

# 2015 Preliminary Results

9 March 2016

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Group Chief Executive  
Group Finance Director



Hill & Smith Holdings PLC

# Key messages

## ➤ **Another good year**

- Record revenue & profitability
- Organic revenue growth 4%
- Underlying operating margin 12.0%, up 120bps

## ➤ **Strategic actions driving growth and returns**

- Four acquisitions completed in 2015; one since the year end
- Pipe Supports restructuring announced

## ➤ **Positive outlook**

**Proposed final dividend 13.6p, up 17%**

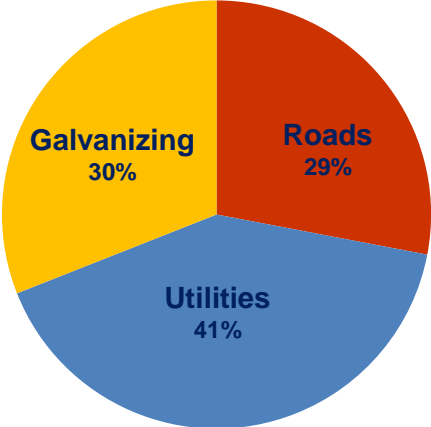
# Results summary

	2015	+/-	2014	
				FX impact: - Revenue -ve £0.5m - Underlying operating profit +ve £0.9m
Revenue (£m)	467.5	↑ 3%	454.7	Organic growth 4%
Underlying operating profit* (£m)	56.0	↑ 14%	49.2	Organic growth 10%
Underlying operating margin* (%)	12.0	↑ 120bps	10.8	Strategic investment and portfolio management driving returns
Underlying PBT* (£m)	53.0	↑ 15%	46.0	
Underlying EPS* (p)	51.7	↑ 15%	45.0	Interest and tax broadly neutral
Dividend (p)	20.7	↑ 15%	18.0	Progressive dividend policy maintained

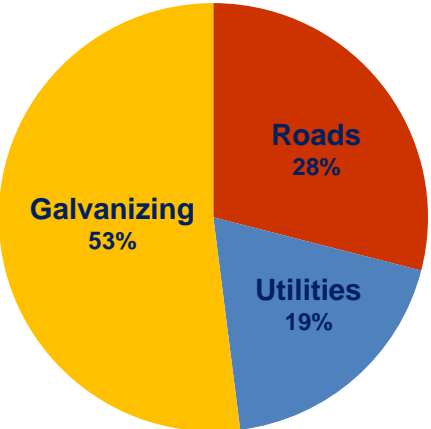
\*All underlying profit measures exclude certain non-operational items as detailed in the Appendices

# Segment and geographical analysis

**Revenue: £467.5m**  
By segment

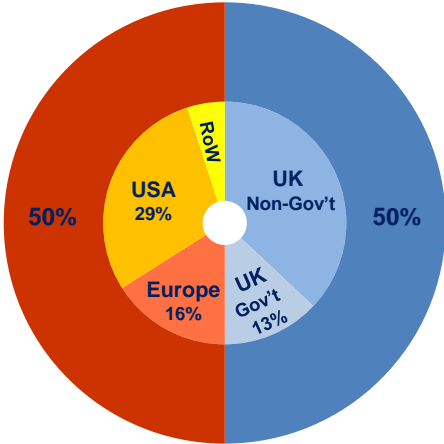


**Underlying Operating Profit: £56.0m**  
By segment

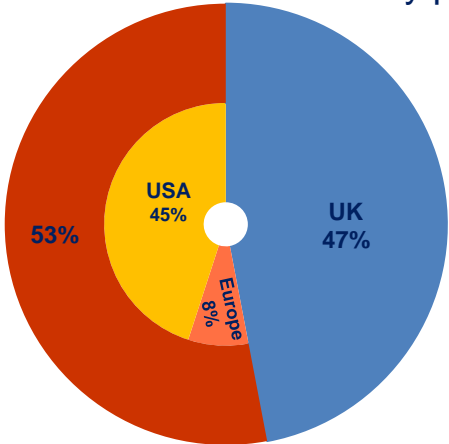


A well balanced business:  
products,  
markets &  
geographies

**Revenue: £467.5m**  
By end market geography



**Underlying Operating Profit: £56.0m**  
By plant location

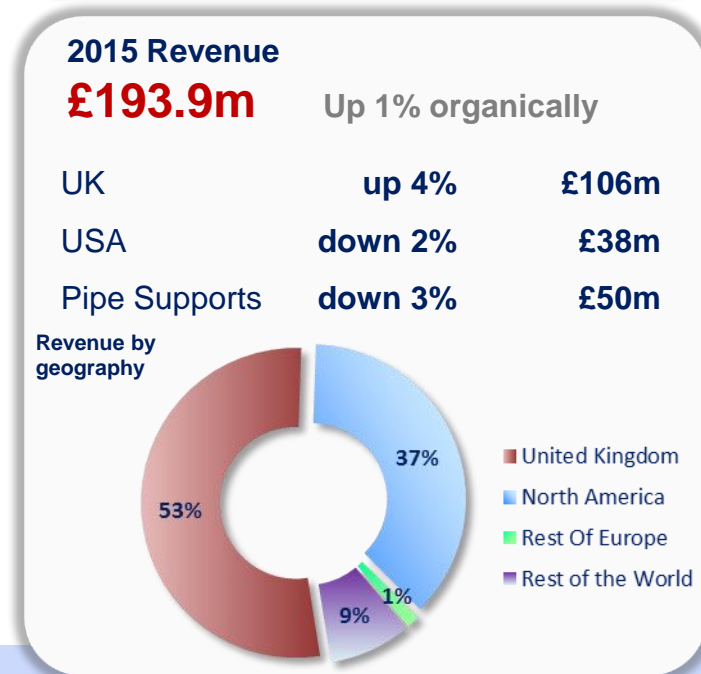


# Utilities

	2015	2014	Organic Growth
Revenue (£m)	193.9	195.2	1%
Operating profit (£m)	10.5	9.2	4%
Operating margin	5.4%	4.7%	70bps

- Organic growth
  - UK infrastructure spend strong
  - Improved performance in US substation business
  - Pipe Supports underperformance masks overall progress
- Portfolio management
  - Novia and Bowater Doors acquired during the year
  - Prior year non-core disposals increase returns
- Non-US Pipe Supports
  - Proposed restructuring programme announced
  - UK/Thai closure; transfer to India

£m	Revenue	Operating Profit
2014	195.2	9.2
F/X	5.0	0.4
Acquisitions	1.4	0.2
Disposals	(9.5)	0.3
Organic	1.8	0.4
2015	193.9	10.5



# Roads

	2015	2014	Organic Growth
Revenue (£m)	131.6	127.7	3%
Operating profit (£m)	16.0	13.3	19%
Operating margin	12.2%	10.4%	180bps

➤ UK (75% of revenue)

- Road Investment Strategy progressing after short delay
- VMS acquisition successfully integrated
- Strong order backlog
- Acquisition of Tegrel, vertically integrating VMS supply chain

➤ International (25% of revenue)

- Revenues down but profit maintained
- Scandinavia strong despite currency headwinds
- Outlook improving in India/Australia

£m	Revenue	Operating Profit
2014	127.7	13.3
F/X	(4.2)	(0.1)
Acquisitions	4.8	0.3
Organic	3.3	2.5
2015	131.6	16.0



# Galvanizing

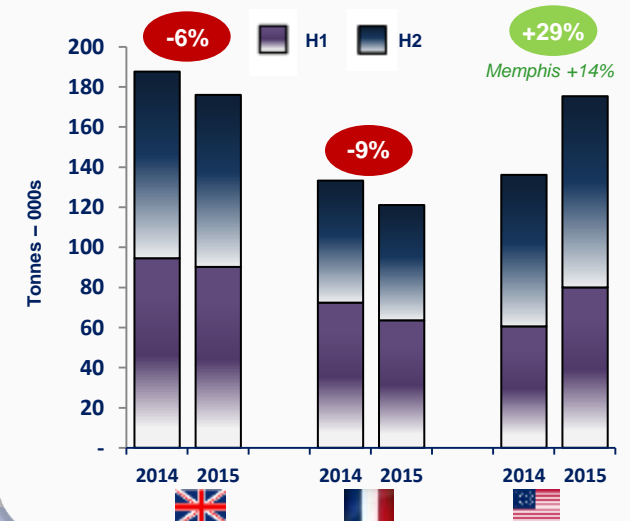
	2015	2014	Organic Growth
Revenue (£m)	142.0	131.8	8%
Operating profit (£m)	29.5	26.7	7%
Operating margin	20.8%	20.3%	50bps

- UK
  - Profits up despite volume reduction; rationalised cost base
  - Premier acquired Nov 15; improved geographical spread
- France
  - Economic conditions remain difficult
  - Flexed cost base; all plants profitable
- USA
  - Strong organic growth; record profitability
  - Memphis profitable H2, sound customer base
  - Bridge/highway and alternative energy sectors strong; Federal government infrastructure investment outlook positive

£m	Revenue	Operating Profit
2014	131.8	26.7
F/X	(1.3)	0.6
Acquisitions	0.7	0.2
Organic	10.8	2.0
2015	142.0	29.5

## 2015 Tonnes Galvanized

**472,400 tonnes** Up 3.5%



# Foreign exchange sensitivities

	2015	2014	Change
Average rates			
Euro	<b>1.38</b>	1.24	(11%)
US\$	<b>1.53</b>	1.65	7%
Closing rates			
Euro	<b>1.36</b>	1.28	(6%)
US\$	<b>1.48</b>	1.56	5%

Ready reckoner for translation impact of movement in FX rates

Sensitivity to +/- 1 cent move in:	Revenue	Operating profit
Euro	+/- £0.4m	+/- £35k
US\$	+/- £0.9m	+/- £180k

Impact on FY 2014:	Revenue	-ve £0.5m
	Operating profit	+ve £0.9m or 2%

Impact on FY 2015:*	Revenue	+ve £18.2m or 4%
	Operating profit	+ve £3.2m or 6%

\* Compares impact on 2015 results of using exchange rates at 3 March 2016 (£1 = \$1.39 and £1 = €1.27) versus average exchange rates for 2015



# Free cash flow and net debt

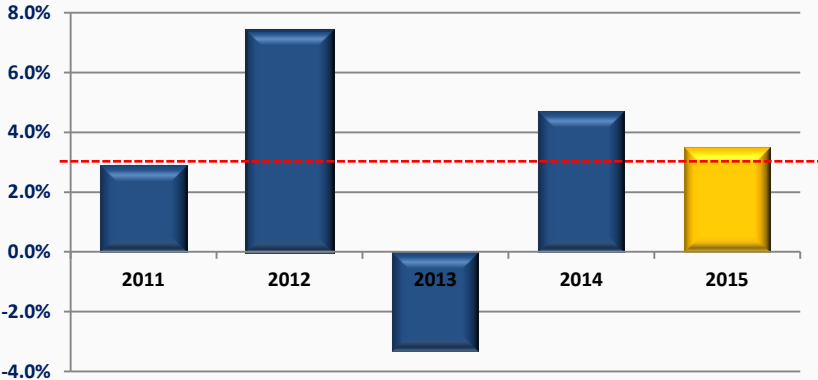
£m	2015	2014
Underlying Operating Profit	56.0	49.2
Depreciation and amortisation	16.4	15.1
<b>Underlying EBITDA</b>	<b>72.4</b>	<b>64.3</b>
Other non-cash items	0.8	1.3
Working capital	(2.5)	(5.5)
Capital expenditure (net)	(14.8)	(35.2)
<b>Underlying operating cash flow</b>	<b>55.9</b>	<b>24.9</b>
Restructuring spend	(0.5)	(0.6)
Provisions/Pension	(3.1)	(5.7)
Interest paid (net)	(3.0)	(3.2)
Tax paid	(12.6)	(9.3)
<b>Statutory free cash flow</b>	<b>36.7</b>	<b>6.1</b>
Dividends	(14.1)	(12.4)
Acquisitions/disposals	(17.6)	0.2
Share issues/other (net)	(0.1)	(2.4)
<b>Net cash flow</b>	<b>4.9</b>	<b>(8.5)</b>

- Underlying cash conversion 100%; 7-year average +90%
- Capex 0.9 times depreciation/amortisation
  - UK galvanizing expansion £1.6m
  - Memphis completion £1.4m
  - 2016 guidance c.£20m (1.2 times)
- Pension £2.5m (2014: £2.5m)
  - Ongoing £2.3m until 2020
- Cash tax rate of 24% (effective P&L rate 23.8%)
  - Prior year benefitted from US capital allowances
- Acquisitions £16.6m (plus £1m costs):
  - Premier £15m
  - Novia/Tegrel/Bowater Doors £1.6m
- Net debt: EBITDA 1.2 times (2014: 1.5 times)

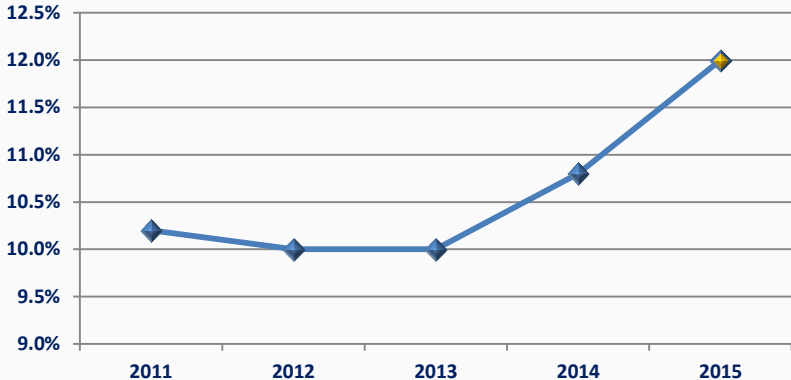
£m	2015	2014
Net debt	91.5	96.0

# Strategic KPI's

**Organic revenue growth**



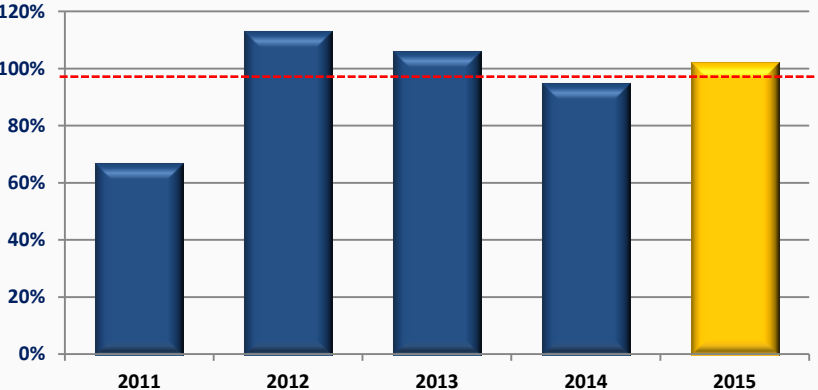
**Return on sales**



**Driving Returns**

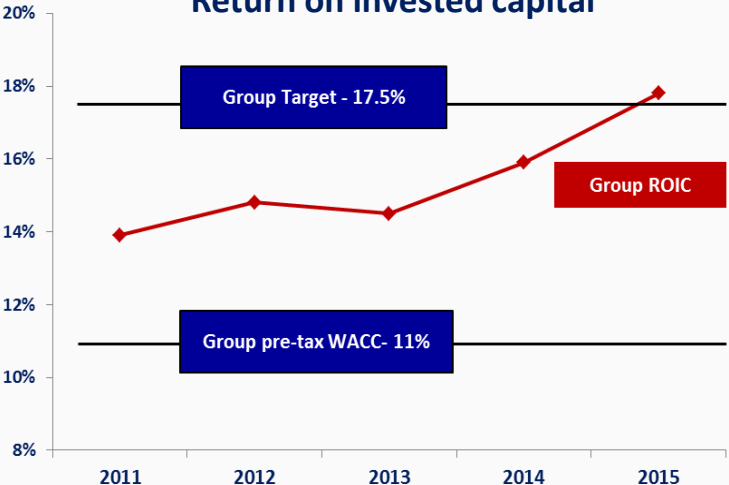
----- 5-Yr Average

**Underlying cash conversion \***



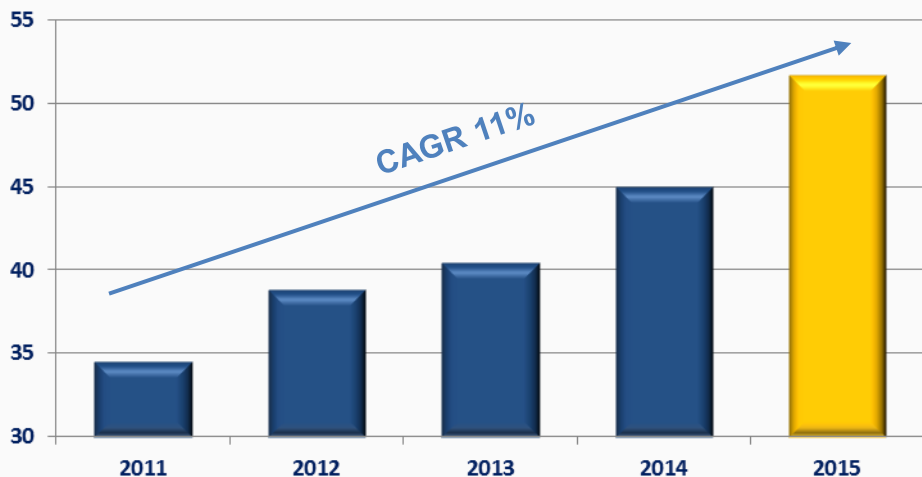
\*excluding strategic capex

**Return on invested capital**



# Earnings and Dividend

Earnings per share (p)

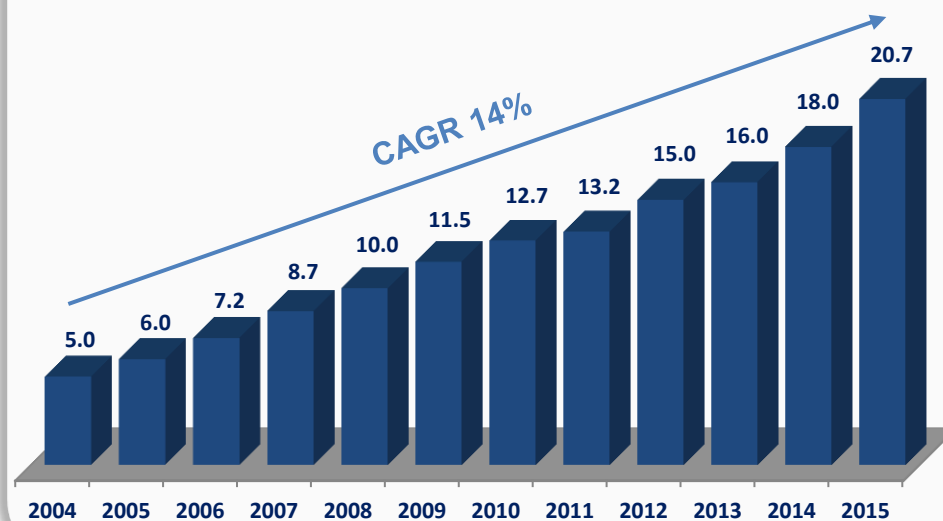


Dividend (p)

	2015	2014	
Interim dividend per share	7.1p	6.4p	↑ 10.9%
Final dividend per share	13.6p	11.6p	↑ 17.2%
Total dividend per share	20.7p	18.0p	↑ 15.0%

## Dividend

- 13 successive years of dividend growth
- Central to strategy and TSR ethos
- UEPS increase of 15% - dividend up 15%
- Target cover ratio c.2.5 times



# Strategy and Outlook

Derek Muir

# Business Model and Strategy

## 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

**Shaping the Group for Growth**

# Key Opportunities for Growth



UK & US driving >90% of profits

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



Temporary Safety Barrier

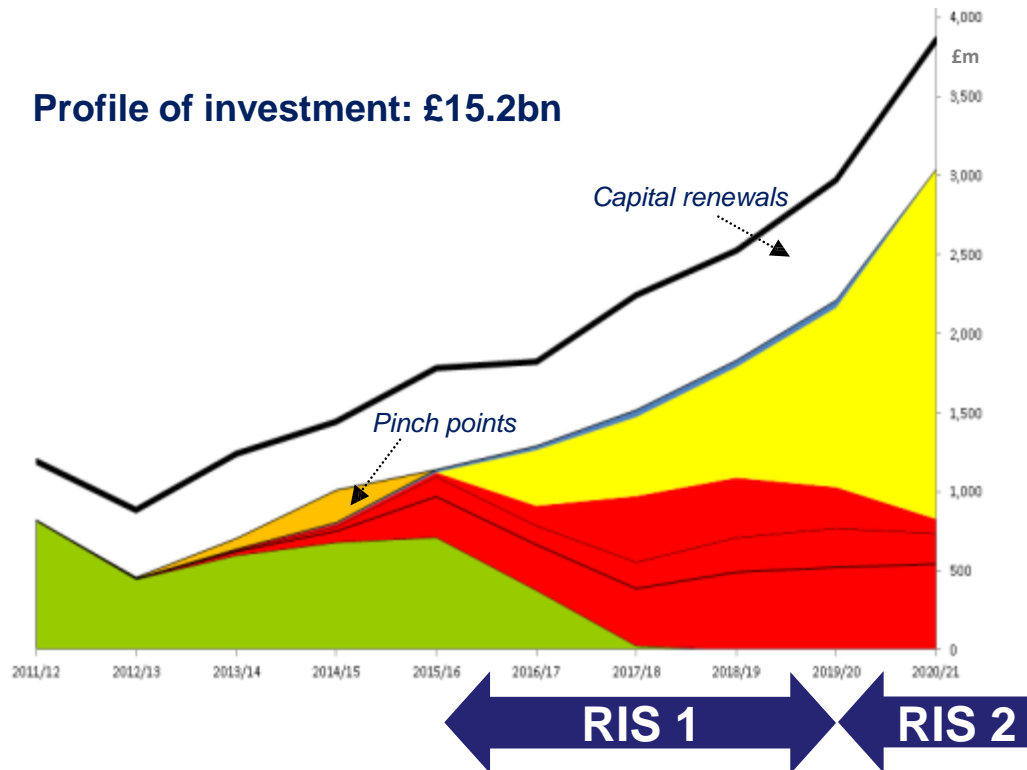
Crash Cushions

Permanent Safety Barrier

Variable Message Signs

Taper Signs

## Profile of investment: £15.2bn



- 10 SMART Motorway schemes announced for 2016/2017
- 3 projects currently under construction
- Major project on A14 scheduled to start in 2016
- Product innovation - roadworks taper signs
- Strong demand for bridge parapets and variable message signs from Transport Scotland



# UK Infrastructure Spending

## ➤ Government's National Infrastructure Plan 2014-2021: £466bn of public and private investment



**WATER**

- AMP5 £22bn
- AMP6 £44bn



**RAIL**

- CP5 £38bn
- Crossrail £6bn
- HS2 £50bn



**ENERGY**

- Renewables
- Energy from Waste



**HOUSING**

- Housing

Security Fencing  
Plastic Pipe  
Flooring/Handrails  
Security Covers  
Galvanizing

Security Fencing / Covers  
Plastic Pipe  
Flooring/Handrails  
GRP Platforms  
Galvanizing  
Noise Barriers  
Rail Signals / Lighting  
High Containment Parapets

Security Fencing  
Plastic Pipe  
Flooring/Handrails  
Security Covers  
Galvanizing  
Pipe Supports

Building Products  
Plasterers' Accessories  
Plastic Pipe  
Lintels  
Residential Doors  
Galvanizing  
Lighting



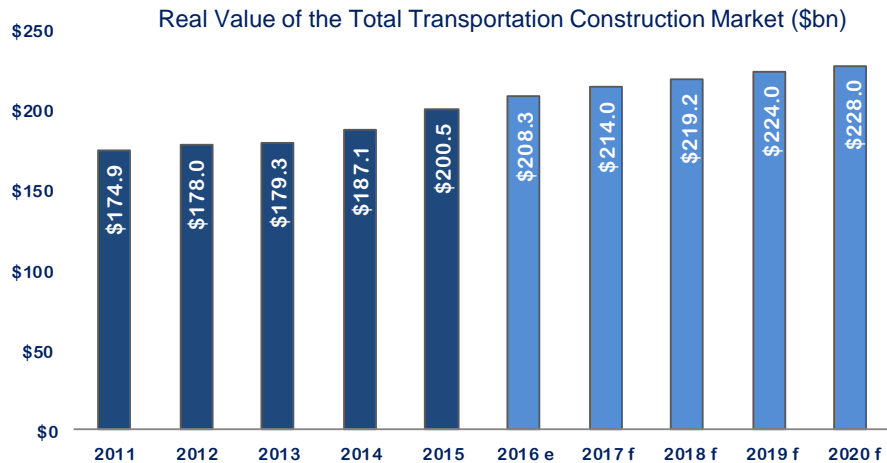


# USA Galvanizing Market Opportunities

## Highway Spending

### Fixing America's Surface Transportation (FAST) Act

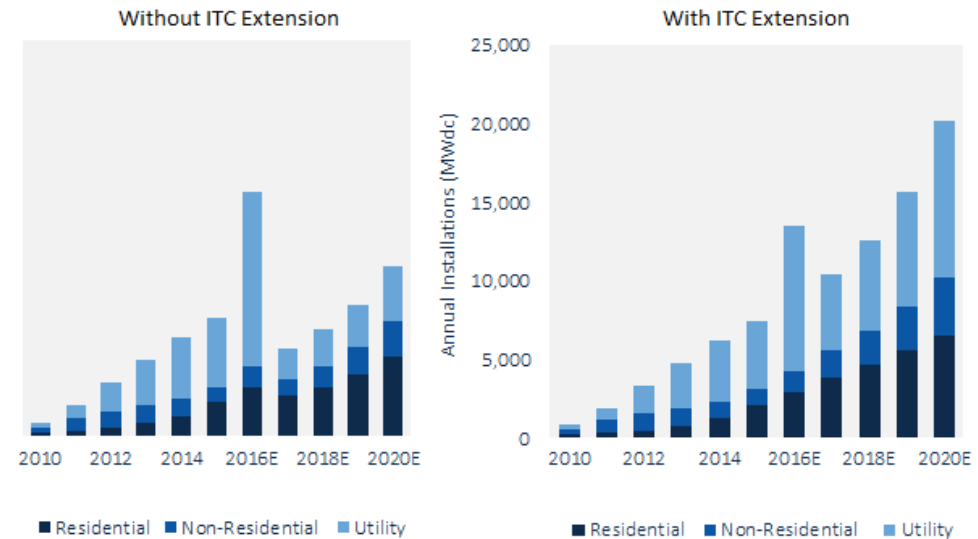
- \$305bn over five years to 2020
- First long term bill for 10 years
- Federal funds provide 52% of annual State DOT capital outlays for highway and bridge projects
- Total highway construction funding >\$200bn/year
- Large replacement bridge programme in NE USA



Source: The 2016 U.S. Transportation Construction Market Forecast

## Solar

- Solar credit was due to expire end 2016
- Five year extension to Solar Investment Tax Credit (ITC)
- 25 Gigawatts of additional capacity to 2020
- Utility sector key - ITC will increase 73%
- Utility Sector largest user of galvanized frames



Source: GTM Research

# Overseas Acquisitions

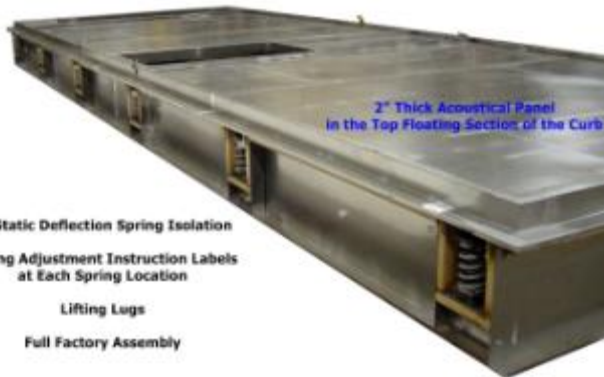
- Acquisition cost: \$3.0m
- Revenue: \$3.5m



- Manufacturer of Vibration Isolation, Seismic Restraints, Roof Curbs, Rails and Beams



- Based in Salem, New Hampshire
- Integrated into Carpenter & Paterson



- 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



# UK Acquisitions

- Acquisition cost: £0.3m
- Revenue: £2.0m



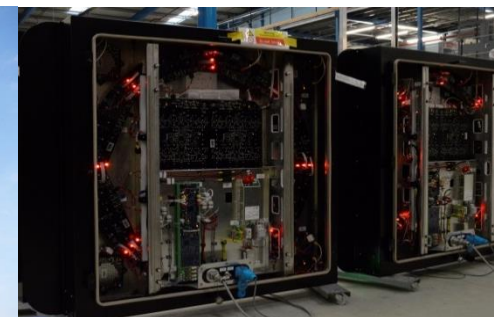
- Offers the widest range of high performance composite doors for the commercial and public sectors
- Integrated into Birtley Group to complement existing range
- Increases door production by 7,500 p.a. (+25%)



- Acquisition cost: Minimal
- Revenue: £2.6m



- Supplier of bespoke metal fabrications for specialist enclosures, control panels and cabinets
- Key supplier to VMS
- Based in Tyne & Wear; integrated into VMS





# UK Acquisitions



Acquisition cost: £15m

Revenue: £8.3m

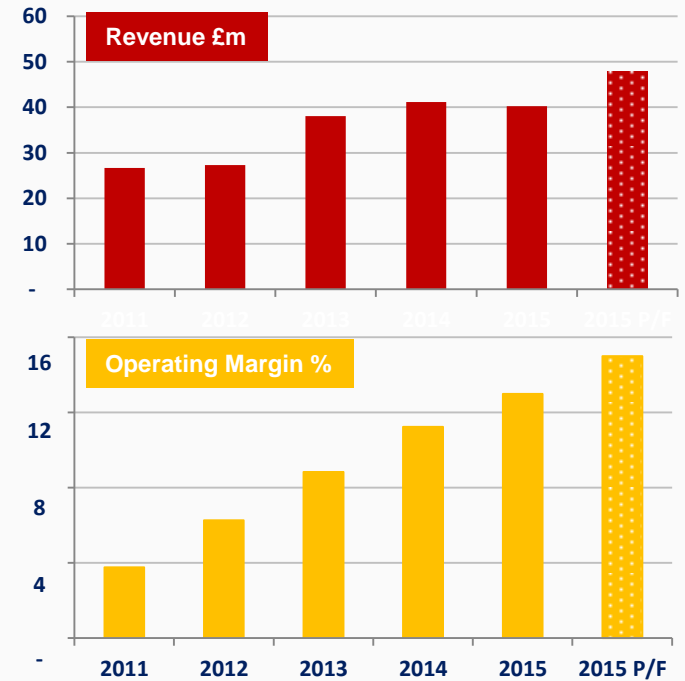
EBITDA: £2.5m



**Hull, East Yorkshire**  
 Bath Size: 7m x 1.2m x 3.2m  
 10,000 tonnes p.a.

**Corby, Northamptonshire**  
 Bath Size: 7.6m x 1.4m x 3.2m  
 10,400 tonnes p.a.

## 5-Yr Improvement in UK Galvanizing



Note: 2015 P/F – includes annualised Premier result



# Outlook

## UTILITIES

- US/UK infrastructure investment strong
- Pipe Supports restructuring will deliver improved profitability and returns

## ROADS

- Second year of UK Road Investment Strategy - progressing well
- Strong order backlog driving organic revenue growth

## GALVANIZING

- France remains challenging
- Momentum continuing in USA

## OVERALL

- Positive outlook in major end markets

**“...2016 is again expected to be a year of good progress.”**

# Appendices

# Business Segments

**hs** INFRASTRUCTURE

**hs** GALVANIZING

**hs** UTILITIES

**hs** ROADS

USA

FRANCE

UK



# Segment analysis

£m	2015	Organic	M&A	FX	2014
<b>Utilities</b>					
Revenue	<b>193.9</b>	1.8	(8.1)	5.0	195.2
Underlying operating profit	<b>10.5</b>	0.4	0.5	0.4	9.2
<i>Margin</i>	<b>5.4%</b>				4.7%
<b>Roads</b>					
Revenue	<b>131.6</b>	3.3	4.8	(4.2)	127.7
Underlying operating profit	<b>16.0</b>	2.5	0.3	(0.1)	13.3
<i>Margin</i>	<b>12.2%</b>				10.4%
<b>Galvanizing</b>					
Revenue	<b>142.0</b>	10.8	0.7	(1.3)	131.8
Underlying operating profit	<b>29.5</b>	2.0	0.2	0.6	26.7
<i>Margin</i>	<b>20.8%</b>				20.3%
<b>Group</b>					
Revenue	<b>467.5</b>	15.9	(2.6)	(0.5)	454.7
Underlying operating profit	<b>56.0</b>	4.9	1.0	0.9	49.2
<i>Margin</i>	<b>12.0%</b>				10.8%



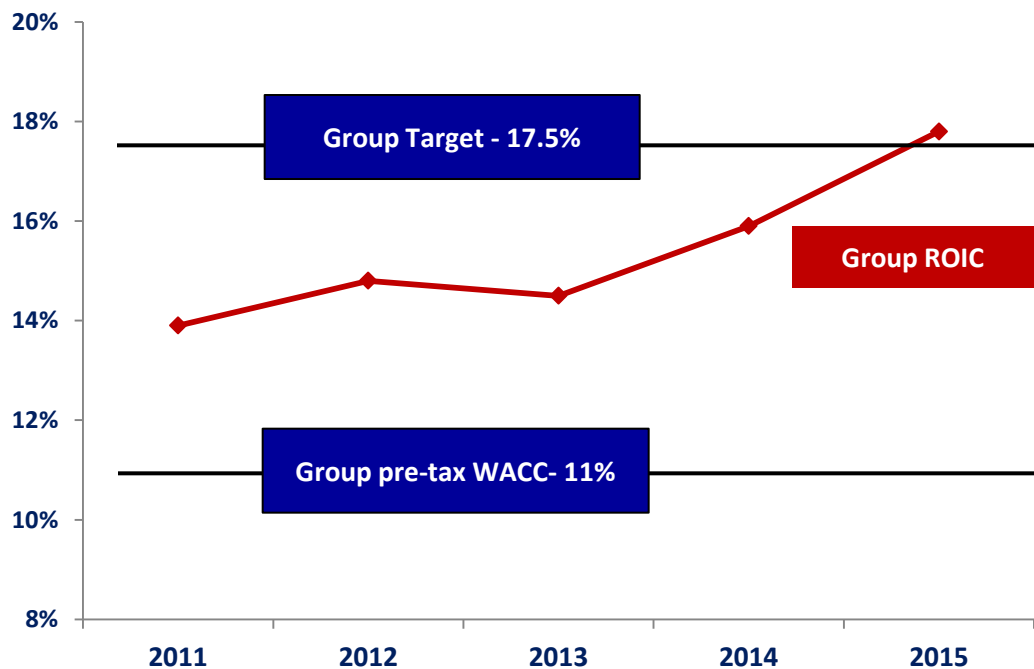
# Non-underlying items

£m	2015	2014
<b>Operating items</b>		
Business reorganisation costs	(0.3)	(2.6)
Acquisition costs	(1.0)	(0.1)
Amortisation of acquisition intangibles	(1.6)	(2.1)
Impairment of acquisition intangibles	(15.7)	-
(Loss)/Profit on property sales	(0.1)	0.4
Loss on disposal of subsidiaries	-	(3.7)
	<b>(18.7)</b>	<b>(8.1)</b>
<b>Financing costs</b>		
Net pension interest	(0.7)	(0.7)
Refinancing expense amortisation	(0.4)	(0.3)
	<b>(19.8)</b>	<b>(9.1)</b>
Cash in year	(1.1)	0.2
Future cash	-	(1.5)
Non cash	(18.7)	(7.8)
	<b>(19.8)</b>	<b>(9.1)</b>

Impairment of Paterson Group acquired intangibles reflecting subdued performance

# Return on Invested Capital

ROIC%  
before tax



Group	2015	2014
Operating Profit (£m)	56.0	49.2
Av. Invested Capital (£m)	314.8	308.8
ROIC %	17.8	15.9

Divisional (%)	2015	2014
Utilities	13.0	10.6
Roads	22.1	18.8
Infrastructure Products	17.4	14.3
Galvanizing	18.2	17.6

# Margin

	Margin		Target Range %
	2015 %	2014 %	
<b>Infrastructure Products</b>	<b>8.1</b>	7.0	8 – 11
- Utilities	<b>5.4</b>	4.7	7 – 11
- Roads	<b>12.2</b>	10.4	9 – 13
<b>Galvanizing Services</b>	<b>20.8</b>	20.3	18 – 21
<b>Group</b>	<b>12.0</b>	10.8	10 – 13

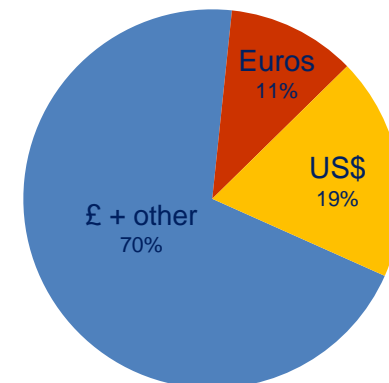
- Roads and Galvanizing within range
- Utilities improving (margin ex Bergen Pipe Supports c.9% i.e. within range)

# Availability and usage of debt facilities

£m	Net Debt	Facility
Committed	104.4	215.4
On demand	-	10.2
Cash	(12.9)	-
	<b>91.5</b>	<b>225.6</b>

Maturity		
On demand	2015 to 2016	2017 to 2019
10.2	0.6	214.8

Net Debt by Currency



- Facilities provide significant headroom
  - Net debt : EBITDA 1.2 times (covenant 3 times); Interest cover 25 times (covenant 4 times)
  - Principal RCF committed to April 2019
- Target net debt : EBITDA range between 1.5 to 2.0 times