

# 2018 Preliminary Results

6 March 2019

**Derek Muir**      **Group Chief Executive**  
**Mark Pegler**    **Group Finance Director**

Delivering intelligent  
protection solutions



Hill & Smith Holdings PLC



Stock code HILLS

# Key messages

## ➤ Overall, a good year

- Improved H2 in UK after challenging H1
- International businesses performing well, particularly US
- Organic revenue growth 3% (at constant currency)
- Operating margin\* 12.6%, down 130bps

## ➤ Active portfolio management – investing for growth

- Seven acquisitions completed
- New build US galvanizing site committed
- Investment in temporary barrier safety fleet
- Principal debt facility extended

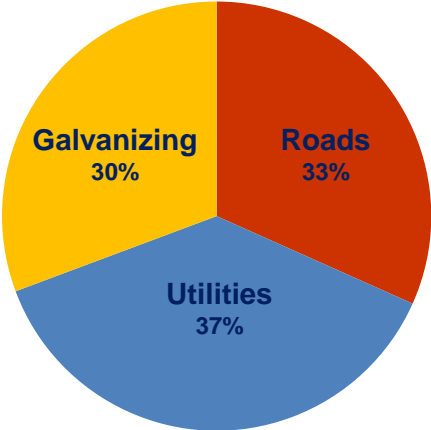
## ➤ Opportunities for growth

# Results summary

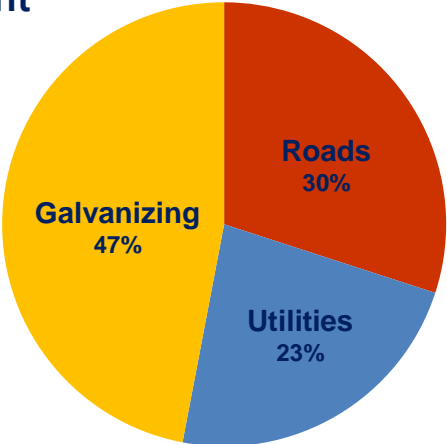
	2018	+/-	2017	
				FX impact: - Revenue -ve £7.1m - Operating profit -ve £1.4m
Revenue (£m)	637.9	↑ 9%	585.1	Organic growth 3%
Operating profit (£m)	80.1	↓ 1%	81.3	Similar to prior year (at constant currency)
Operating margin (%)	12.6	↓ 130bps	13.9	
Profit before tax (£m)	76.3	↓ 3%	78.5	
Earnings per share (p)	77.8	↑ 3%	75.9	Benefitting from lower tax rates
Dividend (p)	31.8	↑ 6%	30.0	Progressive dividend policy maintained – 16 <sup>th</sup> successive year

# Segment and geographical analysis

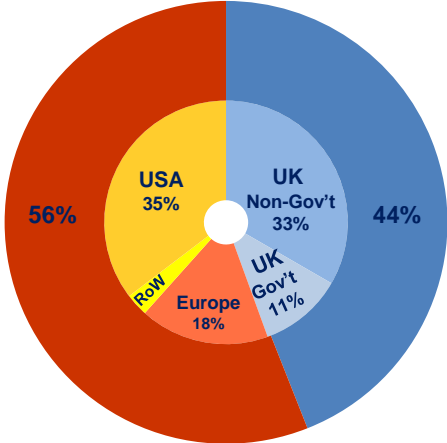
**Revenue: £637.9m**  
By segment



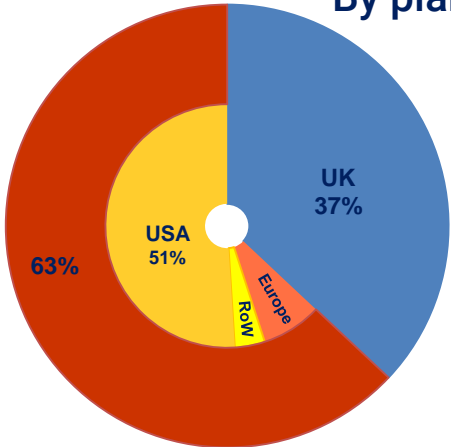
**Operating Profit: £80.1m**  
By segment



**Revenue: £637.9m**  
By end market geography



**Operating Profit: £80.1m**  
By plant location



# Utilities

	2018	2017	Organic Growth
Revenue (£m)	239.0	215.7	7%
Operating profit (£m)	18.3	16.8	6%
Operating margin	7.7%	7.8%	-10bps

## ➤ UK

- Overall mixed; generally more cautious investment environment
- Stronger H2 compensating weaker H1
- Building products and industrial flooring performing well

## ➤ US

- Strong growth in Composites Group
- Utility investment remains strong
- Good order books
- Complementary acquisitions: CA (composites) & EEI (utilities) completed in H2

## ➤ Pipe Supports

- Growing US commercial construction market driving margin improvement
- Performance in India remains encouraging

£m	Revenue	Operating Profit
2017	215.7	16.8
F/X	(3.4)	(0.4)
M&A	12.2	0.9
Organic	14.5	1.0
2018	239.0	18.3

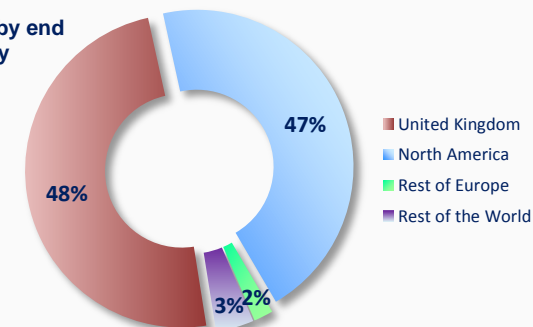
## 2018 Revenue

**£239.0m**

Up 7% organically

UK	flat	£118m
US	up 23%	£75m
Pipes (US/India)	up 4%	£46m

Revenue by end geography



# Roads

	2018	2017	Organic Growth
Revenue (£m)	208.5	187.1	-3%
Operating profit (£m)	24.2	23.6	-5%
Operating margin	11.6%	12.6%	-100bps

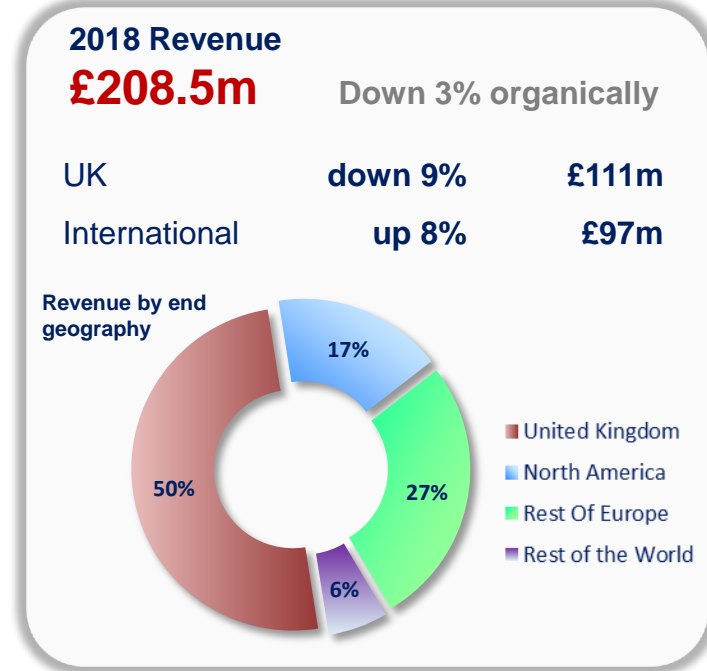
➤ **UK: 53% of revenue (2017: 66%)**

- Government’s Road Investment Strategy:
  - Programme delays in H1 impacted temporary barrier utilisation
  - H2 significantly improved as programmes progressively commissioned
  - Investment in 30km of concrete plus further 38km of steel barrier
  - Demand for VMS deferred due to H1 delays
- Hostile Vehicle Mitigation
  - Demand strong from UK and international customers
  - Acquisition of ATG (Feb 19) highly complementary

➤ **International: 47% of revenue (2017: 34%)**

- Scandinavia and France performing well
- Road infrastructure investment remains positive in Australia
- USA
  - New nationwide distributor agreement to supply Zoneguard safety barrier
  - Acquisition of WAPCO expands scale & range of road safety products into key geographies; performance in line with expectations

£m	Revenue	Operating Profit
2017	187.1	23.6
F/X	(2.0)	(0.3)
M&A	28.3	2.1
Organic	(4.9)	(1.2)
2018	208.5	24.2

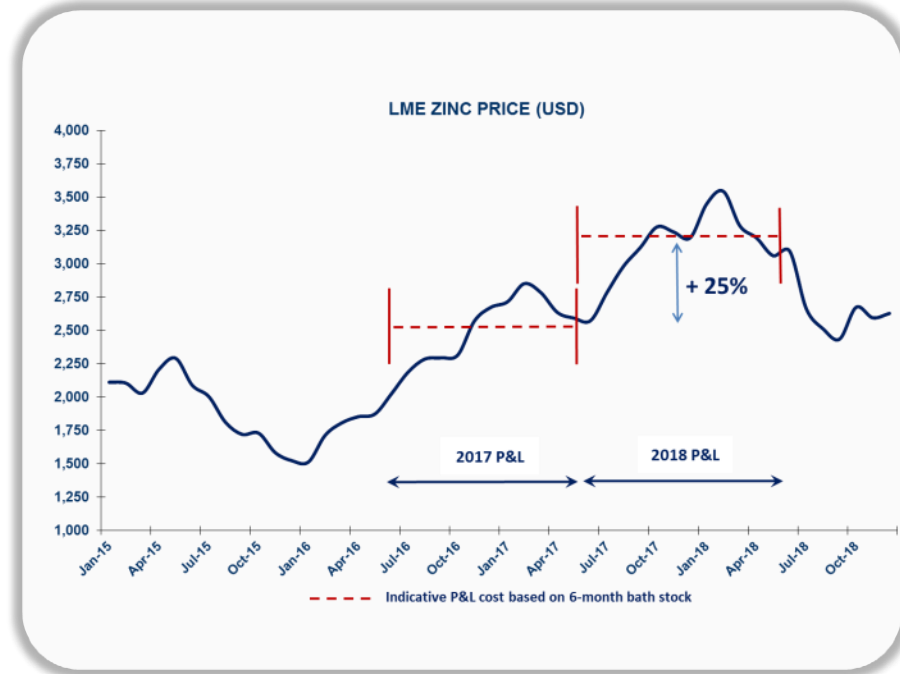


# Galvanizing

	2018	2017	Organic Growth
Revenue (£m)	190.4	182.3	5%
Operating profit (£m)	37.6	40.9	-6%
Operating margin	19.7%	22.4%	-270bps

- **Overall**
  - Profitability & margin measured against record PY comparatives
  - Impacted by further zinc cost increases and UK performance
- **UK: 194k tonnes ↓5% (H1 ↓7%; H2 ↓3%)**
  - Slow start but progressive recovery throughout the year
  - Strategic focus on smaller jobbing work
  - Agricultural, housing and trailer sectors strong
- **France: 125k tonnes ↑1% (H1 ↑1%; H2 ↑1%)**
  - Lack of structural activity; growth in smaller jobbing market
  - Zinc cost increases difficult to pass through supply chain
- **USA: 171k tonnes ↑7% (H1 ↑12%; H2 ↑3%)**
  - Infrastructure investment and wider economy strong
  - Growth in OEM and Bridge/Highway sectors
  - Day to day volumes remain robust

£m	Revenue	Operating Profit
2017	182.3	40.9
F/X	(1.7)	(0.7)
Organic	9.8	(2.6)
2018	190.4	37.6



# Foreign exchange sensitivities

	2018	2017	Change
<b>Average rates</b>			
Euro	1.13	1.14	↓ 1%
US\$	1.33	1.29	↑ 3%
<b>Closing rates</b>			
Euro	1.11	1.13	↓ 2%
US\$	1.28	1.35	↓ 5%

## Ready reckoner for translation impact of movement in FX rates

Sensitivity to +/- 1 cent move in:	Revenue	Operating profit
Euro	+/- £0.7m	+/- £50k
US\$	+/- £1.7m	+/- £320k

### Impact on FY 2018

Revenue	-ve £7.1m or 1%
Operating profit	-ve £1.4m or 2%

### Projection for FY 2019\*

Revenue	+ve £5.3m or 1%
Operating profit	+ve £1.0m or 1%

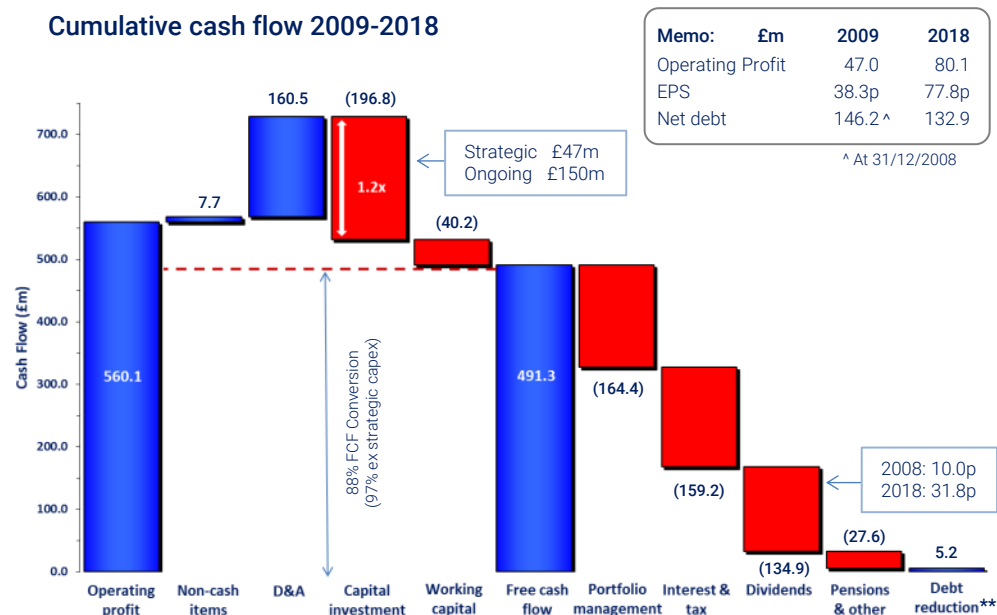
\* Compares impact on 2018 results of using exchange rates at 26 February 2019 (£1 = \$1.30 and £1 = €1.13) versus average exchange rates for 2018



# Free cash flow and net debt

£m	2018	2017
Underlying Operating Profit	80.1	81.3
Depreciation and amortisation	19.5	19.2
<b>Underlying EBITDA</b>	<b>99.6</b>	<b>100.5</b>
Other non-cash items	0.4	1.8
Working capital	(6.3)	(19.1)
Capital expenditure (net)	(31.6)	(19.5)
<b>Underlying operating cash flow</b>	<b>62.1</b>	<b>63.7</b>
Restructuring spend	(1.7)	(2.2)
Provisions/Pension	(2.5)	(2.8)
Interest paid (net)	(3.9)	(2.8)
Tax paid	(13.3)	(16.7)
<b>Statutory free cash flow</b>	<b>40.7</b>	<b>39.2</b>
Dividends	(23.6)	(20.7)
Acquisitions/disposals	(47.6)	(6.4)
Share issues/other (net)	(2.2)	(2.4)
<b>Net cash flow</b>	<b>(32.7)</b>	<b>9.7</b>
Note: F/X impact (£(3.3)m)/IFRS 9*	(1.2)	3.3
<b>Net debt</b>	<b>132.9</b>	<b>99.0</b>

- Underlying cash conversion 78%; 10-year average 88%
- Excluding strategic capex, cash conversion 93%; 10-year average 97%
- Working Capital – strong H2 performance
- Capital expenditure
  - Gross Capex £32.8m, 1.7 times DA (inc. £12.6m strategic)
  - 2019 guidance c.£40m (1.8 times)
- Net debt: EBITDA 1.3 times (2017: 1.0 times)

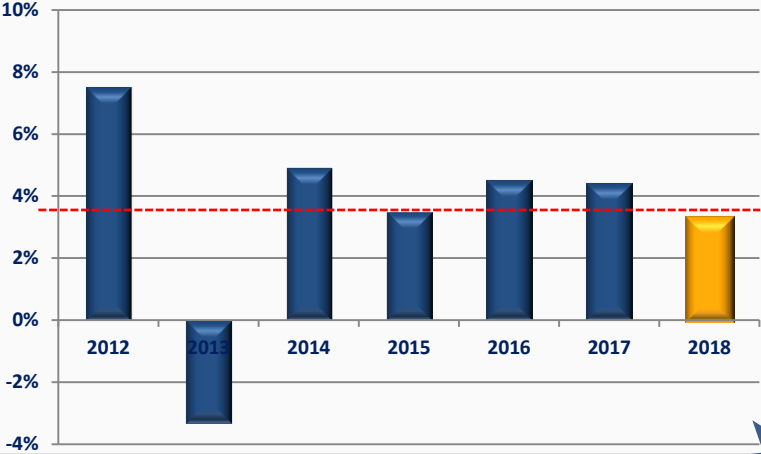


\* 2018 net debt restated for adoption of IFRS 9 – reduction £2.1m

\*\*Total net debt reduction £13.3m including £6.0m FX and £2.1m IFRS 9

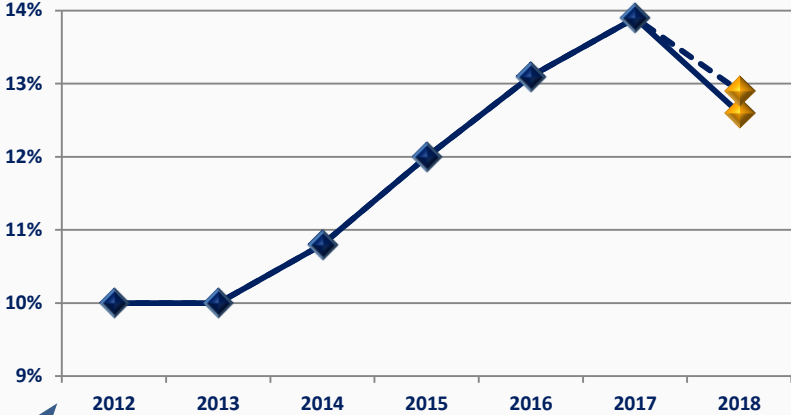
# Strategic KPI's

Organic revenue growth



--- 7-Yr Average

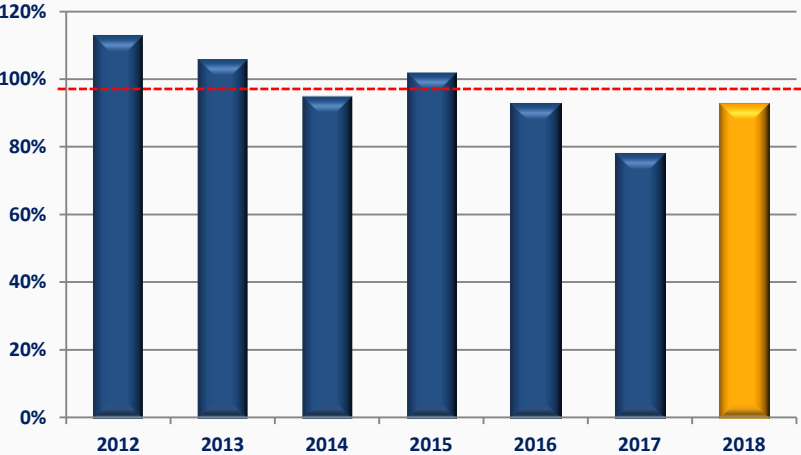
Operating margin



----- Adjusted for impact of acquisitions

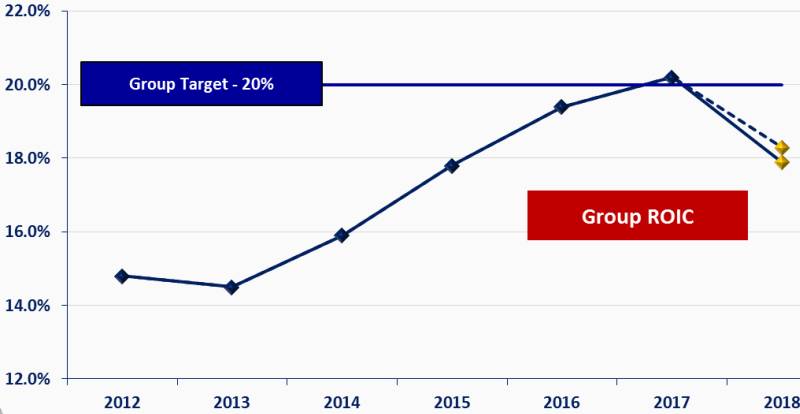
Driving Returns

Underlying cash conversion\*



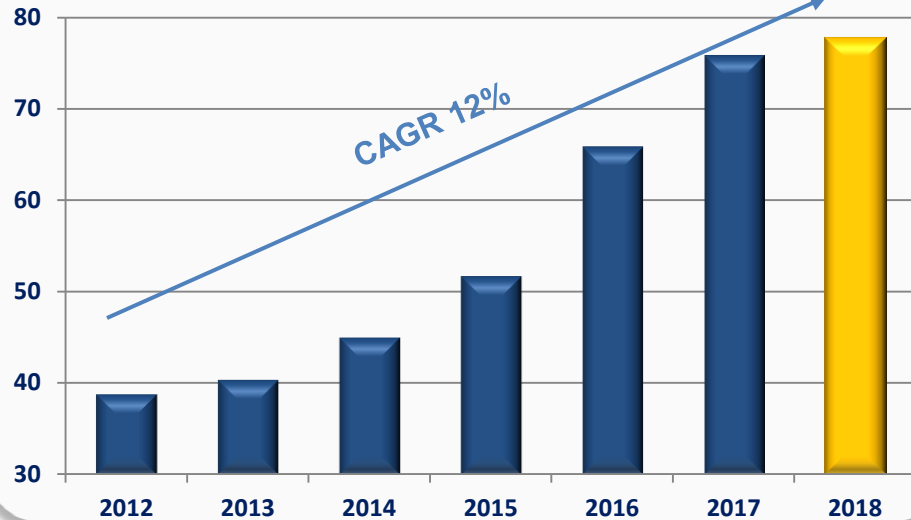
\*excluding strategic capex

Return on invested capital



# Earnings and Dividend

Earnings per share (p)



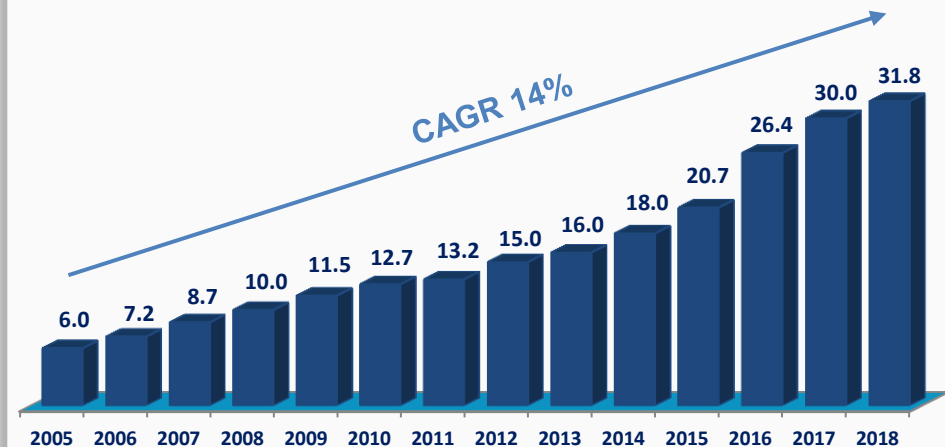
Dividend (p)

	2018	2017	
Interim dividend per share	10.0p	9.4p	↑ 6%
Final dividend per share	21.8p	20.6p	↑ 6%
Total dividend per share	31.8p	30.0p	↑ 6%

## Dividend

- 16 successive years of dividend growth
- Central to strategy and TSR ethos
- UEPS increase of 3% - dividend up 6%
- Dividend cover 2.4 times remains prudent

CAGR 14%



## Organic & Legislative Growth

- Focus on growing revenue and margin in existing markets through product development and innovation
- Identify Governmental legislation that creates opportunities to deliver innovative products and services

- Highways England RIS1 and RIS2 to 2025
- Hinkley Point, HS2, AMP6, Control Period 6
- Energy policy - offshore wind farms
- USA FAST Act, wider Industrial Policy
- Sunset period MASH USA

## Geographical Expansion

- Introduce proprietary products to UK & US specification into new geographies
- Countries with new and ageing infrastructure requirements
- Utilise manufacturing capacity for other Group products

- Rental products into Scandinavian roads
- Zoneguard USA and Australia/NZ
- HVM security products to Middle East
- Pipe Supports into Far East power generation and Middle East market

## Strategic Acquisitions

- Acquisitions adding value by creating synergies with existing businesses, extending our product portfolio and geographical coverage

- Composite and power utility products in USA
- Road products in countries with legislative spend
- Galvanizing in existing geographies
- HVM security products

# Highways England: Road Investment Strategy ('RIS') 1 & 2



Temporary Safety Barrier



Crash Cushions



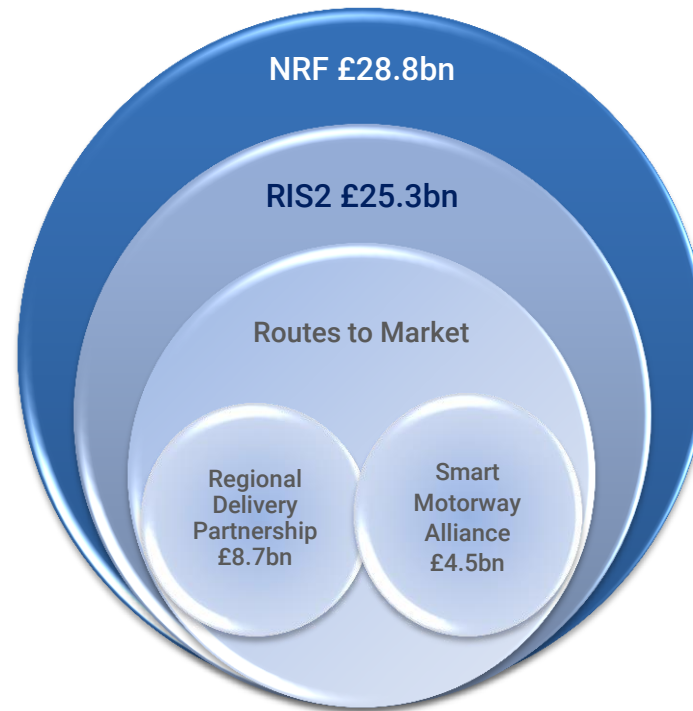
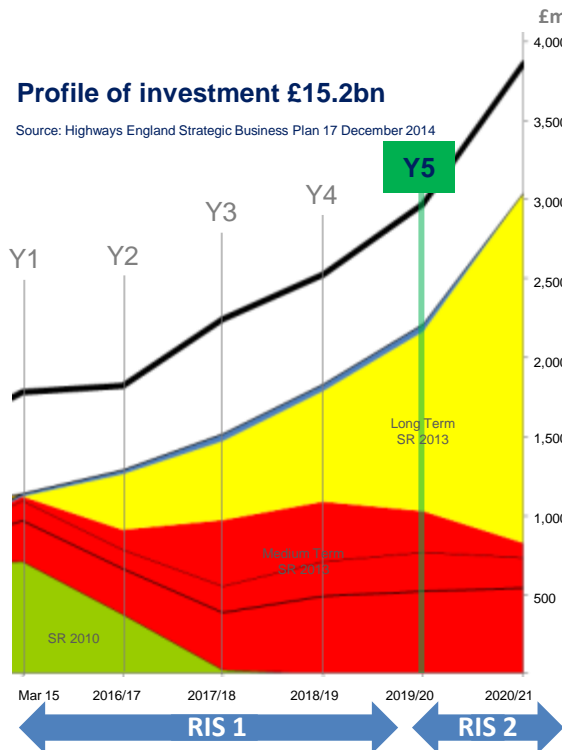
Permanent Safety Barrier



Variable Message Signs



ROTTM Sign



- **National Roads Fund ('NRF')** - Government delivering commitment to ring-fence English Vehicle Excise Duty for roads spending, announcing that the NRF will be **£28.8bn** between 2020-25
- **RIS2** - largest ever investment in England's strategic roads with Government expecting to spend **£25.3bn** on this strategy, funded by the NRF, between 2020-25
- **Routes to market**
  - **£8.7bn Regional Delivery Partnership:** 13 Delivery Integration Partners to develop, design and construct projects across England's 'A' roads
  - **£4.5bn Smart Motorway Alliance:** 6 Partners to join for 10 years to develop a smarter network.



# 2018 Acquisitions

## Work Area Protection Corporation (“WAPCO”)

Acquired 9 May 2018

Acquisition cost: \$42.0m



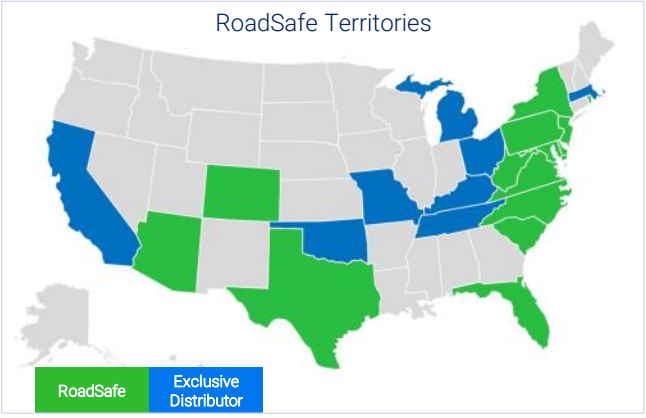
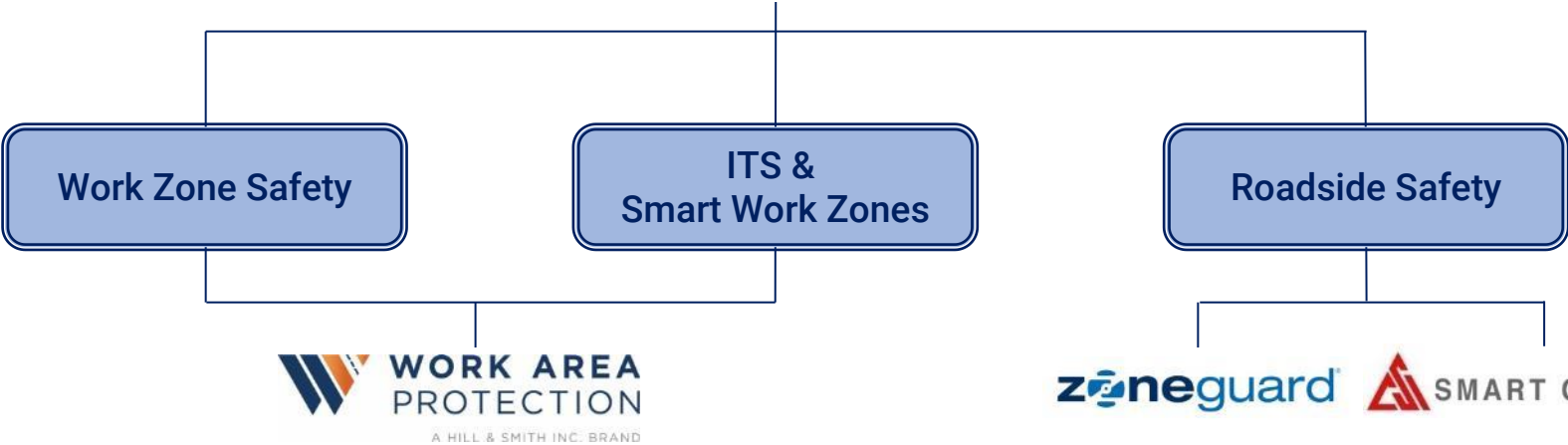
**WAPCO is a leading provider of innovative traffic safety and work zone safety solutions.**

WAPCO develop, manufacture and distribute a range of road work safety zone products.

Product portfolio consists of attenuators, message boards, traffic cones, channelizers / drums, intelligent transportation systems and arrowboards. The acquisition of WAPCO provides us with an extended platform for the introduction of proprietary products from the UK to the US, and vice versa.



# WAPCO - H&S Inc Integration



# 2018 Acquisitions



Acquired 5 October 2018

Acquisition cost: \$12.2m

Engineered solutions supplier of innovative, lightweight, high strength, cost effective Fibre Reinforced Polymer (FRP) products for demanding applications in corrosive environments across major infrastructure markets.

Integrated with our existing US composites group, Creative Pultrusions.



- **Global pultruded composites market c.\$1.5bn (USA 50% of total)**
- **Strong future growth >8% pa in many US market segments**
- **Growth driven by:**
  - increased awareness of potential applications
  - introduction of composite specifications into a higher number of structural construction standards
  - requirement for materials in OEM components to be more lightweight and corrosion resistant
  - low maintenance requirements and long life
- **Fragmented market – opportunities to further enhance product offering of our Composites Group**



# Creative Composites Group

**CREATIVE PULTRUSIONS**  
Proforma Revenue \$80m

**ET Techtonics**  
*Bridges*

**Tower Tech**  
*Cooling towers*

**Kenway**  
*Waterfront  
Harbor Camels  
Waste water*

**Composite Advantage**  
*Bridge Decks  
Waterfront  
Harbor Camels*

**Redman UK  
Pro Composites  
TGC**  
*Rail platforms  
Wind Tower Accessories*



# 2018 Acquisitions



Acquired 17 August 2018

Acquisition cost: \$6.4m

Acquired at auction following bankruptcy, Engineered Endeavors manufactures utility poles and substation structures from their base in Burton, Ohio for the power distribution and wireless cellular market. The business has been integrated into our US Utilities company, V&S Schuler, enhancing our manufacturing capacity by a much needed 52,000 sq ft.



Antenna Tower Pole



Pine Tree Pole



Transmission Pole



A-Frame Pole



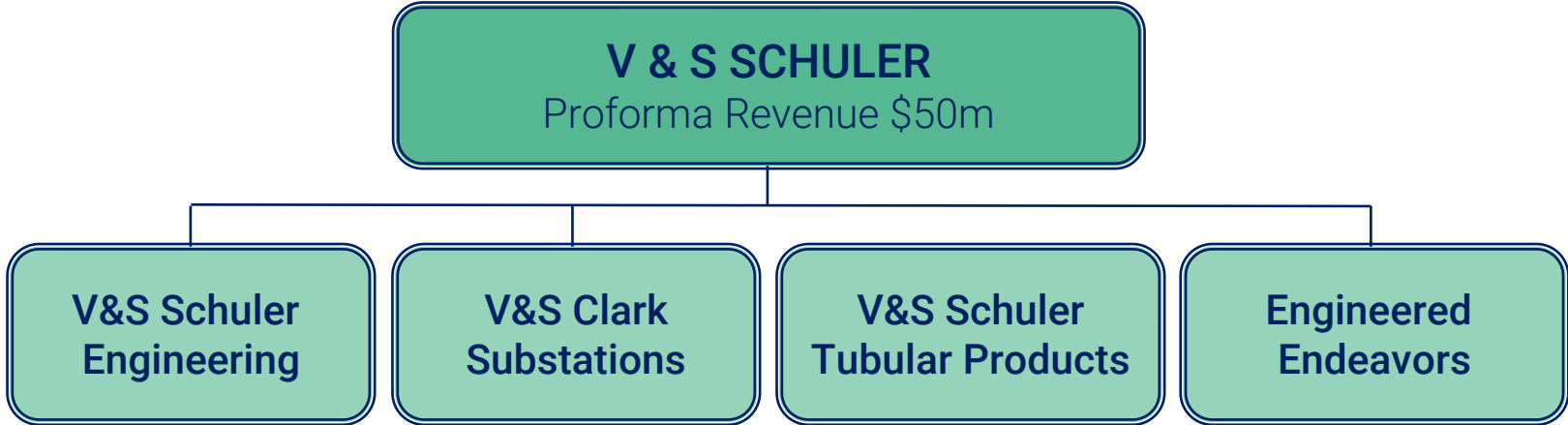
H-Frame Pole

## ➤ USA ageing infrastructure

- Underinvestment in power transmission grid – forward visibility of investment ahead
- Wider customer base; framework agreement opportunities
- Wooden pole replacement
- New substations and solar connections
- Market on extended lead times
- More opportunities for increased geographical presence



# US V&S Utilities Group



V&S Schuler, the combination of four companies offering products and services to the electrical utilities market, as well as to contractors and electrical cooperatives. By combining these companies, we now provide a single source for products and services to our electrical utility customers in the USA.



# ATG Access

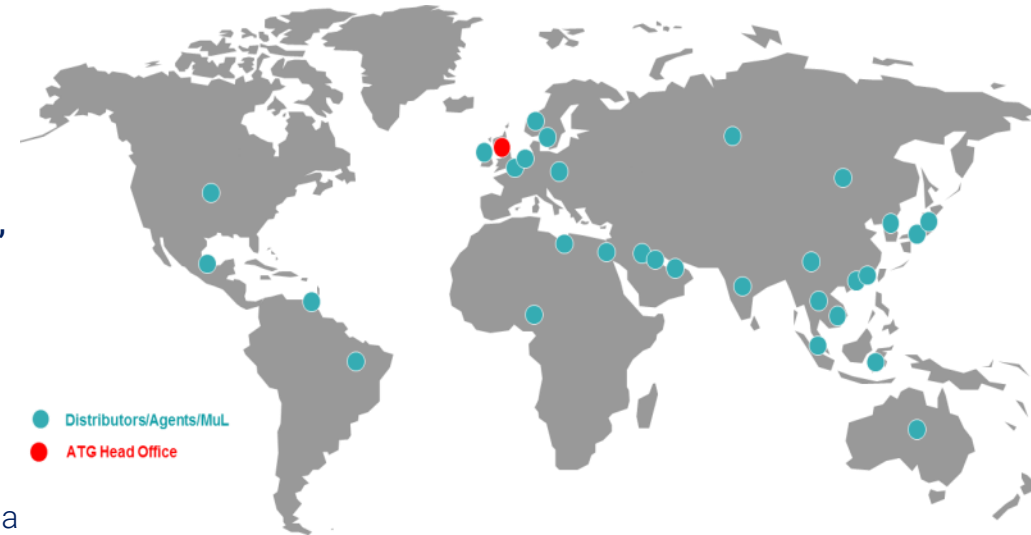
## ATG Access ('ATG')

Acquired 22 February 2019

Acquisition cost: £22.5m



## ATG agent and distributor network



Global market leader in high security, anti-terrorist, hostile vehicle mitigation ('HVM') market, providing innovative engineered products, tested to UK and International standards.

- Highly regulated industry
- New temporary surface mounted guard product for events
- Leader in shallow mount bollards
- 30 international distributors
- Manufacturing supply partners in UK, Abu Dhabi, Singapore and India

### Impact Tested Automatic Bollards

- VP200HD
- SP400
- SP1000
- SP1200
- Titan Mark 2
- TT Bollard
- Defender
- Stealth



### Impact Tested Fixed Bollards

- Shallow mount
- SP400
- SP400 (removable)
- SP1000/112
- SP1000/150
- Gladiator
- Centurion
- City of London
- Westminster



### Other high security products

- Cityscape Gate
- Sentinel Blocker
- Guardian Blocker
- VBB Barrier
- Patriot
- Barrier In A Box
- Column Protector



### Temporary security products

- Surface Guard
- Surface Mount bollards
- Barrier In A Box



### Non-Impact tested products

- Traffic management bollards
- VP50
- Manual bollard systems



# ATG Access Global Product Applications

## Airports



Los Angeles International Airport

## Railway stations



London Underground

## Stadia



Wembley Stadium

## Embassies



British Embassy, Athens

## Financial centres



Financial District, Germany

## Crowded spaces



Premier League Football Clubs



Adelaide Airport



National Rail Stations



Emirates Stadium



Embassy, Istanbul



Visa Data Centre, USA



Kentucky, USA

## Shopping centres



Resort Sentosa, Singapore

## Hotels



Intercontinental, Riyadh

## Hospitals & museums



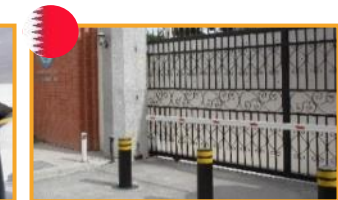
St Thomas' Hospital, London

## Power & HQ



GMRE, Singapore

## Military bases



United Nations HQ, Bahrain



Westfield Stratford, London



St Pancras Hotel, London



British Library, London



BA HQ



# HS Security Group

**HS SECURITY GROUP**  
Proforma Revenue £70m

**Bristorm**  
*Wire Rope  
Bollards  
Gates*

**Barkers**  
*Stronguard  
Fencing  
Gates*

**ATG Access**  
*HVM  
Bollards  
Blockers*

**Technocover**  
*Kiosks  
Manhole Covers  
Grills / Cabinets*

**Hardstaff**  
*National Barrier Asset  
Concrete blocks  
Zoneguard*



# Outlook

## GEOGRAPHIES

### UK

- Short term uncertainty
- Infrastructure investment outlook strong

### USA

- Industrial activity robust
- 'On-shoring' trends – Buy American
- Infrastructure investment outlook strong

### OTHER

- Further market penetration in chosen growth geographies

### OVERALL

- Fundamentals of our niche infrastructure markets remain encouraging
- “...reasonable expectation that 2019 will be a year of progress.”

## SEGMENTS

### UTILITIES

- UK remains mixed
- US composites/utilities growth opportunities
- Pipe Supports improving returns

### ROADS

- RIS certainty of spending to 2025
- Wider opportunities in US & international markets
- Growing demand for HVM products

### GALVANIZING

- France steady
- UK/US maximise opportunities from infrastructure spend

# Appendices



# Segment analysis

£m	2018	Organic	M&A	FX	2017
<b>Utilities</b>					
Revenue	239.0	14.5	12.2	(3.4)	215.7
Underlying operating profit	18.3	1.0	0.9	(0.4)	16.8
<i>Margin</i>	7.7%				7.8%
<b>Roads</b>					
Revenue	208.5	(4.9)	28.3	(2.0)	187.1
Underlying operating profit	24.2	(1.2)	2.1	(0.3)	23.6
<i>Margin</i>	11.6%				12.6%
<b>Galvanizing</b>					
Revenue	190.4	9.8	-	(1.7)	182.3
Underlying operating profit	37.6	(2.6)	-	(0.7)	40.9
<i>Margin</i>	19.7%				22.4%
<b>Group</b>					
Revenue	637.9	19.4	40.5	(7.1)	585.1
Underlying operating profit	80.1	(2.8)	3.0	(1.4)	81.3
<i>Margin</i>	12.6%				13.9%

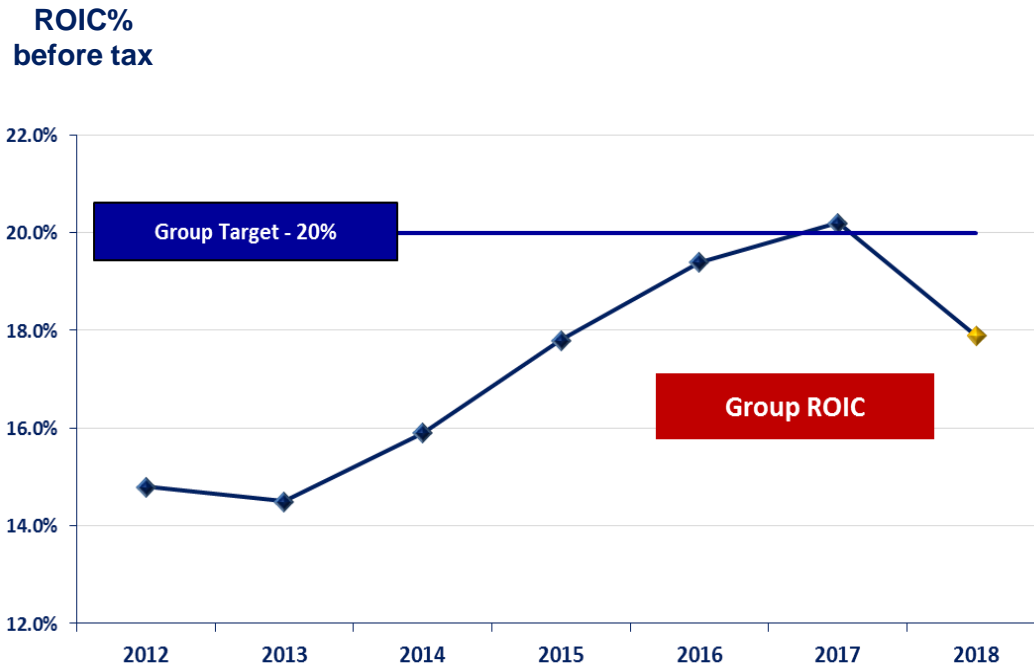
# Non-underlying items

£m	2018	2017
<b>Operating items</b>		
Business reorganisation costs	(0.7)	(2.8)
Acquisition costs	(2.2)	(0.6)
Amortisation of acquisition intangibles	(4.8)	(4.0)
Impairment of acquisition intangibles/other assets	(6.1)	(0.4)
Profit on sale of CA Traffic	-	0.6
Pension past service costs	(1.1)	-
	<b>(14.9)</b>	<b>(7.2)</b>
<b>Financing costs</b>		
Net pension interest	(0.6)	(0.7)
Refinancing expense amortisation	(1.0)	(0.4)
	<b>(16.5)</b>	<b>(8.3)</b>
<b>Cash in year (net)</b>	<b>(2.3)</b>	1.8
<b>Future cash</b>	<b>(1.7)</b>	(1.8)
<b>Non cash</b>	<b>(12.5)</b>	(8.3)
	<b>(16.5)</b>	<b>(8.3)</b>

Technocover goodwill impairment

Pension GMP expense

# Return on Invested Capital



Group	2018	2017
Operating Profit (£m)	80.1	81.3
Av. Invested Capital (£m)	446.6	403.1
ROIC %	17.9	20.2

Divisional (%)	2018	2017
Utilities	17.6	17.5
Roads	17.3	22.0
Infrastructure Products	17.4	19.9
Galvanizing	18.5	20.4

# Margin

	Margin		Target Range %
	2018 %	2017 %	
Infrastructure Products	<b>9.5</b>	10.0	8 – 11
- Utilities	<b>7.7</b>	7.8	7 – 10
- Roads	<b>11.6</b>	12.6	10 – 14
Galvanizing Services	<b>19.7</b>	22.4	19 – 22
Group	<b>12.6</b>	13.9	12 – 15

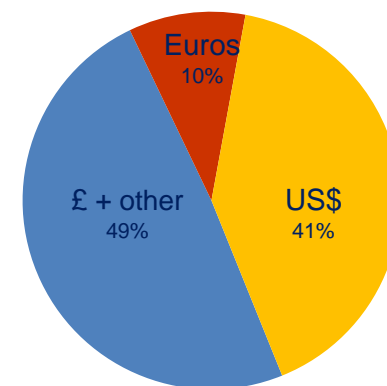
- All divisions within target range
- Roads impacted by lower barrier utilisation in H1 and VMS deferrals
- Galvanizing reduction driven by zinc input cost increases

# Availability and usage of debt facilities

£m	Net Debt	Facility
Committed	169.8	282.7
On demand	-	11.3
Cash	(36.9)	-
	<b>132.9</b>	<b>294.0</b>

Maturity		
On demand	2019 to 2024	2024
11.3	2.1	280.6

Net Debt by Currency



➤ **Principal debt facility refinanced on 10 January 2019**

- Term extended April 2021 → January 2024
- Value increased by £50m to c.£280m
- No significant increase in costs; covenants unchanged

➤ **Facilities provide significant headroom**

- Net debt : EBITDA 1.3 times (covenant 3 times); Interest cover 26.5 times (covenant 4 times)

➤ **Target net debt : EBITDA range between 1.5 to 2.0 times**

# 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 approval. 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.*