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Patrick André - Chief Executive Officer
Mark Collis - Chief Financial Officer
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Operator: Good day, ladies and gentlemen, and welcome to the Vesuvius Trading Update. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session through the phone lines, and instructions will follow at that time. I would like to remind all participants that this call is being recorded.

I will now hand over to the CEO of Vesuvius, Patrick André, to open the presentation. Please go ahead.

Patrick André: Good morning, everyone. My name is Patrick André; I'm the Chief Executive Officer of Vesuvius. And today with me this morning is Mark Collis, our Chief Financial Officer. Thank you for joining in on such short notice. The purpose of today's statements on this call is to talk about our 2025 outlook. We will give full details on our H1 trading when we announce…which is planned for the 6th of August.

To set the context, we've seen during the first half a clear continuation of the challenging market conditions that we had noted during our AGM trading update in May, with a continuing uncertain macroeconomic environment and subdued global industrial activity, leading to a continuing weakness in both our end markets of steel and foundry. Against this difficult backdrop, our trading profit for the first half of 2025 is anticipated to be around £77 million, which is consistent with our expectations despite the negative market conditions. This was possible thanks to not only short-term cost reduction measures, but above all, strong progress above our expectations in the implementation of our structural cost reduction program. And regarding this structural recurring cost reduction program, we are now planning to significantly exceed our objective of £45 million of recurring cash cost savings per year that we had set for 2028. We are not planning to do significantly better than that.

Regarding the rest of the year, contrary to our previous expectations, we are now anticipating that the challenging market conditions of the first half will mostly persist for the second half. We were in our previous guidance relatively heavily weighted on H2. What we see today, considering the remaining…the persisting uncertainty, this recovery of markets more being postponed to 2026. At the same time, the pricing environment remains difficult in particularly in Europe and in China, which has been limiting for the time being, or the ability to fully recover through price increases, labor cost inflation. However, we anticipate that we will progressively improve our pricing performance over the second half, and we are passing price increases as we speak. And some of them are already implemented to partially recover this gap between price and cost of the first half. However, this will be done with a delayed effect, which will still impact on a full-year in-year basis, the year 2025. However, we anticipate that we will recover from all of this by the end of 2025.

As a result of this downgrading of our market expectations for the second half, we now expect our performance in the second half of the year to be broadly similar to what we've achieved during the first half, with further progress being postponed to 2026, where we expect that our results should improve with first with market improvement. But also, the continuation of our cost reduction measures, which will produce not only the one we are implementing now, which will produce the full year effect in 2026, but we will continue to add more cost improvement measures in 2026.

So now I propose to open the floor for questions, and Mark and I will answer any questions you may have.

Operator: Thank you. We will now begin the question-and-answer session. And if you have dialed in and would like to ask a question, please press star one on your telephone keypad to raise your hand and join the queue. If you would like to withdraw your question, simply press star one again. If you are called upon to ask your question and are listening via loudspeaker on your device, please pick up your handset and ensure that your phone is not on mute when asking your question.

And your first question comes from the line of Lush Mahendrarajah from JP Morgan. Please go ahead.

Lush Mahendrarajah: Morning, guys. Thanks for taking my questions. I think I've got two if that works. The first was just on the guidance and sort of sequentially flat in H2. Can I just check what you're assuming in terms of volumes and price cost in the second half? And it sounds like going to be pushing prices in the second half. I guess what makes you confident that that will get accepted by customers?

And then the second question is just on market share. Can you sort of talk about some of the market share movements in H1 across the three businesses?

And in the context of pushing prices into the second half, do you think your competitors will follow? And how do you think of the market share in the second half as well? Thank you.

Patrick André: Thank you, Lush. So on your first question, we expect the overall market situation to be more or less similar in H2 as compared with H1. Which means that because of the traditional seasonality, especially in Europe, volume to be a bit lower in H2 than in H1. However, we expect our pricing to be higher in H2 than in H1. And to answer your specific question about pricing, we are now clearly, as we speak, passing price increases. And most of the time, our customers understand the reason and accept the price increases. But when they do not accept the price increase, we have no other choice but to increase prices nevertheless, because our principle is that we have to recover our own costs with prices, has to remain valid. So we are now, in some cases, adding to force some pricing increase to customers. But many of them, the vast majority of them, also understand the situation the industry globally is in, and have a long-term relationship with us and understand the reasons why we need to increase prices.

Regarding market share, the three business units has been gaining market share during the first half: Flow control, Foundry, but also Advanced Refractories. The advanced refractories, which has been over the past two years, done very well in India but lost a little bit of market share in Europe and in the US. We are now past the inflection point. We have started to recover some market share in both the US and in Europe in advanced refractories. So we had relatively good market share performance in each of the three business units during the first half, and we expect this to continue in the second half.

Lush Mahendrarajah: Okay. Brilliant. Thank you.

Operator: Your next question is from the line of Andrew Douglas of Jefferies. Your line is open.

Andrew Douglas: Good morning, guys. Can you just talk in a bit more detail maybe about the restructuring plans that you've outlined? You've talked about having additional benefits over and above the £45 million. It might be a bit early, so apologies for the question. Does this involve materially more restructuring actions in Europe, potentially given your commentary about Europe? And how do we balance the challenges that you have in Europe, maybe from a capacity perspective, with the opportunities in India? India's steel production is still clearly growing very nicely, I suspect more capacity needs to be put into to India. So is this just a shift from Europe to India and maybe Southeast Asia, or do you have to take more drastic action in Europe from a capacity perspective?

And just broadly, the second question, it's probably a third question. With regards to India and Southeast Asia. It sounds like they're the main positive hotspots for you guys at the moment. Can I just confirm that, if that's indeed the case?

Patrick André: Thank you, Andrew. Regarding your first question, you are spot on. we are accelerating and amplifying our restructuring in Europe. You know that we closed our foundry plant in the U.K. beginning of the year. We announced a few days ago that we will close the manufacturing activity of one of our sensors and probes plants in Italy. So we are clearly heavily restructuring our manufacturing footprints in Europe to make it…to adapt its size to what we believe will be the size of the European market going forward. And also, to make sure that those plants will remain in Europe, because we will keep some plants in Europe, and the European markets remain important for us, even if it is declining. But those plants will be extremely competitive because we are investing in automation, digitalization in those plants, which will be the long-term flagship plants of the group in Europe. But it's clearly heavily restructuring in Europe in terms of manufacturing and capacity.

At the same time, we are considering to expand in India, our new capital investment, which we have invested over the past two years in India, is now ramping up. So this gives us, I would say, for the next two or three years, all the capacity we need to continue to follow the very strong growth of the Indian market. But at the same time, because we don't believe that India, and I'm answering a little bit of your second question, we see this growth in India extending much beyond the two to three years to come. What we are really seeing, the India having its optimistic movements, and we are very, very positive about the growth in India for the next not only two years but for the next 10 or 20 years. So, two to three years from now, we are already starting to study the capacity expansion which will be needed in India to continue to support our growth beyond the next two to three years. The good news is that all this [indiscernible] first, we have the room to do it. We have the space with the acquisition that was made a few years ago of the new Visak site in India. We have the space, industrial space ready and available to accommodate those expansions. Our Kolkata plants also has room for further expansion for the flow control products for the flow control isostatic products. And the cost of this expansion is limited because these are brownfield investments, not greenfield. And so we have the unique advantage in India to be able to expand very significantly over the next 10 years our production capacity to follow the growth of the market at marginal CapEx cost simply by brownfield expansion of our two existing sites in Kolkata and in Visak. I think the key advantage is that none other really has in India, this will support our growth in India over and above the natural strong growth of the market in India.

We are outpacing those in the foundry and in steel, the growth of the steel markets in India, and we intend to continue to do so in the years to come.

Andrew Douglas: Very kind. Thank you.

Operator: Your next question is from the line of Harry Philips of Peel Hunt. Please go ahead.

Harry Philips: Yes. Good morning, everyone. Just a couple of questions, also, please. Just thinking about the sort of price-volume dynamic, particularly in the second half. I mean, it would be helpful if you could give us an idea of where revenue was alongside the £77 million EBIT you talked about? And then, when thinking about that second half compared to where you thought it was going to be, as you say, how much…what would be the balance between price and volume? I suppose I'm just trying to work out the extent of the price pressure. And then on top of that, the sort of difference between foundry and steel? Because obviously, if it's a European headwind, particularly, then the foundry looks like it's probably getting a disproportionately large hit. And then I've got a question on cost savings as well, but maybe just start with that, please.

Patrick André: Thank you very much, Harry. I will let Mark comment further. But before I pass over to Mark, regarding the price volume for the second half, we expect because of seasonality mostly and not because markets will be that much worse, but because of seasonality. We expect volumes in the second half to be a bit lower than volume in the first half, but we expect prices to be better in the second half than in the first half. But maybe, Mark, you would like to comment further on that?

Mark Collis: Yes. Thanks, Patrick. So just to give you some numbers, Harry, which I think will help you. So revenue for the first half is just a tad over £900 million. So you're basically seeing 8.5% return on sales with the 77% for the first half. And then our current expectations for revenue for the full year is around £1.85 billion. And the margin remains the same. So basically, what you're seeing there in our best estimates are effectively, as Patrick rightly said, lower volumes, but slightly better pricing. And that's how we basically end up with a number in the second half similar to the first half.

Harry Philips: And that that would sort of have a sense that steel is sort of…it just looks much more sort of foundry-centric, would that be right, rather than steel? Steel looks a bit soft, but foundry looks a sort of a bit more sort of bruised.

Patrick André: It's clear that this process is more or less half and half. So it means that this is disproportionately more in the foundry and steel. However, steel in Europe is still soft. It is one of the important, I would say, market situation parameters, it’s not only the foundry market, which is soft in Europe. The steel market is now clearly showing sign of structural weakness in Europe.

And I say structural because we do not think that this is cyclical. The steel producers in Europe are clearly [indiscernible], kind of disturbing. The last hope that the government and the EU Commission will really enact, will really take action to protect the steel sector in Europe, even if there is a lot of talk about it. The last one is that they will say something in September after they are back from vacation, but nobody is really trusting that what they will say in September will be anything of substance. And so we start to see now some structural decisions by steel producers to move away from Europe. This is clearly putting the steel markets in Europe in a structural declining trend. A miracle is always possible, maybe the European Commission will wake up at some point. But I don't think anybody is putting that in their best-case scenario.

Harry Philips:

That makes sense.

Mark Collis: You know, I think just…Harry, the other thing, I would just add to Patrick, is that one thing to watch out for is what we would regard as mix, say or effectively the level of drop-through on volume is definitely weaker this time around in steel compared to foundry. And it's really a feature of just the clients buying services at the lower end, particularly in Europe, as they're trying to obviously minimize their operating costs. So we're seeing…that's something that's a relatively new phenomenon, it's impacting the drop-through significantly in Europe and in steel.

Harry Philips: And then just in terms of the cost savings? I mean, if I remember right, you're still looking at about £13-14 million this year. Does that change materially? I mean, is it too early, or will you wait till August to give us maybe an idea on how that flows?

Patrick André: Mark will comment further, Harry. Yes, you should expect more than £14 million this year. So in terms of recurring cash savings, we are really accelerating our program and expanding our program, especially in Europe. And so not only we are increasing our £45 million targets for the year 2028, but already this year, you should expect more recurring cash cost savings this year than what we had in our previous guidance. But maybe Mark can comment a bit further on that.

Mark Collis: Yes, I think we will obviously, we're definitely going to be ahead of the 13% pro rata. So we're probably looking at order of magnitude of around 10% for the first half and there's no reason why that shouldn't largely continue throughout the balance of the year, because it's obviously permanent savings, and we're pushing harder in the second half, particularly in foundry. So I think that answers your question, Harry, there's a lot. It's a lot stronger…we're making a lot stronger progress than we anticipated at the start of the year. So we're ahead and then on…

Harry Philips: I mean, just be clear, so I don't misinterpret. So 20 for the year or thereabouts, just...

Mark Collis: I think that's a fair assumption. And then obviously we've also continued with our short-term cost reduction measures as well that we really instigated last year, and we'll continue with that throughout this year.

Harry Philips: And then just very finally just on the tax charge and stuff. There's a bit of debate back in May around how to treat the sort of let's call it one off.

Mark Collis: Yes. So, I'm happy to give you an update. So yes, just for everyone else's benefit, we repatriated around £50 million of additional cash from China through the introduction of a non-recourse loan. The idea being that Chinese interest rates clearly a lot lower than anywhere else around the world, so while there's an annualized savings benefit and effectively a payback of about 18 months. The one-off downside is an additional withholding tax charge to repatriate that cash, which is about £3 million, and we were debating whether that was above or below the line impact on the tax charge itself. So in the end, we've decided to record that as below the line. So they will record the £3 million as a separately reported item on the basis, and it is one-off that's been agreed with our auditors.

Harry Philips: Thanks very much.

Mark Collis: The headline tax rate effectively remains the same at 27.5%.

Harry Philips: Yes. Perfect. Thanks very much indeed.

Operator: And a reminder, if you would like to ask a question, please press star on your telephone keypad to raise your hand and join the queue. Again, that is star one to raise your hand and join the queue. And we'll pause for a moment for any final questions.

You have a further follow up question from Harry Phillips of Peel Hunt. Please go ahead.

Harry Philips: Sorry. Just again, a bit of housekeeping just to make sure I've got this right. Is £900 million of revenue, just had over the first half, and sort of circa 1850 for the year is the thought, just to make sure I've got that correct?

Mark Collis: Yes, No, that's spot on.

Harry Philips: Lovely. Thanks very much indeed.

Operator: And there are no further questions on the conference line. I will now hand over to management for closing remarks.

Patrick André: Thank you. Thank you very much to all of you for taking the time to join the call today. We hope Mark and I to see you all at our half year results on Wednesday, the 6th of August 2025, where you will have the opportunity to ask, of course, many more questions. Thank you to all, and I wish you a very nice day. Goodbye.