Hill and Smith Full Year 2023 Results presentation to analysts - Transcript
12 March 2024

Alan Giddins: Good morning, everyone and welcome to the Hill & Smith 2023 full year results presentation. In particular, welcome to everyone who is joining online.

I will start by giving a summary of the key highlights, before passing over to Hannah to talk through the financial performance. I will then look at where we are against our key performance metrics, focus in on our most recent acquisitions from 2023 and start of 2024, and then talk about the significant growth opportunities we see in our US Utilities business.

Before starting I would just note that this is Hill & Smith's 200th anniversary year since the business was founded by Edward Hill and his brother-in-law, Henry Smith, at Brierley Hill, in the West Midlands. A not inconsiderable achievement.

Slide 2

Once again this is a record set of results for the Group. We have seen strong revenue and profit growth, with 76% of group profits now generated from our US businesses. This is testament to our clear strategy and improving execution.

We continue to see good progress in delivering on our M&A strategy, completing four acquisitions during 2023, and a further two acquisitions in the US in the first two months of 2024, one of which we announced this morning. We are pleased with the momentum we have built, identifying and securing strategically aligned, financially accretive businesses, at sensible prices, and where we have the opportunity to complete our diligence outside of a competitive auction process.

Cash conversion has been extremely strong at 115%. We have also seen a good uplift in our return on invested capital from 19.2% to 22%, as we focus our investment on our higher growth businesses.

The Board has approved a final dividend of 28p, giving a full year dividend of 43p, up 23% on the prior year. We have started 2024 with good momentum and a strong M&A pipeline.

I will now pass over to Hannah to talk through the detailed financial performance of the Group.

Hannah Nichols

Slide 3: Results summary

Good morning, everyone. I am pleased to report that the Group delivered another record set of results in 2023. Revenue was £829.8m, a year on year increase of 14% at constant currency. And at £122.5m, underlying operating profit was up by 26% on a constant currency basis and well ahead of our initial expectations for the year.

Acquisitions contributed £74m of revenue and £13m of operating profit in the year, reflecting strong trading in National Signal and Enduro, our two larger recent US acquisitions. Organic constant currency revenue growth was 5% and operating profit OCC growth was 12%.

Operating margin increased by 150 basis points to 14.8%, reflecting the improved portfolio mix and operational gearing benefits of significant volume growth in Engineered solutions. Underlying profit before tax was 27% higher at £111.9m. And, with an effective tax rate of 24.6%, Earnings per share for continuing operations increased by 23% to 105.4 pence.

Turning to the Group overview.

Slide 4: Group overview

The impressive results reflect strong momentum in the US and a resilient performance in the UK. As the charts at the top illustrate, our faster growing and higher margin US businesses now represent a significant part of the Group and generated 56% of revenue and 76% of operating profit in the year. In terms of the weighting between divisions, Engineered Solutions delivered an exceptional performance generating 53% of Group profit, driven by buoyant demand for composite solutions and electricity substation components in the US.

Galvanizing services generated 37% of Group profits and maintained superior margins with a record performance in the US and a resilient performance in the UK.

In contrast, the margin performance in Roads & Security was disappointing, reflecting the impact of one off operational improvement costs in US Roads together with non recurring charges relating to certain UK businesses.

If we now turn to our divisional performance, starting with Engineered Solutions

Slide 5: Engineered Solutions

The division delivered an excellent performance with 27% revenue and 84% profit growth on a constant currency basis. Operating margin increased by 540 basis points to 17.5% reflecting operational gearing and the quality of our faster-growing US portfolio. As highlighted on the top right chart, the US delivered 20% OCC revenue growth and record operating profit.

US composites delivered a standout performance underpinned by high demand for its range of innovative composite solutions. We were delighted to welcome Enduro Composites and United Fiberglass to the Group during the year, strengthening our reach and capability in the high growth US composite market.

Our US electricity substation business also reported record profits and enters 2024 with a strong order book. The business faces into an attractive end market and we are investing to accelerate growth, which Alan will expand on later in the presentation.

US engineered supports generated record results underpinned by a number of large infrastructure construction projects and a buoyant HVAC market.

Overall, the outlook for the US remains very positive. Market demand is supported by investment to modernise the power grid and multi-year planned government spending on infrastructure in addition to private investment to onshore vital components and processes.

In the UK revenue declined by 6% but profit was at a similar level to 2022. Building products experienced lower volumes, reflecting a wider slowdown in UK residential construction, however this was offset by pricing and cost management actions. Industrial flooring delivered a robust performance, with good demand from data centre, battery plant and oil & gas markets.

Our engineered supports business in India delivered a record performance, with buoyant demand for international LNG projects. The business enters 2024 with a strong order book and good medium-term growth prospects.

Turning to the Galvanizing services division.

Slide 6: Galvanizing

The division delivered a robust performance with 9% revenue growth and 4% profit growth on a constant currency basis. In line with expectations, the division maintained superior operating margins, at 23.2%, reflecting the value-added service provided to our customers.

In the US, revenue grew by 9% on an OCC basis with record operating profit against a strong 2022 comparator. The performance reflects an 8% organic increase in production volumes and focused pricing actions.

The medium-term outlook for US galvanizing remains positive with our business well placed to benefit from high levels of industrial activity supported by the IIJA, technology investment and a more general move to onshoring of certain activities.

In the UK, revenue was broadly flat on an organic basis, reflecting a 15% decline in volumes offset by pricing actions. The volume decline is attributable to an overall downturn in the UK galvanizing market and the impact of certain key customers delaying projects, with volumes stabilising in the second half. As a result, operating profit was lower than last year's record performance.

The UK business benefits from a wide sectoral spread of customers and while we expect end markets to continue to be challenging in 2024, we have taken proactive steps to strengthen the management team to support performance delivery.

Turning to Roads & Security

Slide 7 – Roads and Security

Performance in Roads & Security was disappointing with 2% revenue growth and 31% profit decline on a constant currency basis. The results reflect strong trading in National Signal, our US off-grid solar business and resilient trading in our core UK roads business, however this was offset by certain one-off charges included in underlying trading. As a result, operating margin was 4.7%, below our expectation, and we anticipate an improvement in 2024.

UK roads revenue was 3% lower and operating profit was significantly lower than 2022. While the barrier rental business delivered good profit growth, with an increased fleet utilisation, our wider UK roads portfolio experienced challenges, with inflationary and budgetary pressures curtailing customer spend. While UK markets continue to be challenging, we expect our UK roads to deliver a flat performance in 2024.

Our UK off-grid solar business experienced a slowdown in construction end markets during the year and has turned its focus to the more resilient facilities management sector. At the end of 2023 the business identified an issue with historical installations of one of its products and a provision for expected rectification costs has been included in the Group's underlying results. The team acted quickly to take appropriate remedial action and in the Group context the issue is relatively small.

During the year we exited Berry Systems, a small, loss-making car park solutions business. The results include an underlying charge in relation to future losses expected on a small number of legacy contracts.

In the US, trading in National Signal was very strong, particularly in the first three quarters, supported by a high order backlog and strong demand from rental companies. While we have seen a slight softening in demand coming into the first half of 2024, which is factored into our Group outlook, the medium-term outlook remains positive, underpinned by a drive toward sustainable solutions and an expected boom in large scale infrastructure projects.

Revenue in our US roads business was lower than 2022 and operating profit was significantly impacted by one-off operational improvement costs, mainly associated with re-engineering the trailer product line. The business is implementing a comprehensive improvement plan, and we expect progress in 2024.

Our Security sub-division saw revenue decline by 6% and operating profit also declined.   This reflects lower utilisation of our UK security rental barrier fleet compared to a record 2022 and continuing challenges in our perimeter access security business. While the outlook for the security portfolio remains mixed, we expect that a focus on more resilient end markets such as data centres will support further progress.

Moving onto cash generation and financing.

Slide 8: Cash generation and financing

We are pleased to report that the Group was highly cash generative in 2023 with underlying cash conversion of 115%. We expect the Group to continue to deliver strong cash conversion in 2024, in line with our financial framework of 80%+ and consistent with historic levels.

The working capital inflow in the year was £22.8m, reflecting the benefits of lower raw material costs and a tight focus on working capital efficiency.

Capital expenditure was £31.8m, representing a multiple of depreciation and amortisation of 1.5 times. Significant growth investments included £4m to support capacity expansion in our US composite business and £1.5m on an automated kettle line in the recently acquired Korns Galvanizing.

Cash tax paid in the year was £31.7m, the increase reflecting higher profitability, the phasing of payments in the US and our decision to carry forward taxable UK losses to be used in future periods.

As a result, the Group generated £97m of free cash flow providing funds to support our acquisition strategy and dividend policy. In the year we invested £48m of capital across four value enhancing acquisitions.

We continue to maintain significant liquidity headroom and leverage capacity to support future growth opportunities. Net debt at the end of the year was £108.4m, better than we had expected, with the ratio of covenant net debt to EBITDA falling to 0.4 times.

Return on invested capital for the year was 22%, the improvement reflecting the strong trading and our disciplined approach to capital investment, which more than offset the impact of acquisitions in the year.

Now turning to Sustainability

Slide 9: Sustainability

Our Group Sustainability strategy encompasses seven priority areas including our commitment to reduce Greenhouse gas emissions.

During the year we successfully baselined our full scope 3 GHG emissions, which enabled us to submit near and long-term commitments to the Science Based Targets initiative with an overarching target to reach net zero GHG emissions across the value chain by 2050. We are delighted to report that our targets were approved by the SBTI in December 2023. This sits alongside our previous commitment to reach net zero for our Scope 1 and 2 emissions by 2040.

We also continue to make progress across our other sustainability priorities. In health and safety our focus has been on accident prevention and while there is more work to do, the Lost time incident rate reduced by 61% to 0.43.

Talent development and engagement are key priorities for our sustainability strategy. Within this, senior level succession is currently a key focus including the development of high potential individuals and enhancing manager and supervisor training.

Alongside this we were pleased that our recent employee survey highlighted that we are making some positive progress with diversity and inclusion. We also remain committed to our UK apprenticeship programme and now have 60 apprentices, a 9% increase compared to the end of 2022.

So overall a really strong set of financial results and good progress on our sustainability strategy.

I will now Hand back to Alan to summarise our progress against our financial framework.

Alan Giddins: Thanks Hannah

Slide 10

Set out on the left-hand side of this slide are the through the cycle target financial performance metrics we set out last year. We have successfully delivered against all of these metrics consistent with the good momentum we are seeing within the business.

We saw 5% organic revenue growth and 13% total revenue growth in 2023, reflecting the positive impact from M&A. As a reminder, our focus is on trying to complete 2 to 4 deals a year, investing in aggregate between £50m and £70m.

We also saw positive margin expansion from 13.3% to 14.8%, noting that our target of 15% was set as a 2024 full-year target figure. In 2024 we expect to see further margin expansion as a result of both accelerated growth in our higher margin businesses and through improved performance in our Roads & Security margins. Excellent cash conversion and return on invested capital, up from 19.2% to 22%, leaves gearing at 0.4x, well below our target range of 1 to 2x. This gives us significant headroom for organic and inorganic investment.

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During the year we completed three principal acquisitions. In addition to which we made a very small bolt on within our Novia business. In aggregate we invested £48m.

Enduro has been fully integrated into Creative Composites Group. Since acquisition we have seen strong trading, supported by a c300bp expansion in operating profit margins. We have also committed $2.2m of capex on a new pultrusion line which will be operational by the start of April, and where we have excellent order book visibility.

We acquired United Fibreglass at the end of last year. United, based in Springfield, Ohio, is a market leader in the use of filament winding technologies, providing a range of lightweight applications into the utility, infrastructure and industrial markets. United also has a strong CEO in Kevin Barnett, and we are very pleased to have Kevin as part of our wider composites team. Three months in, the business is trading well, and in line with our expectations. United has started the year with a strong order book.

Korns Galvanizing was acquired in March 2023 and has been fully integrated into V&S Galvanising. Trading is ahead of our expectations, and we have seen good margin expansion. We are also making good progress on our $2.9m investment in a new automated spin line. The acquisition of Korns has been an extremely well executed integration process over the last 12 months and provides a playbook for future galvanising acquisitions.

Each of these acquisitions were consistent with our strategic framework, acquiring businesses outside of auction processes and where we have an existing relationship with both the management and business.

Slide 12

Since the start of the year we have announced two further acquisitions, investing in aggregate £11.6m. Both acquisitions sit within our Engineered Solutions division.

In January we announced the acquisition of Capital Steel, based in Trenton, New Jersey. The business serves the transmission and distribution market and gives us both access to new customers, but also significant cross-selling opportunities across our broader taper tubular product range. We will also be able to service Capital Steel's customers through our new expanded facility at Burton, Ohio, where we have added a further 44,000 sq ft.

We also announced today the acquisition of FM Stainless. FM Stainless is a business we are acquiring through The Paterson Group. We have probably not talked enough about The Paterson Group in the past. This is a business which has delivered a 35% profit CAGR organically over the last 5 years, as it has taken advantage of significant infrastructure spend in the US, particular around onshoring. It is also led by a very strong management team.

FM Stainless manufactures a range of high precision steel products from a single site in Ellijay, Georgia, and is a perfect fit in terms of geographic and customer complementarity. It also gives us a much greater exposure into the water and wastewater market, where we see significant medium term spend. We are also extremely pleased that Chad Hood, owner of FM, will be remaining with the business post acquisition.

Going forward, we have a strong M&A pipeline and would hope to execute on further acquisitions during 2024.

Slide 13

I would now like to focus on one of our fastest growing businesses, V&S Utilities. The business fabricates and supplies products into the electrical utility market, providing structural steel and component packages for high voltage electrical substations and transmission and distribution lines.

It delivered record revenue in 2023 of c $75m and operating margins significantly above the Group and divisional average. This builds on a good growth performance over the last five years with an organic revenue and operating profit CAGR of 13% and 21% respectively, and the business has started 2024 with a record order book.

We see the US electrical transmission and distribution market as very attractive in the medium term with growth driven by the need to upgrade ageing infrastructure, supported by government investment, and increasing demands on the electric grid driving capacity expansion.

Given this we are making thoughtful investments to support the growth potential in the business.
A number of initiatives are underway to support organic growth, including a $1m investment in capacity expansion at our Burton site, in Ohio, which will be complete over the coming months, and future plans to upgrade our Muskogee site in 2025. Alongside this the team are making investments in automation and production efficiency.

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We are also looking at M&A opportunities in this attractive end market, and the acquisition of Capital Steel is a first example of this.

As you can see on the map, we currently have significant white space, where we can use M&A to access new customers and cross sell our products.

Slide 15

Turning then to a reminder of the investment case which underpins everything we do at Hill & Smith.
First, it is about exposure to infrastructure spend in both the UK and US, as Governments seek to upgrade the quality of their national infrastructure to support economic growth. Specifically in the US our businesses are benefiting from the IIJA, which was the bipartisan infrastructure bill introduced in 2021, onshoring of manufacturing and investment in technology in the form of, for example, data centres, semiconductor and EV plants. We see this as a 10–20-year mega trend for which we are only just starting to see the impact on our US businesses.

It is then about market leadership in the niches in which we operate, allowing us to enjoy high barriers to entry and therefore strong operating margins. We do not want to be competing against commoditised players.

Sustainability is core to our business model in terms of both how we operate and the products we manufacture.

Critically it is about an autonomous business model which encourages and supports an entrepreneurial culture at the operating company level. Our head office team is there to ensure we have the right KPIs and controls, but is also there to support setting the ambition for each operating company, and as a result help ensure each of our businesses deliver on their full potential.

And finally, it is about ensuring we maintain a strong balance sheet capable of supporting organic growth while also allowing us to deliver on our M&A strategy. We see significant opportunities to use M&A to help us expand into new customers and end markets, and into new technologies. Effective delivery on this M&A strategy is about ensuring that our Group M&A team works hand in glove with our MDs to source opportunities and build relationships with owners, supported by best-in-class execution and post-acquisition integration.

Slide 16

Finally, turning to outlook. We continue to see a very strong market in the US, and this is where we have our biggest businesses and some excellent management teams. Recovery in our Roads & Security margins is an absolute requirement for 2024, and we believe we have a route map to deliver on this. Our ability to continue to source and deliver highly complementary M&A opportunities will also be an important driver of growth. As a result, we expect to make good progress after a strong performance in 2023, with the year modestly second half weighted in line with historic norms. Turning to the medium and longer term, I believe it is the combination of our attractive markets, our agile operating model and our ability to source highly accretive M&A opportunities, which makes me confident about the Group's prospects.

With that, can I suggest we open up for questions, perhaps starting with those in the room.

Questions

Rob Chantry, Berenberg: Hi, thanks for the presentation, three questions from me. So, engineering solution's a huge step up in margin to 17.5%, is it possible to break that out into, kind of, mix, volume drop-through, processing improvement and then how sustainable do you see it at that level, given the magnitude of the uptick? Secondly, really great story on US infrastructure spending over the next five to ten years but what worries you about that? What do you see as potential things that knocks that off course? Is it politics? Is it capacity? What are the kind of things that worry that? And then, thirdly, acquisitions, especially Engineered Solutions, there's clearly lots of small businesses, I mean, you put the chart and the presentation at the Capital Markets Day last November, I think, what do you see as the natural market structure? I.e., how consolidated do you think that can become and then is there an argument that, given the buoyancy of the infrastructure spend that you move quicker than two to four small deals a year? Thanks.

Alan Giddins: So, let me do US infrastructure spend, so what worries us? Not a huge amount. I think the political one doesn't particularly worry me because there is a bipartisan commitment to this spend. And so, I think, you know, the democrats are very committed to that. I mean, you could probably argue a lot of Trump's rhetoric led to a lot of onshoring. If you look at all of those automotive companies that onshored, I mean, part of his rhetoric led to that. So, I don't think either party will naturally call back on a commitment to infrastructure spend and, you know, all those-, if you are in the US, you can see it's needed. So it's not really an optional spend. I think timing, you know, I think we've discussed it before. If you look at the sort of, roads, bridges market that the spend flows much more naturally straight down to the county level, that is where you have seen more spend, it is more predictable and, to date, about 40% of contracts have been awarded. So even in the market where you think the greatest amount of projects and spend, I mean, it's only part of the way through that. On some of these bigger projects, there will always be delays but I think, you know, whether a mega fifteen-year project moves out by a year or not, I don't think that makes a huge amount of difference. In terms of capacity, yes, clearly if you've got very strong demand, you think, naturally, you'll get supply changes in the market. I think the key is it's about relationship and service delivery. So if you look, it was the key rationale for buying capital steel, that is for us to get access into those New Jersey-, so obviously, it's very, very difficult, it's all about relationships. So we could've built capacity, we wouldn't necessarily have been able to fill it. And I think, you know, I was out in the US last week talking to Greg, who runs our utility business, he will tell you, it's all these guys want, is on-time delivery.

And that is a reputation you build up over time, it's not something taht people will literally shift their demand to, just for someone to put additional capacity in the market. So I mean, it's dangerous to say not a lot worries me but, if you look at those component parts, they feel reasonably robust. I think, in terms of the M&A strategy, so I think two bits, or I think it was just small deal-, I mean, was the first one, sort of, small deals, are they too small?

Rob Chantry, Berenberg: Well, not that they're too small, it's more that now there's a huge wave of infrastructure spend, and how do you capture that, is the question?

Alan Giddins: Yes. And then it was two to four deals. So I think, you know, well, that utilities map is a good one because you can see exactly where the white space is and it's obvious where we should go. We clearly want to go Southeast, we've got a big population shift down there so, if we could get anything down there and you want to go marginally West. So you can see exactly where the white space is, it's then about unlocking the opportunities and, you know, they're not scientific, the timelines aren't but, as long as you know exactly where you're going and people look at you as a very credible buyer, you will get in the door. Whether you can unlock the deal, time will tell. Could we do more than two to four deals? We could potentially do it; I think the key in M&A is most mistakes happen in the first six months. So what you don't want to do is, sort of, do multiple deals all at the same time, try and integrate them, that's quite a dangerous thing to do. So could we, you know, aspire to do slightly more deals? Yes, I think it'd be dangerous to, sort of, say, 'Well, surely you can do six to eight deals, that is a good way not to make money.' But Hannah, over to you.

Hannah Nichols: Yes, so I think your question was around the engineered solutions growth split between, sort of, volume and price. So if you look at the 15% organic composite currency revenue growth that we delivered in 2023, it's, sort of, broadly split, 10% volume and 5% price. And as we're, sort of, looking forward into 2024, when we look at all of our US businesses, we see that they're, sort of, facing into good growth market so we'd expect to continue to progress, albeit noting that FY23 is clearly quite a strong comparator in that respect.

Joe Spooner, HSBC: Can you just give a sense of the materiality of the one-off costs that was absorbed into the Roads & Security division? Presumably they drop out, which is part of the kind of, bridge to improve margins that I think you talked about for the year ahead. Secondly, on Enduro, I think you mentioned that there was about a 300-basis point margin expansion there after you acquired it. Can you just give a little colour around how you achieved that? What kind of drove that margin under expansion?

Hannah Nichols: So, where we talk about the one-offs in roads and security, so the three component parts to that, as I, sort of, articulated, the first one is in our operational improvement costs. In our US business and that's a couple of million. And then we've got some one-off charges associated with our UK businesses. So, one of those is a provision that we've made with regards to the rectification of some installation challenges associated with one of our product lines and that's, sort of, a couple of million, as we've said. Then we've just got a final piece, which is around some provision that we've taken with regards to the contracts in various systems that retain our responsibility. Yes, which we've now solved.

Alan Giddins: Alright, so, Enduro, I think it is a combination of three factors. So, it is sales, but I would say that's the smallest impact because actually if any, as at the 1st of January brought Enduro into the whole CCG sales machine. So, only from the 1st of January were we actually cross-selling across all our businesses. It's principally mix, and then there are some purchasing synergies, particularly on the resin side.

Tom Rands, Davy. Three questions if I may. The first one is on National Signal. You talked about a slowdown in Q4, I was just wondering how that has progressed through January and February, thinking of the recent Ashtead kind of, wobble. Is that still a key customer? How fast is the customer base broadening out for that product in the US?

Alan Giddins: Okay. So, you're absolutely right, Sunbelt is the key customer; Heark was the other major customer when we bought the business, so we saw very strong orders from Sunbelt last year. That has slowed into the back end of last year and the start of this year. Now, we have a very good relationship with Sunbelt. I think their commitment to the product is very strong but, you know, I think we will see slightly slower orders at the start of this year. What we were doing anyway, but maybe it's slightly accelerated, we have moved from no sales reps to 31 sales reps in the US and in February. Sunbelt, albeit off lower orders, were 30% of our sales, historically, it was 85%; so, that doesn't mean we have, you know, cracked a whole reign but we have started to get some sales orders into other rental groups, which, historically, it wasn't that Mark wouldn't, we didn't have the capacity to do it. So, Sunbelt, definitely slower orders, but in a funny way, it, sort of, accelerated what we wanted to do in terms of really broadening the customer base of the business.

Tom Rands, Davy: Great, thank you. The second question was just on Galvanizing margin outlook for '24, and how much of a drag Korns' lower margin, although. I know you mentioned it progressed through '23, but how much of that was a drag on the year-over-year delta in '23? And it's, kind of, a guide for ' 24?

Hannah Nichols: Yes. So, actually, if you look at Galvanising margins H2 on H2, actually, they're very similar levels. So I don't think we view Korns as a drag given that we've now, sort of, seen the volumes come through on that. So, in terms of, FY24, I think we'd view the similar margin profile to FY23. As you're aware, the margin is really a blend of the US and the UK margins, with the US being the higher of the two businesses.

Tom Rands, Davy: Okay, thank you. And then the final one, as you're closing in on your 15% operating margin target, what sort of discussions have the board had? And can you give a guide as to timings as to when maybe that 15% may be increased?

Alan Giddins: I think we might think about that once we deliver it. So, give us this year to prove we can deliver it, which is what we set out to do when we set the targets at the start of last year, and then once we've done that, maybe we can debate it, but maybe not before.

David Farrell, Jefferies: Just to push on the Roads and Securities again. If I have bagged those provisions and one-offs, it, kind of, looks like you go back to 7% margins or there abouts. But what's the, kind of, medium-term outlook for that business?

Alan Giddins: So, I think you've got to split it into multiple pieces. So, you have got a national signal and prolectric business. And I think Hannah has noted that historical installation issue where we took a provision this year in prolectic. But fundamentally, I think that the solar market opportunity is good for both businesses. You have then got our core UK roads business superb market position, actually, it has traded pretty well, considering, actually, the amount of spend on the roads is, sort of, probably slightly at its nadir. But, you know, we have such a great market position, actually. Those guys have done pretty well. So, you then focus in on the US roads business, and I think my thesis there would be, you know, we said at the half year, we would show some, sort of, operational improvement in 2023. We probably wouldn't show great P&L improvement. Now, we're in 2024, so we've definitely got to show the P&L improvement and I think if you break roads down into three component parts: you've got the barrier business where we have improved rental utilisation, so the high fifties to low seventies last year, so that's a pretty good profitable business. We've then got the Attenuator business where we have got two sites and our gross margin on one of those sites is significantly lower than the other, so we've got to actually get-, that's an operational improvement piece. And the Trailer business is currently a loss-making business. We are manufacturing about 50 trailers a week and we need to be about 70 and part of that has been labour and process, which I think we're, sort of, almost there, and part as being supply chain. So, if you, sort of, take that narrative, it really is in our hat. We've now actually got to really deliver on that thesis, which I think we can do. I think we have got the right person leading that business and if you follow LinkedIn, we changed leadership of that business a few weeks ago. I was with Dibyava on Monday, you know, I think she is absolutely the right person to do it but we, sort of, just have to deliver financial improvements.

David Farrell, Jefferies: What does that mean in terms of margins? It could be, kind of, a high single-digit, low double-digit margin.

Alan Giddins: Over the medium to longer term, that's not where we're going to get to this year, but, you know, you've got to believe that as a medium-term thesis.

David Farrell, Jefferies: And then the second question, I think it always gets asked at these meetings. Chief Executive search, where have you got to with that?

Alan Giddins: So, essentially, what we said last May is I would continue doing the job for 12-18 months, and we would look at internal, external candidates. Clearly, we believe Hooman is a very strong internal candidate, and we promoted him to COO, see how that plays out. We obviously, you know, will continue to evaluate that. We will evaluate external candidates.

David Farrell, Jefferies: Do you have a formal start date when you, kind of, get resumes through the door?

Alan Giddins: No, honestly, I'm pretty confident we will meet that twelve to eighteen months when you won't have me sitting here. No, I'm sure there will be a better person than me. So, I think, you know, we're on that journey. We're not literally about to announce the answer to that.

Dom Convey, Numis: Just two if I may. Firstly, just the year-term outlook for India, to what extent you can sustain it? What sort of growth rate do you think is sustainable given those LNG comments? And secondly, just a broader question around the M&A activity as to whether you're seeing anyone else spot the opportunities that you have in the US and rolling out these relatively small private businesses. And I just wonder at what point you begin to see an opportunity to maybe more aggressively rationalise the footprint because it feels as though you're adding quite a few sites given the intended acquisition came to us last year.

Alan Giddins: So, India, I mean, if our whole business grew as fast as that we would be in a very good place. Truly, it had an unbelievable performance last year. It has got a very good guy running it in Jeetinder. We have expanded the capacity in the business. Hannah and I sat down with Jeetinder at the end of last year, really around, sort of, what is the art of the possible? I don't think India will be 20% of our business but, you know, very little of what we do goes into domestic markets. It's very international. It's playing into the LNG trend. So, for me, it's just absolutely making sure that we maximise the opportunity there. It's going to be an organic growth opportunity. We also increasingly use India to outsource some manufacturing for our UK and US businesses. So, having a, sort of, low-cost manufacture for certain component parts is actually quite attractive. So, I mean, I don't believe it can grow at the same pace it did last year but, I mean, clearly strong double-digit growth is eminently feasible. They've started the year well, you know. They are serving into those big, Japanese, South Korean, the big manufacturers in the LNG side, and there's probably an opportunity for us through that Indian business into the US market as well.

M&A opportunity, I mean, the private business, Capital Steel and FM, there was no competition. Greg knew Rob Hickman who ran Capital Steel for a long time. We didn't know Chad who owned FM, but we built a great relationship and the TPG guys, had done a very good job with that. I mean, the last conversation I had with Chad around, sort of, just why was he selling it to us? These guys, they wanted a sensible price but, for him, it was generally about his employees, so, he genuinely wanted a good owner for the business. A fair price for the business. It's the combination of the two rather than, you know, someone has told me it's worth nine times and that's what I want, I don't really care who I'm selling to. So, I think, you know, inevitably as a result, buying this has taken quite a long time because you need them to really trust you. You clearly need to trust them when they're, sort of, entrepreneurial leaders. So, yes, I think it's more the challenge is the competition is someone not selling rather than, you know, we're turning up and four other people have been there before us. Now, you know, we've just looked at a business in composites in the US slightly bigger, north of $50 million. The opening bid to, sort of, even participate is 12x EBIT. So, suddenly, now that would be a pretty neat business for us, but if it's starting at 12, I mean, where could that end up? So, you know, it's not we wouldn't do a, sort of, $50 million - $60 million pound deal. The price is very, very high. You've got loads of private equity in those deals. We just really shouldn't be playing in them and rationalising the footprint, I don't think the footprint in the US is unusually large, to be honest. If you look at utilities, we've got four sites. We've got nine galvanising sites, you know. In composites, we have three or four sites. I don't think it's a, sort of, unruly footprint and the key is, as we saw with Capital Steel, those New Jersey utilities buy through Capital Steel. One because of service, great relationship because that is where they're based. So, it's not a case of, sort of, rationalising it into one super site but, Hannah, would you agree with that?

Hannah Nichols: Yes, I would agree.

Dom Convey, Numis: So, sorry, how many composite sites now?

Hannah Nichols: Four, I think we've got four, Dom. Just counting them out.

Harry Philips, Peel Hunt: Just a couple of things. I may be overthinking it, but you're mentioning mix quite a lot, particularly mentioning solutions. Mix has a habit sometimes of being a bit more volatile. So, it's just, sort of, is mix going to be an issue going forward we'd need to be, sort of, particularly aware of? Or I'm just being overly sensitive towards it.

Alan Giddins: I think mix is all about where you focus your sales effort. And if you believe you've got a sort of, particular technology or ability to deliver, you can lean into higher margin end products.

Hannah Nichols: And I think we talk about mix in the context of portfolio mix where you've got the fast-growing US businesses. And, indeed, they have within the businesses, they're also seeing mix benefits. So, there are two layers of it that you need to think about.

Harry Philips, Peel Hunt: And then just secondly, sorry to go back to the balance sheet, but if you put $70 million in for M&A this year and you've got the sort of numbers that are out there, your leverage is still going to be way below 1. And you've just mentioned to Dom for the sort of, 12x sum for the larger acquisitions. With that broader capital allocation, you're chucking off cash, which is great, you've got a great M&A pipeline that is, sort of, going extraordinarily well, but you're still going to end with this, sort of, you know, unpleasant position of choices, if you like, around, you know, additional capital allocation around buyback or not I suppose.

Alan Giddins: Yes, before I think we'll even debate, we can also generate quite a lot of value through organic investment in our facilities and, honestly, I think Shareholders get better value if can deliver a consistent 22% return on capital. That is a much better use of our capital than, you know, anything else. Yes, David.

David Farrell, Jefferies: Sorry, a quick follow-up. US Galvanising volumes up 80%. I think last time we spoke, you were talking about 60% capacity utilisation, 80% being the sweet spot. If we get a couple of years at that kind of, growth, when do we get to 80%, and are you, therefore, going to leave volumes on the table because added demand is stronger than that?

Alan Giddins: No, I don't think so. I think there's quite a long way to go and these guys are very skilled at moving stuff between sites as well. So, yes, I promise you I think we're a long way off ever being capacity constained in those galvanising plants.

Rob Chantry, Berenberg: Yes, sorry, there's one follow-up linked to David & Harry's various questions on the US scales. The cost of a greenfield, obviously it went up massively during COVID and was pushing you more toward M&A for adding galv capacity, how is that dynamic looking today? Has it changed?

Alan Giddins: Well, it's, sort of, two things. One, the cost of building came down significantly. The second thing is what the guys have proved, particularly through New York, is their ability to ramp up more quickly and get to an acceptable return on capital more quickly is, sort of, evidenced. So, where we are at the moment, sort of, yes, eighteen months ago, you know, the curve looked too flat, and the cost looked too high. Both have probably changed. They haven't, like, changed so dramatically to make it clear, you still need a pretty thoughtful decision. It's got to absolutely be in the right location but, you know, yes, we are more actively debating that with the guys than we were eighteen months ago.

Rob Chantry, Berenberg: Yes, well, how much is the galvanising plant of a standard capacity cost?

Hannah Nichols: How much is a new one today? So, the New York galv plant that we last built cost about $15 million dollars. The quotes that we received, last year were almost double that. As we've said, we're seeing those costs start to come down. And clearly, we need to get that, right balance between the cost and the returns for it to become a commercially viable attraction. But we are starting to see some of those build costs ease a little bit compared to last year.

Alan Giddins: Okay, let's call that a conclusion and thank you very much everyone for coming along.

Hannah Nichols: Thank you very much.