



2022



Hill & Smith PLC

8 March 2023

Preliminary Results
for the year ended 31 December 2022

HIGHLIGHTS

Record 2022 trading performance

- 14% organic constant currency (OCC) revenue and profit growth
- US businesses represented 64% of Group profit
- Highlights resilience of our attractive end markets and continued portfolio evolution

Significant progress on portfolio management

- £66m deployed on four high-quality acquisitions in last six months
 - Q4 2022: National Signal and Widnes Galvanising
 - Q1 2023: Enduro Composites and Kornis Galvanizing
- Reallocating £62m proceeds from disposal of lower growth France Galva

Improved cash generation and returns

- H2 cash conversion: 93%
- Covenant financial leverage 0.7 times
- ROIC increased to 19.2%

Final dividend of 22.0p proposed

- Total FY 2022 dividend 35.0p: +13% yoy

Refreshed financial framework reflecting Group's growth potential

Group expects to make further progress in 2023



2022 RESULTS



	2022	2021	Reported +/-	Constant Currency +/-	Organic Constant Currency +/-
CONTINUING OPERATIONS					
Revenue	£732.1m	£625.2m	+17%	+12%	+14%
Operating profit	£97.1m	£77.3m	+26%	+17%	+14%
Operating margin	13.3%	12.4%	+90 bps		
Profit before tax	£87.9m	£71.2m	+23%		
Earnings per share	85.4p	70.0p	+22%		
TOTAL GROUP					
Earnings per share	91.9p	77.9p	+18%		
Dividend per share	35.0p	31.0p	+13%		



GALVANIZING



CONTINUING OPERATIONS	2022	2021	Constant Currency +/-	OCC +/-
Revenue (£m)	180.7	141.8	+20%	+20%
Operating profit (£m)	44.0	33.4	+23%	+23%
Operating margin	24.3%	23.6%		

£m	Revenue	Operating Profit
2021	141.8	33.4
FX	8.2	2.4
M&A	0.8	-
Organic	29.9	8.2
2022	180.7	44.0

2022 Revenue	£m	OCC +/-
UK	81.9	+17%
US	98.8	+23%
Total	180.7	+20%

Headlines

- Record operating profit performance +23% OCC
- Pricing power enabling superior operating margins to be maintained

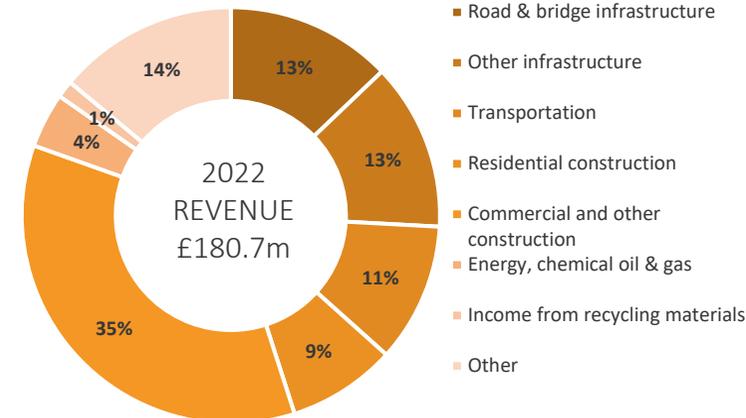
US

- Growth driven by volume +11%, alongside pricing actions and favourable product mix
- Korn's acquisition expands capacity in northeastern market
- **2023 outlook:** positive, supported by strong end market demand, particularly road & bridge infrastructure

UK

- Record profit performance reflecting strong H1 and focus on price and higher margin work
- Widnes acquisition expands footprint in north west
- **2023 outlook:** degree of caution given wider UK economic backdrop

CUSTOMER END MARKETS



MACRO DRIVERS

- Increasing population
- Urbanisation
- Climate change

MARKET DRIVERS

- Sustainable materials
- Decarbonisation

US GALVANIZING

CASE STUDY



V&S Galvanizing

- Hot-dip galvanizing: a proven steel corrosion protection solution used in a wide range of infrastructure and industrial applications
- Nine strategically located plants
- Local market leader with focus on customer service and quality

Record performance in 2022

- £98.8m revenue: +23% OCC growth
- +11% volume growth driven by road & bridge infrastructure and commercial construction
- Easing of labour availability challenges experienced in 2021
- Pricing power and operational excellence maintained superior margins

Growth opportunity > GDP

- Significant investment in US infrastructure (IIJA)
- Benefiting from move to increased on-shoring of manufacturing
- Increasing substitution for paint and other coatings due to full life cycle cost and sustainability benefits
- Existing plants have capacity for growth
- Potential for market consolidation through acquisitions
- Geographic expansion via plant builds (subject to cost appraisal)



A BROAD SECTORAL SPREAD OF END MARKETS



ENGINEERED SOLUTIONS



CONTINUING OPERATIONS	2022	2021	Constant Currency +/-	OCC +/-
Revenue (£m)	289.9	223.7	+21%	+21%
Operating profit (£m)	35.0	26.0	+24%	+24%
Operating margin	12.1%	11.6%		

£m	Revenue	Operating Profit
2021	223.7	26.0
FX	15.9	2.2
Organic	50.3	6.8
2022	289.9	35.0

2022 Revenue	£m	OCC +/-
UK	93.4	+21%
US	187.7	+23%
ROW	8.8	-11%
Total	289.9	+21%

Headlines

- Strong 2022 performance, operating profit +24%
- Operating margin +50bps reflecting quality of faster growing US businesses

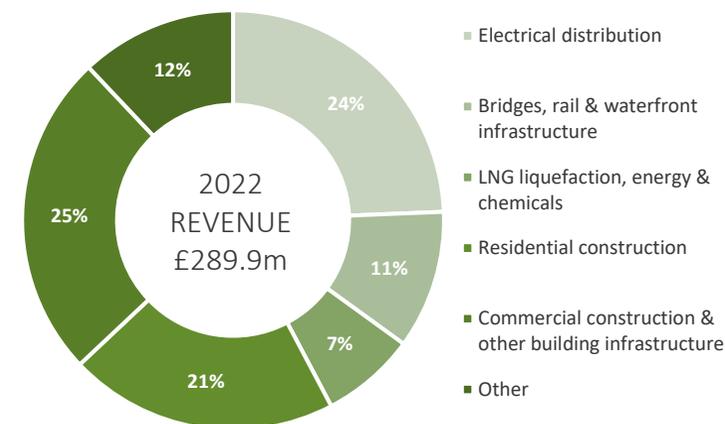
US

- Continued high demand for composite solutions
- Enduro acquisition accelerates growth strategy
- Increased electricity grid upgrade project activity
- Buoyant commercial construction market driving demand for engineered supports
- **2023 outlook:** positive for all businesses, supported by strong order books

UK

- Robust demand for industrial flooring from datacentre and oil & gas markets
- Building products demand slowdown in H2
- **2023 outlook:** mixed, with residential housebuilding expected to be challenging

CUSTOMER END MARKETS



MACRO DRIVERS

- Increasing population
- Urbanisation
- Climate change

MARKET DRIVERS

- Sustainable materials
- Decarbonisation

ROADS & SECURITY



CONTINUING OPERATIONS	2022	2021	Constant currency +/-	OCC +/-
Revenue (£m)	261.5	259.7	-1%	+5%
Operating profit (£m)	18.1	17.9	-4%	-17%
Operating margin	6.9%	6.9%		

UK

- Lower temporary barrier fleet utilisation due to Government uncertainty and project delays
- Good performance in wider UK roads portfolio
- **2023 outlook:** mixed with good growth in off grid solar

US

- Underperformance in roads business due to operational challenges with actions now taken to address
- National Signal trading ahead of expectations
- **2023 outlook:** positive, supported by growth in highway and bridge improvement projects

Australia

- Barrier fleet investment to support market growth

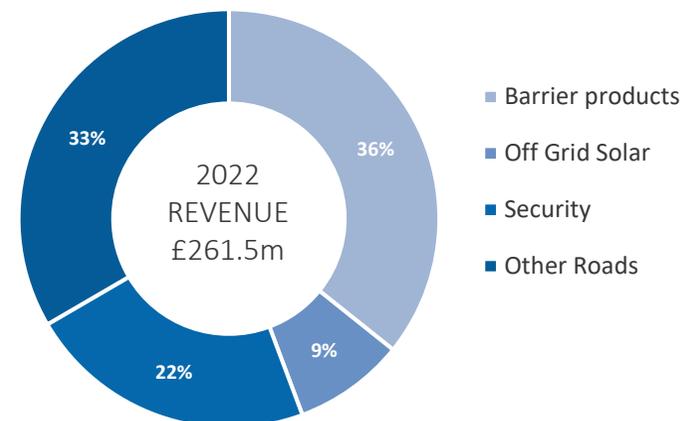
UK Security

- Encouraging recovery in end markets for HVM solutions

£m	Revenue	Operating Profit
2021	259.7	17.9
FX	5.4	1.0
M&A	(17.6)	2.5
Organic	14.0	(3.3)
2022	261.5	18.1

2022 Revenue	£m	OCC +/-
UK	121.1	+3%
US	69.2	+10%
International	13.0	-1%
Security	58.2	+6%
Total	261.5	+5%

REVENUE BY BUSINESS TYPE



MACRO DRIVERS

- Increasing population
- Urbanisation
- Increasing health & safety regulations

MARKET DRIVERS

- Infrastructure safety
- Vision Zero
- Enabling technology

CASH GENERATION AND FINANCIAL POSITION



Improved H2 cash conversion at 93%

- Working capital outflow reflects increased inventory due to cost input inflation and tactical stock holding
- Capital investment to support growth: £20m
- FY 2022 cash conversion 51%; FY 2023 forecast to be 80%+

Free cash flow £20.1m

- Supporting acquisition strategy and dividend policy

Reallocation of capital to portfolio enhancing acquisitions

- £62m net proceeds from France Galva disposal
- National Signal £24.2m & Widnes Galvanising £3.9m

Significant liquidity headroom and leverage capacity

- Covenant net debt to EBITDA: 0.7 times
- Successfully refinanced revolving credit facility

Improved ROIC at 19.2% (2021: 17.1%)

£m	2022	2021
Total Group* operating profit	103.9	86.0
Depreciation and amortisation	30.0	32.6
Underlying EBITDA	133.9	118.6
Working capital	(42.6)	(6.8)
Capital expenditure (net)	(31.1)	(32.2)
Repayments of lease liabilities	(9.5)	(10.3)
Movements in provisions / other	1.8	(2.2)
Underlying operating cash flow	52.5	67.1
<i>Underlying cash conversion ratio (%)</i>	51%	78%
Restructuring spend (net)	(6.5)	(2.7)
Pension deficit payments	(3.7)	(3.7)
Interest paid (inc. IFRS 16)	(6.7)	(4.9)
Tax paid	(15.5)	(15.2)
Free cash flow	20.1	40.6
Dividends	(24.7)	(21.2)
Acquisitions/disposals	36.1	(12.0)
Lease movements under IFRS 16	0.5	(6.9)
Share issues/other (net)	(0.9)	-
Net cash flow	31.1	0.5
FX impact	(6.1)	1.0
Net debt	119.7	144.7

*Total Group includes both continuing operations and France Galva – see slide 22 for details

OUR ESG FOCUS AREAS

PROGRESS UPDATE



ESG is a structural growth driver for our business

Our commitment to Net Zero

- Scope 3 baseline activity progressing well
- On track to submit SBTi targets ahead of deadline
- Local energy saving initiatives and refinement of technology roadmap
- 10% yoy reduction in Scope 1 and 2 emissions

Health & Safety

- 35% yoy reduction in Lost Time Injury Rate
- Focus on local improvement plans and lifesaving rules

Talent and Engagement

- Employee engagement improved to 61%

Diversity and Inclusion

- Appointment of first two female MDs
- 33% of new apprentices were female



PROTECTING THE WORLD

ESG FOCUS AREAS:

1. Greenhouse gas emissions and energy efficiency
2. Sustainable products (infrastructure)

UN SDGs



SAVING AND ENHANCING LIVES

ESG FOCUS AREAS:

2. Sustainable products (safe transport)
3. Health & safety
4. Talent and engagement
5. Diversity and inclusion

UN SDGs



SUSTAINABLE GOVERNANCE

ESG FOCUS AREAS:

6. Climate risks (TCFD)
7. Ethical conduct

UN SDGs



FINANCIAL FRAMEWORK

FOR PERFORMANCE THROUGH THE CYCLE

5 -7%

ORGANIC REVENUE GROWTH

10%+

TOTAL REVENUE GROWTH

15%

OPERATING PROFIT MARGIN

18%+

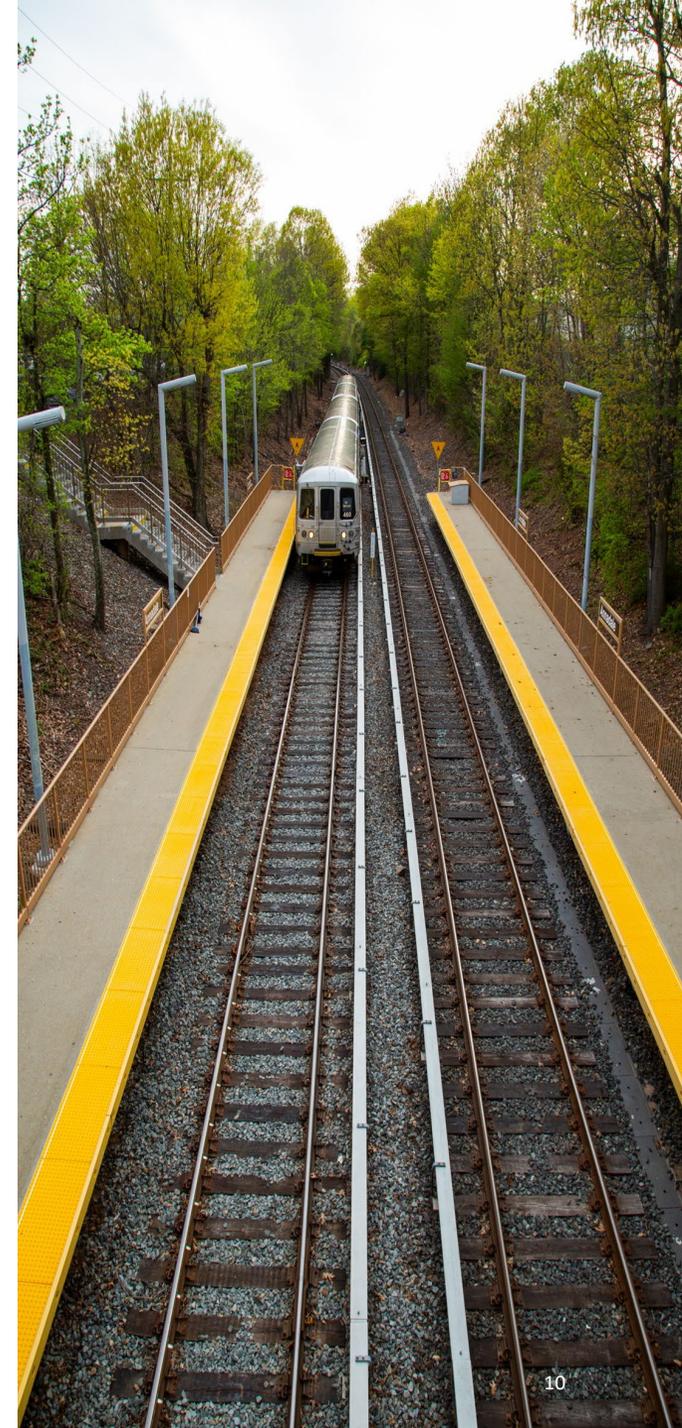
RETURN ON INVESTED CAPITAL

80%+

UNDERLYING CASH CONVERSION*

1 -2x

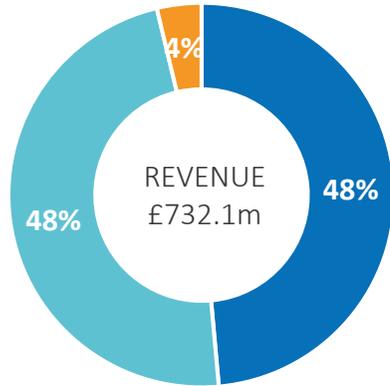
COVENANT LEVERAGE



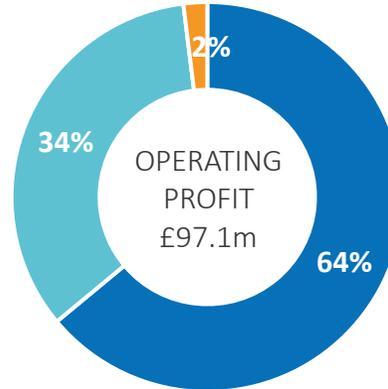
GROUP OVERVIEW

INCREASING IMPORTANCE OF US END MARKETS

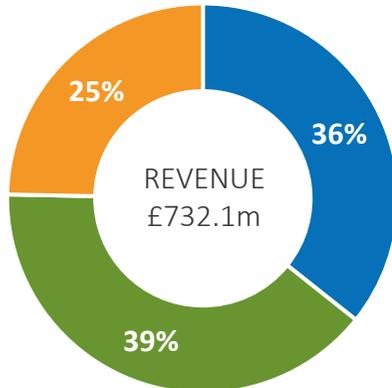
By geography



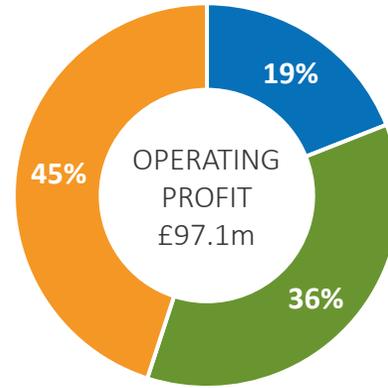
- US
- UK
- Rest of World



By division



- Galvanizing
- Engineered Solutions
- Roads & Security



CONTINUING OPERATIONS: EXCLUDES FRANCE GALVA



US INFRASTRUCTURE BILL

ACCELERATING END MARKET DEMAND



Infrastructure Investment and Jobs Act (IIJA)

- \$1.2 trillion with \$550 billion of new federal spending to be allocated to infrastructure projects (FY21-27)
- c\$200 billion of funding announced to date across 10,000+ projects
- Our US businesses are well placed to benefit across a range of key infrastructure investment categories:

Category	New Spend	Galvanizing	Composites	Engineered Supports	Roads	Off Grid Solar
Roads & Bridges	\$110 bn					
Clean Energy & Power	\$73 bn					
Rail	\$66 bn					
Water	\$55 bn					
Public Transit	\$39 bn					
Airports	\$25 bn					

- Our 2022 results include minimal IIJA project revenue
- Quoting activity has started
- Project activity relevant to our key end markets expected to commence H2 23 (starting with roads & bridges and water treatment) with meaningful benefit likely from FY24

A once-in-a-generation bipartisan infrastructure bill that... will transform our transportation system with the most significant investments in passenger and freight rail, roads, bridges, ports, airports, and public transit in generations.

President Biden – November 2021

The IIJA provides the largest year-to-year increase in federal highway investment since the late 1950s

American Road Builders & Transportation Association (ARBITA) - Highway Dashboard

As far as infrastructure, we've been saying all along, we expected this to be a '23 event, and I'm pleased to say that we are seeing projects coming out of the ground... Mostly, you're looking at bridges, airports, whether it be expansions or remodels. So we're pleased, and we think that will carry out and accelerate through this year and beyond...

United Rentals – January 2023

NATIONAL SIGNAL

Why did we acquire National Signal?

- The market leader in solar lighting towers in USA
- Fast-growing market driven by transition to zero carbon economy and reduced noise pollution
- Next 12-18 months earnings underpinned by order backlog
- Significant growth potential – capacity, customer base, product range
- Complementary to UK based Prolectric, acquired in 2021

Key initiatives to drive growth

- Diversify customer base
- Move to larger plant to solve capacity constraints
- Develop new clean energy products into same customer base
- Strengthen back-office functions

Deal dynamics

- Off market transaction – acquired October 2022
- Initial cash consideration of \$25.3m
 - 7.4x adjusted EBITDA*
 - EBITDA margin of 12.4%
- Further consideration \$4m payable over 3 years conditional on future growth
- First five months trading ahead of expectations



ENDURO COMPOSITES

Why did we acquire Enduro Composites?

- A market leader in the design and manufacture of composite products and solutions
- Strong market growth drivers driven by infrastructure investment
- Product portfolio complementary to existing composites business
- Provides access to the US Gulf Coast market
- Longstanding management team
- Well invested facility in Texas

Key initiatives to drive growth

- Engineering collaboration to drive operational efficiency and innovation
- Material cost purchasing efficiencies
- Optimisation of production capacity
- Increased marketing and sales focus

Deal dynamics

- Off market transaction – acquired February 2023
- Initial cash consideration of \$35m
 - 7.8x adjusted EBIT of \$4.5m*
 - Operating margin of 10%



KORNS GALVANIZING

Why did we acquire Korns Galvanizing?

- Expands our capacity in the northeastern US galvanizing market
- Complementary customer base spread across a wide range of infrastructure related end markets
- Spin galvanizing capability broadens the services offered to our existing customers
- Longstanding relationships with customers
- Strong market drivers driven by infrastructure investment

Key initiatives to drive growth

- Increased marketing and sales focus
- Operational efficiencies improving margins
- Material cost purchasing efficiencies

Deal dynamics

- Off market transition – acquired March 2023
- Initial cash consideration of \$11.3m
 - 2022 revenue \$5.5m



OUTLOOK



Short term

- Confident that Group will make further progress in 2023, despite the macroeconomic headwinds:
 - Well positioned in a range of infrastructure markets with attractive, structural growth drivers
 - Evolution of geographic mix with a stronger weighting towards US end markets
 - Benefits of our agile, autonomous operating model

Medium to long term

- Positive outlook supported by strong long term growth drivers for both sustainable infrastructure and safe transport
- US businesses are well placed to benefit from both increased onshoring and IIJA spend on infrastructure



APPENDICES



OUR PURPOSE AND STRATEGY



WHY?

Creating sustainable infrastructure and safe transport through innovation

WHERE?

1 MACRO DRIVERS

- Increasing population
- Urbanisation
- Climate change
- Increasing health and safety regulations

2 MARKET DRIVERS

- Sustainable materials
- Decarbonisation
- Infrastructure safety
- Enabling technology
- Vision Zero

3 APPLICATIONS AND NICHES

- Systematic process
- Faster growing niche opportunities
- Critical applications

HOW?

ORGANIC GROWTH

- Autonomous operating model
- Agility/proximity to market
- Premium on talent
- Innovation

PORTFOLIO MANAGEMENT

- Disciplined M&A
 - Fit with purpose and market drivers
 - Strategic rationale
 - Fast growing niche markets
 - Credible organic growth plan

ESG

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

FINANCIAL MODEL

- Organic profit growth/strong cash conversion
- Conservative financial leverage
- Allocate capital to high growth/return opportunities (M&A and organic)
- 2.5x underlying earnings dividend policy

Superior long-term stakeholder value

2023

MODELLING GUIDANCE



Capex

£35m- £40m

- maintenance spend c.£20m



Cash Conversion

c.80%



Effective tax rate¹

c.24-25%



Interest²

c.£10m



H1/H2 weighting

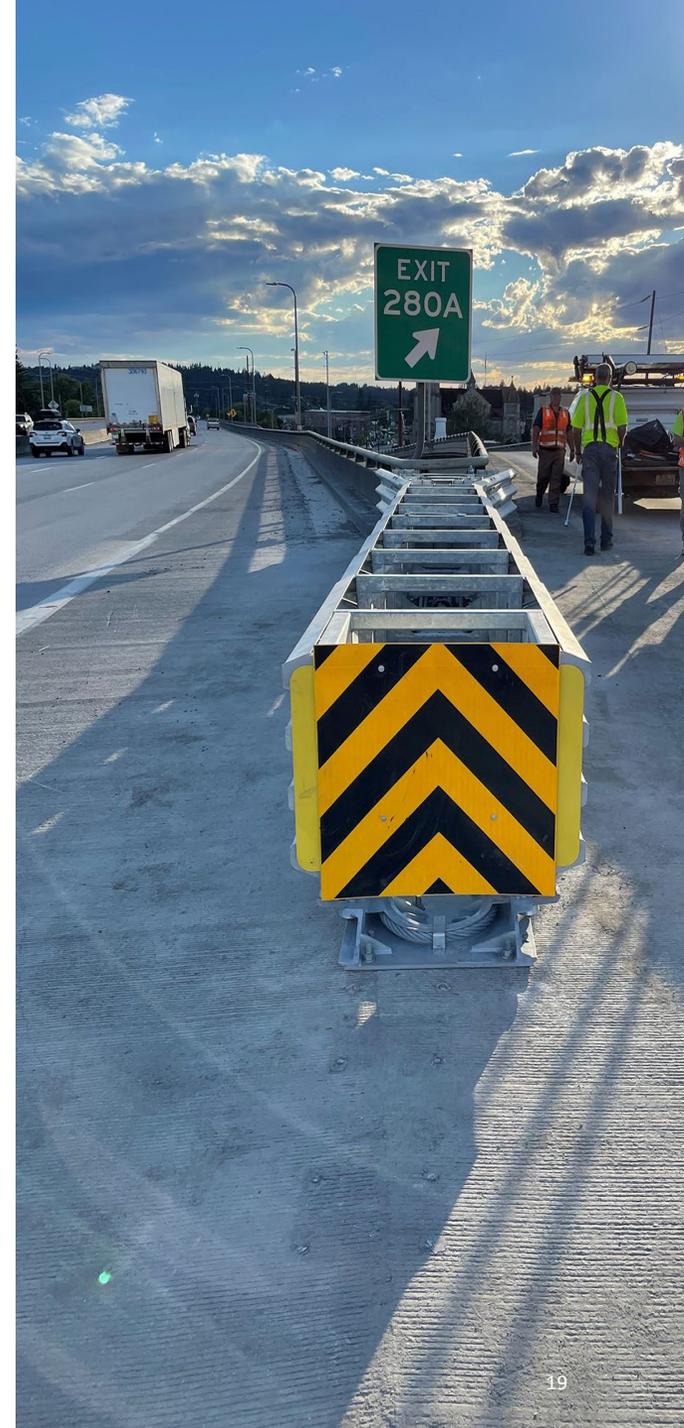
Profit modestly H2 weighted



Translation impact of FX rate movements

+/- 1 cent move in:	FY Revenue	FY Operating profit
US\$	+/- £2.5m	+/- £0.6m

Note 1: Assuming no change in headline corporation tax rates in the UK or US, other than the planned increase in the UK rate to 25% in April 2023.
Note 2: Assumes UK and US base rates are maintained at 1 March 2023 levels. Includes IFRS 16 lease interest, pension scheme deficit interest and amortisation of refinancing fees, totaling c.£2m.



PORTFOLIO MANAGEMENT

ACQUISITION HEAT MAP



Strategic considerations

Fit with purpose	Strong				Poor
Fit with strategy	Strong				Poor
Geography	USA	UK	Europe Australia	Asia	ROW
H&S familiarity with niche	Active today	Researched +ve	In research	New	

Target financials

Revenue	>£100m	£15m-£50m	<£3m
5 year CAGR growth outlook	5-15%		<3%
Gross margin %	>60%	<20%	
Operating margin %	>20%	0%	

Target characteristics

Ownership	Private	Trade	PE
Business type	Product		Service
Digitisation	High		Low

Capital allocation

ROIC to exceed WACC	1 year	2-3 years	5 years
Multiple of consideration to EBITDA	> X 15	X 7-10	X 0
Consideration	>£200m	£5m-£195m	£0

SCALE

Likely Possible Unlikely



PORTFOLIO MANAGEMENT

DISPOSAL OF FRANCE GALVA SA

Transaction overview

- Disposal of our French galvanizing and lighting column operations (France Galva SA) in October 2022
- Net equity sale price of £62m
- Joint purchasers: ZINQ France SAS and Sofigalva (related party)

Rationale

- Forecast growth rates did not meet the Group's long term growth ambitions
- Operating margins below Group average
- No impact on US or UK galvanizing operations
- Opportunity to refocus capital into higher growth markets
- Dilutive to EPS, but accretive to operating margin and ROIC



DISPOSAL OF FRANCE GALVA

FINANCIAL IMPACT



	2022			2021			Total Group Change		
	Continuing Operations	France Galva *	Total Group	Continuing Operations	France Galva	Total Group	Reported	Constant Currency	OCC
Revenue	£732.1m	£68.7m	£800.8m	£625.2m	£79.8m	£705.0m	+14%	+9%	+11%
Operating profit	£97.1m	£6.8m	£103.9m	£77.3m	£8.7m	£86.0m	+21%	+13%	+10%
Operating margin	13.3%	9.9%	13.0%	12.4%	10.9%	12.2%	+80 bps		
ROIC	19.2%	16.6%	19.0%	17.1%	14.6%	16.8%	+220bps		

* Only nine months of trading in 2022 – disposal completed 4 October

2022 accounting treatment

- France Galva SA classified as discontinued under IFRS 5
- The French results have been excluded from Continuing Operations and the prior year comparatives have been restated accordingly
- Further details can be found in the financial statements

CAPITAL ALLOCATION AND DIVIDENDS



Effective deployment of capital to support growth ambitions

2022 ROIC: 19.2% (continuing operations)

Organic Growth

- Focus on higher return, higher growth markets
- Working capital investment reflective of growth rates

Acquisitions

- Aligned with our purpose
- Focus on quality and long-term growth
- Structured approach based on a clear set of financial criteria
- Returns to exceed Group WACC within 3-year time frame
- Target leverage range 1-2 times

Progressive Dividend

- Focus on maintaining sustainable and progressive dividend policy
- Dividend cover c.2.5 times underlying earnings
- 2022 total dividend 35p per share

Group ROIC target: >18% through the cycle

DIVISIONAL ANALYSIS

CONTINUING OPERATIONS

£m	2022	Organic	M&A	FX	2021
Galvanizing					
Revenue	180.7	29.9	0.8	8.2	141.8
Underlying operating profit	44.0	8.2	-	2.4	33.4
<i>Margin</i>	24.3%				23.6%
Engineered Solutions					
Revenue	289.9	50.3	-	15.9	223.7
Underlying operating profit	35.0	6.8	-	2.2	26.0
<i>Margin</i>	12.1%				11.6%
Roads & Security					
Revenue	261.5	14.0	(17.6)	5.4	259.7
Underlying operating profit	18.1	(3.3)	2.5	1.0	17.9
<i>Margin</i>	6.9%				6.9%
Group					
Revenue	732.1	94.2	(16.8)	29.5	625.2
Underlying operating profit	97.1	11.7	2.5	5.6	77.3
<i>Margin</i>	13.3%				12.4%



RETURN ON INVESTED CAPITAL

CONTINUING OPERATIONS



Group	2022	2021
Operating profit (£m)	97.1	77.3
Average invested capital (£m)	506.5	450.8
ROIC	19.2%	17.1%

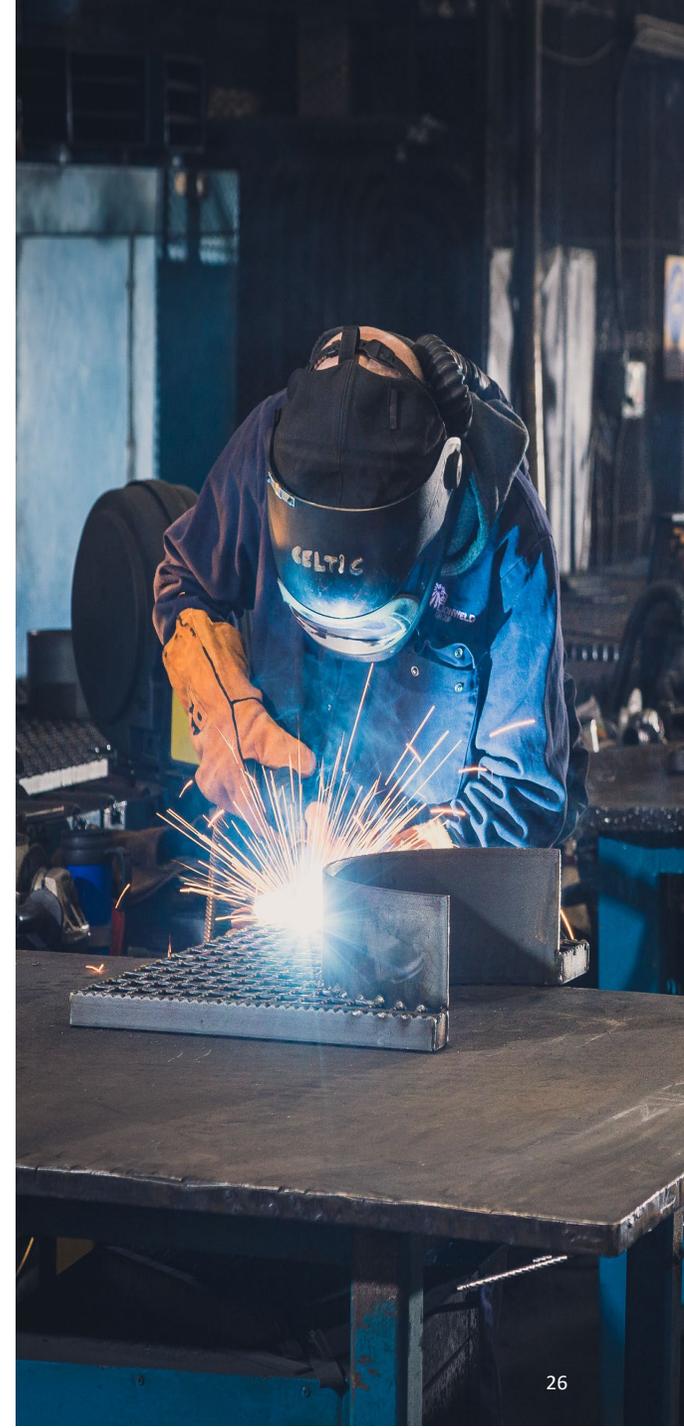
ROIC is defined as **underlying operating profit** for the last 12 months, divided by **average invested capital**.

Invested capital is defined as the sum of intangible assets, property, plant and equipment, right-of-use lease assets, assets and liabilities held for sale, inventories, trade and other receivables, and trade and other liabilities.



NON-UNDERLYING ITEMS

£m	2022	2021
Business reorganisation costs	(2.9)	(4.5)
Costs relating to acquisitions and disposals	(3.5)	(2.0)
Amortisation of acquisition intangibles	(6.2)	(6.1)
Impairment of goodwill/other assets	(6.4)	(16.0)
Loss on disposal of subsidiaries	(1.4)	(0.4)
	(20.4)	(29.0)
Continuing operations	(18.6)	(28.4)
Discontinued operations	(1.8)	(0.6)
	(20.4)	(29.0)
Cash in year (net)	(4.6)	(2.7)
Future cash	(1.8)	(3.1)
Non-cash	(14.0)	(23.2)
	(20.4)	(29.0)



DEBT FACILITIES

AVAILABILITY AND USAGE



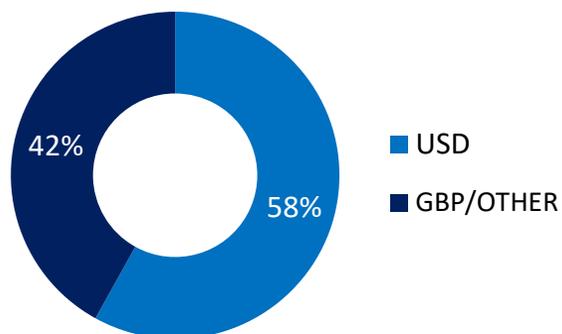
Principal debt facilities

- Refinancing of revolving credit facility completed in November 2022: £250m facility
- Maturity H2 2026 with one-year extension option
- Senior notes: \$70m unsecured notes mature 2026/29
- Average cost of debt in 2022 was c.3.5%

Facilities provide significant headroom of £237.9m

- Net debt: EBITDA 0.7 times (covenant 3 times)
- Interest cover 21.6 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	107.4	309.0
On demand	-	11.5
Cash	(24.8)	-
Net borrowings	82.6	320.5
IFRS 16	39.3	
IFRS 9	(2.2)	
Reported net debt	119.7	

On demand	Maturity		
	2023	2026 *	2029
11.5	0.3	279.5	29.2

* £250m RCF will mature in 2027 if one-year extension option taken

£237.9m
total headroom

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

