# Half Year Results

## Six months ended 30 June 2016

Derek Muir Group Chief Executive
Mark Pegler Group Finance Director

Hill & Smith Holdings PLC

2016

# Key messages

- **Strong first half performance**
  - Favourable conditions in UK and US infrastructure markets
  - Organic revenue* growth 6% (at constant currency)
  - Operating profit* up 20% (at constant currency)
  - Margins higher in all 3 segments
- **Strategic actions driving growth and returns**
  - Three acquisitions completed in first half; further two since
  - Non-US Pipe Supports restructuring on target

**Proposed interim dividend 8.5p, up 20%**



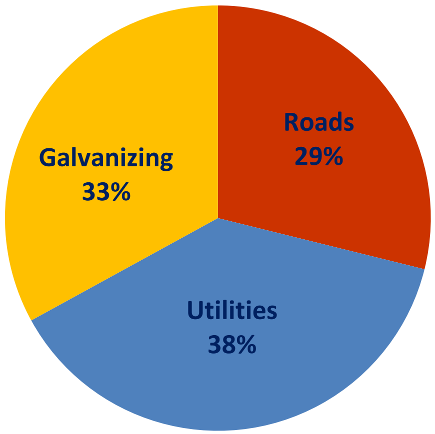
* All references to revenue and profit measures in this presentation refer to underlying revenue and profits, which exclude certain non-operational items as detailed in the Appendices on page 23

# Underlying Trading Results

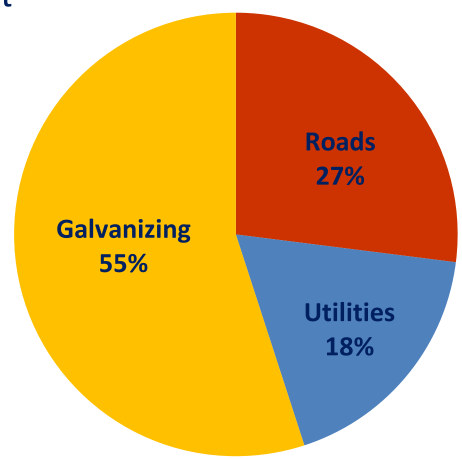
| | H1 2016 | +/- | H1 2015 | FY 2015 | FX impact: Revenue +£6.4m Operating Profit +£1.1m |
|---|---|---|---|---|---|
| Revenue (£m) | **254.0** | 9% | 233.0 | 467.5 | Organic growth +6% |
| Operating profit (£m) | **33.0** | 25% | 26.3 | 56.0 | Organic growth +11% |
| Operating margin (%) | **13.0** | 170bps | 11.3 | 12.0 | Strategic initiatives driving improved returns |
| PBT (£m) | **31.7** | 28% | 24.8 | 53.0 | |
| EPS (p) | **30.7** | 27% | 24.2 | 51.7 | Tax and interest neutral |
| Dividend (p) | **8.5** | 20% | 7.1 | 20.7 | Maintaining progressive dividend policy |

# Segment and geographical analysis

**Revenue: £254.0m**
By segment

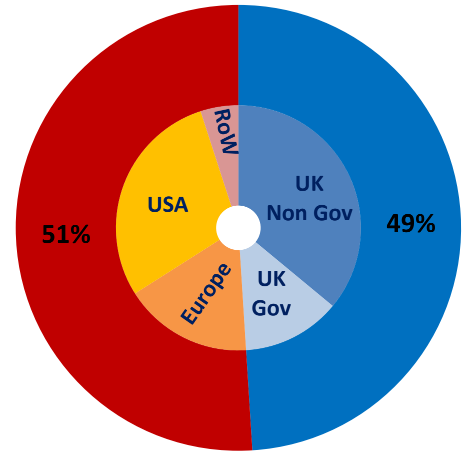



**Operating Profit: £33.0m**
By segment

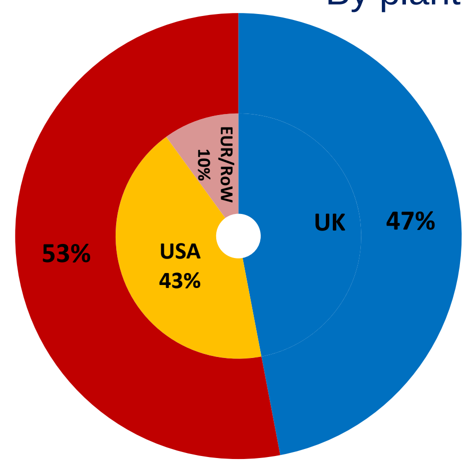



**A well balanced business:**
products, markets & geographies

**Revenue: £254.0m**
By end market geography




**Operating Profit: £33.0m**
By plant location



# Utilities

| | H1 2016 | H1 2015 | Organic Growth |
|---|---|---|---|
| Revenue (£m) | 95.1 | 98.8 | (2%) |
| Operating profit (£m) | 5.7 | 5.2 | (16%) |
| Operating margin (%) | 6.0 | 5.3 | 70bps |

- **Markets**
  - **UK**
    - Market fundamentals broadly unchanged
    - Good order book supports stronger H2
  - **US**
    - Absence of one-off large projects in composites
    - Growth in packaging work with US utilities
    - Marginal improvement in Pipe Supports, market competitive
- **Portfolio Management**
  - Acquisition of ET Techtonics enhances US composite product offering
  - Restructuring of non-US Pipe Supports operations on plan
    - China sales office closed end June
    - UK and Thai manufacturing ceases end August
    - India expansion progressing well

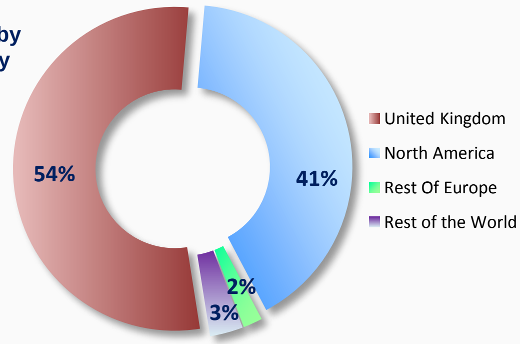
| £m | Revenue | Operating Profit |
|---|---|---|
| **2015** | **98.8** | **5.2** |
| F/X | 2.2 | 0.2 |
| Acquisitions | 1.4 | 0.3 |
| Non-US Pipes | (5.0) | 0.9 |
| Organic | (2.3) | (0.9) |
| **2016** | **95.1** | **5.7** |

**2016 Revenue**

**£95.1m** Down 2% organically

| | | |
|---|---|---|
| UK | down 4% | £53m |
| US | down 3% | £21m |
| US Pipes | up 6% | £18m |

**Revenue by geography**



# Roads

| | H1 2016 | H1 2015 | Organic Growth |
|---|---|---|---|
| **Revenue (£m)** | **77.5** | 64.6 | 17% |
| **Operating profit (£m)** | **9.0** | 7.3 | 20% |
| **Operating margin (%)** | **11.6** | 11.3 | 30bps |

- **UK** **(70% of revenue)**
  - Government's Road Investment Strategy progressing as planned
  - Good utilisation of temporary safety barrier rental fleet
  - Acquisition of Hardstaff Barriers – wider product offering
- **International** **(30% of revenue)**
  - Scandinavia solid, sterling weakness should assist
    - FMK acquisition enhances product offering
  - Recent capital investments improving French competitiveness
  - Good progress with Zoneguard safety barrier in US and Australia

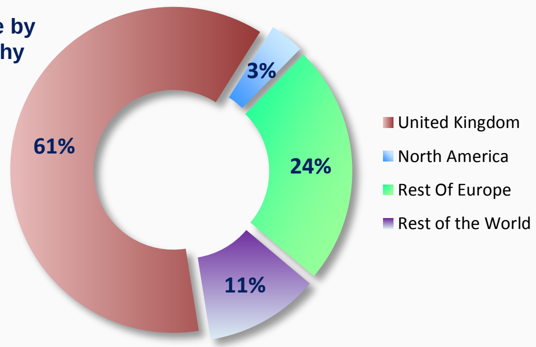
| £m | Revenue | Operating Profit |
|---|---|---|
| **2015** | **64.6** | **7.3** |
| F/X | 1.0 | 0.1 |
| Acquisitions | 0.5 | 0.1 |
| Organic | 11.4 | 1.5 |
| **2016** | **77.5** | **9.0** |

**2016 Revenue**

**£77.5m** **Up 17% organically**

| | | |
|---|---|---|
| UK | **up 9%** | **£54m** |
| International | **up 43%** | **£23m** |

**Revenue by geography**



# Galvanizing

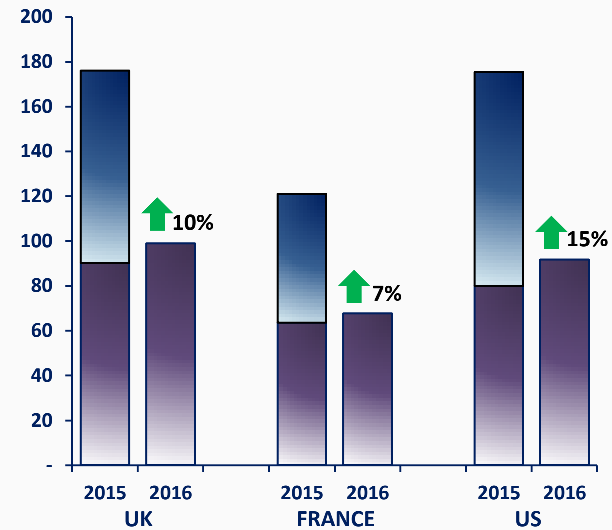
| | H1 2016 | H1 2015 | Organic Growth |
|---|---|---|---|
| **Revenue (£m)** | **81.4** | 69.6 | 6% |
| **Operating profit (£m)** | **18.3** | 13.8 | 16% |
| **Operating margin (%)** | **22.5** | 19.8 | 270bps |

- **UK**
  - Underlying volumes similar to prior period
  - Premier integrated, performing well and to plan
- **France**
  - Volumes up 7%, stronger Q2
  - Market competitive, lower cost base supporting margins
- **USA**
  - Strong organic growth, volumes up 15%
  - Alternative energy (particularly solar) and wider infrastructure market key drivers
  - Tough H2 comparatives, market opportunity still evident

| £m | Revenue | Operating Profit |
|---|---|---|
| **2015** | **69.6** | **13.8** |
| F/X | 3.2 | 0.8 |
| Acquisitions | 4.5 | 1.3 |
| Organic | 4.1 | 2.4 |
| **2016** | **81.4** | **18.3** |

**2016 Tonnes Galvanized**

**258,000 tonnes** Up 11%



# Foreign exchange sensitivities

| | **H1 2016** | H1 2015 | Change | FY 2015 |
|---|---|---|---|---|
| Average rates | | | | |
| Euro | **1.28** | 1.37 | ↑ 7% | 1.38 |
| US$ | **1.43** | 1.52 | ↑ 6% | 1.53 |
| Closing rates | | | | |
| Euro | **1.21** | 1.41 | ↑14% | 1.36 |
| US$ | **1.34** | 1.57 | ↑15% | 1.48 |

Ready reckoner for annual translation impact of movement in FX rates

| Sensitivity to +/- 1 cent move in: | Revenue | Operating profit |
|---|---|---|
| Euro | +/- £0.5m | +/- £40k |
| US$ | +/- £1.1m | +/- £220k |

| | | |
|---|---|---|
| Impact on H1 2016: | Revenue | +ve £6.4m or 3% |
| | Operating profit | +ve £1.1m or 4% |

| | | |
|---|---|---|
| Potential full year impact:* | Revenue | +ve £24.2m or 5% |
| | Operating profit | +ve £3.9m or 7% |

* Compares impact on FY2015 results assuming exchange rates at 27 July 2016 (principally £1 = $1.31 and £1 = €1.19) prevail for the remainder of 2016, versus average exchange rates for 2015

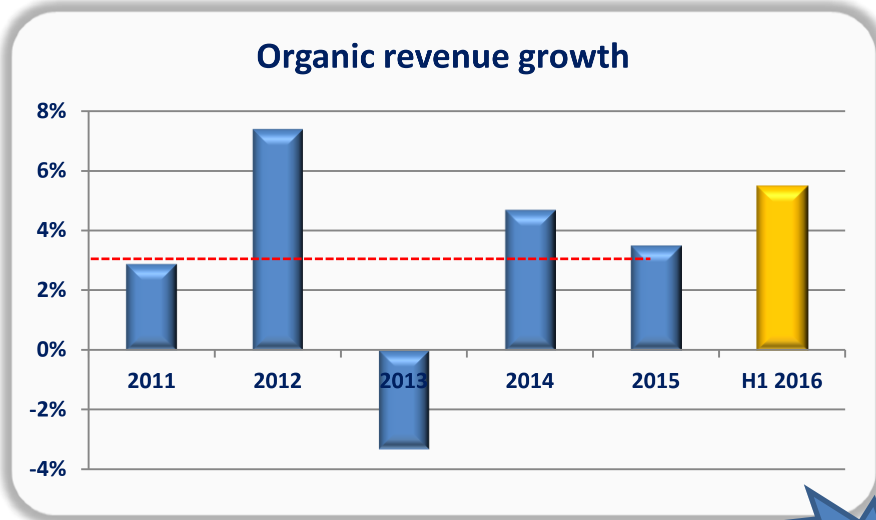
# Free cash flow and net debt

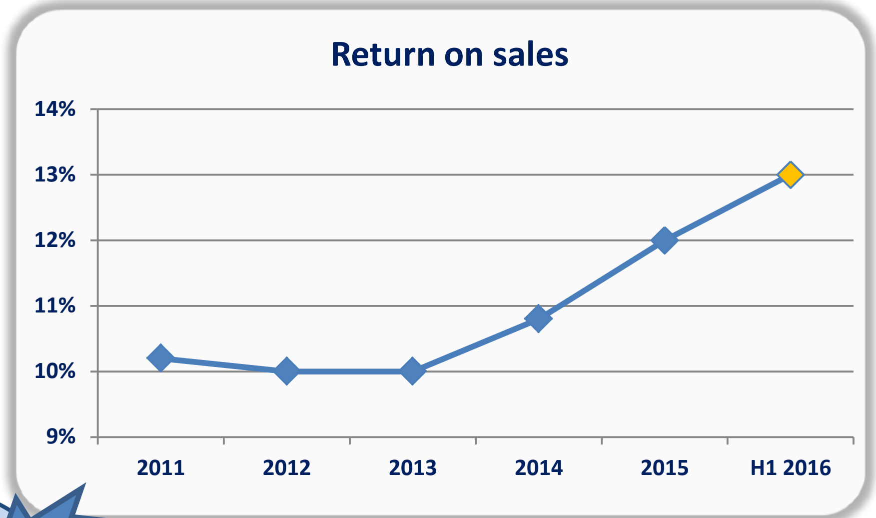
| £m | H1 2016 | H1 2015 | FY 2015 |
|---|---|---|---|
| Underlying Operating Profit | **33.0** | 26.3 | 56.0 |
| Depreciation and amortisation | **8.7** | 8.3 | 16.4 |
| **Underlying EBITDA** | **41.7** | 34.6 | 72.4 |
| Other non-cash items | **0.8** | 0.4 | 0.8 |
| Working capital | **(4.8)** | (5.6) | (2.5) |
| Capital expenditure (net) | **(9.8)** | (8.3) | (14.8) |
| **Underlying operating cash flow** | **27.9** | 21.1 | 55.9 |
| Restructuring | **(1.8)** | (0.4) | (1.1) |
| Pension | **(1.2)** | (1.3) | (2.5) |
| Interest paid (net) | **(1.4)** | (1.5) | (3.0) |
| Tax paid | **(6.9)** | (5.9) | (12.6) |
| **Statutory free cash flow** | **16.6** | 12.0 | 36.7 |
| Dividends | **(5.5)** | (5.0) | (14.1) |
| Acquisitions | **(14.9)** | (1.5) | (17.6) |
| Share issues/other (net) | **(0.9)** | (0.1) | (0.1) |
| **Net cash flow** | **(4.7)** | 5.4 | 4.9 |
| **Note: F/X impact** | **(3.3)** | 1.4 | (0.4) |

- Working capital 13.3% of annualised sales (H1 2015: 14.4%)
  - H1 outflow reflective of seasonal trading patterns
- Capex 1.1 times depreciation/amortisation
  - 2016 guidance *c.*£20m (1.1 times)
- Restructuring spend £1.8m
- Acquisitions £14.2m (plus £0.7m costs)
  - Hardstaff £10.3m
  - ETT / FMK £3.9m
- Amend and extend completed in May
  - £210m RCF extended by 2 years to 2021
  - Lower margin
- Net debt : EBITDA 1.2 times (Dec 2015: 1.2 times)

| £m | H1 2016 | H1 2015 | Dec 2015 |
|---|---|---|---|
| Net debt | **99.5** | 89.2 | 91.5 |

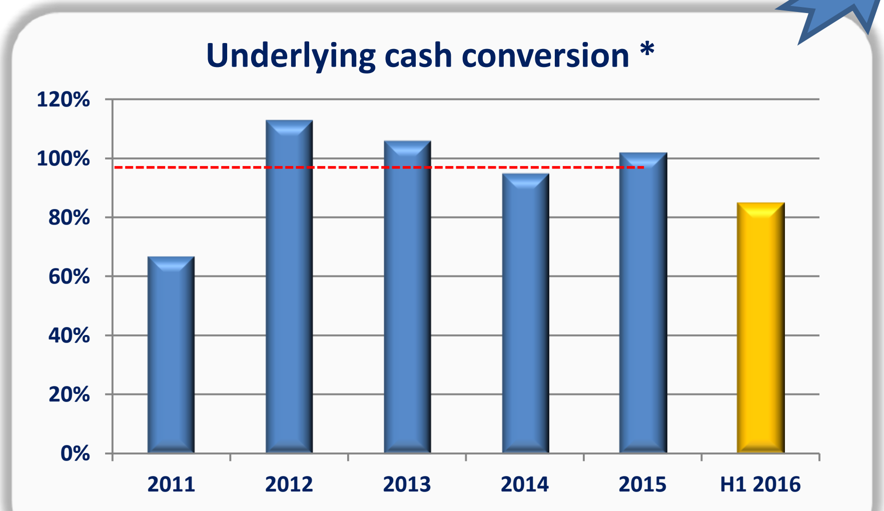
# Strategic KPI's



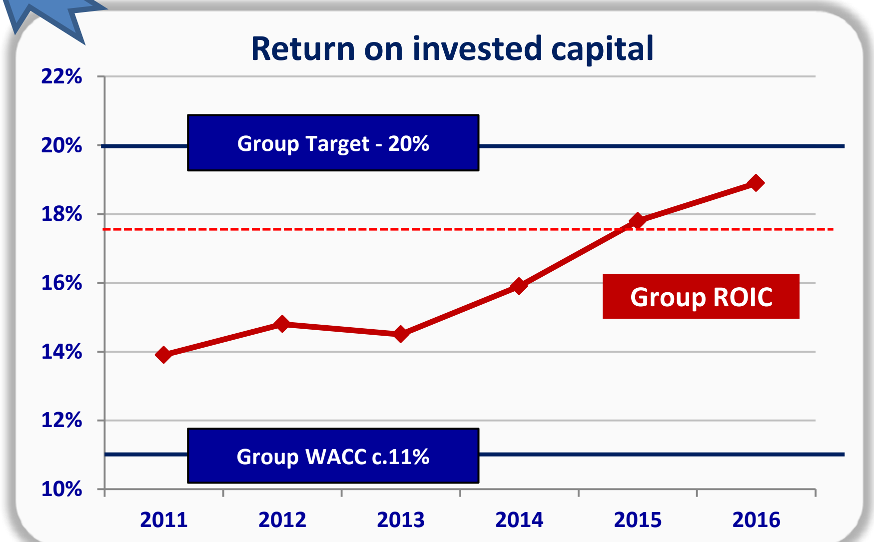





----- 5-Yr Average




*excluding strategic capex



# Strategy and Outlook

## Derek Muir

# Key opportunities for growth

## US Infrastructure

| Market: | Current status: |
| --- | --- |
| **Renewables** | • 5 year extension to solar investment tax credits (ITC)<br>• Utility sector ITC to increase by 73%<br>• Demand to steadily increase over period |
| **Utilities** | • Steady pipeline of CCGT power plants<br>• LNG terminals delayed<br>• Power transmission investment continuing |
| **Highways** | • Fixing America Surface Transport Act (FAST) 5-Year bill to 2020<br>• State DoT's delaying existing projects to benefit from FAST funding |
| **Bridges** | • North East bridge upgrade programme continuing<br>• Temporary bridge market slow H1 |

## UK Infrastructure

| Market: | Current status: |
| --- | --- |
| **Water** | • AMP6 projects have been slow to start<br>• Flood alleviation a priority<br>• Water treatment plant security a focus |
| **Energy** | • Solar projects now under 5MW<br>• Energy from Waste opportunities<br>• Hinkley Point decision delayed |
| **Rail** | • CP5 – markets remain strong<br>• Five year security upgrade on electrification and renewals |
| **Housing** | • Strong demand for attenuation tanks<br>• Building products steady<br>• Brexit impact? |

# Highways England: Road Investment Strategy ('RIS')

*Temporary Safety Barrier*

*Crash Cushions*

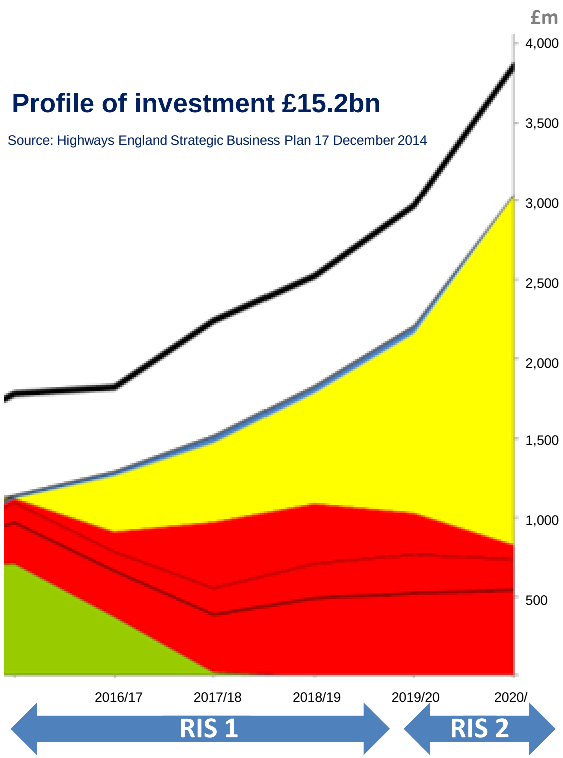
*Permanent Safety Barrier*

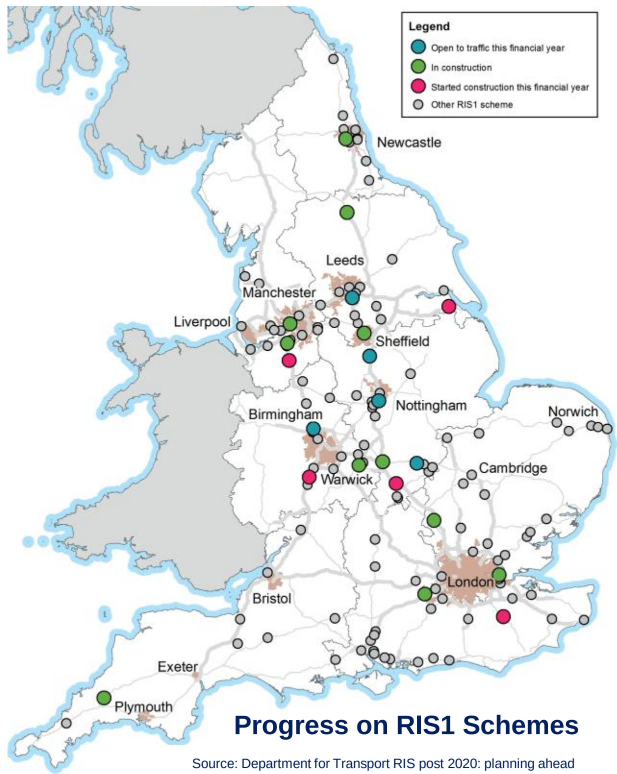

*Variable Message Signs*


*Taper Signs*

**Profile of investment £15.2bn**

Source: Highways England Strategic Business Plan 17 December 2014




**Progress on RIS1 Schemes**

Source: Department for Transport RIS post 2020: planning ahead

Highways England Chief Executive
Jim O'Sullivan:

*"The £15bn Road Investment Strategy remains on track, and funding for RIS2 has been secured…a new £7bn roads framework is to be launched for the balance of work in RIS1… Brexit does not impact what we are doing. The country will always need new roads and the supply chain should look to Highways England for long-term, secure work."*

HE has already had assurances from new Transport Secretary Chris Grayling that funding for the Road Investment Strategy is safe, with Mr Grayling calling on HE not to postpone any work.

Source: Construction News 25 July 2016

# Overseas Acquisitions – US Composites/Swedish Roads

**Acquired 20 January 2016**
Acquisition cost: $1.8m
Revenue: $1.9m

- US leader in the design and manufacture of composite bridges
- Over 700 installations for commercial applications, parks and golf courses
- Based in Bedford, Pennsylvania
- Integrated into Creative Pultrusions

**Acquired 1 April 2016**
Acquisition cost: £3.7m
Revenue: £3.9m

- Designs and manufactures safety barriers, noise reduction screens and bridge parapets for the Scandinavian market
- Based in Stockholm, Sweden
- Integrated into ATA Hill & Smith AB

# UK Acquisitions - Utilities

TECHNOCOVER

**Acquired 13 July 2016**

Acquisition cost: £10m

Revenue: £12.9m

EBITDA: £1.6m

**Technocover** specialises in the development, manufacture, installation and maintenance of high security access products for the utilities markets. The company has an excellent reputation for quality and service and will benefit from being part of the Group's UK Utilities division.







# UK Acquisitions - Roads

HARDSTAFF
BARRIERS

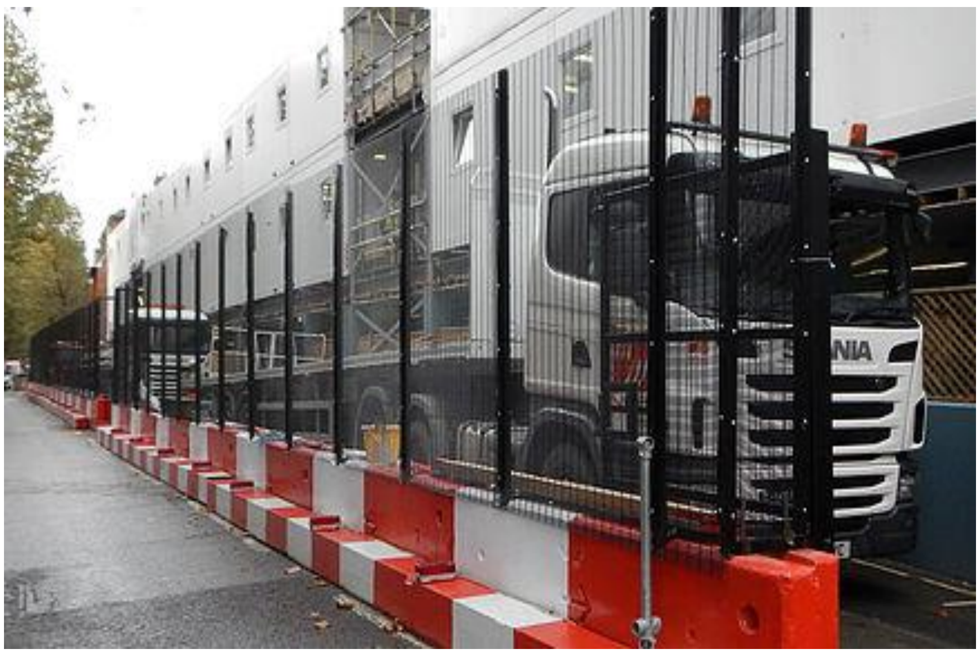
Acquisition cost: £10.6m

Revenue: £3.8m

EBITDA: £1.3m

**Acquired 13 May 2016**

**Hardstaff Barriers** specialises in the sale and rental of fully tested temporary and permanent pre-cast concrete barriers for the protection of roadworks and critical infrastructure in vulnerable locations across the UK and Europe.



# UK Acquisitions - Roads

**Acquired 3 August 2016**

**Signature** was a subsidiary of Plastic Omnium SA and specialises in the development, manufacture, installation and maintenance of street lighting columns, road sign and traffic management systems.

Their excellent range of long established products complements our existing product offering into the UK roads market.

Acquisition cost: £12.5m

Revenue: £14.8m

EBITDA: £1.9m









# Outlook

**UTILITIES**

- US and UK infrastructure investment outlook positive
- Pipe Supports restructuring delivering improved profitability and returns

**ROADS**

- UK Road Investment Strategy – certainty of funding to 2021
- Niche growth opportunities in international markets

**GALVANIZING**

- France remains challenging
- US and UK performance maintained

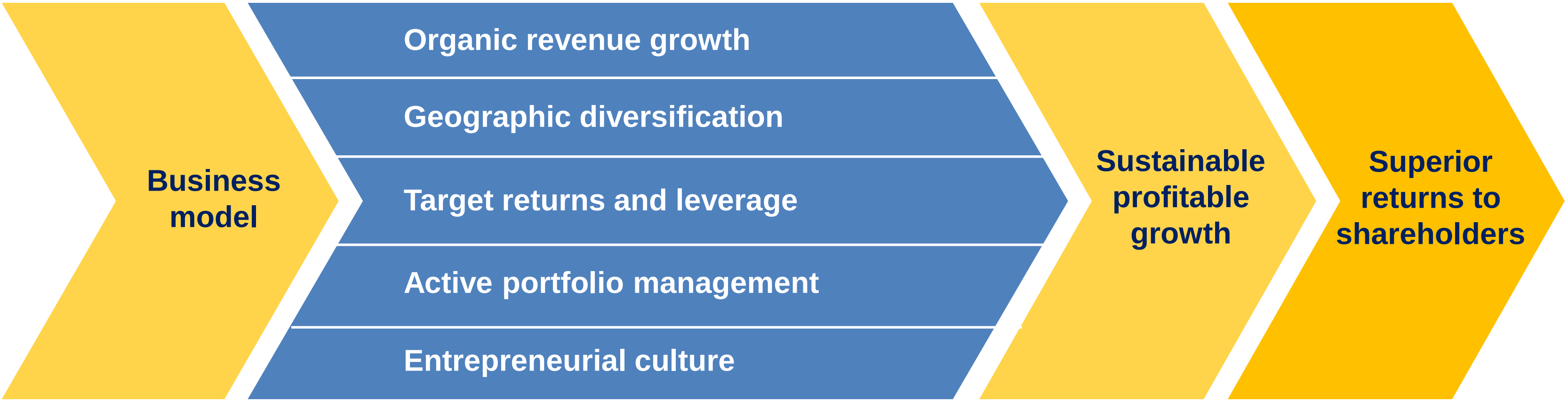
**OVERALL**

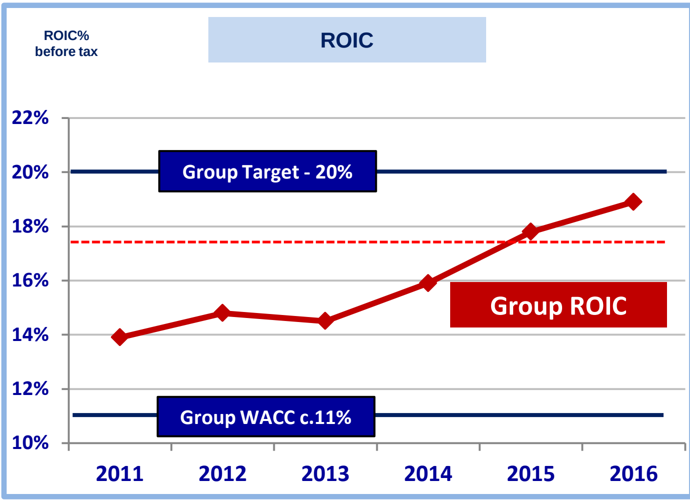
- 2016 expected to be a year of good progress

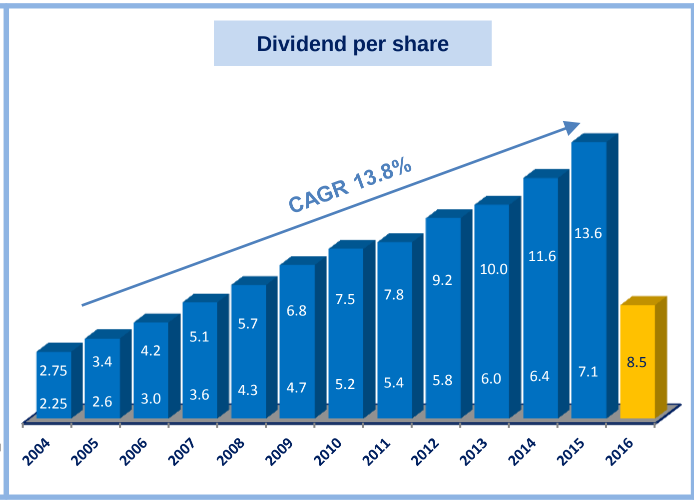
# Appendices

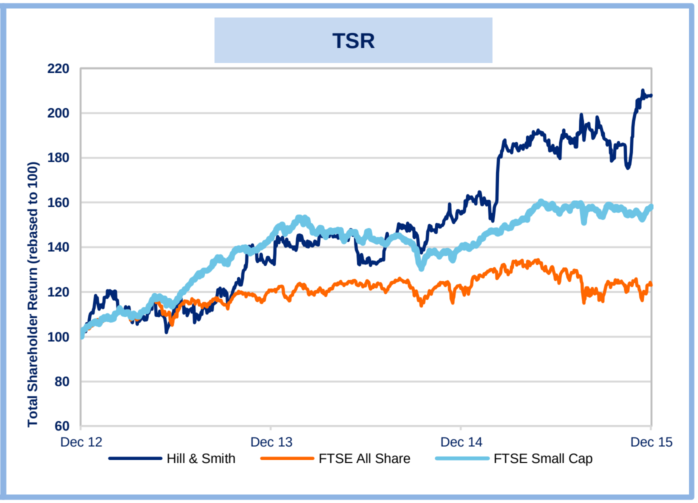
# Business model and strategy

**To hold leading positions in the niche markets of infrastructure and galvanizing, diversified over different geographies, with a focus on service, margins and product development.**



# Shaping the Group for growth

**Organic & Legislative Growth**

- Revenue and margin growth in existing markets through product development and innovation
- Identify Government legislation that creates opportunities to deliver innovative products and services

- Managed Motorways / Rail programme / Crossrail
- Flood prevention / AMP6
- Security and anti-terrorism measures
- Air / noise pollution

**Strategic Acquisitions**

- Value added acquisitions through synergies with existing businesses, extending our product portfolio and geographical coverage

- Roads product businesses in countries with strong Government spend
- Galvanizing in existing geographies
- Security product businesses
- Distressed UK businesses to improve market share

**Target Returns and Leverage**

- Target operating margins >10%
- Return on capital employed >20%
- Cash conversion

- Improved product mix
- Value added customer focused solutions
- Capital investment to improve operational efficiency
- Focus on capital / return dynamics
- Active portfolio management

# Segment analysis

| £m | H1 2016 | Organic | M&A | PS Closure Impact | FX | H1 2015 |
|---|---|---|---|---|---|---|
| **Utilities** | | | | | | |
| Revenue | **95.1** | (2.3) | 1.4 | (5.0) | 2.2 | 98.8 |
| Underlying operating profit | **5.7** | (0.9) | 0.3 | 0.9 | 0.2 | 5.2 |
| *Margin* | ***6.0%*** | | | | | *5.3%* |
| **Roads** | | | | | | |
| Revenue | **77.5** | 11.4 | 0.5 | - | 1.0 | 64.6 |
| Underlying operating profit | **9.0** | 1.5 | 0.1 | - | 0.1 | 7.3 |
| *Margin* | ***11.6%*** | | | | | *11.3%* |
| **Galvanizing** | | | | | | |
| Revenue | **81.4** | 4.1 | 4.5 | - | 3.2 | 69.6 |
| Underlying operating profit | **18.3** | 2.4 | 1.3 | - | 0.8 | 13.8 |
| *Margin* | ***22.5%*** | | | | | *19.8%* |
| **Group** | | | | | | |
| Revenue | **254.0** | 13.2 | 6.4 | (5.0) | 6.4 | 233.0 |
| Underlying operating profit | **33.0** | 3.0 | 1.7 | 0.9 | 1.1 | 26.3 |
| *Margin* | ***13.0%*** | | | | | *11.3%* |

**Utilities**
- UK and US infrastructure markets robust
- Non-US Pipe Supports closure progressing well

**Roads**
- Government investment driving UK demand
- Hardstaff/FMK acquired
- International markets gaining traction

**Galvanizing**
- Volumes up 11% year on year
- Strong growth in US
- Premier acquisition supports UK
- France still challenging

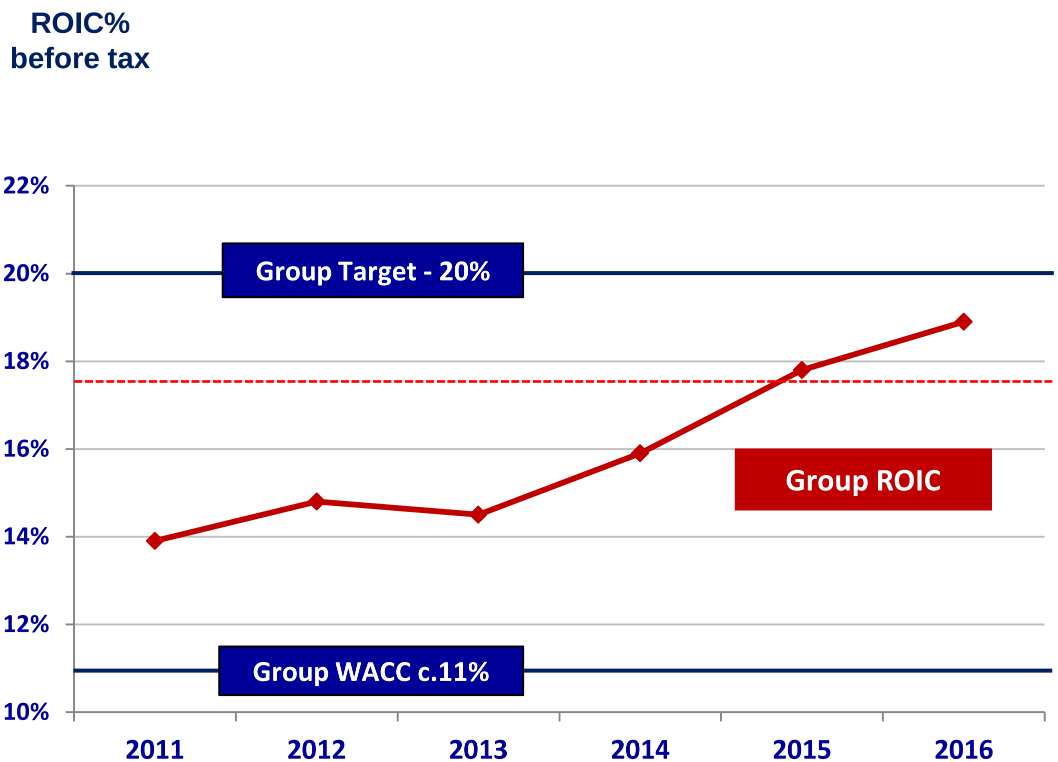
**Group**
- Strong H1 performance
- Margin up 170bps to 13.0%

# Non-underlying items

| | H1 2016 | H1 2015 | FY 2015 |
|---|---|---|---|
| **Operating items** | | | |
| Non-US Pipe Supports post-closure trading | **(1.0)** | - | - |
| Business reorganisation costs | **(9.2)** | 0.2 | (0.3) |
| Acquisition costs | **(0.7)** | (0.4) | (1.0) |
| Amortisation of acquisition intangibles | **(0.9)** | (1.1) | (1.6) |
| Loss on sale of properties | **-** | (0.1) | (0.1) |
| Impairment of The Paterson Group goodwill | **-** | (15.8) | (15.7) |
| | **(11.8)** | (17.2) | (18.7) |
| **Financing costs** | | | |
| Refinancing expense / amortisation | **(0.2)** | (0.2) | (0.4) |
| Net pension interest | **(0.3)** | (0.3) | (0.7) |
| | **(12.3)** | (17.7) | (19.8) |
| | | | |
| Cash in year | **(2.1)** | - | (1.1) |
| Future cash | **(4.4)** | - | - |
| Non cash | **(5.8)** | (17.7) | (18.7) |
| | **(12.3)** | (17.7) | (19.8) |

Revenue 5.3
EBIT loss (1.0)

# Return on Invested Capital




| Group | 12m to H1 16 | 12m to H1 15 |
|---|---|---|
| Operating Profit (£m) | 62.7 | 53.0 |
| Av. Invested Capital (£m) | 331.1 | 309.2 |
| ROIC % | 18.9 | 17.1 |

| Divisional (%) | 12m to H1 16 | 12m to H1 15 |
|---|---|---|
| Utilities | 13.8 | 11.7 |
| Roads | 22.5 | 20.9 |
| Infrastructure Products | 18.1 | 15.9 |
| Galvanizing | 19.7 | 18.4 |

# Margin

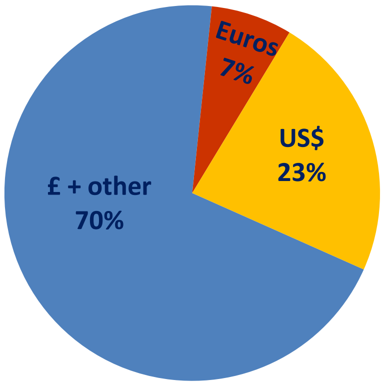
| | Margin | | |
|---|---|---|---|
| | **H1 2016 %** | H1 2015 % | Target Range % |
| **Infrastructure Products** | **8.5** | 7.6 | 8 – 11 |
| - Utilities | **6.0** | 5.3 | 7 – 11 |
| - Roads | **11.6** | 11.3 | 9 – 13 |
| **Galvanizing Services** | **22.5** | 19.8 | 19 – 22 |
| **Group** | **13.0** | 11.3 | 11 – 14 |

- Utilities improving; Non-US Pipe Supports closure assists
- Roads within range
- Galvanizing marginally ahead of target range

# Availability and usage of debt facilities

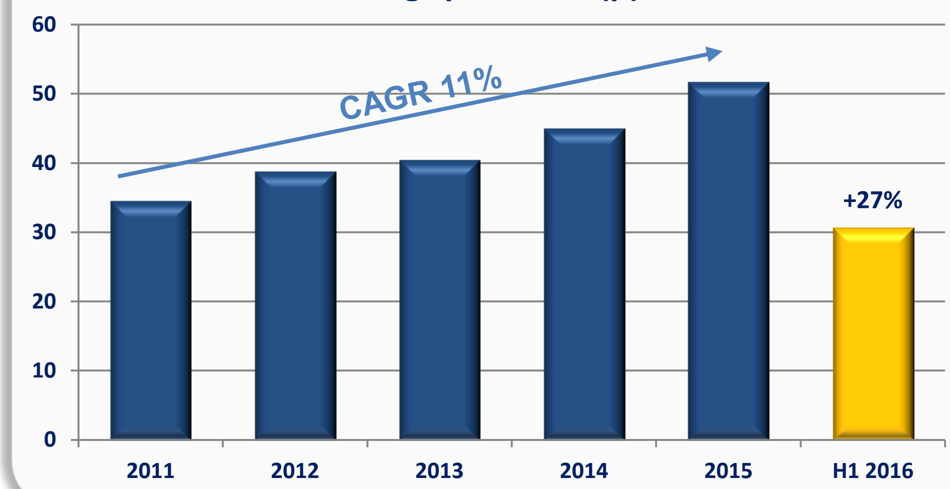
| £m | Net Debt | Facility | Maturity | | |
|---|---|---|---|---|---|
| | | | On demand | 2016 to 2020 | 2021 |
| Committed | **128.4** | 226.5 | | 2.5 | 224.0 |
| On demand | **-** | 11.2 | 11.2 | | |
| Cash | **(28.9)** | - | | | |
| | **99.5** | 237.7 | | | |

Net Debt by Currency



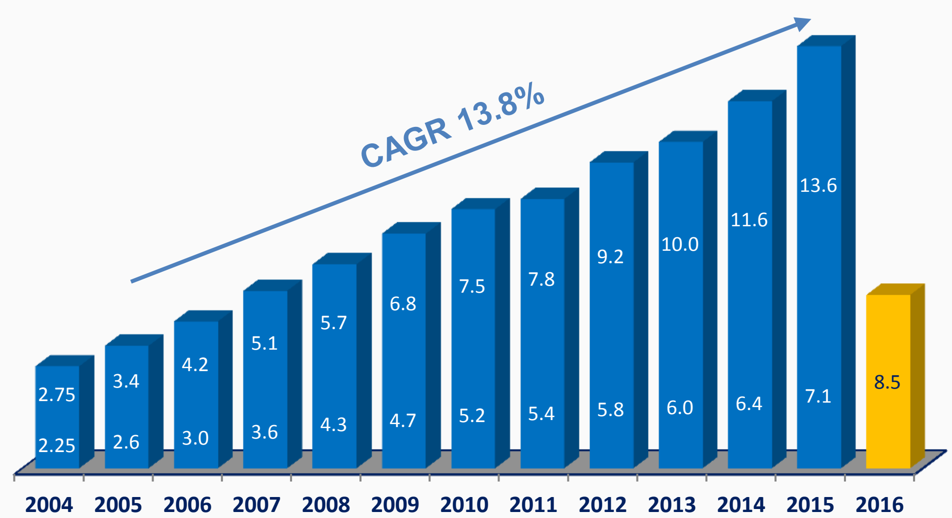

- ➢ Principal facility “Amended & Extended” May 2016
  - – 2 year extension to April 2021; costs reduced
- ➢ Facilities provide significant headroom
  - – Net debt : EBITDA 1.2 times (covenant 3 times); Interest cover 28.4 times (covenant 4 times)
- ➢ Target net debt : EBITDA range between 1.5 to 2.0 times

# Earnings and Dividend




**Dividend (p)**

| | 2016 | Change | 2015 | Change | 2014 |
|---|---|---|---|---|---|
| Interim dividend per share | **8.5** | ↑**20.0%** | 7.1p | ↑10.9% | 6.4p |
| Final dividend per share | | | 13.6p | ↑17.2% | 11.6p |
| Total dividend per share | | | 20.7p | ↑15.0% | 18.0p |




### Dividend

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

# Hostile Vehicle Mitigation