Hill & Smith

Preliminary Results Presentation

Transcript

Hill & Smith PLC

Rutger Helbing: First of all, good morning and welcome to the 2024 full year results presentation for Hill & Smith. It's good to be here for my first set of results after I joined as CEO in September last year. And I will start this morning with the highlights of the year after which Hannah will take you through the financials. After that, based on my first impressions and a high level review of the group strategy and business model I have carried out since joining, working collaboratively with the executive committee and the operating company senior leaders, I will share with you our refreshed purpose, operating company framework and priority end market focus. Taking that into account and our recent financial performance, I will then talk about our updated financial framework and capital allocation.

But let me move to the highlights. To start with the 2024 highlights showcasing another very successful year for the group. In 2024, we've seen a record trading performance with 5% constant currency revenue growth, and 20% profit growth, driving a further 200 basis point increase in operating margin to 16.8%. This performance was underpinned by an excellent performance in our US businesses, including the positive impact of bolt on acquisitions within those platforms. Also, we saw a return to organic revenue growth in the second half of the year.

We acquired four businesses in the year for a total expected consideration of circa £60 million, with the acquisitions initial trading performance positive. At the start of 2025, we've also divested two small non-core roads and security businesses, further improving the quality of our portfolio. We will continue to review our portfolio and pursue M&A through our well-defined framework. And to that extent, the pipeline remains active.

The strong profit performance was also mirrored in our cash generation and return on invested capital. Cash conversion of 99% was very strong, and return on invested capital increased to a record 24.8%, up 280 basis points in the year. EPS was up 16% supporting a final dividend of 32.5 pence, leaving the full year dividend at 49 pence, 14% up on prior year.

With the growth drivers for our markets still positive, in particular in the US and our refreshed strategic and financial framework with an increased focus on faster structurally growing attractive end markets and updated targets for operating margin and return on invested capital. Overall, we expect another year of good progress in 2025. And with that, let me now hand over to Hannah.

Hannah Nichols: Good morning everyone. I'm pleased to report that the group has delivered a strong set of results for 2024 with profit and cash ahead of market expectations. Revenue was £855.1 million, up 5% at constant currency and flat on an organic constant currency basis. We saw a return to organic revenue growth in the second half at around 2%, reflecting strong organic growth in our higher margin Engineered Solutions and Galvanizing Services businesses in the US. This was offset by ongoing subdued demand in the UK and the impact of previously reported challenges in our US off-grid solar lighting business.

At £143.5 million, operating profit was up an impressive 20% on a constant currency basis and 12% on an OCC basis. Operating margin increased by 200 basis points to 16.8%, reflecting the faster growth seen in our higher margin US businesses. Alongside this, our recent acquisitions are performing well and contributed around £46 million of revenue and £10 million of operating profit in 2024. Underlying profit before tax was 18% higher at £132.6 million, and with an effective tax rate of 25.6%, earnings per share increased by 16% to 122.6 pence. Given the strong trading performance and our confidence in the Group's growth prospects, we're recommending a final dividend of 32.5 pence per share, making a total dividend for the year of 49 pence, an increase of 14%.

So if we turn to the group overview, as the charts at the top illustrate, the group is well positioned in fast-growing attractive US end markets with our higher margin US portfolio, generating 59% of revenue and 76% of operating profit in the year. In terms of the weighting between divisions, Engineered Solutions delivered another strong performance, generating 54% of profit for the group with strong demand seen across our US products and solutions offering. Galvanizing Services generated 35% of group profit with a 220 basis point margin expansion, reflecting good volume growth in our higher margin US business.

In contrast, revenue in Roads & Security declined in the year due to expected lower demand in our US solar lighting business and a challenging UK market. The division now represents a relatively small part of the group at 28% of revenue and 11% of operating profit in 2024. So if we now turn to our divisional performance starting with Engineered Solutions, the division delivered an excellent performance with 17% revenue and 25% profit growth on a constant currency basis, reflecting strong demand across our US businesses and the positive contribution from recent acquisitions. As a result, operating margin increased by 110 basis points to 18.6%.

The US represented 76% of divisional revenue and delivered 8% OCC revenue growth and further operating margin expansion. Our largest business, the Creative Composites Group, saw strong growth with high demand for composite solutions across its range of focused end markets. In July, we acquired Trident Industries, which expands our utility pole product range. V&S Utilities delivered an excellent performance underpinned by high demand for structural steel projects to upgrade electrical grid infrastructure. During 2024, we made two complementary bolt-on acquisitions in this high growth market. We also completed the expansion of our facility at Burton, Ohio and have additional investment planned to further increase production output in 2025.

The Paterson Group, our engineered supports business, delivered a record year driven by strong demand for industrial projects. In March 2024, we acquired FM

Stainless, which increases our exposure to the attractive water and wastewater market. And in addition, given the positive demand, we're expanding our facility in Louisiana, which we expect to be fully operational by the end of 2025. The outlook for all our US Engineered Solutions businesses remains very positive with growth supported by investment to upgrade critical infrastructure and onshore vital components. In the UK, revenue declined by 7%, partly due to pricing reflecting lower steel input costs. As a result of the revenue decline, profit was lower than 2023.

Our building products business continued to see lower demand from UK housebuilders and focused on cost management to maintain margins. The industrial flooring business saw good demand from data centre projects. However, demand from smaller order customers was more subdued. Both businesses are cautiously optimistic that they will see a return to growth in the second half of 2025. Our engineered supports business in India saw good growth underpinned by international LNG projects and enters 2025 with good growth prospects.

So if we turn now to the Galvanizing Services division. The division delivered a record performance with revenue up 2% and operating profit up 13% on a constant currency basis, reflecting good growth in the US.

Operating margin increased by 220 basis points to 25.4% due to the favourable geographical mix. V&S, our higher margin US business, delivered an impressive performance with 6% OCC revenue growth and record operating profit. The growth reflects a 9% increase in volumes, partly offset by pricing reflecting lower input costs. Volumes were sustained by strong demand from baseload customers in bridge and highway and transportation sectors, combined with continued growth in utility, data centre and clean energy segments. As a result, the business saw good margin expansion in the year and continues to deliver superior operating margins with customers valuing the excellent service provided by our local teams.

The outlook into 2025 remains strong with ongoing US infrastructure investment expected to support volume growth. In contrast, 2024 was a challenging year for UK Galvanizing. While first half volumes were lower than 2023, the business saw good volume growth in the second half supported by sales actions and some market recovery. As a result, full year volumes were 2% ahead of prior year. However, revenue was down 4% due to lower average selling prices, reflecting lower input costs and competitive pressure. During the year, the business enhanced its focus on customer service with simplified operational and commercial structures and enters 2025 with an improved outlook.

Turning to Roads & Security. Revenue was 9% lower than 2023 due to expected softer demand in our US off-grid solar lighting business and a challenging UK market backdrop. However, operating profit was 26% ahead of 2023, which included one-off operational improvement costs for US roads and non-recurring charges relating to certain UK businesses. Revenue in UK roads was 5% lower, but profit was ahead of 2023. Our rental barrier business delivered a robust performance with revenue and profit growth underpinned by good levels of operations activity and favourable outcomes on scheme completions. The wider UK roads portfolio was impacted by reduced demand and budgetary pressures seen in some central and local government customers.

2023 included certain one-off charges for product installation, rectification and legacy contract provisions, which contributed to a year-on-year profit improvement in 2024. We expect 2025 to remain challenging in the UK due to continued budgetary pressures and diminished visibility of project pipeline following delays to the release of Road Investment Strategy 3. Our market-leading businesses remain focused on cost management and diversification and are well-placed to benefit and deliver healthy returns when the market recovers. In the US, revenue was 15% lower. Revenue and profit in our off-grid solar lighting business were significantly below 2023, particularly in the first half with softer demand from our largest customer as they realigned inventory levels. The business is taking steps to innovate and diversify its customer base, and the medium-term outlook remains positive. Performance in the US Roads product business was ahead of 2023 with focused pricing and cost transformation actions. The performance of the core barrier and attenuator product lines has been encouraging with healthy customer demand and a positive outlook. We are, however, taking further action to address the non-core, low-margin message board product line to improve the quality of the business.

The continued challenges in message boards has resulted in a £13.2 million impairment charge recognised in non-underlying items. In line with our active portfolio management approach, we divested our subscale Australian roads business in January 2025 and divested Parking Facilities, a small, loss-making UK security business at the end of February, further improving the quality of the group portfolio.

So, if we move on to cash generation and financing, the group continues to be highly cash-generative and delivered 99% cash conversion in the year. The working capital inflow was £0.6 million with a continued focus on working capital efficiency. Capital expenditure was £28.6 million, representing a multiple of depreciation and amortisation of 1.3 times. During the year, we made capital investments to support organic growth, including the upgrade of our engineered supports facility in Louisiana, investment in tooling and systems in our U.S. composites business, and the purchase of an automated kettle-line in one of our U.S. galvanizing plants.

In 2025, we're planning to invest around £40 million on capital projects, with key investments including a significant move and upgrade of our V&S Utilities site in Oklahoma to increase capacity, the completion of the engineered supports facility upgrade in Louisiana, and a number of ERP investments to support future growth. After interest of £10.3 million and tax of £26.5 million, the Group generated £100.2 million of free cash flow, providing funds to support our acquisition strategy and dividend policy as well as driving further de-levering. In 2024, the cash outlay on value-enhancing acquisitions was around £50 million. We continue to maintain significant liquidity headroom and leverage capacity to support future growth opportunities. Net debt at the end of the period was £96.9 million. With the ratio of covenant net debt to EBITDA reducing to 0.3 times. Return on Invested capital for the period was 24.8%, a 280 basis point improvement from 2023, reflecting the faster growth in our larger, higher-margin U.S. businesses.

So, turning to M&A. We have made good progress on M&A in the year, having completed four acquisitions for a total expected consideration of around £58.5 million, in line with our target to spend between £50 to £70 million per year. We continue to be able to identify and secure strategically aligned, financially accretive businesses at sensible prices. We are also able to do this outside of auction processes. You can see further details of the acquisitions on this slide. All four were bolt-ons to our larger U.S. Engineered Solutions businesses. Capital Steel and Whitlow supply structural steel and substation components into the high-growth electrical infrastructure markets and have been successfully integrated into our V&S Utilities business. Both expand our geographic footprint and customer reach and provide good cross-selling and operational improvement opportunities. FM Stainless was acquired through The Paterson Group, giving us greater access into the attractive water and wastewater markets. This end market looks very strong with significant funding continuing to go into water projects.

And finally, Trident Industries plays in a specific niche of the composite pole market, supplying highly resilient, multi-layer composite poles into the U.S. and Caribbean markets. Trading for all four acquisitions has been positive to date, delivering results in line or ahead of our business case expectations. As Rutger will cover shortly, disciplined M&A remains fundamental to our growth strategy and our M&A opportunity pipeline remains active. And before I hand over to Rutger, I will briefly cover the changes we are making to our divisional structure in 2025.

We're making the changes to better reflect the way the group is now managed and to enable a closer focus on geographic end markets and growth opportunities. An outline of the new structure is shown on this slide. In summary, Galvanizing Services, no change, and the creation of two new divisions. U.S. Engineered Solutions, comprising all U.S. operating companies, excluding Galvanizing Services, and UK and India Engineered Solutions, comprising all UK operating companies and India, excluding Galvanizing Services. We will report under the new structure at our half-year results in August 2025 and further details of the indicative 2024 reporting can be found in the appendices to this presentation. I will now hand back to Rutger.

Rutger Helbing: All right, thank you, Hannah. And before I share with you my initial observations, I would like to take this opportunity to personally thank Hannah for her contribution over the last five and a half years to the success of Hill & Smith. The numbers speak for themselves, and Hannah has also helped me personally in the transition into the CEO role and has worked tirelessly on the delivery of her last set of Hill & Smith results. So, we wish you all the best in your new role. With that, let me share with you my initial observations of Hill & Smith.

First of all, I've joined a fantastic business which operates in attractive infrastructure and built environment end markets and with a strong foundation and track record of success. This success, however, is not guaranteed. And I've seen that we have in our operating companies’

teams that are proud, hard-working, energetic and highly customer-focused.

And in our decentralised model, we maintain the entrepreneurial culture that allows our companies to be agile and responsive, driving our performance. Going forward, I want us to build upon the strength of the business, and this has been the starting point of our high-level review of the group strategy and business model. It is however, also good to recognise that the business over time has evolved and, in that context, we have refreshed our purpose, the reason why we're here, our operating company framework, how we deliver on our ambition, and our end market focus where we operate. So let me move on to the purpose and the Hill & Smith operating company framework. Let me start with our purpose, our North Star for future strategic decision-making. And we have defined this now as: we create value by providing solutions that enhance the resilience of vital infrastructure and the built environment.

Let me just reflect on a couple of components of this. First of all, I want to talk about we, we as a group, but also we with our employees and value chain partners to create value for our customers and our shareholders. We provide solutions that enhances the resilience of our customers' assets, making them more durable and sustainable, and we focus our solutions on infrastructure and built environment projects. As I said, the purpose is our North Star and applying our operating company framework is how we deliver on our ambition and will help us in our portfolio management, both for our existing businesses as well as for M&A. So, in that context, it focuses on what the characteristics are of a successful Hill & Smith portfolio business. For clarity, this is to be used like a balanced scorecard. So we do not expect all businesses to score equally on those characteristics, and they can change over time, but the framework will help us to drive performance, identify and secure the most attractive opportunities and continue to optimise our portfolio.

The framework distinguishes the market dynamics, the desired business model and management and culture. So let me start with the market dynamics. In terms of the market dynamics, our focus is on end markets with higher growth opportunities, and I will get back to that with our renewed focus on priority end markets. We're looking for niches in those end markets where there are higher barriers to entry, low substitution, and where those niches represent a small fraction of the total cost for our customer. And very importantly, we're looking to have a strong competitive position in those markets. We also look for fragmented markets where we have the opportunity for bolt-on acquisitions and or where there are attractive adjacencies for those bolt-ons. In terms of the business model, we're looking for businesses that fit into our framework, and they are those that are really highly customer-centric, those who are close to them and understand their real needs and service them accordingly.

They offer real differentiation, whether that's through product and or service, and they will mostly manufacture or provide an industrial process like galvanizing with low to medium capital intensity. Lastly, within our decentralised model, our operating companies have driven an entrepreneurial management teams and employees who are experts in the markets they serve, but who are also able to support our M&A agenda and willing to work in a larger group where the group provide resources to grow organically and inorganically and helps to set ambitions to the full potential of the operating companies. Our operating company framework, together with our financial framework, is at the core of our portfolio management approach. But let me now move on to where we operate: our priority end market focus. As said before, we operate in attractive infrastructure and built environment end markets. In our review, we've identified 14 end markets across the infrastructure and the built environment that we currently are exposed to.

These markets are all to different degrees impacted by megatrends and therefore vary in degrees of growth expectation and cyclicality. Based on that, we have categorised the end markets into four distinct groups:

- high-growth emerging markets, including data centres, renewables and gigafactories;
- resilient growth anchors, including electrical transmission and distribution and water infrastructure;
- stable growth markets, including transport products, transport infrastructure and public construction;
- and the more cyclical sensitive markets, including industrial, residential and commercial construction.

Currently, 68% of our global revenues are in the first three categories, but there is a regional difference with the U.S. representing about 75% of revenue and the UK, rest of the world, about 50%.

With our renewed focus on these end markets, we can set ambitions for the operating companies to drive further long-term growth in the most attractive markets. And the good news is that we've seen that model already in action in 2024, with high-growth markets increasing by 42% and the resilient growth anchors by 30% and the share of total revenue of those market groups growing from below 20% to around 25%. Our end-market focus and operating company framework are crucial underpins to delivering on our refreshed financial framework. So let me move on to that.

Building upon the successes in the past few years and utilising our refreshed purpose, operating company framework and end-market focus, we've also updated our financial framework. Our revenue growth targets remain the same with across the cycle 5 to 7% organic growth and with M&A +10%. We are, however, increasing our operating profit margin ambition, having grown this by 350 basis points in the last three years, and we're increasing it from 15% to 18%+. Through the cycle, given the structural growth drivers in the US, the potential for UK market recovery and the flow through of portfolio management actions. And linked to this, we're increasing our return on invested capital target to 22%+, to reflect the strong and growing returns generated by our current portfolio, whilst also providing flexibility to deploy capital into value enhancing M&A where initial returns are typically below the target level.

We maintain our cash conversion target reflecting the strong track record of cash generation, whilst also allowing for more significant investment in growth CapEx as appropriate. Lastly, we aim to maintain a prudent balance sheet, and as such, leave our covenant leverage target unchanged.

So let me move on to capital allocation. In terms of capital allocation, our focus remains on organic and inorganic investment, delivering overall group returns on invested capital of over 22% through the cycle, combined with a policy to provide a growing dividend as we have done historically and in the last three years with over 16% compound annual growth rate. Recognising the cash generative nature of our business, the board will also consider returning surplus capital to our shareholders through an appropriate mechanism if we expect leverage to fall below 0.5 for a sustained period of time, whilst maintaining an overall prudent target leverage between one and two times.

Let me move to sustainability. We are fully committed to our sustainability agenda, which continues to underpin our strategy and delivery of our financial results. Our focus is on protecting the world with lower greenhouse gas emissions, energy efficiency and sustainable products. Providing a safe environment for our colleagues where they can further grow and run the business using sustainable governance principles.

I'm pleased that in 2024, our LTI rate reduced by 23% and we continue our journey to best in class safety metrics. In that context, we updated our LTI targets for both 2025 and 2030. We have clear plans in place to achieve those and track progress against them. And as part of the journey and with a new regional health and safety organisation in place, we implemented a new health and safety management system and relaunched our life-saving rules.

To provide further growth opportunities for our colleagues, we launched a new high-potential program and continue to ask for feedback through our engagement survey. In 2024, we saw a record participation of 83%, but overall engagement remained at prior year levels. We will build upon the strong participation and with increased focus on action planning, we aim to increase engagement in 2025.

In terms of greenhouse gas emissions, we reduced our absolute emissions by 3%. We benefited from moving to renewable energy in our US businesses where this is available and treasure hunts in some of our operating companies, which have identified energy efficiency and carbon reduction opportunities.

Let me move on to the investment case. I've shared with you our refreshed purpose, operating company framework, and end market focus, and hopefully it's clear that this further underpins the Hill & Smith investment case. First, I have spoken about our enhanced focus on priority end markets, those with the most attractive growth prospects with particular noteworthy exposure to infrastructure spend in both the UK and the US as governments seek to upgrade the quality of their national infrastructure to support economic growth. It is then about market leadership in the niches in which we operate, allowing us to enjoy high barriers to entry and therefore strong operating margins. We do not want to be competing against commoditised players.

Sustainability is core to our business model in terms of how we operate and the products we manufacture. Critically, then it's about an autonomous business model, which encourages and supports an entrepreneurial culture at the operating company level. Our head office is there to ensure we have the right KPIs and controls, but it's also there to support setting the ambition for each operating company and as a result, help to ensure that each of our businesses deliver to their full potential.

Finally, it's about ensuring we maintain a strong balance sheet capable of supporting organic growth while also allowing us to deliver on our M&A strategy. We see significant opportunities to use M&A to help us expand into new customers and end markets and into new technologies. Effective delivery on this M&A strategy is about ensuring that our group M&A team are hand in glove with our MDs to source opportunities, build a relationship with owners supported by best-in-class execution and post-acquisition integration.

So let me finish with the outlook. The group is well positioned with exposure to a range of infrastructure and built environment end markets with attractive growth drivers. Our US businesses delivered 76% of group underlying operating profit in 2024, and we expect strong trading momentum to continue in 2025, underpinned by investment to upgrade and onshore vital infrastructure and support technology change.

We're closely monitoring the effect of current trade tensions on our businesses and supply chains. However, we do not see a significant impact at this time.

The outlook for our UK businesses in 2025 is likely to remain challenging given budgetary pressures in the public sector. However, we are cautiously optimistic for some level of recovery. We continue to see attractive growth opportunities in our Indian business. So overall we're confident of another year of good progress in 2025.

Our focus on structurally growing niche end markets together with our proven M&A strategy and the benefits of our agile operating model provides confidence that the group will continue to make progress in the medium to longer term in line with our strategic and financial framework.

And with that, I think I would like to move to Q&A, which I think we'll start in the room. So how we're doing that?

Rob Chantry: Hi, Rob Chantry from Berenberg. Thanks for the presentations. Three questions from me all on, I guess, portfolio. I suppose firstly just on process. I mean clearly there's an existing M&A pipeline approach, etc. How much have you or will you look to change that?

Secondly, I know you put it on the slide, but it says £50 to £70 million per annum. The balance sheet is at 0.3 times. I mean, how much do you consider that out of date versus the aspirations that you're presenting on the slides?

And then thirdly, looking I guess at the US market in particular, would you pay a bit more money to buy a platform business in a new area? I know you have your strategy chart looking at gigafactories, data centres, etc., which looks very exciting. Would you buy a new platform business that enables you to actually scale up and do something more in that area rather than the kind of classic bolt-ons? Thanks.

Rutger Helbing: Okay, I'll try to answer those questions. In terms of the M&A pipeline, look, I think this operating framework helps us to better determine whether a company is attractive or not, but it doesn't change necessarily the pipeline. So we've got a process in place. We clearly have the local MDs playing an important role and, as I said, the central M&A team, together with the MDs, continuously work on that. But I do think that the operating company framework helps us to better determine whether a company fits in our business going forward or not. So I think that's the point from that perspective.

I think overall we said £50 to £70 million is what we think should spend every year. That's based on the fact we've proven that we can do that. We've got the capabilities to integrate them successfully. And also, when you look at the slightly smaller businesses in terms of valuation, you look at lower valuation. So in principle, we feel that that's a good target to go for.

But you're also right. If there is a new platform business that would be really attractive, you probably want to look for a slightly bigger business. You wouldn't integrate it in one of the other ones, and therefore you do look probably at a slightly bigger business and the valuation of those might be slightly higher. So we're definitely not saying no to that, but our first intention is to do the bolt-ons that we do now, but we'll do more in terms of looking at the priority markets that I shared with you. And if there's an attractive opportunity for a new platform, then we'll definitely consider that.

Joe Spooner: Excuse me. Morning, Joe Spooner from HSBC. Can you talk a little bit about the IIJA and how you've seen that potentially change with the change in administration? I think some areas have been de-emphasised. Has budget been lost overall or are you seeing budgets being moved into different areas?

And then secondly, just on the enhanced focus you're talking about, when you look at the existing portfolio, does that all measure up to the way you are thinking about portfolio businesses?

Rutger Helbing: Sorry, the last one, please.

Joe Spooner: When you look at the existing portfolio, are the businesses that sit in that existing portfolio, do they measure up to the new criteria that you're setting out here?

Rutger Helbing: I mean, things change on a daily basis, but on the IIJA, if you look at where the investments are going, I think two-thirds are going in either Republican or what they call 'Purple States'. So I think it's set into law as well. So it's not as easy to change that necessarily. The only thing that I publicly have seen is clearly Trump doesn't like electric vehicles , (although he has bought one, so that doesn't make any sense). But anyway, he doesn't like electric vehicles, and I think some of the funding is taken away from that. That's not really a market which we are involved in. There's lots of opportunities for us and we see the big projects that we're supplying to, still supplying into and no change. So I mean, it is all a bit up in the air in that sense, but it's within the law and the expectation is that that will continue to be spent, but we'll monitor it and that's right.

In terms of looking at our existing portfolio, we're definitely using that framework for that as well. And I think you always have in a business better performing businesses and businesses that maybe are slightly below. And I think the framework is again useful to think about, is this a structural problem or is it something that we can fix or is temporary? And based on that, you look at what you do with it. But let's take the Australian business that we have divested. I think that's a good example. If you put that into the framework, you probably say, "Well, actually the roads business is still attractive, but we have a very small market share in that business." And I talked about the importance of market share. So it's really difficult if you have a small business to be successful there. So in that sense, if you apply the model, it doesn't make a lot of sense to have that as part of the portfolio, so we divested it. So we'll continue to review and I think that's what we should do, as we continue to review M&A.

Joe Spooner: Thank you. And then just finally, I think you said that if leverage was seen as being below 0.5 times on a sustained basis, you'd look at potential to return capital. I think it's been below that level for two years now. So why is now not the time to do that? I think last year, leverage fell when M&A was at target levels. And is there a reason that you haven't exercised that yet? Thanks.

Rutger Helbing: Well, I think we don't give a specific timing for that. You need to think about what's the pipeline in terms of M&A, and also in terms of growth investment? This year, we are investing a little bit more in capital expenditure which Hannah has talked about and I think we should definitely keep on looking at that. And as to the M&A pipeline in a sense, I've just joined the business as well, and we need to see what the further opportunities are. But if we come to the conclusion, and the Board is very conscious of being responsible with a proper balance sheet, if we come to the conclusion that for a longer period, it will continue to stay there, then we'll definitely consider those returns to shareholders in whatever way is the most appropriate at the time.

Harry Phillips: It's Harry Philips at Peel Hunt. A couple of questions please. Just one, Hannah, on the acquisition contribution. Just looking in the appendix, last year's M&A contribution was 9.8m profit on 43.5m of revenue. I'm assuming some of that's '23 acquisitions. So just after an annualised impact of the '24 acquisitions, what might be ballpark for the current year?

And then the second is just more on the new operating framework and the different categories that you have. I can totally get how the manufacturing businesses, how one can be run for profit over growth, etc. etc., given the different dynamics. But when you look at the Galvanising sites for example, a Galvanising site is a, well, a Galvanising site, and therefore you can't fine-tune the bit which goes into the higher-growth areas again. So how do you run those businesses in that more defined categorisation which you've suggested?

Rutger Helbing: Okay. Do you want to take the first or do you want me to take the first on the framework?

Hannah Nichols: You take that one and then I'll just check on the numbers of the M&A contribution.

Rutger Helbing: On the framework, actually I think taking galvanizing is actually a really good example because even in galvanizing, they've brought in their market segmentation and we have seen very good growth in renewables. So if you look at the solar investments going into the US, that's actually where we've grown with galvanizing as well. So even in a business where you might not necessarily expect it, you can still look at where are the opportunities to go there. But even if we have a business that is – I'm not saying that the slightly more cyclical businesses are bad businesses (they're not and they can operate really well within that environment and, if we get the right returns from them, that's fine) – but overall, we're going to look for each of those businesses to look at where are you now, is there an opportunity to move to a slightly more higher growth areas? And galvanizing, as an example, there is. And so what do we do to achieve that? And we'll also look at whether there are opportunities in M&A to help you to move into that direction. So I think it's a starting point and that's how we're going to use it in our strategic planning.

Harry Phillips: If I could just follow up on that. In terms of galvanizing itself and the tipping point of investing in a new Galvanizing plant or buying someone else's, where are we in that space? Traditionally Hill & Smith has added one maybe every other year. What's happened?

Rutger Helbing: Well, so galvanizing is quite a regional business, right? And if you look at our network, if we see opportunities that fits in... Because we move stuff around between the network. So if you say, well we're at the northeast at the moment, if you're not completely connected to that, it might make less sense, but you can extend that in terms of geographic coverage. So I think that would be good. And that could be either, if we feel there's a good opportunity greenfield, we'll consider that. And if there are good M&A opportunities, we do that as well.

And so in the M&A pipeline, we'll talk to everybody. As you know, we can't completely always control when that materialises, but with galvanizing, extending our market share and our geographic coverage, we see as an attractive part of the business.

Hannah Nichols: And then your question, Harry, about the annualised impact of the four acquisitions that we've made in the year, I'm going to talk in dollars here if you don't mind, but it's about $75 million of revenue and around $15 million of EBIT that it contributes to in the year.

Harry Phillips: That would be the annualised for 2024?

Hannah Nichols: Yeah, there or thereabouts.

David Farrell: Hi, thanks. David from Jefferies. Couple of questions. Just to carry on from Harry's question; if we think about the bridge into 2025 EBITA and adjusted operating profit, are we going to add about £3m from acquisitions? What would be the benefit of the disposals in Roads & Security? And I think you talked about positive closeouts in Roads & Security that might have helped margins this year. Does that reverse out?

Hannah Nichols: So the benefit of the disposals, is we were estimating it's about a 40 basis point improvement on margins, that sort of level of the two disposals that we've made. And then, sorry, your other question was around the...

David Farrell: So the benefit of the acquisitions that closed in the second half of '24, presumably then have a benefit into '25?

Hannah Nichols: Yes.

David Farrell: Yeah. And is that about £3m?

Hannah Nichols: Yeah, because it's predominantly low and yeah, it feels about that sort of level.

David Farrell: Okay. I'm just trying to work out what the right starting point is for then layering on organic revenue growth and perhaps margin expansion. My second question is, obviously there's quite a lot of moving parts in terms of the strategy update around purpose, around end markets, around divisional structure. Can you talk about some of the management changes that may or may not have occurred to sit within that overlap?

Rutger Helbing: I would argue it's probably more reflecting how we currently run the business. If you think we've got two regional presidents, so we're really running the business UK and the rest of the world and North America. So I see it as a slightly more clarifying of what we already do. So if you ask, do we need a different model for this? The answer is no. I think the strategic framework better reflects how we currently run the business.

David Farrell: And then final question. Obviously, we've got the geographical mix now in terms of divisions. Would you rule out doing acquisitions in Europe? Obviously, Germany's talked about large infrastructure spend over the coming decade. Is that an area where you might consider M&A?

Rutger Helbing: Well, I think the most logical parts would be first, the US and potentially from the UK if there's an attractive one. Going outside of our current geographies is a higher risk bet, because it would have to be almost a new platform business in an area where we're not. So that's pretty high risk. Now, I personally say, never say never, but it has to go through a couple of quite difficult hurdle rates I think in order for that to happen. Long-term it may be a really good opportunity, but it has to go through M&A then because we're not there. So I think there's a couple of reasons that you would say, "Difficult," but never say never is my view.

David Farrell: Thanks.

Richard Paige: Morning. Richard Paige from Deutsche Numis. Just a couple from me, please. You've obviously mentioned no impact from tariffs as you're seeing it, but could you just give us an update on just general trading on the ground at the moment in the US and how customers are feeling in this uncertain environment at the moment?

Rutger Helbing: So basically, we started the year in line with expectations. So we haven't seen any impact from that. We talked about strong order book in CCG and Utilities. So that's all good. So we haven't seen any impact so far.

Richard Paige: And within that, how is National Signal’s performance?

Rutger Helbing: Well, National Signal clearly had a difficult year last year. I think what we're doing and further trying to do is to diversify the customer base, right? Because that's really important. That takes time. So I think we don't expect a massive rebound in 2025, but we would hopefully see there's a slight uptick in the performance there.

Richard Paige: And then finally, just coming back and continuing from Harry's question, in terms of the incentivisation in the businesses to pursue certain lines of business, are you changing anything there? I'm just thinking of the journey to that 18% margin of portfolio management, natural growth and the other elements of operational efficiency. How are the building blocks?

Rutger Helbing: We haven't changed anything. So our MDs are basically, they're incentivised on their local profits and they have a long-term incentive on LTIPs at the group level. And that's the way they're being incentivised. I think it's right to probably always look at that. Do we have to make any changes? But at this stage, we haven't made any change.

Okay. Well, then, thank you very much for joining this morning and if you have any further questions at some stage, I'm sure you'll know how to find us. First, go to Chris, then go to Hannah for as long as she's still there. And then you can come to me.

Hannah Nichols: And for those of you who don't, what I would also like to just do is to introduce you to Mark Else. I know some of you have known him. Mark's been with Hill & Smith for…

Mark Else: A long time.

Hannah Nichols: How many years?

Mark Else: 15 years.

Hannah Nichols: 15 years. So Mark will be stepping up as Interim CFO. He's done that before. He knows everything about Hill & Smith and I'm sure he'll do a fantastic job. So for those of you don't know him, then he'll be around to catch up.

Rutger Helbing: But that's a good point. So we're making good progress in the search for a successor, but we are in a very lucky place that we have Mark, who knows the business inside out. So we're in good hands. We'll miss Hannah, but we're in good hands at the same time as well. So that's great.