



Interim Results

Six months ended 30 November 2023

Wednesday 24 January 2024



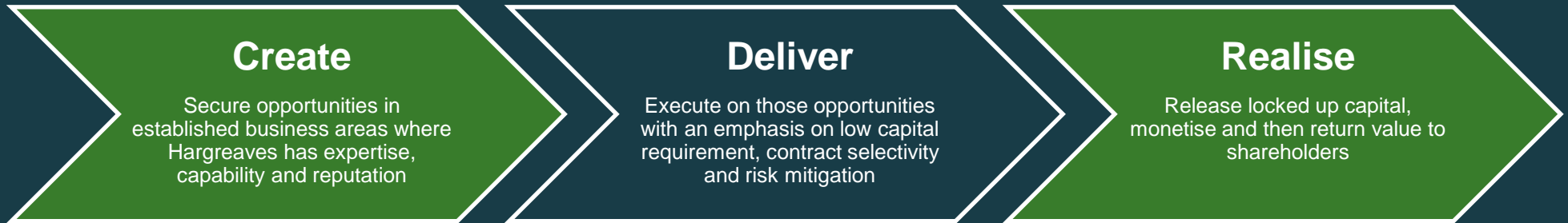


Strategic Value Proposition

Gordon Banham
Chief Executive



Strategic Value Proposition



<p>Services</p> <p>Efficient contract management and engineering innovation</p>	<ul style="list-style-type: none"> • Portfolio of over 60 term and framework contracts • Predictable revenue streams • Organic growth focus • Growing M&E engineering capability • Cash generative with low capital requirements • Inflation resistant contracts
<p>Land</p> <p>Deliver and then realise value from the renewable energy land portfolio</p>	<ul style="list-style-type: none"> • Realise the inherent value in the Group's existing portfolio • Build out major long-term developments to release capital employed and provide reliable earnings • Use of conditional contracts, joint ventures, options and development agreements to minimise capital required for new pipeline
<p>HRMS JV</p> <p>Optimise cash return from Joint Venture to realise value for shareholders</p>	<ul style="list-style-type: none"> • Support trading through commodity cycles to demonstrate inherent value • Expected to return to profitability in the second half of the year • Secure contracts for the Carbon Pulverisation Plant to maximise capacity utilisation

FY24 Interim Results Overview



Services

- Increased level of operation on the HS2 contract, providing growth in revenue and margin both for our earthmoving and mechanical and electrical engineering services;
- Margin improvement has been observed across the businesses.

Hargreaves Land

- Anticipated completion in late January 2024 of sale of 20 acres to Avant Homes resulting in proceeds of £18.5m payable over four years;
- Sale of Westfield EfW generated £7.6m of cash proceeds in December 2023;
- Exchange of contracts on 28-acre site at Maltby, Rotherham, for the sale of 185 residential plots will generate gross proceeds of £4.9m.

HRMS

- Disappointing performance from HRMS, in particular the DK steel recycling operation, making a £1.9m post tax loss (Nov 2022: £10.8m post tax profit);
- Softening commodity markets, in particular zinc and iron ore have been heavily impacted; improvement is expected in H2 following gate fee improvements and the introduction of sanctions on Russian pig iron.

Group

- Interim dividend increased by 500% to 18.0p per share (Nov 2022: 3.0p);
- The Group holds no borrowings, other than specific leasing debt with cash of £18.7m at the half year (Nov 2022: £18.1m).

Profit before tax

£2.7m

(Nov 22: £18.7m)

Interim dividend per share

18.0p

(Nov 22: 3.0p)

EBITDA

£12.3m

(Nov 22: £12.9m)

Net asset value per share

£6.05

(Nov 22: £6.03)

Cash in hand

£18.7m

(Nov 22: £18.1m)



Financial Review

Stephen Craigen
Chief Financial Officer



Financial Review – Income Statement



Services – Revenue and underlying margin growth due to earthmoving activities and M&E works

Land – H2 weighted with Westfield EfW sale (Dec 23) and Blindwells sale (expected Q1 24)

HRMS – Loss making in H1 due to difficult trading conditions and impact of low zinc and pig iron pricing

Prior year EBITDA includes £2m asset disposal; underlying performance increased driven by margin improvements in Services

Six months ended

	Nov 23	Nov 22			
	£m	£m			
<i>Revenue – Services</i>	109.5	107.8	+2%		
<i>Revenue – Hargreaves Land</i>	0.7	8.7	-92%		
Group Revenue	110.2	116.5			
<i>PBT - Services</i>	7.1%	7.8	6.0%	6.5	+20%
<i>Asset disposals</i>	-	2.0			
<i>(LBT)/PBT – Hargreaves Land</i>	(1.0)	1.6	-163%		
<i>(LBT)/PBT – HRMS</i>	(1.9)	10.8	-118%		
<i>LBT – Corporate Costs & Interest</i>	(2.2)	(2.2)	0%		
Profit before tax	2.7	18.7	-86%		
Taxation	(1.0)	(1.6)			
Profit for the period	1.7	17.1			
EPS	5.2p	52.2p	-90%		
Dividend Per Share	18.0p	3.0p	+500%		
EBITDA	12.3	12.9	-5%		

Financial Review – Balance Sheet



Renewables: £7.4m
Other: £9.8m

Including £38.9m for
Blindwells

30 Nov 23 (£'m)	Services	Land	HRMS	Unallocated	Nov 23	May 23
Tangible FA's (incl ROU assets)	42.7	17.2	-	0.3	60.2	64.8
Goodwill	5.6	-	-	-	5.6	5.7
Investments in JCEs	-	5.9	67.3	-	73.2	74.3
Inventory	0.2	44.0	-	-	44.2	39.3
Other working capital	(11.0)	13.6	(0.7)	5.8	7.7	14.4
Finance lease debt	(28.6)	(0.2)	-	-	(28.8)	(36.3)
Pension scheme	-	-	-	6.3	6.3	5.6
Deferred tax asset	-	-	-	10.4	10.4	11.3
Net bank debt and cash	-	-	-	18.7	18.7	21.9
Total Capital Employed	8.9	80.5	66.6	41.5	197.5	201.0
31 May 23	Services	Land	HRMS	Unallocated	Total	
Total Capital Employed	9.1	73.0	75.8	43.1	201.0	

Decrease in fixed assets and leasing debt due to depreciation and payments. May 23 represented the peak of plant levels to support HS2

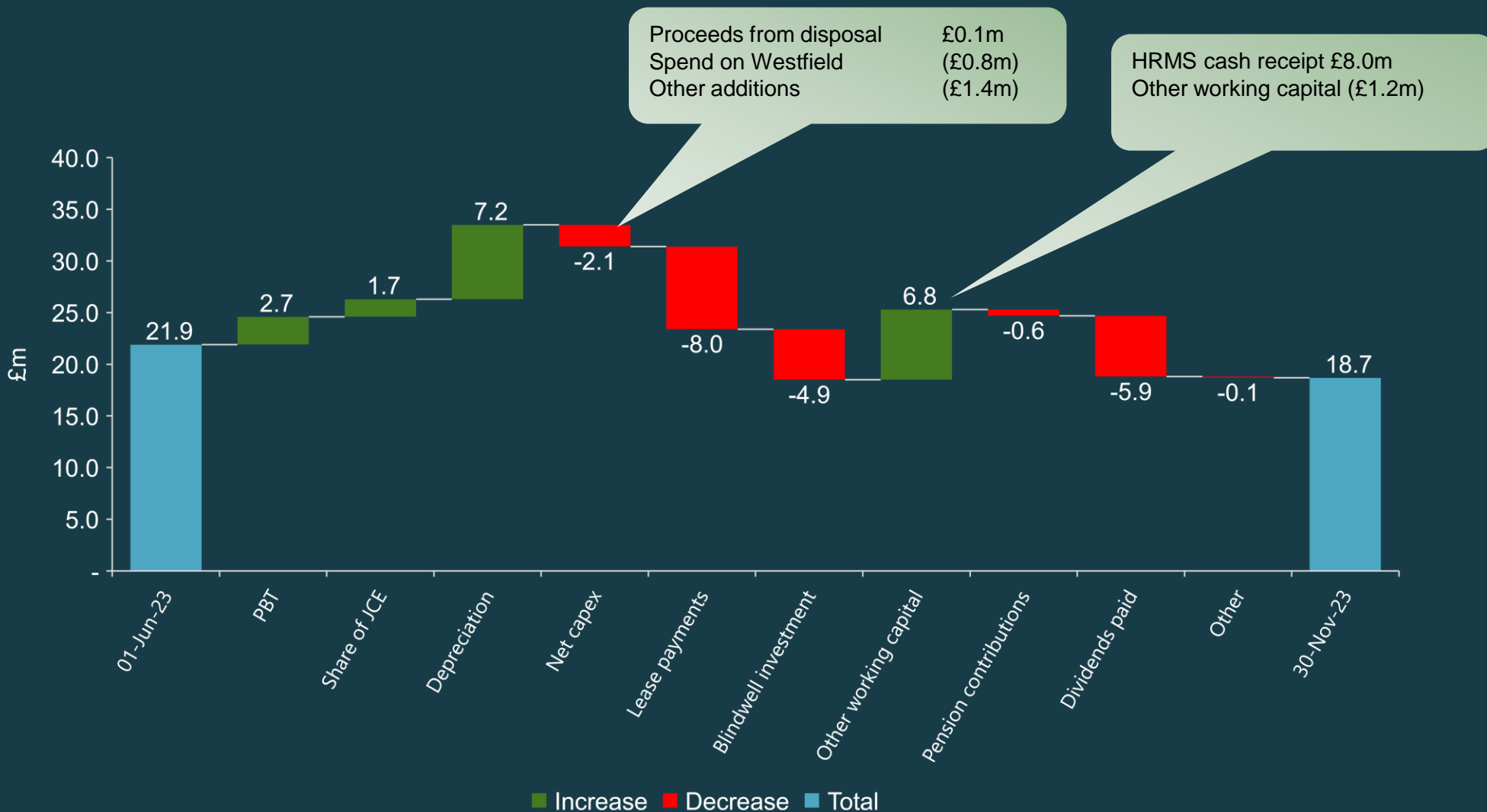
Increase in capital employed in Hargreaves Land relates to investment at Blindwells and Westfield

Decrease in HRMS capital employed due to £8m cash receipt and the losses generated

Pension scheme asset of £6.3m has increased due to contributions made. Buy out payment of no more than £9m expected in first half of 2024 calendar year

Deferred 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 23		Nov 22
Revenue – HRMS trading		135.8		250.5
Revenue – HRMS CPP		1.9		1.7
Revenue - DK		65.6		70.5
Revenue		203.3		322.7
PBT – HRMS trading		5.7		13.6
PBT – HRMS CPP		-		-
(LBT)/PBT – DK		(9.9)		4.0
(Loss)/profit before tax	-2.1%	(4.2)	5.5%	17.6
Taxation		2.0		(5.0)
(Loss)/profit after tax		(2.2)		12.6
Hargreaves share at 86%		(1.9)		10.8

Total Group Exposure to HRMS:

£'m	Nov 23	May 23
Share of retained earnings	67.3	68.6
Total loans	(0.7)	7.2
€10m Guarantee	8.7	8.6
Total exposure	75.3	84.4

Revenue decline

Due to deterioration in commodity pricing and decrease in volumes traded.

Margin

Nov 23 margin of -2.1% (Nov 22: 5.5%) whilst pig iron prices have reduced, margin has been adversely impacted by coke prices remaining high.

Balance sheet

£'m	Nov 23	May 23
Tangible fixed assets	65.9	64.2
Inventories	111.1	135.9
Borrowing base	(47.4)	(59.5)
Pension scheme	(13.0)	(12.9)
Other working capital	(26.1)	(20.1)
Capital employed	90.5	107.6
<i>Funded by:</i>		
Amounts owed by/(owed to) Hargreaves	0.7	(11.2)
Bank loans	(9.7)	(13.0)
Equity	81.5	83.4



Operating Review - Services

Gordon Banham
Chief Executive



Services – Resilience and quality



Major Customers

Frameworks and term contracts

60+

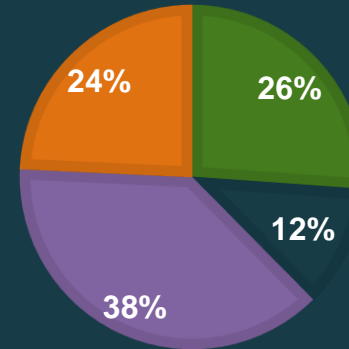
Secured orders at Nov 23

c.90%

Typical operating margins

5%+

INDUSTRY SECTOR



- Energy
- Environmental
- UK Infrastructure
- Industrial

Revenue resilience

Services operates across four 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 c29% of revenue

Inflation resistant

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

Services – Growth opportunities



Major infrastructure projects



Lower Thames Crossing – preferred partner to Balfour Beatty



Sizewell C – contracts already secured on two essential enabling projects



HS2 – two years more work at least



Tungsten West – strong contractual position with TW awaiting funding

Engineering capability



Completed and commissioned the five-leg conveyor for EKFB



Nearing completion of the design and installation of Lime Silo and Dosing plant for Skanska Costain Strabag





Operating Review – Hargreaves Land

David Anderson
Group Property Director



Hargreaves Land – Activities and Market



Promotion and delivery of development sites for house builders, industrial, logistics and retail warehousing and renewable energy projects

Redevelopment of former brownfield sites

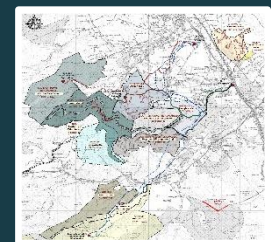
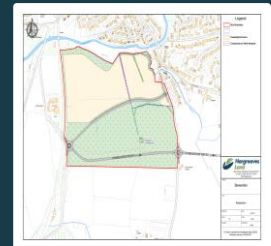
Development agreements with landowners

Planning led promotion and option agreements

Promotion of renewable energy opportunities



- H1 FY24 dominated by strong inflation, rapid rise in interest rates and simultaneous softening of investment yields, weaker demand from house builders and commercial occupiers.
- Investment market remains very thin but yields have stabilised.
- Activity of house builders has picked up significantly but pricing remains under pressure.
- Started to observe more activity in commercial sectors.



H1 Key Events – Development Projects

1. Unity, Doncaster - 191,000 sq ft forward funded logistics unit completed ahead of programme and sales of two plots for McDonalds and Starbucks restaurants agreed.

2. Westfield, Fife - Phase 1 infrastructure completed and sale of Energy from Waste ground lease investment completed for £7.6m cash proceeds.

3. Maltby, Rotherham - Sale contracts exchanged with Homes by Honey for sale of 185 residential plots to deliver £4.9m revenue.

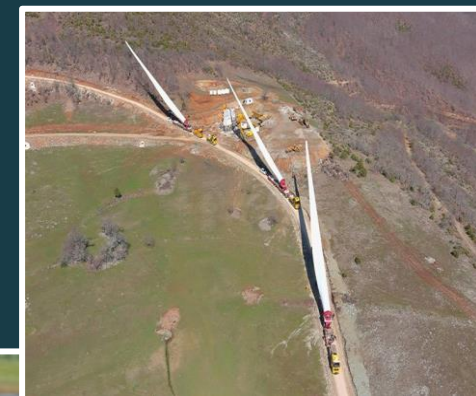
4. Blindwells – Seller's works completed for delivery of Plot 5 sale to Avant Homes and contracts exchanged on a further 22 plot scheme.



Update – Renewables



£'m	Aug 23	Jan 24	
3 Wind Farms	125 MW	129 MW	90 MW now operational
6 Access Agreements	506 MW	506 MW	120 MW now operational
2 Battery Storage	550-1050 MW	800 MW	
	1,181-1,681 MW	1,431 MW	
<i>Est value at maturity</i>	£27.2m-£28.9m	£27.2m-£28.9m	
<i>Future Schemes</i>	800 MW	2,295 MW	



Renewable wind assets - 28 to 42 year leases with rents linked to power pricing with annual RPI linked reviews.

Battery and solar assets - 35 year lease terms with fixed rents reviewed annually to RPI.

- 210 MW of wind assets now operational.
- Additional 1,495 MW of opportunities identified, certainty of completion of future scheme is less clear making valuation more difficult.
- First tranche of renewable investment assets (c.400MW) being prepared for sale in FY25.



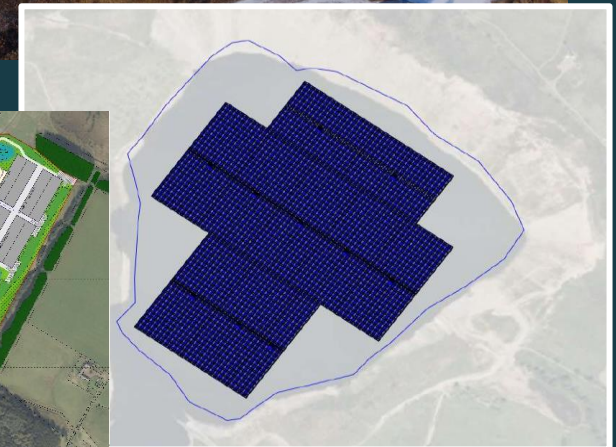
Renewables – New Projects

750 MW battery storage scheme awaiting planning consent.

110 MW of new battery storage, wind access agreements and solar projects now contracted.

8 new renewables projects at heads of terms stage comprising:

- 450 MW of wind farm access agreements
- 1,085 MW of battery storage projects
- 150 MW of solar projects





Operating Review – HRMS

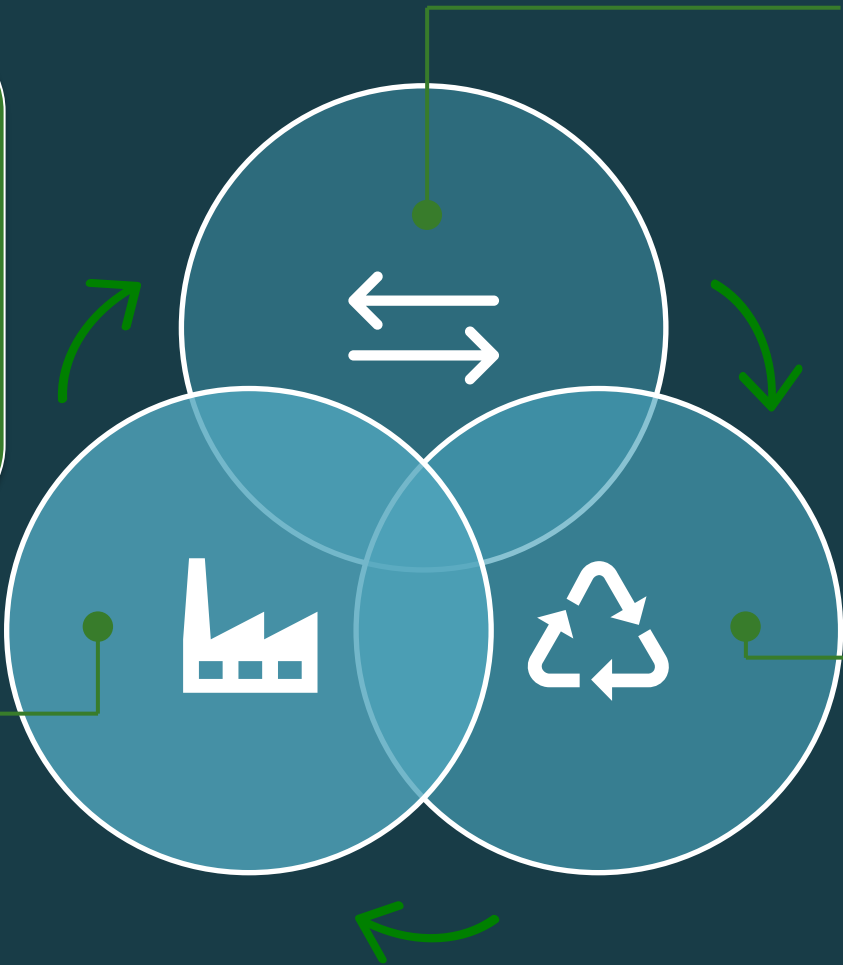
Gordon Banham
Chief Executive



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.

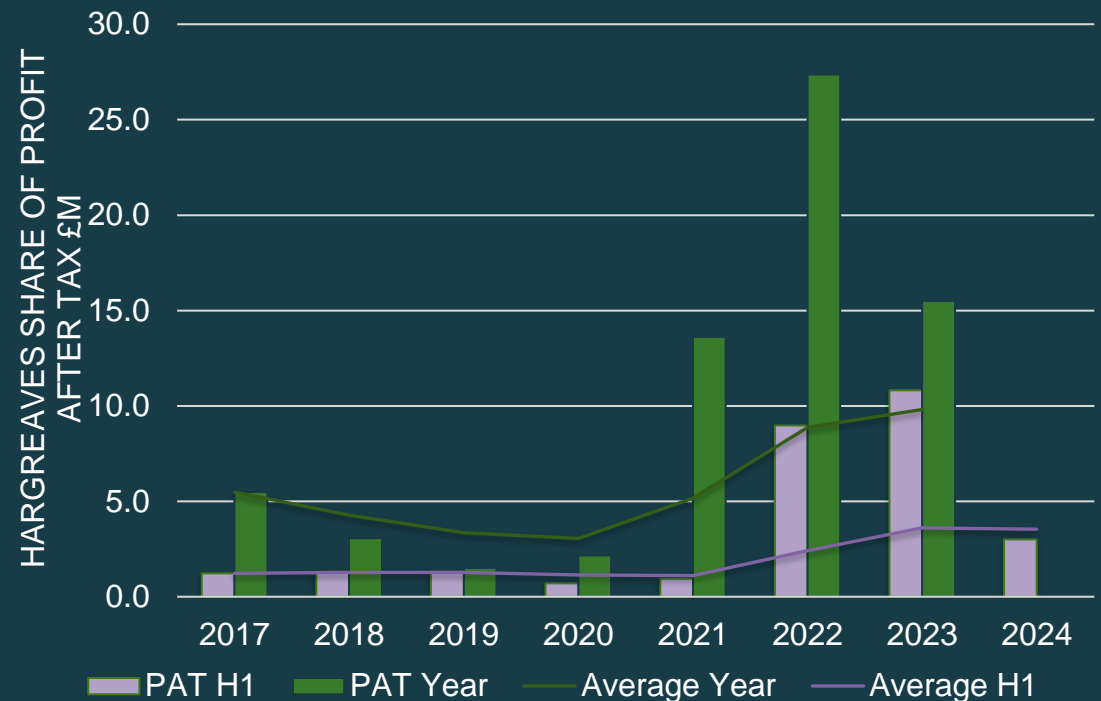
DK Recycling
One of the largest recyclers of ferrous waste materials in the world, producing pig iron and zinc.

Profits from trading in HRMS have been variable over the period of ownership, with profits depending on commodity cycles and market pricing.

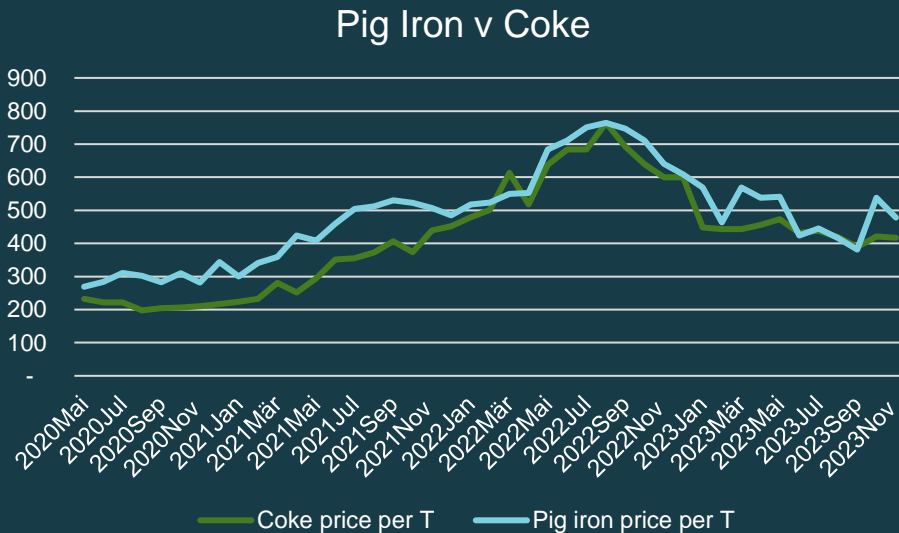
Levels of profit achieved have been linked to the size of the addressable market.

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



Pig Iron and Coke



- Pig iron and coke prices historic correlation coefficient of 94%.
- Pig iron prices have been very low during the period whilst coke pricing has remained high. This disparity in pricing has been impacted by the lack of an embargo on Russian pig iron being brought into Europe and suppressing the sales price of pig iron whilst coke pricing has been supported by an embargo on Russian product.

Zinc

- Zinc sales are 60% 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 \$2,500.
- There is no cost to DK in producing zinc as it is a byproduct of the recycling process so reduced selling process impacts profitability directly.

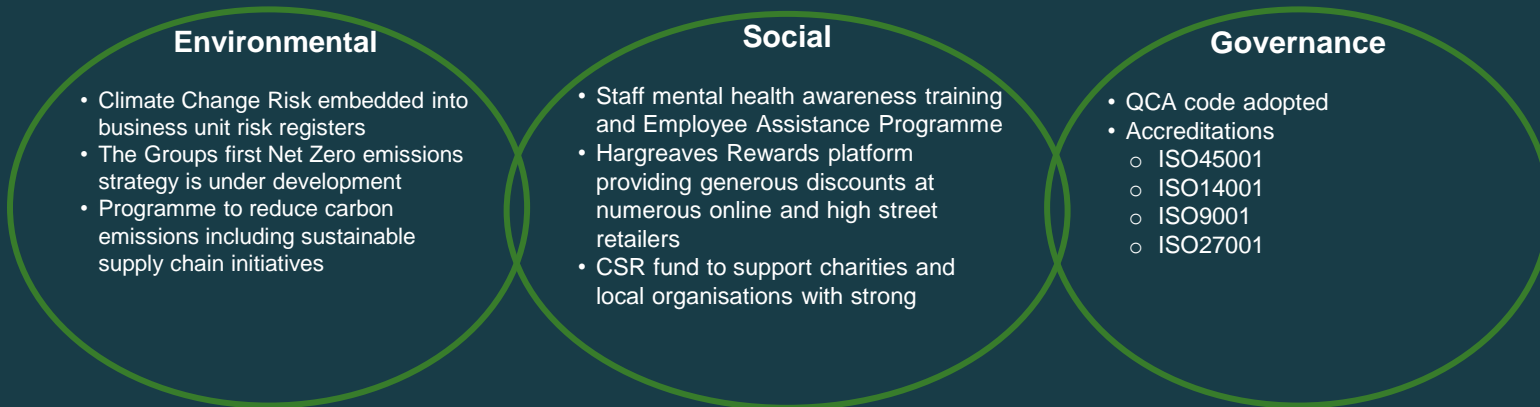
Chart below shows the zinc commodity levels over the last five years.



Hargreaves Services plc – ESG



- ✓ Appointed the Group’s first Head of ESG
- ✓ Awarded Best Environmental Sustainability Initiative 2023, for the second year running, in the EKFB Design and Delivery C23 Awards category for the Earthmoving Plant Anti Idle Campaign
- ✓ Integrum A rating and Gold accreditation to CSRA achieved
- ✓ Sustainability Framework 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



Services

- Over 90% of revenues secured under contract for the year ending 31 May 2024, cementing Services continued delivery of sustainable and reliable profits into the future

Land

- Poised to deliver its best ever full year result with several post period end completions secured and anticipated

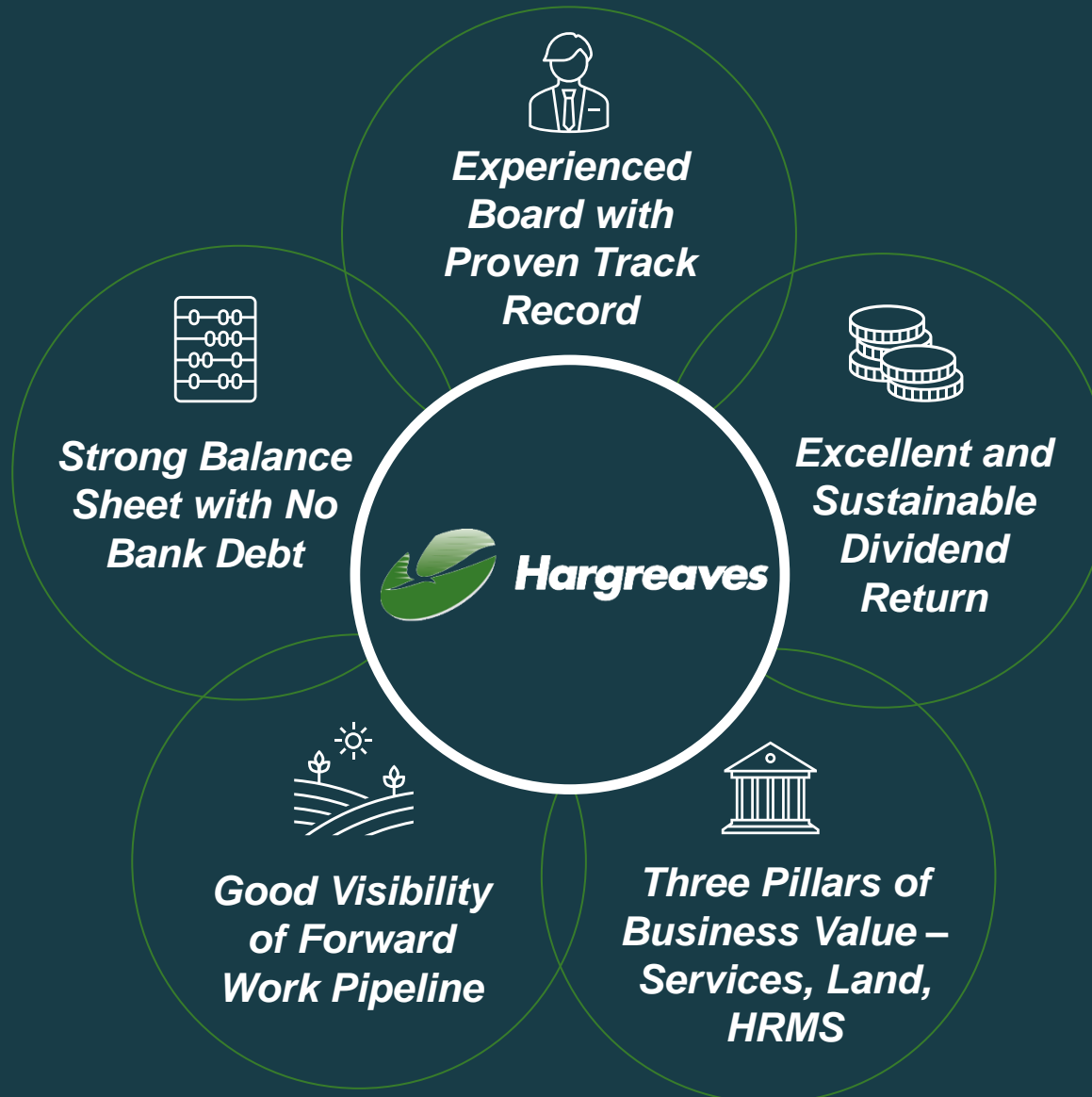
HRMS

- Changes to gate fees and the impact of EU sanctions on pig iron expected to drive significant improvement to profitability in FY25

Group Outlook

- Trading outlook for FY24 is strong led by Services and Hargreaves Land
- Pension scheme buy in expected in Q1 2024
- **Sustainable interim dividend increased to 18p**

Hargreaves Services plc – Investment Proposition



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