Severfield plc

Full Year results 2026

Presentation
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Transcript

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Paul McNerney: Good morning, everyone and thank you for joining us here in London this morning. Just as a reminder, I'm Paul McNerney, chief executive of Severfield and I'm pleased to be presenting our first full year results having joined the business last November. I'm here with Andrew Page, our CFO, who joined me in February of this year. So let me briefly run you through what we'll cover today. I'll start with our financial highlights, commenting on how we've performed in what has been a challenging market and describe our plans for how we wish to take this business forward over the medium term. I'll then hand over to Andrew again who will take you through the financials in more detail. After that, I'll come back and lay out our refresh strategy and describe how that responds to the prevailing market conditions and indeed how that will drive our medium term ambitions.

And at the end we will open up for some questions. So let me start with the year in review and my initial observations having joined the business six months ago. I've spent that time really getting to know the business and I've been very encouraged by the engineering excellence pedigree of the firm and our client confidence, which we never have and never will take for granted. We are the leading structural steel group in the UK, Europe, and India, with an unparalleled reputation for delivering complex, high quality projects and structures. That differentiation comes from our engineering expertise, our scale and our delivery experience. Across our three main geographies, we're well positioned in sectors with both positive long-term growth and countercyclical drivers, including defence and energy and data centres.

As a new leadership team, we've intervened to drive efficiency and improve productivity and indeed we've taken early action to address our cost base. What is clear to me is that this is that we need to sharpen our focus on quality of earnings, prioritising margin, cash generation, and therefore shareholder value. This requires a refresh of our strategy, which will bring less reliance on volume, more discipline in project selection, and a focus on the right geographies, sectors, and clients, and making greater use of partnerships to improve our agility and capital efficiency. Before I talk about our performance, I did want to comment on a few operational highlights. In Bridgwater, Somerset on the left, we work with Sir Robert McAlpine to deliver the Agratas major battery factory. Over 22,000 tonne of steel delivered in just 26 weeks, representing the latest example in a long track record of massive scale, highly engineered structures that we've delivered.

And on the right at the €4.5 billion project one in Belgium, we're working for INEOS, demonstrating our ability to deliver efficiently, fabricate in Europe and control multi-country logistics to deliver programme reliability. Both projects are a good example of the type of work we are increasingly focused on larger, more complex schemes where our engineering capability and delivery track record are valued and where we can be selective. They also showcase the integrated UK and European manufacturing capability. We expect to secure

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projects of a similar scale and nature to this in the coming months. In India, we are seeing increasing exposure to higher margin sectors with data centres and commercial property particularly increasing. Two of our current projects include on the left 14,000 tonne hyperscale data centre in Navi Mumbai and on the right 15,000 tonne project that we're delivering for the government in Amaravati.

These projects demonstrate our ability to secure and deliver large critical projects in India in attractive high growth sectors. Combined with a strong order book, expanding capacity, partners, and client sentiment, this reinforces our confidence in India and that it will be an increasingly important part of the group as we move forward.

So turning to our performance in FY26. Having walked in the door in November last year, we immediately set to work on ensuring our market commitments were met and despite a challenging backdrop we have delivered a resilient performance in line with expectations. As such, our underlying profit before tax was 10.5 million and our cash was significantly ahead of expectations. As of today, our order book is 507 million close to peak levels for this organisation. In India, our joint venture, JSSL, delivered a record performance with an output of 125,000 tonnes in the year. This reflects the high levels of economic growth and investment being seen across India, together with increasing demand for steel in preference to concrete, owing to its delivery and programme certainty.

We brought a laser focus to cash generation and working capital discipline and I was pleased that we were able to reduce net debt and strengthen our balance sheet. This will remain a key feature of this leadership team. Importantly, the actions that we've taken during the year position the group well to improve margin, quality and performance as we move into FY27 and beyond. So the previous few years have been challenging in terms of market conditions and a number of significant headwinds particularly in the UK have bitten. We've seen ongoing macroeconomic and geopolitical uncertainty including the impact of the Middle East war. More broadly, cost inflation and high interest rates have led to weaker traditional construction market output in the UK and this has led to pricing pressure and has impacted upon margins in the period. In the UK, we've seen increasing competition and the size of available market has contracted.

Whilst in Europe, our presence is becoming established. In India, our position is growing as we keep pace with the growth of that geography. Therefore, in response, we have refreshed our strategy to acknowledge and deal with the changed and evolving nature of our industry. We will be leaning into a broad geographic footprint and diversified sector approach allowing us to be more selective, prioritising work with better margin and cash, while reducing exposure to lower quality volume. This will position the business for improved performance as market conditions evolve.

In the first six months, we focused on delivering this FY26 result, launched a strategic refresh, and at the same time we've taken decisive action to strengthen the business with a clear focus on productivity and performance. We've acted with pace and clarity making a series of important interventions while continuing to operate the business effectively and drive the order book with the right type of work for future periods. We are strengthening our leadership and commercial focus with new executive hires and established a clients and markets function to deepen our client relationships, strengthen our market positions in our chosen sectors and drive early engagement. And we're seeing early successes such as our increased number of pre-construction service agreements, PCSAs, and the recent signing of an MOU with Global Engineering Group. Alongside this, you can see from the slide we've simplified our portfolio and operating model, reorganising our structure to suit and have moved to action in exiting non-core activities such as modular solutions.

We're also driving greater discipline through our operational and cost actions with a sharper focus across the business in how we execute and perform with the introduction of our weekly business plan review. Taken together, these actions are creating a simpler and more agile business, providing a strong platform for improved performance and returns and later you'll hear more from Andrew on the actions that have been taken around the balance sheet and cash. Our programme to become match fit has real momentum. We have more planned and we will continue through FY27. I'd now like to hand over to Andrew to talk through the financial performance.

Andrew Page: Well, thank you, Paul, and good morning everyone. Let's start with a summary of the results for FY26. Revenue was broadly flat year on year at £454 million. Underlying PBT was down from the prior year at 10.5 million in line with expectations. ROCE was similarly lower at 7.3%. Cash conversion was strong, as Paul has outlined, benefiting from a tight focus on cash collection, which remains a key priority in everything we do. Net debt was much improved at 28 million, representing leverage of 1.2x well within our target range. We'll come on to talk about this later. The UK and Europe order book now stands at 507 million, giving good visibility of activity levels for FY27 and beyond. And in India, JSSL achieved record performance both in terms of output and profitability, delivering a material contribution to the group's results in FY26 with continued growth expected going forward.

We'll come back to each of these over the next few slides.

So looking at revenue in a little more detail. Overall, revenue was broadly flat with a strong performance in H2 as a result of the actions we've been taking despite the challenging market backdrop. Revenues from our nuclear and infrastructure division increased, driven by higher activity on several nuclear projects, including Hinkley Point C and Sellafield, continued progress on a number of significant bridge projects and ongoing work for Ørsted. This more than offset the decline in commercial and industrial revenue where volumes were impacted by macro uncertainty and the resulting delays to major project

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awards. We also saw lower revenue from modular solutions at 12 million versus 16 million in the prior year following the decision to discontinue the business. Note that this will be classified as discontinued in FY27 once the business is fully closed.

Turning to underlying PBT, here you can see the component parts of the year-on-year movement, which shows a reduction from 18.1 million to 10.5 million overall. Despite broadly flat revenue, underlying operating margin declined from 4.8% in the prior year to 2.8% in FY26, reflecting the challenging market backdrop and previous volume-led strategy. Results for the modular business have been treated as non-underlying following the decision to discontinue the business, leading to the year-on-year decline compared to the small profit recognised last year. Partially offsetting this was the strong performance from JSSL, which made a record £3 million contribution from our 50% share up from broadly breakeven last year.

We recorded around £50 million of non-underlying costs in the year, generating a statutory loss before tax of 39.9 million. The key items are listed here in the table. 22.2 million related to non-cash impairments of the goodwill on our infrastructure business and our investment in the CMF joint venture, following a prudent review of the carrying values for these businesses. 12.6 million was recorded in respect to the modular solutions exit, including closure related costs and an onerous lease provision. And a further 8.3 million was recorded in relation to the Bridge Remedial Works programme, which is net of the 7.5 million insurance recovery received in the year.

We expect to complete the factory-based remediation work by the end of July and to have substantially completed all works by the end of FY27 and the balance relates to other one-off restructuring related items. Turning next to the UK and Europe order book, which as we've seen, currently stands at 507 million. Whilst the progressive roll off of older, lower margin projects will continue to create a headwind in FY27, tendering activity remains encouraging and there is an attractive pipeline of large scale, higher margin opportunities, particularly for FY28 and beyond. The sector showing the strongest growth in the order book are in transport and infrastructure, including the Old Oak Common station project for HS2 and data centres across a broad range of geographies. It's also encouraging to see a strong pipeline of high quality commercial office developments coming through and we are currently engaged in pre-construction service agreements across a number of large projects representing more than £100 million of potential future project value should these opportunities progress to contract ward.

In India, JSSL has performed particularly well, as Paul outlined, with new record levels of output and performance. With output reaching a record 125,000 tonnes in FY26, JSSL has now achieved material levels of profitability, generating over £14 million of EBITDA and 7 million PBT on a gross basis and contributing 3 million of profit for our share of the JV after tax. The order book has also stepped up considerably, now standing at a new record of 344 million with

particularly strong growth in higher margin commercial offices and data centres. Overall, we see significant opportunity for further growth in JSSL, which Paul will speak more about in a moment.

Looking next at our cashflow for FY26, the chart shows the key components split between recurring and non-recurring cashflow items and the resulting movement in net debt over the year. As shown on the left-hand side of the chart, working capital movements had a significant positive impact reflecting the unwind of previous contract positions and also the strong focus on cash collection as mentioned previously. CapEx was 2.1 million, which is lower than our typical maintenance capex level of around 8 million per annum and we expect to return towards these higher levels going forward and taxes were of course low given the loss making position.

On the right-hand side are the non-recurring items, namely an 11 million outflow relating to exceptional items and a 3 million cash inflow relating to the sale of the previously mothballed former Harry Peers nuclear factory in Bolton. Overall, net debt reduced by 15.1 million over the course of the year. Bringing this all together, the balance sheet is in a good position. The reduction in net debt means that our year end leverage of 1.2x is well within our 1.0 to 1.5x target range and this in turn is significantly below the 3x limit set under our facility covenants.

Earlier this month, we were pleased to secure a three-year extension to our banking facilities on improved terms and with two one-year extension options. The facility also has a 30 million accordion facility providing further financial flexibility and we no longer have a requirement for the JSSL option agreement that was previously in place. Therefore, when the option agreement expired earlier this year, it has not been replaced. Most importantly, our strong focus on cash and working capital continues. Note that we expect cash outflows in FY27 of around 20 million relating to the non-underlying provisions recognised in FY26, the vast majority relating to the bridge remedial work as the year-end provision flows into cashflow in the coming year.

These will be partially offset by a £10 million contract advance payment that we've already secured and we'll continue to actively manage working capital and other cash opportunities. This supports our objective of maintaining net debt at broadly similar levels to the end of FY26 and keeping leverage within our target range. This slide summarises our capital allocation framework illustrated by looking at sources and uses of funds for the group. The level of operating cashflow recorded in FY26 before working capital movements is sufficient to cover the underlying cashflow requirements of the group, maintenance CapEx, financing costs, lease payments, and tax. It would also cover the repayments on our term loan facility, which continue through FY27 and 28.

Incremental cash flow from the growth in the business underpins future capacity for both growth CapEx and dividends, as well as creating incremental debt capacity under our financing facilities. It is our intention to reinstate the

dividend when it is appropriate to do so underpinned by sustainable cash generation of the business. We recognise that the dividend is an important component of the overall return for shareholders and this all needs to fall within our financial framework with a target leverage range that is well within the limits set out in our covenants and with a clear requirement for any growth capex to be value accretive.

In addition, as Paul will outline shortly, our strategy is designed to minimise capital requirements both through tight working capital management and the use of strategic partnerships to underpin growth. In summary, in FY26, we demonstrated resilient performance in line with expectations. Our strong cash generation, improved liquidity, and extended banking facilities provide long-term financial flexibility. India is now making a material contribution to the group with further significant growth opportunities to come. The order book and pipeline provide further confidence for the medium term outlook. However, we continue to operate against the subdued UK market backdrop and are unwinding previously secured low margin projects. FY27 is therefore a transition year. In line with guidance, we expect to deliver 12 to 15 million of underlying PBT. Our medium term ambition is to improve profitability in excess of the peak levels seen in recent years, but in a more controlled manner and less susceptible to individual market weaknesses.

I'll now hand back to Paul, who will outline how we intend to do this.

Paul McNerney: So thank you, Andrew. And given that context, I will now set out our strategy refresh, describe how that responds to what we've heard so far and confirm those medium term ambitions for the firm. As we said we would, we've refreshed the strategy and we've reset the plan with a clear focus on creating reliable shareholder returns and delivering growth. At its core, our strategy is built around four goals. The first of those is delivering profitable growth and improved margin with disciplined project selection and strong cash conversion. Secondly, harnessing our recognised leading engineering partner status for complex high value projects. Thirdly, building a high performance culture within the business where our people are safe, engaged and accountable for operational excellence and finally doing good and building communities. Underlying this is a fundamental shift on how we think about this business. Historically, we've operated more as a linear left to right value chain, creating singular value through manufacturing to delivery.

From today, following client demand and discussion, we're building from our core strengths, our engineering expertise, our experience, our delivery capability to enable us to move further up the value chain. This will involve earlier engagement in projects through areas like feed, front end engineering and design, and the use of increasing PCSAs, pre-construction service agreements, and deepening our project presence upstream into project integration and management to focus more on our clients' needs. We're also much clearer on where we're focusing. We're prioritising on three core geographies, the UK, Europe, and India, each with distinct economic

characteristics and opportunity. The UK is clearly our established base. However, it remains subdued. Europe provides significant scaling opportunity, particularly in major projects and local country presence. And in India, we can see substantial growth opportunity. Delivery of this strategy is being driven through four transformation projects, clients and markets, Manufacturer 360, engineering excellence, and performance and productivity.

Taken together, these programmes are fundamentally about how work comes into this business, how we execute it, and how we continue to strengthen our capability. So we're refreshing our manufacturing approach. We're doubling down on engineering and we're improving overall performance and productivity across all aspects of the group. The actions we've taken so far have built Momentum. We are now focused on harnessing this energy to accelerate the pace of this transformation through FY27.

The next step in describing our strategy is to explain how that translates into how we will operate. As touched on earlier, at the core of this is an evolution in our operating model in response to our client's needs and their requests for us to evolve beyond the traditional linear manufacturing to delivery approach. This client-led approach will see us engage earlier, stay involved for longer, and ultimately capture more value across the life cycle of projects. This is structured across four service quadrants, which can be taken individually or as a group. They combine to give us more flexibility and optionality in how we deliver for our clients and how we allocate our capital. At the top of the diagram, project management, we are moving further up the value chain, taking on a more holistic approach and earlier stage roles such as project integration. This gives us a higher return, lower risk opportunities, stronger client engagement, and evolves the positioning of the business and we're doing this more through a partnered and collaborative basis.

In design and engineering, we intend to grow our design offering for both clients and partners to support and strengthen our engineering excellence offering, both in early stage project definition and in delivery. In manufacturing, we are seeking agility and flexibility in how we operate. We will focus on higher value add fabrication, optimising our footprint, and leveraging partnerships to improve efficiency without being constrained by fixed capacity. And in delivery, we will enhance our offering in project execution, plant and equipment, complex lifting, logistics, and marshalling. Importantly, this model allows us to decouple growth from full utilisation of our own facilities, reducing the reliance on volume driven, low margin work, and instead focusing on value. Ultimately, this is all supporting margin progression, stronger cash generation, and a more capital efficient, less leveraged operating model.

Turning to UK and Europe, we have a leading structural steel position in the UK and an expanding footprint in Europe. And the focus now is on how to evolve this in a more strategic manner. In the UK, the emphasis firmly on margin and quality of earnings. We're focusing on higher growth, higher margin sectors, particularly where projects are complex and engineering led, because that is

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where our capability differentiates most strongly. Examples would be defence and energy. In Europe, the opportunity is different. Today, we are an emerging presence in that geography. Therefore, the focus is on major projects such as project one and hyperscale data centres and expanding our presence in a disciplined capital light way country by country where the opportunity exists and building off our established presence in the Netherlands. Across both, the common thread is discipline, not chasing volume, and focusing on opportunities aligned with our capabilities and for stronger returns.

In India, we have an offer a very specific opportunity. As I said at the top of this presentation, JSSL is now acting as a significant growth platform for the group. The market itself is compelling with the GDP growth of circa 8% per annum, a massive uptick in demand for infrastructure and buildings, an increasing national skill shortage and a recognition of the benefits of steel versus traditional approaches. Our partner, JSW Steel, continues to expand at an accelerating rate with a total steel production likely to exceed 62 million tonnes per annum by 2032. Against that backdrop, our order book and delivered tonnages are scaling rapidly. We're seeing increasing exposure to high margin sectors such as commercial buildings, data centres, advanced manufacturing and transport infrastructure, all of which create opportunity to unpack our engineering capability. Our growth is being delivered in a capital efficient way. With our second facility at Gujarat now online, And a contract manufacturing model being deployed to flexibly support growth and avoid overloading fixed capacity.

So overall, India has reached a tipping point. It has always represented a significant long-term growth opportunity. We are now seeing that come forward and therefore it figures so firmly and squarely in our strategy. So our medium-term ambition is to grow underlying profit before tax from the 10.5 million of today to between 40 and 50 million in the medium term. That step change will be driven by the coordinated delivery of the strategy I've just outlined and the steps to close that gap can be broadly grouped as follows from left to right. Through improved efficiency and productivity across the business, particularly as we optimise factory utilisation and embed the changes we've already started through more disciplined project selection and better sector mix as we focus increasingly on higher margin work by leveraging a more flexible capital light delivery model, allowing us to scale without being constrained by fixed capacity or capital intensity and enacting our four quadrants.

And finally through continued growth in India. So this is not one single lever, it's the combination of these to bring cash generative growth.

In summary and to conclude, we're building on our core strengths while sharpening where we play and how we deliver through greater selectivity, a more flexible capital light model and continued expansion in geographies like India and Europe. That underpins a clear set of medium term ambitions. A business of 500 to 550 million of revenue, 7% to 8% of operating margin, a step change in profitability from 40 to 50 million including India, cash conversion

above 90%, leverage in the one to 1.5 range and a ROCE above 15%. We are setting out how we plan to improve profitability in excess of the peak levels seen in recent years, but importantly in a more controlled manner with less susceptibility to individual market weaknesses, this will deliver stronger, more consistent returns with greater capital efficiency over the medium term.

Thank you for listening.

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