

Heidelberg Materials (Cement)

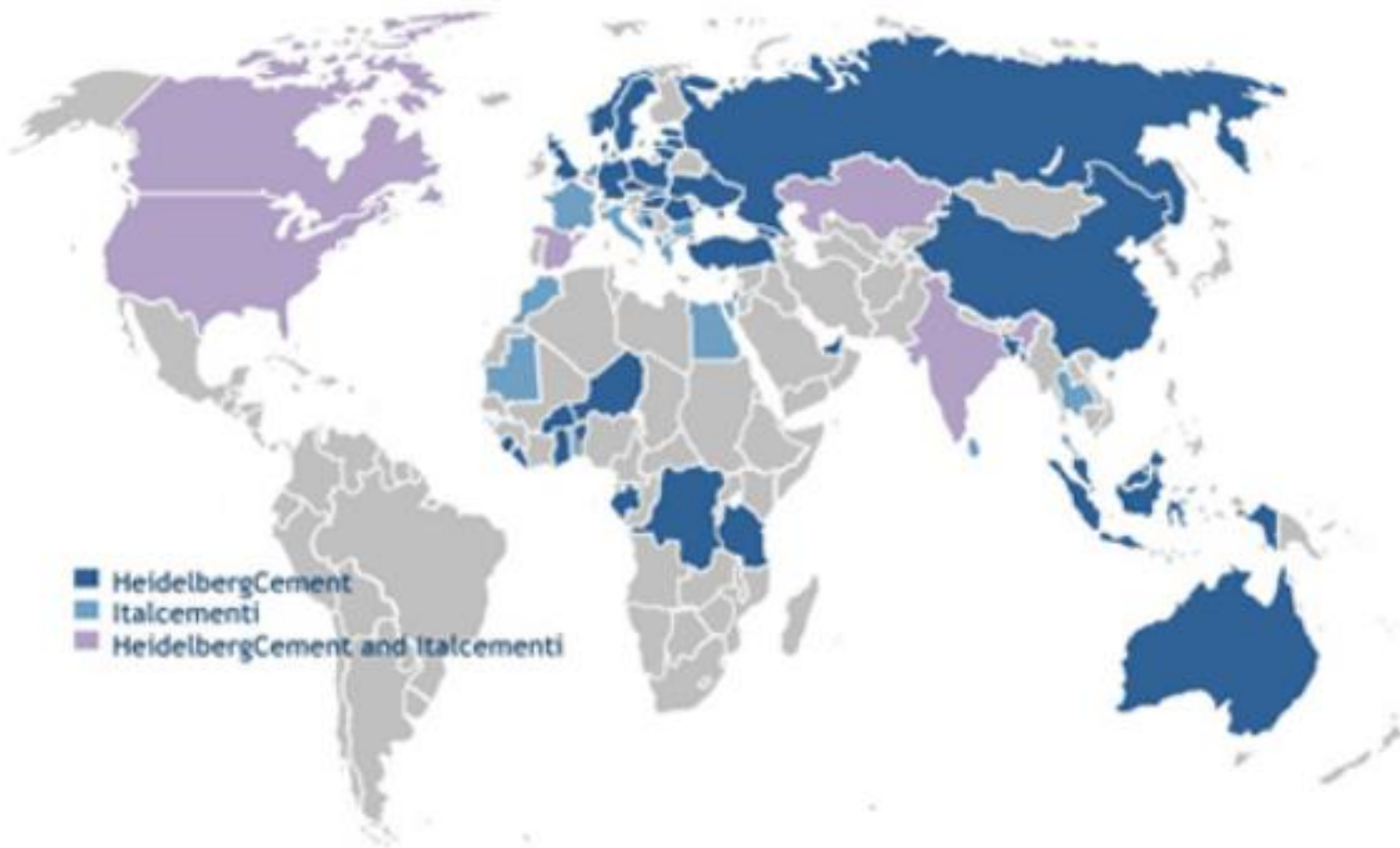
"Beyond 2020" – Lean and mean

Sustainability, Digitalization, Shareholders' value

Explanation

Term	Meaning
Associates	If Heidelberg owns a minority of a company
CAGR	Compounded average growth rate
CO ₂	Carbon dioxide
Depreciation/amortisation	Annual write-down/off of fixed assets tangible/intangible
Dividend	Payment to shareholders
DPS	Dividend per share
EBIT	Earnings before interest and tax
EBIT margin	EBIT as % of revenues
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA margin	EBITDA as % of revenues
Enterprise value	Market capitalisation + gross debt + minorities -/- associates -/- cash
EPS	Earnings per share
GHG	Greenhouse gas
Market capitalisation	Number of shares x share price
Minorities	If other companies own a part of a Heidelberg subsidiary
Net-debt	Gross debt minus cash
ROIC	Return on invested capital
SBB	Share Buyback

Global footprint - 2017



Global footprint - 2022

The screenshot shows a web browser window with two tabs titled "Group Areas and Countries | Hei...". The address bar displays "https://www.heidelbergmaterials.com/en/group-areas-and-countries". The Heidelberg Materials logo is in the top left, and "Search" and "Menu" options are in the top right. The main content is a world map where green highlights indicate the company's presence in various regions, including North America, Europe, Asia, Africa, and Australia. On the right side of the map, there is a vertical menu with language options: "DE", "EN", and a share icon. The Windows taskbar at the bottom shows the time as 13:07 on 17/10/2022 and the NASDAQ index at -3,08%.

Business model

HeidelbergCement*					
Activities	Raw material	Used for	Transport radius	# plants	Employees
Cements	<i>Clinkers 100%, partially replaced by fly ash, ground slag, or limestone</i>	<u>Concrete</u>	200km	130 + 19 (JV)	
Aggregates	<i>Gravel, sand and crushed rock</i>	<u>Concrete, asphalt, or base course for roads/infrastructure</u>	< 100km	>600	
Concrete	<i>80% aggregates, 12% cement, and water</i>		< 100 km		1,410
Asphalt	<i>95% aggregates, and bitumen</i>	<u>Top layer in roads</u>	< 100km		
Group services		<u>Mainly HC Trading (raw materials, fuels); 50/50 split in/external</u>			
Total				# of locations 2,570/almost 3,000*	51,209

- 350 production sites belong to joint ventures.
- Scope of policies and targets not consistently communicated.

Relevant risks cement industry – non-specific

Financial (currency, interest rates, credit, pension) and certain 'strategic' (economic, political, social) risks.....

- ...although **financing and reputation risks** can be due to investors' reluctance to invest in large CO₂-emitters.
- Digitalization risk is not specific for industry – more info is needed on processes (for sales growth and cost efficiency) and sustainability outcomes (climate neutrality during life-time of a building).

Relevant risks in cement industry (1)

1. Industry-specific risks

- Scarcity raw materials: shutdown of coal-fired power plants or decline in steel production reduce slag availability – Heidelberg Materials looks for substitute materials including recycling – not eminent due to war
- Alternative binders could replace cement due to CO₂ costs/shortages CO₂ emission certificates, in mature markets – currently not eminent.
- Alternatives in aggregate vs sand, gravel, hard rock and alternatives for concrete – a gradual development.

2. Demographic

- Aging leads to lack of qualified personnel. Trend is from personnel-intensive on-site construction to pre-fabricated.
 - Mature markets: Heidelberg said 2021 risk had increased versus previous year.

Relevant risks in cement industry (2)

3. Climate-related risks

- Differences in **CO₂e costs** inside and outside EU.
- Regulatory risks: 40% of Heidelberg's global clinker production affected by financial CO₂ regulations (ETS and CO₂ taxes) – the period of free-of-charge emissions rights is ending soon....EU, USA, Canada, China's Guangdong, Indonesia, Turkey and Malaysia are taking steps.
- Legal and compliance risks, like the quick growth of **climate claims**.
- Climate risks: transition to materials with lower carbon footprint (steel, wood).

4. Other

- Human rights, work in occupied area (Profundo reported about that).

Key financials – stable, equity rewarded

Heidelberg Materials						
€ million	2017	2018	2019	2020	2021	CAGR (%)
Revenue	17,266	18,075	18,851	17,606	18,720	2.0%
EBITDA	3,297	3,100	3,580	3,707	3,875	4.1%
Operating profit				2,084	2,258	
Associates				279	356	
EBIT	2,188	2,010	2,186	2,363	2,614	4.5%
Additional EBIT	-133	108	-178	-3,678	481	
Financial result	-418	-353	-375	-287	-201	
Of which:						
Interest expense				-233	-221	
Income tax				-335	-947	
Result for minority shareholders	140	143	151	130	143	
Net profit shareholders	918	1,143	1,091	-2,139	1,759	17.7%
# of shares (million)	199	198	198	198	197	-0.2%
Dividend	378	417	119	437	474	5.8%
EPS (€)	4.62	5.76	5.50	-10.78	8.91	17.8%
DPS (€)	1.90	2.10	0.60	2.20	2.40	6.0%
Net-debt	8,695	8,323	8,410	6,893	4,999	
EBITDA margin	19.1%	17.2%	19.0%	21.1%	20.7%	
Operating margin				11.8%	12.1%	
EBIT margin	12.7%	11.1%	11.6%	13.4%	14.0%	
Net-debt/EBITDA	2.6	2.7	2.3	1.9	1.3	
ROIC	7.2%	6.9%	6.5%	7.9%	9.3%	
EBITDA as % of segment assets				17.0%	17.6%	

- 2020: additional ordinary result due to amortization of goodwill following covid crisis. Many companies did similar write-downs. **Non-cash.**

Key financials (2) – stable, but...

Sales volumes						
	2017	2018	2019	2020	2021	CAGR (%)
Cement and clinker (million ton)	125.7	130.0	125.9	122.0	126.5	0.2%
Aggregates (million ton)	305.3	309.4	308.3	296.3	306.4	0.1%
Ready-mixed concrete (million cubic metres)	47.2	49.0	50.7	46.9	47.4	0.1%
Asphalt (million ton)	9.6	10.3	11.3	11.0	10.4	2.0%
Capex (annual)						
Intangibles + PPGE	1,035	1,061	1,183	969	1,419	8.2%
Financials assets	243	663	131	98	180	-7.2%

A stable company, but gradually losing value (market capitalisation = number of shares x share price)

Valuation	2017	2018	2019	2020	2021	2022F	CAGR
Market cap	17,907	10,592	12,889	12,147	11,492	8,492	-13.9%
Net-debt + other	10,096	9,617	9,880	8,188	6,165	8,082	-4.4%
Enterprise value	28,003	20,209	22,769	20,335	17,657	16,574	-10.0%
Net profit adjusted	813	974	1,174	1,289	1,429	1,512	13.2%

Source: Bloomberg 20/09/2022

Who is earning what? - Shareholders



Heidelberg Materials						
€ million	2020	2021	2022	As % 2020	As % 2021	Comment
Revenues	17,606	18,720				
Main items:						
Raw materials + energy	6,483	7,305		37%	39%	
Employees	3,025	3,108		17%	17%	Stable
Other items	5,735	5,693		33%	30%	
EBIT	2,363	2,614		13%	14%	
To be divided:						
Corporate tax	335	947		2%	5%	
Interest banks/investors	233	221		1%	1%	
Minorities	130	143		1%	1%	
Profit, adjusted	1,539	1,278		9%	7%	Down
Dividend	437	474		2%	3%	Up
Share buybacks	0	350	1,000	0%		2% Will go to 5-6% in 2022
FTE	53,122	51,209				
Employee cost/FTE (000)	56,944	60,692				

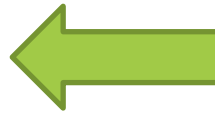


Share buyback = company buys back shares on the stock market, reducing # of shares. It adds more debt to a company and is creating extra value to shareholders.

Strategy (1) – “Beyond 2020”

Three focus points:

1. Sustainability.
2. Digitalization.
3. Increase enterprise value.



1. Sustainability/Lighthouse projects drive CO₂ reduction:

- Instruments: 1) Improvement product mix; 2) Reduction clinker ratio; 3) biofuels; 4) green energy.
 - In 2021, reduction of specific net CO₂ emissions by 2%. Products in portfolio with almost 70% lower carbon footprint.
- In 2050, net-zero emissions. As instruments are not enough, CO₂ capture, utilization, and storage (CCUS) will be a central tool. > 10-million-ton CO₂ in 2030!

Current emissions – there is a problem

GHG emissions							
Million tons	2015	2016	2017	2018	2019	2020	2021
Scope 1	47.7	55.0	69.8	71.4	72.6	68.4	69.5
Scope 2	6.2	5.1	4.6	5.3	4.4	7.3	5.1
Scope 3					22.7	21.3	20.0
Total					99.7	97.0	94.6
CO ₂ e costs per ton (€)					80.0	80.0	80.0
Total carbon costs (€ million)					7,977	7,760	7,564
% of net profit					731%	NA	430%
% of revenues					42%	44%	40%

Source: Profundo, Bloomberg 20/09/2022

Three emission categories – **no geographical data available!:**

- Scope 1: from own operations.
- Scope 2: from energy sourced.
- Scope 3: included in purchased material and services, and use of products made by Heidelberg.

The value is huge vs the current profit and revenue, and vs the CCUS plans.

Strategy (2)

2. Digitalization:

- “To become the first industrial tech company in the sector”.
 - 2025 target: 75% of global sales covered by HConnect. Now 20,000 customers use it. Gives new growth opportunities. **POSITIVE: more work**
 - HProduce + Hservice need to increase efficiency and reduce costs. **Be alert! In most industries this means reductions in FTEs (full-time equivalent) or jobs.**
- Command Alkon (1976, UK-based) 45% stake: largest installed software base in the heavy building materials supply chain sector, with more than 2500 customers globally: software and technology for plant and site automation, materials ordering and scheduling, inventory and mix management, trucking logistics and fleet optimization, office and field operations, reporting and analytics.

Change in supervisory board - ...to support sustainability and digitalization.

Strategy (3)

3. Strong focus on shareholder return:

- Prioritize the strongest market positions and divestment of positions that do not meet return target. **See later: more bonuses for the top.**
 - 2021: Kuwait, Greece, Spain, Sierra Leone, and West Coast of the USA: divested
 - 2021: Australia, Italy, Tanzania, the northwestern United States: acquisitions
- Progressive dividend policy = 30% pay-out of adjusted net profit. **Beneficial for shareholders.**
- 2021, a first-in-history share buyback program: € 1 billion. **Beneficial for shareholders – but it will raise the debt level.**

Shareholders – increasing pressure?

Shareholders	
	Stake (AR 2021)
Germany	32.2%
UK + ireland	7.6%
Continental Europe	8.2%
North America	31.6%
RoW + private investors	<u>20.4%</u>
Total	100.0%

Main shareholders		
	Stake (AR 2021)	Bloomberg Sep 2020
Ludwig Merckle/Spohn Cement	26.7%	25.0%
Artisan AM	5.0%	5.2%
BlackRock	4.9%	5.1%
Capital Group	3.1%	3.2%
Black Creek	3.0%	
CI Investments (Canada)		4.0%
Norges Bank		0.8%
Total		<hr/> 43.3%

Shareholders' base 'internationally diversified' = asking for return?

(AR = Annual Report)

Heidelberg versus peers....

Valuation						
22/09/2022	MC (€ bn)	P/E FY2022	P/E FY2023	EV/EBITDA FY2022	EV/EBITDA FY2023	
Heidelberg Materials	8.49	5.5	5.7	4.5	4.6	
Vicat	1.05	5.2	5.3	4.8	4.9	
Holcim	28.11	9.8	10.1	6.3	6.6	
CRH	26.2	10.3	10.1	5.7	5.7	
Cemex SAB-CPO	5.34	6.1	6.5	5.6	5.3	
Average 5	13.84	7.4	7.5	5.4	5.4	
Premium(+)/discount(-/-) HC (%)		-25%	-24%	-16%	-15%	
Average 13	15.68	14.8	12.8	8.8	8.0	
Premium(+)/discount(-/-) HC (%)		-63%	-55%	-49%	-43%	
5-year average		-50%		-42%		



MC = market capitalization; P/E = price/earnings; EV/EBITDA = Enterprise value/earnings before interest, tax, depreciation, amortization

HeidelbergCement valuation versus own history

22/09/2022	Current	5-Y average	Difference (%)
P/E	5.7	9.3	-39%
EV/EBITDA	4.5	6.3	-28%
EV/EBIT	7	10.1	-31%
EV/Revenue	0.8	1.2	-35%
P/BV	0.5	0.9	-42%



...while EBITDA margin is not dramatic

- Heidelberg roughly in line with peers....
- ...even reducing the gap and above-average in last few years.
- Next step might be 'best-in-class'.

Margins - EBITDA							
% margin	2015	2016	2017	2018	2019	2020	2021
Heidelberg Materials	17.8%	18.3%	19.1%	17.2%	19.0%	21.1%	20.7%
Vicat	19.1%	19.0%	17.4%	17.3%	17.2%	19.1%	19.0%
Holcim	23.3%	21.9%	28.1%	20.1%	22.6%	24.9%	24.7%
CRH	10.6%	12.2%	12.6%	14.0%	16.3%	16.8%	16.9%
Cemex SAB-CPO	18.6%	20.5%	18.8%	19.7%	18.1%	18.5%	19.5%
Average 5	17.9%	18.4%	19.2%	17.7%	18.6%	20.1%	20.2%
Premium(+)/discount(-/-) HC (%)	-0.4%	-0.4%	-0.5%	-2.8%	1.9%	4.9%	2.7%



Large difference with Holcim's strategy

Holcim aims for 30% of revenues in Solutions & Products in 2025:


- These activities are strongly focused on innovations and sustainability.
- **Diversification away** from cement & concrete supply chain.
- Moving closer to customers.
- **Lowering the CO₂ footprint** per unit of revenue.

However:

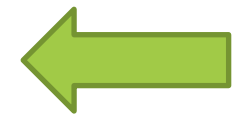
- Lacking synergy between Cement & Concrete and new activities?
- Holcim and Heidelberg Materials see similar long-term trends in markets.

Large difference with Holcim

Heidelberg Materials revenues				
€ million	2020	2021	2020 (%)	2021 (%)
Cement	8,869	9,577	44%	44%
Aggregate	3,922	4,164	19%	19%
Ready-mixed concrete-asphalt	5,244	5,469	26%	25%
Service-other	2,188	2,646	11%	12%
Intra-Group	-2,083	-2,265		
Sub-total	18,140	19,591		
Inter-Group	-534	-871		
Total	17,606	18,720		
Revenues per ton or cubic metre				
€	2020	2021		
Cement	72.7	75.7		
Aggregate	13.2	13.6		
Ready-mixed concrete-asphalt	111.8	115.4		



Holcim revenues			
	2020 (%)	2021 (%)	2025 target
Cement	60%	57%	
Aggregate	12%	11%	
Ready-mixed concrete-asphalt	20%	19%	
Solutions & Products	8%	13%	30%



Heidelberg: Key Performance Indicators (KPIs): crucial in guidance

Heidelberg Materials: KPI targets

KPI	Target	Term	Comment
Operating profit/RCO (Result Current Operations)	Slight rise	2022	Short-term indicators
ROIC	Clearly >8%	2025	Capital efficiency - crucial for bonuses
CO2 emissions	<525 kg CO2/t cementitious material	2025	Crucial for non-financial bonus component
CO2 emissions	400 kg CO2/t cementitious material	2030	Crucial for non-financial bonus component
Low-carbon product	50%	2030	
Net-debt/EBITDA	1.5X-2.0X	Medium term	

= New since Sep 2022

Holcim targets:

- ROIC 10% in 2025.
- CO2: 475 kg/ton CM in 2030, 520 in 2025.

Management remuneration = salary + bonuses

Management remuneration		
	2020	2021 Comment
CEO		
Fixed	27%	26%
Variable	73%	74% Success in KPIs EBIT, ROIC and CO2 reduction
Total	5,104	5,606
Members executive board		
Fixed	36%	33%
Variable	64%	67% Success in KPIs EBIT, ROIC and CO2 reduction
Total	2,699	3,078

- A high weight for variable part.
- Variable = Annual bonus (ca 100% base salary) + long-term bonus (ca 100%)
- Annual bonus: Variable part linked to KPIs:
 - 2/3: group share of profit x CO2 reduction component;
 - 1/3 individual part and this can be linked to personnel and organisation).
- Long-term bonus: ROIC + share price development.
- Main change since 2018: CO₂ has been added.
- ESG: the E is strongly represented by CO₂ target, S+G is in individual targets.

Heidelberg KPIs: the consequences

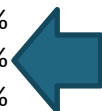
Three Key Performance Indicators (KPIs):

- Operating profit. This means the sale of low-margin and loss-making activities, acquisition of high-margin activities, as well as cost savings. Longer-term: focus on premium priced products.
- ROIC = Return On Invested Capital = operating profit, minus adjusted tax, divided by the average of invested capital (working capital + investments) in one year. This means reduction in costs, divestment of loss-making activities, and later payment of creditors. With Holcim targeting 10%, Heidelberg might raise targets further...
- Specific CO₂ emissions. This means divestment most-polluting activities and should mean focus on innovation.
- Net-debt/EBITDA. No problem, for now, but share buybacks might raise the ratio. Otherwise, cost savings.

Regional data

Western-Southern Europe

€ million	2020	2021
Revenue	4,960	5,557
EBITDA	859	937
EBIT	463	561
Capex	296	463
Segment assets	5,183	5,219
Ratios:		
EBITDA margin	17.3%	16.9%
EBIT margin	9.3%	10.1%
EBITDA as % of segment assets	16.6%	18.0%



N+E Europe - Central Asia

€ million	2020	2021
Revenue	2,854	3,084
EBITDA	718	737
EBIT	526	544
Capex	160	172
Segment assets	2,631	2,684
Ratios:		
EBITDA margin	25.2%	23.9%
EBIT margin	18.4%	17.6%
EBITDA as % of segment assets	27.3%	27.5%

Asia-Pacific

€ million	2020	2021
Revenue	2,998	3,126
EBITDA	694	670
EBIT	446	435
Capex	133	208
Segment assets	3,984	4,103
Ratios:		
EBITDA margin	23.1%	21.4%
EBIT margin	14.9%	13.9%
EBITDA as % of segment assets	17.4%	16.3%

Africa-E Mediterranean Basin


€ million	2020	2021
Revenue	1,765	1,909
EBITDA	451	490
EBIT	342	384
Capex	95	109
Segment assets	1,532	1,601
Ratios:		
EBITDA margin	25.6%	25.7%
EBIT margin	19.4%	20.1%
EBITDA as % of segment assets	29.4%	30.6%



N America

€ million	2020	2021
Revenue	4,617	4,551
EBITDA	1,019	1,042
EBIT	653	722
Capex	281	499
Segment assets	8,431	8,394
Ratios:		
EBITDA margin	22.1%	22.9%
EBIT margin	14.1%	15.9%
EBITDA as % of segment assets	12.1%	12.4%

Regional data (2)

Heidelberg Materials						
2021	Capacity (million ton)	Capacity in %	Cement revenues (€ mln)	Cement revenues in %	Rev/ton capacity (€)	
Western-Southern Europe	43.4	24%	2,881	30%	66.4	
N+E Europe - Central Asia	31.7	18%	1,631	17%	51.5	
N America	15.2	8%	1,828	19%	120.3	
Asia-Pacific	46.7	26%	1,678	17%	35.9	
Africa-E Mediterranean Basin	26.2	15%	1,585	17%	60.5	
Joint ventures (pro rata)	17.4	10%				
Total	180.6	100%	9,603	100%		

Conclusion on regional data:

- **Western-Southern Europe** lagging in some ratios...
- ...while in this region challenges in labour costs and carbon costs are rising.
- **North America**: low margin and weak return on assets.

Now time to reflect 'Opportunities' for Heidelberg

- “Demographic: Growth for Heidelberg (...)’s products – buildings, infrastructure.”
- “Rising CO₂ costs lead to rationalization measures”, with oldest facilities to be closed (EU) = reduction of excess capacities.
- Digitalization = reduction of production and administrative costs.

Investment focus - logical

Key reasons for annual investments:

- Simplifying country profiles and prioritizing the strongest market positions. **In line with our thoughts**
- Maintenance + modernization of PPE (property, plant + equipment) plus construction of new plants and the conversion of existing plants. **To reduce CO₂ footprint?**
- Reduction of CO₂ emissions and improvement of environmental protection. **Logical**
- Digitalization. **Logical**

Investments (capital expenditures) in 2022 are expected to be less than € 1.2 billion.

- ...this is in-line with proceeding years. **No real change.**

Conclusions

- Financials, like **profit margins, have been gradually improving** and are in a slight upward trend. But not best-in-class.
- **Valuation of Heidelberg is lagging** versus peers.
- There are **upcoming challenges** from higher costs in labor market, including aging, + climate damage costs/CO₂.
- **Western- Southern Europe is a regional laggard**, which will also face material cost challenges. Attention also for North America.
- There are international shareholders, and the **management bonuses are linked to KPIs – focus on profits, dividends and share buybacks, CO₂ reduction**.
- **Strategy is clearly instrumental in tools** (digitalization = rationalization) and focus (enterprise value) to **reward shareholders and management**.

Recommendations

- Focus on **re-balance** between income for financiers and for workers.
- Europe - **FTE reduction could mean less jobs, but also fewer working hours per week.**
- The problem of aging could mean an opportunity for **raising participation from 'young' and 'female'** through raising attractiveness via education, personal development etc.
- Material cost challenges in Europe and North America through climate costs – **accelerate innovations so that Heidelberg Materials can ask for better/premium pricing.** This could mean initially lower profits and less dividend and share buy-backs.
- Push management for more contact with **institutional shareholders which have a long-term view on ESG in total (CO₂ + human capital + transparency etc)**, so that bonus of management can become more aligned to adaptation towards a broad-based sustainable company.

Appendix - Investments/divestments 2021/2022

Investments:

- PPE € 1.4 billion, 2/3 maintenance, 1/3 expansion. Intangibles € 27 million.

Acquisitions:

- €144.8 million (2020: 76.3); primarily the acquisition of Corliss Resources, LLC in North America.

Divestments:

- € 2 billion from sale of activities in USA Region West, Hong Kong, Kuwait, and Sierra Leone.
- In 2022, effectuated divestment of Southern Spain activities; Northern Spain business remains in HC.

Appendix - Recent news

- HSBC downgraded the stock from Buy to Hold
 - ...as reaching carbon neutrality by 2050 does not seem economically viable for now (source Bloomberg, 9-Sep-2022).
- HC to build major CCUS project in Indiana.
 - ...aims to capture 95% of emissions (2 million ton per year) of the newly renovated production facility (2.6-million-ton cement)

Thank you!

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