

# ***Preliminary Results***

***Year ended 31 May 2022***

Wednesday 27 July 2022



***Hargreaves***



# Agenda

01

**Hargreaves Strategic Value Proposition – Gordon Banham, Chief Executive**

02

**Financial Review – John Samuel, Group Finance Director**

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**Operating Review**

- ✓ **Services – Gordon Banham, Chief Executive**
- ✓ **Hargreaves Land – David Anderson, Group Property Director**
- ✓ **HRMS – Gordon Banham, Chief Executive**

04

**Outlook– Gordon Banham, Chief Executive**



**Hargreaves**

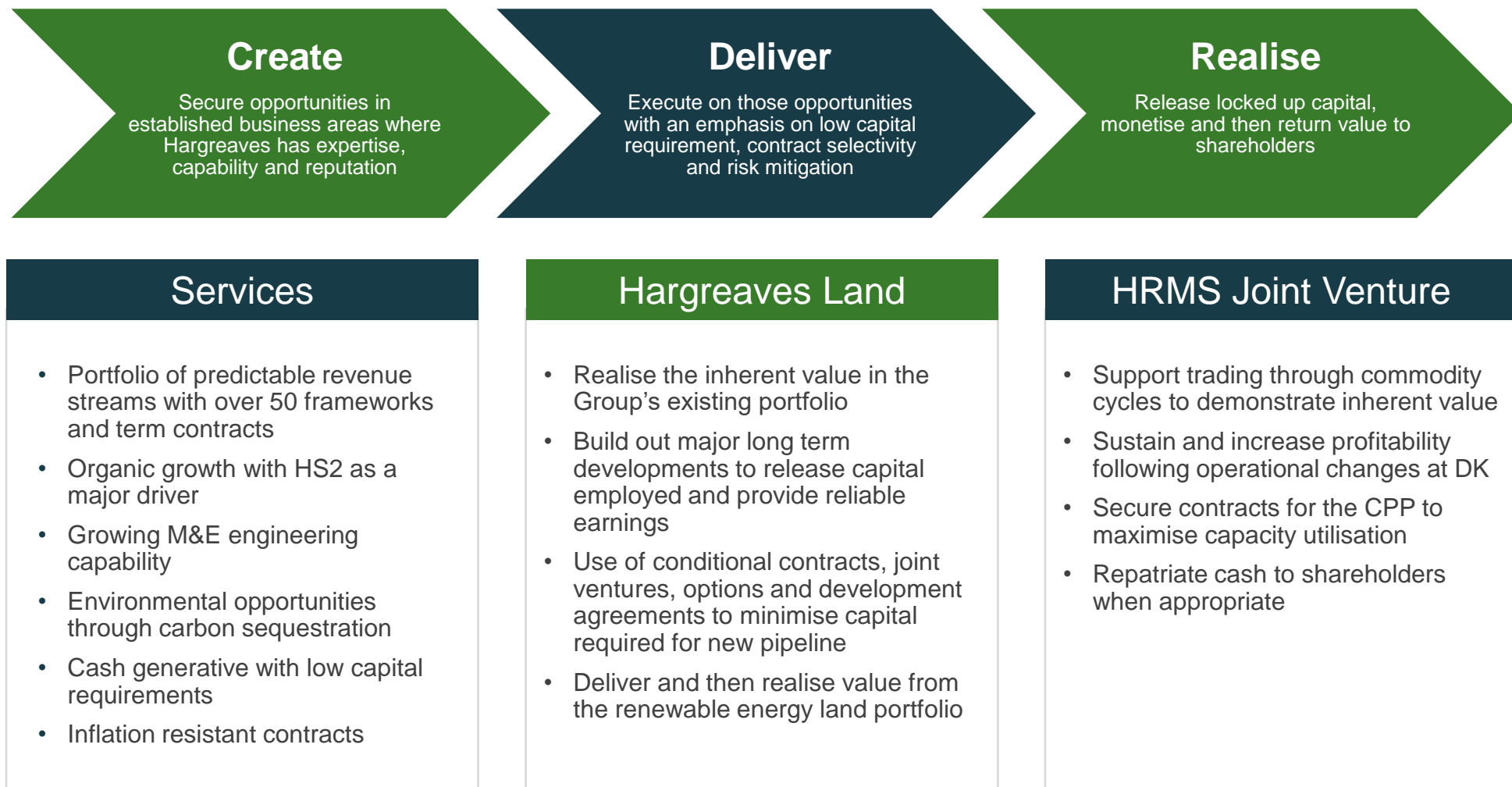


# ***Strategic Value Proposition***

Gordon Banham  
Chief Executive



# Hargreaves Services plc - Strategic Value Proposition



# Hargreaves Services plc – FY22 Results Overview

## Services

- Major earthmoving contract on HS2 commenced in earnest during the year and is progressing well;
- Appointed to two major mechanical engineering contracts associated with HS2, with a combined value of over £18m

## Hargreaves Land

- Further sales completed at Blindwells with revenue of £10.3m and a further sale for 5.4 acres exchanged and expected to complete in FY23
- Lease signed with Brockwell for a 35-year lease at Westfield, generating index linked rent of £420k pa.

## HRMS

- Another very strong performance from HRMS, contributing £27.3m (2021: £13.6m) to group PBT
- Performance has been aided by strong commodity markets, in particular zinc and iron ore.
- Over €10m of sustainable cost reductions implemented at DK

## Group

- Full year dividend increased by 6.25%, including the additional 12p attributable to the repatriation of funds from HRMS
- The Group holds no borrowings, other than specific leasing debt and had cash of £13.8m at the year end.

Underlying Profit before  
Tax

**£32.7m**

(FY21: £21.2m)

Dividend per share

**20.4p**

(FY21: 19.2p)

Net asset value per share

**£5.63**

(FY21: £4.47)

Cash in hand

**£13.8m**

(FY21: £28.3m)





# ***Financial Review***

John Samuel  
Group Finance Director



# Financial Review – Income Statement

Services – Revenue, PBT and margin improved due to HS2 contract mobilisation

Land – PBT reduction due to early completion in FY21

HRMS – very strong trading due to commodities and DK cost reduction

Exceptional items - £2m deferred consideration on Brockwell and £1.8m 2015 accrual write back

Tax – balancing allowance following cessation of mining in FY21

## Year ended 31 May

	Margin	2022 £m	Margin	2021 £m	
Revenue – Services		162.8		137.2	+19%
Revenue – Coal sales FY21		-		55.8	n/a
Revenue – Hargreaves Land		15.1		11.8	+28%
Group Revenue		177.9		204.8	
Underlying PBT - Services	4.7%	7.6	2.6%	5.1	+45%
Underlying PBT – Hargreaves Land		2.1		6.3	-65%
Underlying PBT – HRMS		27.3		13.6	+101%
Underlying PBT – Corporate Costs & Interest		(4.3)		(3.8)	+11%
Underlying Profit before Tax*		32.7		21.2	+54%
Exceptional items & discontinued operations		3.8		(6.8)	
Tax		0.3		2.0	
Profit for the year		36.8		16.4	
Underlying EPS		103.4p		70.7p	+46%
Dividend Per Share		20.4p		19.2p	+6%
EBITDA		13.6		10.0	+36%

\*Underlying Profit before Tax is defined by the Board as Profit before Tax prior to exceptional items and impairment of intangible assets.

# Financial Review –Balance Sheet

Renewables £7.1m  
Other £3.7m

Including £24.8m for  
Blindwells

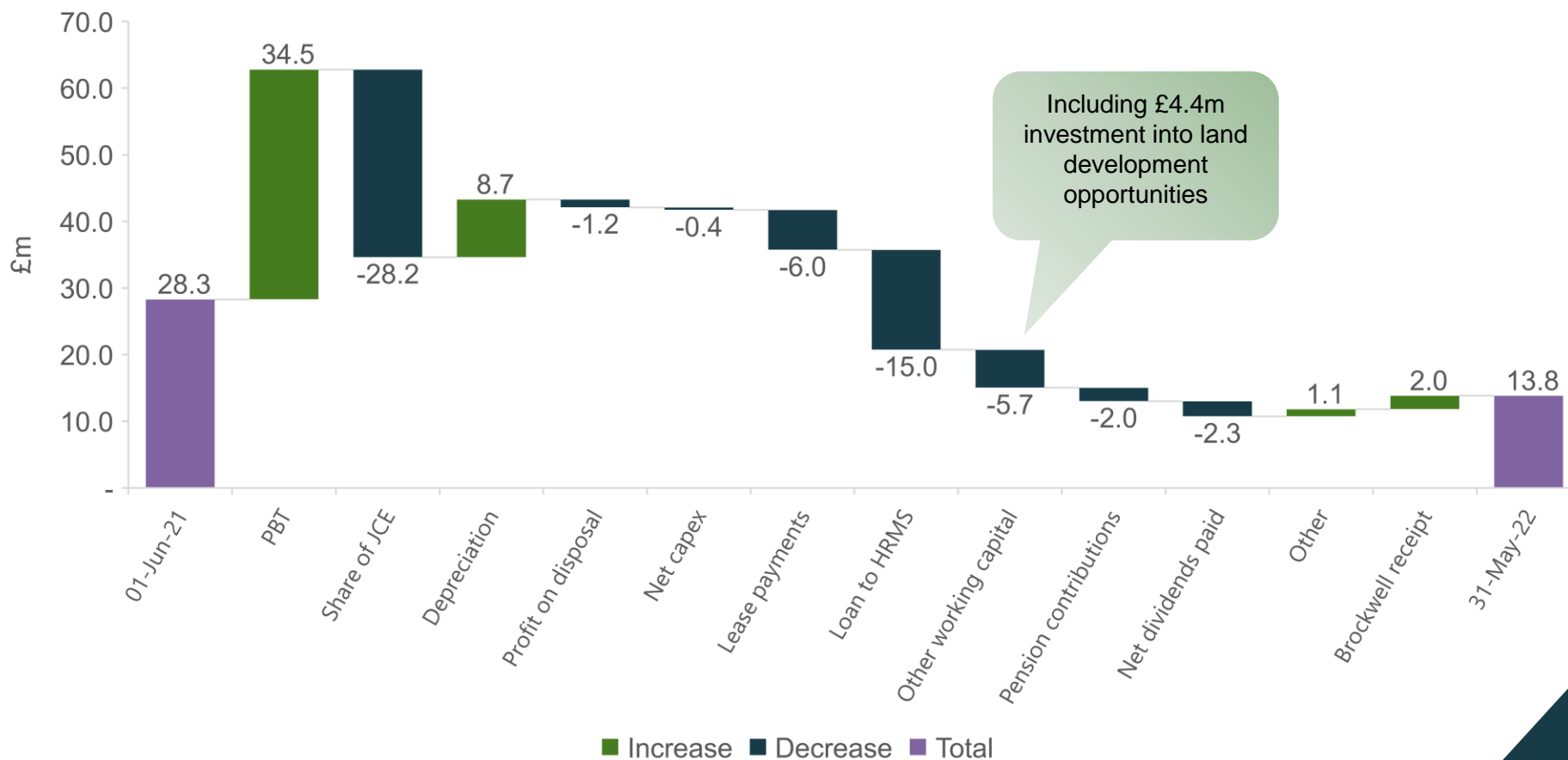
31 May 22	Services	Land	HRMS	Unallocated	May 22	May 21
Tangible FA's (incl ROU assets)	29.2	10.8	-	0.3	40.3	35.2
Goodwill	4.8	-	-	-	4.8	4.8
Investments in JCEs	-	4.8	53.6	-	58.4	31.2
Inventory	1.2	29.3	-	-	30.5	27.2
Other working capital	(7.9)	15.3	26.0	3.5	36.9	19.3
Finance lease debt	(18.2)	(0.2)	-	-	(18.4)	(11.8)
Pension scheme	-	-	-	7.7	7.7	-
Deferred tax asset	-	-	-	9.1	9.1	10.1
Net bank debt and cash	-	-	-	13.8	13.8	28.3
<b>Total Capital Employed</b>	<b>9.1</b>	<b>60.0</b>	<b>79.6</b>	<b>34.4</b>	<b>183.1</b>	<b>144.3</b>

31 May 21	Services	Land	HRMS	Unallocated	Total
<b>Total Capital Employed</b>	<b>13.3</b>	<b>52.9</b>	<b>38.9</b>	<b>39.2</b>	<b>144.3</b>

- ✓ **Increase in investments in JCEs reflects the profits generated by HRMS and the Unity JV**
- ✓ **Increase in capital employed in Hargreaves Land relates to investment at Blindwells and Westfield**
- ✓ **Other working capital increase in HRMS due to the additional £15m loan provided**
- ✓ **Pension scheme asset of £7.7m has increased due to contributions made and movements in actuarial assumptions**
- ✓ **Tax asset reflects the value of tax losses to be offset against future profits**



# Finance Review – Cash flow



# Finance Review – HRMS Summary consolidated financials

## Income statement

£'m	May 22	May 21
Revenue – HRMS trading	441.1	214.7
Revenue – HRMS CPP	4.1	2.2
Revenue - DK	146.4	104.4
Revenue	591.6	321.3
Expenses	(533.2)	(293.9)
Depreciation	(3.9)	(3.9)
Net interest	(2.1)	(2.3)
<b>Profit before Tax</b>	8.8% <b>52.4</b>	6.6% <b>21.2</b>
Tax	(19.9)	(4.9)
<b>Profit after Tax</b>	<b>32.5</b>	<b>16.3</b>
Hargreaves share at 86%	<b>27.3</b>	<b>14.0</b>

## Investment into inventory

Substantial inventory growth in HRMS, funded by profits made in the year and the additional £15m loan from Hargreaves.

## Total Group Exposure to HRMS:

£'m	May 22	May 21
Share of retained earnings	53.5	27.1
Total loans	26.8	11.8
€5m Guarantee	4.2	4.2
<b>Total exposure</b>	<b>84.5</b>	<b>43.1</b>

## Revenue Growth

Due to improvement in commodity pricing and increase in volumes traded

## Margin improvement

Aided by sustainable improvements within DK Recycling

## Balance sheet

£'m	May 22	May 21
Tangible fixed assets	51.7	48.6
Inventories	147.1	63.6
Borrowing base	(53.3)	(31.7)
Pension scheme	(15.3)	(19.8)
Other working capital	(21.7)	6.2
<b>Capital employed</b>	<b>108.5</b>	<b>66.9</b>
<i>Funded by:</i>		
Amounts owed to Hargreaves	(26.0)	(11.2)
Bank loans	(16.6)	(21.4)
<b>Equity</b>	<b>65.9</b>	<b>34.3</b>



## ***Operating Review - Services***

Gordon Banham  
Chief Executive



# Services – Resilience & quality

## Major Customers



### Frameworks & term contracts

**50+**

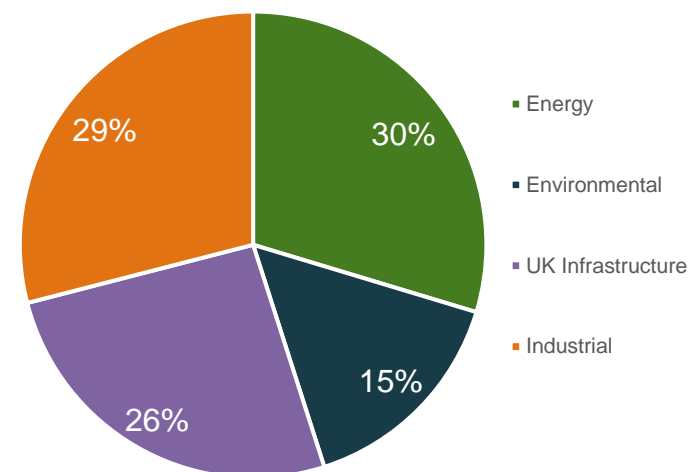
Secured orders at start of year

**c75%**

Typical operating margins

**5%+**

## Industry Sectors



### Revenue resilience

Services operates across 4 core market sectors, limiting the risk of over exposure to one particular market

### Credit exposure

No over reliance on a single customer, largest customer represents c10% of revenue

### Expansion of services

Post year end acquisition of SBU strengthens position in utilities markets

### Inflation resistant

Many contracts are cost plus a margin with built in inflation and escalation factors to protect margin



## ***Operating Review – Hargreaves Land***

David Anderson  
Group Property Director



# Hargreaves Land – What we do

**Multi Phase  
Master  
Developer**



**Bespoke  
Commercial  
Development**



**Strategic  
Land**



**Renewables**



## **Maximise and realise the value from a range of former mining property assets**

- Securing planning permissions
- Delivering serviced plots
- Direct development of commercial floor space



## **Secure new development opportunities**

- Development Agreements
- Conditional Contracts
- Options to Purchase



## **Strategic Land adding value through the planning process**

- Option Agreements
- Planning Promotion Agreements



## **Renewables Ground lease investments**

- Windfarms
- Access Agreements
- Solar
- Battery Storage
- Other



# Hargreaves Land – Key events

## Blindwells, Edinburgh

- 403 plot sales completed.
- A further 77 plot sales under contract.
- Another 331 plots now subject to agreed sale terms.
- A further 130 plots are now being marketed



## Unity, Doncaster

- £14m enabling works contract on programme to complete at the end of 2022
- Detailed planning permission granted for forward sold 191,000 sq ft logistics unit.
- First detailed residential planning application submitted



## Westfield, Fife

- £420,000 p.a. 50 year Energy from Waste ground lease in place.
- £7m infrastructure works contract on programme to complete by end 2022



# Hargreaves Land - Blindwells, Edinburgh



## Defined Plot Sales Programme Underway

FY21	Plot 1 & 2 - 14.7 acres (Bellway and Cruden)
FY22	Plot 3 – 12.9 acres (Persimmon)
FY23	Plot 5 & 11 – 24.9 acres (Ogilvie and tbc)
FY24	Plot 4 - 7.2 acres
FY25	Plot 6A – 8.9 acres
FY26	Plot 6B & 7 – 18.5 acres
FY27	Plot 8 – 20 acres
FY29	Plot 9 - 12.6 acres
FY30	Plot 10 – 14.6 acres
FY31	Plot 12 – 13 acres

Current sales value £900,000 to £950,000 per acre inclusive of affordable housing.

## Greater Blindwells

8,000 homes and 75 acres commercial uses on 1,000 acres.

Hargreaves Land share	25%
Planning Allocation	2026/27
Development commencements	2029/30
First occupations	2031/32





# Hargreaves Land - Unity, Doncaster – 50:50 Joint Venture

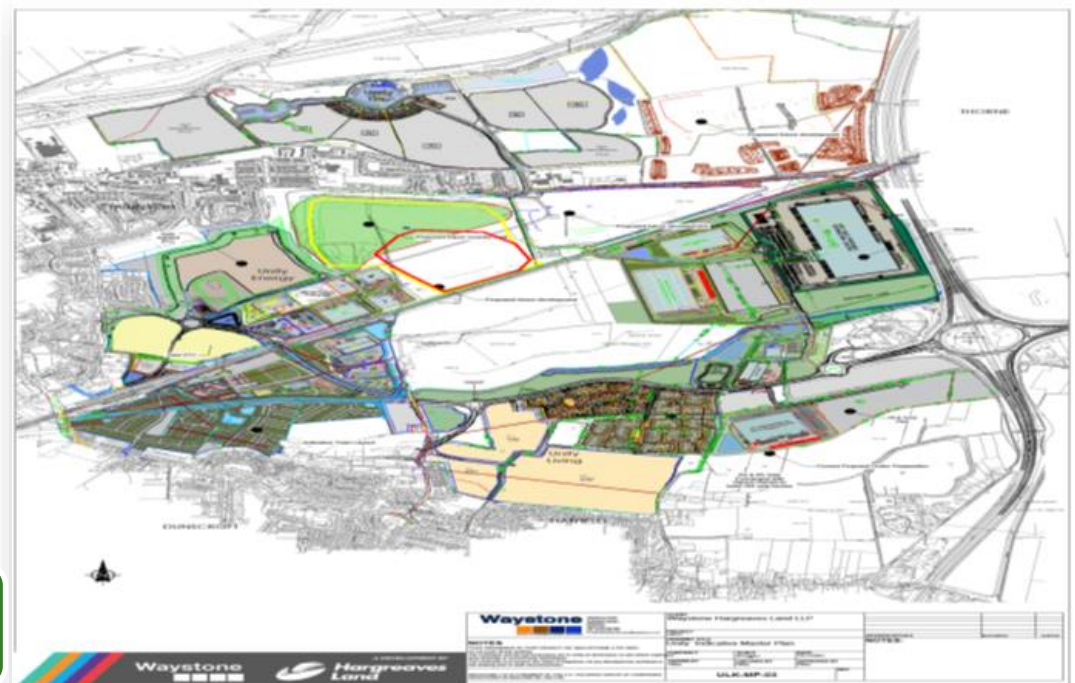


FY22	79 acres sales completed (100% commercial)
FY23	29 acres/566,000 sq ft contracted (100% commercial)
FY24	19 acres sales contracted (100% residential)
FY25	30 acres sales forecast (70% commercial)
FY26	17 acres (50% residential)
FY27	20 acres (65% residential)
FY28	14 acres (80% residential)
FY29	15 acres (80% residential)
FY30	15 acres (100% residential)
FY31	15 acres (100% residential)
FY32	15 acres (100% residential)
FY33	15 acres (100% residential)
FY34	15 acres (100% residential)
FY35	15 acres (100% residential)

Good forward visibility on both commercial and residential sales.

32 acres of phased residential sales and 566,000 sq ft of commercial floorspace on 29 acres contracted.

Majority of future commercial plot sales expected to be tied to turnkey developments to enhance returns.



Current average sales value for residential and commercial land is £450,000 - £500,000 per acre excluding development returns from direct commercial developments.

# Hargreaves Land – Development Pipeline and Outlook

## RESIDENTIAL

- 4,300 residential plots on with planning permission (GDV £220m)
- 780 plots contracted /agreed sales. (£37.5m sales value)
- A further 2,915 plots across 6 sites being promoted through the planning process. (GDV £209m)

## RETAIL

- 44,000 sq ft retail space completed/forward sold in FY22 (GDV £9.5m)
- 35,000 sq ft of new retail warehouse space subject to agreed terms (GDV £8m)
- 70,000 sq ft of new retail/leisure development opportunities now under contract (GDV £15m)

## INDUSTRIAL/LOGISTICS

- 220 acres (3.5m sq ft) of industrial/logistics space with planning permission.(GDV £450m)
- 560,000 sq ft (29 acres) of logistics space development forward sold (GDV £52m)
- 1.5m sq ft (150 acres ) being promoted through the planning process (GDV £180m)

## MARKET OUTLOOK

- Demand for consented residential land remains robust, reflecting the continued shortage of quality, deliverable residential opportunities
- There continues to be a shortage of available industrial and logistics in the areas we operate with healthy occupier demand
- Values in both the residential and commercial sectors within which we operate have kept pace with or exceeded cost inflation

## Renewables – Key events

- 3 Wind Farms, 7 Access Agreements and 1 EFW ground lease under contract
- Hargreaves Land is the land owner and is not involved in the direct development of the renewable assets
- All planning consents secured
- Long term Index linked Annuity Grade investment ground lease Income
- 35 year minimum term Energy from Waste ground lease now in place and the first wind farm leased and under construction
- Other Renewable leases forecast to be in place FY23 – FY25 with ground rents payable once individual projects become operational
- Further renewable ground lease opportunities progressing:
  - Wind farm extensions
  - New access agreements
  - Hydrogen hydrolizers
  - Battery storage
- Demand and activity within the renewables sector continues to strengthen with increasing investor appetite and a continued focus on de carbonising energy production.





# Hargreaves Land - Renewable Energy Portfolio Asset Delivery Programme\*



Nov 2021	Kennoxhead AA Ph 1 (70 MW)
July 2022	Dalquandy WF (43MW)
Sept 2023	Broken Cross WF (48 MW)
Feb 2024	Kennoxhead AA Ph 2 (42MW)
April 2024	North Kyle WF (39 MW)
May 2024	Cumberhead AA (50MW)
May 2024	Hagshaw Re-powering AA (54MW)
May 2024	Hagshaw Extension AA (30MW)
July 2024	Douglas West Extension AA (78MW)
Nov 2024	Cumberhead West AA (126MW)



\* Based on stated Grid connection dates.

Total of 580MWs represents more than 2% of the UK's total installed wind power capacity in 2021.



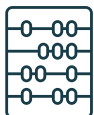
# Hargreaves Land - Renewable Energy Portfolio Asset Valuation



## Income Forecast Formula – EG Cumberhead

Hours in a year	8,760 Hours
X Installed Capacity (MW)	X 50 MW
X Strike Price (£/MWH)	X £45
X Utilisation (%)	X 30%
X Share of Income (%)	X 1%
= Annual Income	= £59,130
Lease Term	28 Years
Typical yield	4%

NB: This example has been prepared using the lowest figures for each variable.



## Variables

**Strike Price** - CfD auction, Spot Market Price or Power Purchase Agreements.  
Typically ranging between £45 to £95 per MWH.

**Utilisation** – Forecast wind speed/frequency, typically 30 – 35%.

**This windfarm asset portfolio offers the prospect of annuity rental streams, with current open market values for operational assets representing a running yield of 4% or better.**

**Confirmed Operators include**

**Orsted**

**BayWa**



**octopusenergy**

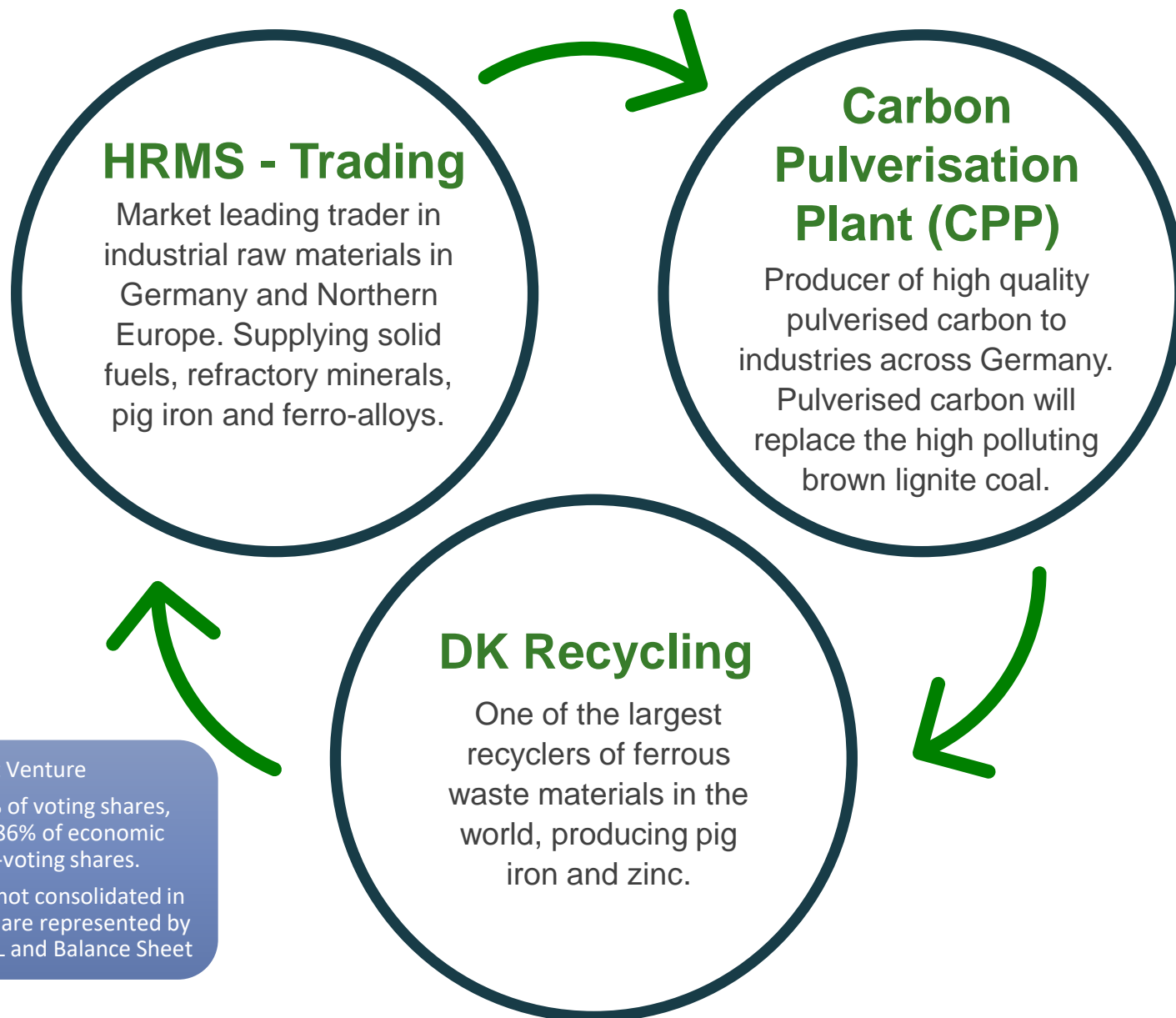


## **Operating Review – HRMS**

Gordon Banham  
Chief Executive



# Hargreaves Raw Materials GmbH – Joint Venture



## HRMS is a Joint Venture

Hargreaves owns 49.9% of voting shares, however is entitled to 86% of economic benefit through non-voting shares.

The results of HRMS are not consolidated in the Group accounts, they are represented by a single line item in the P&L and Balance Sheet



# Hargreaves Raw Materials GmbH - Trading



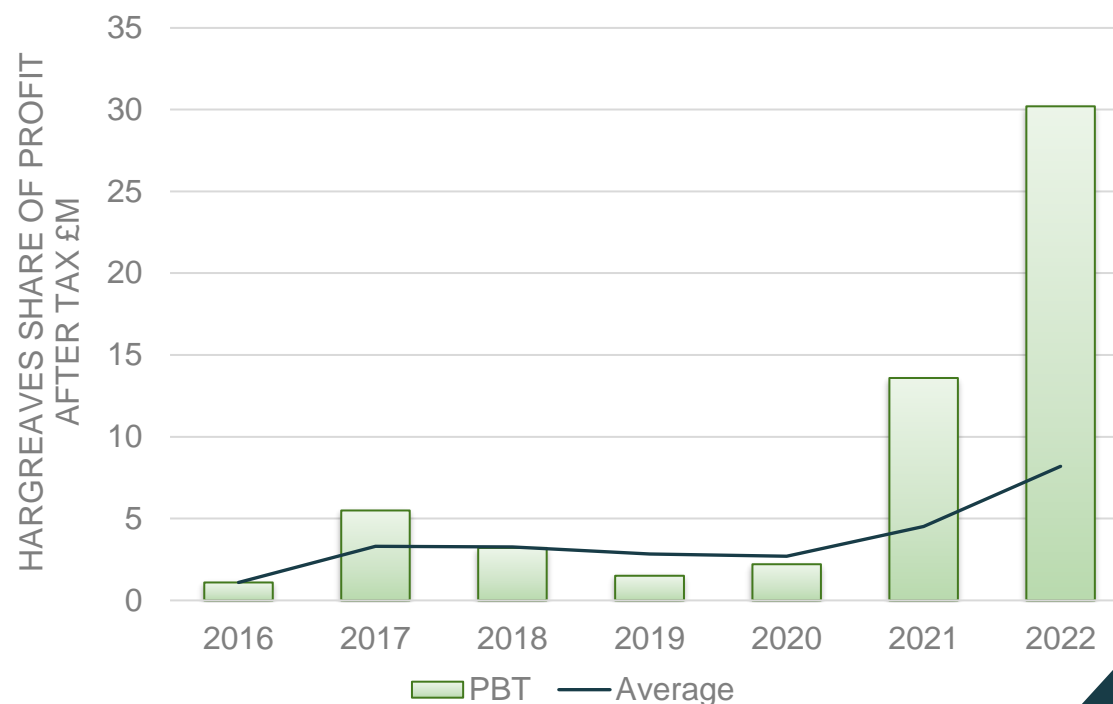
Profit has always been variable, as the appetite for risk within the trading team is limited. The trading team does not take principal positions on material.

Levels of profit achieved have been linked to the size of the addressable market.

In order to maintain profit at consistent levels, the team would need to increase their risk appetite related to the deals they enter into.

The acquisition of DK and the construction of the CPP has given the trading team greater synergies to increase the base level of volumes they can trade, and therefore improve the sustainable profit levels. Although the variability will remain due to their low risk appetite.

Historic performance of the Trading business



# Hargreaves Raw Materials GmbH - CPP



Total production capacity of 400,000t per annum



Product will displace the highly polluting brown lignite coal dust which is expected to be phased out by the German government;



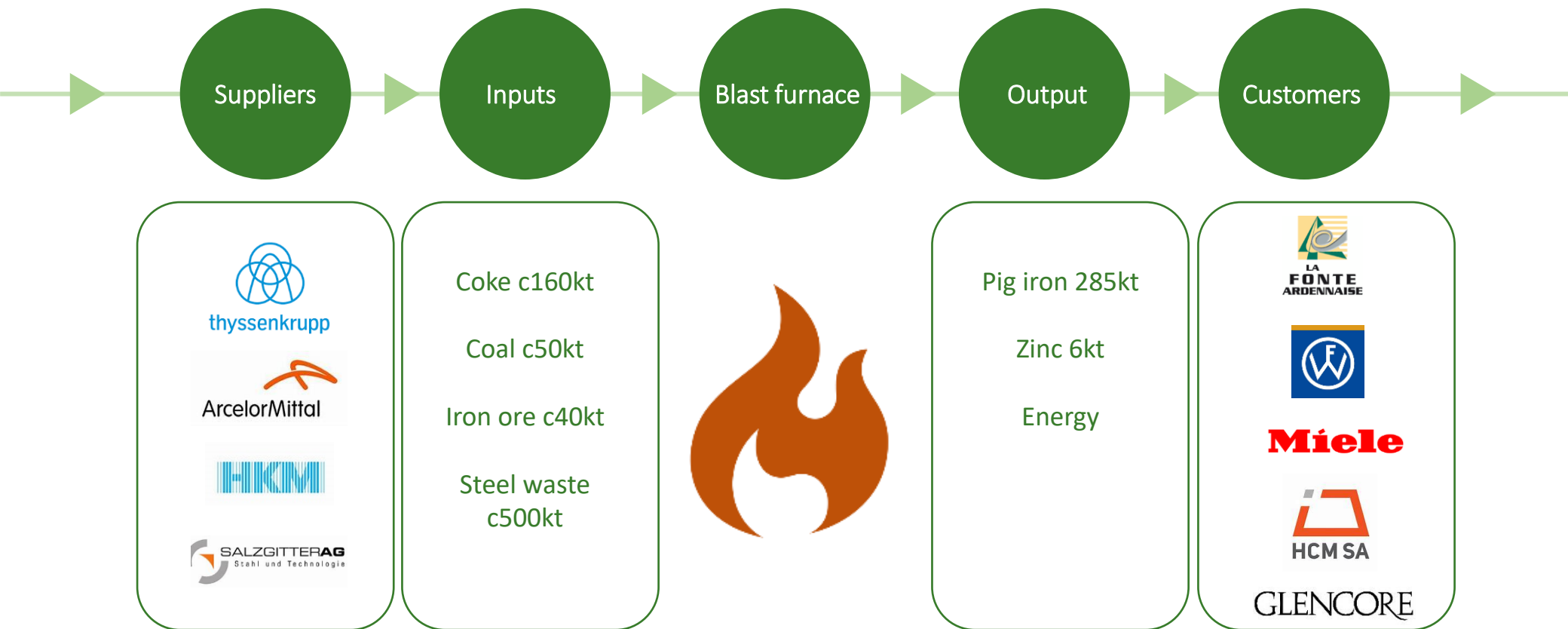
Accessible market is 2million tonnes



Currently producing 100kt, delivering a break even result. Energy to power process is derived from surplus DK energy production



# DK Recycling und Roheisen GmbH – Operating model

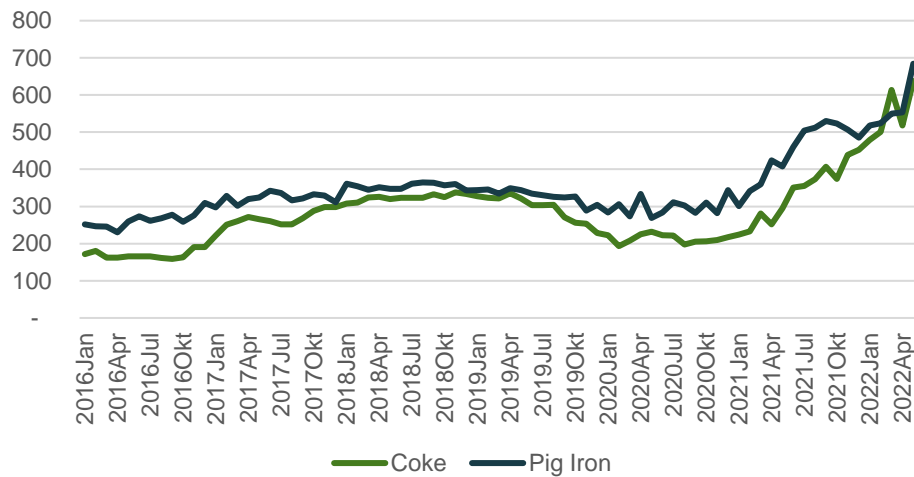


DK is a net energy generator with surplus output being sold back to the German grid.  
Energy from DK is used to power the CPP



## Pig Iron and Coke

Pig Iron v Coke



Pig Iron and Coke prices have historically been highly matched, with a 94% correlation coefficient.

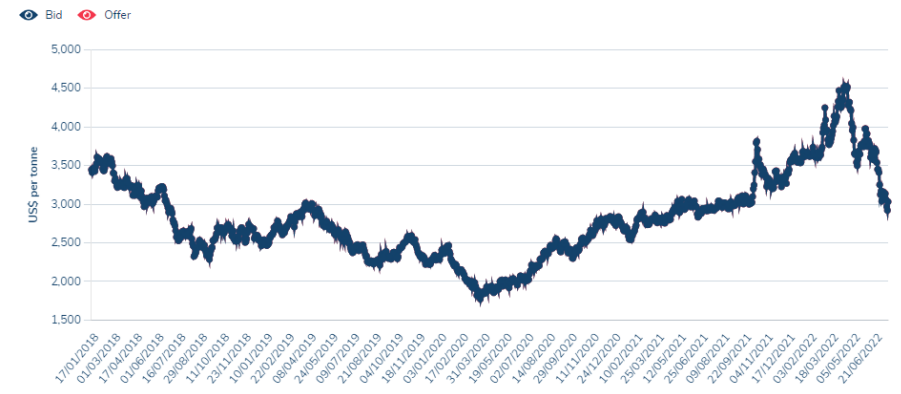
The spike in the sales price of pig iron and the cost of coke in recent months has been impacted by the conflict in Ukraine.

## Zinc

Zinc sales are 50% hedged at \$3,100 through to the end of May 2023, zinc prices have fluctuated over the last 24 months from \$2,000 to over \$4,500, with no associated increase in production costs for DK.








Chart below shows the zinc commodity levels over the last 5 years.

LME Zinc Official Prices curve



# DK - Sustainable improvements since acquisition



	Hot Topic	Risk	Mitigation/Opportunity
	Inflation	Increased overhead cost base cost c£100k per 1% increase	Some “cost plus” contracts (e.g. HS2), net margin increases, other “escalator contracts”
	Covid 19	Revenue slows and staff availability drops	Traded resiliently throughout the pandemic
	Interest rates	Increased finance costs	Bank debt free HP and leasing debt are fixed prices once contracted
	Energy costs – Group	Increased operating costs	Energy bill in the Group is c£750k p.a., impact is bearable
	Energy cost – HRMS	Increased operating costs Interruption of gas supply	DK is net energy generator and supplies energy for CPP operation Liquid gas investment planned
	Climate change – Group	No material risks identified	Carbon sequestration Renewable land portfolio
	Climate change – HRMS	Accelerated green agenda threatens closure of heavy industry markets more quickly	CPP benefits from cessation of brown lignite mining DK is a recycler of industrial waste



# Hargreaves Services plc – ESG



- ✓ ESG Group reports quarterly to the Audit & Risk Committee
- ✓ Standards and policies with metrics for Group wide adoption now agreed and published
- ✓ Gold accreditation to CSRA achieved



**All processes are owned by the business units to facilitate assessment and identification of opportunities**



# Hargreaves Services plc – Outlook



## Services

- Over 50 framework agreements in place, many with cost plus characteristics or escalation factor clauses to cover increases in fuel and other inflation impacted costs
- Strong visibility and good profit resilience
- Growth from HS2 as project gathers momentum

## Land

- Long term sustainable returns from both Blindwells and Unity
- Valuable 35 year lease at Westfield providing sustainable income
- Annuity grade wind farm assets start to yield return from 2024

## HRMS

- Trading business record demonstrates profits can be delivered even if commodity prices fall
- Sustainable profits now being delivered by DK Recycling
- Growth opportunities as the Carbon Pulverisation Plant gains further customer volumes

# Hargreaves Services plc – Investment Proposition





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