckets of capex, particularly investment and the sort of returns that we should expect to see on that. Thank you.

A - Rob Wood

If I pick up the first couple and then James will pick up the last one.

There was a slide, and I know it was brief, the slide, but you'll have the opportunity to go back. But all three of the management team in Andy, John and Mark have a good track record. Andy's been in the industry for a long time, has worked with some of the majors. And John has a stellar career in finance. Mark comes with a wealth of skills as well. So we're very comfortable with their background and their longevity and their experience in our sector.

I think in terms of the pipeline, you only have to look back and look back on the slides, and there's one in the appendix about the transactions they've done over the last decade. And they're well used to

populating the funnel, and they are now well used to executing bolt-on transactions. So I think there will be a period when we need to put our arms around this business and sort of 'Breedonise' it. But fortunately with the alignment we've got, we will be ready to start to move forward in the coming months.

A - James Brotherton

In terms of capex for this year, the biggest single project that we're doing is the alternative raw material project at Hope. That will allow us to bring in by rail raw materials to go into the clinker manufacturing process and will reduce our non-carbon emissions significantly. That will cost us around GBP £20m this year. So that's the biggest single ticket item that sits within the capex.

The rest of it I would say is sort of more of the same. So it's targeted investments, particularly at our flagship quarries, some investments around technology looking at IoT and how we might use technology to improve our data capture and with that our operational efficiency, and a continuation of what I would call more of the same.

Q – Rob Chantry

Hi, guys, it's Rob Chantry from Berenberg. Thanks for the presentation. Three questions from me, firstly just on the US. Could you talk a bit more about the industry structure around St Louis in terms of consolidation opportunity and then the kind of infrastructure residential book of demand in that area as opposed to the broader US?

Secondly, are there any particular trading revenue cost dynamics in the business that would surprise us relative to what your basic expectations might be of this type of business?

And then thirdly, back to the UK, could you just talk about the shape of the volume expectation for the year by new build, infrastructure, etc, in terms of the kind of phasing of how you see volumes going through '24? Thank you.

A - Rob Wood

If I start with the consolidation structure. Overall, I would say that the Midwest is less consolidated than some of the high profile major states. And I think with more fragmentation, I think it gives us more opportunity as well.

In terms of the Midwest and Missouri and end use exposure, I think there is a slide that I showed, but whether it's residential, which is just like the UK and Ireland has been going through a tough period, but it's -- structurally, there is a need. And so I believe it will be a good growth driver going forward, but in the non-residential and the non-building sectors, with some of the infrastructure spending bills and some of the other technology and the CHIPS Acts that are going through, we believe the
long-term growth prospects for the Mid-West are encouraging and could be ahead of the broader U.S. market.

A - James Brotherton

I think in terms of the revenue blend, Rob, the shape of the business is perhaps a little different to businesses that we've acquired in the past, but in part we think that's the opportunity here. proportionally, they derive less of their revenue and profitability from aggregates, but this is very much an asset-backed transaction coming with over 400 million tonnes of reserves and resources. And we would hope that we can do more with that aggregate base over time as BMC becomes integrated into Breedon.

A - Rob Wood

And in terms of volumes, and I think your question was in respect to GB, Rob. I think I would point you in the direction of the MPA which I think either earlier this week or at the end of last week gave out their latest projections for forecasts for the year. And look, if I paraphrase and summarise it, I think it's probably modest contraction still, but we are talking low single-digits. And the view is I think

infrastructure will be steady, but we are unlikely to see any tick-up in house building until much later in the year. I think there is more optimism as we move into '25.

Q - Clyde Lewis

Thank you. Clyde Lewis at Peel Hunt. A couple of questions, if I may, again on BMC. It would be quite helpful to get an idea of what sort of percentage exposure to government-related projects, if you can, Rob. And probably one for James in terms of aggregate tonnage. I mean, 400 million tonnes of reserves is a healthy number. How much are they actually currently producing in terms of a tonnage to get an idea of years?

And then coming back to your comments about wanting to let BMC obviously integrate, get your hands around it before you start looking forward. But when you're looking at changing the mix and away from probably RMC towards other areas, aggregates and building products, how much of a balance, or how quickly would you like to sort of shift that? And where would the ideal mix for you be?

And I'll ask about cement. I think I know the answer on cement, but would US cement be of interest at any point, do you think? Or is that, again, an area that it's just simply too big, too expensive. And again, finding a cement plant next to the Holcim one might be a little bit more competitive in that market?

A - Rob Wood

Thank you for your questions. And I would say in terms of the government's exposure, I mean, look, the exposure we've given is more around sort of resi, non-resi and non-building. And what we're saying and what our due diligence has shown is that this business is probably 50% exposed to residential. So the government exposure and infrastructures exposure is less, but that's a dynamic number as we change the mix of the business. Do you want to pick up the reserves, James?

A - James Brotherton

Yeah. So in terms of aggregate output last year, it was just under 3 million tonnes, so at current levels of output that we'll probably see most of us out. But as I said earlier, and also to Rob's question I think that part of the opportunity here is that actually we think there's the opportunity to do more with the aggregate base and hopefully increase that number over time.

And I think I can give you the short answer to the cement question.

A - Rob Wood

But I'll cover first the vertical integration. You would expect over time that we would rebalance the business and increase the exposure to add more aggregates, potentially asphalt over time, all areas where we're well skilled in.

But we're not in a rush. This is about the next chapter. And if you look back to Lagan, which we transacted in 2018, if you remember, we had a fantastic surfacing business and asphalt business in the Republic of Ireland, but were actually weak or sort of light on aggregates. And over the last five years, we've built out that platform.

So don't expect anything overnight, but the mix of the business will slowly change and will become more vertically-integrated over the next 5, 10 years. I mean this is our chapter, and it's not going to be a chapter that's a week or a month or a year.

The cement question was really good, and maybe I should have covered it when I recapped over the journey we've tried to take investors on given some of the sustainability challenges, particularly around emerging technology for carbon capture and things. We always felt that the third platform would be materials-led and not cement-led. So I think it's unlikely that you would see us move into cement production in North America.

Q - Tobias Woerner

I'm Tobias Woerner from Stifel. Three questions, if I may. Actually more if I could, but I'll stick to the three. Number one, the cash flow conversion, 39%, still below your 50% plus target. You got a wiggly arrow going up in orange. Can you tell me what that means and how are you going to achieve that? And why last year was it down? I suspect also because of carbon -- the acquisition of buying of carbon credits. And how much that was?

The second question, BMC, you say has 400 million reserves and resources, having also been a former mining analyst, I know there's a difference between the two, your reserves and resources. How much of this is reserves and how much is resources? How much can you convert and what do you need to convert all of this?

And then the last question, energy costs last year, maybe give us an indication. Year-to-date, electricity prices are down 46% in the UK, if I'm not mistaken. How much of that can you -- how much of that will benefit your P&L, how much of that is hedged?

A - James Brotherton

Okay. I think those are three for me, basically.

So cash conversion, yes, 39%. I mean, that's a significant improvement on the cash conversion that we delivered in 2022. The reason that it's an orange squiggly line and not a green tick is that we're not at 50%, which is the target. I think a couple of things there. We're continuing to invest ahead of depreciation in terms of our capital investment back into the business. We did buy some carbon towards the back end of the year, around GBP20 million worth. And if that had been there, then we'd have been even closer to the 50%, but probably still with an orange squiggly line.

In terms of reserve in terms of reserves and resources, I think it's important to stress that we've gone out there, and as part of our diligence process we've looked at the reserves and resources on exactly the same basis that we do over here. So it's a genuine apples-for-apples comparison. And the permitting system works slightly differently in Missouri to the way it does over here. So essentially your permit renews on an annual basis for your extraction rights. You have to renew it every year, which means that proportionally there are more resources than there are reserves. But in practice, we would expect that over time, all of that 400 million tonnes would be available for the business to utilise.

In terms of hedging and electricity in particular, our hedging program, as you all know, is designed to give the business cost certainty and give the business cost certainty coming into the year. What that means in a more normal energy market is that in some years we make a little bit and in other years we lose a little bit. This will be a year where I suspect we lose a little bit, we will not get the full benefit of that energy deflation. But conversely, if you look back over the last couple of years, we've benefited significantly from having those energy hedges in place at a time when there was very significant short-term energy cost inflation.

Supplemental - go on Tobias.

Q - Tobias Woerner

The capex, what sort of payback do you think there will be in terms of the growth capex?

A - James Brotherton

Growth capex, we always target something north of 20% on our growth capex. So that's the order of magnitude that we would be looking for. And if you look at something like the Mansfield plant that we've talked about historically, that's the order of magnitude that that project has delivered for us.

Q - Ken Rumph

Hi. Ken Rumph from Goodbody. Some BMC questions, if I may. Firstly, depreciation and depletion, if you have it, for the current year or recently.

The M&A that you know, were the deals in '23 significant? Is there much of a kind of tailwind from a full-year of those?

And then finally, a kind of catch-all just on the cash aspect. The non-underlying items are all cash. They go out this year in the first half. And indeed, any tax implications on - again, on the kind of the fee and opex? Thanks.

A - Rob Wood

Sorry, James, I think they're for you again.

A - James Brotherton

There's quite a lot to unpick there. So, depreciation runs at about 7% of revenue for the business, slightly higher than for the rest of the group, but that's really a function of scale. There will be a little bit of a tail from M&A, but it's mostly baked into those numbers. Most of the M&A took place relatively early in the course of the year.

The non-underlying items, sadly, most of them will be cash. Lawyers and bankers tend to want paying in cash. And those will mostly be incurred in the course of the first half. The tax deductibility will slightly depend on where that's being incurred geographically.

The opex cost, that will phase in, that won't necessarily all come in on day one. But I'd certainly expect that by the end of this year, we'd be up at that sort of run rate, US $2m that I talked about.

Q - Lewis Roxburgh

Thanks. Lewis Roxburgh from Investec. Just on your medium targets, given the US acquisition, are you happy about where those are at the moment? Obviously, the US acquisition, it's margin additive, so obviously margin will move higher.

And then just on that sort of growth objective of outperforming our markets, how do you measure that?

A - James Brotherton

So I think in terms of the targets, we're not revising the targets today. I think that almost certainly later in the course of this year we will do some form of capital markets event, and that will be the appropriate time to look at the targets.

I think picking up the margin point in particular, I think I'd like to get into our target range of 12% to 15% before I start worrying about whether it should be elevated if at all. But I think the encouraging thing about BMC coming into the portfolio is that will in and of itself be margin enhancing.

I think the growth question is a good one. We look at clearly market statistics, so i.e., what has happened in markets in terms of output and demand. We look at our competitors and what our competitors have reported in terms of their performance. And that's how we really assess our performance against those. And I think that if you look back over Breedon's history, historically, we've tended to do pretty well against that report card.

A - Rob Wood

And I would add to that, that you have to remember, putting cement to one side, just how local our markets are. People often talk about market shares, they often talk about overall volumes. But our markets are how far our aggregates will travel, how far our ready-mixed will travel, and how far our asphalt will travel. And we're often talking single-digit miles, sometimes sort of double-digit, but low double-digit. So, you must not forget how local our markets are.

Q - Marcus Cole

Hi. Marcus Cole, UBS. Two questions. In relation to the carbon price falling this year in the UK year-on-year, does that have any implications for cement pricing?

And then the second one is just to be clear on capex. Should we expect a normalised run rate of, say, GBP £110m to GBP £120m, so i.e., excluding that Hope raw materials piece you were talking about? Thanks.

A - James Brotherton

So taking the second one first, yes, that I expect to be the longer term run rate. The Hope project is a particular project.

In terms of carbon and how it relates to cement pricing, as you know, we have operated a surcharge discount mechanism in relation to where carbon credits were pricing at. At the moment, that's effectively zero because of where ETS UK and European has gone to. I don't think that the current cost of carbon is sustainable. So I would expect, not necessarily in the course of 2024, but I think if you look out over a medium-term time horizon, I would expect to see the cost of carbon credits to continue to appreciate.

A - Rob Wood

And I would say, too, in terms of the -- as an industry, the investment that's going to be required in the cement industry to decarbonise it is going to be significant. And ultimately, cement will have to come at higher prices to be able to make that investment. So the long-term trajectory can only really be one way, if we're going to meet our net zero targets.

A - James Brotherton

Have we got any calls on the phone lines?

(Operator Instructions) There appears to be no questions at this time.

A - Rob Wood

Well, I know you're all very busy, and I know there's an awful lot of results coming out, and there's even a budget you need to listen to this afternoon as well. So I think James and I will wrap it up there.

I think in a closing message, I would say, we are really pleased with where we ended up in '23, to have upgraded the market in November, to have a small beat now, to have progressed the dividend through to the target payout ratio, and for us to be able to have got BMC over the line late last night is fantastic news, and it bodes well for the next chapter of Breedon.

So, look forward to seeing you all and updating you in due course.

Thank you.