

# Oddo Forum 2017

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Ozan Kacar, Head of Investor Relations



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# Contents

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	Page
<b>1. The new HeidelbergCement</b>	<b>5</b>
<b>2. Operational and financial performance</b>	<b>9</b>
<b>3. Accelerating growth with Italcementi (ITC)</b>	<b>13</b>
<b>4. Strategy and strengths</b>	<b>20</b>
<b>5. HeidelbergCement – the future</b>	<b>27</b>

	Page
<b>1. The new HeidelbergCement</b>	<b>5</b>
2. Operational and financial performance	9
3. Accelerating growth with Italcementi (ITC)	13
4. Strategy and strengths	20
5. HeidelbergCement – the future	27

**Strong Management team** with long standing operational and sector expertise

**Continuous improvement** in operational and financial metrics. New initiatives started in RMC and sales supported by global competence centres

**Integration of ITC notably ahead** of schedule and identified synergies increased

**Sustainable cash flow generation** to drive shareholder returns

**Best managed  
company in the  
sector with  
unique business  
model focusing  
on vertical  
integration**

# The new HeidelbergCement Group

## Global:

**#1** in Aggregates

**#2** in Cement

**#3** in Ready-mix concrete

One of the biggest global trading services



Leading vertically integrated player



Global/local centres of excellence for all three core business lines



€bn >17 Revenue<sup>1</sup> and  
€bn >3 EBITDA<sup>1</sup>



1<sup>st</sup> company in the sector earning premium on WACC

1) Proforma 2015

# The global footprint of HeidelbergCement today

**197 million t**

Cement capacity

**19 billion t**

AGG reserves

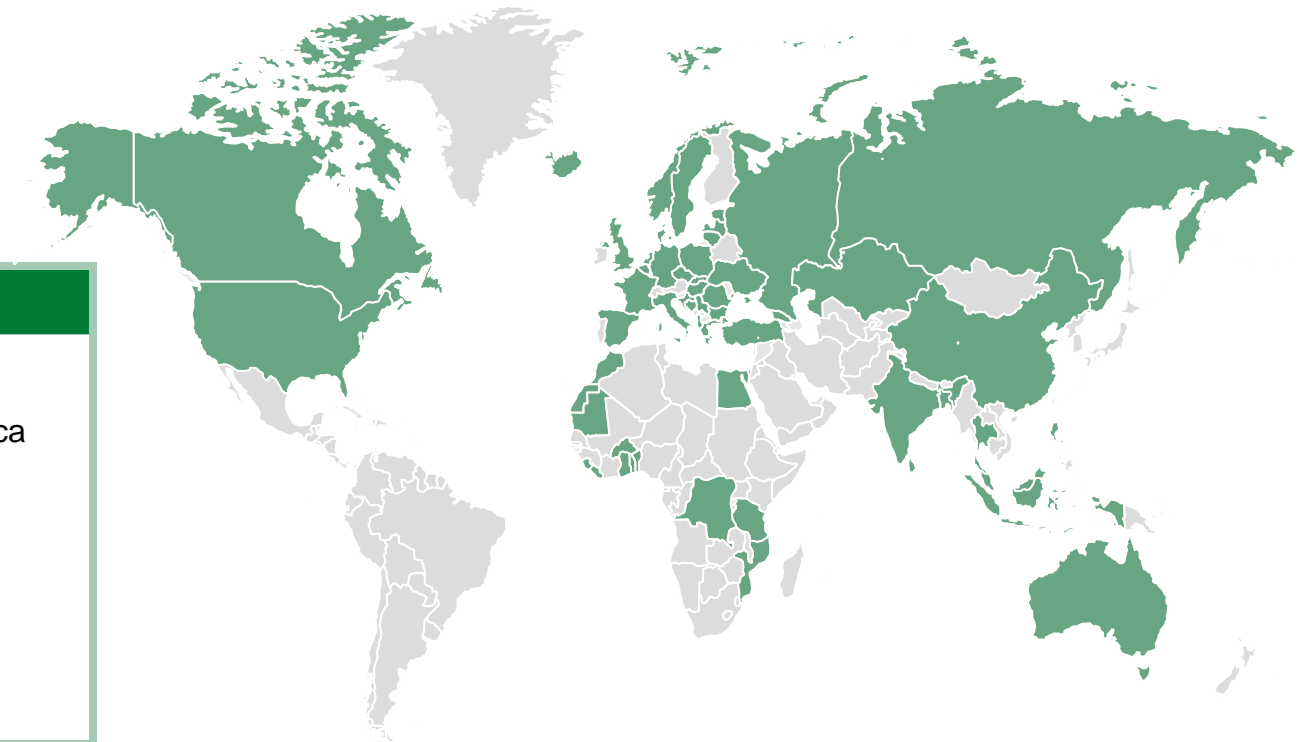
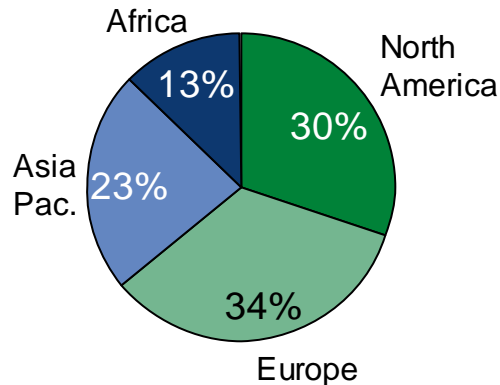
**1,900 plants**

Asphalt & RMC

**62,000 employees in 3,000 locations**

60 countries on 5 continents

## EBITDA generation



**Expanded reach, capacity and expertise. Positioned well for future potential.**

# Contents

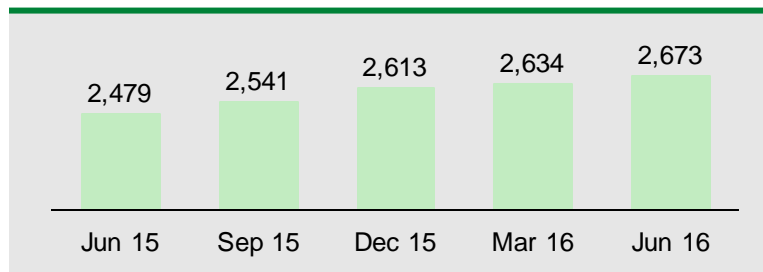
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	Page
1. The new HeidelbergCement	5
<b>2. Operational and financial performance</b>	<b>9</b>
3. Accelerating growth with Italcementi (ITC)	13
4. Strategy and strengths	20
5. HeidelbergCement – the future	27

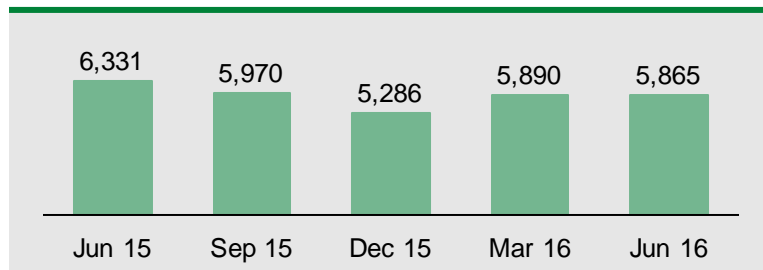


# Continuous improvement of financial metrics and returns in the last 2 years

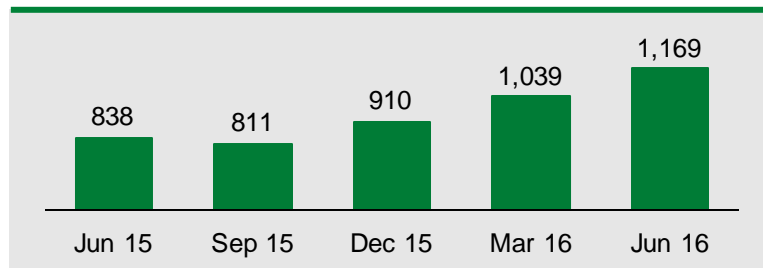
## EBITDA (LTM) in €m



## Net Debt in €m



## Free cash flow<sup>1</sup> (LTM) in €m



Continuous margin improvement and increase in cash flow generation

Financial cost significantly reduced

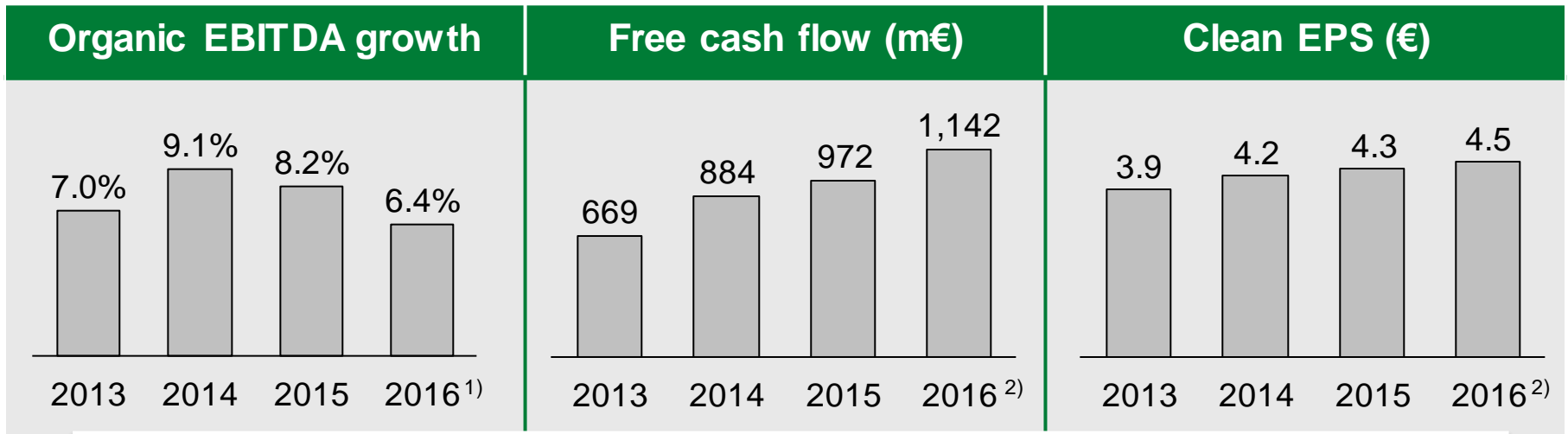
Earned premium on WACC

Dividend increased

Share buyback approval obtained

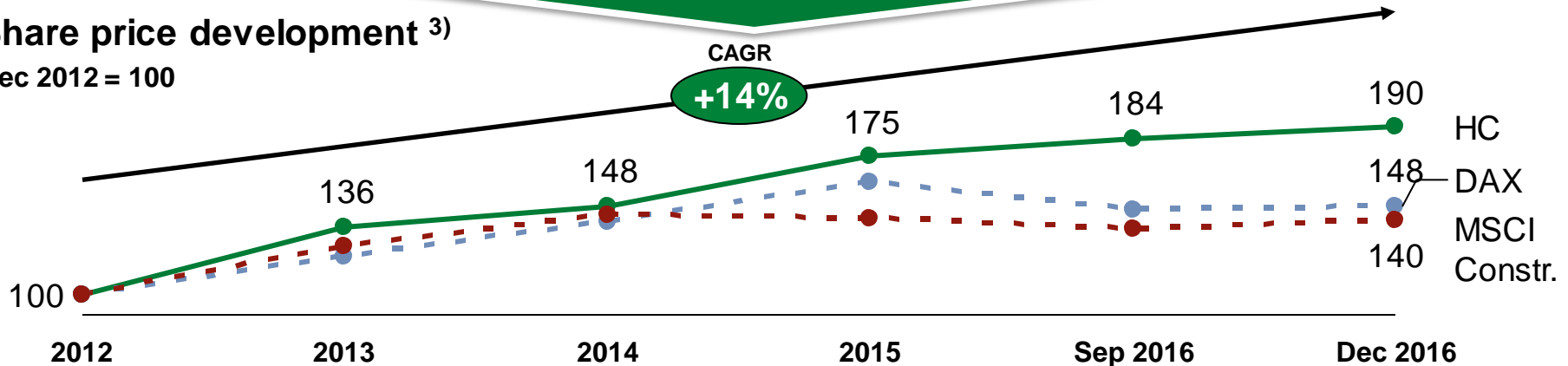
1) Before growth Capex and disposals (incl. cash flow from discontinued operations)

# Constant superior returns driven by: good product mix, unique footprint and experienced management team



**Reliable earnings growth lead to better share price development**

## Share price development <sup>3)</sup> Dec 2012 = 100

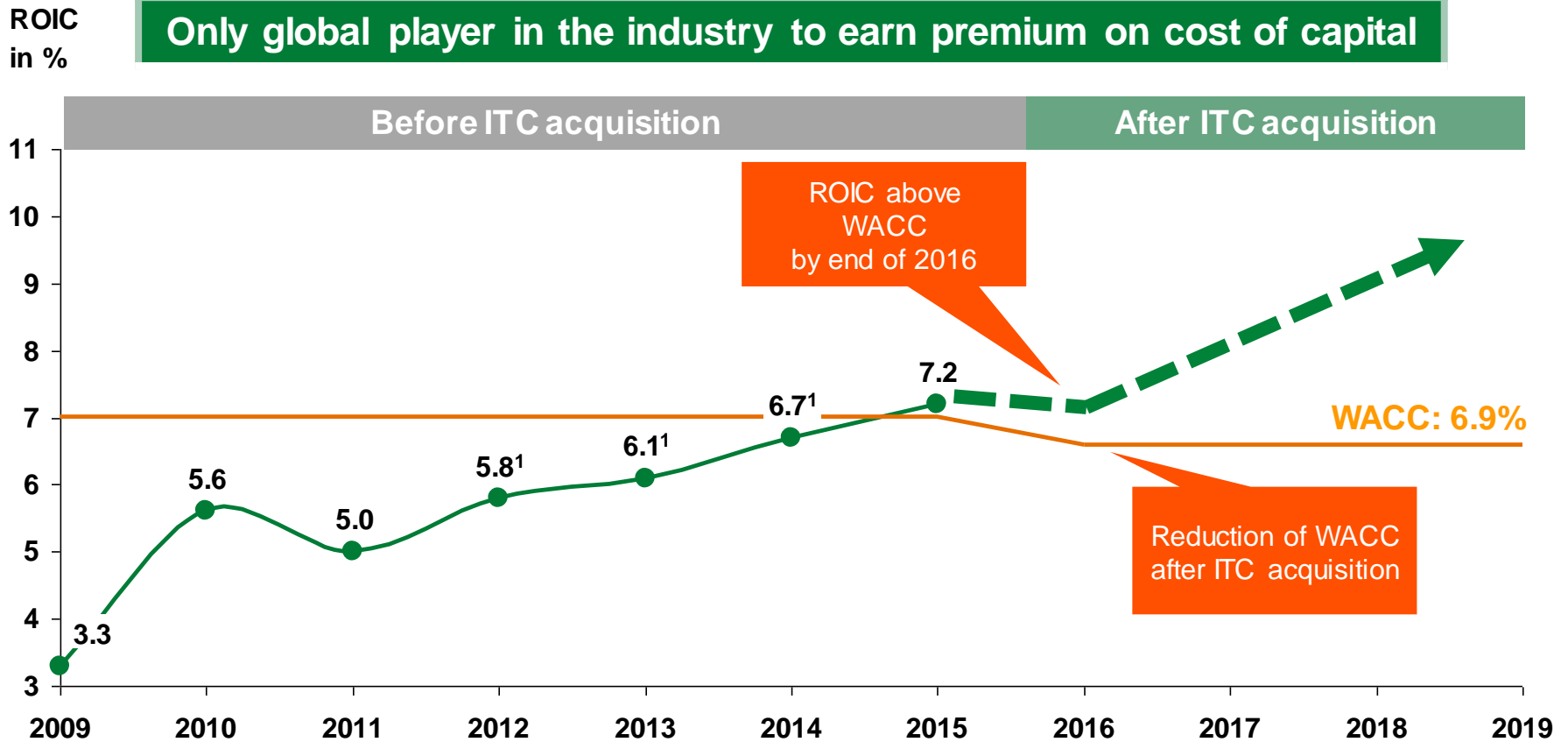


1) Based on proforma figures Sep '16 vs. Sep '15.

2) Based on legal last 12 months rolling as of Sep '16

3) Last 30 days average as of end of the period.

# Creating value and earning cost of capital



**Premium on cost of capital is earned already in the first year of Italcementi acquisition!**

1) Adjusted for exceptional items

# Contents

---

	Page
1. The new HeidelbergCement	5
2. Operational and financial performance	9
<b>3. Accelerating growth with Italcementi (ITC)</b>	<b>13</b>
4. Strategy and strengths	20
5. HeidelbergCement – the future	27

# ITC integration: Progressing faster than expected

**Redundant HQs closed** (Bergamo/Paris/Brussels)

**All key personnel decisions taken & implemented.**  
HC's management philosophy has been consequently introduced

**FTE reductions (1<sup>st</sup> wave) ahead of plan.** Target is to reach 1,700 reductions by year-end (vs. plan 460)

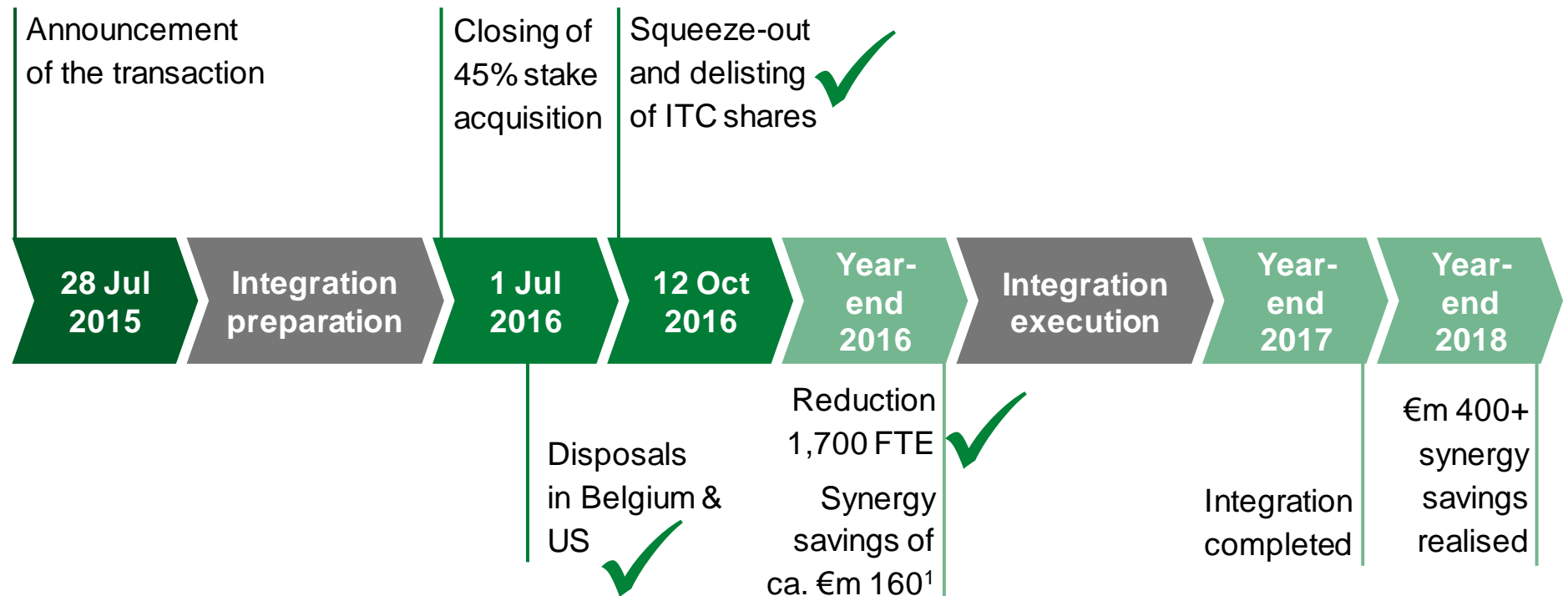
**Synergies significantly increased** to €m 400+

**Proven HC efficiency programs** applied at ITC

**Management of cultural differences** main focus

**HC has strong  
track record in  
integrating  
businesses**

# Timeline and milestones of ITC acquisition



Acquisition process and integration notably ahead of schedule

1) Full year run rate

# Closure of redundant Group & local headquarters

◆ *Headquarters in continental Western Europe*

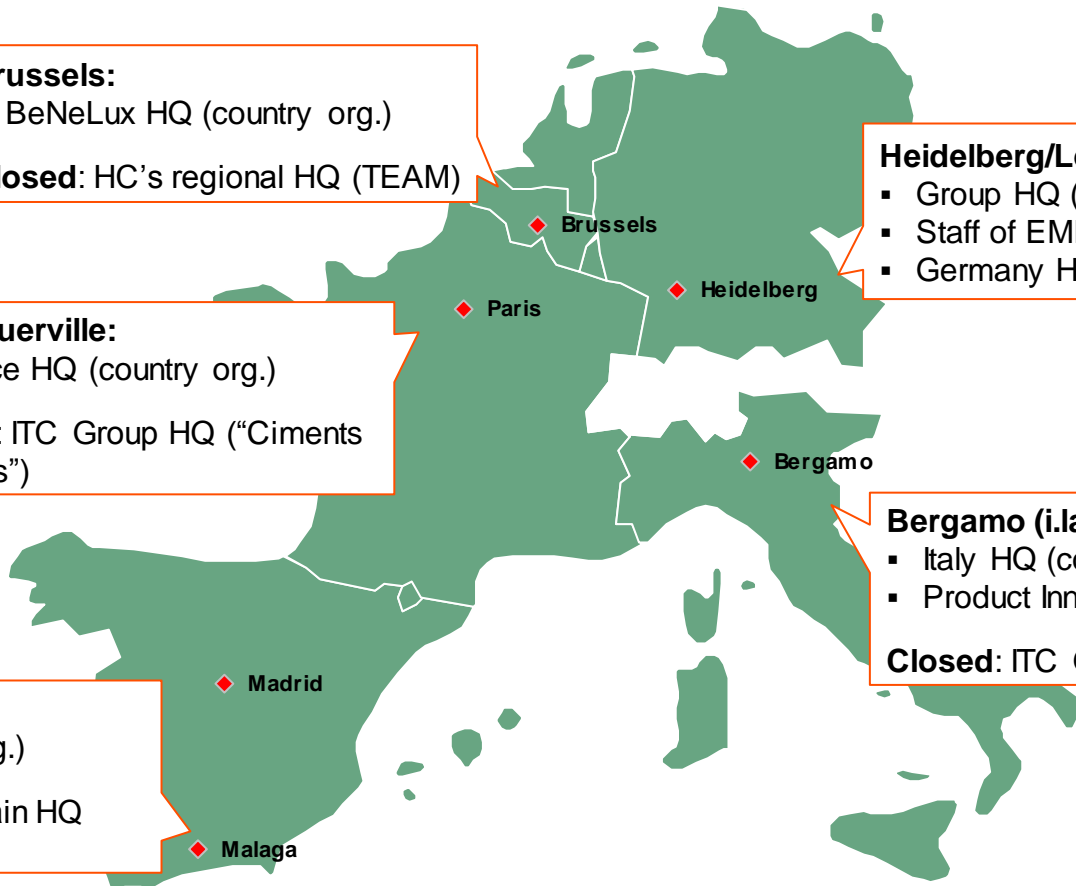
**Brussels:**  
▪ BeNeLux HQ (country org.)  
**Closed:** HC's regional HQ (TEAM)

**Heidelberg/Leimen:**  
▪ Group HQ (incl. tech. support)  
▪ Staff of EMEA regions  
▪ Germany HQ (country org.)

**Paris/Guerville:**  
▪ France HQ (country org.)  
**Closed:** ITC Group HQ ("Ciments Francais")

**Bergamo (i.lab):**  
▪ Italy HQ (country org.)  
▪ Product Innovation function  
**Closed:** ITC Group HQ

**Malaga:**  
▪ Spain HQ (country org.)  
**To be closed:** HC's Spain HQ (Madrid)



**Heidelberg/Leimen also hub for regional staff of AEM and NEECA regions – only APAC (Singapore) and NAM (Dallas) with local regional headquarters**

# New leadership in all major ITC countries

North America



Kazakhstan



France



Morocco



Italy



Egypt



Spain



Thailand



India



Trading



New General Managers in all major ITC country organizations



HC's bonus system for country management already completely implemented

Local management approach and strong signal of change into the markets



# Significantly more synergies than initially expected

## Key drivers

- Higher than expected synergies from Operations, SG&A and Purchasing
- Identification of additional synergies from Trading, Finance and Market

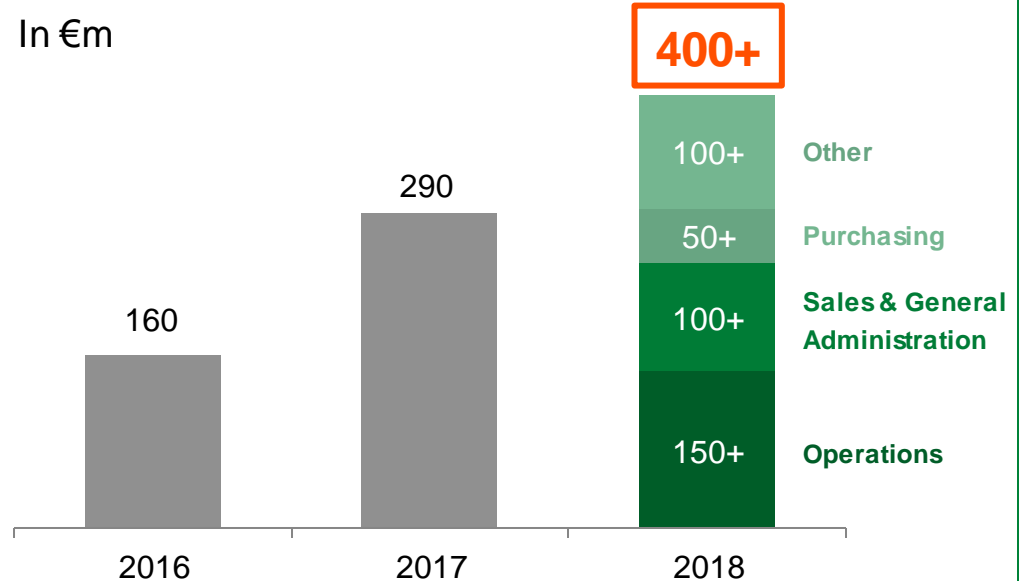
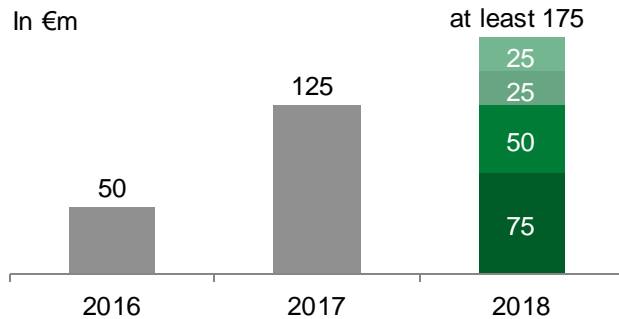
~10% of target's revenue  
= best in class

## Updated run-rate synergy expectations

In €m

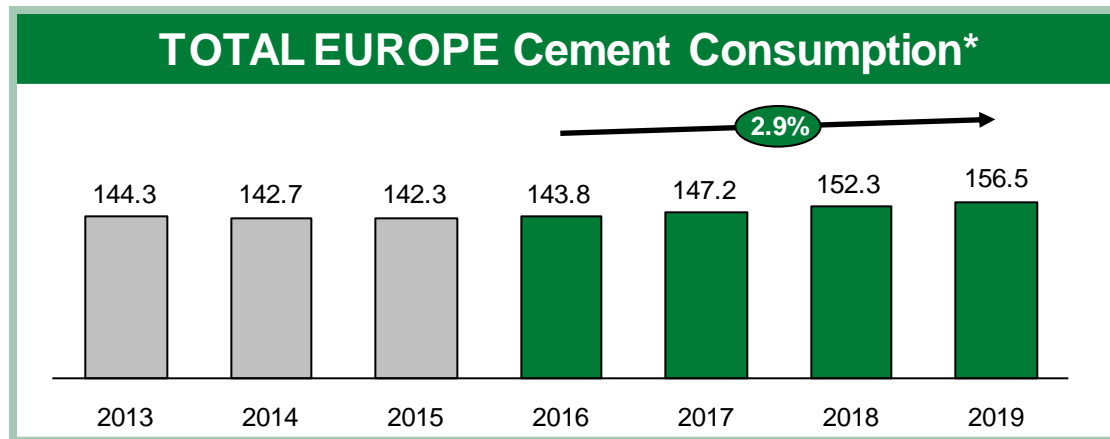
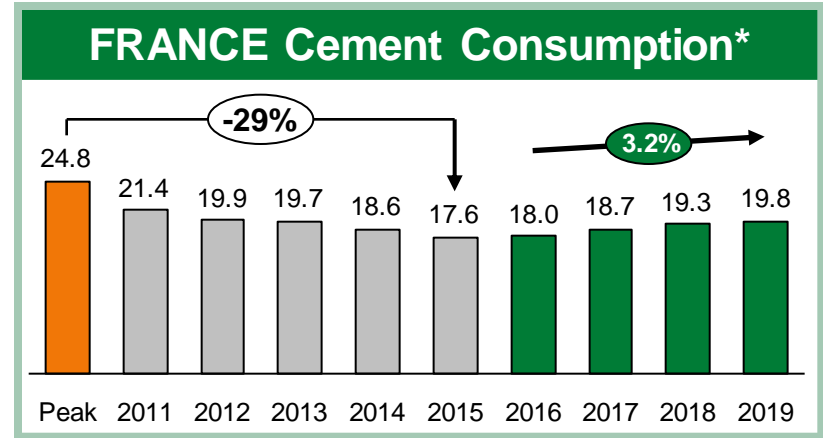
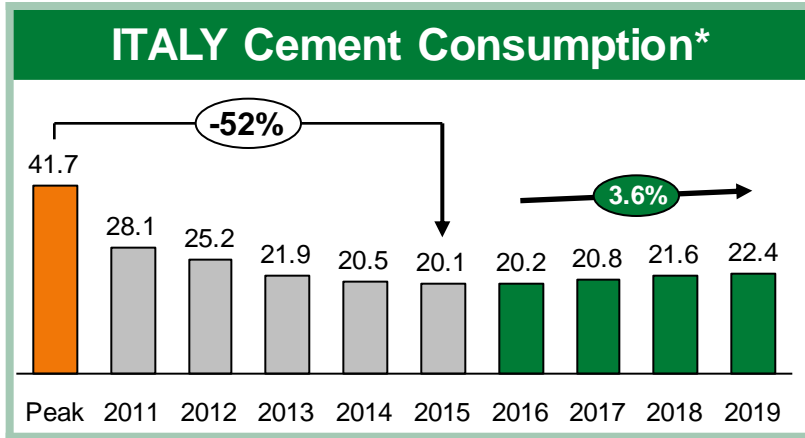
## Pre-signing synergy expectations

In €m



**Status: All synergies substantiated with detailed implementation plans and 100% commitment of local owners**

# Acquisition at the trough of the cycle



HeidelbergCement will benefit from the upturn in the European countries

\* Source: Euroconstruct November 2016 Forecast

# Contents

	Page
1. The new HeidelbergCement	5
2. Operational and financial performance	9
3. Accelerating growth with Italcementi (ITC)	13
<b>4. Strategy and strengths</b>	<b>20</b>
5. HeidelbergCement – the future	27

# Best-managed company in the sector

Value creative vertically integrated business

Unique de-centralised management model

Integration speed

Timely reaction to changes in the markets

Continuous focus on margin improvement



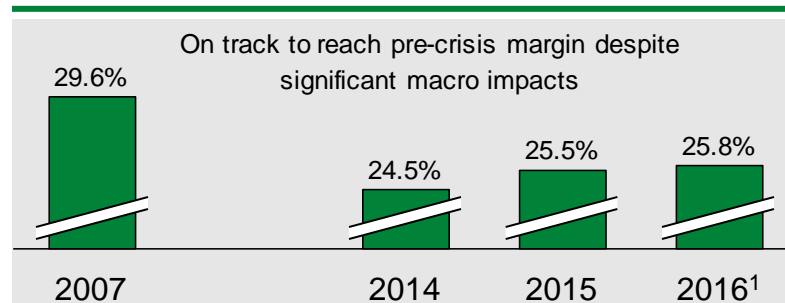
Strong operating leverage

Market leading margin improvement

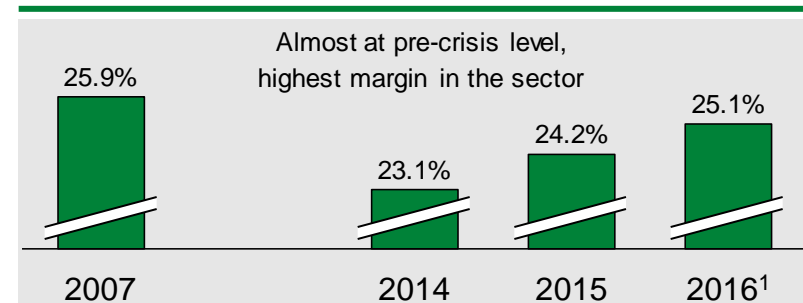
Track record in cost efficiency

Strong cash generation

## Cement EBITDA margin



## Aggregates EBITDA margin



Creating value by improving efficiency rather than re-sizing the business

1) LTM rolling as of June 2016

# Cement: Significantly enhancing efficiency

## Starting point (2004)

- HC was not competitive regarding cash cost per ton

## Key Measures

- Reorganisation of HeidelbergCement Technology Centre (HTC)
- WIN: reorganisation and FTE efficiency (2005)
- Fitness: operational and cost improvements, production and process optimisation
- OPEX: operational excellence and working capital optimisation
- Perform: pricing excellence and realisation for margin improvement
- LEO: supply chain management and logistics optimisation

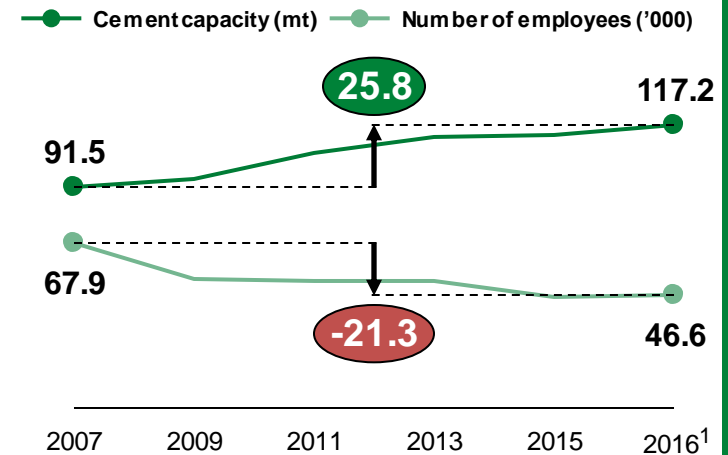
## Effects

- Best margin development in the sector, despite increase in energy costs due to Fukushima

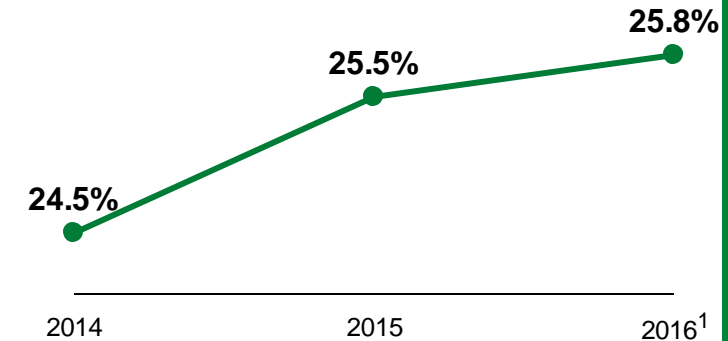
## Next steps

- Customer Excellence Program (CEP):
  - Improve all aspects of customer offering
- Continuous Improvement Program (CIP):
  - Further improve production processes

## Realistic and measurable targets



## Cement EBITDA margin



<sup>1</sup>) Capacity and number of employees as of June; margin based on LTM rolling figures as of June

# Aggregates: A top performer in the industry

## Starting point (2007)

- Hanson Aggregates was underperforming / EBITDA margin below peer group (2006 / 2007)
- Hanson Aggregates was clearly seen as partially undermanaged

## Key Measures

- Setup of Competence Centre Materials (CCM) (2010)
- CLIMB Operations: efficiency check on key improvement levers in all major quarries
- CLIMB Commercial: professional sales management supported by a simple excel tool
  - Pricing principle: price what the market can take
- LEO: Supply Chain Management and logistics optimisation

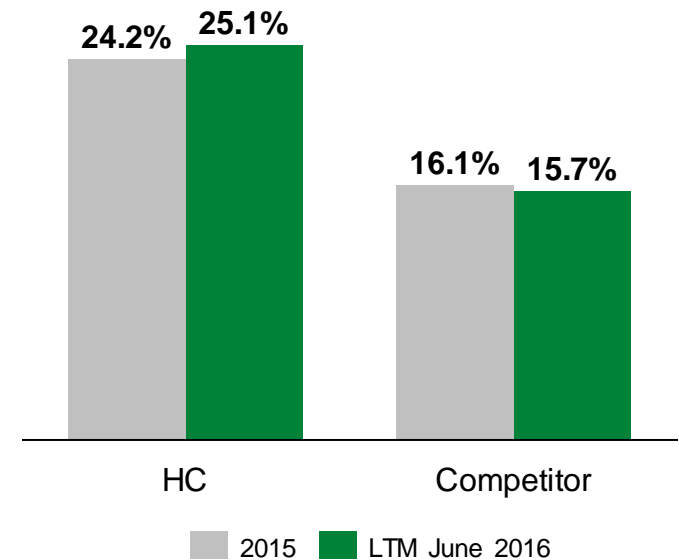
## Effects

- Strong EBITDA improvement of HC
- Industry leading profitability

## Next steps

- AOM: digitalising AGG business
  - Reduction of administrative efforts
  - Support of continuous improvement efforts with better data and faster access

## EBITDA margin

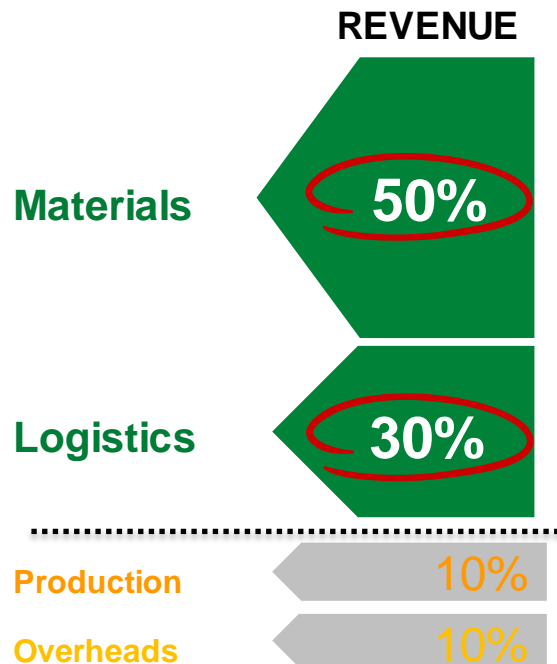


# Ready-mix: New Competence Centre sets clear saving targets

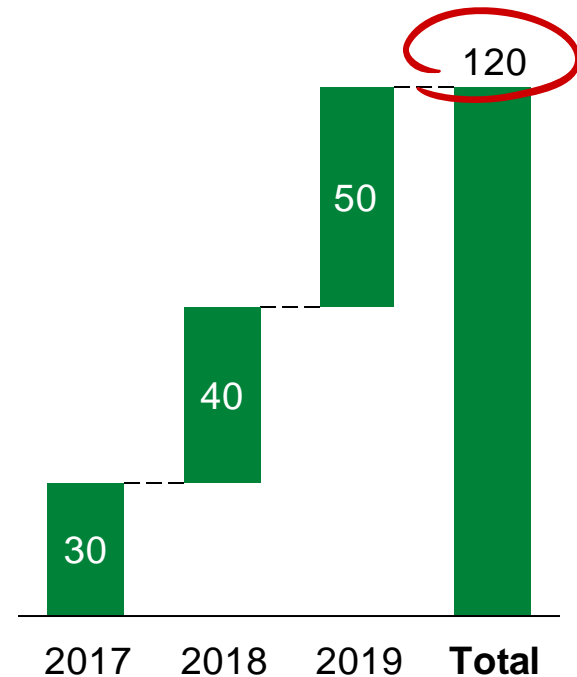
## New activity

- Ready-mix margins of big cement companies are typically below best managed privately-owned ready-mix companies
- Key focus areas are materials and logistics (80% of costs)

## Improvement opportunities

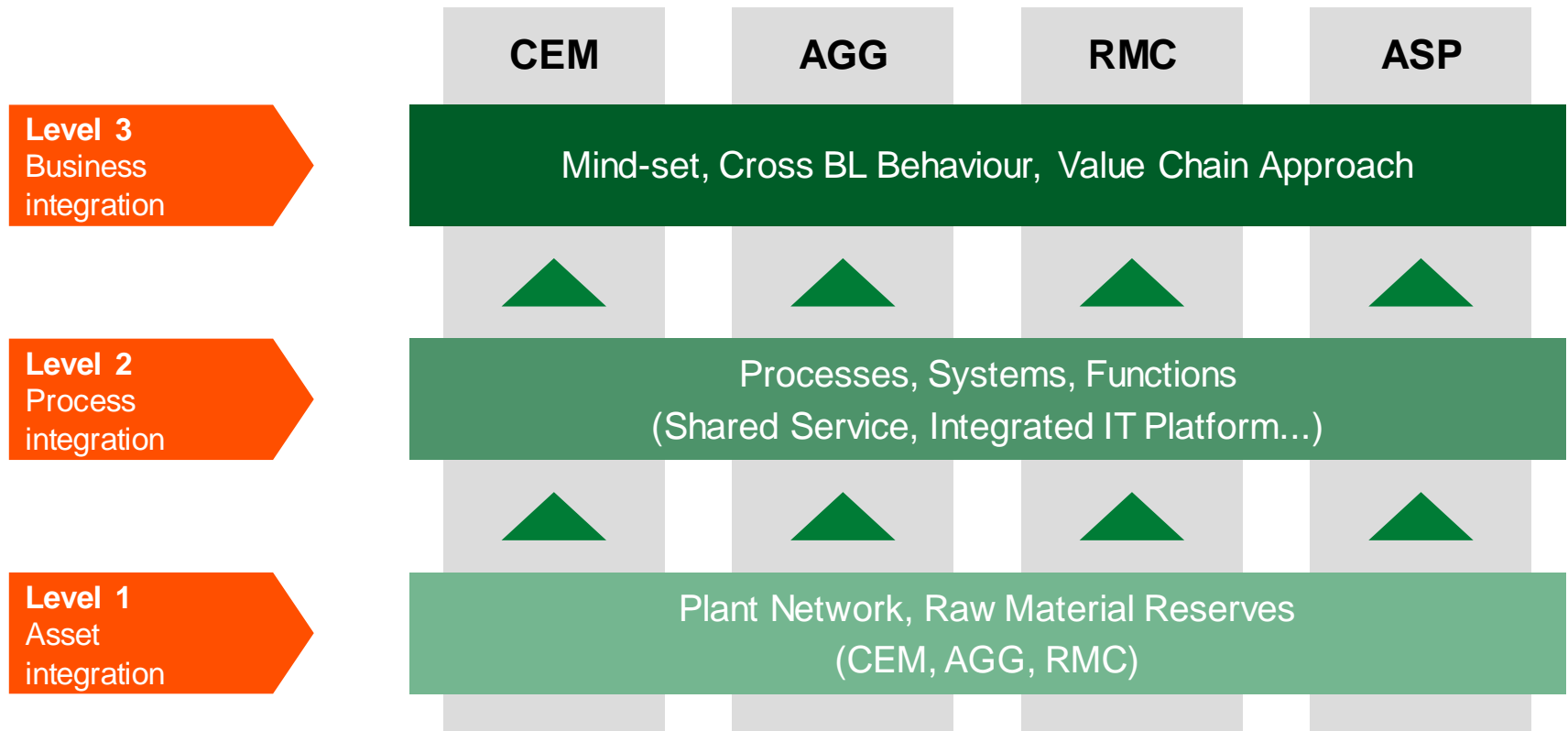


## Saving targets in €m



Significant leverage by optimising materials and logistics costs

# Vertical integration: Assets, Process, Business



**Integrated management – key value driver**



# Sales is a Science: Digitalisation and process standardisation

New Group Function is based on two pillars

## Market Intelligence and Sales Processes

### Market model:

- Mix of external and internal information used to forecast market development
- Forecasting on a micro-market basis
- Global guidance on the approach with data scientists setting up the model but local ownership of measures to be derived

### Sales process:

- Structured sales planning:
  - Daily, weekly, monthly and quarterly planning for respective tasks
  - Friday sales meeting (review of the week, planning of next week)
- Quarterly gap analysis between plan and actual (per segment and customer)
- Digitalisation through easy to use group-wide CRM tool

### With the aim of:

Really knowing the market

Understanding customers better than anyone else

Managing each individual market

Selling the right volume

At a better price

# Contents

---

	Page
1. The new HeidelbergCement	5
2. Operational and financial performance	9
3. Accelerating growth with Italcementi (ITC)	13
4. Strategy and strengths	20
<b>5. HeidelbergCement – the future</b>	<b>27</b>

# Mid-term targets 2019 unchanged

Revenue	EBITDA	ROIC	Leverage	EPS	Payout ratio
> €bn 20	> €bn 5	>10%	1.5 – 2.5x	~ € 11	40% – 45%

## Downsides

- Market pressure in Indonesia
- Increased competition in Africa

## Uncertainties

- Impact of the elections in US, Italy, Germany and France
- Consequences of Brexit

## Upsides

- US infrastructure program
- ITC / increased synergies
- New efficiency programs “CCR” & “Sales is a Science”
- Recovery in Europe

Balanced macroeconomic outlook

# US will continue to be strong

Continued recovery is expected across all segments

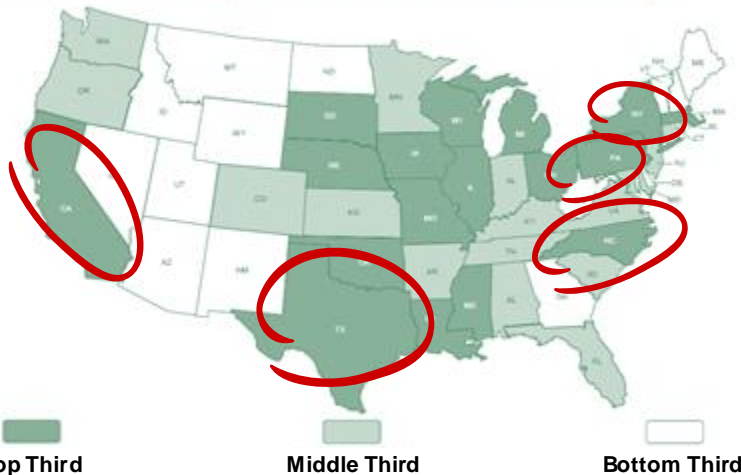
Further increase in margins leading to highest profitability levels in history

Significant potential from new infrastructure program in mid-term

## PCA's Trump Infrastructure Scenario

### Regional Funding Allocations

Allocation of funding based on stock of deficient roads & bridges



Source: PCA

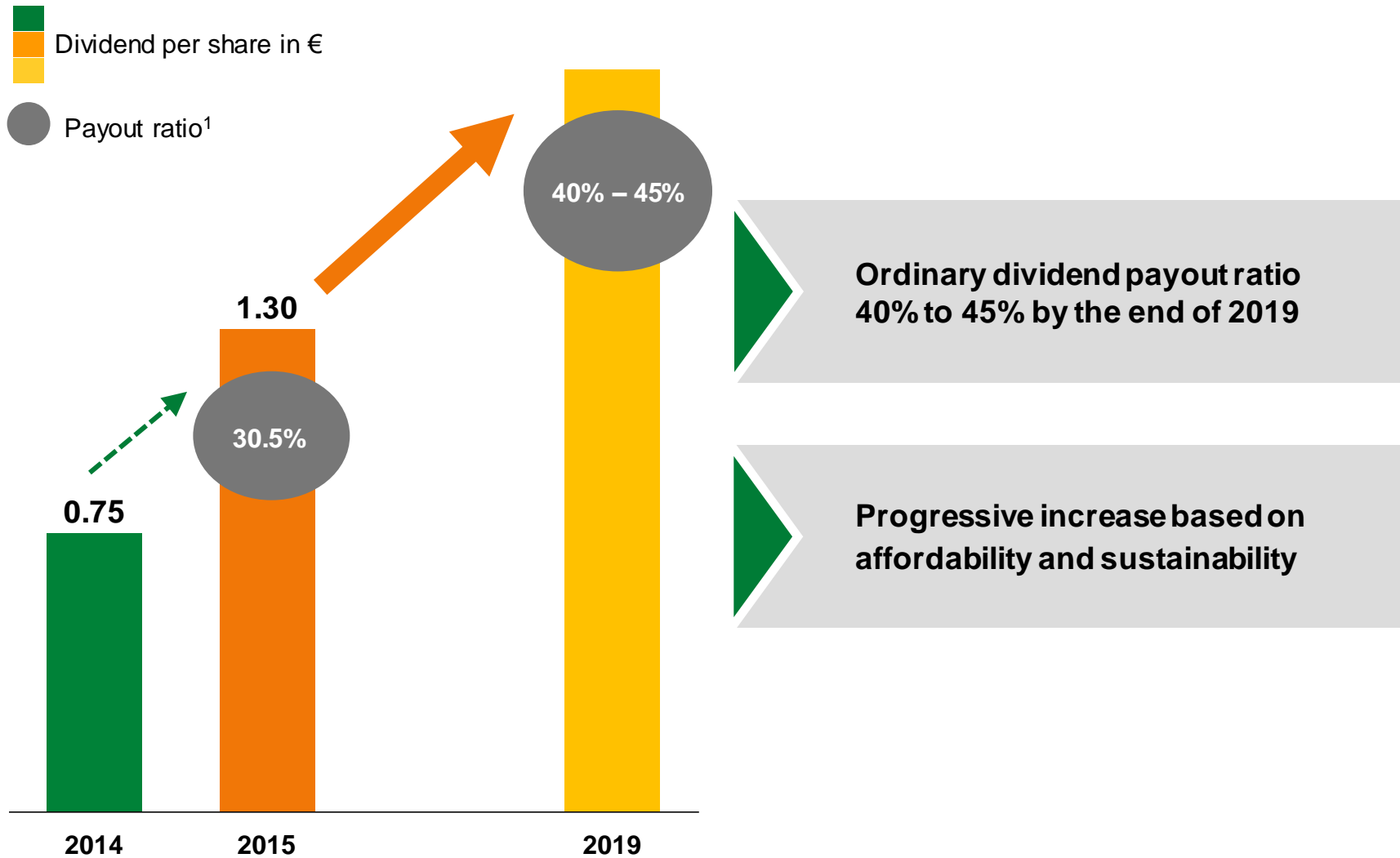
### Overview of HC key states

- **Texas:** \$70 billion over 10 years
- **California:** \$55 billion over 5 years
- **New York:** \$55 billion over 5 years
- **North Carolina:** \$4.7 billion in 2017
- **Pennsylvania:** \$2.9 billion in 2017

5 states represent more than 50% of our aggregates business

HeidelbergCement is well positioned to benefit from future infrastructure programs

# Dividend policy



1) Payout ratio calculated based on clean EPS, excluding "Additional Ordinary Result"

# Reiterating capital allocation priorities

