



June 2023

Holcim

Market profile

Country	Switzerland
Sector	Construction Materials
Market cap (CHF million)	35'391
52-week high / low (CHF)	59.68/ 37.58
Price per share (CHF)	57.5

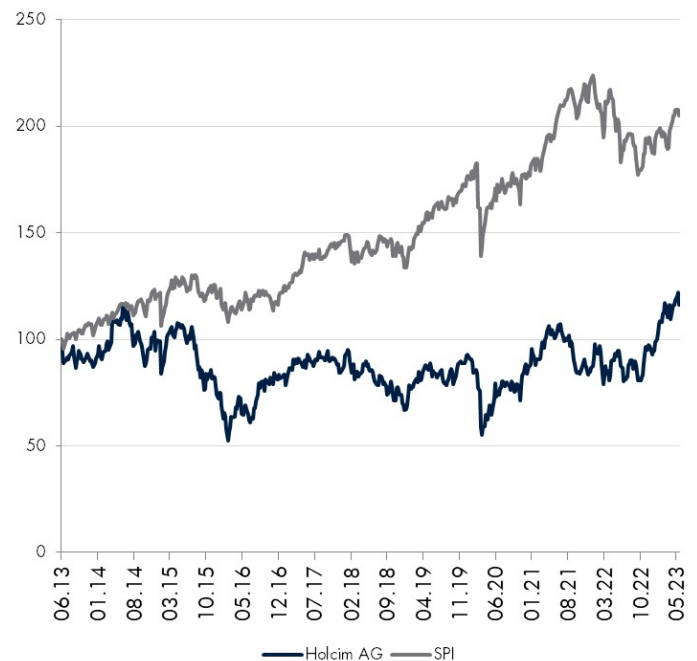
Key metrics (CHF)

	2022	2023e	2024e
EPS	4.96	5.03	5.42
PE	13.4	11.4	10.6
P/Book	1.23	1.16	1.10
Dividend yield	4.5%	4.5%	4.7%

Executive summary

Holcim's history traces back to 1912 with the Aargauische Portlandcementfabrik Holderbank-Wildegg. Two years later Ernst Schmidheiny bought a stake in the company. His son later expanded the company beyond Switzerland, then grouped its interests under the holding company Holderbank Financière Glaris in 1930. After World War II, the company continued its expansion worldwide. In 2001 Holderbank changed its name to Holcim, then to Lafarge Holcim, following the merger with the French group in 2015. In 2017, Jan Jenish, the former CEO of Sika, took the helm of the company and started to elaborate a new strategy, with greater emphasis on sustainability, profitability, and specialty products. Since 2021 the group has again been referred to with its former name of Holcim.

Evolution of stock price with respect to benchmark (rebased)
Source: IAM



Investment case

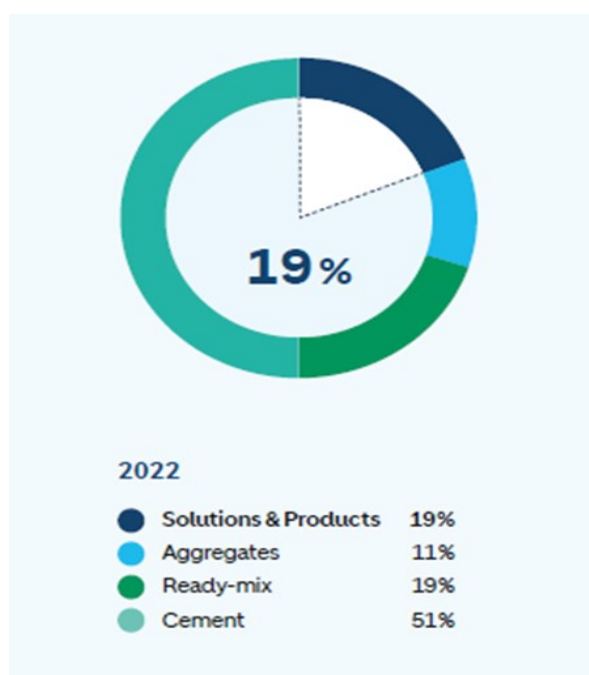
Under the leadership of its new CEO, Holcim has embarked on a profound transformation over the past 6 years. The group has streamlined its footprint and as a result materially reduced its financial leverage. Holcim has withdrawn from India and now will concentrate to the more profitable north American markets. In parallel, the group promotes its higher margin Solution & Product division, and especially the roofing business. Holcim is shifting away from high volumes, lower margin, and cyclical businesses to concentrate on higher margin specialties linked to renovation, which are less cyclical. Finally, the company intends to be a leader in sustainability and innovation. Holcim is lowering the carbon footprint of its own operations, and promotes greener building solutions to enable its clients to meet their sustainability goals.

Company description and history

Holcim's history traces back to 1912 with the Aargauische Portlandcementfabrik Holderbank-Wildegg. Two years later Ernst Schmidheiny bought a stake in the company. His son later expanded the company beyond Switzerland, then grouped its interests under the holding company Holderbank Financière Glaris in 1930. After World War II, the company continued its expansion worldwide. In 2001 Holderbank changed its name to Holcim, then to Lafarge Holcim, following the merger with the French group in 2015. In 2017, Jan Jenisch, the former CEO of Sika, took the helm of the company and started to elaborate a new strategy, with greater emphasis on sustainability, profitability, and specialty products. Since 2021 the group has again been referred to with its former name of Holcim.

Fig.1: Sales by segments, 2022

Source: Holcim



Group Structure

Holcim operates four business segments: Cement, Ready-Mix Concrete, Aggregates, and Solutions & Products.

Cement: still the most important segment with 50.9% of the group's sales in 2022, it comprises clinker, cement, and other cementitious materials.

Ready-Mix Concrete: delivers concrete in various forms, all of them ready for individuals and businesses to deploy for its specific projects. This segment accounted for 19.6% of the group's sales in 2022.

Aggregates: this segment provides the raw materials for concrete, masonry, and asphalt. It also produces base materials for roads, building, and landfills including recycled aggregates such as crushed concrete and asphalt left over from deconstruction activities. It represented 10.6% of the group's sales in 2022.

Solution & Products: accounting for 18.9% of the group's sales in 2022, this segment works closely with customers to define and deliver solutions tailored to their requirements. A greater emphasis is given to sealing and roofing solutions. This segment has been growing fast since the arrival of Jan Jenisch, the new CEO in 2017 and the implementation of a new strategy.

Megatrends underlying Holcim's growth

According to the United Nations, the world's population is expected to grow 22 percent by 2050, from 7.8 billion today to 9.7 billion. Approximately 2.5 billion more people are expected to live in cities by 2050. This means we need to build the equivalent of New York City every month. In addition, most of the buildings that exist today will still be in use in 2050. Therefore, repair and refurbishment are a necessity to make them more sustain-

able while in use. Demand for sustainable construction solutions is being driven by increasing resource scarcity and the transition to net-zero carbon emissions. This means innovation-driven building technologies will be in greater demand than ever before, especially light and modular construction solutions.

Within this context, concrete is an ideal material for a net-zero future. Concrete is local, affordable, and infinitely recyclable. Acting as a carbon sink, concrete reabsorbs more the 20% of the CO₂ emitted in its production through its lifespan. Concrete opens infinite possibilities with its design flexibility, making it the ideal material to make everything from high-rise buildings and infrastructures to affordable housing, from 3D printing to high-strength prefabricated structures. Concrete protects homes, cities, and infrastructures like no other material, resisting disasters, from fires and floods to earthquakes.

Strategy 2025

Based on the analysis of the megatrends described above, Holcim has elaborated a new strategy, called Strategy 2025 aimed at accelerating green growth. This strategy articulates around five main axes.

- Becoming global leader in innovative and sustainable building solutions.
- Expanding the segment Solution & Products to 30% of the group's net sales.
- Leading the circular economy by recycling 10 mil-

lion tons of construction and demolition waste in its products.

- Delivering continuous profitable growth with 3% - 5% net sales growth (like for like) and over-proportional recurring EBIT growth.
- Achieving superior returns with 10% ROIC, cash conversion of 45% and leverage below 1.5x

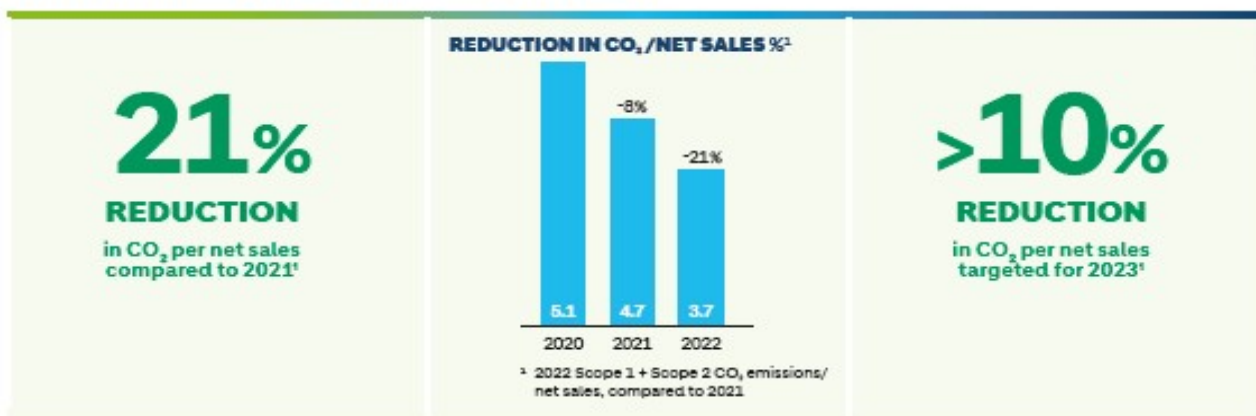
Leading in sustainability and innovation

Sustainability is at the core of Holcim's strategy. The Science Based Targets initiative (SBTi) approved Holcim's targets which are in line with the 1.5°C science-based framework. The company will remain at the forefront of green building solutions, with 25% of ready-mix net sales coming from ECOPact, with at least a 30% lower CO₂ footprint. ECOPact is the world's broadest range of low-carbon concrete. It offers up to 90% lower CO₂ emissions compared to standard CEM1 concrete with no compromise in performance. It is available in a variety of strength classes, and it is compliant with construction industry standards. It contains an innovative mix of supplementary cementitious materials and admixtures technology. ECOPact is produced locally, recyclable and supports a circular economy. Where norms allow, ECOPact can include construction and demolition waste enhancing its environmental benefits by further saving natural resources.

Fig.2: Transforming Holcim into a sustainable company

Source: Holcim

STRENGTHENING OUR SUSTAINABILITY PROFILE



Expanding Solutions & Products

This segment should reach 30% of the Group’s net sales by 2025. Growing closer to its customers, this business will expand its range of integrated solutions and systems from roofing and insulation to facades and tile adhesives, driving energy efficiency and green retrofitting. Roofing sales are increasing fast, and Holcim is well on track to achieve its target of USD 4 billion two years ahead of schedule.

Leading the circular economy

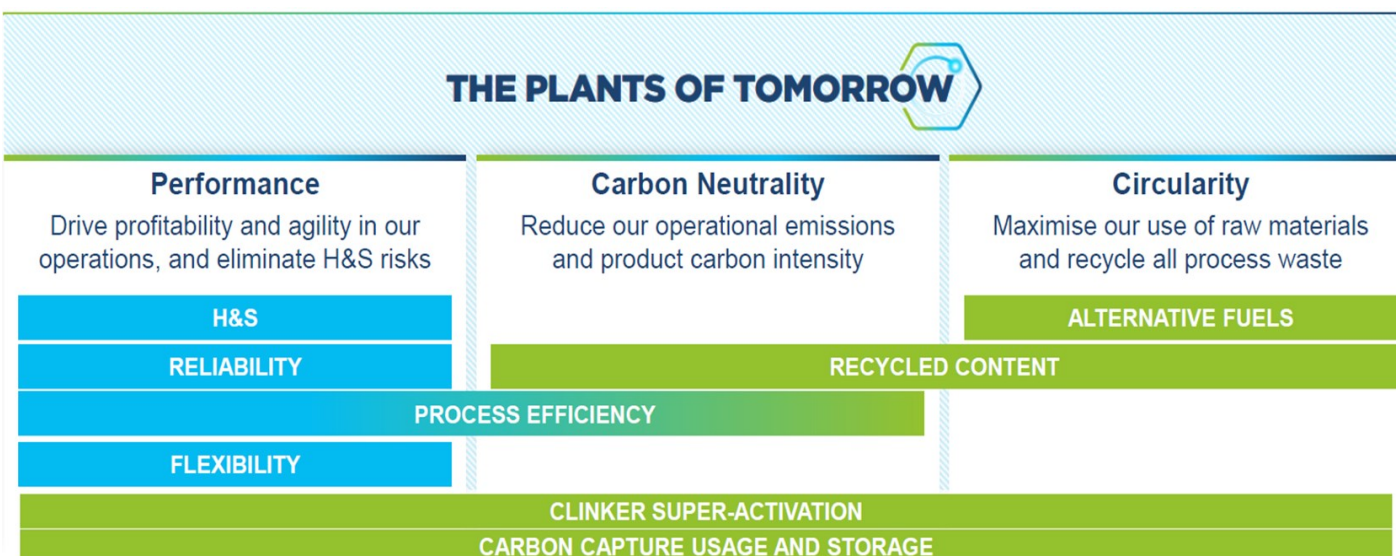
Holcim will recycle 10 million tons of construction & demolition waste by 2025. The company will continue to deploy smart technologies, from 3D printing using 50% less materials, to innovative low-emission raw materials like calcinated clay. Holcim will further develop next-generation technologies including over 50 projects in carbon capture, usage and storage and mineralization, in line with the group’s net-zero journey.

Accelerating growth

The megatrends listed above make the construction sector particularly attractive. In this context, Holcim will accelerate its growth across all its markets. Growth will be driven by innovative and sustainable building solutions, from ECOPact green concrete to energy-efficiency roofing systems. Growth will also be fueled with bolt-on acquisitions in mature markets in the aggregates and ready

Fig.3: Sustainability as a performance driver

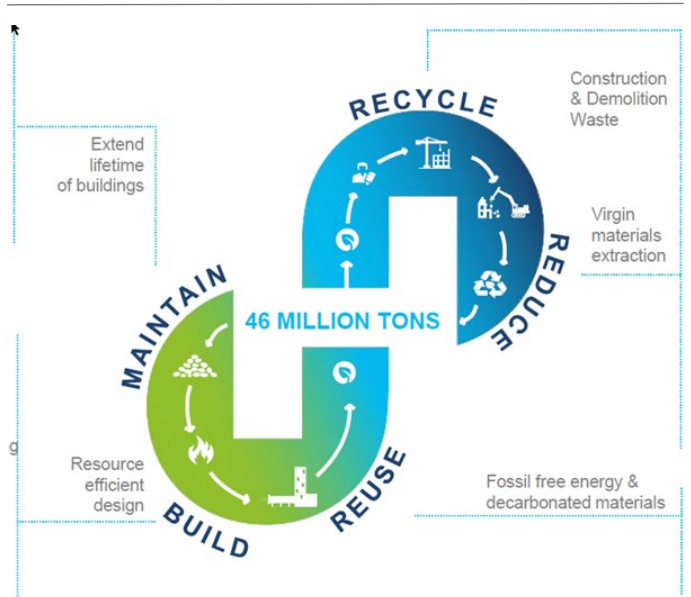
Source: Holcim



-mix concrete businesses. Digitalization will be scaled up across the value chain, from operations and distribution to building solutions.

Fig 4: Leading the circular economy

Source: Holcim



Delivering superior performance

Holcim’s “Strategy 2025” financial targets are:

- 3% -5% net sales growth (like for like)
- Over-proportional increase in recurring EBIT (like for like)
- 45% cash conversion



- 10% return on invested capital in 2025
- Ratio of net financial debt to EBITDA of under 1.5x in 2025

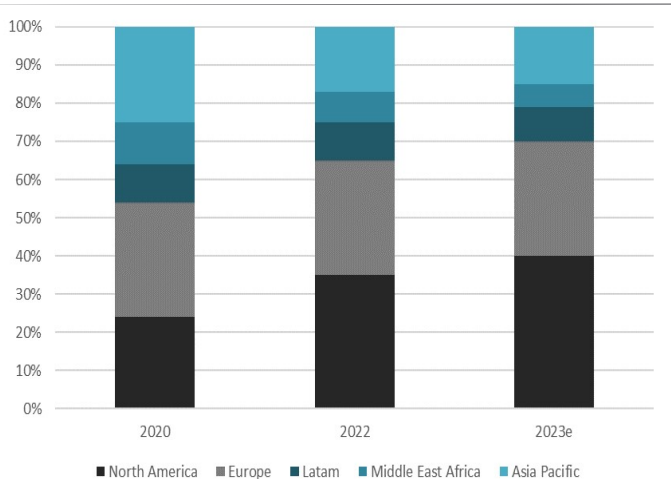
This strategy includes ambitious 2025 sustainability targets in line with Holcim’s net-zero roadmap, validated by the SBTi:

- 25% of ready-mix sales from ECOPact, with at least a 30% lower CO2 footprint
- 10 million tons of construction and demolition waste recycled in the products mix
- Green capex of CHF 500 million
- Over 40% of financing agreement linked to sustainability goals

Holcim’s Business Model and company’s transformation

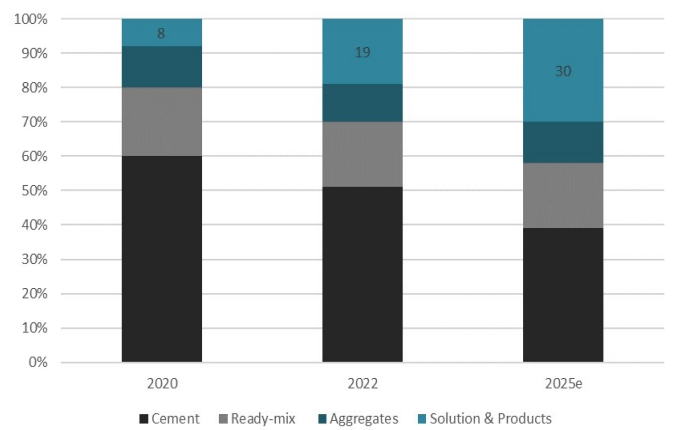
In line with Strategy 2025, Holcim has improved the efficiency of its organizational model, integrating key markets that share similar growth dynamics into one Asia, Middle East & Africa (AMEA) region. AMEA joins the other regions of Europe, North America, and Latin America. Holcim divested its operations in Brazil, India, and Zimbabwe in 2022. The goal is to accelerate the company’s expansion in the most attractive north American market.

Fig.5: Expansion into the North American market
Source: Holcim



In the meantime, the company expanded its business with 6 acquisitions in the Solution & Products segment and 13 bolt-on acquisitions in Aggregates and Ready-mix concrete segments.

Fig 6: Developing the Solutions & Products segment
Source: Holcim



Financial analysis

Revenues

Sales have increased by 12.9% like for like in 2022 to reach CHF 29.19 billion. The increase was driven by the fast expansion of Solution & Product, which grew by 54% compared to the prior year. The Asia Pacific region

Fig.7: Evolution of revenue
Source: Holcim



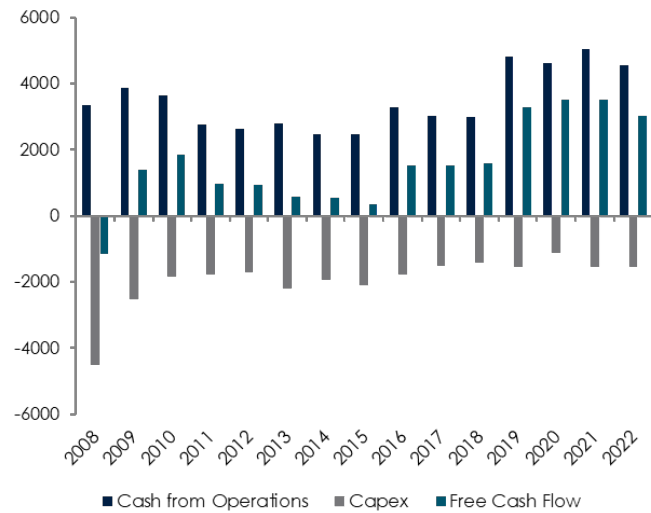
faced challenging markets in India and China, with high-cost inflation in India and softer demand in China amid COVID lockdowns. The region growth was only 3.7% like for like. However, Latin America grew by 19.5% and North America by 17.5% in 2022.

Capex and cash flow

Free cash flow after lease reached CHF 3.3 billion. However, Holcim had to settle an issue with US Department of Justice for CH 846 million (this issue was related to Lafarge’s activities in Syria during the civil war). This reduced free cash flow to CHF 2.77 billion. In addition, the new strategy of acquisition and transformation of the company translated in capex of CHF 1.55 billion.

Fig.8: Cash flow

Source: Holcim

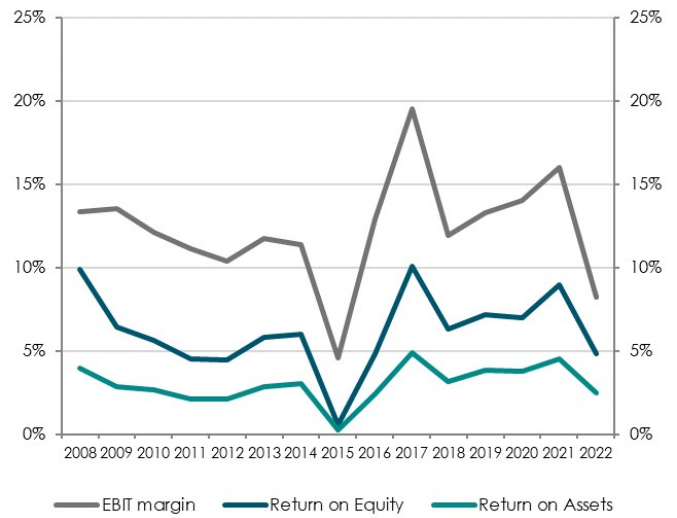


Profitability

Recurring EBIT reached a record CHF 4.78 billion in 2022, up +7.2% like for like. This result was driven by very strong margins in the roofing business as well as positive price over cost for cement, aggregate and ready-mix combined.

Fig.9: Profitability metrics

Source: Holcim

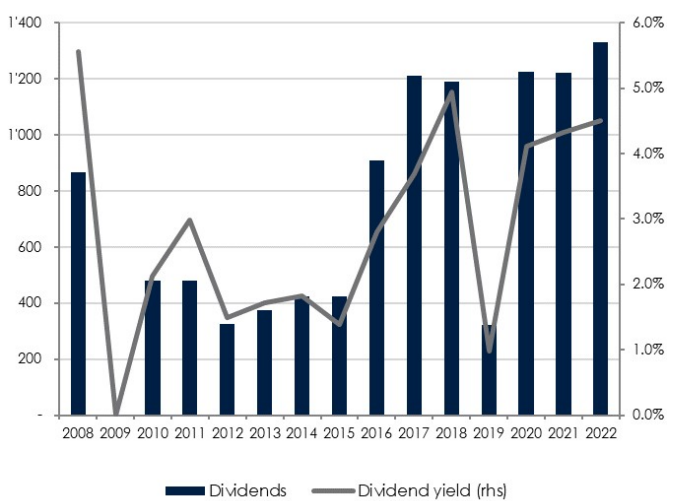


Capital distribution

In 2022, the dividend yield was about 4.5%. In light of the company’s record 2022 financial performance, the Board of Directors has proposed a 14% increase in dividend to CHF 2.5 per registered share.

Fig.10: Evolution of dividends

Source: Holcim



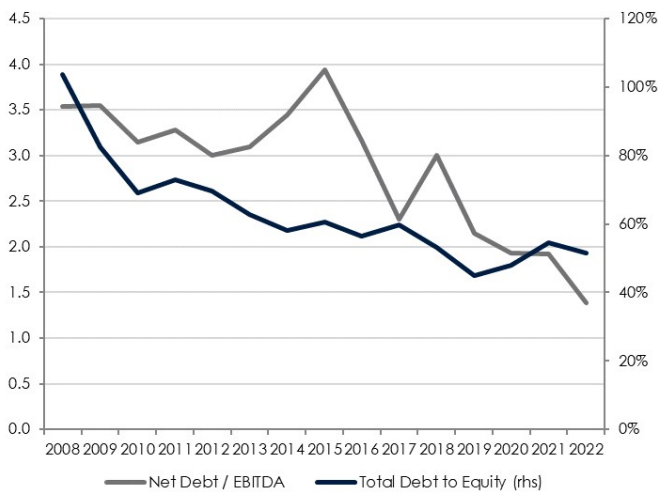
Strong balance sheet

Over the last 25 years, Holcim’s balance sheet has dramatically improved. In 2008, the company net debt was



3.54 times larger than its EBITDA. As of December 31, 2022, it is only 1.39 times. The debt-to-equity ratio followed the same pattern and decreased from 103.8% in 2008 to 51.4% at the end of 2022. Holcim has gained financial agility and keeping a sound balance sheet is a key success factor to implement its strategy of targeted acquisitions.

Fig.11: Deleveraging the company
Source: Holcim



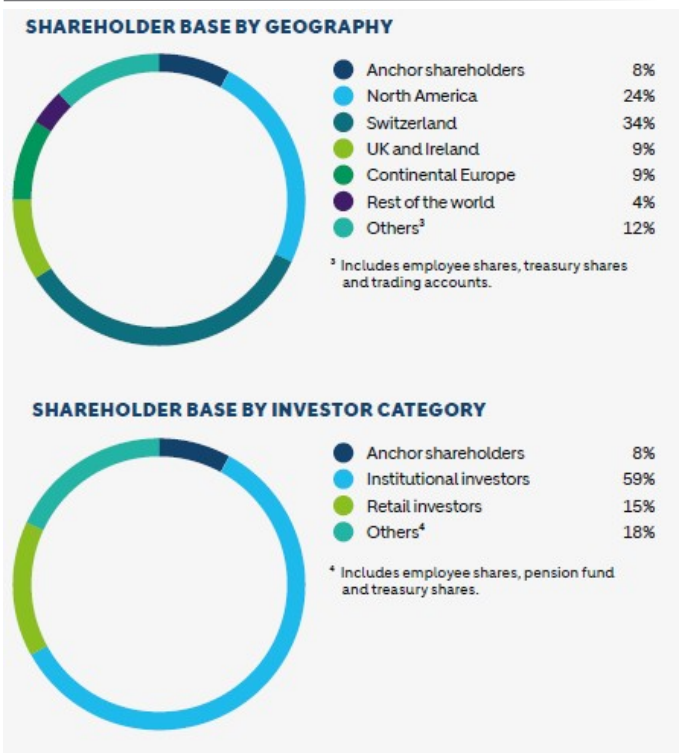
Shareholder base

According to the share register and disclosed through notifications filed with Holcim LTD and the SIX Swiss Exchange, shareholders owning 3 percent or more as of 31 December 2022 are as follows:

- Thomas Schmidheiny 8.1%
- Blackrock Inc. 4.9%
- Holcim Ltd 4.4%
- Dodge & Cox 3.0%

The company’s business model and strategy make of Holcim an interesting investment for pension funds or

Fig.12: Shareholder base
Source: Holcim



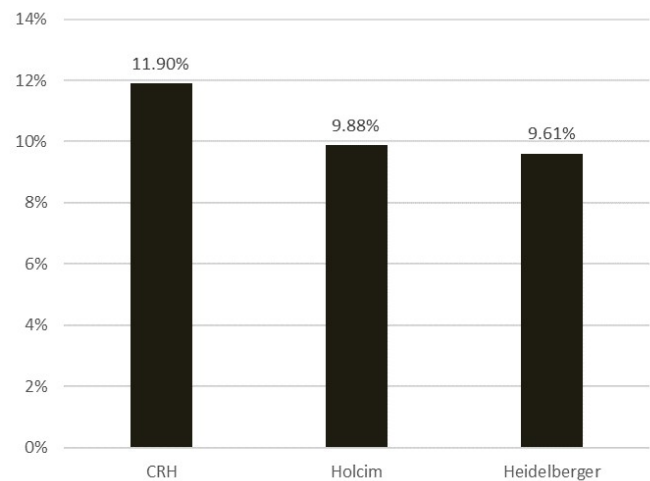
investors with a long term investment horizon and with an ESG orientation. Consequently, nearly 60% of Holcim’s shareholders are institutions.

Peer Comparison

In Europe there are four companies that can be considered as peers to Holcim: Heidelberger Materials, listed in Germany, CRH, listed in Ireland, Cementir and Buzzi, both listed in Italy. Historically CRH has been best in class with a stronger balance sheet, higher returns on equity and margin, and a strict but shareholder friendly capital spending policy which has translated into share buybacks. However, Holcim’s strategy is to put more focus in high value-added businesses like roofing and to reduce its exposure to plain cement businesses. Holcim profitability metrics should therefore gradually improve and probably surpass CRH’s in the foreseeable future.

Fig.13: Operating margins

Source: Companies' data



Investment case

Under the leadership of its new CEO, Holcim has embarked on a profound transformation over the past 6 years. The group has streamlined its footprint and as a result materially reduced its financial leverage. Holcim has withdrawn from India and now will concentrate to the more profitable north American markets. In parallel, the group promotes its higher margin Solution and Product division, and especially the roofing business. Holcim is shifting away from high volumes, lower margin, and cyclical businesses to concentrate on higher margin specialties linked to renovation, which are less cyclical. Finally, the company intends to be a leader in sustainability and innovation. Holcim is lowering the carbon footprint of its own operations, and promotes greener building solutions to enable its clients to meet their sustainability goals.

SWOT analysis

Strengths

- Strong balance sheet in a historical context.
- Good degree of vertical integration in developed markets.

- Strong management and sound strategy to transform the group into a higher margin, less cyclical company.

Weaknesses

- Exposure to emerging market currencies.
- Still exposed to lower margin volume driven businesses.

Opportunities

- Further development of the Solution & Products division.
- Further optimization of the geographical footprint.

Threats

- Deterioration of macro conditions in developed markets.
- Material increase in the European CO2 prices.