

Hargreaves Services plc

Year ended 31 May 2023

Wednesday 9 August 2023





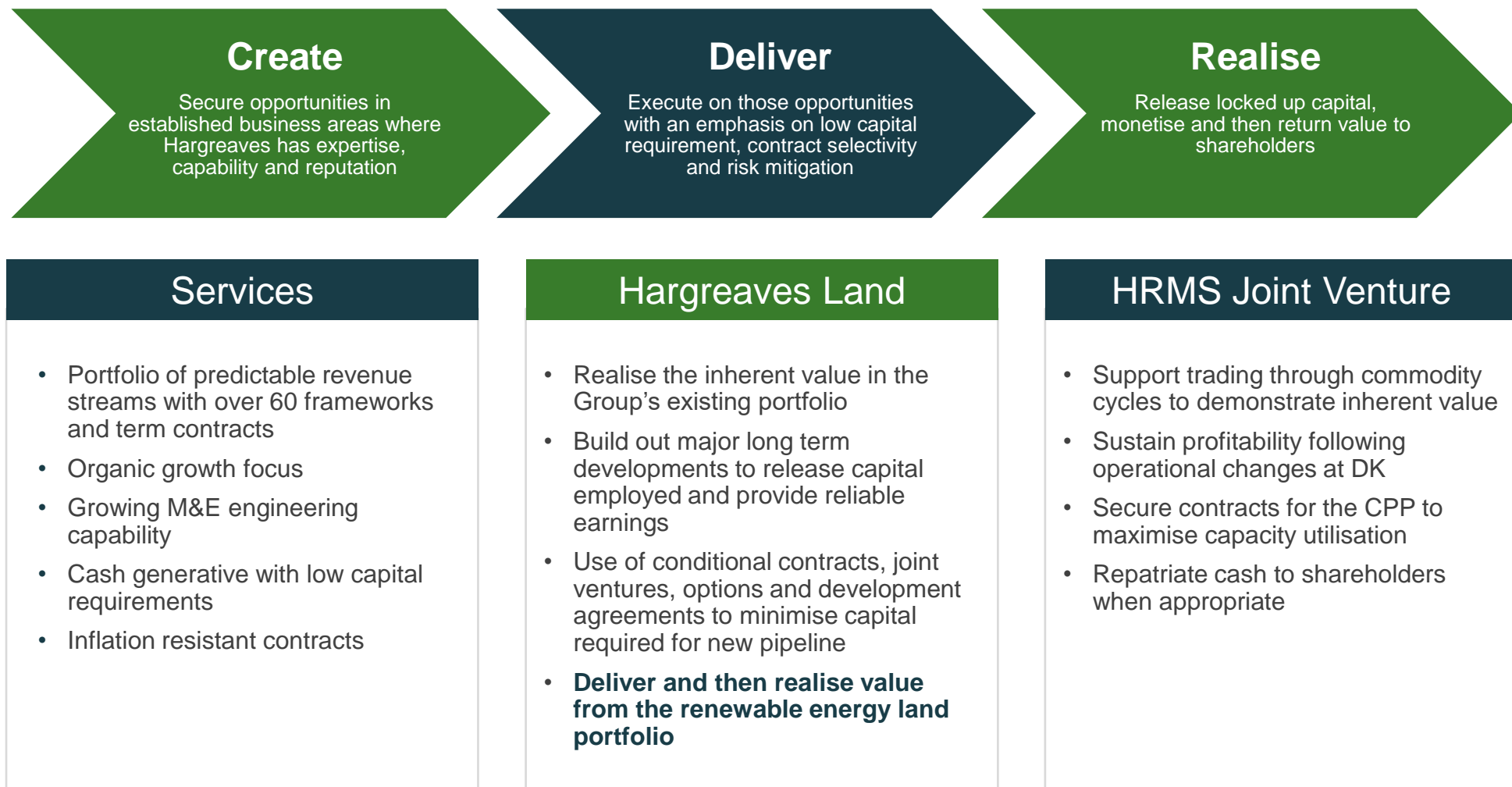
Strategic Value Proposition

Gordon Banham
Chief Executive



Installation of 5-leg conveyor on HS2

Hargreaves Services plc - Strategic Value Proposition

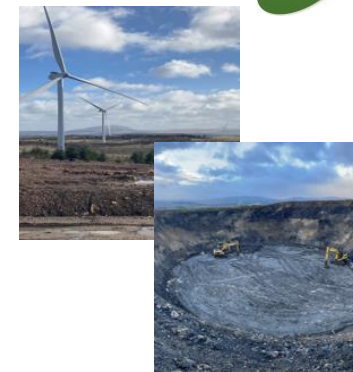


Renewables Valuation and Realisation Plan



Valuation undertaken by Jones Land LaSalle Limited covering ground rents on:

- 3 Wind Farms (125 MW);
- 6 Access Agreements (506 MW);
- 2 Battery Storage schemes (550-1050MW);



	Low Case	High Case
Market Value Today	£21.6m	£23.1m
Market Value at COD*	£27.2m	£28.9m
Book Value at 31 May 23	£6.6m	£6.6m

...Future Renewables

- 9 schemes under discussion
- 800 MW capacity
- Timescale 5+ years

Targeting sales over next 5 years, proceeds to be repatriated to shareholders

* Market Value at Commissioning of Development ("COD") will be achieved once all schemes are fully commissioned.

Hargreaves Services plc – FY23 Results Overview

Services

- 23% revenue growth driven by HS2 and M&E contracts;
- 21% underlying growth in UPBT from £7.6m to £9.2m
- £3.2m non-recurring profit recognised for asset realisations

Hargreaves Land

- Completion of the sale of 4.5 acres to Ogilvie Homes at Blindwells;
- 20 acre sale to Avant Homes worth £18.5m exchanged unconditionally for completion in January 2024.

HRMS

- Profitable although lower performance from HRMS, contributing £15.5m (2022: £25.0m) to Group PBT;
- Softening commodity markets, in particular zinc and iron ore, as expected.

Group

- Full year dividend increased by 2.9% to 21p including the additional 12p attributable to the repatriation of funds from HRMS;
- The Group holds no borrowings, other than specific leasing debt with cash of £21.9m at the year end.

Underlying Profit before
Tax

£27.3m

(FY22: £30.4m)

Dividend per share

21.0p

(FY22: 20.4p)

EBITDA

£21.8m

(FY22: £13.6m)

Net asset per share

£6.18

(FY22: £5.53)

Cash in hand

£21.9m

(FY22: £13.8m)



Financial Review

Stephen Craigen
Group Finance Director



Lime dosing silos at HS2

Financial Review – Income Statement

Services – Revenue, PBT & margin improved mainly due to HS2 & M&E works - £3.2m asset realisations

Land – sale at Blindwells and other smaller sites

HRMS – reduced contribution as anticipated due to softened commodity markets

Tax – credit due to enhanced capital allowances

EBITDA increase from Services business profits

Year ended 31 May	Margin	2023 £m	Margin	2022 £m	
Revenue – Services		200.9		162.8	+24.6 %
Revenue – Hargreaves Land		10.6		15.1	
Group Revenue		211.5		177.9	
Underlying PBT – Services*	6.1%	12.3	4.7%	7.6	
Underlying PBT – Hargreaves Land		3.9		2.1	
Underlying PAT – HRMS		15.5		25.0**	
Underlying PBT – Corporate Costs & Interest		(4.4)		(4.3)	
Underlying Profit before Tax*		27.3		30.4	
Amortisation, exceptional items & discontinued operations		(0.2)		3.8	
Tax		0.8		0.3	
Profit for the year		27.9		34.5	
Underlying EPS		86.3p		96.1p**	
Dividend Per Share		21.0p		20.4p	
EBITDA		21.8		13.6	

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

** prior year profit from HRMS has been restated following a correction of the allowability of certain expenses for corporate tax

Financial Review – Balance Sheet

Renewables £6.6m
Westfield EFW £5.2m
Other £4.7m

Including £35.2m for
Blindwells

31 May 23	Service s	Land	HRMS	Unallocated	May 23	May 22
Tangible FA's (incl ROU assets)	47.9	16.5	-	0.4	64.8	40.3
Goodwill	5.7	-	-	-	5.7	4.8
Investments in JCEs	-	5.7	68.6	-	74.3	55.1
Inventory	0.4	38.9	-	-	39.3	30.5
Other working capital	(8.8)	12.1	11.2	(0.1)	14.4	36.9
Finance lease debt	(36.1)	(0.2)	-	-	(36.3)	(18.4)
Pension scheme	-	-	-	5.6	5.6	7.7
Deferred tax asset	-	-	-	11.3	11.3	9.1
Net bank debt and cash	-	-	-	21.9	21.9	13.8
Total Capital Employed	9.1	73.0	79.8	39.1	201.0	179.8

31 May 22	Services	Land	HRMS	Unallocated	Total
Total Capital Employed	9.1	60.0	76.3	34.4	179.8

Increase in fixed assets and leasing debt within Services following increased plant levels to support HS2

Increase in investments in JCEs reflects the profits generated by HRMS and the Unity JV

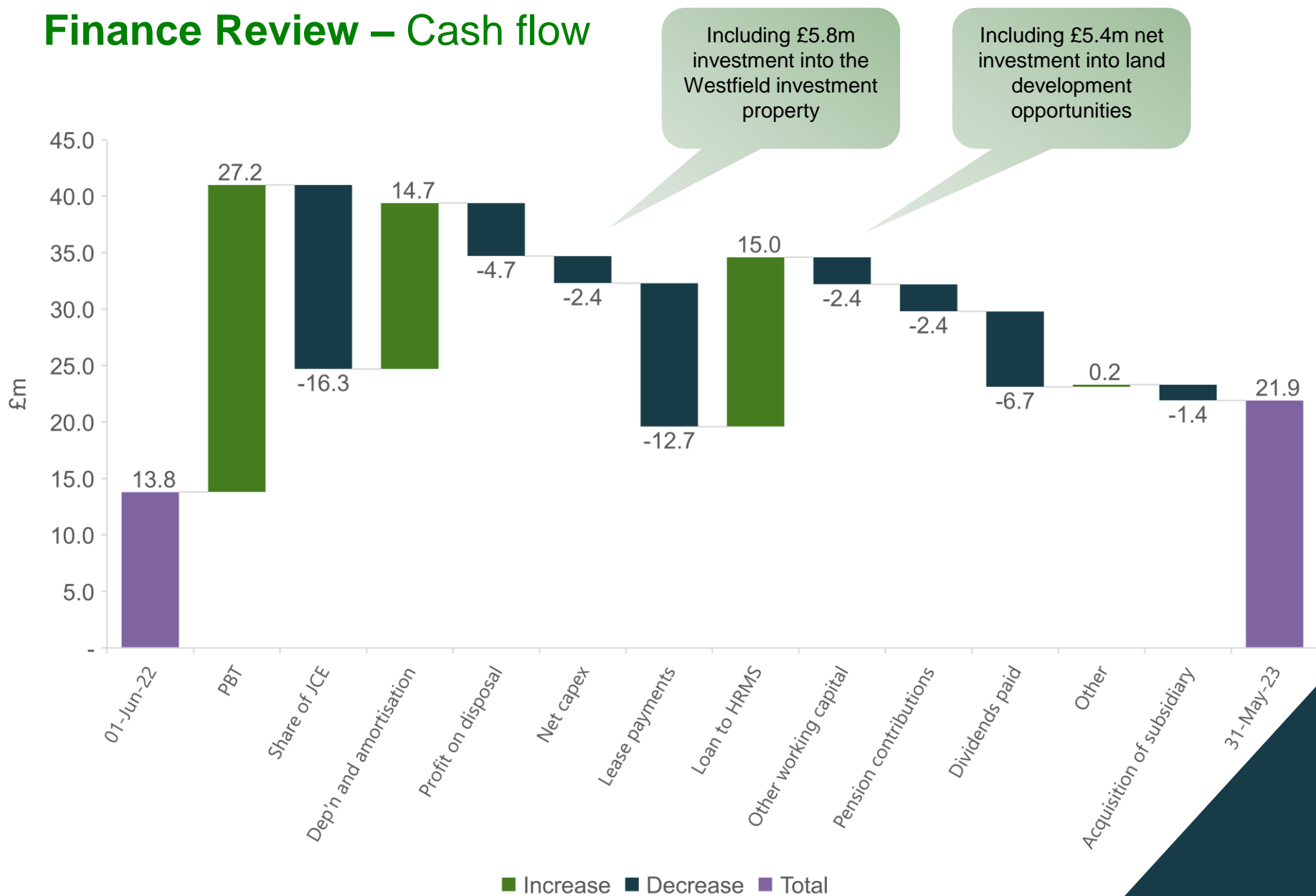
Increase in capital employed in Hargreaves Land relates to investment at Blindwells and Westfield

Pension scheme asset of £5.6m has decreased due to reductions in asset values and increases in inflation assumptions

Tax asset reflects the value of tax losses to be offset against future profits

Surplus cash provides opportunity to buy out the pension scheme deficit (estimated at £15m)

Finance Review – Cash flow



Finance Review – HRMS Summary consolidated financials

Income statement

£'m	May 23	May 22
Revenue – HRMS trading	374.3	441.1
Revenue – HRMS CPP	4.0	4.1
Revenue - DK	132.6	146.4
Revenue	510.9	591.6
Expenses	(473.3)	(533.2)
Depreciation	(4.2)	(3.9)
Net interest	(3.5)	(2.1)
Profit before Tax	5.9% 29.9	8.8% 52.4
Tax	(11.8)	(23.2)
Profit after Tax	18.1	29.2
Hargreaves share at 86%	15.5	25.0

Inventory

Reduction in trading inventory in HRMS, enabled repayment of £15m loan to Hargreaves.

Total Group Exposure to HRMS:

£'m	May 23	May 22
Share of retained earnings	68.6	49.5
Total loans	11.2	26.8
€10m (2022: €5m) Guarantee	8.6	4.2
Total exposure	91.7	80.5

Revenue Reduction

Due to reduction in volume as markets have softened

Group Loans

£15m advanced in FY22 fully repaid.

Balance sheet

£'m	May 23	May 22
Tangible fixed assets	64.2	51.7
Inventories	135.9	147.1
Borrowing base	(59.5)	(53.3)
Pension scheme	(12.9)	(15.3)
Other working capital	(20.1)	(25.0)
Capital employed	107.9	105.2
<i>Funded by:</i>		
Amounts owed to Hargreaves	(11.2)	(26.0)
Bank loans	(13.0)	(16.6)
Equity	83.4	62.6

Operating Review Services

Gordon Banham
Chief Executive



Services – Resilience & quality

Major Customers



**Frameworks
& term contracts**

60+

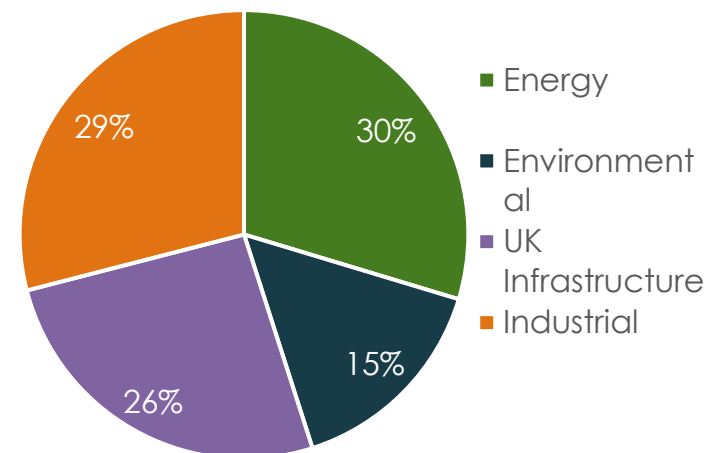
Secured orders at start of year

c70%

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

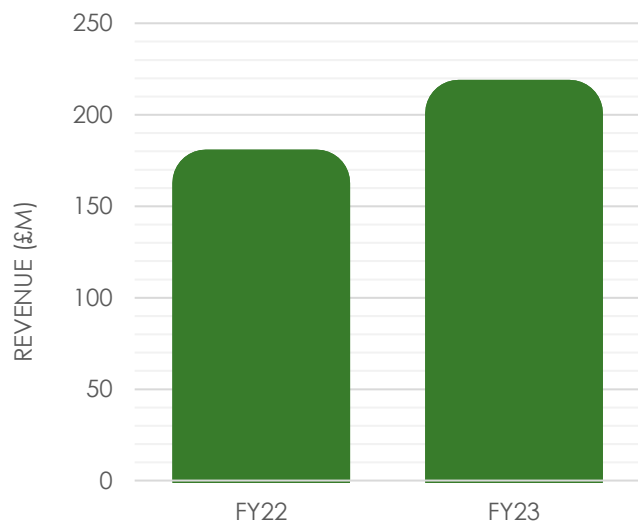
No over reliance on a single customer, largest customer represents c9% of revenue

Inflation resistant

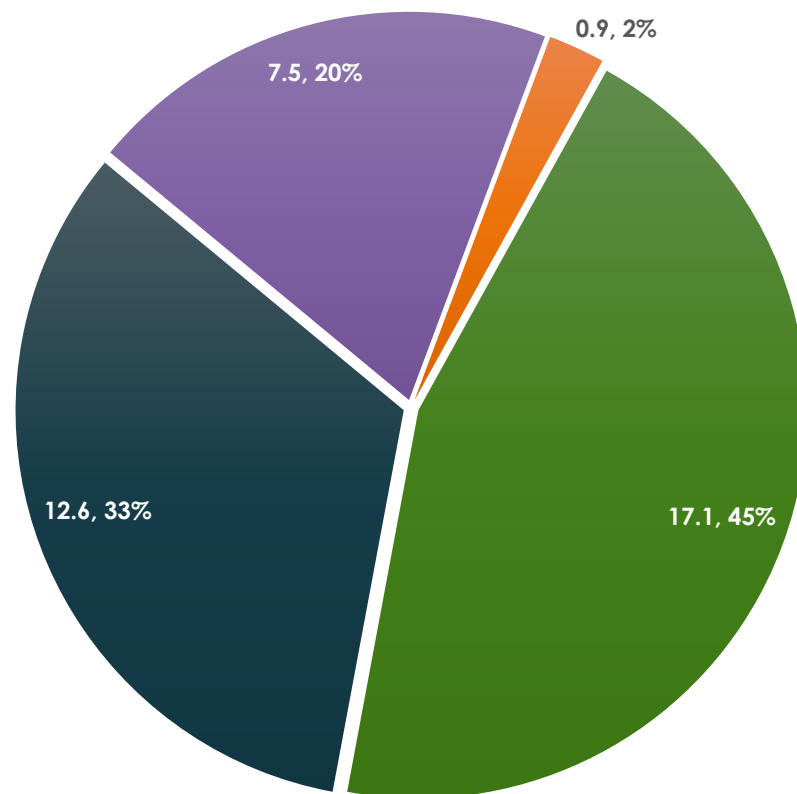
Many contracts are cost plus a margin with built in inflation and escalation factors to protect margin

Services – growth drivers

Revenue up 23.4%



£38.1m growth comprising (£m)



■ HS2 Earthmoving ■ M&E Projects
■ Industrial Services Asia ■ Other

Services – Growth opportunities



Major infrastructure projects



Lower Thames Crossing – preferred partner to Balfour Beatty



Sizewell C – contracts already secured on two associated environmental habitat projects



HS2 – two years more work at least



Tendering several mechanical engineering project opportunities

Existing contractual positions



Tungsten West – strong contractual position with TW awaiting them completing funding



Over 10 new frameworks/term contracts added in FY23 with new clients including:

- Durham City Council – logistics
- Port of Tyne – materials handling
- Northumbrian Water – environmental and civil, M&E solutions
- Scottish Water – environmental
- Severn Trent Services – civil, M&E solutions
- Yorkshire Water - civil, M&E solutions
- MOL – offshore engineering works in oil



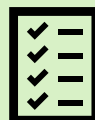
Operating Review Hargreaves Land

David Anderson
Group Property Director





What we
do



Master Developer

Large scale multi phase projects delivering serviced plots for residential and commercial development.

- Blindwells, Edinburgh – 1,600 plots
- Unity, Doncaster – 3,100 plots, 2.4m sq ft of commercial
- Westfield, Fife – 1m sq ft commercial
- Lincolnshire Lakes, Scunthorpe – 1150 plots, 1m sq ft commercial



Turnkey Project Delivery

Pre let/forward sold bespoke commercial developments for end users and investors.

- Retail warehousing - Bridlington and Sunderland
- Logistics space - Doncaster



Planning Promotion

Promotion of greenfield land through the local plan process and subsequent onward sale.

- 2,425 residential plots across 238 acres

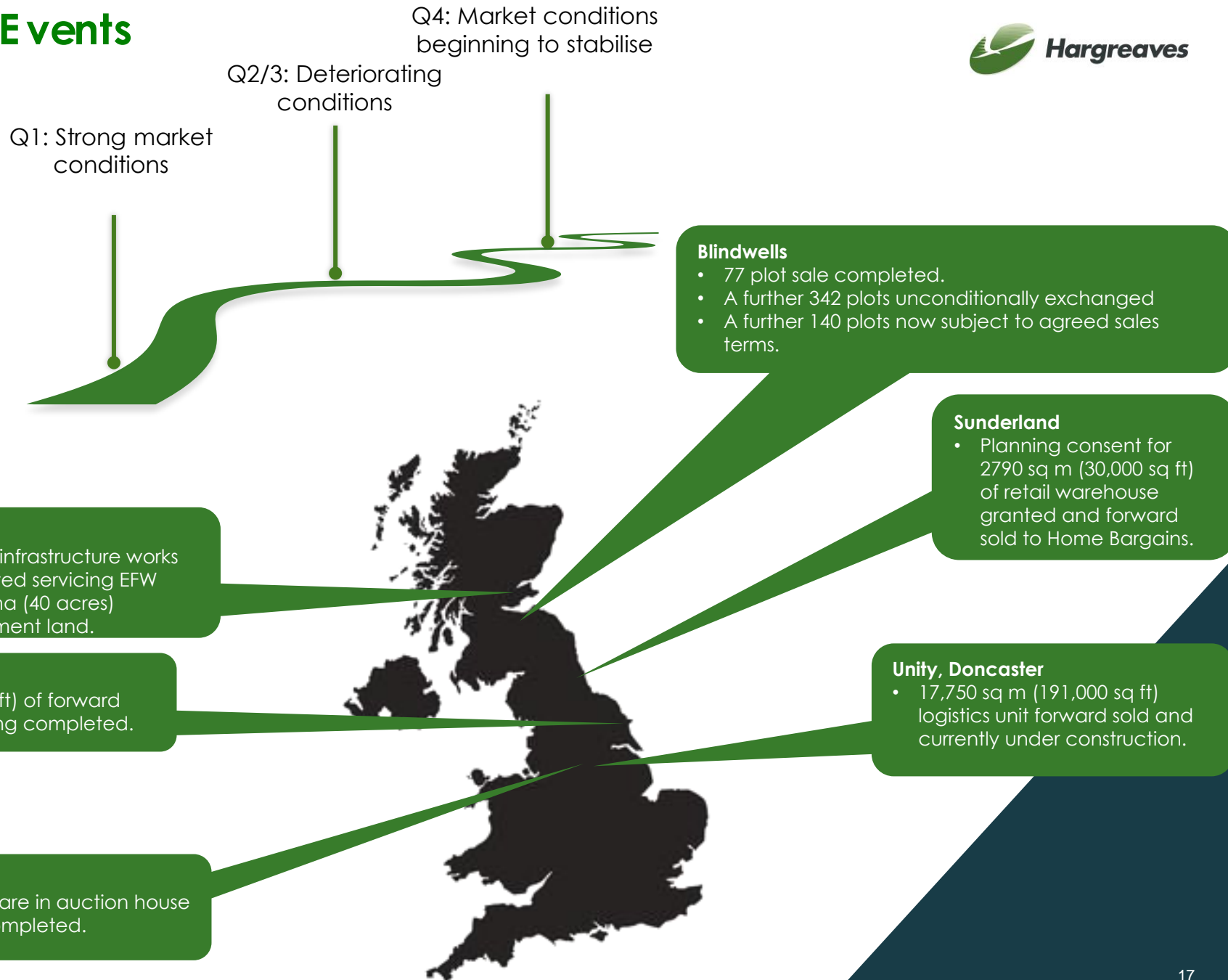
Renewables

Identification and promotion of renewables projects through the plan process and subsequent letting to specialist renewables asset developers.

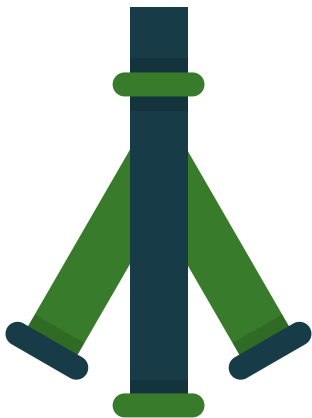
- 9 consented wind projects (700MW)
- 2 battery storage facilities (550MW storage)
- 9 further projects being promoted (800 MW+)



FY23 Key Events



Development Pipeline



Residential

- **5,730 Residential plots** (800 acres) now allocated/consented across 6 sites with a GDV of £200m.
- A further **2,862 residential plots** on 7 sites (300 acres) being promoted through the local plan process with a potential combined GDV (serviced plot value) of £120m.



Commercial

- 5.7m sq ft of allocated/consented commercial space across 6 sites (356 acres) with a combined GDV (constructed end value) of £620m.



Residential Markets

Demand for quality residential sites has begun to stabilise, albeit at lower levels than Q1 2022



Renewables Projects

The range of renewables projects continues to expand with battery storage, and potentially hydrogen farms, becoming an increasingly significant sub sector.



- ✓ **750 residential plots** now subject to exchanged contracts or agreed sales terms with 70% set to complete in FY24.
- ✓ **191,000 sq ft logistics space** forward sold and on programme to be completed in FY24.
- ✓ **Significant new projects secured** capable of delivering over 1500 residential plots and 1m + sq ft of commercial space.
- ✓ **Existing renewables assets** progressing towards optimum value and sale
- ✓ **Further portfolio of renewable investment assets** being taken forward



Commercial Markets

The commercial occupier market remains active and pricing has adjusted to account for increased construction costs and softening investment yields.

Availability of larger logistics units has increased but a lack of supply of medium and small units remains, where demand is greatest.





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 in the P&L and Balance Sheet

HRMS - Trading

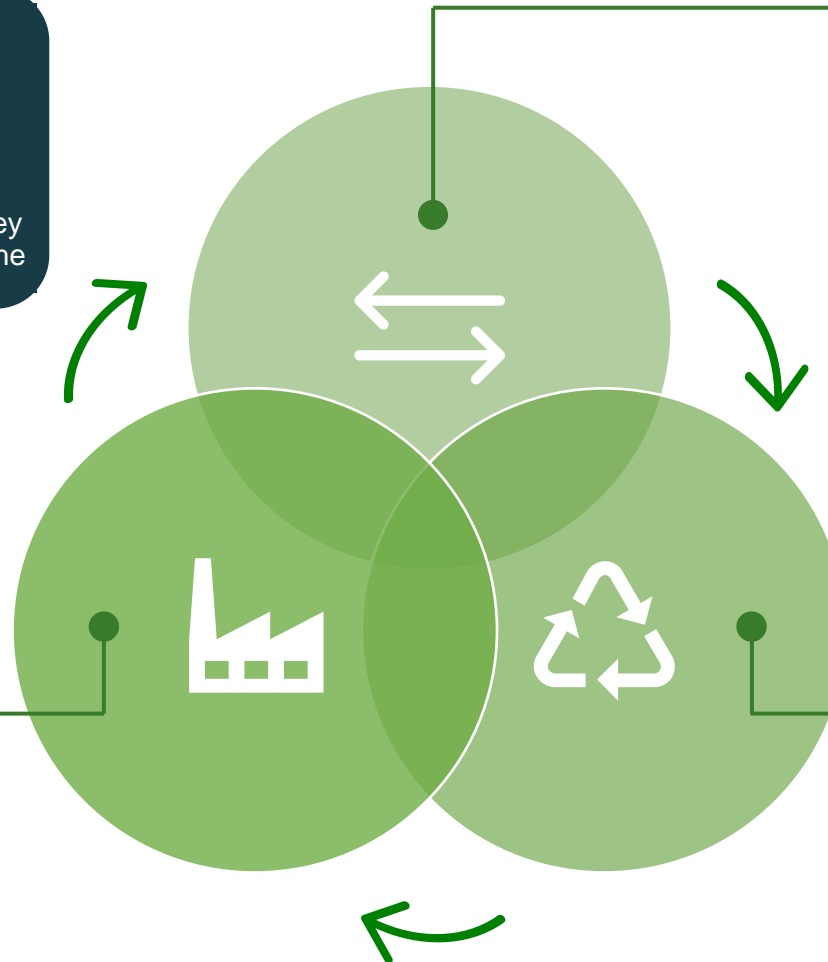
Market leading trader in industrial raw materials in Germany and Northern Europe. Supplying solid fuels, refractory minerals, pig iron and ferro-alloys.

Carbon Pulverisation Plant (CPP)

Producer of high quality pulverised carbon to industries across Germany. Pulverised carbon will replace the high polluting brown lignite coal.

DK Recycling

One of the largest recyclers of ferrous waste materials in the world, producing pig iron and zinc.



Hargreaves Raw Materials GmbH - Trading

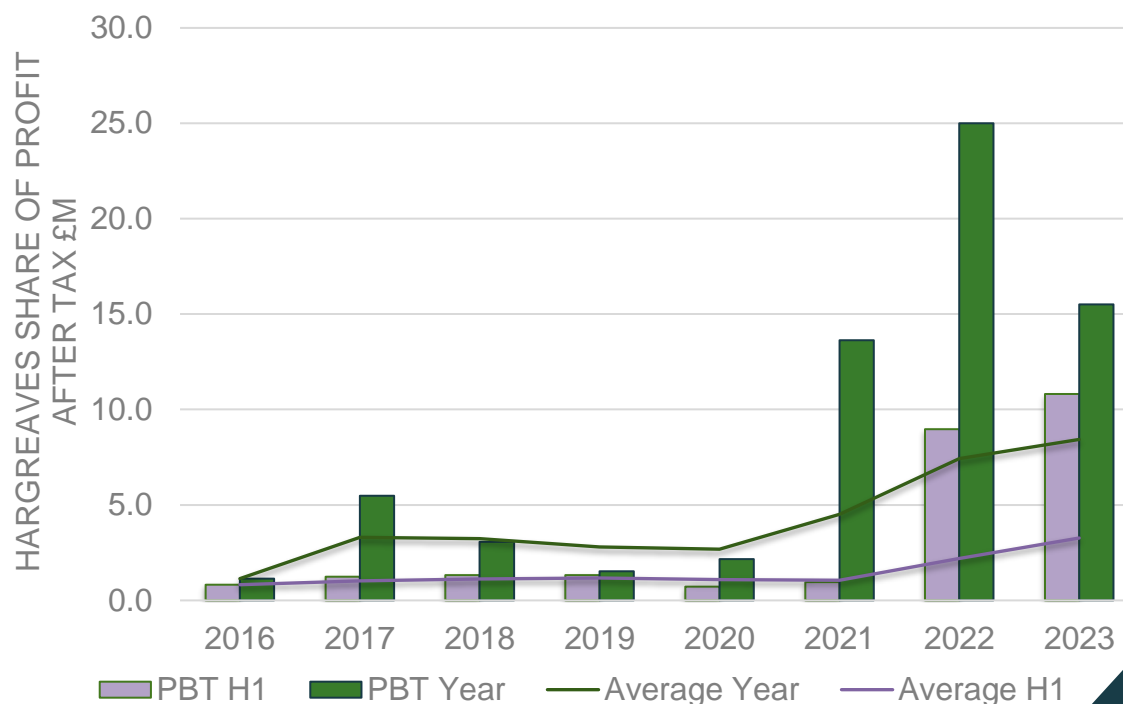


Profits from Trading in HRMS have been variable over the period of ownership, with profits depending on commodity cycles and market pricing. The business has never made a loss.

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

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

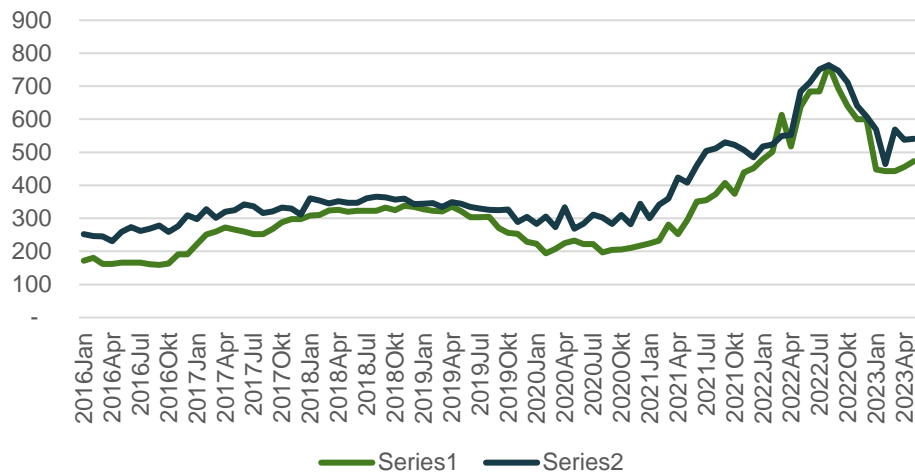


Currently producing 100kt, delivering a break even result. Energy to power process is derived from surplus DK energy production



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 the past eighteen months was caused mainly by the conflict in Ukraine. Prices have now fallen to more normal levels as demand has subsided.

Zinc

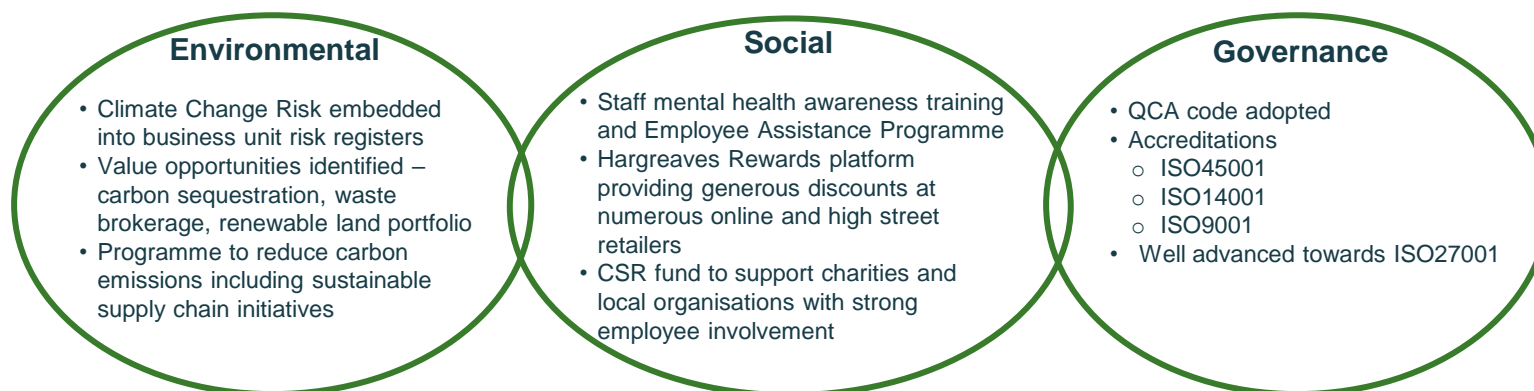
Zinc sales are 50% hedged. Zinc prices have fluctuated over the last 2 years from \$2,000 to peaks of over \$4,500 and have now fallen back to \$2,400. There is no cost to DK in producing zinc as it is a byproduct of the pig iron process so reduced selling process impact profitability directly. Chart below shows the zinc commodity levels over the last 5 years.



Hargreaves Services plc – ESG



- ✓ **ESG Group reports quarterly to the Audit & Risk Committee**
- ✓ **Integrum A rating achieved**
- ✓ **Gold accreditation to CSRA achieved**
- ✓ **Currently aligning with 9 United Nations Sustainable Development Goals**
- ✓ **Awarded Best Environmental Sustainability Initiative Award for the Small Dean Conveyor Project**
- ✓ **Sustainability Framework supported by management plans for carbon, waste and energy to align with the UK Government's goal of achieving Net Zero Carbon by 2050 in preparation**



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



Hargreaves Services plc – Outlook



Services

- Over 60 framework agreements in place, many with cost plus characteristics or escalation factor clauses to cover increases in fuel and other inflation impacted costs
- Further growth opportunities from Sizewell and Lower Thames Crossing
- Strong revenue visibility, with over 70% secured for the new financial year, and good profit resilience

Land

- Avant sale for £18.5m exchanged unconditionally for completion in January 2024
- Development pipeline has a GDV of c£940m
- **Renewables land estimated to realise c£28m over next five years giving a gain of c£21m over NBV**

HRMS

- Trading business record demonstrates profits can be delivered outside of commodity price booms
- Reduction in trading activity will lead to surplus cash repatriation to the UK

Group Outlook

- Trading outlook for FY24 is strong led by Service and Hargreaves Land
- Pension scheme buy out for c£15m being pursued
- **Renewables land value now in the realisation phase with repatriation of cash to shareholders to follow**

Hargreaves Services plc – Investment Proposition



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