



FY 2023



Hill & Smith PLC



PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

12 March 2024

HIGHLIGHTS

Record trading performance

- 14% revenue and 26% profit growth at constant currency
- Strong momentum across US businesses, representing 76% of profits
- Operating margin +150bps to 14.8%

Positive momentum on M&A

- £48m invested in growth and margin accretive acquisitions in 2023
 - Q1 2023: Enduro Composites and Korns Galvanizing
 - Q4 2023: United Fiberglass and Conn-Fab
 - All 2023 acquisitions trading in line or ahead of expectations
- Further £11.6m across two acquisitions, 2024 year to date

Strong cash generation and returns

- Cash conversion 115%
- ROIC increased to 22.0%
- Covenant leverage 0.4 times

Significant dividend increase proposed

- Final dividend of 28.0p
- Total FY23 dividend 43.0p, +23% yoy

Expect to make further progress in 2024 and beyond

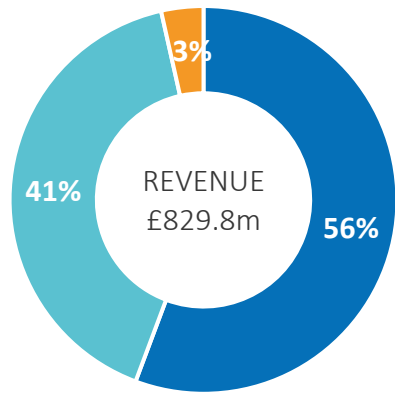


2023 RESULTS

CONTINUING OPERATIONS	2023	2022	Reported +/-	Constant Currency +/-	Organic Constant Currency +/-
Revenue	£829.8m	£732.1m	+13%	+14%	+5%
Operating profit	£122.5m	£97.1m	+26%	+26%	+12%
Operating margin	14.8%	13.3%	+150 bps		
Profit before tax	£111.9m	£87.9m	+27%		
Earnings per share	105.4p	85.4p	+23%		
Dividend per share	43.0p	35.0p	+23%		

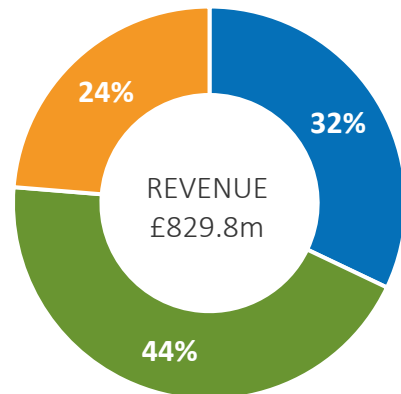
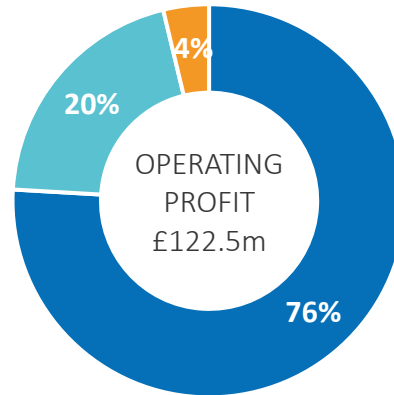


GROUP OVERVIEW



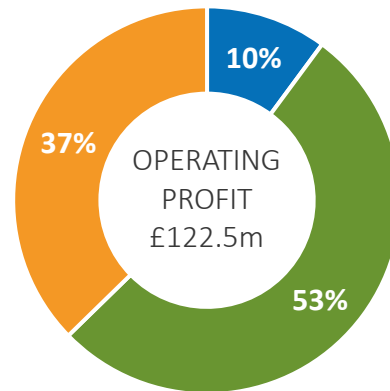
By geography

- US
- UK
- Rest of World



By division

- Engined Solutions
- Galvanizing Services
- Roads & Security



ENGINEERED SOLUTIONS

	2023	2022	Constant Currency	OCC
Revenue (£m)	367.0	289.9	+27%	+15%
Operating profit (£m)	64.4	35.0	+84%	+69%
Operating margin	17.5%	12.1%		

Highlights

- Standout performance driven by buoyant demand in US
- Operating margin +540bps due to volume growth and portfolio mix

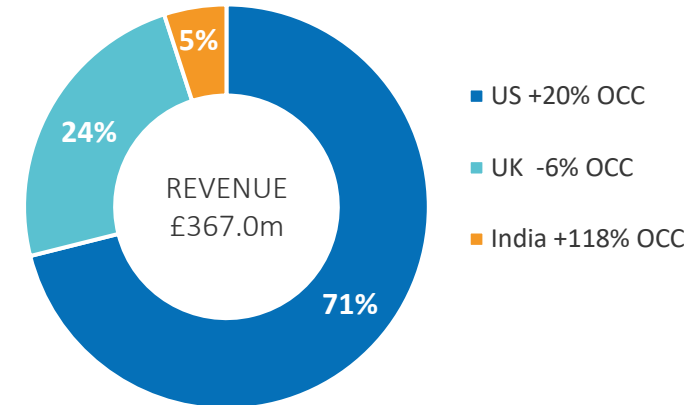
US

- Composites delivered record results and enhanced margins
- High demand for structural steel electrical substation projects
- Record results in engineered supports
- **Outlook:** positive, supported by grid modernisation, multi-year government spend and onshoring

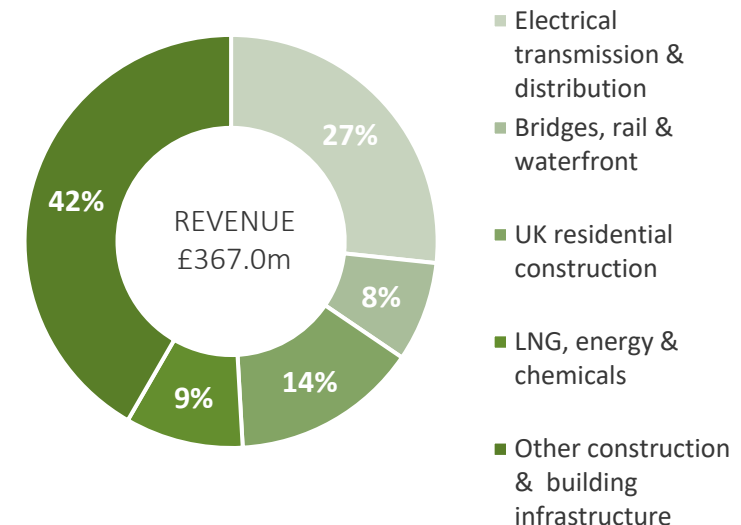
UK and India

- Resilient performance in our two UK businesses
- India engineered supports delivered record results
- **Outlook:** mixed, softness in UK residential construction expected to continue. Outlook for India positive

By geography



By end market



GALVANIZING SERVICES

	2023	2022	Constant Currency	OCC
Revenue (£m)	196.7	180.7	+9%	+5%
Operating profit (£m)	45.7	44.0	+4%	-
Operating margin	23.2%	24.3%		

Highlights

- Robust performance supported by strong US volume growth
- Division continues to deliver superior margins, in line with our expectation

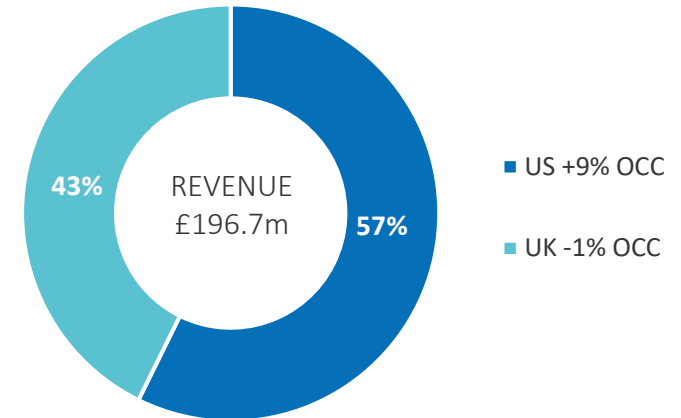
US

- Record operating profit, driven by 8% organic volume growth
- Korns fully integrated, trading ahead of expectations
- **Outlook:** positive, well placed to benefit from high industrial expansion supported by IJIA, technology investment and onshoring

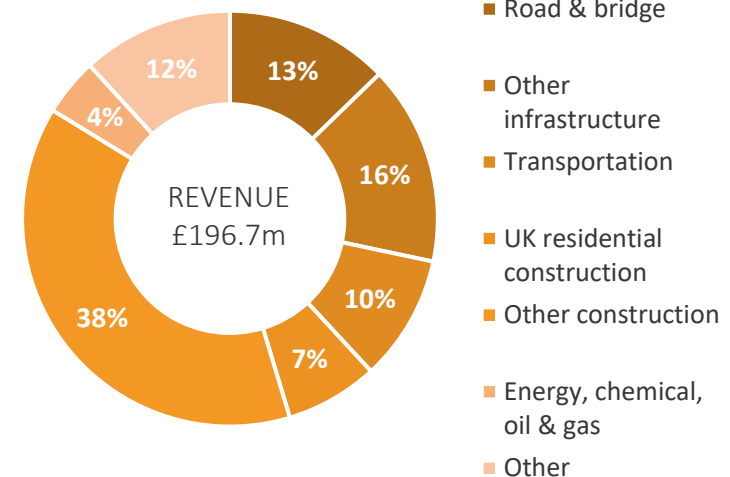
UK

- 15% organic volume decline offset by pricing actions
- Widnes fully integrated, results ahead of expectations
- **Outlook:** certain end markets remain challenging. Proactive steps taken to strengthen senior management

By geography



By end market



ROADS & SECURITY

	2023	2022	Constant Currency	OCC
Revenue (£m)	266.1	261.5	+2%	-5%
Operating profit (£m)	12.4	18.1	-31%	-71%
Operating margin	4.7%	6.9%		

Highlights

- Strong performance in National Signal
- Resilient trading in core UK roads businesses
- Margin impacted by one-off costs included in underlying trading

UK

- Barrier rental business delivered good profit growth
- Wider UK portfolio experienced some market challenges
- **Outlook:** market likely to be broadly flat into 2024

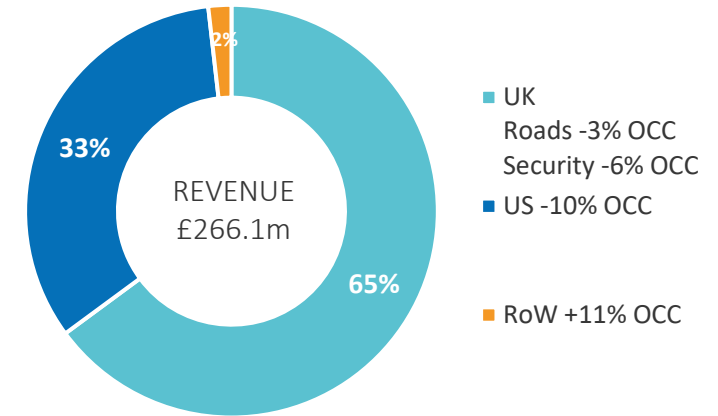
US

- Strong trading in National Signal, underpinned by buoyant demand
- US roads margin significantly impacted by operational improvement costs
- **Outlook:** demand supported by increased infrastructure project spend and government funding

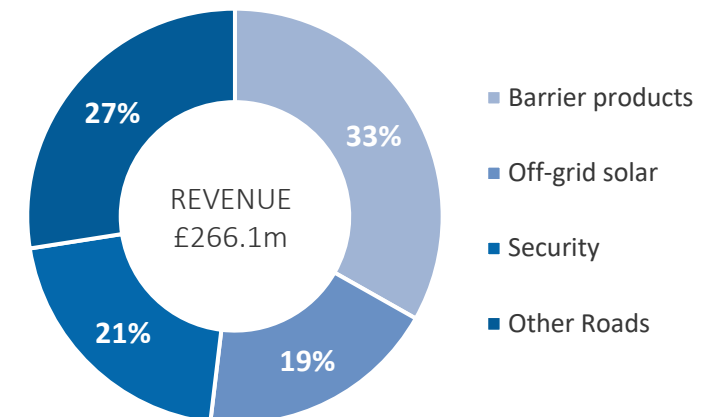
Security

- Resilient performance
- **Outlook:** mixed, focus on robust end markets

By geography



By product



CASH GENERATION AND FINANCIAL POSITION

Strong cash conversion

- Focus on working capital efficiency, lower raw material costs
- Capital investment to maintain and grow: £31.8m (gross)
- FY23 cash conversion 115%. FY24 expected to be in line with financial framework

Free cash flow £97m

- Supporting acquisition strategy and dividend policy
- Increase in tax paid due to US phasing and carry forward of UK tax losses

Allocation of capital to value enhancing acquisitions

- c.£48m investment across four 2023 acquisitions
- Target to reinvest £50m - £70m per annum

Significant liquidity headroom and leverage capacity

- Covenant net debt to EBITDA: 0.4 times
- £247.2m facility headroom

Return on invested capital at 22.0%

£m	2023	2022
Total Group* operating profit	122.5	103.9
Depreciation and amortisation	30.2	30.0
Underlying EBITDA	152.7	133.9
Working capital	22.8	(42.6)
Capital expenditure (net)	(28.5)	(31.1)
Repayments of lease liabilities	(9.4)	(9.5)
Movements in provisions / other	3.5	1.8
Underlying operating cash flow	141.1	52.5
<i>Underlying cash conversion</i>	115%	51%
Restructuring spend (net)	0.9	(6.5)
Pension deficit payments	(3.7)	(3.7)
Interest paid (inc. IFRS 16)	(9.7)	(6.7)
Tax paid	(31.7)	(15.5)
Free cash flow	96.9	20.1
Dividends	(28.0)	(24.7)
Acquisitions/disposals	(56.6)	36.1
Lease movements under IFRS 16	(2.8)	0.5
Share issues/other (net)	(1.4)	(0.9)
Net cash flow	8.1	31.1
FX impact	3.2	(6.1)
Net debt	108.4	119.7

* Total Group in 2022 included France Galva, which the Group disposed of in October 2022

SUSTAINABILITY

A STRUCTURAL GROWTH DRIVER

Our commitment to Net Zero

- Successful baseline and validation of Scope 3 emissions
- Near and long term SBTi targets approved
- Commitment to be Net Zero across value chain by 2050, and for Scope 1 & 2 by 2040

Health & Safety

- Focus on accident prevention
- 61% yoy reduction in Lost Time Incident Rate

Talent and Engagement

- Critical to the success of our autonomous model
- Key focus on senior level succession, developing high potential individuals within the business

Diversity and Inclusion

- Employee survey highlighted positive progress
- 60 apprentices in the UK, 9% higher vs 2022



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



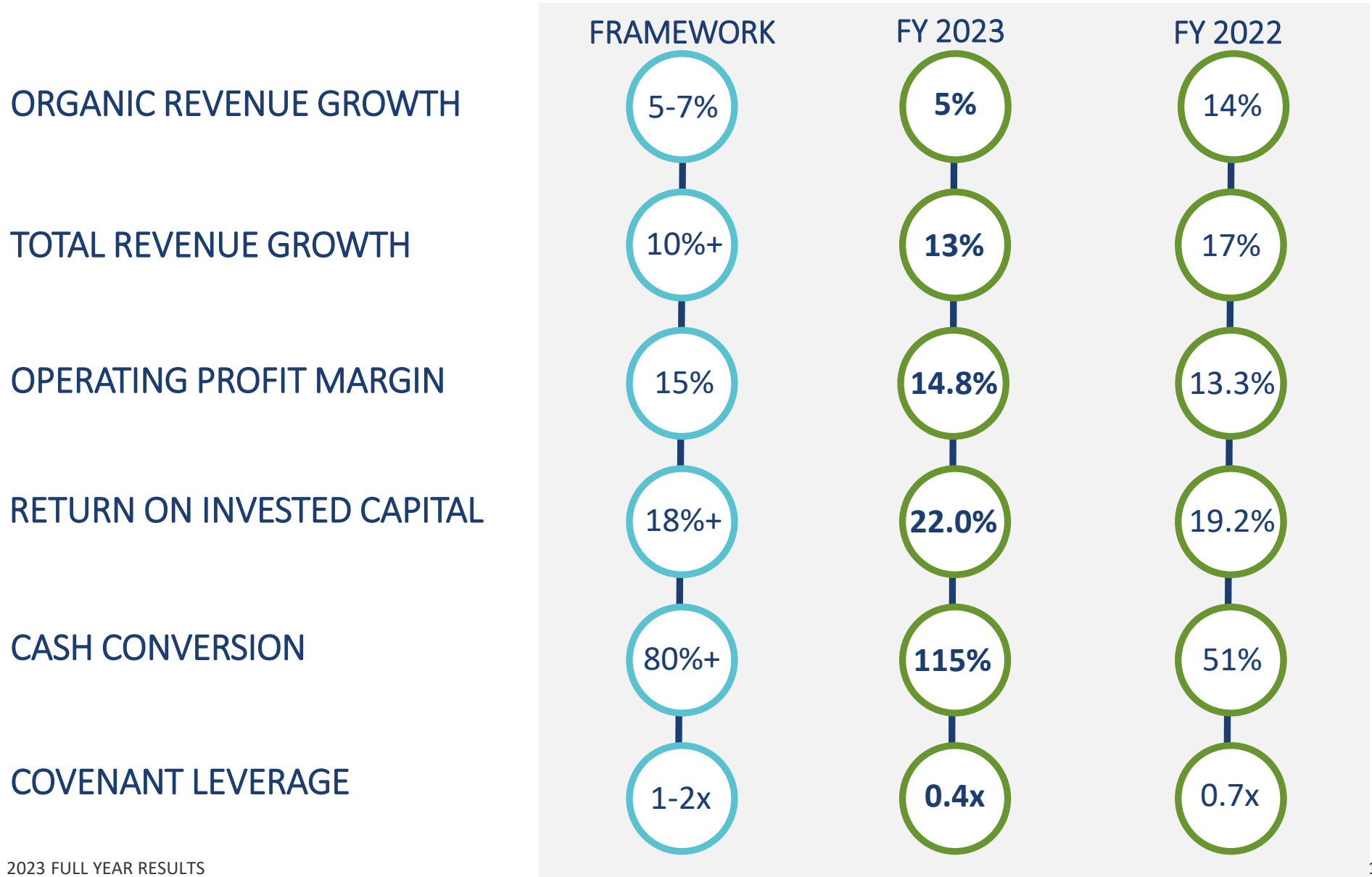
SUSTAINABLE GOVERNANCE

FOCUS AREAS:

- Climate risks (TCFD)
- Ethical conduct

FINANCIAL FRAMEWORK

THROUGH THE CYCLE



M&A UPDATE

2023 ACQUISITIONS PERFORMING WELL



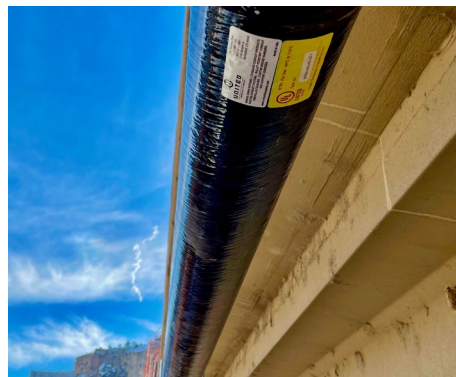
Enduro Composites

- Acquired in February 2023: \$35m
- Market leader in the design and manufacture of composite products and solutions
- Trading ahead of expectations, with good margin expansion
- Investment in new pultrusion line completed, adding additional capacity
- Fully integrated into Creative Composites Group



United Fiberglass

- Acquired in November 2023: \$14m
- Market leader in the design and manufacture of composite pipe, conduit and bridge drain infrastructure
- Material cross-selling opportunities
- Business enters 2024 with strong order book
- Being integrated into Creative Composites Group



Korns Galvanizing

- Acquired in March 2023: \$11m
- Expands our offering in spin galvanizing
- Trading ahead of expectations. Positive margin expansion
- \$2.9m investment in automation to increase overall plant capacity
- Fully integrated into V&S Galvanizing



M&A UPDATE

2024 ACQUISITIONS TO DATE



Capital Steel Service

- Acquired in January 2024: \$6.3m (6.3x EBIT)
- Supplies structural steel products and services, principally into high growth transmission and distribution market
- Potential for operating margin expansion
- Expands our geographical customer base into New Jersey market
- Material cross-selling opportunities
- Will be integrated into V&S Utilities, within Engineered Solutions



FMStainless

FM Stainless

- 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
- Operating margin above Group target
- Generates material cross-selling opportunities and provides additional manufacturing capacity
- Will be integrated into The Paterson Group, within Engineered Solutions



V&S UTILITIES - CASE STUDY

A FAST-GROWING PART OF THE GROUP



What we do

V&S Utilities fabricates and supplies structural steel and component packages for US high voltage electrical substations and transmission & distribution lines, operating from four locations in the US

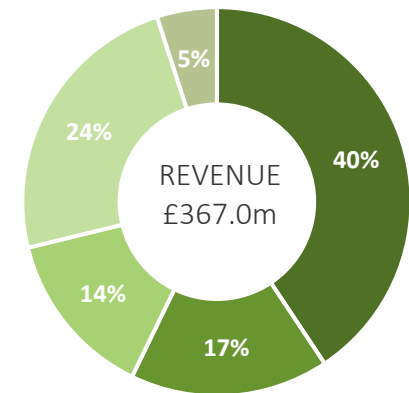
Highlights

- Record revenue and operating profit in 2023, with operating margin significantly above Group and divisional average
- 5-year revenue and operating profit CAGRs of 13% and 21% respectively
- Key growth drivers:
 - Grid modernisation and requirement to replace ageing infrastructure
 - US Government funding e.g. IJA (\$27bn allocated for investment in electric grid infrastructure security, reliability and resilience)
 - Increasing demand on electrical grid driven by population growth, renewable energy integration and technology changes (e.g., data centres, electric vehicles, 5G)

Initiatives to support long term

- Multiple initiatives underway to support organic profit growth including cross-selling synergies, capacity expansion, facility upgrades and efficiency improvement
- Strong acquisition pipeline to take advantage of the attractive, growing market

Engineered Solutions 2023 revenue

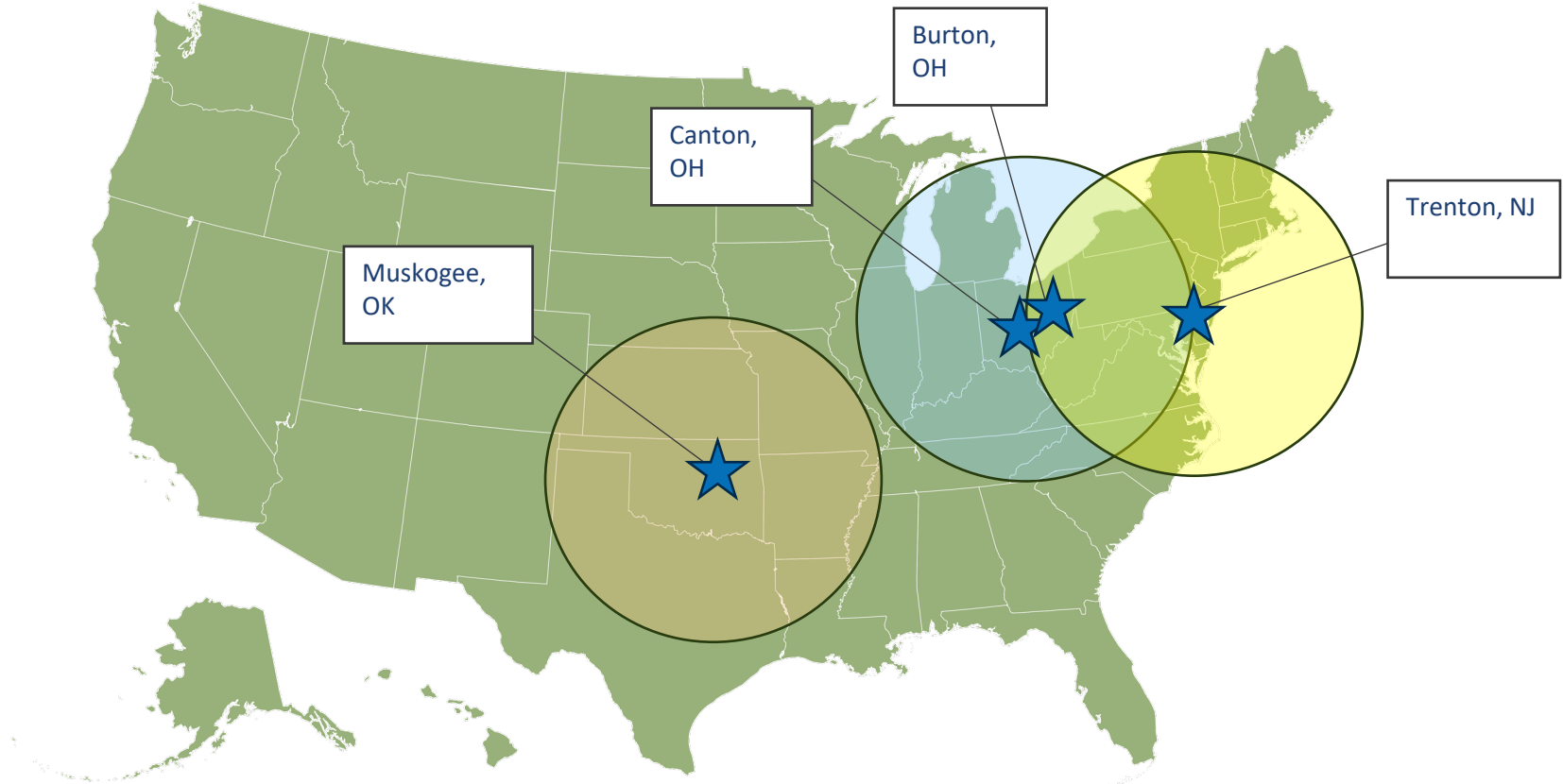


■ Composites ■ V&S Utilities ■ US other ■ UK ■ India



V&S UTILITIES - CASE STUDY

SIGNIFICANT M&A OPPORTUNITIES



 Site locations

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

CONFIDENT OF MAKING FURTHER PROGRESS



Short term

- Well positioned in infrastructure markets with attractive, structural growth drivers
- Weighted towards faster growing US end markets, which accounted for 76% of Group operating profit in 2023
- 2024 to be modestly second half weighted. Possible FX headwinds
- Expect to see recovery in Roads & Security margin
- Strong M&A pipeline

Medium to long term

- Highly effective business and operating model
- Positive market outlook supported by strong long term growth drivers for sustainable infrastructure
- US businesses well placed to benefit from increased onshoring, investment in technology and IIA spend on infrastructure

APPENDICES



2024

MODELLING GUIDANCE

Capex

c.£35m

Maintenance spend c.£15m

Cash conversion

c.80%+

Effective tax rate¹

c.25.5%

Interest²

c.£10m

H1/H2 weighting

Profit expected to be modestly H2 weighted in line with historic norms

Translation impact of FX rate movements

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

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 February 2024 levels. Includes IFRS 16 lease interest, pension scheme deficit interest and amortisation of refinancing fees, totaling c.£3m



DIVISIONAL ANALYSIS

CONTINUING OPERATIONS

£m	2023	Organic	M&A	FX	2022
Engineered Solutions					
Revenue	367.0	42.4	35.1	(0.4)	289.9
Underlying operating profit	64.4	24.3	5.1	-	35.0
<i>Margin</i>	17.5%				12.1%
Galvanizing Services					
Revenue	196.7	8.2	7.8	-	180.7
Underlying operating profit	45.7	0.2	1.5	-	44.0
<i>Margin</i>	23.2%				24.3%
Roads & Security					
Revenue	266.1	(11.9)	17.2	(0.7)	261.5
Underlying operating profit	12.4	(12.9)	7.2	-	18.1
<i>Margin</i>	4.7%				6.9%
Group					
Revenue	829.8	38.7	60.1	(1.1)	732.1
Underlying operating profit	122.5	11.6	13.8	-	97.1
<i>Margin</i>	14.8%				13.3%



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

FINANCIAL CAPACITY

FACILITIES AND USAGE

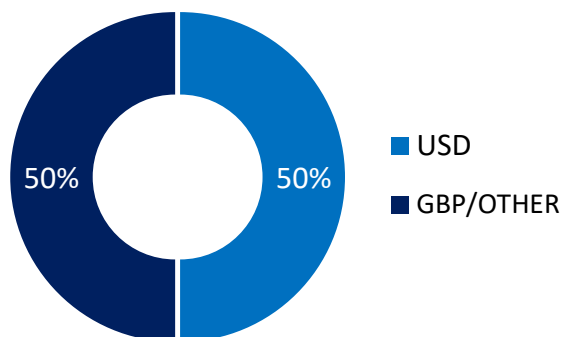
Principal debt facilities

- Revolving credit facility: £250m maturing H2 2027 following one-year extension agreed during the year
- Senior notes: \$70m unsecured notes mature 2026/29
- c.55% of drawn debt at year end subject to fixed interest rates
- Average cost of debt in FY23 c.4.9%

Facilities provide significant headroom of £247.2m

- Net debt: EBITDA 0.4 times (covenant 3 times)
- Interest cover 17.3 times (covenant 4 times)
- Target net debt: EBITDA range between 1.0 and 2.0 times

NET DEBT BY CURRENCY (excl. IFRS 16)



£m	Net debt	Facility
Committed	101.1	307.3
On demand	-	6.6
Cash	(34.4)	-
Net borrowings	66.7	313.9
IFRS 16	43.7	
IFRS 9	(2.0)	
Reported net debt	108.4	

On demand	Maturity			
	2024-5	2026	2027	2029
6.6	2.1	27.6	250.0	27.6

£247.2m
total headroom

NON-UNDERLYING ITEMS

CONTINUING OPERATIONS

£m	2023	2022
Business reorganisation costs (net)	(0.2)	(2.9)
Expenses relating to acquisitions and disposals	(5.3)	(2.3)
Amortisation of acquisition related intangibles	(8.4)	(6.0)
Impairment of goodwill/other assets	(0.6)	(6.4)
Loss on disposal of subsidiaries	(4.2)	(1.0)
	(18.7)	(18.6)
Cash in year (net)	(2.4)	(3.4)
Future cash	(3.7)	(1.8)
Non-cash	(12.5)	(13.4)
	(18.7)	(18.6)



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

