

# Annual Report 2013

Investor presentation

14 March 2014

build with ease

**H+H**

# Forward-looking statement

The forward-looking statements in this presentations reflect management's current expectations for certain future events and financial results.

Statements regarding the future are, of course, subject to risks and uncertainties which may result in material deviations from expectations.

Factors that may cause the actual results to deviate materially from expectations are: aircrete products, the market's acceptance of new products, the introduction of competing products etc.

# Agenda

- Highlights
- Market development
- Financial performance
- Strategy
- Long-term financial targets
- Outlook for 2014
- Q&A

# Highlights 2013

- Revenue of DKK 1,260 million and organic growth of 10%.
- EBITDA of DKK 94 million in line with our guidance.
- Free cash flow of DKK 28 million in line with our upgraded guidance.
- Our successful excellence programme has resulted in average annual savings in production over the last three years of around DKK 20 million.
- To improve earnings, the factory in Finland was closed in April 2013, and it was decided to shut down production temporarily at the factory in Skawina, Poland.
- Xella was denied permission to merge with H+H in the German market.
- The new organisation was fully implemented, and a new strategic plan is in place: *Creating value through profitable growth.*



# Market development

2013 was characterised by widespread uncertainty and rapidly changing market conditions. We had a very harsh and long winter from January to end of March, which effected both volumes and prices in the first half of 2013. Most markets picked up in the second half of 2013.

## Germany

- In Germany, the first quarter brought very poor weather conditions, which led to unwanted stocks at competitors and strong price competition. In consequence, average selling prices in 2013 dropped below 2012 levels in spite of higher market activity.

## UK

- Revenue was markedly higher in the UK in 2013. Government initiatives in particular stimulated the UK market, contributing to a more general improvement. H+H's market share in the UK increased, due primarily to consolidation in the homebuilder market, where H+H's customers improved their market share. There are clear signs of a recovery in construction activity in the UK.



# Market developments

## Denmark and Sweden

- In Denmark and Sweden, construction activity reached its lowest levels since the start of the economic crisis but is believed to have bottomed out. There has been a sharp fall in construction activity in Sweden relative to 2012.

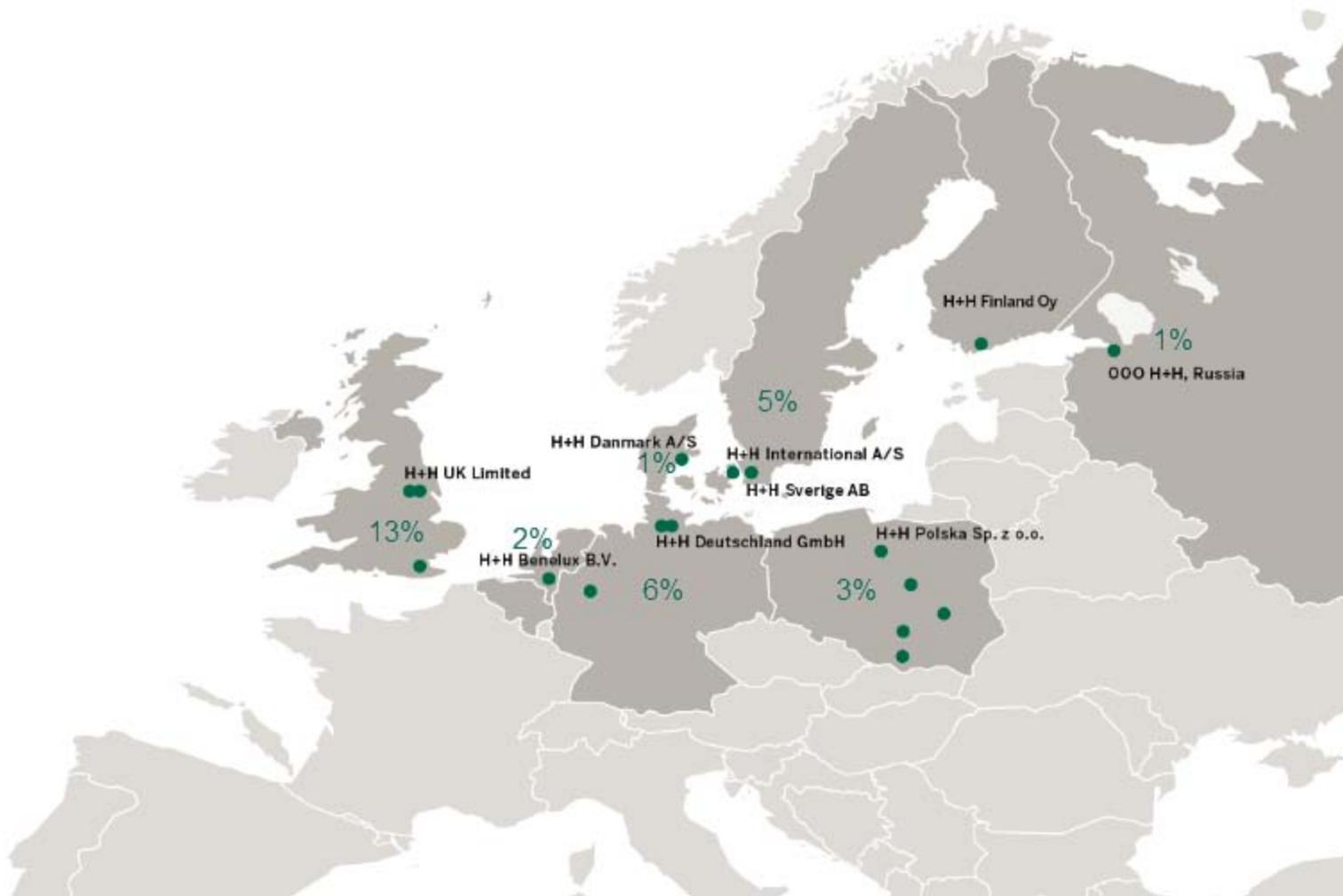
## Poland

- Demand remained low, and the high number of competitors and significant overcapacity led to a continued price war between local producers in particular, which affected the general level of prices.

## Russia

- Sales volumes in Russia in 2013 were on a par with 2012, whereas revenue was up more than 10% due to price increases. During 2013 the market slowed down periodically before picking up again. The market in Northwest Russia remains volatile, with low visibility, but our underlying long-term positive growth expectations are intact.

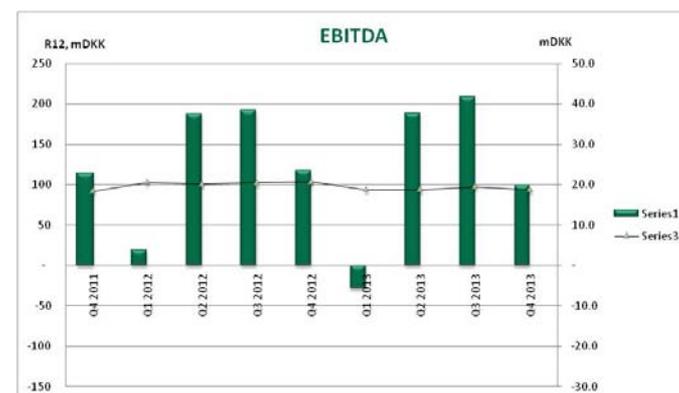
# External market indicators for 2014



# Group financial performance

## Q4

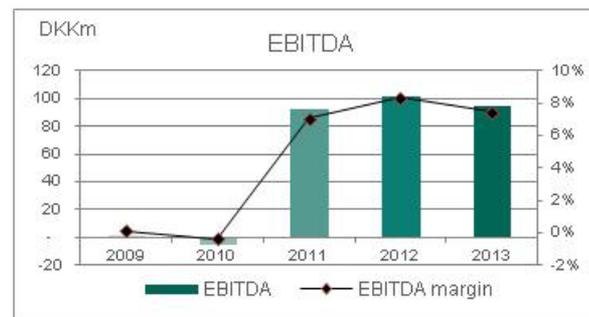
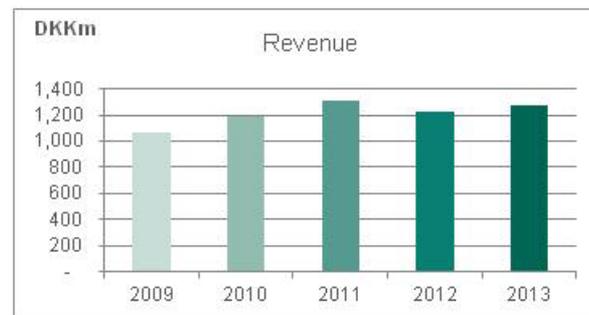
- Revenue up by 8% in DKK (up 11% in local currencies) on Q4 2012
- Gross margin was 21.6% against 23.3% in 2012.
- EBITDA DKK 20 million compared with DKK 24 million in 2012. Profit from the sale of H+H Česká in 2012 impacted earnings in Q4 by DKK 7 million
- Loss before tax of DKK 14.6 million compared with profit of DKK 65.0 million in 2012.



# Group financial performance

## Full-year 2013

- Revenue up 3% in DKK (up 10% in organic growth) on full-year 2012
- Gross margin was 20.8% against 22.3% in 2012
- EBITDA DKK 93.6 million against DK 103.4 million in 2012. Earnings in H+H Česká and profit from the sale of H+H Česká in 2012 impacted earnings by DKK 10.4 million. Excluding H+H Česká, the figure would have been DKK 93.0 million in 2012.
- Loss before tax of DKK 36.6 million against loss of DKK 7.3 million in 2012. 2012 impacted by net gains on reversal of impairments of DKK 34 millions.



# Special items in 2013

DKK in million	2013	2012
Profit/loss on sale of H+H Česká	-0.6	5.7
Cost in connection with competition case	-0.1	-0.8
Additional energy tax	0.0	-0.9
Termination costs	-1.7	-4.5
Implementation of new organisation	-2.4	-3.9
Sale of equipment in the UK	3.7	0.0
Other items	-0.5	-1.6
<b>Total</b>	<b>-1.6</b>	<b>-6.0</b>

- 2013 brought net negative special items of DKK 1.6 million, consisting of lawyers' fees, costs for implementing the final phase of the new organisation and costs connected to the temporary shutdown of a factory in Poland, almost fully offset by the profit from sales of unused production equipment.
- The results for 2012 included net negative special items of DKK 6.0 million, mainly costs relating to the implementation of the new organisation and costs for advisers etc. in connection with the sale of H+H Česká republika s.r.o.

# Investments

- Investments of DKK 18 million were made during the fourth quarter, against DKK 6 million in 2012. Total investments in 2013 of DKK 36 million against DKK 27 million in 2012.
- The investments in 2013 were primarily related to investments in UK, Russia and Germany and were related to maintenance and optimization of production.
- Investments for 2014 are expected to be in the region of DKK 60 million.

DKK in million	2013	2012
Westen Europe	25.5	19.4
Eastern Europe	9.6	7.2
Non-allocated items	0.8	0.4
Total	35.9	27.0

## Net interest-bearing debt

- Net interest-bearing debt was DKK 532 million end of 2013, down DKK 7 million since the beginning of the year due to improvements in working capital.
- Negotiations are in progress on a new bank agreement to replace the current one before it expires in February 2015.
- The ratio of net working capital to sales improved from 9% on 31 December 2012 to 7% on 31 December 2013.
- Financing costs totalled DKK 42.8 million in 2013, against DKK 44.5 million in 2012.

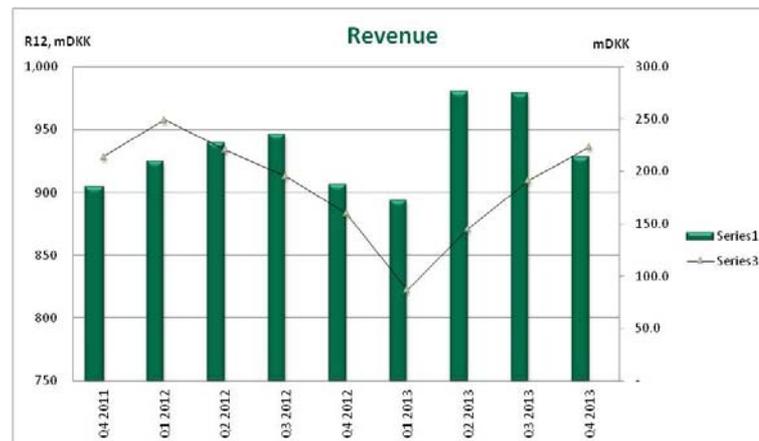
# Fluctuation in exchange rates

- During 2013 we have seen larger fluctuations in exchange rates especially for RUB and GBP.
- GBP and RUB exchange rates had a negative effect on revenue of DKK 31.4 million, while EUR and SEK exchange rates had a positive effect of DKK 0.6 million.
- GBP and RUB exchange rates had a negative effect on EBITDA of DKK 5 million.
- Since year-end 2013 the fluctuations in exchange rates have continued with a larger drop for RUB, but increases for GBP.

# Segments - Western Europe

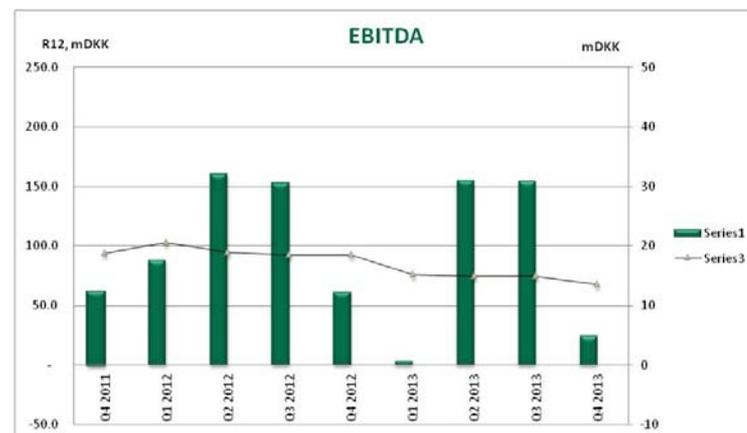
## Q4

- Revenue up 14.3%, up 17.2% in local currencies
- EBITDA DKK 5.0 million compared with DKK 13.2 million in 2012
- Loss before tax of DKK 20.6 million, down DKK 14.3 million on Q4 2012



## Full-year

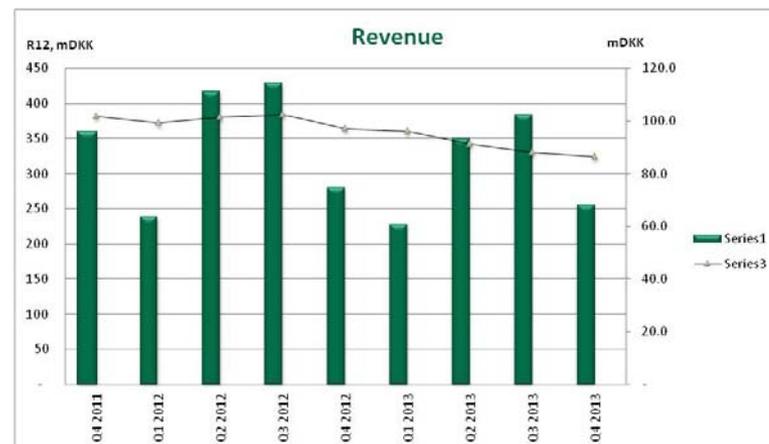
- Revenue up 8.8%, up 11.5% in local currencies on full-year 2012
- EBITDA DKK 67.4 million compared with DKK 92.5 million in 2012
- Loss before tax of DKK 11.0 million, down DKK 24.6 million on full-year 2012



# Segments - Eastern Europe

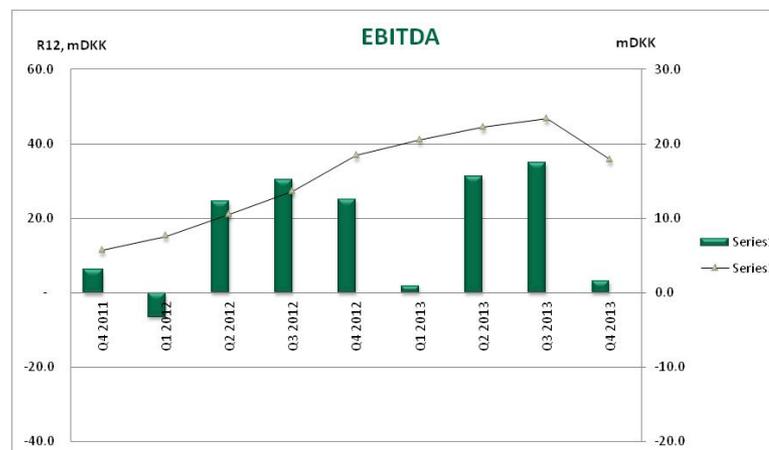
## Q4

- Revenue down 8.9%, down 6.0% in local currencies, organically down 0.8%.
- EBITDA DKK 1.6 million compared with DKK 12.6 million in 2012, impacted negatively by a larger drop in the exchange rate for RUB. The 2012 figure was impacted by the profit from the sale of H+H Česká .
- Loss before tax of DKK 12.6 million, down DKK 85.9 million on Q4 2012



## Full-year

- Revenue down 10.9%, up 5.9% in organic growth on full-year 2012
- EBITDA DKK 35.7 million compared with DKK 36.8 million in 2012, impacted negatively by a larger drop in the exchange rate for RUB. The 2012 figure was impacted by the profit from the sale of H+H Česká
- Loss before tax of DKK 15.4 million, down DKK 20.1 million on full-year 2012



# Result for 2013 compared with announced outlook

- Announced outlook for continuing operations: EBITDA before special items of around DKK 90 million.
  - EBITDA before special items for continuing operations was DKK 95 million.
- Upgraded announced outlook for free cash flow: Free cash flow before disposals of assets in the region of DKK 20 million.
  - Free cash flow before disposals of assets was positive at DKK 22 million.
- Announced outlook for investments: Full-year investments expected to be around DKK 50 million.
  - Full-year investments DKK 36 million.

# New strategic plan 2014-2016



*Exclusive home built of solid blocks from H+H*

**H+H**

# Previous strategy highlights

H+H had defined three strategic goals that needed to be fulfilled within the time span of the strategic plan:

- **Be number 1 or 2 in all chosen geographical markets.**  
H+H will position itself as a full-fledged branded aircrete supplier.
- **Be financially independent.** Reduce debt level to normalised level for DEBT/EBITDA
- **Achieve capacity utilisation above 75%.** Capacity utilisation below 75% at any plant is loss-making, and it would be more desirable to consolidate production capacity if this is not achieved.

# What have we done to improve earnings since 2011

- SGA costs reduced by more than 20%.
- Annual gross savings from excellence in production DKK 20 million.
- NWC improvements of more than 20% of sales equal more than DKK 200 million.
- Asset and activity divestments of more than DKK 160 million (further potential of around DKK 50 million).
- Closedown of loss-making activities in Finland, Baltic countries, Norway, Ukraine, Slovakia and temporary closedown of factory in Poland. Total staff reduction of 400 employees.
- Implemented new organisation set-up, new ERP and a new performance management system to support the new organisation.



# Shareholder value and targets, mission, vision and strategic ambition

## VISION

To be number one aircrete supplier in our geographical footprint.

## MISSION

To supply value-added innovative aircrete solutions to buildings through profitable partnerships with distributors, contractors and housebuilders.

One company

Highest growth

Most attractive aircrete solutions

1

### Highest growth rate in the market

- Benefit from strong position in high growth areas
- Increased market share from sales efficiency
- Penetration of residential high-rise segment across the footprint
- Local initiatives to capture market shares from local competitors

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### One company for improved profitability utilising synergies and best practice:

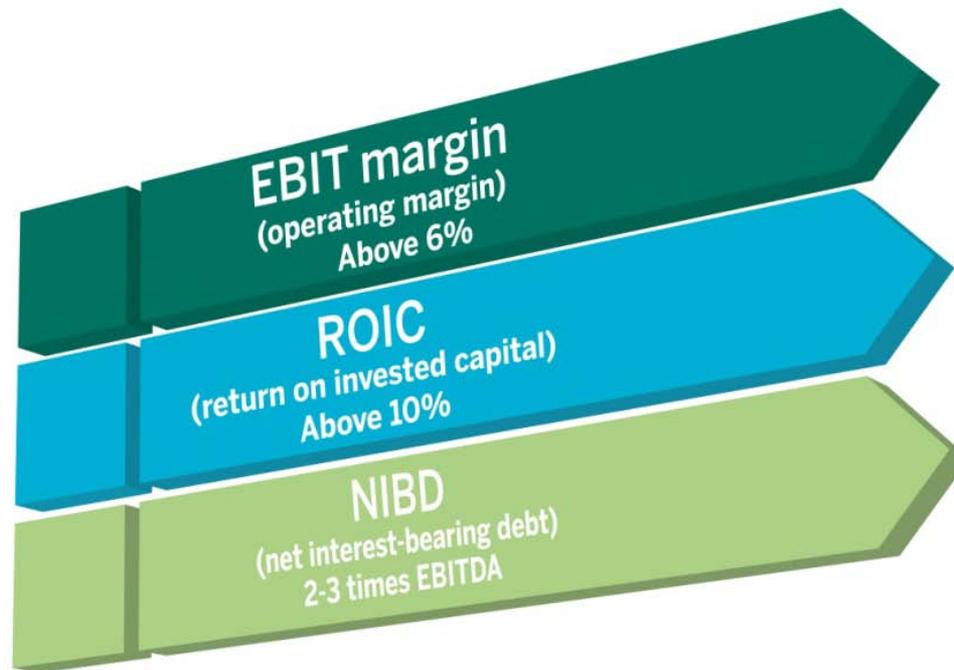
- Sales excellence
- Optimised pricing
- Common branding and marketing
- Implementation of group-wide LEAN and enhancement of OEE
- Common approach to health and safety
- One common IT platform

1

### Most attractive aircrete solutions

- Competitive solutions for residential high-rise segment
- Improved product properties
- Local initiatives for better penetration
- More competitive offer in reinforced

# Long-term financial targets



# Outlook for 2014



*Coming out of the autoclave the aircrete products are cooled and are packed ready for transport.*

# Outlook for 2014

- Organic revenue growth is expected to be in the of 3-6%.
- EBITDA is expected to be in the region of DKK 110-130 million.
- Investments are expected to be in the region of DKK 60 million.

# Comments to outlook for 2014

These expectations for H+H's financial performance in 2014 are based partly on the following specific assumptions:

- Economic growth of around 2% in our geographical footprint.
- The operational excellence programme continues and reduces production costs further.
- Exchange rates, primarily for GBP, EUR, PLN and RUB, hold at their mid-March 2014 levels, which in the case of RUB is a lower level than in 2013.
- Energy and raw material prices rise only in line with inflation from their mid-March 2014 levels.
- The current political situation in Russia and Ukraine does not result in changed market conditions in Russia.

# Q&A

