

Interim Results

Six months ended 30 November 2022

Wednesday 25 January 2023



Hargreaves

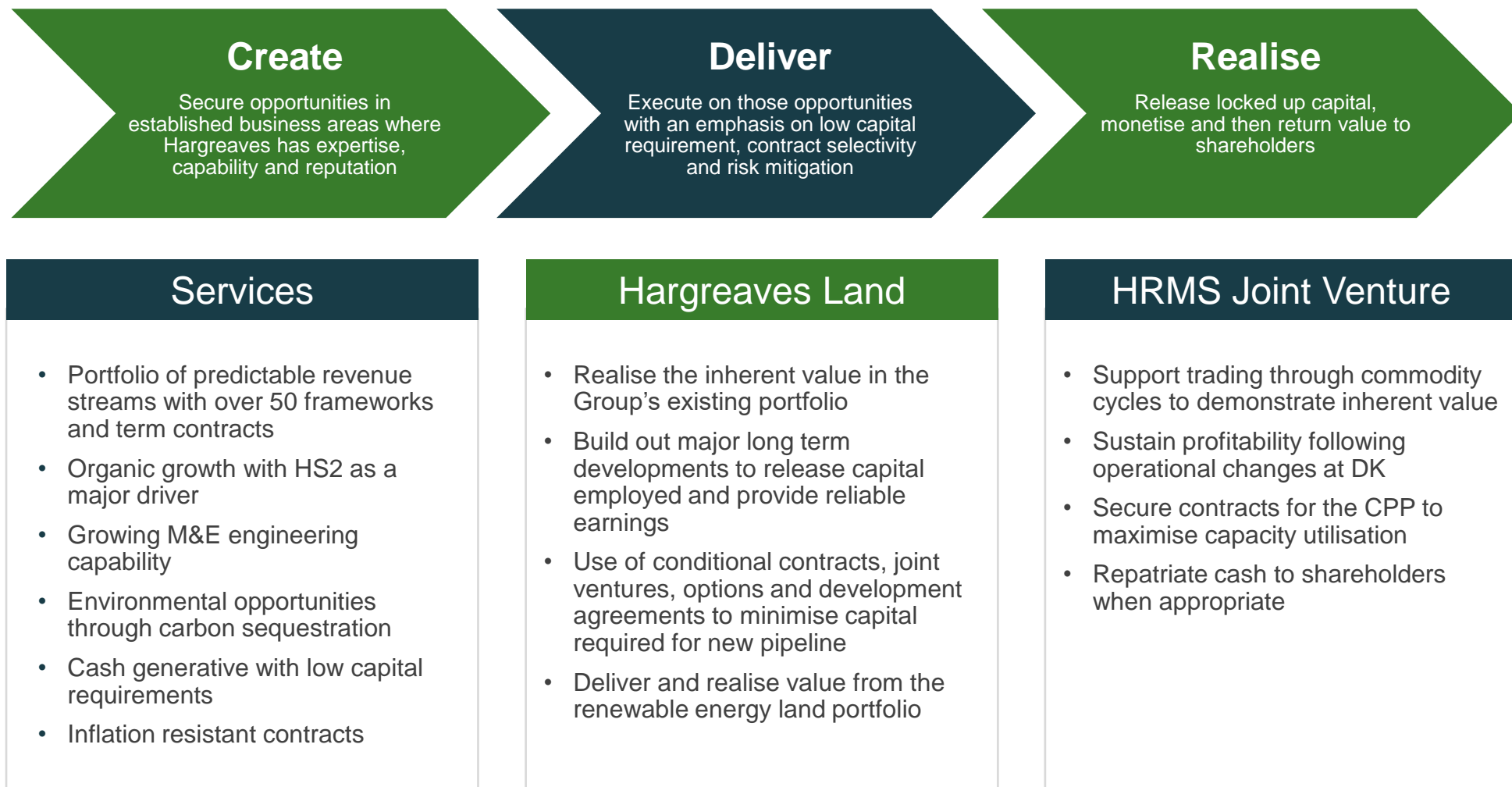


Strategic Value Proposition

Gordon Banham
Chief Executive



Hargreaves Services plc - Strategic Value Proposition



Hargreaves Services plc – FY23 Interim Results Overview

Services

- Increased level of operation on the HS2 contract, providing substantial growth in revenue and profitability both for our earthmoving and mechanical and electrical engineering services;
- Outside of HS2, revenue and profit has still improved in the underlying business due to success of the engineering projects work;
- £2m non-recurring profit recognised for asset realisations.

Profit before Tax

£18.7m

(Nov 21: £10.4m)

Hargreaves Land

- Completion of the sale of 4.5 acres to Ogilvie Homes generating revenue of £3.4m;
- The business is now starting to deliver return from its renewable energy land portfolio.

Dividend per share

3.0p

(Nov 21: 2.8p)

HRMS

- Strong performance from HRMS, contributing £10.8m (2021: £9.0m) post tax profit.
- H1 trading performance still strong despite the softening of commodity prices and demand experienced in the second half of last financial year. Given short term visibility H2 is expected to be less strong as markets continue to soften.

Net asset value per share

£6.03

(Nov 21: £4.62)

Group

- Interim dividend increased by 7.1% to 3.0p per share (2021: 2.8p);
- The Group holds no borrowings, other than specific leasing debt of £30.6m (2021: £11.5m) and had cash in hand of £18.1m at the half year (2021: £8.5m).

Cash in hand

£18.1m

(Nov 21: £8.5m)



Financial Review

John Samuel
Group Finance Director



Financial Review – Income Statement

Services – Revenue, PBT and margin improved due to increased operations at HS2 & £2m non-recurring asset realisations.

Land – PBT increase due to sales within Blindwells

HRMS – strong trading due to commodities in H1 with H2 market softening expected

Six months ended

	Margin	Nov 22 £m	Margin	Nov 21 £m	
Revenue – Services		107.8		70.2	+54%
Revenue – Hargreaves Land		8.7		5.9	+47%
Group Revenue		116.5		76.1	
PBT – Services	7.9%	8.5	4.4%	3.1	+174%
PBT – Hargreaves Land		1.6		0.5	+220%
PBT – HRMS		10.8		9.0	+20%
LBT – Corporate Costs & Interest		(2.2)		(2.2)	0%
Profit before Tax		18.7		10.4	+80%
Tax		(1.6)		(0.4)	
Profit for the period		17.1		10.0	
EPS		52.2p		31.0p	+68%
Dividend Per Share		3.0p		2.8p	+7%
EBITDA		12.9		3.7	+249%

Financial Review –Balance Sheet

Renewables £11.8m
Other £4.5m

Including £29.8m for
Blindwells

30 Nov 22	Services	Land	HRMS	Unallocated	Nov 22	May 22
Tangible FA's (incl ROU assets)	42.9	16.3	-	0.2	59.4	40.3
Goodwill	5.9	-	-	-	5.9	4.8
Investments in JCEs	-	5.1	65.4	-	70.5	58.4
Inventory	0.2	33.7	-	-	33.9	30.5
Other working capital	(12.2)	17.1	14.3	3.8	23.0	36.9
Finance lease debt	(30.4)	(0.2)	-	-	(30.6)	(18.4)
Pension scheme	-	-	-	8.8	8.8	7.7
Deferred tax asset	-	-	-	7.2	7.2	9.1
Net bank debt and cash	-	-	-	18.1	18.1	13.8
Total Capital Employed	6.4	72.0	79.7	38.1	196.2	183.1

31 May 22	Services	Land	HRMS	Unallocated	Total
Total Capital Employed	9.1	60.0	79.6	34.4	183.1

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

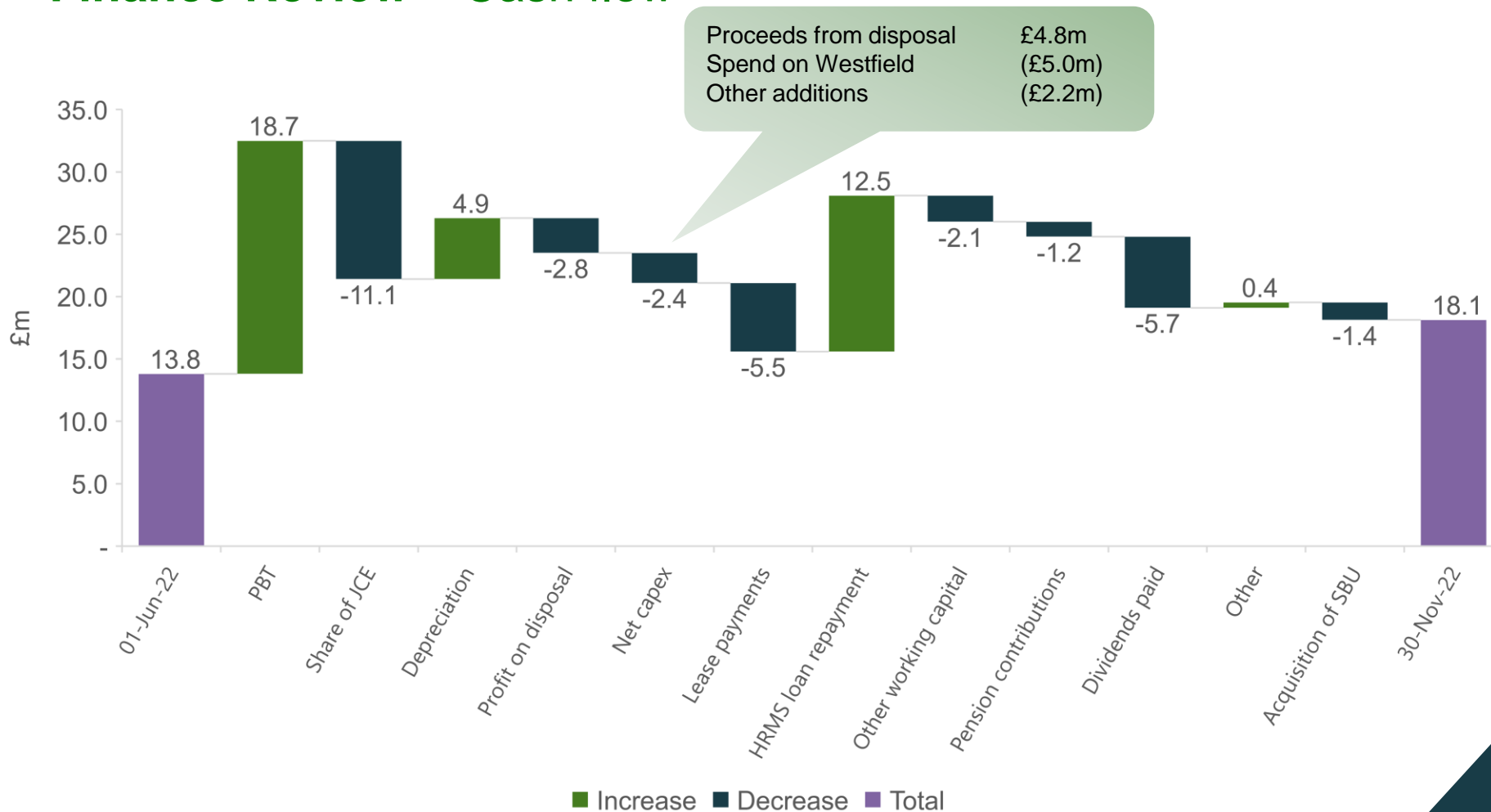
Increase in investments in JCEs reflects the profits generated by HRMS and the Unity JV

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

Pension scheme asset of £8.8m has increased due to contributions made

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	Nov 22	Nov 21
Revenue – HRMS trading	250.5	173.7
Revenue – HRMS CPP	1.7	1.4
Revenue - DK	70.5	56.0
Revenue	322.7	231.1
Expenses	(302.2)	(214.0)
Depreciation	(2.0)	(1.7)
Net interest	(0.9)	(0.9)
Profit before Tax	5.5% 17.6	6.3% 14.5
Tax	(5.0)	(4.0)
Profit after Tax	12.6	10.5
Hargreaves share at 86%	10.8	9.0

Total Group Exposure to HRMS:

£'m	Nov 22	May 22
Share of retained earnings	65.4	53.5
Total loans	14.3	26.8
€10m Guarantee (€5m May 22)	8.6	4.2
Total exposure	88.3	84.5

Revenue Growth

Due to improvement in commodity pricing and increase in volumes traded

Margin

Nov 22 margin of 5.5% (Nov 21: 6.3%) has been suppressed by a non-recurring cost of €3m relating to an extended period of maintenance on the power plant

Balance sheet

£'m	Nov 22	May 22
Tangible fixed assets	61.3	51.4
Inventories	140.7	147.1
Borrowing base	(66.7)	(53.3)
Pension scheme	(15.6)	(15.3)
Other working capital	(10.8)	(21.4)
Capital employed	108.9	108.5
<i>Funded by:</i>		
Amounts owed to Hargreaves	(14.3)	(26.8)
Bank loans	(16.4)	(15.8)
Equity	78.2	65.9



Operating Review - Services

Gordon Banham
Chief Executive



Services – Resilience & quality

Major Customers



**Frameworks
& term contracts**

50+

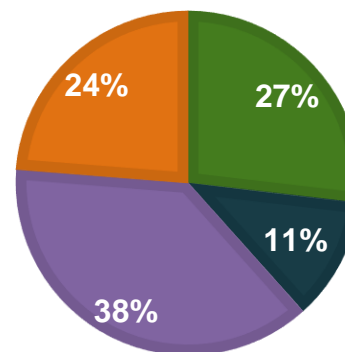
Secured orders at Nov 22

c.87%

Typical operating margins

5%+

INDUSTRY SECTOR



- Energy
- Environmental
- UK Infrastructure
- Industrial

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 - HS2

Earthmoving

The HS2 contract has driven a substantial growth in the revenue and profitability of the Group



Plant

Currently **100** items of plant in operation on HS2 (300 in FY22 peak)



Headcount

Currently **150** for HS2 (400 in FY22 peak)



Movement

1.6M cu m has been moved in the six months to Nov 22



Conveyor

The Group has also developed and installed a 650m conveyor system, which will:



Carbon Emissions

Reduce Carbon emissions
on HS2 by over 5,000
tonnes



HGV Traffic

Remove approx. 1.15m
miles of HGV traffic from
local roads

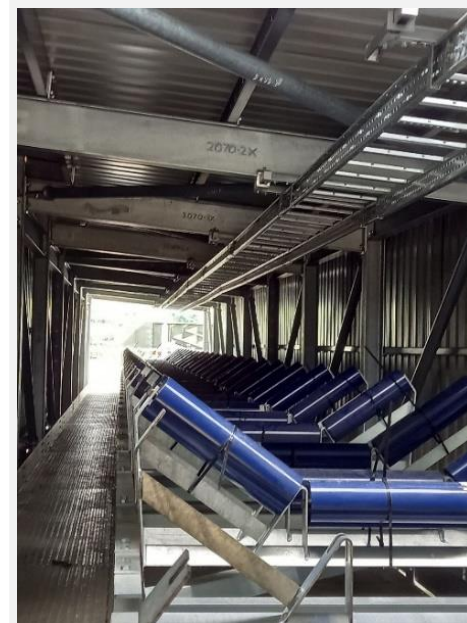


Diesel consumption

Reduce diesel
consumption by 1.6m litres



This innovative
solution has been
recognised
through the team
winning the C23
project of the year
award in the best
environmental
and sustainable
initiative category.



Operating Review – Hargreaves Land

David Anderson
Group Property Director



Hargreaves Land – Key events

Blindwells, Edinburgh

- Completion of 4.5 acres sale to Ogilvie Homes in H1.
- Development of 77 new homes now commenced.
- 100 homes are now complete and occupied with a further 380 currently under construction.

Unity, Doncaster

- Work commenced on forward funded 191,000 sq ft logistics unit with completion expected in H2 FY24.

Westfield, Fife

- £420,000 p.a. 35 year Energy from Waste ground lease now in place.
- £5m infrastructure capital investment in H1 close to being completed.
- Additional 40 acres of serviced development plots created with planning permission for 1m sq ft of commercial space.



Hargreaves Land – Development Pipeline and Outlook

Residential		Commercial	
4,220 plots with planning permission	GDV £219m	35,000 sq ft retail space completed/forward sold in FY23	GDV £8.0m
		15 acres of additional commercial land now under contract	GDV £15m
780 plots contracted/agreed sales	£32.5m sales value	70,000 sq ft new retail/leisure development opportunities under contract	GDV £15m
		210 acres of industrial space with planning permission	GDV £450m
Additional 3,100 plots across 7 sites in planning process	GDV £219m	190,000 sq ft of forward sold logistics space under construction	GDV £20m
	GDV £80m	150 acres of new industrial/logistics sites in the planning process	GDV £180m
Terms agreed on 4 further sites capable of delivering 2,500+ plots			

MARKET OUTLOOK

- Demand for quality consented residential land returning to a more normalised level in FY23.
- Continued shortage of deliverable residential opportunities in the areas we operate in.
- Occupier demand has remained reasonably robust for well located retail warehousing and industrial/logistics opportunities although investment values began to moderate since mid-2022.
- Construction cost inflation moderated to more usual levels towards the end of 2022.

Hargreaves Land - Renewable Energy Portfolio Summary



Windfarms

- 3 sites - 130MW capacity with planning and grid connections
- Dalquhandy completed (operational early 2023)
- Broken Cross being developed out

Westfield

- EFW Plant
- 22MW capacity
 - Under construction
- Westfield Solar
- 50MW capacity



Access Agreements

- 7 agreements
- 450MW capacity

Battery Storage

- Broken Cross
- (500MW-1000MW capacity)
- Killoch
- 49.5MW capacity

Hargreaves Land - Renewable Energy Portfolio Asset Valuation



Potential Income Scenario – Current portfolio development expected to be developed out by 2026/27

704 MW of renewables capacity with planning permission and grid connections

Estimated full annual income once development complete:

✚ **£1.58m p.a***

A further 550 – 1,050 MW of battery storage now submitted for planning with grid connections already secured.

Estimated additional annual income once developed out:

£0.50m - £0.9m p.a*

*Income typically secured against 28 year term or longer ground leases with indexation



Confirmed Operators include

Orsted

BayWa



octopusenergy



Operating Review – HRMS

Gordon Banham
Chief Executive

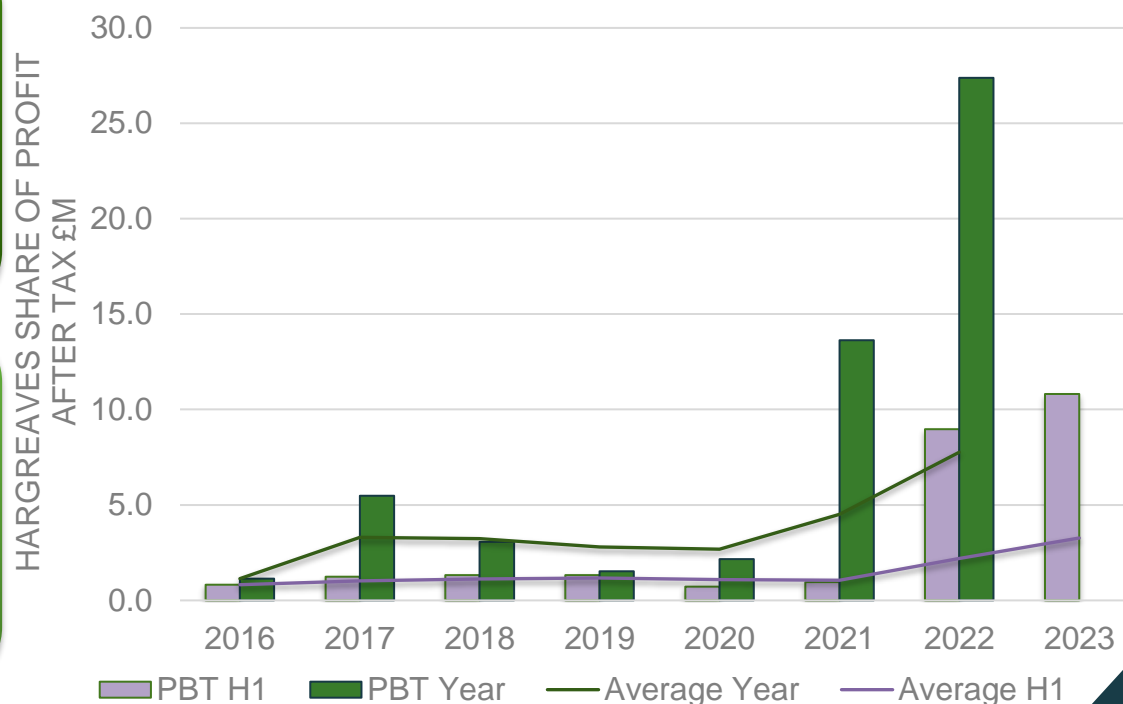


Historic performance of the Trading business

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.



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;



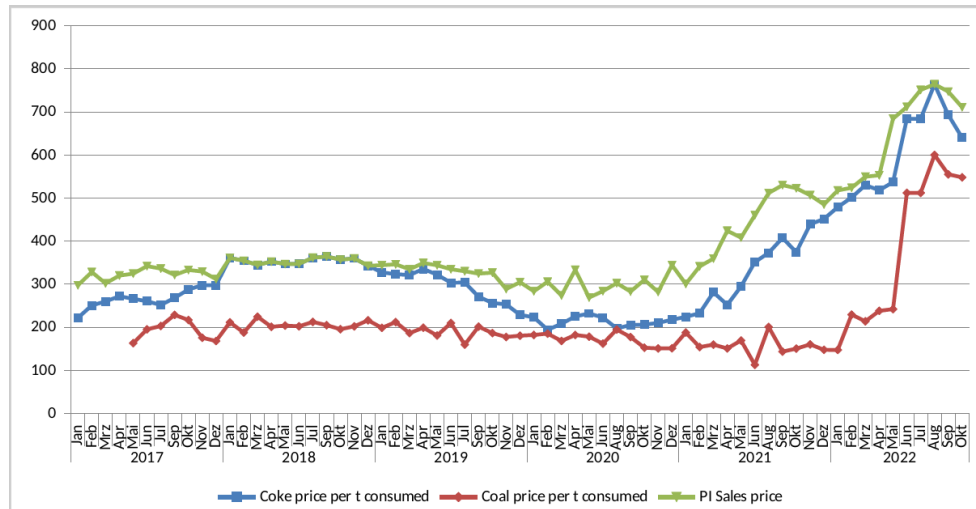
Accessible market is 2million tonnes



Currently producing 100kt, delivering a break even result.



Pig Iron and Coke



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

Zinc

Zinc sales are 40-50% hedged through to the end of May 2023, zinc prices have increased over the past 24 months from \$1,800 to over \$4,000, with no associated increase in production costs for DK.

Chart below shows the zinc commodity levels over the last 6 years.



Hargreaves Services plc – ESG



- ✓ ESG Group reports quarterly to the Audit & Risk Committee
- ✓ Targets agreed and published:
 - ✓ 2% p.a reduction in electricity and gas usage per office based employee;
 - ✓ 3% p.a improvement in the kilometres per litre attained by the haulage fleet; and
 - ✓ 6% p.a reduction in yellow plant idle time.



Environmental

- Climate Change Risk embedded into business unit risk registers
- Value opportunities identified – carbon sequestration, waste brokerage, renewable land portfolio
- Programme to reduce carbon emissions including sustainable supply chain initiatives

Social

- Staff mental health awareness training and Employee Assistance Programme
- CSR fund to support charities and local organisations with strong employee involvement

Governance

- QCA code adopted
- Task Force on Climate Related Financial Disclosures for y/e 31 May 2023

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
- Further growth opportunities from HS2 and Lower Thames Crossing

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

- Historic trading record of profits during periods of volatility in commodity prices
- Focus on sustaining profitability in DK Recycling
- Growth opportunities as the Carbon Pulverisation Plant gains further customer volumes

Group Outlook

- The Board is confident of delivering results in line with market expectations for FY23.

Hargreaves Services plc – Investment Proposition



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