H1 2024

Hill & Smith PLC

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

8 August 2024

HIGHLIGHTS

Strong H1 trading performance

- Revenue +2% and operating profit +12% on a constant currency basis
- Operating margin +130 bps to 16.2%
- Continuing strong US infrastructure demand offsetting more challenging UK market backdrop

Positive momentum on M&A

- Three complementary acquisitions completed year to date for £22.3m
  - Q1 2024: Capital Steel and FM Stainless. Successfully onboarded and trading ahead of expectations
  - July 2024: Trident Industries
  - Strong M&A pipeline

Good cash generation and returns

- Cash conversion remains strong at 83% (H1 2023: 87%)
- ROIC increased to 22.5% (H1 2023: 21.3%)
- Covenant leverage 0.4 times

EPS up 9% to 58.3p, interim dividend up 10% to 16.5p

Positive outlook

- FY 24 operating profit expected to be in line with recently upgraded market expectations* before adjusting for benefits of Trident acquisition

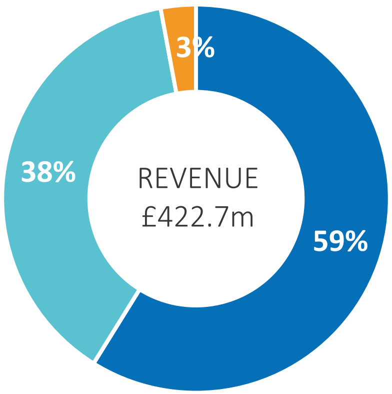
* The current company compiled analyst consensus expectation for FY24 is for underlying operating profit of £137.4m with a range of £135.9m-£145.1m

H1 2024 RESULTS

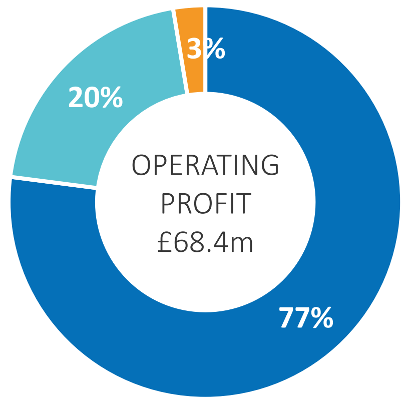
	2024	2023	Reported +/-	Constant Currency +/-	Organic Constant Currency +/-
Revenue	**£422.7m**	£420.8m	***+0.4%***	***+2%***	***-3%***
Operating profit	**£68.4m**	£62.5m	***+9%***	***+12%***	***+4%***
Operating margin	**16.2%**	14.9%	***+130bps***		
Profit before tax	**£63.2m**	£57.2m	***+10%***		
Earnings per share	**58.3p**	53.6p	***+9%***		
Dividend per share	**16.5p**	15.0p	***+10%***		

GROUP OVERVIEW

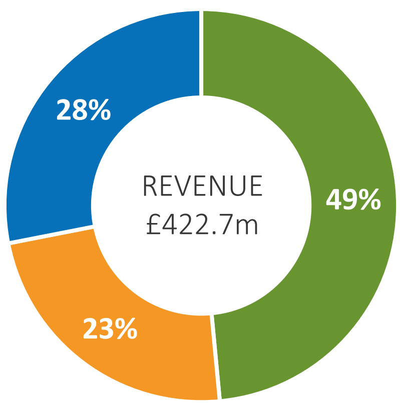
By geography



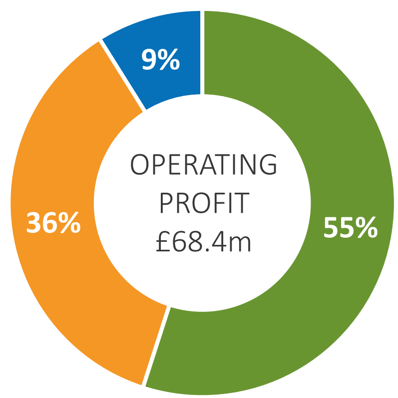
- US
- UK
- Rest of World



By division



- Engineered Solutions
- Galvanizing Services
- Roads & Security



ENGINEERED SOLUTIONS

	2024	2023	Constant Currency	OCC
Revenue (£m)	**205.0**	181.7	+15%	+3%
Operating profit (£m)	**37.6**	30.9	+25%	+10%
Operating margin	**18.3%**	17.0%		

Headlines

- Strong performance driven by US volume growth and contribution of recent acquisitions
- Record operating margin, +130bps vs strong H1 2023 comparator

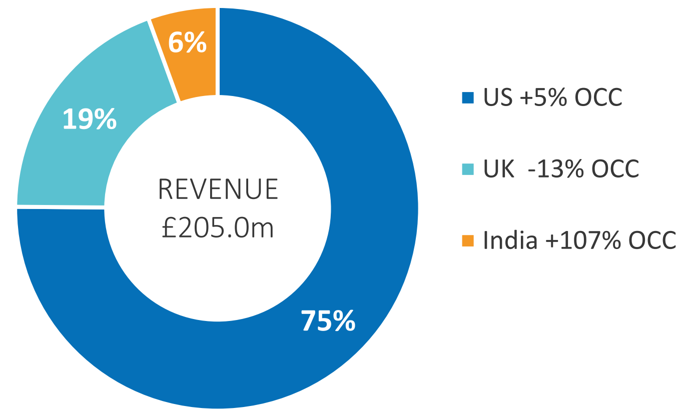
US

- Continuing high demand for innovative composite solutions
- Record order book for structural steel utility projects
- Capital Steel and FM Stainless acquisitions performing well
- **Outlook:** very positive, supported by grid modernisation, multi-year government spend, technology investment and onshoring

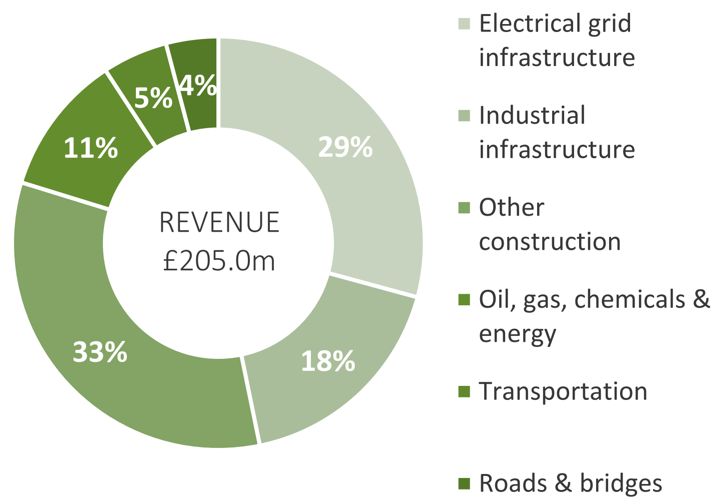
UK and India

- Continued softness in UK housebuilding and lower pricing reflecting reduced steel input costs
- India growth driven by international LNG projects
- **Outlook**: mixed in UK. Good growth prospects for India

By geography



By end market



GALVANIZING SERVICES

	2024	2023	Constant Currency	OCC
Revenue (£m)	**99.0**	99.6	+1%	-
Operating profit (£m)	**24.7**	22.6	+11%	+10%
Operating margin	**24.9%**	22.7%		

Headlines

- Strong performance supported by US volume growth
- Operating margin +220bps due to favourable geographical mix

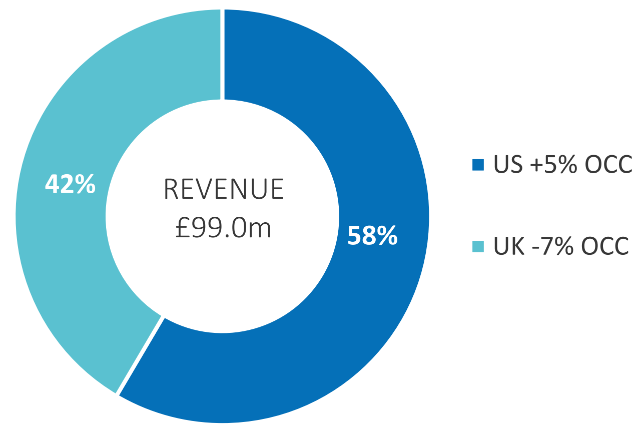
US

- Record operating profit, driven by 8% organic volume growth
- Buoyant demand from range of infrastructure projects including data centre, battery plant and bridge construction
- **Outlook**: positive, supported by IIJA, technology investment and onshoring

UK

- 3% volume decline, in line with market
- **Outlook**: improving, benefiting from new leadership, with greater responsibility pushed down to individual site level

By geography



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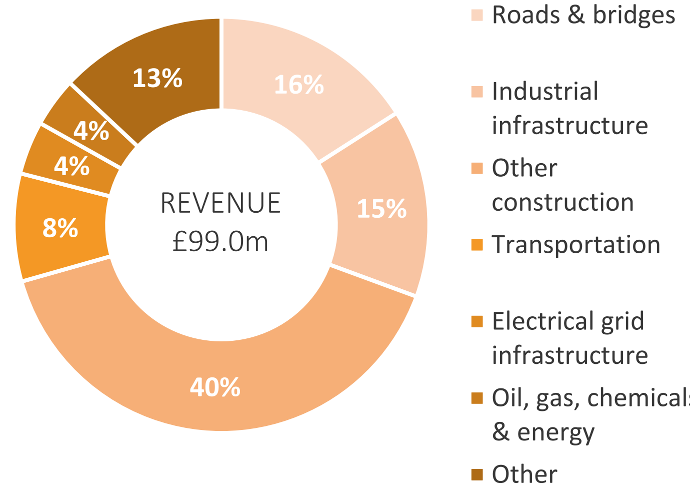


ROADS & SECURITY

	2024	2023	Constant Currency	OCC
Revenue (£m)	**118.7**	139.5	-14%	-13%
Operating profit (£m)	**6.1**	9.0	-32%	-32%
Operating margin	**5.1%**	6.5%		

Headlines

- YoY decline due to expected lower demand in US solar lighting business
- Challenging UK market backdrop

UK

- Barrier rental business ahead of H1 2023
- Wider UK portfolio impacted by reduced public sector spend
- **Outlook:** challenging, some recovery expected into 2025

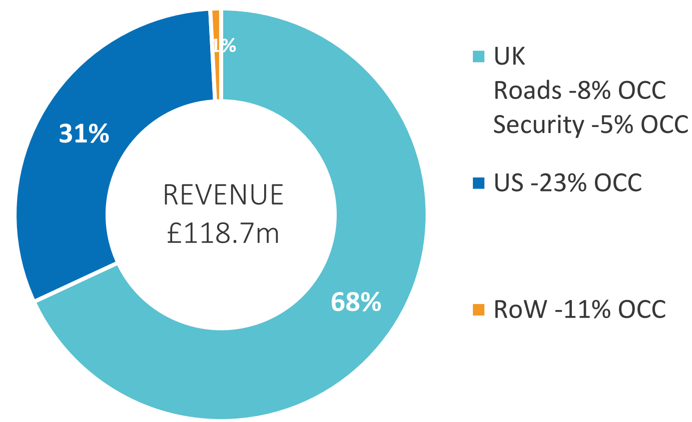
US

- Expected lower demand in solar lighting vs strong comparator
- Improved performance in road safety as turnaround continues
- **Outlook**: improving, underpinned by infrastructure investment

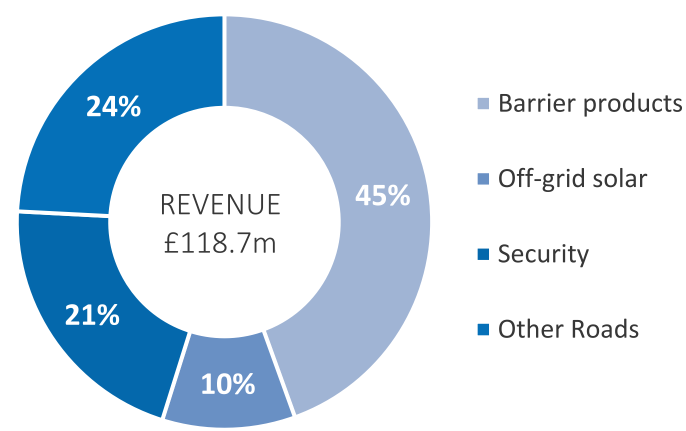
Security

- Operating profit growth, despite revenue decline
- **Outlook:** mixed, focus on higher quality growth opportunities

By geography



By product



CASH GENERATION
AND FINANCIAL POSITION

Strong cash conversion

- 83% cash conversion
- Working capital outflow in line with usual seasonality
- Free cash flow £38.7m
- Supporting acquisition strategy and dividend policy

Allocation of capital to value enhancing acquisitions

- £11.7m cash outlay on Capital Steel and FM Stainless in H1
- Further £10.6m on Trident acquisition in July
- Target to reinvest £50m - £70m per annum

Significant liquidity headroom and leverage capacity

- Covenant net debt to EBITDA: 0.4 times
- £261m facility headroom

Return on invested capital at 22.5%

- Increase of 120 basis points
- Faster growth in lower capital intensity US businesses

£m	H1 2024	H1 2023
Underlying operating profit	**68.4**	62.5
Depreciation and amortisation	**16.0**	15.1
Underlying EBITDA	**84.4**	77.6
Working capital	**(13.1)**	(7.2)
Capital expenditure (net)	**(8.9)**	(12.3)
Repayments of lease liabilities	**(4.4)**	(4.6)
Movements in provisions / other	**(0.9)**	1.0
Underlying operating cash flow	**57.1**	54.5
Underlying cash conversion	***83%***	*87%*
Restructuring spend (net)	**(1.3)**	1.9
Pension deficit payments	**(1.9)**	(1.9)
Interest paid (inc. IFRS 16)	**(4.6)**	(4.8)
Tax paid	**(10.6)**	(14.9)
Free cash flow	**38.7**	34.8
Dividends	**(12.0)**	(10.4)
Acquisitions/disposals	**(14.4)**	(42.6)
Lease movements under IFRS 16	**(5.7)**	1.6
Share issues/other (net)	**0.6**	0.3
Net cash flow	**7.2**	(16.3)
FX impact	**(0.4)**	3.9
Net debt	**101.6**	132.1

FINANCIAL FRAMEWORK

THROUGH THE CYCLE

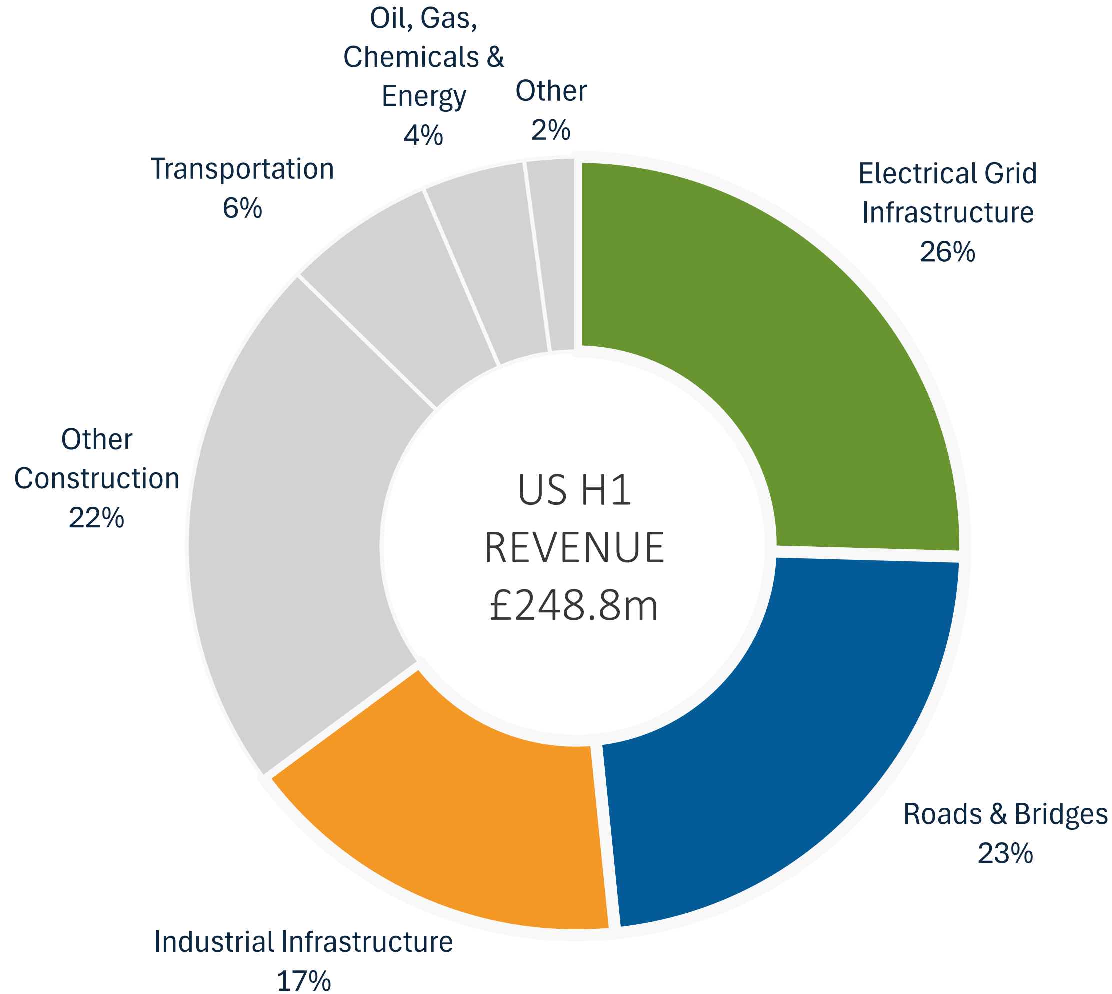
	FRAMEWORK	FY 2022	FY 2023	H1 2024
ORGANIC REVENUE GROWTH	5-7%	14%	5%	-3%
TOTAL REVENUE GROWTH	10%+	17%	13%	0.4%
OPERATING PROFIT MARGIN	15%	13.3%	14.8%	16.2%
RETURN ON INVESTED CAPITAL	18%+	19.2%	22.0%	22.5%
CASH CONVERSION	80%+	51%	115%	83%
COVENANT LEVERAGE	1-2 x	0.7 x	0.4 x	0.4x

US END MARKETS

ACCELERATING LONG TERM SUSTAINABLE GROWTH

Hill & Smith is exceptionally well placed to benefit from long-term, multi-year US infrastructure expansion

- 66% of US revenue (c.40% of Group) directly exposed to high growth markets/opportunities
- US businesses growing well ahead of Group average, with 15%+ operating margins
- Underpinning 5-7% organic revenue growth framework for Group
- Diverse exposure through our seven Hill & Smith operating companies
- Growth driven by increasing infrastructure spend and government investment



ELECTRICAL GRID INFRASTRUCTURE
LONG TERM, MULTI-YEAR INVESTMENT

Growth Drivers

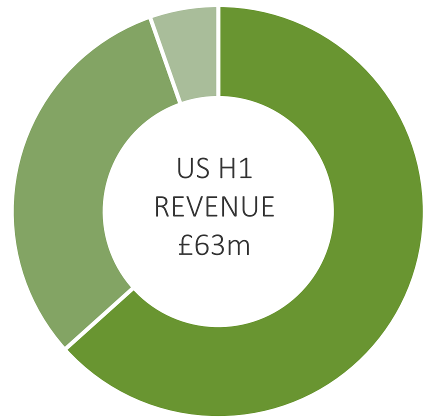
Ageing US infrastructure

Government investment – IIJA & IRA

Increasing demand for electricity

V&S GALVANIZING
Zinc Protects Steel
Galvanizing structural steel

CREATIVE COMPOSITES GROUP
FRP composite utility poles



V&S Schuler
Steel structures for transmission and distribution

Double Digit Growth Opportunity

- 70% of grid transmission lines and power transformers > 25 years old, requirement to upgrade existing infrastructure
- IIJA - Building a Better Grid Initiative investing $20bn+
- IRA - $3bn to support buildout of transmission lines
- Renewable and alternative energy generation and integration
- Increasing electricity demand:
  - Technology investment - data centre power consumption increasing 3x to 7.5% of US total by 2030
  - Growth of electric vehicles and electrification


V&S Utilities: substation structure in New Amsterdam, Wisconsin

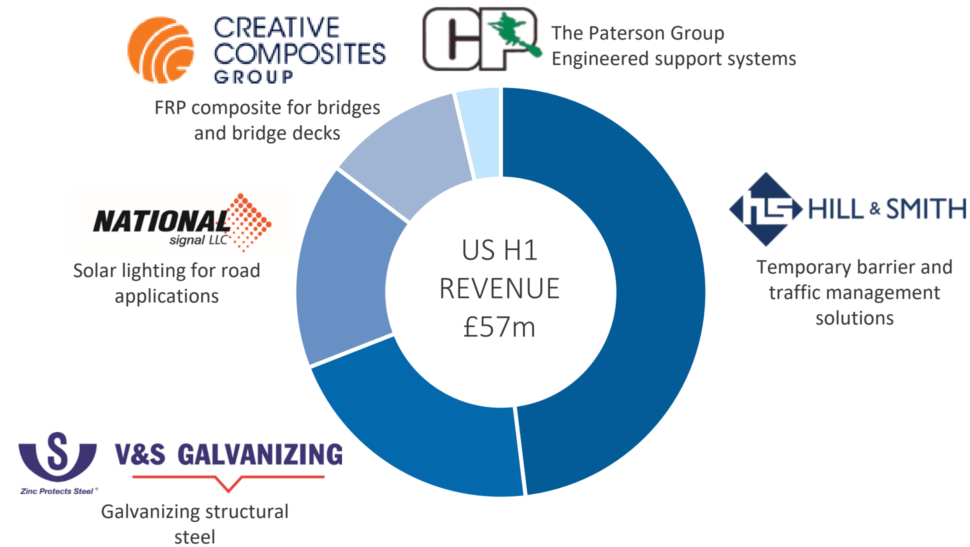
ROADS & BRIDGES
SIGNIFICANT INVESTMENT COMMITTED

Growth Drivers

Ageing US infrastructure

Government investment – IIJA

US population growth



Double Digit Growth Opportunity

- 40% of US roads in poor condition
- 42% of US bridges > 50 years old, 7.5% of the bridges structurally deficient
- Highway & street (incl. bridges) construction spending up 9% yoy
- IIJA Funding:
    - $110bn new spend for roads, bridges and major projects
    - $87.6bn of legally binding public funding awarded to date

V&S Galvanizing: Ogdensburg-Prescott International Bridge, New York

Source: ASCE 2021 Report Card

INDUSTRIAL INFRASTRUCTURE

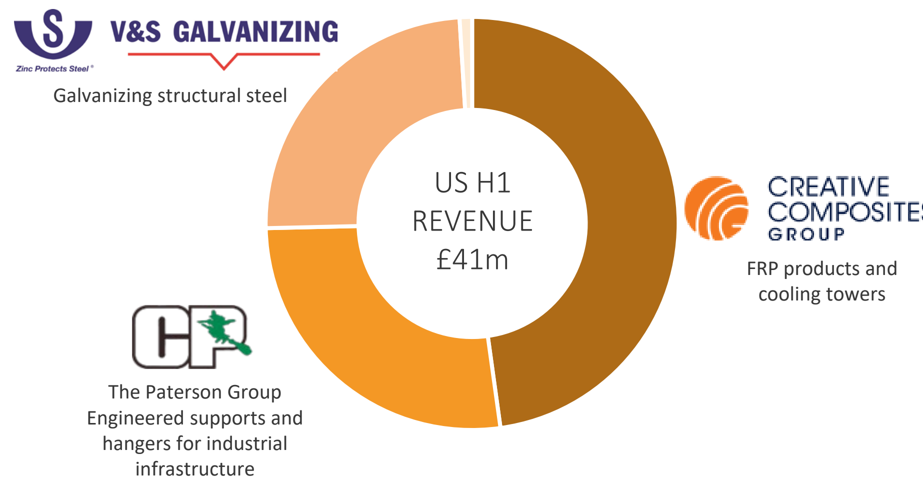
SIGNIFICANT INVESTMENT IN TECHNOLOGY AND MANUFACTURING

Growth Drivers

Technology change

Industrial onshoring

Government investment – CHIPS Act



Double Digit Growth Opportunity

- Rapid expansion of AI and blockchain increasing demand for data centres
- Demand forecast to grow 10% yoy with $150bn+ data centre investment forecast through 2028
- 20% surge in manufacturing construction spend yoy
- $481bn+ committed to industrial projects since 2021, including manufacturing of chips and batteries
- CHIPS Act: $52.7bn for American semiconductor R&D, manufacturing, and workforce development

Creative Composite Group: TowerTech cooling tower, NetApp Data Center

M&A UPDATE

SUCCESSFULLY ONBOARDED, TRADING AHEAD OF EXPECTATIONS

CAPITAL STEEL

- Acquired in January 2024: $6.3m (6.3x EBIT)
- Supplies structural steel products and services into high growth transmission and distribution market
- Expands customer base into New Jersey market
- Reduced delivery times through reallocation/ better scheduling of work with V&S Utilities
- Seeing good cross-selling opportunities
- Fully integrated into V&S Utilities
- Trading ahead of expectations

FMStainless

- Acquired in March 2024: $8.3m (5.2x EBIT)
- Manufactures stainless steel pipe supports, expansion anchors and fasteners principally for the water and wastewater markets
- Continued strong IIJA funding into water projects. Record 10 month order book
- Good progress on cross-selling using our distribution hub
- Fully integrated into The Paterson Group
- Trading ahead of expectations

M&A UPDATE: TRIDENT INDUSTRIES

ACQUIRED JULY 2024

Strategic rationale

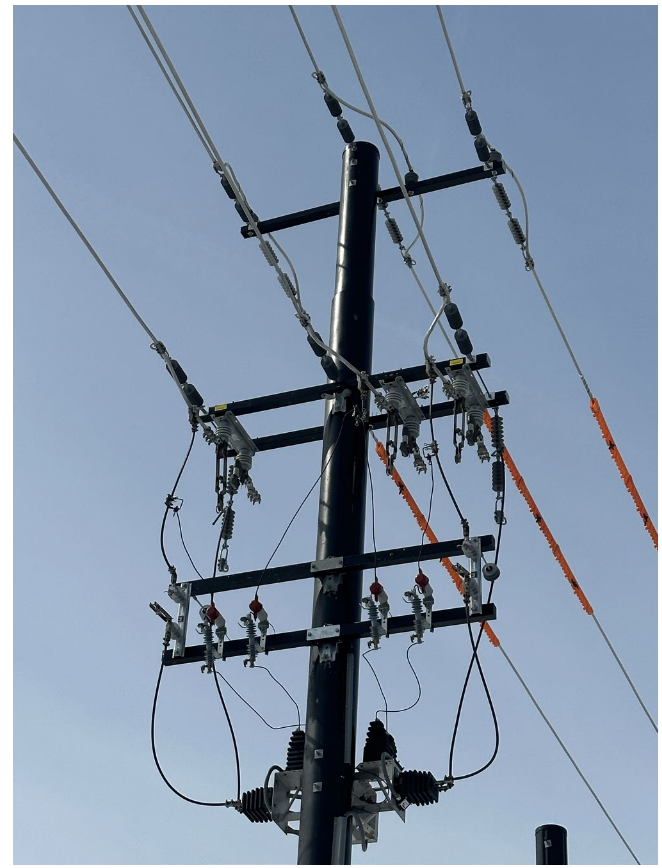
- Designer and supplier of highly resilient, single and multi-layer composite utility poles
- Based in Greater St Louis, Illinois, with a long-term outsourced manufacturing relationship with Enduro Composites
- Accelerates our strategy in this attractive niche within US electricity transmission and distribution market
- Highly complementary to our existing composite utility pole offering

Key initiatives to drive growth

- Diversify customer base using our existing sales team
- Manufacturing efficiencies through further insourcing
- Fully integrate into Enduro Composites

Deal dynamics

- Off market transaction
- Initial cash consideration of $13.5m, further consideration up to $32.5m payable based on future revenues over five years
    - 8.1x adjusted EBIT*
    - EBIT margin of 24.5%



*Based on FY23 adjusted EBIT at full payout

INVESTMENT CASE

DELIVERING LONG TERM STAKEHOLDER VALUE

- Structural growth underpinned by the need for infrastructure investment in our core markets
- Market leader, with a strong track record, in attractive niches with high barriers to entry
- Sustainability at the core of our business model
- Entrepreneurial culture supported by an autonomous operating model
- High, and improving, returns profile
- Strong balance sheet, enabling the Group to take advantage of significant organic and inorganic opportunities, supported by excellent cash generation

POSITIVE OUTLOOK

CONFIDENCE IN FULL YEAR PROGRESS

Short term

- Expect demand in US businesses to remain strong
- UK outlook remains challenging, some recovery expected in 2025
- FY24 operating profit in line with recently upgraded market expectations, with an even weighting to the year's performance before adjusting for the benefits of the Trident acquisition announced today
- Strong M&A pipeline

Medium to long term

- Highly effective business and operating model
- Positive outlook, well-positioned in infrastructure markets with attractive structural growth drivers
- US businesses well placed to benefit from increased onshoring, investment in technology and IIJA spend on infrastructure

APPENDICES

OUR STRATEGY

WHY?

Creating sustainable infrastructure and safe transport through innovation

WHERE?

NICHE MARKETS
- High barriers to entry
- Moderate competition
- Higher growth and margins

MACRO DRIVERS
- Increasing population
- Urbanisation
- Climate change
- Increasing health and safety standards

MARKET DRIVERS
- Ageing infrastructure
- Industrial onshoring
- Sustainable materials

HOW?

ORGANIC GROWTH
- Autonomous operating model brings agility and proximity to market
- Premium on talent
- Innovation

M&A ENHANCES GROWTH
- Enabling access to new customers, markets and technologies
- Focus on quality and organic growth
- Disciplined evaluation and integration

SUSTAINABILITY
- Protecting the world
- Saving and enhancing lives
- Sustainable governance

FINANCIAL MODEL
- Strong profit growth and cash generation
- Reinvesting capital to accelerate organic growth and M&A
- Sustainable progressive dividend
- Maintaining conservative leverage

WHAT?

Superior long-term stakeholder value

SUSTAINABILITY

A STRUCTURAL GROWTH DRIVER

Talent and engagement

- Introduction of regional Group President structure to enable a closer focus on growth opportunities
- Launch of high potential programme, a first for the Group

Health & Safety

- New Group H&S management system implemented
- Targeted safety campaigns around higher risk activities

Greenhouse gas emissions and energy efficiency

- US companies transitioning to renewable energy contracts, UK fully transitioned
- Engaging with decarbonisation consultants to identify additional energy efficiency and carbon reduction opportunities

PROTECTING THE WORLD

FOCUS AREAS:

- Greenhouse gas emissions and energy efficiency
- Sustainable products

SAVING AND ENHANCING LIVES

FOCUS AREAS:

- Health & safety
- Talent and engagement
- Diversity and inclusion

SUSTAINABLE GOVERNANCE

FOCUS AREAS:

- Climate risks (TCFD)
- Ethical conduct

2024
MODELLING GUIDANCE

Capex
c.£30m

Maintenance spend c.£15m

Interest[2]
c.£10m

Cash conversion
c.80%+

H1/H2 weighting
FY24 operating profit expected to be evenly weighted prior to acquisition

Effective tax rate[1]
c.25.5%

Translation impact of FX rate movements

+/- 1 cent move in:	FY Revenue	FY Operating profit
US$	+/- £4.0m	+/- £1.0m

Company FY24 forecasts based on 1.27 US$/ GBP

Updated guidance is in ***bold italics***

Note 1: Assumes no change in headline corporation tax rates in the UK or US
Note 2: Assumes UK and US base rates are maintained at end July 2024 levels. Includes IFRS 16 lease interest, pension scheme deficit interest and amortisation of refinancing fees, totaling c.£3m

DIVISIONAL ANALYSIS

£m	H1 2024	Organic	M&A	FX	H1 2023
Engineered Solutions					
Revenue	**205.0**	5.6	21.1	(3.4)	181.7
Underlying operating profit	**37.6**	2.9	4.6	(0.8)	30.9
Margin	***18.3%***				*17.0%*
Galvanizing Services					
Revenue	**99.0**	(0.4)	1.1	(1.3)	99.6
Underlying operating profit	**24.7**	2.2	0.3	(0.4)	22.6
Margin	***24.9%***				*22.7%*
Roads & Security					
Revenue	**118.7**	(17.5)	(2.0)	(1.3)	139.5
Underlying operating profit	**6.1**	(2.8)	-	(0.1)	9.0
Margin	***5.1%***				*6.5%*
Group					
Revenue	**422.7**	(12.3)	20.2	(6.0)	420.8
Underlying operating profit	**68.4**	2.3	4.9	(1.3)	62.5
Margin	***16.2%***				*14.9%*

FINANCIAL CAPACITY
FACILITIES AND USAGE

Principal debt facilities

- Revolving credit facility: £250m maturing H2 2027
- Senior notes: $70m unsecured notes mature 2026/29
- c.50% of drawn debt at period end subject to fixed interest rates
- Average cost of debt in H1 2024 c.5%

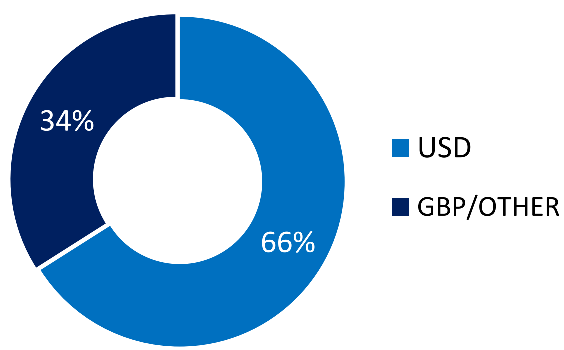
Facilities provide significant headroom of £261.2m

- Net debt: EBITDA 0.4 times (covenant 3 times)
- Interest cover 18.7 times (covenant 4 times)
- Target net debt: EBITDA range between 1.0 and 2.0 times

£m	Net debt	Facility
Committed	**109.0**	307.7
On demand	**-**	6.7
Cash	**(55.8)**	-
Net borrowings	**53.2**	314.4
IFRS 16	**50.2**	
IFRS 9	**(1.8)**	
Reported net debt	**101.6**	

Maturity				
On demand	2024-5	2026	2027	2029
6.7	2.1	27.8	250.0	27.8

NET DEBT BY CURRENCY (excl. IFRS 16)



£261.2m total headroom

NON-UNDERLYING ITEMS

£m	H1 2024	H1 2023
Business reorganisation costs (net)	-	0.7
Expenses relating to acquisitions and disposals	**(1.1)**	(2.2)
Amortisation of acquisition related intangibles	**(4.3)**	(4.3)
Loss on disposal of subsidiaries	-	(3.2)
	(5.4)	(9.0)
Cash in year (net)	**(0.6)**	1.7
Future cash	**(0.5)**	(0.9)
Non-cash	**(4.3)**	(9.8)
	(5.4)	(9.0)

DISCLAIMER

Cautionary statement

This presentation contains forward looking statements which are made in good faith based on the information available at the time of its publication.

It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement which could cause actual results to differ materially from those currently anticipated. Nothing in this document should be regarded as a profits forecast.

Hill & Smith PLC