S&P Global
Market Intelligence

CRH plc ISE:CRG

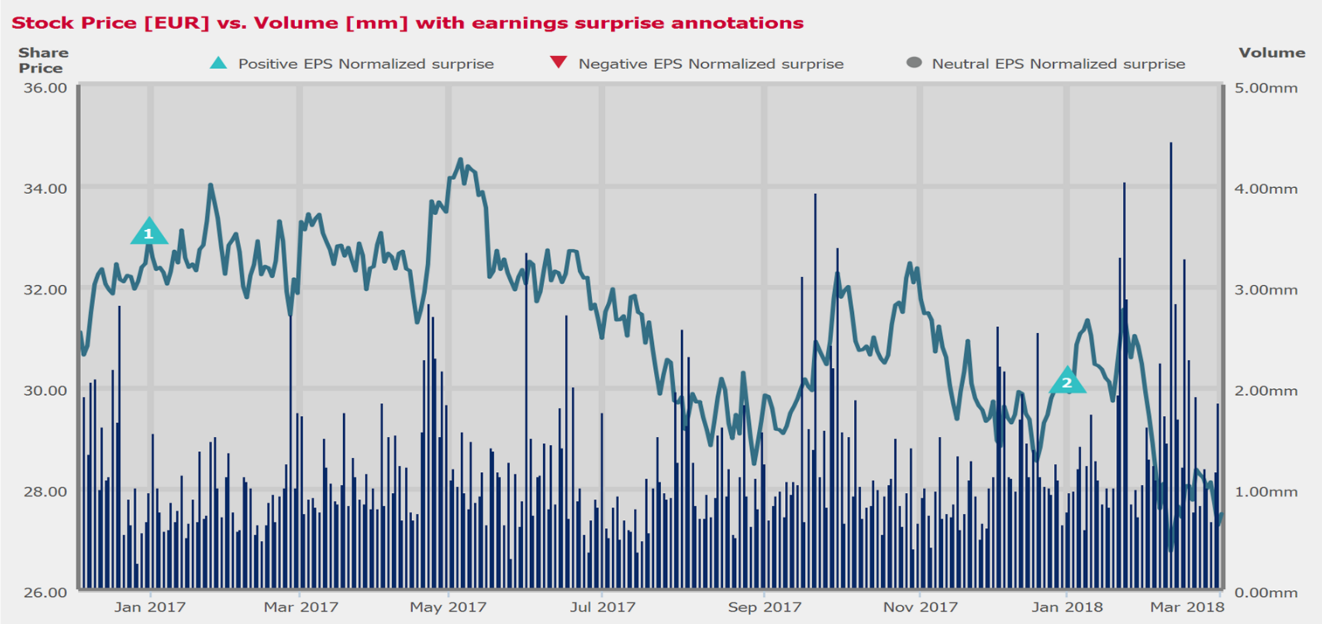
FY 2017 Earnings Call Transcripts

Thursday, March 01, 2018 8:30 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.63	1.65	▲1.23	1.94
Revenue (mm)	27605.28	27563.00	▼(0.15 %)	27500.04

Currency: EUR
Consensus as of Mar-01-2018 7:22 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FY 2016	1.50	1.52	▲1 1.33 %
FY 2017	1.63	1.65	▲2 1.23 %

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EXECUTIVES

Albert Jude Manifold
CEO & Executive Director

David Dillon

Finbarr Senan Murphy
Finance Director & Executive Director

Keith Haas
Chief Executive Officer of Expanded Americas Building Products Group

Ken McKnight

Randy Lake
Chief Executive Officer

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Presentation

Albert Jude Manifold
CEO & Executive Director

Good morning, everybody. My name is Albert Manifold. I'm the Chief Executive of CRH, and I'm delighted to be here this morning with you in London to present our results for 2017, which were published here this morning.

I'm joined here on stage by some of my executive team, who are going to take us through this over the next 45 minutes so. On my left, I've got Randy Lake and Keith Haas, who run our businesses in North America; besides them, Ken McKnight and David Dillon, who are looking after our businesses in Europe and Asia; and at the end, Senan Murphy, who is our CFO.

So we're just going to give you some headlines as to what drove the numbers and what was behind our trading for the previous year. I also want to touch on some of the trading and the backdrop of the trading that was evident in our business in 2017 and how those trends are evolving into the current year. We're also going to touch a wee bit on some of the significant capital allocation decisions we made last year, some of the big acquisitions we made during the course of the year and explain the rationale behind those. And I also want to really just touch on perhaps maybe some changes to our business model that we've been working on over the last number of years and how they have affected our business in the last couple of years and how they will in the years going forward.

And maybe first, I can turn to just some headline numbers about the business behind the results that were published here this morning. We have EUR 3.3 billion of EBITDA generated in our businesses, a good year for CRH. And for me, one of the most pleasing aspects about the results this year is yet again, for the fourth year in a row, seen the margins in our businesses and indeed, the returns in our businesses ahead, a good sign of the health of our business coming through and moving our business in the right direction.

Very significant corporate activity, very active portfolio management. We disposed of a very significant business at the tail end of last year and spent over -- almost EUR 5 billion in acquiring businesses, and we'll talk a little bit about that. And underpinning all of that, as you would expect from CRH, a really solid performance on cash. EUR 2.2 billion of cash generated during the course of this year that left our net debt at the end of the year at a very solid 1.8x EBITDA, exactly what you would expect from CRH.

So maybe that's the overall big-picture trading numbers and what's behind the numbers. I'm going to turn to Senan now, who'll take us through some of the financial highlights.

Finbarr Senan Murphy
Finance Director & Executive Director

So you can see our financial highlights on this slide here speak for themselves. I think the important thing to point out is that all of our key metrics are moving ahead. We believe that the 3% organic growth that you see there in our EBITDA is actually a good performance in the current environment. Obviously, that's against the backdrop of challenging weather in many of our markets over the last year.

For me, as the CFO, obviously, the metrics that are on here that are most pleasing and the ones that stand out is the continued progress that we're making on both margins and returns. Margins and returns are those key metrics that we all across CRH are focused on, and we're all looking to improve and to enhance and to grow. And to echo what Albert said earlier, this is the fourth consecutive year where we've now shown incremental progress on both margins and returns. I'm also pleased that we're increasing our dividends again this year. As you can see, we're proposing a dividend per share of EUR 0.68, which is a healthy 5% growth over last year and is consistent with our progressive dividend policy.

Albert Jude Manifold
CEO & Executive Director

So before I hand over to the guys to talk about their businesses, we just want to give some trading background. And Randy and Keith are going to initially take us through the U.S. business or the North American businesses, I should say, as to what they performed, how they performed last year. But I just want to give you some context in terms of the market backdrop we saw in our major markets there and what was the environment we worked within and how we see this business going forward.

Well, last year, as no surprise to you who listen to these publications, you can hear was a very significantly interrupted year with regard to weather. And we had weather at a really tough time of the year for us in our busiest season in the midsummer, where we lost a significant number of down days with regards to particularly wet weather down south.

However, against that backdrop, we still show -- saw a good growth in North American construction markets. In the United States, particularly that was driven by the infrastructure spend, a consistent delivery again in 2017. We have a FAST Act that underpins the federal spending for infrastructure going forward. That takes us out to about 2020. It seems to be growing at about 3% per annum CAGR all the way out, supported by solid state financials, and our business showed -- delivered along those lines last year, and we expect it to deliver along those lines in 2018.

Residential and non-residential, again, solid growth coming forward. Not as fast as we would want, but consistent with the pace we saw in 2016 and before. And again, in the United States, those trends seem to be continuing in the current year.

And in Canada, a big business for us, a good solid economic performance by the Canadian economy in 2017, with GDP growth about 3% ahead of the previous year. And in particular, in the residential sector, we saw residential starts up by about 10%. And that gave us a great backdrop against which to deliver in our businesses.

So maybe at first, I'll turn to Randy first, who'll take us through our Materials businesses, and then Keith will talk about the Products and Distribution businesses in the U.S.

Randy Lake
Chief Executive Officer

We're well-pleased with the performance in the Materials business in 2017, where we saw both volumes and prices move ahead in all lines of business despite some of the weather disruptions that Albert alluded to. I think it's important to realize that 2/3 of our profitability is generated in the third quarter of the year. And in Florida and Texas, in particular, we lost 30% of our working days. And so even besides that, the team has delivered an exceptional performance.

As an operating guy, certainly, I'm well-pleased with the margin performance. We've returned to peak margins despite our volumes being 25% below peak volumes. And so the folks and the teams delivered both operational and commercial excellence and really drove our operating leverage to 21%, so a tremendous performance by the team. As you know, we have a pretty significant construction business in North America, and that's really the window for us into the future, really gives us a 6- to 9-month view in terms of what work will be coming forward.

And as I look today at our backlogs, very pleased to see both volumes, but more importantly the margins in that backlog moving forward. And so that is a real good indicator, at least from an infrastructure standpoint, it is the stability of that economic function.

Keith Haas
Chief Executive Officer of Expanded Americas Building Products Group

In the Americas Products business, we had another good year of progress in 2017. Our group is underpinned by the residential and nonresidential building construction markets. In U.S. and Canada, as Albert mentioned, they remain favorable. The residential market's probably a little bit stronger than the non-res, but both remain in good shape with positive outlook going forward.

That said, like Randy's business, we were quite affected by unfavorable weather patterns, primarily in the second quarter, which is important to us, therefore, limited our gains on the top line to 1% like-for-like growth.

Against that backdrop, our business has performed quite well and delivered significant profit growth. In particular, I'd want to point out the performance of a business we acquired in 2015 called C.R. Laurence, which is part of our BuildingEnvelope platform, which, as the biggest acquisition ever done in the products space in CRH, continues to perform well and deliver ahead of expectations.

You take that portfolio change together with just a strong focus on commercial discipline and cost management, and we continue to push our business ahead with margins that, while not quite back to peak, are approaching peak levels that we achieved about a decade ago in a market environment where volumes are much lower than they were back at those peak times.

Looking at our Distribution business, a business we divested early this year and had been announced late last year, maybe a couple of things to note before we move on. In the final year of ownership by CRH, our Distribution business known as Allied had a very good year of trading, and we were gratified to see how it finished up with us.

But I think more importantly, we will realize significant proceeds from the sale, about USD 2.6 billion, which will be reallocated into higher-growth regions of North America and into businesses with a stronger margin profile and a longer development pipeline. And Randy, a little bit later on in the presentation, will give some detail about how those proceeds are being reallocated.

Albert Jude Manifold
CEO & Executive Director

Thanks, Keith. Before I pass it over to my colleagues, who'll take you through some of the detail of how the European businesses performed, let me just again give you some sense of the backdrop of how we saw that the markets evolving and the backdrop against which we traded in our businesses.

It's clear that, of course, as we all know, Europe is in a different place in terms of the recovery cycle. I think it's probably about 5 or 6 years behind the recovery cycle in the U.S. But the momentum we saw in our markets in 2016 continued to gain pace in our major markets through 2017. And it was encouraging to see the recovery taking shape in some big countries for us, some big markets that deliver for us such as Belgium, the Netherlands, France, Finland, Poland, Germany started to come through and continue to come through during the year. And we expect that pace to continue all the way through.

We had some disappointments. Switzerland for us continues to disappoint. We've got some challenges there, and I'm sure we'll chat about that later on. But I want to talk specifically about the U.K. here because it's a big country for us. It makes up about 10% of our EBITDA. And there's been a lot of commentary about how activity levels have been, particularly in construction here in the United Kingdom.

Well, in line with everybody else, we have seen a slowdown here in commercial activity, particularly in the Southeast, particularly inside the M25. However, our business is not just about the commercial sector inside the M25. We are broadly spread, truly national business through big companies such as Tarmac and our big cement businesses throughout the whole nation. And we are very significantly exposed to the public purse and public infrastructures funding in particular.

And what we have started to see at last is the enabling work is taking place for some of the big, high-profile projects coming through. And whatever we've seen as a slowdown in commercial here in the Southeast, it has been offset by an increased spend on public infrastructure. And that, combined with a fairly resilient residential market, has meant last year, in 2017, our businesses in the U.K. have been broadly stable. And we expect that situation to be sustained in the current year.

So maybe now what I'll do is ask Ken first to take us through the Materials business in Europe and see how this business performed, and then David will take us through Lightside and Distribution.

Ken McKnight

Okay, sure. Just looking at 2017, what we did see was a continuation of the economic recovery that had really begun the year before. And for us, that translates into higher volumes you see on our cement business. And it's good now to see pricing now following.

So against that backdrop, our real focus in 2017 was driving performance. And even though we did have some energy input cost headwinds, with good commercial discipline, we can then see, as you see on the slide there, we could still expand our margins. So a couple of months into this year, even though it's early days, we are confident and optimistic we can move on in pricing again right across our business in 2018.

David Dillon

In Europe Lightside, we performed well across our major markets in 2017, with like-for-like sales up 4%. For me, though, it was really a year of focus on performance where we drove an increase in both our margins and our returns. We also saw the benefit of our portfolio realignment of recent years. Like Ken said, I think we started the year well. We're optimistic about the year ahead with positive dynamics in our key markets.

In Europe Distribution, again strong performances across our major markets in 2017, particularly in the Netherlands and in Germany. As Albert said, Switzerland remained challenging for us, but we've been very focus on cost reduction, cost control in that market, but also improving the business for the medium term. And I have to say, overall, despite Switzerland, we had a good operational performance in Europe Distribution in 2017. We maintained our margins and indeed grew our profits and our returns. And for 2018, again, we see positive trends in our key markets.

Albert Jude Manifold
CEO & Executive Director

Thanks, guys. So if that's how the European markets evolved, let me talk to you about Asia myself. And just to remind you, our businesses in Asia are primarily about our investments in the Philippines, where we are the #2 cement producer through Republic Cement, and that's our primary investment there. And I have to say that 2017 has been a very disappointing year for us. The market took a wee bit of a step back, primarily as a result of public infrastructure spending taking a step back at the first year of the new administration. Actually, the private market in residential and nonresidential was quite strong. However, against that backdrop, we really got caught in a perfect storm within the Philippines.

First and foremost, we saw increased imports coming in from Southeast Asia, which impacts upon the competitive activity in the marketplace. That was further heightened by the fact that with the new capacity having brought on stream in our main markets in Luzon, which again heightened competitive activity. And thirdly, we were hit with very significant cost increases in fuel cost coming up from Australia with coal coming into our businesses there, not only there but also in India. And again, against that backdrop, at a competitive environment, we were in no position to pass on those cost increases to our customers. So a disappointing performance in 2017.

We've been working hard through the year to try and see how we can address that. I think we've put in place the building blocks that will sow the seeds for success in the future. And we can see a way that this business will be built back up to being the business that it was. There's nothing fundamentally wrong with the Philippines. It's just hit a speed bump, and that's what emerging markets are about. We may not see it manifest itself in the bottom line in 2018, but our general sense is we're doing the right things, and we should see this business stabilize and recover from 2019 and beyond to what it was in the past

Two other businesses we show on the screen. They are both equity counter investments in China and India. I put them there just to talk about the markets. But whilst volumes were back a wee bit in China with the government initiatives in terms of cutting back on capacity, prices increased and sales were ahead, as were profits. And in India, whilst volumes and prices moved ahead, those cost increases I refer to impact negatively in a small, small way with regards to profitability.

So if that's how all our individual component parts of our business has traded for last year, maybe I can now turn to Senan who could take us through on how that comes together from a group perspective.

Finbarr Senan Murphy
Finance Director & Executive Director

Yes. So what I'd like to do now is really consolidate the trading update stories that you heard from each of my colleagues into a group picture.

And starting with our sales and with our EBITDA. What you can see on this slide is the growth in both sales and EBITDA over the last year. As you would expect, there's a number of key components behind that growth. And really, I want to highlight just a few of them and single them out for further discussion.

I'm going to start again with the organic growth in both our Americas and European businesses. Strong organic growth over the last year. I think that's best reflected in operating leverage. And all of our businesses in the Americas and in Europe have delivered a very strong operating leverage over the last year. You can actually see it here on the slide and compare the growth in EBITDA versus the growth in sales, and you can see that comes out of the 23% operating leverage for those group of businesses.

The other key highlight that is worth mentioning is the impact of currency translation on our financial performance. As you know, we make a lot of profits in dollars and also in sterling. And over the last 12 months, both of those currencies have weakened compared to the euro, which is our reporting currency. And you can see the impact of that on both our sales performance and our EBITDA performance here.

I'd also like to mention the impact of U.S. tax reform on our business. As you're aware, corporate tax rates in the U.S. have reduced. We're a large taxpayer in the U.S. And as a result of that, we have had a benefit to our business on the post-tax earnings line and also on our earnings per share.

In 2017, what you can see in our earnings per share is benefits coming through in the form of deferred tax. We were able to reduce our deferred tax liability by EUR 450 million this year with a onetime benefit, which has obviously boosted our earnings per share. And as we go into 2018, we see the benefit of that reduced tax rate coming through in our group effective tax rate. So our group effective tax rate today is currently -- the underlying rate today is at 27%. And next year, that goes down to 24% as a result of reduced tax rates in the U.S.

And obviously, what I'd like to do next is take that earnings and talk about how it converts into cash. And speaking about our cash performance, as the CFO, of course, you'd expect me to say that I think the cash metric is the most important one we have around the group. And it may surprise you, but personally, I track this on a daily basis.

When we look at our cash performance, as I expected, we've managed to convert 70% of our EBITDA into cash this year. And as a result, we've generated another EUR 2.2 billion of cash from operations this year. That strong conversion is a real testament of the quality of our earnings across the group.

Our working capital balances as a percentage of sales remain healthy. In fact, they're in line with last year. And if you recall in 2016, we talked about that metric hitting record levels. And we've managed to match that again this year.

And then finally, I'd like to call out the fact that our treasury and our tax colleagues around the group have worked hard over the last year to deliver good savings for us across the group, which again helps our cash position. What I'd like to do now is talk about how that cash impacts upon our debt levels.

So let's move on to talk about our debt position. You can see on this chart here our net debt movement over the last year. On the left-hand side, we opened the year with EUR 5.3 billion of debt, and there are many moving parts throughout the year. That cash from operations that I've talked about on the last slide has obviously reduced our debt. We've invested capital and capital expenditure in our businesses across the group. We've obviously spent money on development activities over the last year. And we've paid cash out to our shareholders in the form of dividends. And when you look at all that moving parts together, it ends up with a position where we closed out 2017 with a net debt of just under EUR 5.8 billion and a net debt-to-EBITDA ratio of just under 1.8x.

Now what that doesn't reflect is 2 significant transactions that we announced during 2017 that hadn't closed at the end of '17. The first one is Allied, which has closed in January of this year, as Keith mentioned in his conversation. And the second one, which is on my radar, is the fact that we need to write a large check for Ash Grove in the coming weeks, and that's due to close by the end of this month. So if you look at the impact of those 2 deals on our pro forma net debt position, it increases our pro forma net debt to EUR 6.4 billion. And what's most important about that EUR 6.4 billion is that is well within our comfort levels at CRH.

Albert Jude Manifold
CEO & Executive Director

I must say, I like this slide a lot, and we use it a lot when we talk to our own people internally about our businesses because it gives you a great sense of the story of CRH and what we do. The EUR 2.2 billion of cash conversion is reflected as 70% conversion of our EBITDA, the profits we generated -- again, the cash we generated and the profits we generated within our businesses.

And then I look at the portfolio working, the divestments, and both -- they're shown on both sides of the debt over there. Again, working our portfolio for capital allocations, what we do is an embedded part of what we do in CRH. And then also the investments within our businesses and also the acquisitions, building our business for the future. And yet having done all of that activity, we still see our balance sheet in good shape within the norms of what you'd expect from CRH.

It also gives us great options as a company for growth having that capacity within our balance sheet. And we were very active last year in terms of looking growth -- looking for growth in new platforms and complementing our existing businesses. We spent almost EUR 5 billion on deals around the world. The largest portion of that was, of course, in North America as we increased our footprint in cement, aggregates and concrete across the higher-growth states. We also expanded a very significant platform for us in lime in Europe, which we believe will be a great growth platform for us for the next 20 years.

And you shouldn't forget, we spent over EUR 700 million on 30 deals, almost every week doing a deal, which is absolutely the bread and butter of CRH, the bolt-ons where we create value for our businesses. And all of this is a constant focus on looking on where we can best allocate our capital for higher margins and higher returns and to create value for our shareholders.

So what I'd like now to do is ask my colleagues to take you through the rationale for why they proposed these deals. They are not my deals. They're the deals of the business, and what was behind their thought process as they build the business going forward. So first, I'm going to ask Ken to take us through the Fels deal in terms of building out our European lime platform, and then I'm going to come back and talk about the U.S.

Ken McKnight

Okay. The acquisition of Fels actually makes CRH the #2 lime player in Europe with a combined lime EBITDA of about EUR 120 million. So a very substantial business. And as we integrate Fels into CRH this year, what really excites us is, as Albert said, this gives us the opportunity to create a lime platform of scale.

Lime, in many ways, is very similar to cement. We know cement very well. We know how to quarry limestone. We know the production process. But I think the thing to note about lime is it has got many -- it's a very versatile product. It's got many end-users and end markets.

We've actually been in lime for over 50 years, and we always find it to be a very attractive industry, a very broad customer base. And it does give us opportunities to create significant value. When we actually look at the assets that we bought with Fels, geographically, they are a very good fit for our existing lime businesses in Ireland, in Poland and in the U.K.

And as we establish this new lime platform, of course, we will develop it both organically and through M&A. This actually is my last year in CRH. I'll be retiring at the end of this year. And if I look back maybe over 20-odd years to a deal we did in Poland, where we bought a minority stake in the business back then, and it reflects on how that was really grown on mushrooms into the very strong East European platform we have today. Well, we have similar ambitions for our lime platform as we build it out over the coming years.

Albert Jude Manifold
CEO & Executive Director

Yes, look, a very exciting platform for us, very much a typical CRH, fits with a knowledge that we have in existing operations in Poland, U.K. and Ireland, and a great growth platform in the years ahead. And we'll watch that space with great anticipation.

I now want to talk in general about what was behind our strategy of developing our businesses in North America before I ask Randy to take us through the rationale for the bigger deals that we did out there, particularly in cement and aggregates.

Quite some time ago, we took a view that we want to strategically realign our businesses more towards the higher-growth states and regions in North America. Our business traditionally had built up from the Northeast and across the Midwest. We had a very strong base and still a fantastic business for us.

But it was clear to us with population growth and demographic shifts that actually, the southern parts of the United States have seen the largest population growth. And we wanted to position ourselves there because that's where construction was going to be. And we targeted 3 specific areas for us, the smile states: Florida, Texas and the Northwest, starting in Utah, Colorado and swinging all the way up into Washington State. And anybody who may be a student of CRH, and we all are ourselves, would have seen how we have over the years developed and rolled out a fairly consistent acquisition model to build up pretty strong positions in all 3 of those territories.

And now with the acquisitions that we did last year, in Florida, through Suwannee Cement and the related assets there, we have established a really strong position where we are the single largest building materials player in all of Florida, one of the highest growth states in North America.

In Texas, the addition of the cement facilities that come with Ash Grove give us a great fit with our existing downstream businesses and our aggregates businesses in Florida, a great position to be in. And particularly in the Northwest, we had a strong footprint in Utah and Colorado, and now adding those businesses, that gives us a great growth opportunity there, which Randy is going to take you through.

But it wasn't just about those states. If you just look at the map there, we had already had a very strong position in the Midwest, which was really the foundation and bedrock of Ash Grove. And the businesses that we've acquired with them are now a seamless fit with our businesses that we will think will create value for our shareholders going forward.

So to take you through the rationale behind the deals and how we see those deals developing, I'll ask Randy to take you through that in the next couple of moments.

Randy Lake
Chief Executive Officer

Yes, Albert, well, certainly, we are excited about the acquisitions and certainly the opportunity to build a platform in cement. But I think one of the things you may lose in the headline numbers is really the large aggregate business that had been acquired both in Florida through Suwannee as well as Ash Grove.

We've picked up 13 million tonnes of cement -- or 13 million tonnes of aggregate sales and over 1.5 billion tonnes of reserves. So a very significant aggregate business that we look to build upon through our readymixed and downstream asphalt businesses.

But as Albert and Keith indicated, it was really a strategic move to reallocate the proceeds from Allied into higher-growth markets. And now we can say we're the #1 player in Florida, Texas and the Northwest. I think in particular, though, if you pull out and talk about Florida and Texas, they accounted for 20% of the overall U.S. construction spend in 2017. And so that's underpinned, though, through population growth in those particular areas that are twice the level of the U.S. in total.

So a significant platform, all the right kind of components there to build upon as we look into the future. Certainly, there are significant self-supply and downstream opportunities. I'll talk about those in just a moment. But when I look at that map, really to me, I look at 20 years of development activity. For us to apply the CRH model that has been so keen to our success in the local and regional acquisitions, we see 20 years of those downstream opportunities as we look forward.

Albert talked about the Midwest. And certainly, having a #1 cement position is exciting. And I think here, the old adage that a picture is worth a thousand words. All right. Just look at the map there and see the current CRH platform of business combined with Ash Grove and really, the overlapping and complementary markets that, that creates, expands our aggregate business in this particular market by 50%. And we are now, by far and away, the largest integrated player in the Midwest. And so a really solid base in terms of earnings generation for the years to come.

As you look -- as we look at any acquisition, the integration of those acquisitions are critically important. And I would just pay attention, maybe to call out 2 things in particular on this slide, really the idea behind the vertical integration benefits. So the creation of a cement platform, complemented by additional aggregate positions, really gives us a platform for growth to build that downstream consumption. Certainly, it complements a lot of our existing readymixed businesses, but we can build from there. It complements our asphalt businesses, but we can build from there. But it's about that pull-through volume that's critically important in highly capitalized intensive businesses. So certainly, an opportunity for us there.

When we look at self-supply opportunities, we are the largest consumer of cement in North America and the largest consumer of aggregates. And so this gives us really enhanced purchasing options as well as some of those logistical things that we'll look at in terms of self-supply alternatives.

But it's those 2 pieces, in particular, I think, that are most important as we look to generating the synergies of these deals. And at the end of last year, we announced roughly $80 million of opportunity with Ash Grove in terms of synergies. And while that deal has yet to close, we're more inside the fence now -- line now than we were several months back. And so we're confident coming forward and saying we have north of $100 million of synergy opportunities within Ash Grove.

You look at the Florida business, and we talked about Suwannee Cement, but they have a substantial readymixed business, prestige as well as an aggregate company in Florida. And we've identified north of $20 million of synergies with those businesses. So all told, north of $120 million of synergies really creates a tremendous platform for us for the future.

Albert Jude Manifold
CEO & Executive Director

Thanks, Randy. I think that sets us up very well, as Randy says, for almost the next decade in terms of value creation through the integration of those businesses with our existing businesses, but also some very interesting growth platforms as we go forward.

I now want to take a moment with my colleagues just to talk to you about some of the changes that have been going on in our business for the past number of years and that will continue to go on in future years and how it impacts upon the results that we're producing and published here this morning.

Some time ago, we took a view that it just simply was not good enough anymore to be a simple basic producer of basic materials for the construction industry. Our customers wanted more. In fact, our customers needed more. So over a period of time, through strategically focused acquisitions, through portfolio review and allocating and reallocating money into different product areas and into different regions, we have evolved and are continuing to evolve into a manufacturer and supplier of an integrated and interrelated range of materials, products and services that can better serve our customers' needs and allow us capture more value for our company along the whole supply chain.

And that changing business model has been fundamental to delivering the improved results we have seen there, the very significant increase in profitability, but more importantly, margins and returns has been delivered by that new business model that has been evolving in CRH for the past number of years.

And to better explain that, I want to ask 3 of my colleagues, David from a European perspective; and Keith and Randy from a U.S. perspective, to explain how in their businesses this model has changed how they are doing business. David?

David Dillon

Yes, in Europe, we've delivered very significant top line growth over the last 4 years. But if you look at it, we effectively bought all of that growth because with the range of transforming acquisitions that people know about, Lafarge-Holcim, now Fels, and so on. But really, there's been very little market growth in general in Europe, very limited market recovery across our main markets.

But over the past 4 years here in CRH, we've been managing the portfolio, focusing on the good businesses, cycling out some of the less good. But really, it's the relentless focus in performance across our businesses, across a wide range of European businesses that have delivered a significant increase in our margins.

And one of the hardest numbers to shift, though, on that page is returns and RONA. And especially, as you all know, it's especially hard in the first years after large acquisitions. But again, one of the things I'm most proud of as part of the European leadership team with Ken is how we've managed to shift returns over the past 4 years. Again, managing the portfolio, improving the business, shifting the business.

And again, as Ken said, over the last 20 years, we've built out a Poland business from a very small base to being a very large business in Eastern Europe. And through the new acquisitions that we've assembled over the last couple of years, we've got a range of platforms for growth, which I'm very excited about for the next 10 and 20 years through bolt-ons and through improving the business.

Keith Haas
Chief Executive Officer of Expanded Americas Building Products Group

As we look at building a better business in Americas Products, maybe a little context setting would be useful. We organized our business around product platforms. We have 3 main ones, 2 of which I just kind of want to highlight here today.

First would be our Architectural Products platform, a business we call APG. The second would be our BuildingEnvelope platform, a business we call OBE, Oldcastle BuildingEnvelope. And these 2 platforms account for about 80% of the profit generated from Americas Products division.

Now I've been in the Americas Products for nearly 20 years and have seen a tremendous change and tremendous transformation in how these businesses are shaped in what they do over that period of time.

Maybe looking at APG as an example. If you go back 10, 20 years, as we were forming this business, it was really built around making a pretty small range of simple products, concrete pavers, basically. And these would be relatively commodity products that you would use to perhaps build a patio on your backyard or a sidewalk around from the back to the front of your house.

And we -- our strategy at that time had been to build out a geographic footprint to be able to serve markets across the United States and then eventually Canada in a limited range of products. But we had to adapt our business model to the way that construction and consumer tastes were changing. A large market that's developed over the last sort of 20 years in North America is around outdoor living, expanding your house into your yard. But to fully avail ourselves of the opportunities, we had to have a vastly different product portfolio, so through product development and product introductions as well as a strategic acquisitions.

In addition to concrete pavers, we now offer value-added hardscapes, masonry products, decorative lawn and garden products, and now composite decking, which allows us to have a full range of products to satisfy customer needs to execute our strategy within APG, which we call own the backyard.

And similarly, looking at a similar-sized business, BuildingEnvelope, in 2007, this business was basically about cutting and shipping to small contractors what we call tempered glass, which is heat-treated glass. And again, that was a nice business for us. We built out a geographic footprint across all of North

America in this relatively narrow range of products, but that left a lot of untapped opportunity for the entire BuildingEnvelope. And so through a number of acquisitions, culminated in CRL, which I spoke about earlier, was done about 2.5 years ago, we now are the only provider of the full range of products, either metal, glass or hardware to enclose the entire BuildingEnvelope so that the contract leisure, the professional who specializes in installing these products, can buy everything from CRH. And he can buy everything from CRH to do his job on schedule. And at a profitability level, that allows him to be successful.

Now while we've had some market tailwinds over the last 4 years, if you look at how we've transformed our business, that's played a bigger role than the market in the doubling of profits that we've had in a relatively slow growth environment and the dramatic improvement that we've had in both margins and returns, which go back again are near-peak levels in a market environment which is drastically different than what we experienced back in the bubble times of 2007.

Randy Lake
Chief Executive Officer

David and Keith gave you a couple of great examples of how they have transformed their business. And we certainly have transformed ours within the materials sector in North America.

The old adage is the only way that we actually created value was taking big rocks and turning them into small rocks. We've kind of moved beyond that. We've really spent a significant amount of time in the last 4 or 5 years engaged with our largest customer segment, which, as Albert indicated, 55% of our revenues are derived in the infrastructure space, so government agencies, listening to what they needed and desired from a supplier and provider of services.

That led to a very aggressive development of a variety of value-added products. So if we talk about value added, it's taking aggregate, coating that with bitumen and creating asphalt. We take aggregate as the fundamental element into creating and producing cement. And aggregate has a core foundational element in readymixed concrete and other concrete-related products, whether that be culverts, piping, bridges. And you take all of those products and then deliver them through a construction services group.

And as you do that over time, you develop competency and then confidence to be able to guarantee the performance of that roadway or infrastructure project. And that's a competitive advantage in what is traditionally a low-bid environment. And so as we say here, that move from rock to road has really led us to peak earnings, peak margins in an environment where volumes again are 25% below peak. And so as we stand back now and look at it, we would be the largest manufacturer, supplier and paver of anyone in North America.

Albert Jude Manifold
CEO & Executive Director

So you start to see there how our strategy is being executed within our businesses and how it has transformed and changed those businesses. But just reflect on what my colleagues spoke about. In Europe, David referred to the fact that the markets didn't help us. The market in Europe has been flat for the last 7 years. It hasn't moved at all. We spent a significant amount of money on acquisitions. And yet, in that time, we increased our returns, almost doubled our returns. And our margins have increased as well. Something else has happened because the market didn't bail us out.

So then go to the U.S. And in the U.S., Keith referred to the fact we have had some slow growth. We've had growth in the U.S. markets for sure, and in Randy's market, the Materials business as well. But it hasn't been that fantastic. And yet, in both of our businesses, Keith's businesses almost doubled its profitability over those 4 short years. He's only 1% below the peak of his margins and yet, his market -- his main market, the residential market in the U.S. is only 60% of the peak that drove those margins. Randy's back at peak, and his volumes are 25% below the peak.

Something has shifted. Something has changed. It's not the market. It's the unique business model that we have now within CRH. It is no longer enough to be a sole producer of simple basic building materials. Our customers and markets need more, and we are uniquely positioned to offer that breadth of products and that breadth of capabilities. No other company can offer that. And we believe that gives us a great position to serve our customers' markets in the years ahead and gives us a sustainable competitive advantage that will drive superior returns for our businesses, for our shareholders in the years ahead.

And now I want to talk about 2018 and how we see the year rolling out ahead of us in terms of our businesses and the volumes and the activity levels. We have talked about it during the presentation this morning.

If I can turn to our biggest market first, the Americas. That pace of growth that we saw in 2016 and '17 appears to be evident in the early part of 2018. Randy referred to the fact that backlogs and margins of those backlogs are ahead. That's hugely a healthy sign of our business. We have a window for about 6 to 9 months. It looks to be in pretty robust shape as we go forward.

In Europe, the momentum in the recovery has been taking -- increasing in pace during the course of 2017. Pricing is starting to pick up across our main Heavyside markets as well. And we're optimistic for a good delivery across our European business in Lightside and indeed, Distribution as well. So we think European businesses are in good shape.

Asia will still be a challenge for us this year. But at last, we're starting to put the building blocks in place, and it's not that significant in the overall number for CRH. So overall, our aspirations, our belief is that we will see improved performance in our businesses in the key metrics, and 2016 will again represent -- 2018 will again represent another year of growth for CRH.

So with that, I want to move on to the question-and-answer part of the presentation. Initially, we're going to take questions from the guys in the room here. And if I can ask you, please, just to give your name and the name of your institution before the question. I'm going to move down the wires as well and take some questions that come in down the wires as well towards the end of the morning.
I myself and my colleagues will do what we can to answer your questions the best we can.

Question and Answer

Albert Jude Manifold
CEO & Executive Director

So first, we have Paul.

Paul Barry Roger
Exane BNP Paribas, Research Division

It's Paul Roger from Exane. I think 3 questions. The first one, European pricing. Can you quantify the sort of magnitude of the price increases you have put into on the Heavyside? And also, just looking at your appendix, it looks like quite a few prices in Europe were either flat or slightly down last year. So obviously, this marks a turning point. I guess the question is, what gives you confidence that, that will actually happen? The second one, maybe on the guidance. You talked about progress. Presumably, you're referring to reported EBITDA growth. Won't you say a bit about the approach you might make in terms of organic EBITDA? I mean, presumably, you've got 3% last year. The U.S. base is easy. European momentum seems to be gathering. So are you confident you can beat that this year? And then maybe a final question maybe for Randy. Can you comment on the price-cost dynamics in the U.S. asphalt business?

Albert Jude Manifold
CEO & Executive Director

Okay, Paul. There are 3 questions there. I'll look -- take the first one myself with regard to European cement and where we see cement pricing is going. I'll touch on the guidance and then I'll go to Senan on that one and then again we've got Randy who will comment on the terms of the dynamics in pricing within asphalt. And with regard to the pricing in Europe last year, overall in our pricing and I presume you're talking about Heavyside cement pricing in Europe, broadly speaking, across all our markets, we saw about a 2% increase over the previous year, which given where we were coming from, actually we were quite satisfied with. And you referred to a number of countries where we've shown in the back of the appendices of the presentation, that's also available on the website. Last year, in our 13 European cement markets, we had price increases that were either flat or up in 10 of those markets. That equivalent figure 1 year ago was 5. So that shows progress again, and I expect that figure to increase above 10 in 2018. So the trend is right. Go back to the attitude that we've always said here within CRH. Volumes have to recover first before pricing comes back. And we saw this in North America in 2011, 2012. When volumes start to slowly recover, then pricing came back, and then you've seen how pricing is strong coming back to the markets. The general sense we have across Europe, particularly on the back of a slightly inflationary cost environment that we've seen in 2017 and 2018, all manufacturers of heavyside materials need to get those price increases. And I a sense a real determination and [indiscernible] -- the jaw is out to ensure that those cost increases are passed on and recovered within the business. So while we're optimistic this year, it's too early in the season to put a dimension on that as well, but I do think it's going to be better and more rolled out across more countries. And with regards to the organic growth potential that we're seeing, we think we will see in our businesses going forward. Remember, what we saw last year was significantly impacted by weather patterns in North America. And whilst -- I mean, weather at this time of the year doesn't really matter because activity levels are so low. If you lose, as Randy referred to, 1/3 of your days in 2 big states for us, Texas and Florida at your peak season, it hurts you more than losing 4 weeks in February. So it's the question of last year was what was the true underlying rate, and that's an important one, which Randy will go through with that. But maybe I'll just ask Senan just to comment in terms of where you see organic growth this year?

Finbarr Senan Murphy
Finance Director & Executive Director

I think if you look back to '17, as Albert mentioned, if you break it apart, the Americas organic growth was 5% for the year. And then, obviously, as Albert mentioned, that would have had some disruptions from weather in parts of that business. Our European business, on a combined basis, actually delivered a 5% organic growth as well, which was actually a good finish to the year and sets us up well going into

'18. Asia, we mentioned was down significantly last year, which brings the overall average for the group down to 3% organic growth. And while we see stability hopefully starting to come back into that market, I think it will take a few years before you'll see our financial performance recover from where we were in the second half of '17. So I would look at the second half of '17 as being a guidance as to what you should expect maybe in terms of run rates for '18 for that business. That's the organic side. I guess, when you mentioned EBITDA, it's just worth just looking at the picture in total in the terms of this development activity that has happened. And obviously, the main items that comes out of our 2018 performance is the contribution from our Allied business. And then what goes in, obviously, is the contributions from the Ash Groves and the Fels and the Suwannees that we talked about there, including the synergies that Randy talked about. And then currency, obviously, is the great unknown in that equation.

Albert Jude Manifold
CEO & Executive Director

I hope that's clear, Paul. So if I can also just before I ask Randy to talk about in terms of the dynamics within asphalt. Just for everybody in the room and for those watching there on the wires, just to be aware, obviously our asphalt business significantly interacts with our aggregates business. As we've consistently said over the years, we far more prefer to sell volume than just pass on a price increase in coating stone with expensive bitumen. And of course, we have natural breaks within the system. We've got escalators within our business. There's natural bid, time and work as well, which deals with price fluctuations. But Randy, maybe you might talk about the overall dynamics.

Randy Lake
Chief Executive Officer

I guess I was just building on that, I would say and Senan referred to kind of energy prices moving up 5% or 6%, and we would certainly see that taking place in the energy or the bitumen arena. For us, as Albert alluded to, we have really 3 ways by which we hedge that. One way is certainly through the state escalations that are in place with the DOTs, right? There's formulas in place to address movement in energy prices. So that's about 1/3 of our business. Another 1/3 is actually dealt with through physical hedging, where we have terminals across North America where we buy material this time of the year. We also compensate for some of that through the blending capabilities we have to make specific mixes by -- on a state-by-state basis. And then roughly, you got 20% to 25% that would be, I guess, exposed. But we manage that through our winter fill process. So for us, I think we feel very comfortable in the way we manage the energy, understand kind of the elevation in some of those costs but have mechanisms that have been proven over time to kind of be able to pass that forward. And I think the market dynamics would allow for that. So our expectation at least, as Albert said, we sell asphalt as a means to deliver profitability in our aggregate business. But we feel good about margin expansion for asphalt as we look at '18.

Unknown Analyst

Can I ask a question on energy costs in the wider sense? If you could remind us where you are in terms of the absolute bill? What kind of inflation you saw last year and perhaps how you see that shaking out as best as you can perhaps into 2018? Because obviously the pricing is going up. But obviously, there's a cost price dynamic, and I think you've kind of flagged that you didn't recover in asphalt in the U.S., in asphalt in the U.K. I think generally in European cement, there was a bit of a gross margin hit. So I want to understand if you think the cost price spread is starting to at least stabilize or even turn positive? That's the first question. Second question is on M&A. Can you give us sort of a sense on how you think about that going into the new year? Obviously, you've got a couple of -- well, one big deal to still close. And I suppose from an internal perspective, when you benchmark M&A, what do you benchmark against? I mean, does your own stock ever come into consideration when you look at multiples that are out there for new deals? Obviously, with your stock trading where it is today?

Albert Jude Manifold
CEO & Executive Director

Okay, 2 questions. I'll let Senan talk about the energy cost may be. But if I take the M&A question upfront just in terms of our thoughts on M&A for the current year and also in terms of how we look at capital allocation in the broader sense, which is really behind your question. And with regard to M&A, obviously, last year was a very significant year for capital expenditure. And some of those deals are closed, and one of the big ones has closed. It closes over the next couple of weeks. Our focus is now and will be for the next coming months is to focus on integrating that business along with the other businesses we acquired and delivering value and delivering on the synergies that Randy referred to and he can refer to within his businesses. That's the key focus for us as we go through this year. I have to say they are familiar businesses in familiar territories. They're not the most difficult businesses to integrate. We actually know them very well for many, many years, and we've had an interesting dialogue and a good dialogue with them over the months of actually acquiring the businesses. So we'll hit the road running. I would expect on the back of a good progress shown in our core businesses over quarter 1 and quarter 2 and good progress on the integration. I'd be disappointed if we didn't have good progress in integration by the half-year. That with the cash we're generating now into the second half of the year, we will be back looking at further progress in the whole acquisition front as well. We have the capacity internally to deal with it. It's just making sure that the businesses are settled down, integrated well, our business is running well. And we have lots of opportunities, our pipeline is quite full. [indiscernible] was out there, and we've got a fairly well-oiled machine now. I think we will return to looking at further development at the back end of the year. But only if all the other factors come through with regard to that. With regard to your broader question in terms of capital allocation, do we look at our stock price? Or do we look at how we look at broader sense? We are here to create value for our shareholders, full stop. That's why we're here. We believe that looking at how the returns can be generated and the investments we make wherever they may come from. We actually believe looking at the opportunities we have in front of us with regards to acquisitions and internal investments, we actually believe that at this moment in time, it's best for us to focus on that. I don't see that changing anytime soon. Now if for an extended period of time, we saw that we were denied opportunities, we saw other opportunities to create value, we would, of course, consider that because that's the overall principle there. But it's not on our agenda for the short term. There are short-term fluctuations in stock prices around the world. But from our point of view, we're looking at building our business, building out the synergies and building out the footprint that delivers long-term value for our shareholders. Senan...

Finbarr Senan Murphy
Finance Director & Executive Director

Just on input cost. And obviously, you asked specifically about energy. The energy price inflation that we absorbed across the business last year was a 10% increase. So that brings our energy cost as a percentage of sales across the group up to 8% for the year just closed. As we look out to [2017] in terms of where we see energy cost going, we obviously anticipate that to go up probably by another 5% to 6%. So that includes obviously the comments that Randy made about bitumen. It includes comments that Albert made earlier about the coal cost in the Philippines and all that across the business is all incorporated in that. While on the topic of input cost, what I'd say is obviously, the other one to bear in mind is labor. Labor cost for us as a percentage of sales is about 20% across the group. And in both North America and in Europe, we've seen labor inflation in the range of about 3% over the last year, and probably anticipate a similar level of inflation going into '18. What I would say about all of that in total is that if you look at that rising input costs in the last year, we've managed to absorb that and still grow our margins in all of our divisions with the exception of the Philippines, which is obviously something we mentioned earlier. So there is an ability to be able to take that and to be able to pass it through or to be able to offset that through other efficiencies and other performance measures across the group.

Albert Jude Manifold
CEO & Executive Director

[indiscernible] in the front.

Robert Gardiner
Davy, Research Division

Robert Gardiner from Davy. You showed an interesting slide there, Albert, in terms of repositioning the business in several places Europe, OBE and that kind of integration value add. I'm just wondering what else you kind of have in mind? Or what are the divisions, markets or regions where you can do the same, you can kind of build out that integrated platform over a period of time and contributed that kind of growth in the RONA you've delivered. And then one maybe just for Randy. I'd just be interested to know the extent to which your pricing discussions around things like cement are changing with the deals that you announced like are you seeing an impact already in terms of those discussions? Or how's that kind of panning out for you at this stage?

Albert Jude Manifold
CEO & Executive Director

Thanks, Bob. I'll let Randy deal at the end with the question with regard to pricing dynamics in those markets that you referred to. I think with the model that we've set out, it's been enacted, it's been working within CRH for quite some time as my colleagues talked about. The great thing about that is it's focused on the end-use markets. It's focused on the customers, as to what the customer wants. We look at, as Keith explained in his OBE model, what [indiscernible] want in the marketplace. He bought a full range of products, and we backed out of that and said, what can we do to help service that? And we focus very much on how we service the customer, how we interact with the customer to make that whole idea of [constantly] working with us as simple and as easy for him and for us to make the most profit in doing that. The great thing about it actually it's a simple concept that's replicable across a whole range of businesses, but you have to have A, some knowledge in the Downstream concept and also a capability to work those concepts in the marketplace. This is way beyond a vertical integration. This is about looking at your customer markets and saying, how can I help his -- make his life easier? And how can I do it on a broader basis? We see it being replicable in so many different ways. For instance, what's not known in the [indiscernible] and you will see it during the course of next year is the APG business that Randy -- that Keith talks about in terms of North America. That's been such a successful model for us. In Europe now, we just launched the same new concept here in Europe. What we did have was we had a paving business, which was largely a commodity business, which actually was just vertically integrated with our cement business. It was a way of selling cement, commodity paving products. But we've seen the advantage of how that can be advanced in North America, and we've set up a division now, which David is now running across Europe. Where we currently are the largest manufacturer of pavers across Europe. We just happen to do so as a route to sell cement. Imagine if we actually [indiscernible] down to ourselves and actually used it to sell pavers and all the associated products that go with it. I look at our cement businesses. What we have figured out is actually, of course you can sell cement through the readymixed business that we have there. But actually, when you look at the way construction is going and look in this fine city here, how construction has changed over the last 10 years. The products that cement is processed and cured into have been changing before our very eyes. It's becoming more regulated, more specified from an engineering and from a regulatory point of view, and that pushes the product back to us. Our best businesses that we process cement into are some of our Precast businesses in North America and indeed our Precast businesses in Europe. So modular construction, regulated construction, construction that's specified, we are then have a knowledge and understanding through our strong Precast businesses to work that not only to refer to the integrated model but a model that help service our customers because different types of cement, different types of aggregates are used for different applications. And what we look to do is to start putting that in place in some situations as we do across a number of our businesses in Europe. So it's replicable across our biggest businesses, and it's a business model that can be executed time and time and time again across our business. And you'll see this coming through the business in the years ahead. Maybe on pricing, Randy, you might have something?

Randy Lake
Chief Executive Officer

Yes, I think your question was around what have the conversations been like. Well, we haven't really -- we haven't closed the Ash Grove deal. So I'd say the conversations haven't really been had yet at this point in time. I guess my -- the clearer answer I can give you is in Florida, where the Suwannee cement business is we're call it 90 days into running that business. I think our strategy has been and continues to be a significant amount of the quantity of cements that come out of this place actually fulfill our own needs in terms of our readymixed business. And so what I think as I indicated both in Ash Grove and Suwannee, where the opportunity rest is really on the logistical side. It's expensive product to move. Logistics is an expensive part of the cement product itself. So it's maximizing those opportunities, which I think most people would understand completely, kind of maintain the structure of the market. But for us, it's about logistics and maximizing and optimizing that cost base into our readymixed business. So it's early days to tell you exactly how that conversation reveals itself. But we would look at opportunities obviously because of supply and procurement opportunities.

Albert Jude Manifold
CEO & Executive Director

It's not the question you asked, but it's an interesting point, which develops in the point that Paul asked earlier on about European cement pricing. I recall standing on this stage maybe 5 years ago, and the question was will you get price increases in North America in cement? Remember those questions? Now we just ask what is the price increase. That's where we are in Europe. We're now establishing the principle of price increases again, and now we'll be having a conversation in a few years' time what is the price increases in Europe, not are you going to get them. Things move in cycles. Volumes have to come back first, and Europe will start to see that momentum come through, in the U.S. it's well established now at this stage, which gives us confidence as we look forward with our European business, particularly on the Heavyside.

William Jones
Redburn (Europe) Limited, Research Division

Will Jones from Redburn. Two if I could, please. First, just on U.S. aggregates. I think the heritage pricing was plus 6% in the end for the year. And I think it's plus 5% at the 9-month stage. So perhaps you could talk about that? And how do we think about that into '18? Because I assume there was some help to it from the fact that volumes were flat in terms of customer budgets. So just, I guess, thoughts on U.S. aggregates pricing for '18. And then secondly, just around the regional growth picture in the U.S. Could you just give us a bit of a run-through about how that might be differing particularly with reference to the Northeast where there's some talk of that being a slightly slower market?

Albert Jude Manifold
CEO & Executive Director

Okay, I'm actually going to ask both of our U.S. colleagues. Because they both service different ends of the market. Keith looks after res and nonres primarily. And obviously, Randy's exposed to res and infrastructure. But maybe just generally speaking, maybe, Keith, you might just take us through it first in terms of the regional growth trends, and then, I'll let Randy, talk about that and the pricing at the end.

Keith Haas
Chief Executive Officer of Expanded Americas Building Products Group

Yes, sure. I think as we talked a little bit about in the presentation, we continue to see probably stronger new build growth in the south or the smile states as Albert talked about it. You have Florida and Texas would lead that, but it's also very strong in Georgia, the Carolinas through the Southwest, California and the Pacific Northwest. A little bit impacted in the last year by unfavorable weather. First, it was a rainy spring, and then we had hurricanes came through which, obviously, tend to impact the south more than the other regions of the country. What we have seen is the beginnings of a little bit of recovery, a firmer recovery in the Midwest. So we, in the products business, we have and in distribution, which has since been divested, have a pretty strong presence in those areas. So I'd kind of call it not nearly as robust a growth but growth in those parts of the country. The Northeast has some challenges. Some states have good financing. Some states don't have good financing, and we've kind of been hit or miss, I'd say, in the Northeast. But just like the infrastructure in the Northeast, the building stock, the built environment in the Northeast and the Midwest is robust. And therefore, it moves into a phase of repair and improvements. That underpins a lot of our business there, which is the revitalization of the building stock there in those parts of the country. So we're pretty comfortable with how it goes. We're driven more by new construction in the South and the West, but also a firm underpinning in terms of repair and remodel and improvements in the Midwest and the Northeast. We've seen those trends for a long period of time, didn't see much change in that other than the impacts of weather in 2017, and I would expect it to be broadly similar as we move forward.

Randy Lake
Chief Executive Officer

And just kind of building on that, we -- from infrastructure standpoint, we -- it would model kind of the growth rates. Obviously, you can see from our investment profile now, we're beginning to really reinforce Florida, Texas, Utah, Idaho and up into the Northwest. Those have been and I think will continue to be solid growth markets for us. And actually, when you talk about aggregate prices, it follows that, right? I think the one nice thing about aggregate business is that even in the most difficult of time, we saw advancement in pricing. So that's 6% overall, but would vary dramatically by region. So I would say higher performance in those states I just called out. In the Northeast, we have a very large presence, Northeast and the Midwest in terms of our aggregate position. And what's nice about those positions is that just the total population of those areas. While maybe certainly not growing as fast as some of the southern states, are very consistent. But the infrastructure needs are overwhelming. So they will continue to need to reinforce the current infrastructure, expand as well as improve. And so we see those as being very, very steady markets, and pricing will move along as well. So as we look into '18, I think we've called out kind of in that kind of 3% to 5% range as well in terms of pricing dependent upon what region you are.

Albert Jude Manifold
CEO & Executive Director

I'm just conscious of the fact that the weather was particularly bad this year. We have over 900 people dialed in and watching this, and I've got a ton of questions they need to ask on the line as well. So I'm going to take maybe 1 or 2 questions from the room.

John Fraser
HSBC, Research Division

It's John Fraser-Andrews, HSBC. My first question is can you talk us through the buckets, the main buckets of U.S. infrastructure spending, how you see the FAST Act, general state spending, ballot initiatives? So where's the money coming from this year that you've alluded to in your statement? The second question is regarding operating efficiencies, which have been very good in 2017 in the Heavyside businesses on both sides of the Atlantic. My question there is are there further operating efficiencies to come in those businesses outside of the acquisition integration? So is there more to come on that side?

Albert Jude Manifold
CEO & Executive Director

Well, I want to talk just -- I'll let Randy deal with in terms of actual funding, where it's coming from, from a U.S. perspective. He has a far better picture on that than I do. Just on an overall comment on operating efficiencies, what I would say about that is we -- one of the slides we spoke today about the importance of performance. The bedrock of our business is that we must be excellent in what we do. Nickels and pennies are the lifeblood to us, and we fight every day for that penny. So in every way, we are looking to try and see how we can maximize that for our shareholders. That may be on commercial initiatives or it may be on operating initiatives. Embedded within our business, within every business that my colleagues run, is the process of continuous improvement with specific performance indicators that drive those businesses on. Now it would take me a day to explain to you or my colleagues a day to explain to you how each of their businesses are doing that. But it has been behind the increase in the margins that they have seen in their businesses. We are way beyond where we should be at this point in the recovery cycle. Something else has happened within our businesses, John. It's not just the market. It's not just the business model. It's fighting every day and improving our businesses. So if I want to take a specific business such as what Randy is working on, I look at the likes of warm mix asphalt, I look at recycled asphalt, I look at in terms of how we work out our logistics and in terms of how we take or draw our stone out on quarries, how we deliver to our customers. There are so many ways. There is no silver bullet but it goes on and on every day, and it's what you would expect from somebody like CRH because we do stand on our toes in terms of say we are good performers in what we do. So what I want to do now maybe just to pass it over to Randy. You might just talk about the funding scenario in the U.S. in terms of where the money is coming from for the next few years.

Randy Lake
Chief Executive Officer

Yes. So I think underpinned and Albert talked about it early on, underpinning the investment is really the federal spend, and that's north of $40 billion across the country. And that's underpinned by the FAST Act which runs through 2020. I think what has -- what was favorable about that 2 years ago when it was put into law was that it provided stability for the states. So they were able to look at that and say, I can make a longer-term investment knowing that the federal government portion of their funding would be there. And the states actually raised more money than that in terms of their contribution to the overall infrastructure. But those are the 2 major buckets. What has been interesting -- so that's underpinned, right? And that's kind of a 3% plus or minus moving forward ahead on an annual basis. What has been interesting is that over the last 3 years, and I'll get the numbers wrong by 1 or 2 here. I think it's 27 states have had a ballot initiative to raise infrastructure funding, right? That all passed. And you look at the total number of actual local ballot initiatives, it's north of 200 ballot initiatives, and 85% of those have passed. Because there's a general understanding from the consumer that their lives are better off with an improved infrastructure, right? Whether it's maintenance on their vehicle, whether it's just time in their lives they regain. So there is momentum there. So -- and there's a lot of conversation obviously now from the President about what could be, and that's great. We like the conversation, but we deal with what we know today, which is a solid advancement year-over-year in terms of overall investment with active states taking a bigger part and lead in those investments.

Albert Jude Manifold
CEO & Executive Director

And take one more question from the room, please, because I've got I say a lot of questions. Yes?

Andrew Murphy
BofA Merrill Lynch, Research Division

Andy Murphy from Bank of America Merrill Lynch. One question is really sort of in 2 parts. I'm just looking at potential CapEx in the Philippines, you mentioned it before as a way of expanding the business and perhaps beating off some of the competition that's coming in. Just wondering whether you could update us on that and general thoughts around that? And just general on CapEx at the group level, could you just give us a steer on the outlook for '18 and '19 in terms of absolute spending?

Albert Jude Manifold
CEO & Executive Director

Thanks, Andy. Maybe, Senan, you might just take the overall group perspective. But I might ask Ken to comment on the specifics...

Finbarr Senan Murphy
Finance Director & Executive Director

The specifics in the Philippines, yes.

Albert Jude Manifold
CEO & Executive Director

The specifics for Philippines and what the rationale is behind that.

Finbarr Senan Murphy
Finance Director & Executive Director

See, to put the numbers around it before I pass it across to Ken. CapEx across the group last year, we closed out at 104% depreciation, which was in line with what we would have expected or we would have guided. And I would say before you take into account the Philippines spend next year, I would expect our number to be somewhere in that range again as a percentage of depreciation, recognizing obviously we'll have new businesses in our portfolio like Ash Grove next year. So you need to take that into account in terms of looking at the absolute amount of CapEx. Philippines, specifically over the next 12 to 18 months, we're talking about a spend of about 120 million, 125 million to do the first phase of that expansion. Ken, you can maybe update in terms of the expansion and obviously, what it supports and what it does for us.

Ken McKnight

That is really phase 1. What we're doing in phase 1 in the Philippines is really debottlenecking our plants in Luzon and Metro Manila, where we're the market leader. By doing that, these are all very strong returning projects. What that does, it displaces very expensive import, clinker, which is what we do at the moment. So I think it would run Phase 1, which is really that 125-odd million or so over the next couple of years. That probably adds about 700,000, 750,000 tonnes of locally sourced and produced clinker that will displace expensive imports.

Albert Jude Manifold
CEO & Executive Director

Thanks, Ken. I'm going to move down the wires now because we have a lot of questions, and I have to say half the questions that are here. I'm going to try and bucket them in here is to do with potential infrastructure stimulus coming from the U.S.

And we don't have a particular view in this. What we do with regard to infrastructure is exactly how Randy spoke. We know what's it in front of us with regards to the FAST Act. There is no other program or stimulus in place at this moment in time. We like to see the discourse that's taking place on Capitol Hill because we believe that bipartisan discussion actually will help stimulate a broader discussion with regard to U.S. infrastructure spend going forward. And anybody who's been to North America knows it very well, particularly at the United States, my colleagues have referred to is there is significant need for infrastructure spend going forward as that economy builds. And remember, 30 million people arrive in the United States every 10 years. They need to live in houses. They need to go to school. They need hospitals. They need stores. They need roads to drive on. That's what is needed to drive the future growth, let alone repair what's there. So significantly needed, but all we're dealing with at this moment in time is what's in front of us. And just if I can just deal with maybe some other themes because I don't want to get focused on U.S. infrastructure.

And just back to you, Ken, again. Excuse me. Just a question -- just maybe just update us in terms of volume and price trends in the Eastern European markets, which are very important for us and our European businesses.

Ken McKnight

I mentioned actually the East Europe platform a bit earlier on. And maybe just to reflect on what we have there. We have very good market positions and they sweep down through Poland, Ukraine into north Danube which is Slovakia and Romania, Serbia and Hungary. In all of those markets, so a good market position. Markets are growing. Every one of those we expect volumes to increase by varying degrees and so good pricing. One country I would pick out actually out of all that basket there would be Romania. Romania actually came with us as part of the assets we got from Lafarge-Holcim a couple of years back. Very good country, good market structure. Bit of political instability at the moment, but we think that will wash through over the next couple of years. But really, what's going to be a very -- I think the country to look out for in terms of if you're tracking CRH look at Romania and look at our business there. I think we have very fine business and something we can build a typical CRH model going forward.

Albert Jude Manifold
CEO & Executive Director

And volumes and pricing moving ahead in the next few years?

Ken McKnight

Yes, hopefully.

Albert Jude Manifold
CEO & Executive Director

Okay, good. Let's put that in your budget next year. Okay, just if I move away from infrastructure in the U.S. focus maybe. Keith, just a question. Your own thoughts, you're very exposed to residential and nonresidential. Where you do see res and nonres in the overall cycle? And where do you see it going forward?

Keith Haas
Chief Executive Officer of Expanded Americas Building Products Group

Yes. I think it's obviously been a number of years of expansion in those markets. I think someone said about business cycles, they don't die of old age, they die of imbalance. And we don't really see that at the moment in either the res or the nonres market. Nonres recovered faster, and it's probably closer to kind of normalized levels. But the U.S. economy continues to grow, maybe even a little bit of a pickup in the rate of growth is predicted. And job creation has remained very robust or -- and stable at kind of in that 150,000 to 200,000 jobs every year. And so that drives demand for the nonresidential sector whether that's commercial space or office space, retail or whatnot. And in the res sector, you could debate I think on what's the long-term rate that's needed for U.S. housing. It might be 1.4, it might be 1.5. Last year, we got all the way back to 1.2. So I think we're still under potential there. You mentioned, Albert, 30 million people every 10 years that requires quite a bit of housing. And we went way down, and we're on our way back up, but I still think that the U.S. housing market is underserved. And so I don't think it's a question of have we reached peak levels, which I don't think we have. I think it's really about the pace of growth going forward. And given the fact that we are getting near full employment in the United States. And indeed, it's improving in Canada as well that I think what we'll see is continued slow growth in those markets. And that probably could be mid- to low single digit for the next 2 or 3 years, and we'll just see where we go from there.

Albert Jude Manifold
CEO & Executive Director

Okay, thank you. And question really, I suppose, for you, David. It's actually obviously from the Netherlands. I see a lot of commentary in the local press about the potential disposal of DIY in the Netherlands. What's your thoughts in distribution and how it sits within the European businesses?

David Dillon

We don't comment on any individual deals in CRH. I think, I mean, what we're constantly doing in CRH I think is looking at our overall portfolio all the time, continually looking at capital allocation. And I think what we have in distribution generally I think is we have very fine business in the Netherlands itself anyway in builders merchants. If you look across our geographies and the type of businesses we have, both builders merchants and our SHAP platform as well. This has grown quite well over the last couple of years. It did very well through the recession. And if you look ahead, we've got the option to acquire SAMSE in France. And just to remind people about SAMSE. SAMSE is we own a minority of SAMSE. It's a large distribution business in France. France has been a country that's turned the corner over the last 18 months. And we have the option to acquire a majority in that business over the next 3 years, very exciting. It would make us #2 in that market. And again in Germany, we did 2 bolt-ons within the year in 2017 as well in our builders merchants business there. So we've got room for growth, I think, in general. And I think what comes in and out I think as part of our normal daily business here, where we can create value for the shareholder.

Albert Jude Manifold
CEO & Executive Director

And just on distribution theme, we sold our Allied Distribution business in North America last year and a question really, I guess, for you, Keith, I suppose to some extent. Just are we a less balanced business now? I suppose it's a North American question. Are we less balanced business in North America now without Allied in our portfolio?

Keith Haas
Chief Executive Officer of Expanded Americas Building Products Group

Yes. Well, I'll take that maybe in 3 parts. So I think when we look at balance, we look at it in 3 ways. One would be kind of the end markets we serve, and that would kind of think about res, nonres at least from the products and distribution side. The sale of Allied actually doesn't change that mix really materially. So it was very similar to the businesses that remain within the portfolio. Then if you think about type of use between new and RMI. Again, Allied very much matched the portfolio that we have existing. So it really doesn't move the balance there much at all, which is good because we like the balance that we have. And, I guess, finally would be the geographic mix, where you want to kind of not be tied to any one particular geography. And I would say there, it has slightly shifted kind of as we talked about earlier in that Allied probably was a bit stronger in the Northeast and in the Midwest than the broader portfolio in North America. And so it has shifted in very small terms our business toward the South and to the West, which I think is probably overall a good thing in terms of the growth rate that we see going forward. So in summary, not much.

Albert Jude Manifold
CEO & Executive Director

Okay. I think officially, I got about 20 seconds left. But I'm going to squeeze in one more question, Senan. Just a question on dividend. Your 5% dividend increase, where do you see that going? And what's your view on dividend cover going forward, please?

Finbarr Senan Murphy
Finance Director & Executive Director

Sure, yes. So dividends, again a positive story this year in terms of increase by 5% on top of the 4% increase last year. And obviously, bear in mind the fact that for the previous 8 years, we had held our dividend constant despite the downturn. So obviously, recognizing dividend is very important to our shareholders. We closed out 2017 with a dividend cover of 2.4x if I take out 2 exceptional items that were recorded in our earnings per share, the Swiss pension gain and deferred tax I talked about earlier. So I mean, the policy is that as long as we continue to grow our earnings per share, we'll continue to progress our dividends. And that's what I'd expect to see. And at the same time, what we continue to do is obviously build our cover so that we're well protected as we go forward, and we are able to ensure that dividends can continue to be paid, and we can continue to progress them going forward.

Albert Jude Manifold
CEO & Executive Director
Thanks, Senan. We've come right up against the clock, and I'm afraid at this stage, I just want to take this time to thank you all for your time, the brave souls who came out this morning in this inclement weather to be in this room here this morning and also to those of you down the wires for taking the time to listen to our presentation. And we will next talk to market when we update the market with our Annual General Meeting at the end of April. Until then, if you have any questions or queries, of course, we have a very active Investor Relations department. All the information and contact details are on our website. So if you have any questions or queries, if you could please contact Frank and his team through that medium. Thank you very much for your time this morning, and have a good day. Thank you.