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Preliminary Results Webcast

Live Q&A

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Transcript

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Rob Chantry: Sorry, conscious I was last here so if anyone wants to...Yeah, thanks for the presentation, Rob Chantry from Berenberg. So, three questions, I suppose firstly, just on the range of CapEx scenario to scale the US business, i.e., Is £35 million enough? So, if we're looking two, three, four years out, what type of quantum do you think you could deploy organically into effectively US capacity to scale it up, separate from M&A? Secondly, some kind of insight into the kind of negotiations, on Freeberg price and deal structure, so clearly a big payoff for market he pulls it off. Is that commensurate with the profit potential, different scenarios around that? And if you could comment, I guess, if there's any debt, because I think the statement refers to equity. And then thirdly, clearly the broader narrative around the UK is for weak volume growth, and then the galvanising business is reporting good volume growth, good customer focus, improved productivity.

I guess could you just touch on the different end market drivers impacting that part of the business relative to the broader building product type environment market share, et cetera. Thank you.

Rutger Helbing: Okay. If you talk about the Freeberg deal structure, you can do that. I can maybe pick up the other ones. I think we are indeed seeing with the £35 million, you know, slight increase in the organic investment, which I consider to be a positive thing because it's underpinned by, you know, good sort of, yeah, demand in those markets. I think we've said over time that in our composites business we've got still good capacity so I wouldn't expect there immediately. But, you know, in our galvanising business, we've talked about potential greenfields over time as well, so that could happen. So, I think you know I don't have a complete view of what the exact number is going forward, but you know, at a slightly higher level than what we've seen in the last couple of years, I think makes sense.

But clearly, we will only commit to that when we feel that there is the right market and demand for that. So, yeah slightly increased.

Chris McLeish: In terms of, Freeberg the initial enterprise value used for the, the first 80% essentially is $45 million dollars which on that sort of $5.3 million of profit is about eight and a half times multiple. So that's the first tranche. Clearly what we wanted to do with that 20% is create very strong incentive alignment to drive value accretively over time. And the way to think about that essentially is that that future payment will be a function of two things. The multiple that will be applied to that level of earnings and the operating profit achieved on average in that measurement period, and there is a range of potential multiples, but if you take the sort of top end of that range being 10X, clearly when you work out and back solve a 20% equity value being worth $50 million dollars, you would see that you'd need to deliver something in the region of $25 million dollars a year to hit that upper cap.

And the business made $5 million last year, so therefore you can get a sense of the range or progression that would be necessary in profitability terms to come out at the top end. So, we think that given the multi-year visibility of demand that we've got into some of our key priority and markets, that is an ambitious outcome, but we'll be driving the business. And frankly, if we get to that sort of level, then I think all parties will be very happy indeed. Thank you.

Rutger Helbing: Okay. On, the UK I'm glad that you picked up that, you know, the galvanising business has actually done pretty well in the UK, so it's not all doom and gloom. And I think if you compare the galvanising business to our UK Engineered Solutions, again, that footprint will be different in terms of end markets. So, you know, Engineered Solutions, almost 60% is transport and, and residential, and we will all know that that is a tough market to be in now, whereas in galvanising, we'll be more exposed to water investment, energy investment and so I think they have a better end market footprint than historically in the UK engineered solution. So, you know, I think we all know that there will be more clarity about the road investment strategy three.

In the first half of this year, we'll clearly look at what that means for our business in our roads business. I think residential you know, I've heard this for the last three years, it will be in the second half. So, you know, we're not counting our chickens there yet, but, you know, over time, that should recover. In the meantime, what we've said is we will look at what are the other options, what we can do to make it more of a resilient business. Now, the best thing to do is to tilt towards those more attractive markets, which is what we're doing with our perimeter fencing business and also our access flooring business and Hentech will really help in, in that sense that little, So those two businesses are, that's their sort of task in a sense to go there.

But we'll look at other opportunities maybe in terms of route to markets that we can benefit between them, and we've already taken quite a bit of cost measures there as well. But, you know, Chris said that we'll come back to that with the first half results you know, what we're actively doing at that time. We're planning at this stage. We'll be doing stuff by that time.

David Farrell: Thanks, may as well go along the line. David Farrell from Jefferies, couple of questions from me. Just in terms of the Freeberg acquisition, obviously located in California, a new site in Arizona. Is that company able to kind of export across the US?

Rutger Helbing: Yeah. They can, but there's a reason and a benefit for putting that new factory into Arizona. There's a lot of activity going on with data centres and therefore, if you look on a regional basis, it will put Freeberg in a very strong position, in terms of serving the regional. And if you look at the planned and already committed data centres investment in that area, that's definitely positive. So, you know, the first priority is to benefit from that geographic location.

David Farrell: Okay. Thanks. And then could we just touch on transmission and distribution in terms of what's going on in your ability to push pricing in that market, because it seems like everybody's got tightness of capacity, therefore it should be an environment you can push pricing.

Rutger Helbing: It's interesting you say prices. I mean it's more margin I would take because, they're not standard projects that are coming in and that we price them, right? But anyway, clearly, we're pretty optimistic about the outlook there. If I look at our utilities business, I think, you know, over the last two years, they've probably grown organically by something like 13 or 14%. So they are growing pretty healthily above what potentially is what I look at market studies, you know, they're saying sort of high teen or high single digit sort of market growth and we expect that clearly we've got a strong order book, we're putting capacity in, we've put in additional shifts as well to have that in the shorter term as well and we generate pretty healthy margins.

We'll always look at can we push that further? But I think there's a balance between getting that growth at very healthy margins to be too aggressive in terms of trying to get that. I think there are opportunities in some operational efficiencies that will drive the margins. So, I think there's an upside in margin, but we're careful in not overdoing it and we're putting the capacity in there to basically be able to shorten the lead times, because the lead times, that's where you have a competitive advantage. And if we can reduce that further, then I think we've got a better opportunity to drive those margins further, because that's where you differentiate. Thanks.

David Farrell: Staying on margins, you've obviously talked about Freeberg, I think being kind of 17% margins and getting up to 18%. I look in the appendix, you've also got the financials for Hentech and that looks like it was kind of 10, 11% margins. What are your expectations for where that can go?

Chris McLeish: I mean I think on Hentech, it's a business we know well. It's part of the supply chain within the existing industrial flooring business that does work into European data centres. We certainly think that there's an opportunity bringing those businesses together to move it forwards. Certainly towards the group's ambition as a whole of 18%. So, we'd expect it to be capable of getting up into the sort of mid-teens over the medium term.

Richard Paige: It's Richard Paige from Deutsche Numis. Couple from me and then a few little bits at the end if I've got room. Firstly, galvanising very strong margin in the second half. I think a lot of your peers are talking strong outlooks and strong trading conditions as well on there. Obviously, I think data centres creating quite a big influence there as well. Could you just talk about what we should expect from you and particularly that margin movement over the next year or two, please?

Rutger Helbing: I mean, if you look, so interestingly, in the first half of our margin was a little bit lower, right? And I remember, and now we then already said, look, it moves between the band, so I'm not worried. And good news is it sort of bounced back in the second half. So, and yes, data centres does help there as well. I think we're quite positive about the outlook. I think in the second half last year, things really all came together and we don't always expect that to continue, but overall market outlook is good. You probably will also know that our margins are probably industry leading already. So I again, will not push for a significant increase there. I think we're at a very healthy level and if we can, deliver those revenue growth that we've seen in the second half maybe a little bit tempered going forward, but still good, then I think we're in a very good place.

Richard Paige: Sorry, just an addendum to that. The US volumes were up high teens, I think, in second half. There was nothing exceptional in there, was there?

Chris McLeish: No, you're right. I mean, volumes and, and revenue in the US in half two were kind of plus 19. So yeah, you're right. I mean it's broad based. You've got general levels of infrastructure activity that are strong. Clearly T&D is driving a lot of that. And actually what's quite interesting in the US is that you're finding that of the potentially galvanisable steel, we're actually seeing some penetration and progress there because the end market applications that are best suited to galvanising, i.e. extending the length of the life of that steel tend to be the areas of end markets that are doing better. So I think you've got general kind of levels of infrastructure spend stepping forwards, and then you've got penetration of galvanising, which has helped to be positive.

As Rutger has said, I mean, I think the stars align very much in our business in the second half and we are being a little bit more cautious about that sort of extrapolating into 26, but there's no question that the sort of backdrop for galvanising over the next three to four years is extremely positive.

Richard Paige: Thank you. Shifting back to UK roads, could you give us an idea of where that business is currently trading relative to, I think it was 2019 level is where its most recent peak. And then obviously what we could expect in terms of timing if risk three comes through, how long it takes.

Rutger Helbing: I mean it's significantly down. I think Chris always knows what's the number that we sort of is it like at least half.

They are significantly down because this is a business where in the rental business where utilisation is pretty important and with the delay in risk three that utilisation has been much lower. But that arguably hasn't you know, the other way, if it goes up, you know can be quite interesting as well. Overall, I think risk three, there will be more on maintenance in terms of new, but then the question is how big is that maintenance because that sort of drives whether they really if they're bigger projects that where we are better and positioned in a sense. So we just need to see that in the first half of this year. I don't expect anything major in 2026 yet, hopefully there's some good upside and then that will probably move into 2027 and beyond.

Yeah. But we are really a little bit in a bit of a holding position because we need the clarity and then we can have a further view on all of that.

Richard Paige: And just a small one coming back to the acquisition in Arizona, with the Arizona facility, 160,000 square foot. What, could you just give us an idea of what that is relative to existing capacity?

Chris McLeish: Yeah, I mean, it's roughly doubling the footprint of the business by bringing that one.

Rutger Helbing: But it's a very different type of operation. So this will be interesting where the current operation is much more, this sounds the wrong word, but a jobbing operation. So there are lots of different smaller things designed and then, you know, manufactured where this is, you know, bigger, you know, enclosures that will make a lot of them and they will be more similar. They might be slightly different for different customers. So it's different type of operational setup. It's much more industrialised in a sense. And the CapEx which is going in there will have more than enough capacity to deal because there's opportunities outside of data centres as well, but there's capacity to deal with that as well. Yeah, so there will be really different types of operations in a sense.

Richard Paige: Brilliant. Thank you.

Thomas Rands: Just a few from me, Thomas Rands from Berenberg. Just on Freeberg, I had a quick look through the website this morning, just trying to understand what it does and I take on board the, the kind of data centre kind of offering. But is the power supplies, is there backup power supplies to these sites or is it more permanent? As these data centres get bigger and bigger, how many of these do you need on per site? Do the units get bigger?

Rutger Helbing: A lot.

Thomas Rands: What's the offering?

Rutger Helbing: It's really incredible how much they need. But anyway, yeah, the current sort of opportunity that we have the visibility on for the next two to three years is very much about the backup power. Currently, you know, Freeberg is already supplying into more permanent power solutions as well. So there, there's an opportunity on both, but the data centres is focused at the moment on the backup.

Thomas Rands: Okay, thank you. Second one you mentioned the utility pole, the composite pole, growth being very strong. What's the driver behind that and how do you see that kind of panning out through 2026?

Chris McLeish: Yeah, so in terms of the composite proposition it has very profound functional advantages over other sources of material, notably wood, okay? So this is something that utility companies are looking to put in as a step to really reinforce the resilience of their utility transmission networks. So that's the sort of big picture. Now, the demand patterns for utility poles can be somewhat lumpy. It's a function of when the major customers are kind of committing their CapEx into their network. So it can, it will tend to fluctuate a little bit from year to year, but the backdrop is very positive. I mean there are degrees of innovation around this that are reasonably significant in terms of bringing a product to market that has differentiating properties.

So we see this as a very positive area of, of progress. As we say in the statement, it was a key driver of outperformance as we got into the fourth quarter of 2025. But we see this as something that is really a strong growth engine for the group over the years ahead.

Thomas Rands: Okay, thank you. And then lastly, just on National Signal, it had a very good kind of first couple of years post acquisition and then it's been a bit of a challenge kind of ever since. Is this the kind of the macro kind of regulation backdrop or is there other kind of customer concentrations or kind of differentiating that customer base that's kind of holding it back a bit?

Rutger Helbing: Yeah. I think historically the customer concentration has been very high, and that customer has sort of overordered and then so that hasn't been helpful. So, customer concentration is an issue. I think this is the one business where probably if you ask me, you know, what's the impact of Trump overall, I would say, well, not, for most of our markets, not that much, but for this one where, you know, the off-grid solar is a little bit more, you know, there was a push, I think the people who rent out these units, they prefer almost diesel, you know, ones, and there's no real push for the, for the off-grid solar. But having said all of that, we are, you know, as, as Chris said, you know, we have this messaging board business in which are trailers as well from Inc. And we've now consolidated that, that actually improves the customer base, and we'll see how that pens out this year. I think we're in the early stages, but I think that potentially will help to make that into a better business, but it will take time.

Thomas Rans: Great. Thank you.

Harry Philips: It's Harry Philips from Peel Hunt, and apologies for arriving late; noted this might have already been covered, but just thinking about the UK one-offs, you talk about just probably asking for a repeat, but if you could repeat what they might be and what they were that would be very helpful. And then the timing of, if we get the roads programme detailed this year, how long does that sort of take to work through into activity around barrier rentals and other aspects, please?

Chris McLeish: I'll take the first one. Yeah. Okay. So, in terms of those one-offs, we flagged, actually, Harry, the half year, the benefit that we had in, in the first half of 2025 from project activity. And these are UK infrastructure transport markets. So, you know, this is something that is relatively, again, it's lumpy in its nature. It gave us a benefit in the 2025 year, somewhere in the order of a handful of millions at operating profit level and getting into sort of double-digit revenue benefit in the top line. And the guidance that we said is ultimately we don't expect it to repeat at that sort of level in 2026. So that's the, the sort of the headwind that we would be lapping year on year relating to that particular line item.

Rutger Helbing: And on the roads programme I did indeed say before, but for RIS 3, we'll get the final sort of plan in the first half of this year. We'll then have a good look at what the implications are. I don't see significant upside from that this year if there's upside, which we hope there will be, then, there will be in 2027 and beyond right? We know it's focused more on maintenance. The key question is how big are those maintenance sort of projects and whether they need the temporary barrier or if there are other solutions. But that is something that we'll get cited onto in the first half this year.

Chris Dyett: Just going to turn to a couple of questions from the kind of webcast. So, the first question is from one of our shareholders from Rathbones: how does geographical ramifications and energy prices impact the underlying segments and what actions can you or are you taking at this early stage?

Chris McLeish: Yeah, so in terms of energy prices, our absolute level of exposure to energy is not huge. Clearly, we use natural gas in our galvanising businesses. Those would be the two biggest drivers of energy cost but you're talking about something that's in that kind of £20 million pounds order of magnitude in terms of the overall cost within our P&L. As a matter of policy to manage price risk, we take good levels of forward cover, both in the UK and in the US. So, for example, in the UK, I think we've got 75% of some are 26 covered on the natural gas side, and in the US something similar, and we've got a decent tail of cover that goes all the way out into 2028. So, from a kind of price risk perspective, I think we are well covered.

Clearly a more significant input within our business is steel. The reality is that most of the steel, the vast majority of the steel that's consumed in our businesses is domestically manufactured. So again, you're not talking about risk to supply chains. I think, you know, the bigger risk that we're flagging here is just to macro sentiment and the impact of current uncertainties on that. But I think at a micro level, from a business perspective the effects are relatively modest.

Chris Dyett: Thanks Chris. A second question from, Tom Fraine from Shore Capital is quite wordy, but I'll and work through it. So the additional consideration for Freeberg indicates you see considerable potential for its profit growth. Can you provide any colour on the level of profitability to 2031 required to maximise the consideration to the additional $50 million and any colour on how you see this profit growth progressing? Will it be backend weighted or do you anticipate a significant uplift in 2028 after the new facility is up and running?

Chris McLeish: Yeah, so, I mean, I think that a bit similar to Rob's question of how should we think about this on a five-to-six-year view? And just to sort of reinforce that point, ultimately, when you look at that kind of multiple and you look at the earnings growth that would be necessary to come out at that sort of top end of the range, that 50 million, you'd be talking about needing to move the business forwards from sort of five million of operating profit last year to 25. So that, that gives you a sense of the, of the scale. I mean, I think when you look at it from left to right, we're confident that the business will be able to grow the top line and, you know, we've got this multi-year demand visibility into data centres that Rutger talked about.

So we'd expect to be well in excess of the group's kind of organic revenue growth range, 5 to 7%. You're going to see growth that's going to accelerate comfortably above that. I think there's a clearly a broad continuum of outcomes that are a function of market progression over the next 5 to 6 years. So I think talking about where we expect that to be in 5 to 6 years is probably a little premature. But what we have done is created that incentive where if we can get to that sort of level all stakeholders in this in this, thing will be very, very happy. So that's the way that we really view the forward view.

Rutger Helbing: Yeah. We're, we're going to have to give you sort of guidance over that period when things sort of develop but as Chris said, we will be delighted if we get to the point where indeed we pay $50 million dollars because we'll have a fantastic one.

Chris Dyett: Thanks. Anyone, follow up questions? You can maybe summarise?

Rutger Helbing: No, so, well, thank you for being here, but clearly, you know, we feel very positive about the results at the moment. Very pleased about the acquisitions. We think both of them make a lot of sense and positive about the organic investments as well, because that's always what we said. We want to do both of those and we're doing that. The UK, some parts are still a bit of a challenge, but we'll work that through. And overall, I think we're in a good place. So thank you.

Chris McLeish: Thank you very much. Thank you.