Breedon Interim Results call 2023

Breedon participants

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

Other participants

- Cedar Ekblom, Analyst
- Christen Hjorth, Analyst
- Harry Dow, Analyst
- John Fraser-Andrews, Analyst
- Marcus Cole, Analyst
- Robert Chantry, Analyst
- Sam Cullen, Analyst
- Tobias Woerner, Analyst

Presentation

Rob Wood

Good morning, everyone, and welcome to Breedon's Interim Results Presentation. James and I will take about 20 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 first half at Breedon. Our first-class team have operated with great agility to deliver this performance for which I thank them sincerely.

So what has contributed to our success? I would highlight three factors. First, resilient end markets that continued to be supported by long-term structural growth drivers. Second robust -- a robust performance where our dynamic pricing and our focus on operational excellence offset expected lower volumes. Third, we continued to strategically invest for growth completing three acquisitions and continuing organic investment. And I think it's fair to say that our vertically integrated and local operating model has again come to the fore, leveraging our long-term customer relationships and deep market knowledge.

In parallel to delivering our numbers, I'm 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 sustained priority, we have progressed a range of initiatives. We've made progress towards setting our Science-Based Targets. We have committed to securing a rating from CDP, formerly the Carbon Disclosure Project this year. We hosted the launch of the Peak Cluster initiative, an innovative carbon capture and storage collaboration, a project that is expected to remove over 3 million tonnes of carbon dioxide emissions each year by 2030. A move that will reduce UK emissions from cement and lime manufacture by around 40%.

We have continued to push the boundaries on cement alternative fuel use reaching a fossil fuel replacement of 50%. We have increased the sales of Breedon Balance products with sustainable attributes. And last, but not least, we have continued to strive to make Breedon a great place to work by focusing on colleague health, safety and well-being.

In respect of our optimized priority, we have continued to drive efficiency and utilization. We've done this by introducing divisional operational excellence reviews, restructuring our business in GB and Ireland to drive improvement and standardization, and by maintaining cement plant reliability. I'm pleased to report that our market-leading reliability performance has been recognized externally. For example, at the Irish Operational Excellence Awards, our Kinnegad team won Team of the Year. Not wanting to leave the Hope team out, I was also pleased to report that they have sustained plant mastery status into its fifth year, a rare occurrence in the industry.

Lastly, in respect of our expand priority, we have extended our aggregates footprint in Ireland through the acquisition of Robinson Quarry Masters, a family-run quarrying and

concrete block business. We have vertically integrated further in GB through the acquisition of Broome Bros., a leading manufacturer of concrete blocks based in Yorkshire. And we have further expanded the surfacing business in GB through the acquisition of Minster Surfacing an award-winning regional surfacing business.

All three of these transactions are fully aligned to our strategy. And over and above all this, we have continued to invest in minerals, the lifeblood of our business. We currently have a mineral planning pipeline in excess of 100 million tonnes. So in summary, a strong first half to have pride in and to take confidence from.

Before I move over to James to deliver the financial review, it would be wrong of me not to mention the AIM to Main move. Breedon shares now trade on the Main Market and we expect to be eligible for inclusion in the FTSE 250 at the next index review in September.

James, over to you.

James Brotherton

Good morning, everyone, and thank you, Rob. We've had a strong first half to 2023, increasing revenue by 11% as reported and 7% on a like-for-like basis, excluding the six acquisitions that we've completed over the course of the past 12 months. We've increased EBIT by 5% against what was a pretty tough comparable and we've seen a small compression in the underlying margin to 9.5%, principally due to our energy hedges moving back in line with market pricing.

We've held our return on invested capital at 10% year-on-year and that reflects the robust business trading performance that comes despite the impact of the increased UK corporate tax rate. We've seen a really strong performance on cash in the first half with a free cash inflow of GBP21 million compared with a broadly equivalent outflow last year.
And this reflects a good deal of hard work that's gone into the management of working capital, most notably around inventories and cash collections.

Net debt at the half year is nearly GBP40 million lower than this time last year. And our covenant leverage is 0.3 times lower than half one 2022 at 0.7 times. So we retain significant balance sheet flexibility as we come into the second half of the year.

And the strong trading performance underpinned by excellent cash generation means that we're in a position to increase the interim dividend significantly ahead of earnings by some 14% to 4 pence per share and reflects our confidence in the Group's prospects and we'll announce the dividend timetable for payment in due course.

So in terms of how that revenue growth of 11% is made up, pricing contributes 12% of the increase and that splits out as around 9% tailwind from 2022 and 3% from pricing in this year. Like-for-like volumes on a blended basis were down as expected by around 5% with aggregates down 6%, asphalt and cement both around 3% and ready-mixed marginally lower across the Group as a whole. Acquisitions contributed around GBP25 million or 4% of that revenue increase.

Pricing more than offset costs and despite the drop-through impact of lower volumes, led to growth in the absolute EBIT number alongside that small compression in the underlying EBIT margin, principally due to the higher energy costs. To put some color around that, we paid around GBP10 million more for energy in H1 '23 than we paid in H1 '22 and that number will repeat with a little bit more in the course of the second half.

This next slide is quite different from the one I showed you this time last year with cost inflation now visibly moderating across most spend categories, albeit still elevated compared with two years ago. Soft energy costs are significantly lower than they were 12 months ago. And accordingly, our hedges are now broadly in line with market pricing.
Bitumen costs are more stable than they have been as well.

Carbon pricing has seen some interesting dynamics in recent weeks with EU allowances continuing to trade in an elevated band north of EUR80 per ton, whereas in the UK, the cost of allowances has deflated quite rapidly. As you'll recall, we operate a surcharge discount mechanism for carbon and that works well both for us and for our customers who

get cost certainty.

Each division has played its part in the strong financial performance with GB materials delivering a solid performance in a softening market. Ireland has performed well with encouraging growth on both the top and bottom lines and a small expansion in margin. Cement has performed strongly with the margin compression seen in the division, principally due to the energy hedge impact that we discussed earlier.

We've had a really encouraging first half in terms of cash flow generating an inflow of nearly GBP21 million. And just picking out a few highlights from this slide, our first half working capital outflow of GBP41 million was significantly lower than last year's GBP77 million. And that reflects good control over receivables and inventories, in particular, and slightly different phasing in terms of the purchase of carbon emission trading credits.

Capex spend was broadly in line with the first half of last year and the net cost of acquisitions in the year-to-date was GBP11 million. GBP5 million of the cash exceptionals relates to the re-domicile of the Group holding company and the costs associated with the transfer of the Group's listing from the AIM to the Main Market with the balance being costs associated with acquisition activity. We have over GBP400 million of headroom on our debt facilities, and Slide 29 in the pack has further details on the cost of those facilities and the tenor.

As usual, I've summarized our technical guidance to cover the balance of the year. Interest will be around GBP12 million with cash interest slightly lower at GBP8 million for the year as a whole. We're expecting a blended effective tax rate of around 20% for this year rising to around 22% in 2024 with the effective tax rate being slightly higher. And bear in mind that those increasing tax rates will impact our post-tax performance measures such as return on invested capital.

We plan to invest around GBP10 million more than originally guided to back in March with Capex of around GBP100 million now expected for the full year. Key projects include a new mobile asphalt plant to support our airport surfacing business and further investment in sustainability projects such as the network of CEM II silos that we're installing across GB and the alternative raw materials project at Hope, which is now underway. The three acquisitions completed in the year to-date have an aggregate enterprise value of up to GBP19 million with a net cash cost over the 2023 year being around GBP17 million.

We'll see the usual working capital unwind over the balance of the year and expect the overall year-on-year position to be a modest net working capital outflow, principally due to the inflationary impact on the balance sheet. And that should lead you to a net debt number for the full year absent further M&A of around GBP180 million. We are still expecting profitability for the year as a whole to be weighted towards the second half but to a lesser extent than in the past few years. And we are maintaining our full year expectations.

So in summary, we had a strong first half with growth on both the top and the bottom lines, which has been underpinned by an excellent cash performance and that's allowed us to increase the dividend significantly ahead of earnings towards our target payout ratio of 40%, that reflects our confidence in the Group's prospects.

We've maintained our return on invested capital year-on-year and we're seeing the benefits come through of our strategic execution and the operational focus within our financial framework. We start the second half of this year with a strong balance sheet, and we're well-positioned for the remainder of the year.

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

Rob Wood

Thanks, James. I'll start the operational review by highlighting the central theme of resilient performance against the backdrop of rising interest rates to counter inflation and associated downward revisions to growth and construction forecast in both the UK and the Republic of Ireland. This trend conflicts with the long-term structural growth drivers that remain in place in both markets and does create short-term challenges for the industry.

Let's look first at the UK market, where the picture in the first half has been one of contraction. UK GDP is estimated to have been flat in the five months to May. Construction output over the same period is estimated to have declined by 1%. But as you can see on the chart, there are divergent trends. The latest data available for MPA volumes Q1 has confirmed that demand for mineral products is declining and this is reflected in the construction PMI that stood at 48.9 in June, pointing to contraction in the construction sector. Considered against this backdrop, we are pleased with the UK performance in the first, and we'll talk more about this in the business review shortly.

But before I do that, I want to turn next to the markets in the Republic of Ireland where the operating environment was similar, but more positive. Modified domestic demand is estimated to have been flat in the first quarter. Construction output is estimated to have grown by 4% over the same period as you can see on the chart. And the construction's growth reported is reflected in confidence with the construction PMI standing at 50.4 in June. Our businesses in the Republic of Ireland benefited from this growth backdrop. However, the benefits of this were masked at the Island of Ireland level by the absence of the governing assembly and more specifically spending in the North.

Moving on to our businesses, and to GB. Our GB business had a successful half year delivering a solid performance in a softening market. Volumes generally declined with the broader markets. Although concrete volumes were stable potentially due to an acceleration of activity in advance of the new building regulations that came into effect in June. As I mentioned earlier, we implemented an operational excellence review and restructured the materials business to drive improvement and standardization. We continue to build on our regional surfacing capability with the acquisition of Minster Surfacing.

And following the award of a position on the North Super Region of the National Highways Pavement Delivery Framework last year, we were able to secure a good portfolio of work in the first year of delivery. We are also developing a successful airport runway resurfacing business. We have a strong pipeline of work and are currently active on Islay and Southampton airport runways. As a reminder, our surfacing business delivers our own high-quality materials, pull through our vertically integrated model.

Our Irish business also had a successful half year. But below the surface, there are two competing forces: one, lack of a governing assembly and business confidence in the North; and two, more activity and confidence in the South. Volumes reflected these themes. Aggregates and concrete were impacted by the market in the North. However, asphalt volumes held up better reflecting increased activity levels following an encouraging tendering season in the South. In the North, we were successful in the third round of the Department for Infrastructure Framework Awards securing Limavady term surfacing contract. We also re-secured two street lighting contracts.

Like GP, we implemented an operational excellence review in Ireland. We also made it a truly Island of Ireland business under the leadership of Pat Gilroy, who joined us late last year. Lastly, we extended our aggregates footprint through the acquisition of Robinson Quarry Masters. As you know, expanding our aggregates footprint in Ireland is a key focus of our strategy and Robinson comes with over 40 million tonnes of reserves and resources.

Moving onto our Cement business, which had a strong first half. Volumes generally declined in line with the broader market. However, pricing continued to be dynamic and our forward hedging program afforded us a clear view of our input costs. As mentioned earlier, we achieved a significant milestone towards our net-zero objective with the launch of the Peak Cluster project. Our teams at Hope and Kinnegad carried out two planned Kiln maintenance shutdowns, both concluding on schedule and within budget. And each plant maintained an outstanding reliability record.

We continue to reduce the clinker content of our products, supporting our customers' sustainability objectives and we continue to push the boundaries of alternative fuel use through plant and process optimization. Lastly, we are progressing innovation and we are currently undertaking trials at Hope in conjunction with First Graphene, Morgan Sindall and the University of Manchester on graphing enhanced cement and concrete that reduces carbon emissions.

I'd now like to move away from the first half and look forward to the second half. While the economic landscape in the UK and the Republic of Ireland appears uncertain and we are experiencing short-term downward revisions to growth in construction forecasts, I want to remind you that the long-term structural dynamics driving infrastructure spending and house building have not changed and that Breedon is well placed to benefit from these.

I've said this before and I will say it again. Whatever materializes, the Breedon model and the people who operate it, have repeatedly demonstrated their resilience, delivering strong operational performances irrespective of the macroeconomic backdrop and I remain confident in our ability to continue to deliver.

Thank you. We now welcome your questions.

Questions and Answers

Q - Rob Chantry

Hi, Rob Chantry from Berenberg. Just three questions from me. Firstly -- well, thanks for the presentation. Firstly, could you just comment, I guess, on US market sourcing in terms of your potential longer-term ambition to build a business out there? What have you learned in the first half? Are there any kind of interesting observations around niche markets or areas that might be of interest?

Secondly, around pricing dynamics, I mean, you hopefully broke down the kind of breakdown of the 12% between last year and this year. Could you just comment on how this year's pricing round has gone in terms of the percentage that you're expecting versus what's stuck? Any differences between different products?

And then thirdly, just in terms of that Capex breakdown, where you've increased it from, I think, GBP90 million to GBP100 million investing GBP10 million or so. Is there any kind of guidance on the medium term for '24, '25 around that kind of expected level of normalized Capex running through the business given the opportunities you see? Thank you.

A - Rob Wood

James, if I pick up the first one, would you like to pick up the other two? And thank you, Rob, for the questions. The US, we continue to evaluate the attractiveness as -- the US as a third platform. And the work we've undertaken in the first half of the year confirms to support our view that it does present an attractive opportunity at the appropriate time.
Then what's important is -- and what we've consistently told shareholders is, our priority is to continue to develop and build out our two existing platforms. However, it is only right for us to look at the third platform, and so, at some stage in the future, we don't end up having successfully built out two platforms and not having a third opportunity.

A – James Brotherton

So in terms of pricing, if you remember, back in March when I talked about pricing dynamics coming into 2023, I felt that it was important the necessary pricing didn't have to be more than mid to high single-digit, and the reason for that was that (inaudible) of high-teens to low-20s pricing, we felt that would lead to certain -- potentially significant changes in the demand profile. The 3% that you saw come through in the first half, when you analyze that across the -- across the full year, you will see something in that sort of mid to high single-digit, which is where we wanted it to be. We don't give a pricing breakdown by category, but we have successfully moved on price across all product categories.

In terms of Capex and the out years, I think we'll see a similar sort of profile that we've seen in the last couple of years. So we've spent broadly GBP90 million to GBP100 million in investment back into the business. And I think that will continue. Clearly, as we engage more around some of the sustainability initiatives, particularly Peak Cluster and things like that, there will be the need for further investment in order to achieve those sustainability goals. But at the moment, we would expect that we can manage, so the early stages of that through our existing Capex budget.

Q – Cedar Ekblom

Hi. It's Cedar Ekblom from Morgan Stanley. Two questions. The gross margin in the second half, should we assume that that will be down relative to the first half? Because it sounds like you're being a little bit more cautious on the willingness to push more price increases from here.

And then the second question on M&A again. Three deals in the first half. Can you talk about the, let's call it, like an M&A funnel? How many businesses are sitting in DD today? How many businesses are in a phase before DD, deep understanding of the business? How many targets do you have that are in an early fact-finding phase just to get a bit more understanding on how we can think about the cadence of M&A in your existing markets? Thank you.

A – James Brotherton

So I think in terms of the second half, in high level terms, we're expecting a second half that is more akin to what we delivered back in 2021 than what we delivered in 2022. I wouldn't say that we're resigning on price. I think that we've -- we will always look at pricing in the markets where it's needed and where our value-add offer merits and justifies it. But I think, as I said earlier, the overall pricing picture, I think it was very important this year that we didn't need as an industry to look at necessary pricing in the mid to high-teens again. So I think that overall pricing for the industry is where it needs to be in 2023.

A - Rob Wood

And in terms of the M&A pipeline on -- in GB and Ireland, I would say, it's healthy. And James and I would be disappointed if we couldn't do further transactions in '23.

Q – Harry Dow

Hi, thank you. Three questions. Harry Dow from Redburn. Firstly, just on the cost side, you've put some charts on the presentation just around clearly where the spot price has gone in terms of energy. You've obviously built hedges up over sort of a few years now. Is there any color on what that looks like for '24 and '25? I know it's probably maybe too early. I suspect the answer is down. But any color is useful on how pricing also really reacts to maybe falling prices.

Secondly, just on the Peak Cluster, maybe just a bit more color around what you're doing there, the technology, whether the technology has actually been chosen in terms of how the carbon capture works, and just a bit more color. And then thirdly just on the carbon costs that you mentioned, just any information on maybe the savings that you've had from carbon costs this year? Thanks.

A – James Brotherton

I'll take one and three. If you do two. So in terms of the hedges going out, we're now basically at market, and if you look back historically, that's where our hedges have been. In some years, we've made a little bit on the hedge. In some years, we've lost a little bit on the hedge. Where the benefits of the hedge really came through was last year when we were completely insulated from that very significant spike that you can see on Slide 9. I think that we will continue to see a degree of deflation over the next 18 months or so. I still don't think we'll get back to the sort of energy pricing that we were seeing back in 2018 and 2019.

In terms of carbon, as you know, we essentially pass-through the cost of carbon to customers on a surcharge discount basis. So it means that the customer gets cost certainty, they have the visibility on what their cement will cost them for the next quarter, and it's a very transparent way of passing on the carbon impact to customers. So it's not something that we necessarily make a gain or loss on because it's a straight pass-through back to the customers.

A - Rob Wood

And in terms of the Peak Cluster, it's very early days. And I would direct you probably to the website to get some background information and learn more about the project. But what I would say is that we're currently still in the pre-FEED stage. When we come out of

that probably later this year, we're then going to move into a FEED stage, which is probably going to take the next three years, and it's only really then that things will crystallize. But I think there'll be some good -- I mean, it's a separate subject and it could consume a long time, but I think the website, you will find useful.

Q – John Fraser-Andrews

It's John Fraser-Andrews, HSBC. Two for me, please. The first one on the Peak Cluster. Rob, could you elaborate that as to what the investment requirements of that project are feeding into the debate with your customers on cement pricing?

And then secondly, please, your volumes guidance, is it right to still assume you're expecting a mid-single-digit decline for the full year? So you having done 5% in half one and perhaps you could touch on how you see that varying between GB and Ireland. Thank you.

A - Rob Wood

I'll pick up with cluster, and are you happy on the volumes? So look, it's -- I don't want to say the same answer, but I think it is early days. I think -- I think what is clear, there will be a significant investment from all the partners and that will require not only pricing progression to deliver that, but it's also need to get -- need the support of the government. And I think if we, as an industry and we as a country and as we as an industry broadly in the cement industry, it's non-negotiable. We need to get to zero carbon. This is the lead technical solution and we need to make it work, but industry can't do it alone, and so it's going to need the support of government. And that's what the next few years are going to be all about, John. You know, we've got the FEED to try and formalize and finalize costings and technologies, and post that, we then need to engage with stakeholders, including the government so that we can make it deliverable.

A – James Brotherton

I think on volumes, we'd say, yes, our core assumption for the year as a whole is that we will see mid single-digit volume declines. There will be some mix impact in there. I think the swing factor would be if there was an assembly -- a functioning assembly coming back in the North of Ireland, that potentially could lead to some quite interesting dynamics in terms of volumes in the North. But for the Group as a whole, mid single-digit volumes for this year.

Q – John Fraser-Andrews

Thanks, James. And could I ask you to flag any upside or downside risks you see to that in any other markets, particularly in GB? And how likely is, in your opinion, say politics, but how likely is the formation of an assembly?

A – James Brotherton

That is way, way above my pay grade. So I'm not even going to attempt that one. But I think in terms of GB, I think, as we expected, local authority budgets have come under pressure. I think that has impacted on our asphalt business in GB. And I don't see that dynamic necessarily changing over the balance of this year. I think already mix, as Rob touched upon, we think we did get a bit of a benefit from house building in the first half in terms of the house builders looking to start projects in order to get out ahead of the change in the building regulations and so there may have been a bit of a shift of demand in year into the first half relative to the second.

Q – Christen Hjorth

Christen Hjorth from Numis. Three, from me, please. The first one just what is needed to achieve the margin target from -- as we stand here today? I assume the lower end is probably just volumes. But the upper end, what we would need to see there?

The second, obviously, balance sheet very strong, leverage reduced. And what sort of leverage level do you sort of maybe consider other uses of capital such as shareholder returns and buybacks, et cetera? And then just a bit more color on why this year is likely to be less H2 weighted than normal? Is that sort some concern on sort of market, just to be

prudent, just sort of understanding that dynamic? Thank you.

A – James Brotherton

Okay. So in terms of the margin targets, yes, to get to the lower end of the range, we need volumes and we need volumes to come back. I think within the range, and to get towards the top of the range, it will be a mix of things. So it will be further business improvement, further investment in operational efficiency, and a good deal of the Capex program that we're doing now in years to come, we would expect would make us a more efficient and effective operation.

And then finally pricing, we always look at pricing and we look at the value that we add to our customers, the value that we can contribute to projects. As we've often talked about, the way the projects are scored now is very different to the way it was done 20 years ago, and there is an increasing focus on sustainability characteristics and value-add and that's where -- that's an area where again we think we can -- we can do things.

In terms of the balance sheet, I'm very happy with where the balance sheet is at the moment. I think that having flexibility, the ability to make acquisitions off balance sheet, the ability to invest back in the business and the ability to utilize our cash generation is a real strength and a real asset to the business. As we've always said, if we were to get to a position where we were approaching net cash, the M&A pipeline looked difficult to execute. But at that point, we would consider other forms of use of that capital. But we're some way off that at the moment. And I think that if you look at what we've done around the dividend, we've demonstrated that we are committed to progressing towards that 40% payout ratio.

In terms of the half two split, I think that coming into this year, I felt this year was quite finely balanced in terms of where the -- where the full-year might end up. I think, it's less finely balanced at the half year. But we do still have that -- those energy costs coming through in the second half relative to 2022. And so I think overall, we'll be closer in absolute terms to what we did in half two of '21 than what we did in half two of '22.

Q – Tobias Woerner

Tobias Woerner here from Stifel Europe. Two questions, if I may. I had a discussion with an industry peer of yours, admittedly more biased to the southern parts of Europe. He -- we talked about solar and the payback there, and it seems to be very attractive two times, two years basically. Just remind me of your strategy in that context. You have a lot of quarries where we could install solar and reduce also your energy bill on the back of that. Have you done that exercise?

And then secondly, with regard to your M&A strategy or strategy generally, have you reviewed your product focus and/or geographic focus at all? In particular, a lot of your peers like the concrete paving space, something I also feel is quite attractive. I was wondering what your views were there.

A – Rob Wood

So in terms of solar, we are evaluating. We have evaluated and we continue to evaluate opportunities across our portfolio. I mean, there's a couple of lead scenarios at the moment, but the largest of which is a solar farm that we now have planning for at our Kinnegad cement works, and we will be progressing as the year goes on. But we continue to evaluate opportunities and we generally believe the paybacks are handsome.

In terms of the M&A strategy, I mean, nothing has changed for us. We have our core outputs, which are aggregates and cement. And we have the ambition to build out our existing platforms, investigate a third platform and continue to vertically integrate, and we will vertically integrate into products, for example, like Broome and otherwise. But any products that use our core outputs is something that we would consider.

Q – Tobias Woerner

So in other words, concrete paving is one of those.

A – Rob Wood

Yes, concrete products, concrete blocks. I mean, yes, it's not just paving.

Q – Tobias Woerner

Thank you.

Q – Sam Cullen

Morning. Sam Cullen from Peel Hunt. I've just got one, actually. I think coming back really on Harry's question earlier. In terms of 2024, if the volume and outlook doesn't pick up from here and it's kind of '24 is flat on '23 and taking James' comments around a couple of years of 20% price increases and the cost backdrop, can you move prices forward again in '24 or do you see sort of deflation across the industry modest still or not?

A – James Brotherton

Well, the honest answer is, I'll tell you on the 31st of December 2024. But I think that if you look at our track record on pricing and stay in the right side of the price cost dynamic, we've successfully done that over a number of years. And therefore, I think that coming into 2024, I would still expect us to be able to push price, particularly around products and around projects where we have a value-add component.

Q – Marcus Cole

Good morning. Marcus Cole, UBS. Just be clear on price cost in H2, are you expecting that to be broadly neutral just taking the cut away from what you've said previously? And then on GB, you're talking about competitive positioning enhancement. What does that actually mean on the ground? And then the third one is just on HS2, what's the impact you think on volumes this year? Thank you.

A – James Brotherton

I'd say, on price cost for the second half, yes, I think I think broadly neutral Marcus. Broadly neutral for the second half.

A – Rob Wood

I think in terms of the competitive positioning, look, we continue to ensure that our business is customer focused and that we operate local markets and we will continue to do that. It's -- Breedon has succeeded and demonstrated its resilience over the last decade by doing that and we will continue to do that.

HS2. Look, for us, as we've said before, we're not particularly directly exposed to HS2, I mean. So for us, the delays and the potential, what happens to the next phases are unlikely to materially impact our performance in the rest of '23. I mean, I think what has happened on HS2 is that it has made parts of the UK and GB particularly busy, the Midlands and things, and if there is a re-phasing and it makes it not quite as busy for a period of time, but extended over a longer period of time, I don't think that would be bad for the industry, and it might well take some pressure off. And we've talked about it before. But sometimes, when you're chasing the volume, the marginal cost becomes suboptimum. So ultimately, I think the key thing is that there is a commitment to it still and it will continue to underpin demand in the infrastructure space for a number of years to come.

Q – Rob Chantry

Hi, Rob Chantry at Berenberg. Just one quick follow-up, I guess on, Sam's question. Are there any interesting observations you've got from the market around different pricing activity in different categories from competitors principally based on the energy hedge et cetera? Are there any who've tried to push price a lot more and haven’t stuck, are there any kind of big differentials that have caused distortions in market contracting and tender awards, et cetera?

A – Rob Wood

I think part of that question is probably best directed at our competitors rather than directing it to us.

Q – Rob Chantry

Sure, it is.

A – Rob Wood

But now, I think that what we've seen over the last couple of years is that the ability of particularly independents to offer rogue pricing has largely been eroded because they've had to buy all of their inputs and start. And I think although the general picture is one of deflation, I think that's deflation that plays out into '24 and '25 rather than 2023.

A – James Brotherton

Yes, I think we're getting to a position where we wouldn't really want to comment more. I think the market has been rational, but I think that's as much as we'd really want to say.

A – Rob Wood

Well, I know everyone is very busy. So it seems like the right opportunity to wrap things up. I would close by just leaving you with the message just how resilient the Breedon business has been and the Breedon team have been, and just to say that James and I remain confident in our ability to continue to deliver.

So thank you very much for coming here today. And we look forward to catching up with you in the months to come.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies.