2018 Interim Results

8 August 2018

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Delivering intelligent protection solutions

Hill & Smith Holdings PLC

Stock code HILS

Key messages

- **Disappointing first half**
  - UK below expectations
  - International businesses performing well, particularly US
  - Organically revenues similar to prior year (at constant currency)
  - Operating margin impacted by commodity price volatility
- **Active Portfolio Management**
  - Four acquisitions completed
  - New build US galvanizing plant committed
  - Investment in temporary safety barrier rental fleet
- **Market fundamentals remain encouraging**

Proposed interim dividend 10.0p, up 6%

Underlying Trading Results

	H1 2018	+/-	H1 2017	FY 2017	FX impact: Revenue -£6.7m Operating Profit -£1.5m
Revenue (£m)	295.4	+1%	291.8	585.1	Constant currency growth +4%
Operating profit* (£m)	34.6	-11%	38.8	81.3	Constant currency decline 7%
Operating margin* (%)	11.7	-160bps	13.3	13.9	Input cost volatility impacting margin
PBT* (£m)	33.0	-12%	37.4	78.5	
EPS* (p)	32.8	-9%	36.2	75.9	Tax 22% (2017: 24%)
Dividend (p)	10.0	+6%	9.4	30.0	Maintaining progressive dividend policy

* All references to profit measures in this presentation refer to underlying profits, which exclude certain non-underlying items as detailed in the Appendices on page 25

Utilities

	H1 2018	H1 2017	Organic Change
Revenue (£m)	113.0	107.1	+4%
Operating profit (£m)	7.3	7.6	-3%
Operating margin	6.5%	7.1%	-60bps

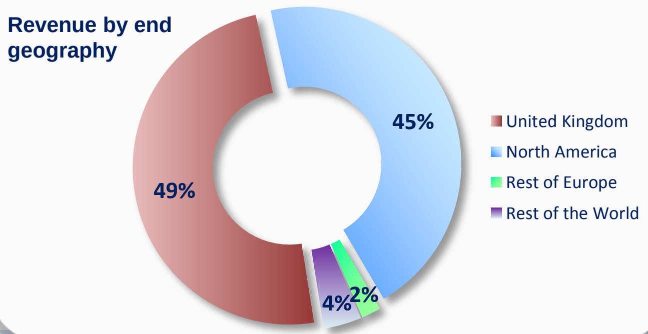
- **UK**
  - Q1 weather impacted; Q2 stronger
  - Mixed performance: steel markets below par; housing & plastic pipe sound
  - Improved order books
- **US**
  - Strong growth in Composites Group, prior year acquisitions integrated
  - Utility business performing well, record order book
- **Pipe Supports**
  - Growing commercial construction market in USA
  - New product introduction expanding customer reach in International market

£m	Revenue	Operating Profit
2017	**107.1**	**7.6**
F/X	(3.6)	(0.4)
M&A	5.6	0.3
Organic	3.9	(0.2)
2018	**113.0**	**7.3**

2018 Revenue

£113.0m Up 4% organically

UK	down 7%	£57m
US	up 33%	£33m
Pipes (US/India)	up 5%	£23m



Roads

	H1 2018	H1 2017	Organic Change
Revenue (£m)	87.2	93.8	-11%
Operating profit (£m)	8.5	10.2	-21%
Operating margin	9.7%	10.9%	-120bps

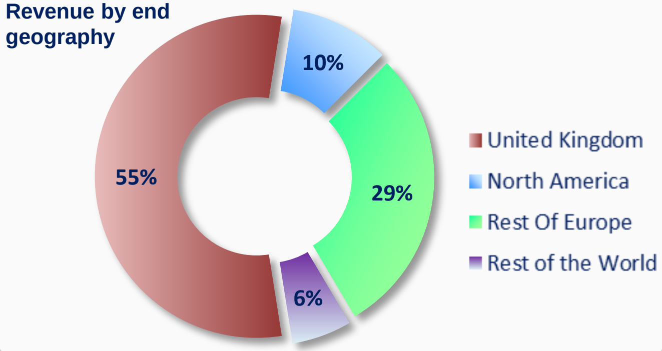
- **UK** 58% of revenue (2017: 68%)
  - Some delays to Smart motorway programme
    - Utilisation of temporary safety barrier steadily improving
    - Demand for VMS deferred
  - Investment in additional 62km of steel & concrete barrier to meet demand
  - Permanent barrier, bridge parapets & lighting column outlook stronger
- **International** 42% of revenue (2017: 32%)
  - Scandinavia & France performing well
  - Strong temporary safety barrier sales in Australasia
  - USA
    - New nationwide distributor agreement to supply Zoneguard safety barrier
    - Acquisition of WAPCO expands scale & range of road safety products into key geographies

£m	Revenue	Operating Profit
2017	**93.8**	**10.2**
F/X	(0.8)	(0.1)
M&A	4.7	0.5
Organic	(10.5)	(2.1)
2018	**87.2**	**8.5**

2018 Revenue

£87.2m Down 11% organically

UK	**down 23%**	**£50m**
International	**up 15%**	**£37m**

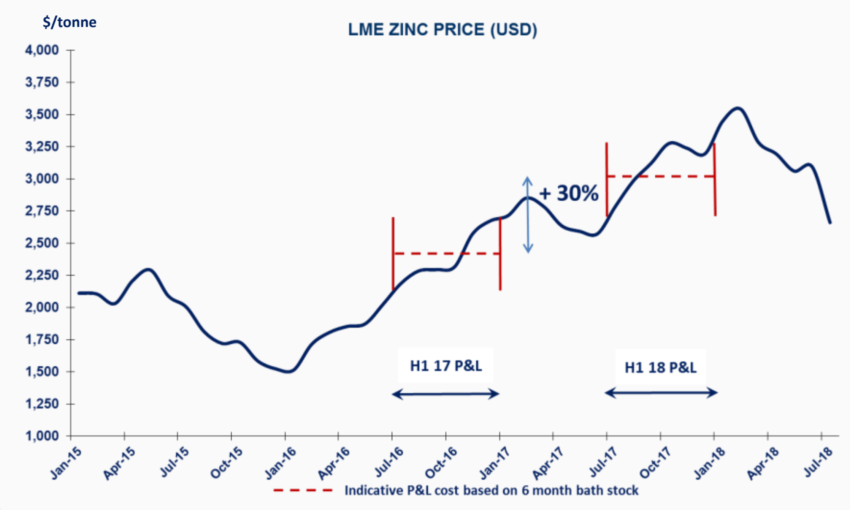


Galvanizing

	H1 2018	H1 2017	Organic Change
Revenue (£m)	95.2	90.9	+7%
Operating profit (£m)	18.8	21.0	-6%
Operating margin	19.7%	23.1%	-340bps

£m	Revenue	Operating Profit
2017	**90.9**	**21.0**
F/X	(2.3)	(1.0)
Organic	6.6	(1.2)
2018	**95.2**	**18.8**

- Overall
  - Profitability & margin measured against record PY comparatives
  - Impacted by further zinc cost increases and UK performance
- UK: 98k tonnes ↓ 7%
  - Q1 weather impacted, recovery in Q2 but below par
  - Strategic focus on smaller jobbing work
- France: 67k tonnes ↑ 1%
  - Mildly improving economic backdrop but lack of structural activity
  - Zinc increases difficult to pass through supply chain
- USA: 86k tonnes ↑ 12%
  - Infrastructure investment and wider economy strong
  - Growth in OEM and Bridge/Highway sectors
  - Day to day volumes remain strong



Free cash flow and net debt

£m	H1 2018	H1 2017	FY 2017
Underlying Operating Profit	**34.6**	38.8	81.3
Depreciation and amortisation	**9.9**	9.6	19.2
Underlying EBITDA	**44.5**	48.4	100.5
Other non-cash items	**(1.0)**	1.1	1.8
Working capital	**(22.3)**	(16.6)	(19.1)
Capital expenditure (net)	**(8.5)**	(7.4)	(19.5)
Underlying operating cash flow	**12.7**	25.5	63.7
Restructuring spend	**(0.9)**	(2.4)	(2.2)
Provisions/Pension	**(1.2)**	(1.2)	(2.8)
Interest paid (net)	**(1.6)**	(1.3)	(2.8)
Tax paid	**(7.9)**	(9.0)	(16.7)
Statutory free cash flow	**1.1**	11.6	39.2
Dividends	**(7.4)**	(6.7)	(20.7)
Acquisitions/disposals	**(33.3)**	(2.7)	(6.4)
Share issues/other (net)	**(0.7)**	(1.6)	(2.4)
Net cash flow	**(40.3)**	0.6	9.7
Note: F/X impact	**(1.9)**	2.3	3.3

- **Working capital outflow £22.3m**
  - H1 outflow reflective of seasonal trading patterns/organic growth
  - Inventory +£7.2m
    - *c.*£4m inventory build supporting H2 order books
    - Zinc price *c.*£2m
  - Debtor days 61 (December 2017: 61)
- **Capex 1.1 times depreciation/amortisation**
  - 2018 guidance *c.*£35m (1.7 times), previously *c.*£25m
- **Acquisitions include WAPCO at £30.9m**
- **Net debt : EBITDA 1.4 times (Dec 2017: 1.0 times)**

£m	**H1 2018**	Dec 2017	H1 2017
Net debt	**141.2**	99.0	109.1

Highways England: Road Investment Strategy (‘RIS’)

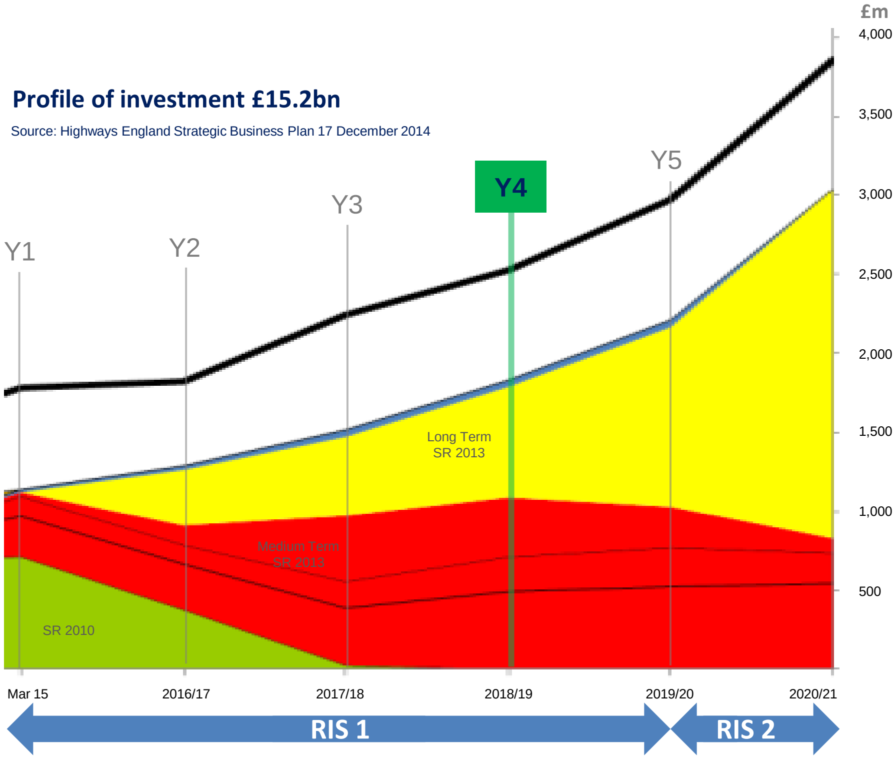
Temporary Safety Barrier

Crash Cushions

Permanent Safety Barrier

Variable Message Signs

ROTTM Sign



Major improvement schemes			
Scheme	**2017/18 Plan**	**2018/19 Plan**	**Notes**
M1 junctions 16-19	Current	Complete	
M6 junctions 16-19	Current	Current	Dec 18 complete
A14 Cambridge to Huntingdon	Current	Current	
M1 junctions 23-25	Current	Current	Oct 18 complete
M4 junctions 3-12	Q3 18	Started	Aug 18 now J8-12
M6 junctions 2-4	Q1 18	Started	Apr 18
M6 junctions 13-15	Q1 18	Started	July 18 3mth delay
M23 junctions 8-10	Q2 18	Started	Jun 18 2mth delay
M27 junctions 4-11	Q3 18	Q3 18	Jan 19 3mth delay
M62 junctions 10-12	Q3 18	Q3 18	Aug 18
M6 J21a-26	New	Q1 19	B/fwd
M56 J6-8	New	Q1 19	
M3 J9-14	New	2019/20	

Source: Highways England Delivery Plan 2018-2019

RIS2: Potential investment £30bn (2021-25)

62km (£10.6m) investment in Zoneguard and Rebloc Barrier for 2019 projects

Source: Construction News 13 December 2017

UK Infrastructure

ENERGY

- Offshore wind - landing platforms
- Biogas anaerobic digestion
- Energy from Waste
- Hinkley Point - nuclear

RAIL

- CP6 – 2019 to 2024 expected spend £47bn
- HS2 construction now H2 19
- Composite platform extensions
- New depots for new rolling stock
- Security upgrade on electrification

SECURITY

- Increased demand for HVM products
  - Royal wedding
  - President Trump visit
- Increased site security
  - government buildings
  - border security
  - data centres
  - outdoor events
  - oil & gas terminals
  - airports

AMP6

- AMP6 drinking water tanks projects
- Flood alleviation
- Water treatment plant security

Galvanizing - USA

- Bridge replacements in Puerto Rico following Hurricane Maria
- HVM ballistic products
- Investment in energy/chemical plants
- OEM and industrial markets
- Committed to greenfield development of a new plant (operational mid 2019)

Composites - USA

- 2017 acquisitions fully integrated
- Strong backlog for:
  - Waterfront projects
  - Bridges
  - Sewage treatment plants
  - Cooling towers

Utilities - USA

- Power transmission investment strong
- Upgrades to ageing network
- New substations for solar connections
- Market on extended lead times
- Record backlog for H2 18

2018 Acquisitions

D. GIBSON
ROAD & QUARRY SERVICES LTD

Acquired 1 January 2018

Supplying road signs and ancillary products into UK contractors, D Gibson has been absorbed into Mallatite, our existing sign and lighting column operation.

SIGNALVAKTER SYD

Acquired 28 March 2018

A Swedish traffic management business, Signalvakter has been integrated into ATA, our existing Scandinavian business and will extend our product offering.

THE GRATING COMPANY

Acquired 27 April 2018

Design, supply and install GRP products to the construction and rail markets. Integrated into Lionweld, our existing UK composites operation.

2018 Acquisitions

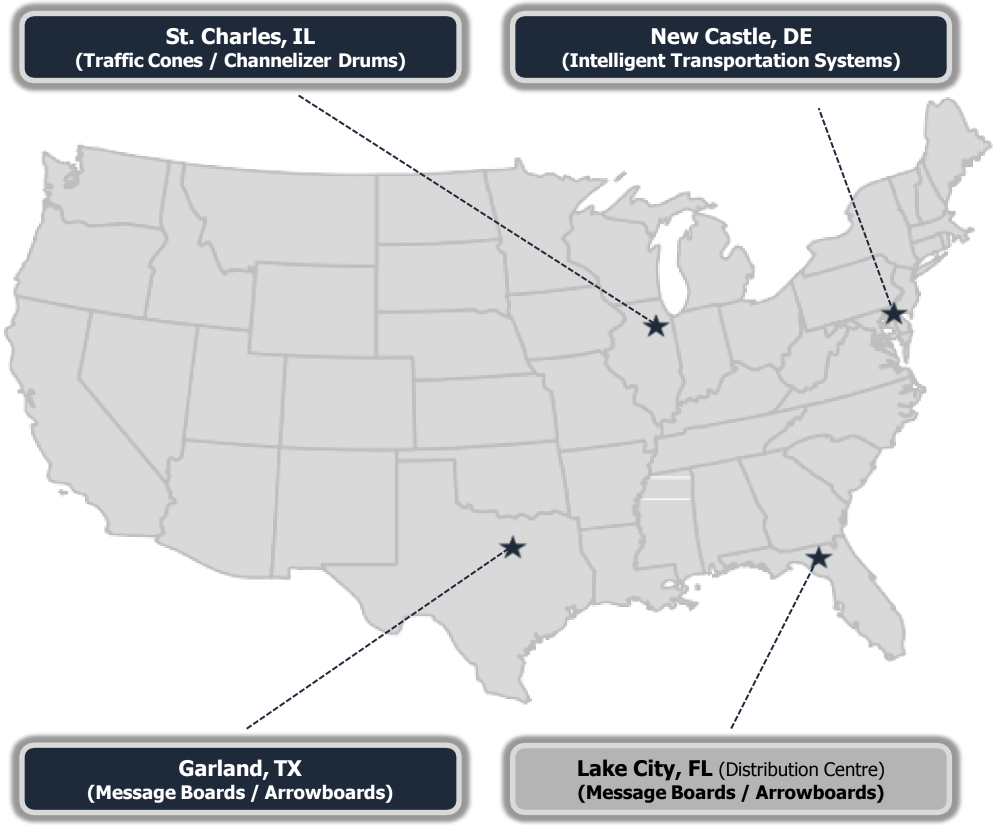
Work Area Protection Corporation ("WAPCO")

Acquired 9 May 2018
Acquisition cost: $42.0m
Annual Revenue: $47.7m

A leading provider of innovative traffic 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. Provides an extended platform to introduce proprietary products from the UK to the US and vice versa.



Work Area Protection Corporation ("WAPCO")

Outlook

UTILITIES	➢ US infrastructure investment remains strong ➢ UK improved order book for H2
ROADS	➢ UK Road Investment Strategy ('RIS1'/'RIS2') underpins investment ➢ Organic growth opportunities from International businesses
GALVANIZING	➢ US benefitting from increased infrastructure spend ➢ Stable outlook in UK and France
OVERALL	➢ Notwithstanding a more cautious investment environment in the UK, our niche infrastructure markets remain encouraging

"...order books support a good second half."

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.

Appendices

Business Segments

hs INFRASTRUCTURE

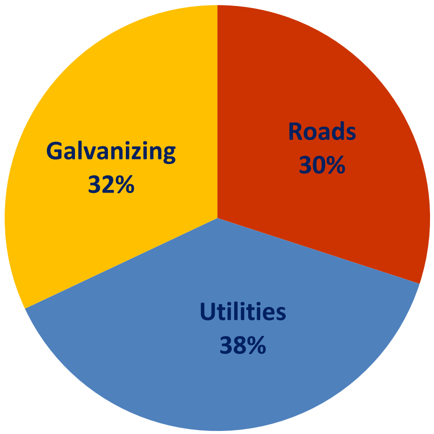
- hs UTILITIES
- hs ROADS

hs GALVANIZING

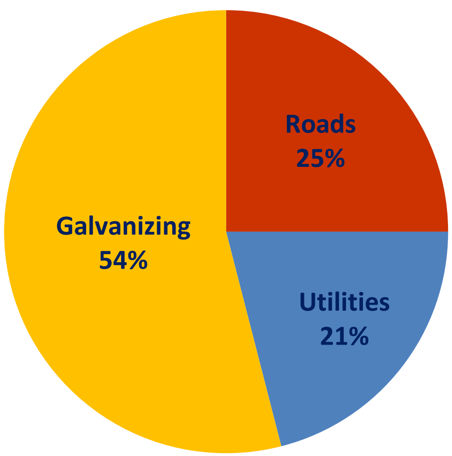
- USA
- FRANCE
- UK

Segment and geographical analysis

Revenue: £295.4m
By segment

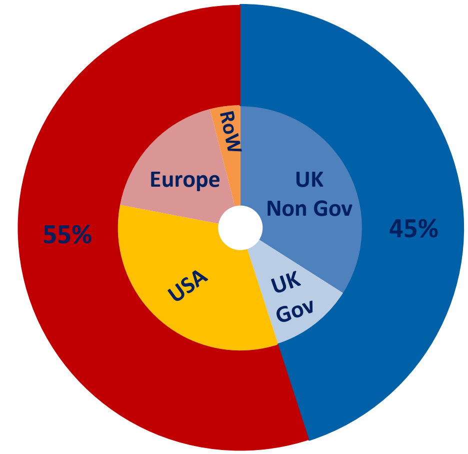


Operating Profit: £34.6m
By segment

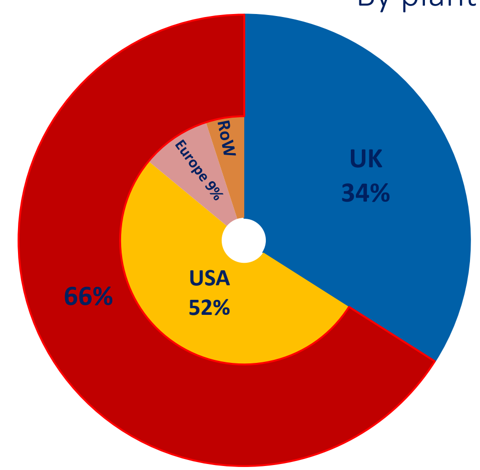


A well balanced business:
products, markets & geographies

Revenue: £295.4m
By end market geography



Operating Profit: £34.6m
By plant location



Segment analysis

£m	H1 2018	Organic	M&A	FX	H1 2017
Utilities					
Revenue	**113.0**	3.9	5.6	(3.6)	107.1
Underlying operating profit	**7.3**	(0.2)	0.3	(0.4)	7.6
Margin	***6.5%***				*7.1%*
Roads					
Revenue	**87.2**	(10.5)	4.7	(0.8)	93.8
Underlying operating profit	**8.5**	(2.1)	0.5	(0.1)	10.2
Margin	***9.7%***				*10.9%*
Galvanizing					
Revenue	**95.2**	6.6	-	(2.3)	90.9
Underlying operating profit	**18.8**	(1.2)	-	(1.0)	21.0
Margin	***19.7%***				*23.1%*
Group					
Revenue	**295.4**	-	10.3	(6.7)	291.8
Underlying operating profit	**34.6**	(3.5)	0.8	(1.5)	38.8
Margin	***11.7%***				*13.3%*

Utilities
- UK mixed, weather impacted Q1
- Strong growth in US
- Positive Pipe Supports market

Roads
- Some delays in Smart motorway programme
- Improving outlook
- International markets performing well

Galvanizing
- UK weather impacted Q1, below par
- France economic backdrop improving
- US volumes strong on infrastructure investment growth
- Zinc input cost volatility impacting margins

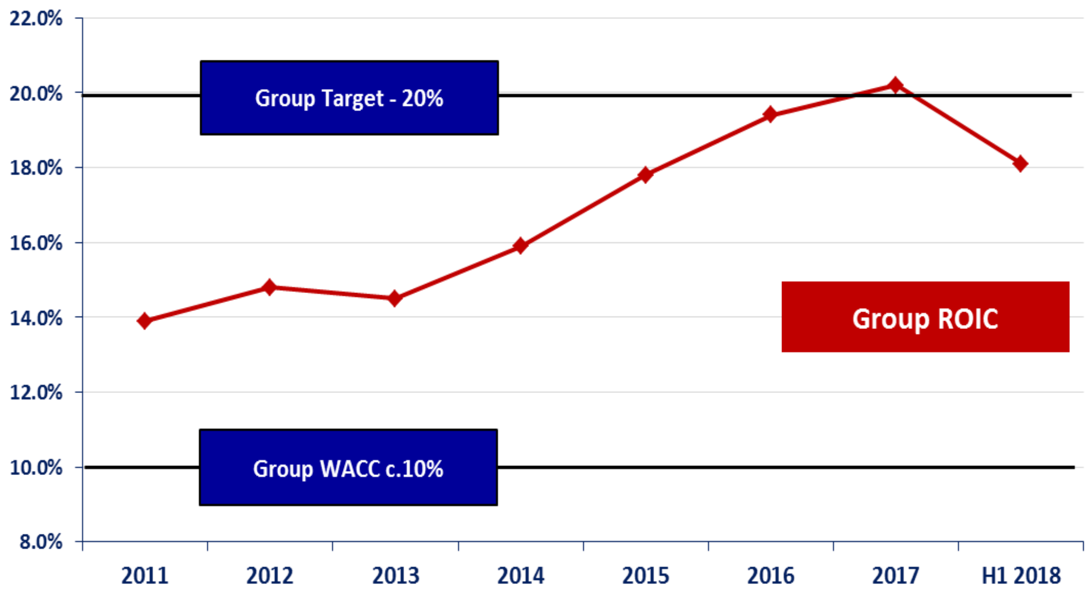
Margin

	Margin (%)			
	H1 2018	H1 2017	H1 Target Range %	FY Target Range %
Infrastructure Products	7.9	8.9	8 – 11	8 – 11
- Utilities	6.5	7.1	7 – 11	7 – 11
- Roads	9.7	10.9	9 – 13	10 – 14
Galvanizing Services	19.7	23.1	19 – 22	19 – 22
Group	11.7	13.3	11 – 14	12 – 15

- Raw material input cost volatility impacts margin
- Utilities below range due to weak Q1 in UK
- Roads & Galvanizing lower but within range

Return on Invested Capital

ROIC% before tax



Group	12m to H1 18	12m to H1 17
Operating Profit (£m)	77.1	77.4
Av. Invested Capital (£m)	425.4	390.2
ROIC %	18.1	19.8

Divisional (%)	12m to H1 18	12m to H1 17
Utilities	16.7	17.3
Roads	17.7	20.4
Infrastructure Products	17.2	19.0
Galvanizing	19.1	20.7

Foreign exchange sensitivities

	H1 2018	H1 2017	Change	FY 2017
Average rates				
Euro	**1.14**	1.16	↓ 2%	1.14
US$	**1.38**	1.27	↑ 9%	1.29
Closing rates				
Euro	**1.13**	1.14	↓ 1%	1.13
US$	**1.32**	1.30	↑ 2%	1.35

Ready reckoner for annual translation impact of movement in FX rates

Sensitivity to +/- 1 cent move in:	Revenue	Operating profit
Euro	+/- £0.6m	+/- £50k
US$	+/- £1.6m	+/- £310k

Impact on H1 2018:	Revenue	-ve £6.7m or 2%
	Operating profit	-ve £1.5m or 4%

Potential full year impact:*	Revenue	-ve £7.2m or 1%
	Operating profit	-ve £1.7m or 2%

* Compares impact on FY2018 results assuming exchange rates at 31 July 2018 (principally £1 = $1.31 and £1 = €1.12) prevail for the remainder of 2018, versus average exchange rates for 2017

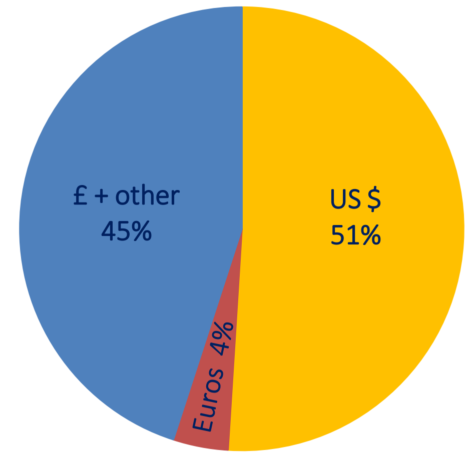
Non-underlying items

	H1 2018	H1 2017	FY 2017
Operating items			
Business reorganisation costs	**(0.3)**	(2.0)	(2.8)
Acquisition costs	**(1.2)**	(0.2)	(0.6)
Amortisation of acquisition intangibles	**(2.0)**	(2.0)	(4.0)
Impairment of asset held for sale	**(0.1)**	-	(0.4)
Pension settlement gain	**-**	0.2	-
CA Traffic - profit on sale/intangible impairment	**-**	0.6	0.6
	(3.6)	(3.4)	(7.2)
Financing costs			
Refinancing expense/amortisation	**(0.2)**	(0.2)	(0.7)
Net pension interest	**(0.3)**	(0.3)	(0.4)
	(4.1)	(3.9)	(8.3)
Cash in year	**(1.0)**	1.8	1.8
Future cash	**(0.5)**	(1.4)	(1.8)
Non cash	**(2.6)**	(4.3)	(8.3)
	(4.1)	(3.9)	(8.3)

Availability and usage of debt facilities

£m	Net Debt	Facility	Maturity: On demand	Maturity: 2017 to 2020	Maturity: 2021
Committed	**168.6**	229.5			
On demand		10.7	10.7	0.4	229.1
Cash	**(27.4)**	-			
	141.2	240.2			

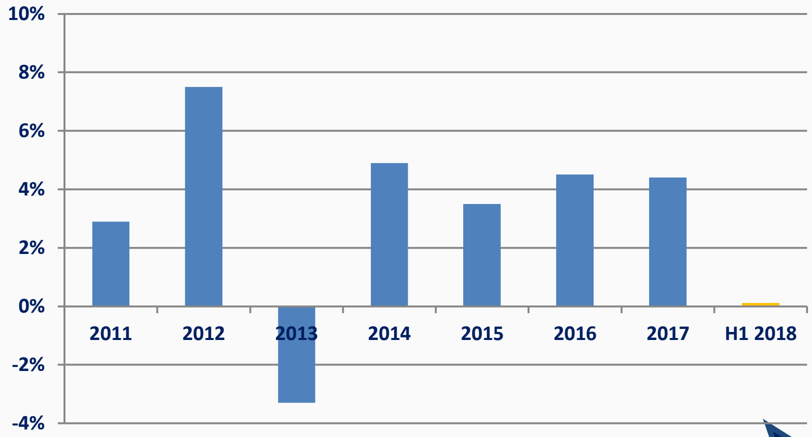
Net Debt by Currency



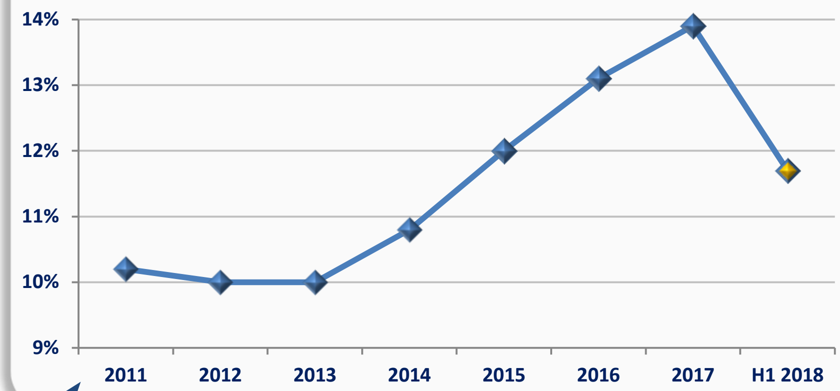
- Principal facility in place until April 2021
- Facilities provide significant headroom
  - Net debt : EBITDA 1.4 times (covenant 3 times); Interest cover 34.5 times (covenant 4 times)
- Target net debt : EBITDA range between 1.5 to 2.0 times

Strategic KPI's

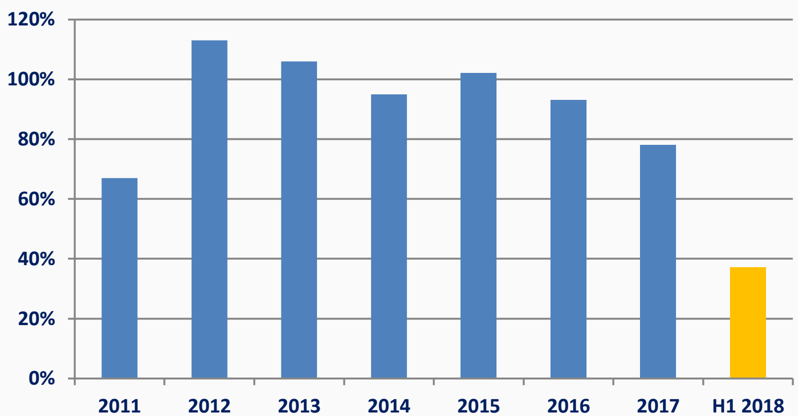
Organic revenue growth



Operating margin

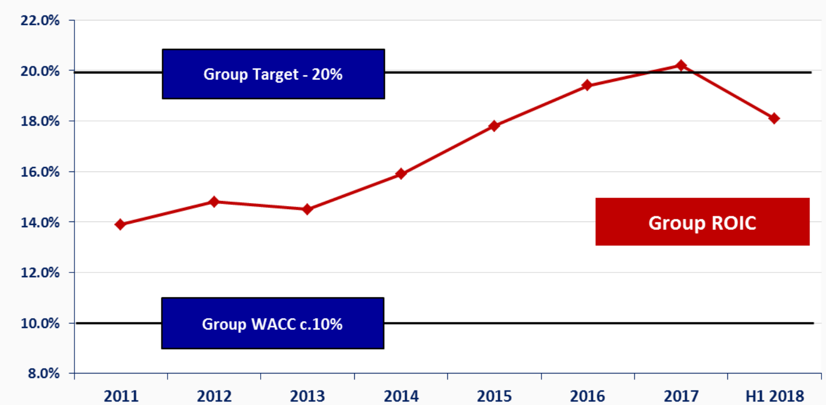


Underlying cash conversion*



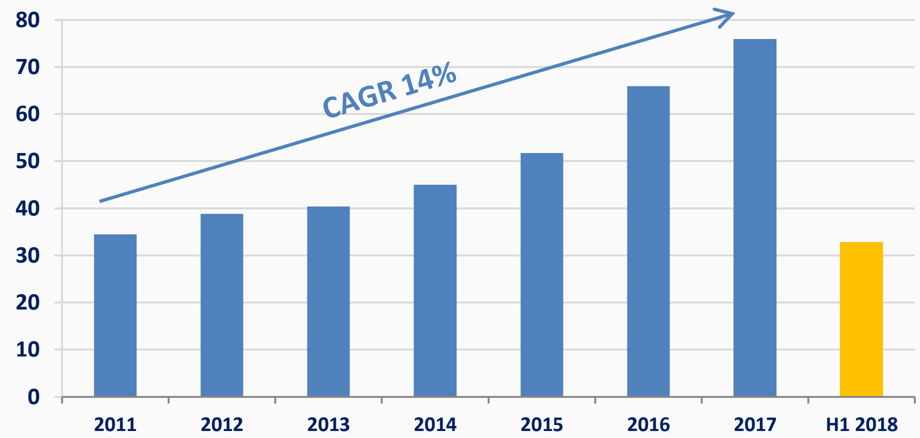
*excluding strategic capex

Return on invested capital



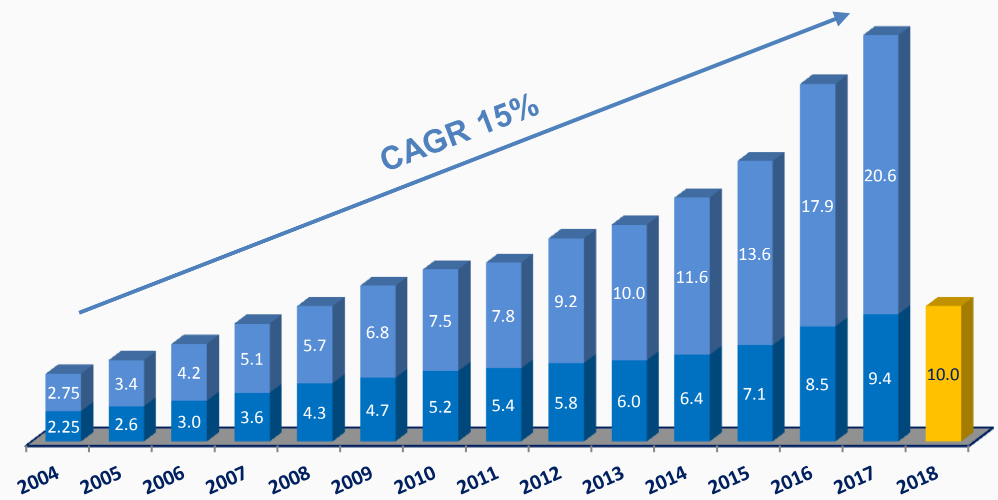
Earnings and Dividend

Earnings per share (p)



Dividend (p)

	2018	Change	2017	Change	2016
Interim dividend per share	10.0p	↑ 6%	9.4p	↑ 11%	8.5p
Final dividend per share			20.6p	↑ 15%	17.9p
Total dividend per share			30.0p	↑ 14%	26.4p



Dividend

- ➢ 14 successive years of dividend growth
- ➢ Central to strategy and TSR ethos
- ➢ Progressive dividend policy driven by cumulative:
  - EPS growth
  - FCF generation
- ➢ Target cover ratio *c.*2.5 times

Delivering intelligent protection solutions

Hill & Smith Holdings PLC

Stock code HILS