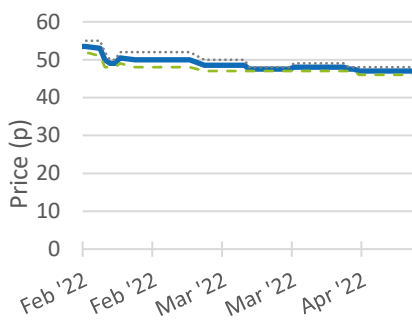


12 April 2022

**Stock Data**

Ticker (AIM)	HERC.LN
Share Price	£0.47
Market Cap	£27.6M
Ent. Value	£36.7M
Price Target	£0.74
Projected Return	~57.5%

**Price Chart**



Source: Bloomberg

**Special Sits Research**

**Tania Maciver**

+44 07 5514 44787

tania.maciver@spangel.co.uk

**Equity Sales**

**Rob Rees**

+44 20 3470 0535

rob.rees@spangel.co.uk

**Grant Barker**

+44 20 3470 0471

grant.barker@spangel.co.uk

**Richard Parlons**

+44 20 3470 0472

richard.parlons@spangel.co.uk

**Abigail Wayne**

+44 20 3470 0534

abigail.wayne@spangel.co.uk

# Special Sits Research

## Hercules Site Services plc

### AIM IPO: Tech Enabled Labour Supply

Hercules Site Services plc (Hercules or Company) has completed an initial public offering on the AIM market of the London Stock Exchange. Hercules' core business is the provision of labour to its blue-chip clients operating within the infrastructure sector of the UK construction industry. Outside of the Labour Supply Division, Hercules operates a Construction Services Division that includes civil engineering project management, Suction Excavator Services, and mobile health solutions for workers on-site. The Company has developed a digital application platform, a key differentiator in labour supply services, underpinning all of its operations. The Hercules Digital Platform assists with the recruitment and on-boarding of accredited workers for its clients and is being further developed to provide data analysis and optimise on-site labour productivity and cost efficiency.

**The UK infrastructure construction sector is poised for growth:** Nearly £650 billion in spending has been committed by the UK Government and private investors on UK infrastructure development over the next ten years, with commitments for over £100bn in 2021/22. This translates into demand for over 495,000 construction workers over the next 5 years.

**Hercules is well-placed to secure new contracts with a strong track record:** With a solid history of growth and operational execution, Hercules is embarking on a very high phase of growth, supported by recent project wins for labour supply, including the HS2 project under the Balfour Beatty Vinci JV, and developments within its Construction Services Division supported by its internally developed Digital Recruitment and Analytics Platform.

**Valuation:** Based on a discounted cash flow valuation (10.0% WACC, 3.5% TG) we estimate a value for Hercules of ~£43.4m. This is supported by a multiples-based valuation from a set of comps which results in a valuation range of £35m to £45m. Notably, there are no perfect comps to Hercules, but we have compiled comps grouped by their type of service offering that aligns with Hercules services that it offers to the construction industry. This translates to a price target of £0.74 (+57.5% to the current price). Also, the first dividend payment has been announced with the reporting of F2021 results, initially representing ~3.5% return for investors at IPO.

**Outlook**

We believe Hercules is firmly positioned in the construction labour supply and site services market to succeed in its future growth plans and deliver strong shareholder returns. The Company is led by an exceptional management team, focused on driving operations through this next stage of growth and expansion.

There is a clear opportunity in the site services market to challenge the more traditional competitors by focusing on the needs of the workforce and the construction customers/partners leading project development. We see Hercules as an innovative leader in the market, particularly with the early-mover advantage in developing its Digital Recruitment and Analytics Platform, and the creation of Mobile Health Solutions services for clients. This type of innovation will not only drive growth in revenue over the long term, but it should also serve to strengthen industry and customer partnerships.

YE Sept 30 ('000s)	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	19,870.0	30,699.7	22,950.8	32,754.5	45,175.0	62,264.0	67,784.0	70,106.0
Growth y/y	0.0%	54.5%	-25.2%	42.7%	37.9%	37.8%	8.9%	3.4%
EBITDA	1,268.1	1,733.3	1,352.9	2,420.2	2,227.5	5,020.1	5,509.4	5,848.7
Growth y/y	0.0%	36.7%	-21.9%	78.9%	-8.0%	125.4%	9.7%	6.2%
Net profit after tax	787.1	1,855.3	1,208.7	(56.2)	(243.2)	3,083.1	2,936.1	2,602.7
EV/EBITDA (x)					19.5	8.6	7.9	7.4
Cash and cash equivalents	1,037.3	979.4	2,015.6	1,465.3	2,975.1	4,692.1	7,239.3	10,058.5

## INVESTMENT SUMMARY

Hercules Site Services plc was founded in 2008 with a core business of supplying skilled labour for infrastructure construction companies. Operations were later expanded to include a Civil Works Division which includes the provision of labour, plant, materials, and total project management oversight to complete an entire project. More recently a Suction Excavator Services Division was added under the Construction Services umbrella alongside Civil Works, for the supply of suction excavator services with skilled labour. Underpinning both the Labour Supply and Construction Services Divisions is a propriety, internally developed digital recruitment and onboarding platform with analytics capabilities being added for the efficient management of projects and employees. We believe this digital aspect of the Company is unique in the industry, providing Hercules with significant advantages over its peers.

With a solid history of growth and operational execution, Hercules is now embarking on a very high phase of growth, supported by recent project wins for labour supply and developments within its Construction Services Division and underpinned by its Digital Recruitment and Analytics Platform. In particular, Hercules has been selected as one of six suppliers to the Labour Desk for the Balfour Beatty Vinci Joint Venture (BBV JV) of the UK High Speed Rail project (HS2). The timing for the Company to undertake an initial public offering was well aligned with this high growth phase. As such, Hercules has raised £8m before expenses through an initial public offering of the Company on the AIM market of the London Stock Exchange, trading under the ticker HERC. The net proceeds of the placing will be allocated to the expansion of the suction excavator fleet and HS2 transport investment and working capital to drive growth, which includes the roll out of enhancements to the Hercules Digital Platform, labour ramp-up to support the work on HS2 and the suction excavator fleet, and training/upskilling of employees. £4.0m has been allocated to a sell-down by the current shareholder, Hercules Real Estate (HRE), which prior to the IPO owned 100% of the Company. Given the Company's next phase of very high growth it is essential that its balance sheet demonstrates the strength of its capabilities, particularly given the calibre of clients and customers with which the Company contracts for services.

*Hercules is embarking on a high growth phase*

### Poised for Growth

1. Hercules has a strong pipeline of projects and continues to win more top tier contracts
2. The Company is strategically positioned to work with blue-chip construction clients in the construction sector
3. Hercules has proven it can attract and retain a high quality and loyal workforce
4. The Company has evolved its revenue model to include drivers from several lines of business: Labour Supply, Civil Works Projects, and Suction Excavator Services. There is the near-term potential to expand this to include revenue drivers from Mobile Health Services, the formal development of a Training Academy, and the monetisation of the Digital and Analytics Platform.
5. Hercules is focused on organic expansion through the cross-selling of services to its growing base of clients. This is underpinned by its own internally developed digital recruitment and analytics platform which is transforming the operations of projects and driving improvements in outcome metrics.
6. There are additional opportunities for growth by acquisition, in what is a highly fragmented construction industry.

### Market Dynamics Supporting LT Growth

- Nearly £650bn has been committed to infrastructure spending in the UK over the next ten years by the UK government and private investment, with commitments for over £100bn in 2021/22.
- As a result of this long-term spending commitment on infrastructure development, the demand for labour in this market, as well as training and upskilling is expected to explode. Early estimates are calling for over 425,000 workers in construction in the

coming years – though we have already seen reports increasing this to 495,000 workers and growing.

### Financial Performance

The Company reported very solid financial results for the year-ended 30 September 2021, with revenue growth of over 40% y/y to £32.8m. The challenges related to the impact of the COVID pandemic since early in 2020 were spread broadly across the construction industry, though by early 2021 the sector began to recover. Adjusted EBITDA, excluding one-time costs, for F2021 was £2.4m, up almost 80% from F2020, with solid growth of 34.4% in Labour Supply and aggressive growth in Construction Services of 67%. The first Suction Excavators were put to use in 2021 at over 85% usage rates on a weekly basis, driving much of the Construction Services growth. This further supported an increase in gross margin to 20.4%, from 18.7% in F2020. Net profits for the year were £(0.056)m, essentially break-even, following the expected bad debt write-down of £0.6m, and £0.3m of one-time costs associated with the AIM IPO recently completed. Recall that NMCN plc went into administration at the end of September 2021 and at the time had not fully paid HERC for its services. This is the first time that such a write-down has been taken by Hercules, in its 14-year history, and we anticipate that some of these funds may be recoverable. Cash at year-end was £1.5m.

Hercules' financial position is very strong and stable under the careful watch of the management and Board. With supportive growth in the UK infrastructure sector and new contract wins such as the BBV JV Labour Desk, we expect the Company to undergo a very high growth phase for the next two years, following by more stable longer-term growth level. With that, revenue is expected to hit roughly £45.2m in F2022E (+38% y/y growth) and over £62m (+38% y/y growth) in F2023E resulting in adj. EBITDA in F2022E of £2.2m and in F2023E of £5.0m. This represents very transformative growth for the Company, providing a solid core of operations for investors seeking a stable yield in the longer-term.

### Outlook

Hercules Site Services plc is a company that has been carefully and strategically grown since inception by an exceptional management team with extensive experience. It is a recognised, high-quality brand in construction services, partnered with many of the top tier construction companies on high profile projects across the UK. We believe the Company is a leader in the industry with its Digital Recruitment and Analytics Platform helping to transform construction into an efficient, sustainable, and profitable sector in which people can find well paid positions, with opportunities for training and promotion, work-life balance and a solid health and safety profile.

The Company is poised to nearly double its Labour Supply Division in the next two to three years as it continues work on the HS2 project with the Balfour Beatty Vinci joint venture (BBV JV). Coupled with the expected growth in Construction Services from both the Civil Works Division and the Suction Excavator Services Division, we see top line revenue growth of over ~38% in F2022E and F2023E on what we believe are conservative forecasts. This leads us to a discounted cash flow valuation of roughly £43.4m or £0.74/shr. Given the expected cash flow generation in the near-term, the Company intends to pay a progressive dividend in line with its growth profile.

## DISRUPTING THE INFRASTRUCTURE SERVICES MARKET

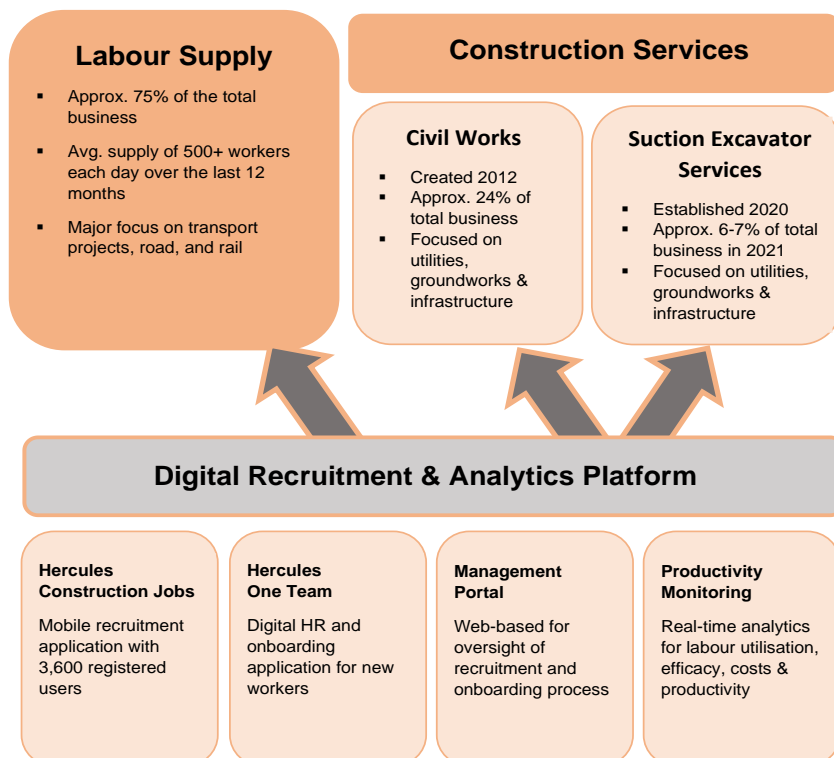
Hercules Site Services plc was founded in 2008 by Chief Executive Officer, Brusk Korkmaz, to provide labour supply and civil engineering project management to UK blue-chip construction companies after he identified a gap in the infrastructure construction market. In 2016, the Company moved to its new purpose-built offices in South Cerney, near Cirencester in Gloucestershire, centrally located to permit ease of access to core UK infrastructure development regions and also to allow room for future growth.

The Company's core business is in skilled labour supply for infrastructure construction which includes the recruitment and supply of contract workers and employees with relevant skills and qualifications to fulfil a diverse range of site positions, including ground workers, carpenters, bricklayers, and site engineers as examples. In 2009, Hercules won a labour supply contract with its first large client, Black & Veatch, for labour supply services and the management of small civil works projects for Thames Water development. Black & Veatch was appointed to appraise flooding resilience at a number of water treatment sites in the UK, as part of a £4.9b investment programme from 2010 to 2015. This first large win for Hercules was followed by a few years of sustained growth in contract and project wins. After achieving critical scale in 2012 Hercules formally established its Civil Projects Division, separately from the Labour Supply Division. Given the growth experienced to date and the apparent gap in the market, Hercules believed that a dedicated Civil Projects Team was required to oversee the delivery of civil engineering projects to clients in the infrastructure construction sector. This includes the provision of labour, plant, materials, and total project management oversight to complete an entire project. Civil Projects currently falls under the Construction Services umbrella within Hercules, alongside the Suction Excavator (SE) Services Division that was formed in 2020.

Underpinning the Labour Supply and Construction Services Divisions, sits a proprietary digital recruitment and analytics application for which development began in 2012. In 2019 the Company established a separate Digital Division as part of its core operational structure recognising the potential of its proprietary platform. The Digital Platform, currently with over 3,600 registered users, accelerates the recruitment and onboarding process of workers in a seamless process, creating efficiencies for Hercules' clients but also enabling Hercules to meet labour source stipulations embedded in client contracts, as well as to help manage the quality of life of the worker/employee. As an early mover in digital transformation in labour recruitment and project management within infrastructure construction, Hercules has differentiated itself from its peers.

*HERC's digital recruitment & analytics platform is a key differentiator*

**FIGURE 1: HERCULES OPERATING DIVISIONS**



SOURCE: Company reports

The combination of services offered by the Company, reinforced by an internally developed digital recruitment and analytics platform, puts Hercules at the forefront of the UK infrastructure construction services sector by allowing the Company to tailor efficient solutions to clients and to provide a more positive working environment for its employees.

## Labour Supply Division

The supply of skilled and qualified labour to blue-chip construction companies for key infrastructure projects across the UK comprises roughly 74% of annual F2020 revenue. In this division Hercules supplies a wide range of trades to its construction clients across the UK, on short notice. The Company has developed a reputation for the supply of reliable, skilled, and competent workers for any site management work. This stems from a strong corporate culture focused on improving the lives of its workforce, which embeds meaningful workforce focused initiatives such as Fairness, Inclusion and Respect (FIR) into its operations.

*HERC is one of the few with the BES 6002 Ethical Labour Sourcing accreditation*

FIGURE 2: TRADES SUPPLIED TO CLIENTS



SOURCE: Company reports

The Labour Supply Division is led by a dedicated operations and resource team with a diverse set of qualifications and experience levels including:

- **Gary White, HS&E Manager:** A Chartered H&S Practitioner with IOSH. 30 years' experience of Risk Management & mitigation. 3 years with Hercules.
- **Graham Fletcher, Resource Manager:** Formwork Carpenter by trade with site-based experience in various roles for the past 24 years. Been with Hercules for 8 years and 2.5 years in the operations team
- **Brogan Carter, HR Manager:** Brogan joined as HR Administrator in 2019, was promoted to HR Advisor and is now HR Manager. She has completed the CIPD Level 3 Certificate in Human resources associate member of the CIPD and is working on the CIPD Level 5 Diploma in Human Resources management. Brogan also qualified as a First Aider and a Level 3 Award in supervising first aid in mental health, she also has a recruiting background.
- **Gary Smith, Project Manager:** 19 years Civil Engineering experience at various management levels. 4 years with Hercules.
- **Boris Karaivanski, Senior Operations Manager:** Steel Fixer by trade with over 25 years international experience and been with Hercules 12 year working in the operations team
- **Raj Angret, Senior Operations Manager:** Concrete Specialist been with Hercules for 12 years and over 20 years of experience in construction on site.
- **Liam McGlynn, Operations Manager:** Steel Fixer with 8 years of experience on the tools and been with Hercules 4 years on the operations team.
- **Lewis Sanders, Commercial Project Manager:** With his expertise across a variety of contracts and managing key company accounts, Lewis ensures that the entire Hercules team is briefed and aware of all contractual requirements and obligations on each project. Lewis' strong understanding of business operations and strategy



means he is actively involved with strategic planning and development. Qualifications include BA (Hons) Business Studies with Accounting & Finance (1st Class) and Certificate of Professional Competence in Road Haulage.

*Labour supply contracts typically operate on a fixed pricing structure – after extensive negotiations*

Labour supply contracts and strategic partnerships for the completion of larger projects are typically awarded by infrastructure construction clients after having gone through a tender process. Each tender will typically detail the type of project, the positions/jobs involved, an estimate of the size of the workforce required, the term of the project, the regulatory standards that must be met, and any other specific characteristics of the project. Bidders in such a tender process submit a comprehensive project fulfilment plan by the prescribed deadline for submissions that includes details related to the sourcing and supply of the workforce, cost estimates for each position, timeline projections, and an assessment of how any specific project requirements and regulatory mandates will be achieved. A short-list is then announced, and a number of rounds of discussions, presentations and negotiations are often held with a handful of bidders in order to evaluate the finer details of the bids against the project requirements. Finally, depending on the project, a single bidder or group of bidders is selected for contract award. However, prior to agreement and signing of the contract additional negotiations can be held to agree to final contract terms.

The objective of the construction client is not only to achieve the best pricing for the project, but also to ensure that the bidder is the right company for the job or the partnership. These contracts/partnerships commonly operate on a fixed pricing structure that is determined within the initial negotiations – the suppliers of labour earn profits through the difference between the rate paid by the client and the amounts paid to the employees or contract workers.

*The objective is to attain the best price but also the best partner*

Any macro factors that may cause changes to the fixed pricing structures are also discussed in the negotiations and terms included in the contract agreements. For example, product supply shortages causing delays to project timelines can result in increased project labour costs. The terms will dictate how those cost overruns are treated and who is responsible for their payment.

The compelling reputation that Hercules has built since inception has enabled the Company to win several contracts and to establish framework agreements with high calibre, blue-chip construction clients. Hercules' history of notable project wins includes:

- **2009 – Black & Veatch** for labour supply and civil works projects for Thames Water development; project size: £8.2m;
- **2015 – Balfour Beatty** for labour supply to the M3 Smart Motorway Project; total project size £3.4m;
- **2015 – Hochtief UK** for labour supply to the TFL Structures and Tunnels Investment Portfolio Project in West Drayton, Hayes, Harlington, and Southall; project size £9m;
- **2016 – Costain, Atkins, Black & Veatch JV and the Skanska, MWH, Balfour Beatty JV** under the AMP6 contract for Thames Water to supply labour and project works packages; project size £29m;
- **2016 – MWH, Anglian Water, Galliford Try** for labour supply to Thames Water, Southern Water and Anglian Water; projects size £13m; ongoing
- **2017 – Appointed a member of the first UK Integrated Labour Team (ILT)** to self-deliver the supply of skilled labour for the A14 project in collaboration with other teams; total project size £1.4b to the group;
- **2018 – Costain** for civil projects package work on the Peterborough Gas Compressor Station Upgrade; project size £10m;
- **2018 – Balfour Beatty/Vinci JV** for labour supply to the M4 Smart Motorway Project; total project size £1bn;
- **2020 – Costain** for labour supply to the A30 upgrade in Cornwall; total project size £0.95m;
- **2020 – Balfour Beatty** for labour supply to the Highways England Regional Development Programme; project size £4.8m;

- **2021 – Balfour Beatty/Vinci (BBV) JV** for labour supply (one of six supply partners selected) to the northern section of the HS2 project from London to Birmingham (Phase One).

Once Hercules has been selected for a project the Team will have a detailed understanding of the requirements and expected timelines. The next steps are to put the project plans into action. Contracts are commonly fulfilled through both traditional recruitment methods and through the Hercules mobile recruitment app, **Hercules Construction Jobs**. The project Team must be able to efficiently identify appropriate workers for the specific jobs required on the project. Selected individuals are either employed directly by Hercules or hired under contract and are onboarded using the **Hercules One Team** application. This ensures all HR documentation is collected, training manuals and project handbooks are delivered to each worker, and workers are properly prepped to begin work on site. Notably, Hercules has supplied roughly 500+ workers to all sizes of projects on average each day over the past 12 months.



SOURCE: vinci.com

### A Recent Win Expected to Double Hercules' Labour Division

In April 2020, the Balfour Beatty Vinci 50:50 JV announced (BBV) that it was awarded the contract for phase 2 (construction) of the High Speed Two (HS2) intercity railway development project for Lots N1 and N2 civil engineering works packages. The BBV JV was also awarded a contract during Phase 1 (design) of the HS2 infrastructure project in 2017. The 90km stretch between the Long Itchington Wood Green tunnel near Leamington Spa in the south and the West Coast Main Line tie-in near Lichfield to the north is expected to include 51 viaducts and boxes (14km), 76 overbridges, 7.5km of twin tunnel, 35 cuttings (30km), 76 culverts, 66 embankments (33km) 4 motorway crossings requiring box structures, and 6 interfaces with existing rail requiring dive-under and overbridge structures. According to the Balfour Beatty news release, at the peak of the development work the project is expected to employ roughly 4,000 workers and is worth up to an estimated £2.5 billion. Note that this is an initial estimate of what is required but these numbers seem to change in subsequent press releases as more detail is known about the project.

Earlier in 2021 the BBV JV issued a tender process for the construction and civil engineering work. The intent was to select a number of supply chain partners in order to establish a collaborative Labour Desk, a model that has worked well for the Group in the past. This agency supply model is initially expected to hire over 4,000 people at peak for a sustained period of about 2 years – though the ramp-up/down time before and after the peak period will likely result in a total project time of at least 5 years. As part of the selection process, the BBV JV requires a commitment from its partners to promote fairness, inclusion, and respect in the workplace, reflecting the diversity of the West Midlands region where the work is being completed on N1 and N2. It is also important that potential partners have the resources, capacity, and technical capabilities to work on such a large-scale project. The result of the tender and negotiations was the appointment of six parties to operate the Labour Desk for the N1 and N2 development of which Hercules was one of the parties selected.

We believe the selection of Hercules as one of six members participating in the BBV JV Labour Desk is transformative for the Company when considering the number of workers to be supplied. If we assume an equal split, each partner would be responsible for hiring around 600+ workers for the HS2 project over a period of ~5 years. Putting this in context for Hercules, the Company historically supplies about five hundred workers each day on average in a year. As such, this is likely to double Hercules' Labour Supply Division in the coming years.

### Construction Services

As previously noted, the Construction Services Division includes both Civil Works and Suction Excavator Services. Construction Services is a smaller proportion of the Hercules business model but continues to undergo significant growth each year, supported by the ability to cross-sell services across all Divisions of the Company.

**Civil Works Division:** The Hercules Civil Works Team has been engaged as a strategic partner with many of the UK's top tier contractors since it was established in 2012, producing ~25% of F2020 revenue. The Team, currently led by Paul Field, Construction

*At least 4,000 people are expected to be hired over a 5-year period by the Labour Desk*

*Civil Works makes up about 25% of annual revenue*

Director, with over 25 years of experience in the industry and over 7 years with Hercules, delivers projects in all sectors, including utilities, groundworks, and infrastructure.

Contracts are typically won through a tender process, whereby bids are submitted detailing the total cost, requirements, and timelines to undertake the management/oversight and completion of a project. The bids are typically fixed fee based, with the Company taking the risks of cost over-runs and timing delays, subject to the agreement terms. This highlights the importance of establishing a realistic price-point in a contract bid that can be delivered within budget, which means having the tools and data/analysis to support a strong operating business model.

The Hercules Civil Works Team includes Project and Site Managers to implement the contract alongside the Principal Contractors selected. Hercules itself generally supplies the labour, plant, and materials, as well site and engineering management and support. This leverages services from the Labour Supply Division for the recruitment of contract workers and employees, supplemented by a flexible workforce sub-contracted by Hercules. Notably, Hercules has achieved an average margin target of ~15% on its Civil Works Division operations. Key projects completed by the Team include:

- **2019 – Costain redevelopment of the Redditch Sewage Treatment Works;** project size: £1.8m; included: the reinforcement of concrete structures, ducting, drainage, and utility access holes, 6,000 tonnes of backfill and three pumping stations.
- **2018/19 – Costain and National Grid upgrade of the Peterborough Gas Compressor;** total project size: £10m; included: site set-up, investigation works, reinforced concrete (RC) works, bulk excavation, demolition; Hercules provided 5 site-based management personnel overseeing up to 90 workers on the project.
- **2020 – CABV Eight20 and Thames Water, Lower Thames Aeration mitigation Project;** project size £0.3m; included groundworks and RC package with the construction of a 23m long concrete chamber and a 10m long double transformer compound, as well as construction of ducting, drainage, kerbs, and roads/footpaths.
- **2021 – TGE new gas storage facility at Avonmouth.** Works are currently ongoing and anticipated to be a £4.5m project of reinforced concrete works, cross-site drainage, and associated roads etc.
- **2021 – Irish Archaeological Consultancy** on sites for the HS2 Central Section
- **2021 – Galliford Try, Billingshurst STW Growth Project;** Project £0.7m, including groundworks and RC package for process improvements, including associated cross-site ducting and pumping mains, and new concrete roads.
- **2021 – Bridges and Thames Water, Deephams;** Gas-to-grid scheme; A £450k project to complete all the associated Civils for a new gas-to-grid solution on the Sewage Works.
- **2022 – Anglian Water, Grafham Emergency works;** a small emergency project for Anglian Water, but the first contract awarded under the new Civils Framework with the @one alliance.

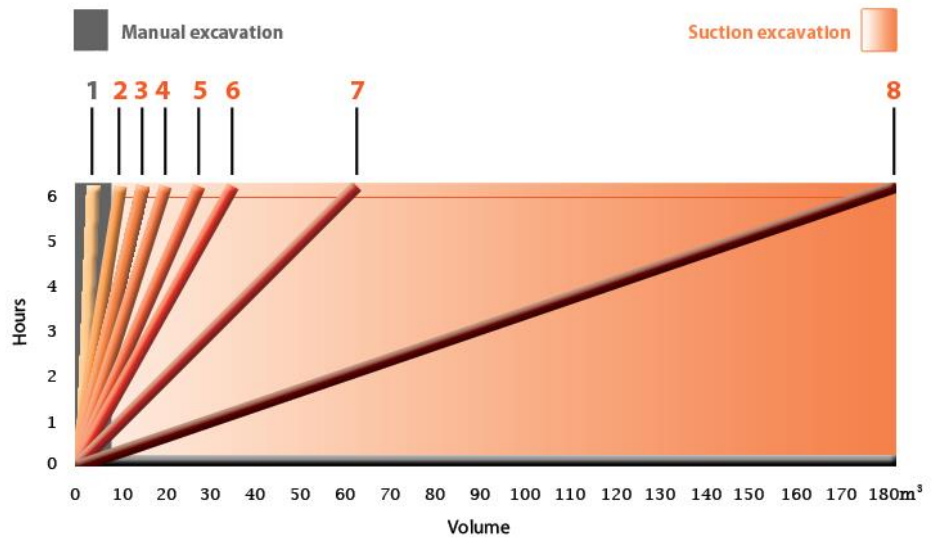
**Suction Excavator Services (SE Services):** The expansion into SE Services in 2020 was a decision made by Hercules management based on the key objective of making the workplace safer for its employees and contractors. The removal of earth, rock or other materials has been traditionally completed via manual excavation with tools or equipment and involves its own set of regulations, risk controls, and hazard prevention guidelines for workplace safety. This task, which is part of almost every construction project, exposes workers to significant risks including collapse of an excavation, being hit by a falling or fast-moving object, or exposure to contaminants, to name a few. On the other hand, the use of suction excavators is a vastly superior digging method, providing safety benefits for workers as well as other operational benefits such as minimised risk of accidental strikes on buried utilities, less material removed and reduced environmental impact. The suction excavator is equipped with high-powered suction fans which create compressed air for loosening and then collecting the soil, gravel, or crushed rock through the suction nozzle

*Suction Excavator Services fills a demand gap in the market – and makes it safer for workers*



on a telescopic arm operated by remote control. The material that has been excavated is then deposited directly into the collection chamber.

**FIGURE 3: MANUAL VS. SUCTION EXCAVATION**



1. Manual excavation: <1m<sup>3</sup> of material removed/6hrs; normal soil conditions, buried pipes and cables

**2-8 Suction Excavation**

- 2. 10m<sup>3</sup> of material removed/6hrs; heavy soil, buried pipes and cables
- 3. 15m<sup>3</sup>/6hrs; dry and heavy soil
- 4. 18m<sup>3</sup>/6hrs; wet and heavy soil or clay
- 5. 24m<sup>3</sup>/6hrs; moderately heavy soil, buried pipe and cables
- 6. 36m<sup>3</sup>/6hr; muddy soil, gravel, and crushed rock
- 7. 60m<sup>3</sup>/6hrs; sandy soil
- 8. 180m<sup>3</sup>/6hrs; water

SOURCE: <https://www.suctionexcavatorsolutions.co.uk/why-suction-excavation/>

Hercules currently owns 13 suction excavators in total (4 have arrived in 2022), three of which are provided to customers on long-term contracts (3 months to 2 years), with the balance available for spot hire and shorter contract terms (one day to several weeks). The suction excavator division is led by Hercules' Fleet Manager, Wayne Phillips, and each suction excavator is operated by a trained Hercules employee who is included as part of the services package for the client. The suction excavators are never leased out to clients without an operator included and there is always a specific project to be completed. The suction excavator is a tool for the operator to complete the specific work outlined in the contract. Notably, Hercules uses its own suction excavators for its own contracts, including the work being completed on HS2 South with Balfour Beatty, the M4 Smart Motorway Scheme and projects being completed by the Civil Works Team. The utilisation rate for the first 9 suction excavators has been over 85% so far, with an average margin contribution of ~55%. Earlier in 2021, Hercules signed an agreement to purchase an additional 11 suction excavators at an average price of ~£0.4m each, the delivery of which began in February 2022 and will continue throughout the year. We have been conservative in terms of our delivery expectations, given the further lengthening of supply chain delivery times in this calendar year. While there have been some delivery date extensions on ~7 of the suction excavators, we still expect that they will arrive before the fiscal year-end. We believe this will represent one of the larger fleets of suction excavators in the UK once fully operational. With these new excavators additional trained operators are required, which will be supplied by the Hercules' Labour Supply Division.

*Innovation Trial for Pile Cropping* – Hercules was approached by the Skanska Costain STRABAG (SCS) JV in 2020 to partner with them on developing a new technique for piling

SE Services is expanding from 9 to 20 suction excavators in 2022

work. The new 'zero trim pile' technique means that excess concrete is removed while it is still wet using a suction excavator. The traditional piling process meant that excess concrete is broken off after it is set. The new process is safer for workers, reducing the potential for health problems, and also reduces the numbers of hours taken to complete a project and reduces noise levels. Hercules completed the trials to perfect the vacuuming technique, as well as the onsite testing to validate the integrity of the piles. Hercules has been approached by other construction joint venture partners on HS2 projects to understand how Zero-Trim can be adopted on their own sites to create efficiencies, improve worker health and safety, and reduced environmental impacts. We expect this additional interaction with the blue-chip construction companies is likely to further enhance Hercules' relationships.

*Demand for the Mobile Health Trailer is driven by clients trying to attract and retain a high-quality workforce*

**Additional Services:** Hercules' management has always had its eye on improvements to its existing operations and enhancing the work-life of its employees and contractors. As such, the Company created its own mobile Health Screening Trailer that is staffed by a qualified healthcare professional. The trailer can be deployed anywhere in the country to attend to the health and wellbeing of the Hercules and its clients' workforce. Services include medical treatment, mental health support, raising awareness of Health, Safety and Well-being, and can carry out the following assessments: vision, hearing, mobility, lung function, alcohol and drug testing, height/weight/BMI/blood pressure, urinalysis, safety critical medicals and confined space medicals. The trailer has been in operation since 2017 and is on the road being used at construction sites roughly 90% of the total workweek. In order to determine the potential uptake and usage levels of the trailer, Hercules has funded the operation as part of its service offering to clients. However, the Company is now finding that clients are looking for ways to add value to health and safety profile of their workforce as part of their corporate culture and are requesting use of the services provided by the Health Screening Trailer and are willing to pay for them, particularly in a post-covid pandemic era where testing and vaccinations are regularly required. We expect Hercules to begin to develop a monetisation plan for the Health Trailer services, alongside the addition of new health tests and screens to the services offering, supporting growth in the business model.

## Hercules Digital

Since inception, Hercules has been committed to finding innovative ways to deliver its services to its clients that will result in superior outcomes. This led to the development of a digital strategy in 2019 to help streamline and improve the supply of skilled labour in the construction industry, led by the Innovation & Technology team, currently led by Ed Horner (current Head of Digital Transformation & Technology). As skilled labour in the construction industry becomes limited because of increased demand and lack of training, the use of traditional recruitment methods become more limited. The initial focus for Hercules Digital was on the recruitment of workers, to be followed by Human Resources and onboarding. The first application, Hercules Construction Jobs, was launched in October 2019, followed by the Hercules One Team application launched in March 2021.

*Hercules Construction Jobs app has more than 3,600 registered users*

**Hercules Construction Jobs** – This is a user-friendly, downloadable application where workers can sign-up for free to search for available jobs that match their qualifications. Each registered user is prompted to include their work experience, training and qualifications, availability, and preferences along with identification. The user can then set alerts to receive job notifications are posted. An in-app messaging platform allows for communications directly with registered users and recruitment teams. So far, the app has been downloaded more than 5,300 times and contains more than 3,600 registered users.

**Benefits:** simple and easy to use; facilitates communication; provides access to a wider potential workforce; allows local recruitment for projects to meet requirements; improves recruitment timelines; helps identify skills gaps; provides a database on the workforce.

**Hercules One Team** – Complementary to the recruitment application, the HR and onboarding app seeks to deliver a seamless and efficient onboarding experience for all workers. The app allows users to transfer data from the recruitment app and to upload essential verification documentation such as Right to Work, and training certification etc. Similarly, Hercules can share contracts and other training handbooks, employment, and regulatory documentation with a new employee through a single portal, keeping

everything in one place for easy reference. Roughly 95% of workers recruited through Hercules Construction Jobs have been onboarded using Hercules One Team.

*Benefits:* improves the efficiency and accuracy of recruitment; organises documentation; provides valuable workforce data; enables the use of data to make better recruitment decisions; helps identify skills gaps in workforce; reduced onboarding costs.

These two applications are administered by the Recruitment Team through a web-based management portal. The portal contains all of the data entered into both applications permitting easy searchability for bespoke searches. Daily reports can be run for clients detailing information such as workforce breakdowns (gender, nationality, age etc.), hours worked, worker patterns and costs incurred etc. which can be detailed even further by role or trade. This is a very powerful tool for clients, providing real-time information that can be used to make changes/improvements while a project is in process. The portal is also integrated with financial systems so that timesheets, payroll, and invoicing reports can be generated on demand. This is helpful for monitoring cost overruns, and inefficient use of the workforce etc.

*Benefits:* data will drive business decision making and reporting; Hercules will be able to provide clients with information on the workforce not available from the competition; easily identify upskilling opportunities for workers and identify skills gaps; allows Hercules to be more responsive to client needs by understanding the data; allows for improved communication with employees.

**The future of Hercules Digital** – While the digital strategy is demonstrating its value, there is more to come. Hercules is working on a Productivity Monitoring Solution to provide clients with a better understanding of the underlying costs of their project. The use of GPS monitoring and geofencing can assist with understanding the time spent on certain parts of a project over a specific timeframe. This should help clients make better decisions in managing projects day-to-day and also inform Hercules on how to better plan for future work allocations on a project. The Digital Team is also working to integrate the Construction Industry Training Board (CITB) application programme interface into the Hercules Digital Platform. This will ensure accurate and up to date record keeping of training and training requirements for the Hercules workforce. This also ties in with the funding Hercules has received for the delivery of a solution to centralise the Skills, Employment and Education (SEE) requirements for projects, where participating companies must report on improvements to communities as part of the delivery of large construction projects. Hercules is working on a SEE portal to aggregate data, to provide real-time information related to all SEE activities.

While the Digital Platform underpins each of the Hercules service divisions, there is the potential for it to become a standalone product that could be white-labelled for licensing or sale. The digital products have been designed so that they can be tailored for individual customer requirements and integrated with external systems. This could potentially become another revenue driver for the Company.

## A BLUE-CHIP CUSTOMER BASE

Hercules has developed a brand reputation that has been recognised by some of the leading UK construction contractors.

Hercules' top clients over the past ~30 months have been fairly consistent including:

**Balfour Beatty** – The biggest of the construction companies operating in the UK, Balfour Beatty is an international infrastructure group that designs, develops, builds, and maintains infrastructure on a national and regional basis. Employing roughly 26,000 people the Company primarily operates in the UK, Ireland, and North America.

**Costain** – About the 16<sup>th</sup> largest construction contractor by turnover (~£1,070m), employing about 3,100 people across the UK. The Company focuses on delivering infrastructure projects in the rail, aviation, highways, water, energy, and defense sectors. Costain is listed on the London Stock Exchange under the ticker COST.

**Galliford Try** – A UK based construction business with over 3,000 employees focused on aviation, infrastructure and buildings is roughly the fifth largest in the UK.

*The Digital Recruitment and Analytics Platform is a differentiator in the market*

*Customer concentration is driven by top tier UK construction partners*

**SMB (System Method Building Ltd)** – SMB is a brickwork sub-contractor and customer care company, employing over 250 workers, based in Essex, England.

**Hochtief Construction UK** – Focused on the delivery of civil engineering projects across the UK related to highways, rail, tunnelling, marine and energy. Hochtief employs roughly 54,000 people worldwide, though only ~200 people are employed in the UK.

These clients have been the key drivers for over 90% of Hercules' turnover in recent years, highlighting some customer concentration risk. However, for a company in its early stages of growth, this level of customer concentration is not unreasonable. Furthermore, Hercules works on multiple projects across the UK with any one of these clients. While the infrastructure construction sector is quite highly fragmented, partnering or establishing a strong franchise along some of the largest and most secure in the industry according to scale and turnover would seem to be less risky in terms of brand reputation and customer credit risk. As Hercules expands through its next phase of growth with the addition of new complementary services, we expect its customer base to expand in kind. However, it is likely the Labour Supply Division growth will be driven by the addition of the HS2 engagement with the BBV JV over the next few years, making up as much as 75% of turnover at its peak.

## STRATEGIC PRIORITIES

### Near-term Initiatives

1. Expand Labour Supply Division for HS2 N1 & N2 Engagement – October 2021+
2. Deploy the new 11 Suction Excavators – February 2022+
3. Complete Digital Platform Development – ongoing
4. Execute on strong project pipeline in Civil Works and Labour Supply
5. Drive organic growth by focusing on cross-selling opportunities to clients
6. Develop an in-house training academy to support growth in the skilled workforce
7. Enhance service offering to clients – Medical, vaccines and testing, PPE Supply etc.

### Pillars of the Hercules Medium to Long-Term Strategy

The Hercules Team has successfully established the Company as an innovative partner in the infrastructure construction services industry. In order to achieve this strong strategic market position, the Team has followed a development strategy focused on the following initiatives which differentiate the Company from its competitors in the marketplace.

1. **A single platform solution for infrastructure services:** Leveraging the potential of the Company's core Labour Supply Division, the management team has invested in the expansion of service offerings to its clients where there are gaps in the industry. This includes the expansion into civil works projects, suction excavator services, and mobile health screening. Each of these growth areas provide opportunities to cross-sell to existing clients, as well as to new clients as standalone operations while using the know-how, management oversight and existing relationships the business has developed since inception. A single platform service offering from a trusted partner, improves efficiencies and streamlines processes for construction partners and deepens industry relationships.
2. **Achieve a strong record of organic growth:** Hercules has successfully demonstrated the ability to sustain growth since inception. Revenue growth in F2019 over F2018 was ~55% at £30.7m. While revenue declined in F2020 as a result of the impact of COVID-19 by ~25%, the return to growth is demonstrated in F2021, with revenue reaching over £32.7m, representing growth of nearly 43% y/y. Profit after tax was £0.79m, £1.86m, and £0.75m in 2018, 2019, and 2020 respectively. In 2021, the Company was essentially break-even on net profit after tax given one-time costs associated with the IPO transaction and the MNCN write down. We expect that performance in F2022E will mark a turning point for the Company with new project wins including selection for the HS2 contract with the BBV JV, additional infrastructure development on highways/motorways, railways, water, and other

projects across the UK, as well as the addition of new suction excavators in the year. This organic expansion and market penetration of existing business divisions is augmented by the potential to license or white label the use of the Hercules digital platform.

3. **Elevating the Construction Services workforce:** Hercules has always had a keen awareness of the importance of supporting and developing its workforce. Such a strong corporate culture focused on the wellbeing of the individuals employed by the Company is evidenced in all corporate communications and strategic initiatives from the digital recruitment and onboarding platform to the training programs and social wellbeing workshops, the mobile health screening trailer and the Hercules Podcasts creating awareness about industry issues. Workers and employees are keenly aware that they are a valued part of the team and growth of the Company and benefit from the focus on upskilling and training opportunities available to them at Hercules.
4. **Maintain a strong corporate social responsibility focus:** The construction industry has been facing growing pressure to improve CSR strategies in its day-to-day operations. There are millions of people impacted by the working conditions of construction projects on any given day – the nature of the work puts workers at higher risks of health and safety; projects can constrain the ability to move through communities impacting local businesses; and the impact on the environment can be significant with air and noise pollution, solid waste production, natural resource depletion etc. Hercules clearly keenly aware of its CSR responsibilities, understanding the value of its key stakeholders (employees, clients, partners, and regulators) and pays close attention to the needs of the communities where projects are located.
5. **Seek new innovative growth opportunities:** Early on Hercules recognised the need for the construction industry to evolve in order to improve profitability, create efficiencies in project development/management and to attract a strong workforce. This has led to the development of its digital platform to support the core Labour Supply Division at Hercules, which includes two applications, one for recruitment and one for onboarding and human resources records. This is appealing to new employees but also creates efficiencies for the Company keeping all records in an easy to access central location. Hercules is working on the next evolution of its digital platform to include a Productivity Monitoring application, a Skills/Employment/Education record keeping application, and integration with the CITB database for improved training monitoring. This digital platform can also be white labelled for broader use in the industry as a standalone business development initiative. Expansion into additional complementary services such as the SE Services and mobile screening trailer are also expected to drive organic growth in the future.

## Prospective Pipeline of Potential Projects

Given the expansive investment in infrastructure development expected in the coming years, there is a vast number of projects in both civil works and labour supply for Hercules to win business. Below is a sample of the imminent civil projects known to be in development for which Hercules is yet to tender or has submitted into the tender process:

### Thames Water non-infrastructure framework

- MWHT: Chigwell, KGV Reservoir; Chobham Sewage Treatment Work; Coppermills Power upgrade; Mogden, Brixton, Surbiton Sewage Treatment Works, NEP Multi-site; Hampton Power upgrade, Lockwood
- Galliford Try: Buntingford Sewage Treatment Work, Burstow, Lee tunnel, Chapmore End; Dorking Sewage Treatment Work, Crawley SEMD, Crawley main works, Ascot
- MMB: Long Crendon Main works; Latton; Charvill Sewage Treatment Works; Chilton Foliat, Bloxham
- Tilbury Douglas: Emmergreen Reservoir; Stanford in the Vale Sewage Treatment Works; Pangbourne, Chipping Norton, East Shefford Benson, Swindon Sewage Treatment Works, Appleton, Chinnor, Cholsey, Overtown

### Affinity Framework

- Galliford Try: Runleywood; Iver Main Works; Hunton bridge Main Works; Harefield & Oxhey



- Southern Water Framework
- Galliford Try: Billingshurst Phase 3; East Worthing Main works; Budds Farm; Goddard Green; Millbrook Sewage Treatment Works; East Bolder Water Treatment Works, Lidsey STW
- CMDP: Sandown; Ashford; Biddenden; Horsham; Pembury Water Treatment Works

Bridges: Mogden SGN works; SEMD borehole sites; Cirencester Sewage Treatment Works; East Hyde

Thames Lot 1 Works

- GlanAgua: Cockfosters Res phase 2
- Costain: Crossness; Greenwich; SEMD Res Sites; SEMD Hampton

Anglian Water Framework; Cambridge, FlagFen STW

Severn Trent Water, Galliford Try, Stroud

A sample of the projects for which Hercules clients are tendering for in the near-term, and Hercules could potentially be the supplier of labour, include the following:

Skanska

- 2021: M42
- 2022: A428 Black Cat; HS2 Interchange Station

Balfour Beatty

- Smart Motorway Programme: 2021 – M6 and M3; 2022 – M25 and other SMP schemes thereafter
- Infrastructure: 2022 - Lower Thames Crossing; M60 North-West Quadrant; 2025 – Trans Pennine Tunnel; Heathrow Expansion
- Regional Investment Programme: 2021 – LTE Enabling works; M20 Project Brock; M25 and A61; 2022 - A19 Tees Crossing; A57; 2023 - A66 North Pennine Dualling; A46 Newark RDP; A 417 Air Balloon; 2024 – Darlington North Relief

RDP Opportunities in the South-West

- A303 Sparkford
- A358 Taunton
- A417

## Potential in Acquisitions

With a highly fragmented construction industry in the UK and worldwide, including an estimated 290,000 companies in the industry, there are several potential acquisitions that could be targeted. We expect that following the completion of the Hercules initial public offering and once management has started to execute on some of its near-term initiatives to drive organic growth, an acquisition may be a good strategic move. In particular, the ability to consolidate the fragmented industry, broaden the current platform of services and accelerate growth are likely to be key acquisition drivers.

*Growth through acquisition will be considered post IPO*

## FINANCIAL PERFORMANCE – Ongoing Measures of Success

There are a number of operating metrics and procedural controls that are regularly monitored in order to drive profitability of the business. We review the net results of management operations for the fiscal year 2021, ended 30 September 2021.

- **Revenue** – F2021 revenue was £32.8m (+42.7% y/y), with about 70% of revenue derived from the Labour Supply business and the balance from Construction Services (Civil Works and the SE Services business). Notably Labour Supply revenue was up 34.4% y/y compared to a y/y increase of ~67% in Construction Services. Revenue for the first half of F2021 was £14.0m (+30.6% y/y) or roughly 42.7% of full year revenue, reflecting a progressively better H2F21. Revenue in 2020 was down 25.4% y/y reflecting industry shutdowns during some of the COVID-19 lockdown periods. 2019 revenue achieved a record high of £30.7m (+55% y/y) driven by contract wins in the Labour Supply Division.
- **Gross Margin:** Gross margin ranges between 15-22% depending on the make-up of the revenue mix. F2021 gross margin was 20.4%, an increase from H1 F2021 gross margins of 17.8%, with higher margins from the Construction Services Division. F2020 margins were 18.6%, an increase over that of F2019 at 14.9%.
- **EBITDA:** Hercules has generated positive EBITDA in F2018 through F2021. EBITDA in F2020 was impacted by COVID-19, declining ~25% y/y to £1.4m, from £1.7m in F2019 (+35% y/y). F2018 EBITDA was £1.3m. There was a evidence of a clear recovery beginning to occur in F2021 with EBITDA reaching £2.4m, ~79% higher than that achieved in F2020.
- **Net Profit:** F2021 net profit was £(0.056)m, essentially breakeven. Included in net profit for F2021 are some one-time items related to initial costs associated with the IPO, a deferred tax charge reversal, as well as a write-down of revenue from the NMCM contract. F2020 net profits were £1.2m, with no impacts from one-time costs or any write-downs for bad debt.

At 30 September 2020, the Company anticipated that it would make a R&D tax claim that would lead to an increased level of tax losses being available. The relevant claim has not yet been submitted and the directors do not consider there was sufficient certainty at 30 September 2021 to be able to continue to recognise the corresponding deferred tax asset. As a result, the deferred tax charge in the year ended 30 September 2021 includes an amount of £465,503 relating to the reversal of the previously recognised asset. Also recall, NMCM declared its operations insolvent at the end of the summer and various contracts/assets were sold to third parties. As expected, HERC has taken a write-down for the full amount of the NMCM contracts, though some could be recovered/recouped as the work was not yet complete and the new contract owner is willing to work with existing suppliers to complete the project work.

- **Current Liabilities:** Trade and Other Payables make up the majority of current liabilities at £8.7m in F2021, UP ~50% from F2020 year-end of £5.8m. We note that a provision for £0.259m has been made related to the underpayment of taxes under the Construction Industry Scheme. This has been determined by the auditors and subsequently Hercules has filed a voluntary disclosure with HMRC on the matter. These short-term loans and borrowings of £0.34m in F2020 were eliminated in the F2021 year.
- **Current Assets:** Primarily comprised of Trade and Other Receivables, Current Assets has relatively stable since F2018. Trade and Other Receivables at the end of F2021 were £10.1m, down from year-end F2020 at £11m. There was an in-specie dividend declared in F2021 of £3.3m to clear debt owed by the parent company, and a credit balance was cleared via a contra settlement with the parent company.
- **Loans & Borrowings:** At 30 September 2021 loans and borrowings were £3.1m, an increase from £0.34m in F2020. While the bank loan was paid off in F2021, there remains drawings on an invoice discounting facility that was introduced during May 2021 to help manage working capital. The facility, originally capped at £4m was increased to £10m in November 2021, and scales with the size of the business operations. The nature of payments for Labour Supply are such that employees and contractors are paid weekly, whereas customers pay for services monthly. This

Investec facility has been established to help manage the timing differences, particularly as the Company goes through very high periods of growth.

- **Cash:** At the end of F2021 cash was £1.5m, down from year-end F2020 of £2.0m. This reflects investment in plant and machinery during the period (the deposit on the suction excavators ordered for delivery in F2022), as well as the payment of historic VAT payments that were deferred under the government COVID program.

**TABLE 1: HISTORICAL FINANCIALS SUMMARY**

YE Sept 30 ('000s)	H1 2020	H2 2020	H1 2021	H2 2021	2018	2019	2020	2021
<b>Revenue</b>	<b>10,755.0</b>	<b>12,195.8</b>	<b>14,048.0</b>	<b>18,706.5</b>	<b>19,870.0</b>	<b>30,699.7</b>	<b>22,951</b>	<b>32,754</b>
			30.6%	53.4%		54.5%	-25.2%	42.7%
Cost of sales	(9,295.0)	(9,352.9)	(11,549.0)	(14,518.0)	(16,653.0)	(26,136.6)	(18,647.9)	(26,067.0)
<b>Gross profit</b>	<b>1,460.0</b>	<b>2,842.9</b>	<b>2,499.0</b>	<b>4,188.5</b>	<b>3,217.0</b>	<b>4,563.2</b>	<b>4,302.9</b>	<b>6,687</b>
margin (%)	13.6%	23.3%	17.8%	22.4%	16.2%	14.9%	18.7%	20.4%
<b>Other operating income</b>	<b>65.0</b>	<b>330.5</b>	<b>156.0</b>	<b>61.2</b>	1.0	33.7	395.5	217.2
<b>Overheads</b>	<b>(1,402.0)</b>	<b>(2,299.7)</b>	<b>(1,701.0)</b>	<b>(4,417.6)</b>	<b>(2,211.1)</b>	<b>(3,158.0)</b>	<b>(3,701.7)</b>	<b>(6,118.6)</b>
Depreciation - owned assets	120.0	0.5	332.0	392.8	137.4	124.3	120.5	126.3
Depreciation - right to use assets	40.0	221.3			123.9	170.1	261.3	598.6
Loss/(profit) on disposal of FA	(29.0)	3.4		11.3	(13.8)	28.5	(25.6)	11.3
Gain/(loss) on revaluation	(40.0)	40.0		0.0	9.6	(54.8)	0.0	0.0
R&D costs	0.0	54.6		17.5	0.0	0.0	54.6	17.5
One-time costs	0.0	0.0	(58.0)	(840.0)	0.0	0.0	0.0	(898.0)
<b>Profit/Loss from operations</b>	<b>123.0</b>	<b>873.7</b>	<b>954.0</b>	<b>- 167.9</b>	<b>1,006.8</b>	<b>1,438.8</b>	<b>996.7</b>	<b>786.1</b>
<b>EBITDA</b>	<b>294.0</b>	<b>1,058.9</b>	<b>1,344.0</b>	<b>1,076.2</b>	<b>1,268.1</b>	<b>1,733.3</b>	<b>1,352.9</b>	<b>2,420.2</b>
<i>y/y growth</i>			357%	2%		36.7%	-21.9%	78.9%
Fair value (losses)/gains	40.0	39.3	(51.0)	12.9	(9.6)	54.8	79.3	(38.1)
Finance income		15.3		0.0	1.8	2.0	15.3	0.0
<b>Finance costs</b>	<b>(35.0)</b>	<b>(45.8)</b>	<b>(102.0)</b>	<b>(130.5)</b>	<b>(30.5)</b>	<b>(29.3)</b>	<b>(80.8)</b>	<b>(232.5)</b>
<b>Profit before tax expense</b>	<b>128.0</b>	<b>882.4</b>	<b>801.0</b>	<b>(285.5)</b>	<b>968.7</b>	<b>1,466.4</b>	<b>1,010.4</b>	<b>515.5</b>
Tax on profit	(22.0)	220.2	(313.0)	(258.7)	(181.6)	388.9	198.2	(571.7)
<b>Net profit for the year</b>	<b>106.0</b>	<b>1,102.7</b>	<b>488.0</b>	<b>(544.2)</b>	<b>787.1</b>	<b>1,855.3</b>	<b>1,208.7</b>	<b>(56.2)</b>
<b>Total comprehensive income</b>	<b>106.0</b>	<b>1,102.7</b>	<b>488.0</b>	<b>(544.2)</b>	<b>787.1</b>	<b>1,855.3</b>	<b>1,208.7</b>	<b>(56.2)</b>
Shares in issue	2	2	21	21	2	2	2	21
EPS - basic	53.0	551.3	23.1	(25.8)	393.5	927.7	604.3	(2.66)

SOURCE: Company reports

## Forecasts

We believe Hercules is well-positioned in the market with strong industry relationships to take advantage of the huge infrastructure investment that is expected to drive construction industry growth in the coming years. As such, we have developed base case financial forecasts for Hercules under the following factors and assumptions:

- An IPO was completed Q1 F2022 with approximately £4m being invested in the Company before associated expenses.
- The HS2 engagement begins to ramp up in F2022E and continues through the following 5 years. At this time, it is difficult to forecast the timing of labour supply and so very conservative assumptions are being used. The assumption is that labour supply demand growth starts to level off in years 2024/25+, though we believe there will still be demand growth from project extensions, providing an uptick
- We have modelled growth of 7-9% each year for the Labour Supply Division outside of the HS2 work under the BBV JV, reducing to ~5% in F2024E and F2025E.
- We have assumed average growth of ~10% each year in the Civil Works Division under Construction Services.
- The new suction excavators arrive on time beginning early in F2022E, with all of the SEs arriving prior to fiscal year-end 2022E. Deployment of the suction excavators ramp up to 85% usage over the first year of ownership (over F2022E and F2023E). We assume that these are purchased with ~10% equity.
- We have not included any potential revenue from new business initiatives, including the Mobile Health Trailer, the monetisation of the Digital Recruitment and Analytics Platform, or the training academy.

- At the time of the IPO, the invoice discounting facility was approximately £3.0m. However, this facility will remain in place and serve as a capital structuring tool as required. Note this facility expands as revenue grows and provides flexibility in managing cash flows in the future.
- We have included the payment of dividends, starting with a payment for the year ended F2021 (prior to the IPO). The Board intends to adopt a progressive dividend policy for the Company from Admission, with the dividend progressively increasing over time, providing an initial return to IPO investors of ~3.5%. HRE will not participate in the receipt of the first or second dividend payments, and these funds will be retained by HERC.
- Recall NMCN has entered administration and the sale of its assets has begun, as mentioned earlier in this report. Hercules has been supplying labour to NMCN and has some receivables outstanding. Under the current circumstances it is unclear as to what portion of those receivables will be recoverable. On a positive note, Hercules expects to continue to work on the projects in partnership with Galliford Try, the new owner. However, terms and timelines remain unclear. As a result, a write-down of receivables for the full amount outstanding was taken in F2021, resulting in a reduction to net income for the year (F2021). We have not made any assumptions for recovery of these funds in our forecasts.

**TABLE 2: FINANCIAL FORECASTS**

YE Sept 30 ('000s)	2018	2019	2020	2021	2022E	2023E	2024E	2025E
<b>Revenue</b>	<b>19,870.0</b>	<b>30,699.7</b>	<b>22,951</b>	<b>32,754</b>	<b>45,175</b>	<b>62,264</b>	<b>67,784</b>	<b>70,106</b>
		54.5%	-25.2%	42.7%	37.9%	37.8%	8.9%	3.4%
Cost of sales	(16,653.0)	(26,136.6)	(18,647.9)	(26,067.0)	(35,795.2)	(49,090.7)	(53,479.3)	(55,418.5)
<b>Gross profit</b>	<b>3,217.0</b>	<b>4,563.2</b>	<b>4,302.9</b>	<b>6,687</b>	<b>9,380</b>	<b>13,173</b>	<b>14,305</b>	<b>14,688</b>
margin (%)	16.2%	14.9%	18.7%	20.4%	20.8%	21.2%	21.1%	21.0%
<b>Other operating income</b>	<b>1.0</b>	<b>33.7</b>	<b>395.5</b>	<b>217.2</b>	<b>74.0</b>	<b>74.0</b>	<b>74.0</b>	<b>74.0</b>
<b>Overheads</b>	<b>(2,211.1)</b>	<b>(3,158.0)</b>	<b>(3,701.7)</b>	<b>(6,118.6)</b>	<b>(7,226.3)</b>	<b>(8,227.2)</b>	<b>(8,869.3)</b>	<b>(8,912.9)</b>
Depreciation - owned assets	137.4	124.3	120.5	126.3	657.4	800.9	828.9	851.9
Depreciation - right to use assets	123.9	170.1	261.3	598.6	456.6	456.6	456.6	456.6
Loss/(profit) on disposal of FA	(13.8)	28.5	(25.6)	11.3	0.0			
Gain/(loss) on revaluation	9.6	(54.8)	0.0	0.0				
R&D costs	0.0	0.0	54.6	17.5	0.0			
One-time costs	0.0	0.0	0.0	(898.0)	(905.0)			
<b>Profit/Loss from operations</b>	<b>1,006.8</b>	<b>1,438.8</b>	<b>996.7</b>	<b>786.1</b>	<b>208.5</b>	<b>3,762.6</b>	<b>4,224.0</b>	<b>4,540.2</b>
<b>EBITDA</b>	<b>1,268.1</b>	<b>1,733.3</b>	<b>1,352.9</b>	<b>2,420.2</b>	<b>2,227.5</b>	<b>5,020.1</b>	<b>5,509.4</b>	<b>5,848.7</b>
y/y growth		36.7%	-21.9%	78.9%	-8.0%	125.4%	9.7%	6.2%
Fair value (losses)/gains	(9.6)	54.8	79.3	(38.1)	(1.5)	0.0	0.0	0.0
Finance income	1.8	2.0	15.3	0.0	0.0	0.0	0.0	0.0
<b>Finance costs</b>	<b>(30.5)</b>	<b>(29.3)</b>	<b>(80.8)</b>	<b>(232.5)</b>	<b>(450.3)</b>	<b>(679.5)</b>	<b>(716.5)</b>	<b>(633.8)</b>
<b>Profit before tax expense</b>	<b>968.7</b>	<b>1,466.4</b>	<b>1,010.4</b>	<b>515.5</b>	<b>(243.2)</b>	<b>3,083.1</b>	<b>3,507.5</b>	<b>3,906.4</b>
Tax on profit	(181.6)	388.9	198.2	(571.7)	0.0	0.0	(571.3)	(1,303.7)
<b>Net profit for the year</b>	<b>787.1</b>	<b>1,855.3</b>	<b>1,208.7</b>	<b>(56.2)</b>	<b>(243.2)</b>	<b>3,083.1</b>	<b>2,936.1</b>	<b>2,602.7</b>
<b>Total comprehensive income</b>	<b>787.1</b>	<b>1,855.3</b>	<b>1,208.7</b>	<b>(56.2)</b>	<b>(243.2)</b>	<b>3,083.1</b>	<b>2,936.1</b>	<b>2,602.7</b>
Shares in issue	2	2	2	21	58,650	58,650	58,650	58,650
EPS - basic	393.5	927.7	604.3	(2.66)	(0.0)	0.053	0.050	0.044

SOURCE: Company reports and SP Angel forecasts

## VALUATION

### Comps Review

To provide a basis for comparable analysis, we have reviewed listed companies in the labour recruitment sector, construction sector and application software services sub-sector. We have found that there are no perfect comps to present for Hercules, particularly since there are few sectors undergoing such significant growth in the coming years. Evident from the comps tables below, the recruitment companies trade at ~6-13x EBITDA for 2022E, and ~5.5-12x EBITDA for 2023E; and ~0.3-2.3x Sales for 2022E and ~0.3-2.5x Sales for 2023E. Construction companies are somewhat lower at up to 10x EBITDA for 2022E and 2023E, averaging 4.5x and 4.2x respectively, and up to 0.7x Sales for 2022E and 2023E, averaging ~0.3x sales in each year. Application software companies are much higher at over 15x EBITDA for 2022E and anywhere from ~3-15x Sales for 2022E.

**TABLE 3: COMPARABLES**

Company	Ticker	Last Price	Mkt Cap	Ent. Value	EV/EBITDA			EV/SALES			Sales Growth (Y/Y)			EBITDA Growth (Y/Y)		
					TTM	2021Y	2022Y	TTM SALES	2021Y	2022Y	2023Y	2022Y	2023Y	2022Y	2023Y	
<b>Employment Services</b>																
HAYS PLC	HAS LN Equity	119.90	1,997	1,954	8.25	12.11	7.37	6.39	0.33	0.34	0.29	0.27	15.8%	7.6%	64.4%	15.2%
STHREE PLC	STEM LN Equity	382.00	510	488	6.20	6.76	6.04	5.48	0.37	0.36	0.33	0.31	9.6%	6.7%	11.9%	10.2%
AMADEUS FIRE AG	AAD GR Equity	138.60	793	914	11.64	10.34	9.51	8.79	2.45	2.46	2.23	2.09	9.9%	7.1%	8.7%	8.2%
COOR SERVICE MANAGEMENT	COOR SS Equity	82.90	7,943	9,611	12.15	11.68	10.68	10.10	0.95	0.97	0.81	0.76	19.4%	6.9%	9.4%	5.8%
ALPHA FINANCIAL MARKETS COI	AFM LN Equity	427.50	481	443	39.16	20.68	13.26	12.17	3.73	4.53	2.87	2.59	57.7%	11.0%	55.9%	9.0%
PAGEGROUP PLC	PAGE LN Equity	473.00	1,554	1,503	6.76	6.78	5.86	5.54	0.91	0.88	0.79	0.74	12.2%	6.5%	15.6%	5.9%
REILERS AB	REILB SS Equity	133.00	2,618	2,852	12.13	9.73	8.24	7.42	0.98	0.99	0.88	0.85	12.7%	4.4%	18.2%	11.0%
<b>Average</b>					<b>13.76</b>	<b>11.16</b>	<b>8.71</b>	<b>7.98</b>	<b>1.39</b>	<b>1.50</b>	<b>1.17</b>	<b>1.09</b>	<b>19.6%</b>	<b>7.2%</b>	<b>26.3%</b>	<b>9.3%</b>
<b>Construction</b>																
BALFOUR BEATTY PLC	BBY LN EQUITY	262.8	1,667	1,252	9.14	5.09	4.39	4.29	0.17	0.17	0.16	0.16	4.9%	2.2%	16.1%	2.3%
MORGAN SINDALL GROUP PLC	MGNS LN EQUITY	2390	1,108	803	5.49	5.25	5.24	4.93	0.25	0.24	0.24	0.23	2.1%	4.5%	0.1%	6.4%
KELLER GROUP PLC	KLR LN EQUITY	834	607	803	4.67	4.44	3.90	3.73	0.36	0.40	0.35	0.33	16.1%	3.9%	14.0%	4.4%
RENEW HOLDINGS PLC	RNWH LN EQUITY	672	530	559	9.63	9.34	8.58	8.22	0.72	0.73	0.67	0.64	8.6%	4.2%	8.9%	4.4%
KIER GROUP PLC	KIE LN EQUITY	79.5	355	659	6.49	4.66	4.02	3.70	0.21	0.20	0.20	0.18	-0.1%	11.2%	15.8%	8.8%
SEVERFIELD PLC	SFR LN EQUITY	63	195	213	6.53	7.08	6.25	5.65	0.57	0.59	0.57	0.57	2.7%	0.1%	13.3%	10.5%
GALLIFORD TRY HOLDINGS PLC	GFRD LN EQUITY	172.6	192	0	0.01	0.02	0.01	0.01	0.00	0.00	0.00	0.00	8.9%	8.5%	63.7%	28.9%
COSTAIN GROUP PLC	COST LN EQUITY	43.6	120	27	5.93	0.51	0.49	0.47	0.02	0.02	0.02	0.02	11.4%	3.1%	4.1%	4.2%
NEXUS INFRASTRUCTURE PLC	NEXS LN EQUITY	210	96	80	13.89	13.40	10.07	9.29	0.58	0.61	0.52	0.45	15.9%	16.3%	33.1%	8.4%
SMART (I) & CO (CONTRACTORS)	SMJ LN EQUITY	161.5	67	60	24.06	NA	NA	NA	5.73	NA	NA	NA	NA	NA	NA	NA
TCLARKE PLC	CTO LN EQUITY	152.75	67	66	6.15	6.21	4.78	4.05	0.20	0.20	0.16	0.13	25.4%	22.0%	29.9%	18.0%
VAN ELLE HOLDINGS PLC	VANLN LN EQUITY	44.5	47	49	6.95	13.37	5.75	4.80	0.47	0.60	0.42	0.42	41.8%	1.7%	132.4%	19.8%
BILLINGTON HOLDINGS PLC	BILN LN EQUITY	233	30	18	4.87	5.65	3.35	NA	0.25	0.22	0.20	NA	9.8%	NA	68.8%	NA
DRIVER GROUP PLC	DRV LN EQUITY	28.5	15	11	3.28	3.12	2.62	2.30	0.22	0.21	0.21	0.20	0.7%	5.0%	19.0%	14.0%
<b>Average</b>					<b>7.65</b>	<b>6.01</b>	<b>4.57</b>	<b>4.29</b>	<b>0.70</b>	<b>0.32</b>	<b>0.29</b>	<b>0.28</b>	<b>11.4%</b>	<b>6.9%</b>	<b>32.2%</b>	<b>10.8%</b>
<b>Application Software Services</b>																
PROCORE TECHNOLOGIES INC	PCOR US Equity	53.77	7,264	6,775	NA	3,528.67	NA	NA	13.16	13.38	10.22	8.25	30.9%	23.9%	NA	NA
GLODON CO LTD-A	002410 CH EQUIT	46.81	55,722	52,008	NA	66.55	43.91	NA	9.26	10.08	7.65	6.33	31.7%	20.8%	51.5%	31.2%
FIVE9 INC	FIVN US EQUITY	115.41	8,022	8,378	5,908.23	78.30	71.27	NA	13.74	13.93	11.07	8.92	25.8%	24.2%	9.9%	37.2%
BLACK KNIGHT INC	BKI US EQUITY	67.68	10,510	14,053	21.04	19.44	17.72	16.21	9.53	9.56	8.78	8.13	8.9%	8.0%	9.7%	9.3%
ASPEN TECHNOLOGY INC	AZPN US EQUITY	163.155	10,876	10,984	36.18	28.19	28.72	26.78	16.44	15.31	14.64	13.62	4.6%	7.5%	-1.8%	7.2%
DIGITAL TURBINE INC	APPS US EQUITY	39.11	3,792	4,050	32.72	54.35	20.60	13.87	4.08	13.21	3.28	2.52	302.5%	30.4%	163.8%	48.5%
EGAIN CORP	EGAN US EQUITY	11.22	353	289	56.54	33.60	43.55	NA	3.42	3.71	3.16	2.70	17.3%	17.1%	-22.8%	8.9%
<b>Average</b>					<b>29.98</b>	<b>33.99</b>	<b>22.35</b>	<b>18.95</b>	<b>9.95</b>	<b>11.31</b>	<b>8.40</b>	<b>7.21</b>	<b>60.2%</b>	<b>18.8%</b>	<b>35.0%</b>	<b>23.7%</b>

SOURCE: Bloomberg

We acknowledge that the market growth profile and the positioning of Hercules' services within the Employment Services market warrants a higher valuation than the pure recruitment agencies sector which tend to have much lower growth profiles, shorter term arrangements for labour supply and fewer recurring relationships. If we look at the multiples for the Construction sector, these would also be on the low end of the range, with a lower growth profile. On the other hand, the pure digital applications services companies tend to be technology development companies, trading at much higher multiples, often with lower net profits given the continuous development spending on the software/technology that is required. Hercules does not fit into this category at this stage, despite the in-house development of its own data and analytics platform for use on its own projects and by its customers. We estimate that Hercules should trade at multiples somewhere closer to the Employment Services sector – that is in the range of about 7.0-10.0x EBITDA (£35m to £45m discounted to PV) or about 0.5-1.0x Sales (£35m to £60m discounted to PV).

**TABLE 4: MULTIPLES SCENARIOS**

Multiple	2022*	2023	2024	Multiple	2022	2023	2024
<b>HERC EBITDA</b>	<b>2,227</b>	<b>5,016</b>	<b>5,506</b>	<b>Sales</b>	<b>45,175</b>	<b>62,264</b>	<b>67,784</b>
5.5x	12,251	27,589	30,284	0.3x	13,553	18,679	20,335
7.5x	16,706	37,621	41,296	0.5x	27,105	37,358	40,670
9x	20,047	45,145	49,555	0.7x	36,140	49,811	54,227
10x	22,275	50,161	55,061	1.0x	45,175	62,264	67,784

Averages	Sales Growth (Y/Y)		EBITDA Growth (Y/Y)	
	2022*	2023	2022*	2023
Employment Services	19.5%	7.1%	26.3%	9.3%
Construction	11.4%	6.9%	32.2%	10.8%
Application Software Services	60.2%	18.8%	35.0%	23.7%
Hercules Site Services	37.9%	37.8%	-8.0%	125.2%

Source: SP Angel estimates; \* - 2022 is a transition year for Hercules and represents an adjusted value for EBITDA; Comps Sector averages have not been adjusted for anomalistic Highs/Lows – one skewed result can impact the average significantly (see comps table)



## Discounted Cash Flow

Given the level of cash flows anticipated in the coming years, and the intention for the Company to pay a dividend to investors beginning the year ended F2021, we believe it is worth investigating the results of a discounted cash flow in order to further assess the Company valuation. From this review, an equity value of ~£43.4m is derived, using a WACC of 10.2% and a terminal growth rate of 3.5% (~1-2% over a rising cost of inflation). This translates to forward EV/EBITDA multiples in the range of 7-9x, the mid-range of the reasonable comps scenarios presented earlier.

**TABLE 5: DISCOUNTED CASH FLOW**

	30/9/21	30/9/22	30/9/23	29/9/24	29/9/25
<b>YE Sep (£000s)</b>		<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
WACC		10.2%	10.2%	10.2%	10.2%
Time (yrs)	30/4/22	0.42	1.42	2.42	3.42
Revenue		45,175.0	62,264.0	67,784.0	70,106.0
<i>Growth</i>			37.8%	8.9%	3.4%
FCFF		(9,564.9)	2,628.7	5,104.8	4,428.2
Discount factor		0.96	0.87	0.79	0.72
DCF		(9,183.8)	2,290.6	4,037.1	3,178.3
<b>EV/EBITDA (x)</b>		<b>19.5</b>	<b>8.6</b>	<b>7.9</b>	<b>7.4</b>
EBITDA		2,227.5	5,020.1	5,509.4	5,848.7
WACC	10.2%				
Terminal growth	3.5%				
Enterprise value	52,638.0				
Current net cash / (deb)	(9,220.2)				
PV of equity £'000	43,417.9				
Price per share (p)	0.74				
Current price (p)	0.470	57.5%			

SOURCE: Company reports and SP Angel forecasts

We have run some scenarios on the key drivers of this valuation to understand the potential valuation range for the Company. Table 6 suggests a valuation range of between £30m and £65m with the low and the high reaching £32m and £64m respectively on fairly conservative assumptions. This is generally in line with the projections from the multiples valuation approach completed earlier in this report.

**TABLE 6: DCF Scenarios**

WACC	8.2%	9.2%	10.2%	11.2%	12.2%
Equity Value	64,396	52,062	<b>43,418</b>	37,023	32,102
Terminal Growth	2.50%	3.50%	4.50%		
Equity Value	36,610	<b>43,418</b>	52,620		
Revenue growth (2025)	2.40%	3.40%	4.40%	5.40%	
Equity Value	42,179	<b>43,418</b>	44,084	45,360	

SOURCE: Company reports and SP Angel forecasts

## UNDERSTANDING THE MARKETPLACE

### UK Construction Sector

The construction sector in the UK generates about £120 billion in buildings and infrastructure annually, which translates into about 7% of the UK's GDP. The combined turnover of the top ten UK construction contractors only represents ~27% of this total, implying that the industry is quite fragmented with all sizes of companies.

The covid pandemic had a severe impact on the UK construction market, with overall output declining in 2020 by over 35%. While productivity has still not recovered to pre-pandemic levels so far in 2021, there is hope for improved recovery through year-end and in the future. In November 2020, the UK government unveiled its National Infrastructure Strategy (NIS) which included plans to deploy over £650 billion including investment from private entities into infrastructure development over the next ten years, including hundreds of millions of pounds to upgrade roads, motorways, and rail networks primarily outside the south-eastern part of England, and several billion for regional road, bus and cycling lane upgrades, while at the same time supporting private investment, boosting productivity in a post-covid pandemic environment and helping the country meet its zero carbon emissions target by 2050. This has since been updated in the Analysis of the National Infrastructure and Construction Pipeline 2021 released in September 2021. This represents the highest sustained levels of public sector spending in the UK since the late 1970s. Alongside the detailed plan to transform the UK's economic infrastructure, the 2020 Spending Review was released. The first phase of the infrastructure spending transformation started with a total committed capital expenditure of over £100 billion in 2021/22, more than 40% higher than the total spend for 2019/20. Approximately £27 billion of this is allocated to government investment in economic or networked infrastructure (transport, energy, and digital communications). The Spending Review 2020 also confirms funding for longer-term project budgets for key capital programmes. Highlights of the Spending Review allocations for the year 2021/22, as outlined in the Spending Review 2020 are as follows:

*UK construction sector investment estimated at nearly £650 billion over the next 10 years*

- **Transport:** £19 billion is committed to transport projects which includes £1.7 billion for maintenance and upgrades to local roads. An additional £1.9 billion is allocated to electric vehicle (EV) charging infrastructure and incentives for consumers. More than £22 billion has been allocated to the high-speed rail (HS2) development and additional investment is directed toward strategic roads, and flood defences. Roughly £525 million is directed to local authorities for the creation of cycle lanes and bus priority measures in a post pandemic era and £120 million is for the delivery of 500 zero emission buses
- **Digital transformation:** £500 million (to be matched by industry) is committed to the roll-out of Shared Rural Networks for 4G coverage through 2025; another £50 million is for 5G Diversification and Testbeds Trials Programme; and another £250 million is in support of the 5G Supply Chain Diversification Strategy. Additional longer-term funding is tagged for continued broadband development matched or supported by the private sector.
- **Buildings:** £100 million will be invested in supporting housing delivery and regeneration. Roughly £210 million will be invested to establish more UK government hubs outside of London.
- **Environment:** £20 million for a UK network of technology demonstrations in alternative marine fuels and green shipbuilding. £200 million is targeted for the development of near-to-market technologies such as hydrogen, floating offshore wind, and advance nuclear reactors to help stimulate private investment
- **NHS:** £4.2 billion is allocated to operational investment for NHS to enable hospital refurbishment and infrastructure maintenance, with £325 million of new investment in NHS diagnostic equipment.

The longer term, multi-year funding under the NIS is focused on networked infrastructure, including energy, transport, water, waste, flood risk management and digital communication. This coincides with the post covid pandemic support to drive economic recovery across the country and ensure competitiveness of the country over the long-term. The underlying thesis is that infrastructure investment typically results in increased employment, as well as economic growth and productivity. Funding allocations include the following:

- ✓ £5 billion to support UK-wide gigabit broadband rollout with a rural network expansion to extend 4G mobile coverage to 95% of the UK; another £250m is for security of digital networks
- ✓ £5 billion is allocated to bus services and cycling infrastructure
- ✓ A new levelling up fund valued at £4 billion will be used to invest in local infrastructure in England including bypasses, local road schemes, bus lanes railway station upgrades etc.
- ✓ £5.2 billion over six years for flood and coastal investment with an initial allocation starting in 2021
- ✓ £4.2 billion for intra-city transport across eight city regions over a five-year period starting 2022/23
- ✓ Supporting HS2 to deliver North-South connectivity
- ✓ £27.5 billion for the development of strategic roads including the A66 between Penrith and Scotch Corner, Lower Thames Crossing, and the A303 Stonehenge
- ✓ £20 billion will be used to support the long-term housing strategy including £7.1 billion for National Home Building Fund for up to 860,000 homes which includes investment in roads, community facilities, and utilities
- ✓ £17.5 billion for the renewal and improvement of the country's railway system; £500 million is committed to restore transport lost in the 1960's with the reopening of the Ashington-Blyth line in Northumberland to passenger services and restored links to Okehampton in Devon
- ✓ £200 million is allocated to the Port Infrastructure Fund to ensure the smooth flow of freight in and out of the UK
- ✓ £1 billion of funding new carbon capture and storage projects across four industrial clusters, as well as additional funding to support offshore wind development, port infrastructure and low carbon hydrogen projects to tackle climate change under the Green Industrial Revolution, Ten Point Plan. A £240m Net Zero Hydrogen Fund is being created to realise the potential of hydrogen
- ✓ £525 million for large-scale nuclear projects and to advance nuclear technology development (advanced modular reactors and nuclear fusion)
- ✓ £1.3 billion for charging infrastructure to support the mass development of electric vehicles to achieve the elimination of petrol and diesel vehicles by 2030
- ✓ Establish a UK infrastructure bank in the North of England to co-invest alongside the private sector in infrastructure projects
- ✓ Multi-billion investment for new hospitals, schools, and prisons
- ✓ £1.2 billion subsidising the roll-out of broadband in the hardest to reach areas
- ✓ Defence modernisation to develop the next generation of naval vessels and £6.6 billion for artificial intelligence research and other novel technologies.

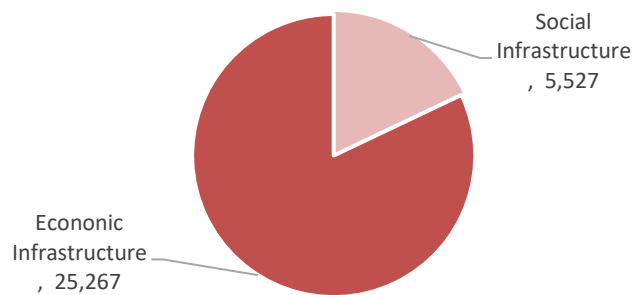
While firm commitments to these infrastructure development plans are only being made in step-changes, with the first £100 million approved for 2021/22, there is an overarching set of plans that converge to support the NIS over the longer-term. As such, we expect significant investment in economic infrastructure at least over the next five years.

The investment plans are particularly targeted at transforming the efficiency of the construction sector to make it more productive, sustainable, and competitive on a global scale, with improved utilisation of data, analytics, and modern construction methods. As

a result, The Construction Playbook was published by the UK government in December 2020 which set out policies and principles for best practices across the sector that should be adopted by central government departments on all project initiatives. The key goals outlined in the Playbook are directed at systematically changing the way project development is approached in the industry to increase profitability and efficiency. This includes changing perspectives to outcome-based contract specifications, creating certainty of demand for longer-term contracts, supporting adoption of modern methods of construction (MMC), embedding digital technologies and analytics, adopting a whole life carbon approach to deliver greener projects, and improving relationships with industry participants to improve building and workplace safety. Many of these initiatives are already evident in the longer-term strategies of leading-edge companies but will help drive improvements in the reputation and standards across the industry.

As part of this transformation of the UK construction sector, the government followed the Construction Playbook with a National Infrastructure and Construction Pipeline Analysis for 2021, released in September 2021. This is to help provide greater insight into the project procurement timelines and to provide greater certainty for the industry on the committed project pipeline. We expect this to help industry participants with planning and positioning within the market to support development of these projects. It is expected that between £21 and £31 billion of contract value across economic and social infrastructure development will be brought to market over the next year – a huge growth opportunity for the industry, kickstarting the potential for future strong economic growth.

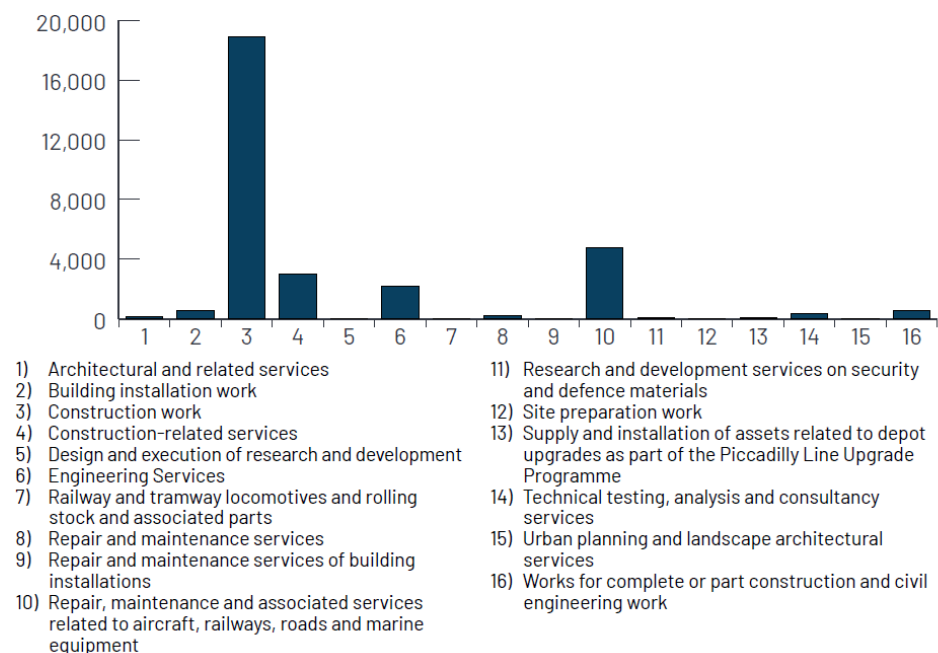
**FIGURE 4: CONTRACT VALUE OF PROCUREMENTS IN THE PIPELINE BY SECTOR**



*SOURCE: National Infrastructure and Construction Pipeline Analysis 2021, UK Government*

Economic infrastructure investment is targeted at Transport, Energy, Digital Infrastructure, Science and Research, Waste and Floods, and Coastal Erosion sub sectors. While Social infrastructure includes Culture Work and Pensions, Rural Affairs, Justice and Security, Education, Healthcare and Housing and Regeneration. The largest number of projects planned are in Education (165) and Transport (132), valued at £2.4 to £2.5 billion and £14.8 to £23.7 billion, respectively. These pipeline plans include new construction of critical infrastructure, but also renewals, maintenance, and consultancy, as well as architectural and engineering services in support of new development schemes. Notably, construction work, inclusive of building, design & build and civil engineering, make up over two-thirds of the work opportunities available in 2021-2022.

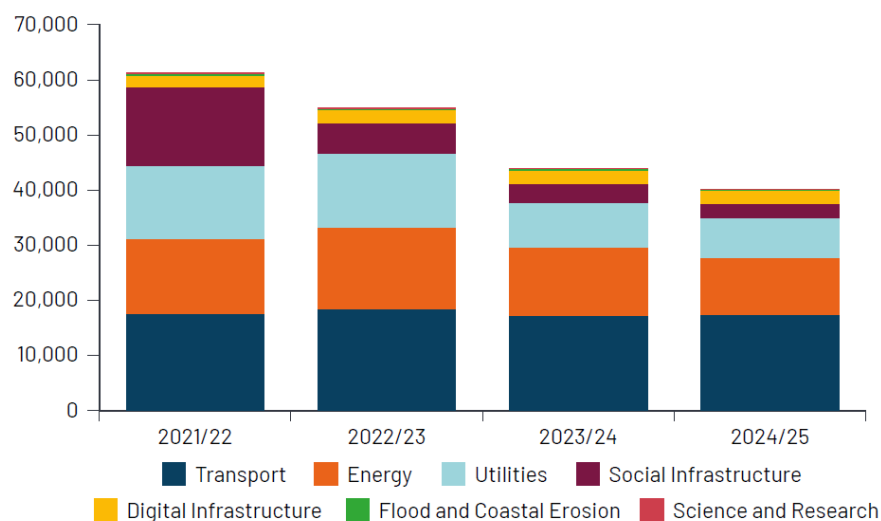
**FIGURE 5: CONTRACT VALUE OF PROCUREMENT IN THE PIPELINE BY WORK TYPE**



SOURCE: National Infrastructure and Construction Pipeline Analysis 2021, UK Government

In this recently released Pipeline Report for 2021, projection estimates for the period through to 2024/25 have been included, indicating that over £200 billion is expected to be spent.

**FIGURE 6: ANNUAL PROFILE OF PLANNED PIPELINE INVESTMENT BY SECTOR (£ 'M)**



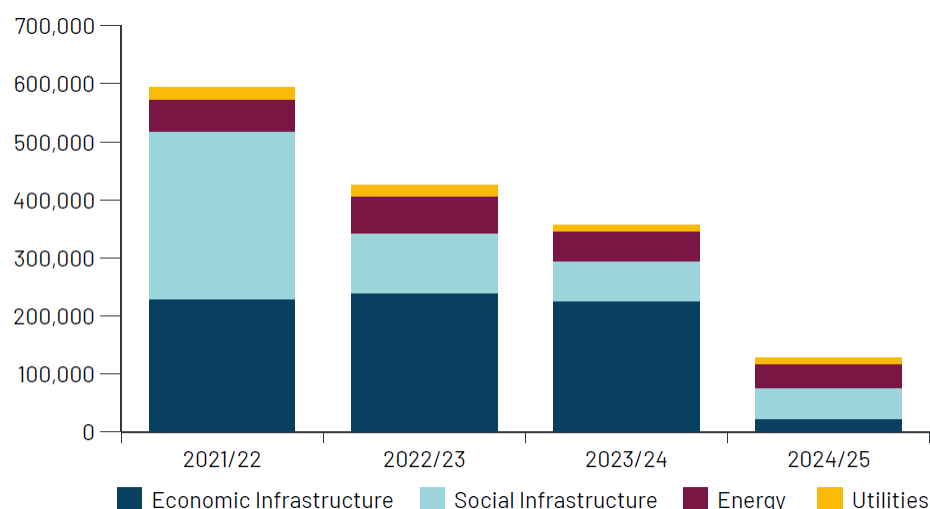
SOURCE: National Infrastructure and Construction Pipeline Analysis 2021, UK Government

Another £200 billion is planned to be invested after the 2024/25 period which includes key projects being delivered over a number of years such as HS2, the Lower Thames Crossing and the Affordable Homes Programme – it does not include investment in regulated utilities, social infrastructure and other economic infrastructure or private investment.

The expected impact of this planned development on the workforce requirement is significant. The IPA has estimated that about 425,000 individuals will be required each year, on average, from 2021/22 to 2024/25 to deliver on the £200 billion investment. This does not include the projected investment beyond this period, though it is expected that the future workforce requirements will increase as new projects are approved and brought to market. All of this to say that there is significant potential for Hercules’ services for the foreseeable future.



**FIGURE 7: ESTIMATED ANNUAL WORKFORCE REQUIREMENT**



SOURCE: National Infrastructure and Construction Pipeline Analysis 2021, UK Government

### Nature of the Construction Workforce and its Supply

According to the Construction Industrial Training Board (CTIB) in the UK the construction industry was expected to grow at over 4% through 2025 – before the detailed plans were released under the NIS. That level of growth translated to an additional 217,000 workers (43k per year) required to meet the needs of the growing industry. However, this number is now over 495,000 under the government infrastructure spending plans. The government’s infrastructure development plans require a skilled construction workforce, similar to that of the private building sector, both of which are expected to see the largest relative pace of expansion within the industry. At the start of the pandemic there was a decline in recruitment by UK construction companies and a significant drop in apprenticeships. This is now adding to the challenges in meeting increased demand for skilled workers, particularly when combined with the exit of thousands of skilled workers with Brexit.

The current market suggests that demand for construction workers is nearly at a 20-year high, with over 30,000 job vacancies listed for the quarter ended June 2021 in the industry. According to a UK Financial Times article employment in the construction sector fell from 2.3m in 2017 to 2.1m at the end of 2020 – a 4% reduction in UK-born workers and a 42% reduction in EU workers (referencing the Office for National Statistics). When combined with an ageing workforce with at least ~0.5m set to retire over the next 10+ years, against such significant growth in demand there appears to be an urgent demand for training and development of existing and new workers. This shortage is driving up current wages for skilled workers, at almost 14% higher than during the covid lockdown in April 2020, making it even more difficult for smaller companies to attract a good workforce. With these factors in mind, it is widely expected that companies with strong corporate cultures of taking care of their workforce and creating safe work environments, with prompt supplier payments will be the ones to attract the best candidates in this environment.

With such limitations on finding new workers, either skilled or to be trained, it is important to understand the culture required to attract and retain these workers. Attracting a new and younger workforce in construction is not too different from other sectors. Effective recruitment strategies need to turn to social media tools and influencers to connect with the younger millennial generation with recruitment initiatives focused on new skills and technology developments in the industry, as well as training and apprenticeship programs. The digitisation of the construction industry with advancements in GPS monitoring, artificial intelligence, and automation of machinery and processes should excite a younger workforce. As always, a top priority needs to be the health and safety of the employee evidenced by strong regulation compliance, and investment in personal protection and better training tools and advanced machinery. Also, efforts to attract a more diverse workforce, representative of the local communities where work is conducted is essential.

Understanding that younger generations are looking for more from their job or career than money is critical in recruitment. Overall, there are many other factors that rate as highly as income including being valued by their employer, aligning day-to-day work with passions and goals, and maintaining work-life balance are just a few. As such, gaining interest from these generations needs to include the development of a strong company culture focused on the wellbeing and safety of its employees and workforce, that supports innovation and learning.

## COMPETITORS

The construction services market within the infrastructure sector is quite fragmented with a large proportion of small, privately owned enterprises. As a result, there is limited direct comparable information available. We have provided a description of some of the competitors which Hercules may compete with on project tender processes.

**VGC Group Ltd:** Based in Middlesex, England, VGC Group provides labour supply and civil works project delivery and management to clients operating in the rail, highway, airport, and nuclear sectors. A 50-year-old company providing workers of all trades and skills as well as the delivery of civil engineering sub-contract projects in partnership with leading UK contractors, and has created a mechanical, electrical, and plumbing engineering division earlier this year. The VGC Academy allows employees to tailor their career development plans with the opportunity to participate in the 'Core,' 'Intermediate' and 'Management & Leadership' courses provided online.

**The Danny Sullivan Group Ltd:** Based in London, UK, The Danny Sullivan Group has been supplying labour to infrastructure construction projects across the UK since 1986. The family run business has grown to over 1800 employees deployed in projects across utilities, tunnelling, rail, nuclear, aviation and highways sectors. Employees benefit from an in-house training academy supported by apprenticeships, traineeships, and a range of courses to focus on career development.

**Fortel Services Ltd:** With offices in Motherwell, West Midlands, Kent and Somerset, Fortel Services supplies agency labour to the UK construction industry for construction and key infrastructure projects – quoted as being the largest supplier of agency labour to the UK construction industry. Two other divisions at the Company include Nexus which offers facilities management solutions (business relocation, environmental hygiene, and security services), and SkyBlue providing expertise to fulfil senior management roles on national and international projects. Notably, turnovers reached over £100m in 2020. Fortel has also invested in an employee and payroll management technology to assist with worker management on projects.

**Reliable Contractors Ltd:** With offices in London and Kent, Reliable Contractors (RC) provides contingency labour to tier one contractors on major infrastructure projects. RC is a family run business, in operation for over 40 years in highways, tunnelling, civils, airports, nuclear and railway sectors.

**McGinley:** Provides workers and permanent employees to the infrastructure sector of the construction industry. McGinley supplies all levels of labour including trade and professionals with the requisite technical qualifications.

With respect to the SE Services Division with a fleet of suction excavators there are some competitors in the market which are private, including: Pier UK Ltd., Suction Excavation UK Ltd, Conroy Group, J.A. Rattigan & Son, Force One Ltd, and Vac UK Ltd, to name a few. Notably Pier UK claims to have the largest fleet of excavators in the UK, though the actual number is not disclosed. The sector appears to be very fragmented, but services are in high demand. One of the key competitive factors supporting Hercules' SE Services business is that it is not the only business line for the Company and the SE Services are leveraged by other divisions in the Company – there is cross-selling to clients from the Labour Supply and Civil Works Divisions, providing additional growth opportunities.

## RISKS

### Global Market Environment

- **COVID-19 and other global events (Brexit)** – increased shortage of workers against increased investment in infrastructure development to stimulate the economy is exacerbating labour shortages and increasing labour rates
- **Supply chain** – extended delivery timelines are causing project delays and scarcity of products, increasing project budgets
- **Political** – the continued impact of labour supply shortages because of Brexit, regulatory costs of long-term capital; continued government support and funding contributions for major infrastructure projects
- **Market and trading risks & FX rates** – government stimulus plans change significantly with shocks to the market as they are constantly balancing the optimised use of limited resources

### Company Specific

- **Physical risks to employees** – the nature of construction projects exposes employees and the workforce to physical risks even with strict policies and procedures in place
- **Loss of key employees** – in a tight labour market this could have significant ramifications in a small and growing company
- **Ability to attract new employees and regenerate the workforce** – the market for good, skilled workers is competitive and initiatives to increase the size of the labour supply in the construction industry is critical for future growth
- **Financial** – potential for bad debt; cash flow management and FX
- **Legal and regulatory** – newly listed company with little AIM experience though this is mitigated through the Board of Directors, certain members of which have extensive experience operating public companies
- **Technology & Data Integrity** – cyber-attacks to the Company and to operations
- **Customer concentration** – top 10 customers make up >70% of revenue
- **Counterparty/credit risk** – timing differences between payment of labour wages and collection from clients/customers
- **Liquidity risk** – this relates to the number of shares in issue which are expected to be ~30% of shares outstanding for the Company

## SWOT ANALYSIS

### Strengths:

- Strong and experienced management team focused on delivering growth and improved operating performance, while providing in-depth corporate governance and management oversight.
- Strong and durable operating platform with increasing diversity in revenue sources to drive organic growth.
- Actively adopting technological advancements to create operating efficiencies and drive growth.
- Strong culture focused on high quality standards, employee welfare, and collaborative working relationships with customers.
- Hercules has established core relationships with large industry partners with strong brand reputations.

### Weaknesses:

- High customer concentration.
- Dependence on Labour Supply Division as a primary driver of revenue in a typically cyclical market.
- Hercules is still a relatively small company but is transitioning through a stage of very high growth.



- There are significant pressures to improve the environmental and social impacts of the infrastructure construction industry; we believe Hercules is a leader in the sector driving awareness of all facets of CSR and ESG, and in supporting the communities in which they work.

**Opportunities:**

- Barriers to entry are high requiring a strong and trusted brand reputation, supported by extensive experience and expertise in management and partners.
- Industry is in a cyclical upturn with strong economic investment to drive growth.
- The newer and more technologically based services platforms permit companies to be more cost effective in a highly competitive industry.
- Customers are looking for ways to improve services to their employees to meet regulatory requirements for project development. Hercules is expanding its service offering with innovative ideas to adapt to changes and new opportunities in the market.
- The industry is highly fragmented with the potential for consolidation to acquire employees, key projects, or to efficiently expand services.

**Threats:**

- There is an increasing shortage of skilled labour following the covid pandemic and Brexit when industry investment is increasing significantly.
- The tender process for projects is highly competitive and companies must be innovative in their approach to bidding and maintain strong working relationships with their potential customers, increasing their ability to support them across a number of service offerings.

## ESG EFFORTS

ESG - Environmental, Social, and Corporate Governance - refers to three core non-financial factors used to measure the sustainability and societal impact of an investment in a company. It is often used by companies to understand the impacts and manage the risks that its operations have on customers, investors, employees, and other stakeholders.

**Environment:** How a company's operations impact the environment directly and across its supply chains. Overall, Hercules has established a set of policies and internal procedures and standards with the environmental impact of its operations and activities in mind, and continuously seeks new ways to make improvements.

The construction industry has a history of negative environmental impacts, though this is changing in the UK. The UK has set a target of becoming a net zero carbon region by 2050 which is supported by a comprehensive infrastructure strategy to achieve this goal across the country. Many of the regulations surrounding projects in development include strict protocols for waste and carbon emissions reduction, as well as the adoption of ecologically responsible business practices in project development. Hercules abides by its Environmental Policy Statement (EPS) that has been developed internally which includes:

- At a minimum, complying with environmental regulations.
- Training all employees in their responsibilities for environmental impacts and policy management.
- Providing the necessary resource, equipment, information, and training to fulfil the requirements of maintaining an environmental policy.
- Optimising energy use and reducing the use of raw materials through re-cycling and re-use; minimising energy usage, waste and controlling pollutant emissions.
- Monitoring opportunities for improvement via the Carbon Management Committee and the Senior Leadership Team.

Embedded in the EPS, is the Carbon Management Strategy focused on reducing the Company's overall carbon footprint which includes adopting new and efficient processes, using technology to facilitate efficiencies, investing in next generation vehicles and battery powered tools, and recycling wherever possible among other things.

**Social:** Consideration for a company's impact on the community (diversity, human rights, welfare) and how it manages relationships with its workforce. Hercules employees are high on the priority list for management which is evident in the overall culture established at the Company. The Hercules workforce has a voice within the Company and is protected by a number of established policies and frameworks.

- **Social Value Policy:** The Company is openly committed to developing a strong culture, maximising the social value of the organisation in the marketplace, and in the way all employees work. Employees are highly valued and their opinion matters. The Company is committed to providing opportunities to the local communities where projects are completed and to other disadvantaged groups such as former military and ex-offenders. Employees are supported in their own goals through career training and apprenticeships. Local businesses become part of the supply chain where possible and fair payment processes are standard practice. This also ensures a diverse workforce, selected, and compensated for its experience, talents, and overall performance on the job.
- **Quality Policy:** Hercules has established this policy committing to achieving high standards across all of its operations. In particular, the Company intends to be in compliance with all regulatory requirements as they relate to Health, Safety, Environmental and Ethical matters. This Policy has been enacted at all levels of the organisation where the objectives are monitored and assessed for continuous improvement.
- **Labour Standards:** Hercules seeks to treat all employees, contractors and third parties with whom the Company interacts with fairness, respect, and inclusions. Employees and contractors are recruited, trained, and remunerated based on their skills and their work performance. This policy is regularly monitored and reviewed for areas of improvement. This ethos is expected from all individuals representing and working for Hercules.
- **Worker and workplace safety:** This is a key priority for Hercules evidenced by the core safety training programs for employees, strict adherence to safety standards and procedures, and its commitment to find innovative ways to solve complex problems on projects (e.g., development of the piling technique).
- **Mental Health & Wellbeing Policy:** The health and safety of all employees is a priority for the Company. Hercules seeks to increase awareness of and make resources available to all who need them, as well as to promote high standards for workplace safety and worker wellbeing.

**Corporate Governance:** The internal systems of practices, controls and procedures adopted by a company in order to govern itself and make effective decisions to meet the needs of external stakeholders. The new Board of Directors at Hercules is in its early days of functioning as a team, but early signs indicate that it is well diversified and independent to provide the necessary oversight to help drive success of the Company.

- **Board Composition** – The Board includes the CEO, CFO, a Non-Executive Chairman, two independent Non-Executive Directors and an additional Non-Executive Director. Each contributes expertise across a range of skills including operations, technology, M&A, management oversight, regulatory affairs, finance, and accounting and AIM market experience, as well as specific infrastructure and construction industry experience. The Company has established audit, remuneration and nominations committees, each with oversight provided by independent directors. The Board appears to be quite diverse in its experience, and composition, though there could be consideration for gender diversity in the future, particularly given that is one of the goals within the construction sector.
- **Board Independence**– The Board includes two independent directors with solid AIM and industry experience; while the Chairman could also be considered independent, he is partially incentivised with an options package (we believe this aligns him with the best interest of shareholders) and so is deemed not independent.

## MANAGEMENT AND BOARD

### **Brusk Korkmaz, Founder & CEO**

Brusk Korkmaz has worked in the construction industry for 20 years. Prior to founding Hercules in 2008, he held positions with MJ Gleeson, Black and Veatch and Hochtief UK, gaining experience across a range of civil engineering projects and labour supply for various sectors, including highways, rail, water industry and utilities. He is a member of the Institute of Civil Engineers and holds a BEng Honours Degree from University College London.

### **Paul Wheatcroft, CFO**

Paul Wheatcroft has spent 25 years as a Finance Director working in a number of industry sectors including construction, building materials, energy, and wholesale, manufacturing. He joined Hercules in February 2020 bringing significant business experience in M&A, raising finance and financial management. Previously, Paul was Finance Director in three subsidiaries of Hanson PLC over 13 years, and Group Finance Director of Ecotricity Group, a green energy company for 8 years, responsible in all these roles for financial, legal, HR and IT. Paul is a Fellow of the Chartered Institute of Management Accountants.

### **Andreas Gottfried, Operations Director (Management, Non-Board)**

Andreas Gottfried has held business development and sales director roles for the past 20 years. Andreas joined Hercules and the construction industry in October 2019, having previously worked in the technology sector, focusing on digital transformation and process improvement. Since joining Hercules, Andreas has helped the Company to secure a number of new major clients and projects, as well as helped to set up the Suction Excavator Services division.

### **Henry John Pitman, Non-Executive Chairman**

Henry Pitman has 30 years' experience of building businesses in the UK and Africa. Previously, he was founder and CEO at Tribal Group plc and a Non-Executive Director at Grainger plc. Mr. Pitman took Tribal Group plc from a start-up to an operating entity with £200m of revenue and 2,000 staff and completed over 40 acquisitions.

### **Ahmet Iplikci, Non-Executive Director**

A strategic board member at Banco Finantia and a partner at Noctua Partners Europe Limited. He also sits on the advisory boards of British Chamber of Commerce in Turkey, Fuel Ventures, an early-stage VC in the UK, and Privcorp Private Equity that invests in Emerging and Frontier markets.

### **Richard Anthony Kilner, Independent Non-Executive Director**

A chartered civil engineer and member of the Institution of Civil Engineers with B.Sc. degree in civil engineering, Richard has held a number of senior positions in construction and private equity and has experience of property development, BPO and healthcare. He was a partner at 3i Group plc where he was involved in significant investments in Asia, the USA and Europe.

### **Robin Stevens, Independent Non-Executive Director**

A chartered accountant and a former corporate finance partner and Head of Capital Markets of Crowe UK LLP, Robin has held senior corporate finance and audit partner positions with Mazars LLP and MRI Moores Rowland LLP. He has an extensive career in corporate finance and specialises in working with growth companies, and currently holds the position of Non-Executive Chairman of AIM-listed Vector Capital plc.



## FINANCIAL STATEMENTS

YE Sept 30 ('000s)	2018	2019	2020	2021	2022E	2023E	2024E	2025E
<b>Revenue</b>	<b>19,870.0</b>	<b>30,699.7</b>	<b>22,951</b>	<b>32,754</b>	<b>45,175</b>	<b>62,264</b>	<b>67,784</b>	<b>70,106</b>
		54.5%	-25.2%	42.7%	37.9%	37.8%	8.9%	3.4%
Cost of sales	(16,653.0)	(26,136.6)	(18,647.9)	(26,067.0)	(35,795.2)	(49,090.7)	(53,479.3)	(55,418.5)
<b>Gross profit margin (%)</b>	<b>3,217.0</b>	<b>4,563.2</b>	<b>4,302.9</b>	<b>6,687</b>	<b>9,380</b>	<b>13,173</b>	<b>14,305</b>	<b>14,688</b>
	16.2%	14.9%	18.7%	20.4%	20.8%	21.2%	21.1%	21.0%
<b>Other operating income</b>	1.0	33.7	395.5	217.2	74.0	74.0	74.0	74.0
<b>Overheads</b>	(2,211.1)	(3,158.0)	(3,701.7)	(6,118.6)	(7,226.3)	(8,227.2)	(8,869.3)	(8,912.9)
Depreciation - owned assets	137.4	124.3	120.5	126.3	657.4	800.9	828.9	851.9
Depreciation - right to use assets	123.9	170.1	261.3	598.6	456.6	456.6	456.6	456.6
Loss/(profit) on disposal of FA	(13.8)	28.5	(25.6)	11.3	0.0			
Gain/(loss) on revaluation	9.6	(54.8)	0.0	0.0				
R&D costs	0.0	0.0	54.6	17.5	0.0			
One-time costs	0.0	0.0	0.0	(898.0)	(905.0)			
<b>Profit/Loss from operations</b>	<b>1,006.8</b>	<b>1,438.8</b>	<b>996.7</b>	<b>786.1</b>	<b>208.5</b>	<b>3,762.6</b>	<b>4,224.0</b>	<b>4,540.2</b>
<b>EBITDA</b>	<b>1,268.1</b>	<b>1,733.3</b>	<b>1,352.9</b>	<b>2,420.2</b>	<b>2,227.5</b>	<b>5,020.1</b>	<b>5,509.4</b>	<b>5,848.7</b>
<i>y/y growth</i>		36.7%	-21.9%	78.9%	-8.0%	125.4%	9.7%	6.2%
Fair value (losses)/gains	(9.6)	54.8	79.3	(38.1)	(1.5)	0.0	0.0	0.0
Finance income	1.8	2.0	15.3	0.0	0.0	0.0	0.0	0.0
<b>Finance costs</b>	<b>(30.5)</b>	<b>(29.3)</b>	<b>(80.8)</b>	<b>(232.5)</b>	<b>(450.3)</b>	<b>(679.5)</b>	<b>(716.5)</b>	<b>(633.8)</b>
<b>Profit before tax expense</b>	<b>968.7</b>	<b>1,466.4</b>	<b>1,010.4</b>	<b>515.5</b>	<b>(243.2)</b>	<b>3,083.1</b>	<b>3,507.5</b>	<b>3,906.4</b>
Tax on profit	(181.6)	388.9	198.2	(571.7)	0.0	0.0	(571.3)	(1,303.7)
<b>Net profit for the year</b>	<b>787.1</b>	<b>1,855.3</b>	<b>1,208.7</b>	<b>(56.2)</b>	<b>(243.2)</b>	<b>3,083.1</b>	<b>2,936.1</b>	<b>2,602.7</b>
<b>Total comprehensive income</b>	<b>787.1</b>	<b>1,855.3</b>	<b>1,208.7</b>	<b>(56.2)</b>	<b>(243.2)</b>	<b>3,083.1</b>	<b>2,936.1</b>	<b>2,602.7</b>
Shares in issue	2	2	2	21	58,650	58,650	58,650	58,650
EPS - basic	393.5	927.7	604.3	(2.66)	(0.0)	0.053	0.050	0.044
<b>YE Sept 30 ('000s)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Non-current assets</b>								
Property, plant and equipment	2,373.9	2,529.9	6,613.7	9,236.2	14,262.3	13,229.8	12,169.3	11,085.9
<b>Current assets</b>								
Inventories	-	-	5.6	2.0	2.0	2.0	2.0	2.0
Trade and other receivables	5,194.2	7,285.0	8,604.6	8,292.2	12,179.0	13,252.0	13,267.4	13,482.8
Current tax receivable	0.0	426.9	54.2	82.9	0.0	0.0	0.0	0.0
Financial assets	175.4	230.2	309.6	271.5	270.0	270.0	270.0	270.0
Deferred tax assets	-	-	124.1	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	1,037.3	979.4	2,015.6	1,465.3	2,975.1	4,692.1	7,239.3	10,058.5
<b>Total current assets</b>	<b>6,407.0</b>	<b>8,921.5</b>	<b>11,113.6</b>	<b>10,113.8</b>	<b>15,426.1</b>	<b>18,216.1</b>	<b>20,778.6</b>	<b>23,813.2</b>
<b>TOTAL ASSETS</b>	<b>8,780.9</b>	<b>11,451.4</b>	<b>17,727.4</b>	<b>19,350.1</b>	<b>29,688.4</b>	<b>31,445.9</b>	<b>32,947.9</b>	<b>34,899.1</b>
<b>Equity and liabilities</b>								
Equity attributable to equity holders of the parent								
Share capital	0.0	0.0	0.0	50.0	4,050.0	4,050.0	4,050.0	4,050.0
Retained earnings	3,711.4	5,566.7	6,787.3	3,387.0	2,863.7	5,666.9	8,323.0	10,645.7
<b>Total equity</b>	<b>3,711.4</b>	<b>5,566.7</b>	<b>6,787.3</b>	<b>3,437.0</b>	<b>6,913.7</b>	<b>9,716.9</b>	<b>12,373.0</b>	<b>14,695.7</b>
<b>Non-current liabilities</b>								
Deferred tax liabilities	88.8	163.7	0.0	447.6	447.6	447.6	447.6	447.6
Lease liabilities	1,259.9	1,373.2	5,106.4	6,718.5	3,145.5	2,988.3	2,838.9	2,696.9
<b>Total non-current liabilities</b>	<b>1,348.7</b>	<b>1,536.9</b>	<b>5,106.4</b>	<b>7,166.0</b>	<b>3,593.1</b>	<b>3,435.9</b>	<b>3,286.4</b>	<b>3,144.5</b>
<b>Current liabilities</b>								
Trade and other payables	3,443.3	4,031.6	4,753.3	4,520.5	3,577.0	2,483.5	2,890.5	3,214.2
Current tax payable	112.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	58.6	83.8	143.3	259.5	60.0	0.0	0.0	0.0
Loans and borrowings	0.0	60.0	344.6	3,139.5	14,480.3	14,770.6	13,415.5	12,948.8
Lease liabilities	106.5	172.3	592.4	827.5	1,064.1	1,039.0	982.4	895.9
<b>Total current liabilities</b>	<b>3,720.8</b>	<b>4,347.7</b>	<b>5,833.6</b>	<b>8,747.1</b>	<b>19,181.5</b>	<b>18,293.1</b>	<b>17,288.5</b>	<b>17,058.9</b>
<b>TOTAL LIABILITIES</b>	<b>5,069.5</b>	<b>5,884.6</b>	<b>10,940.0</b>	<b>15,913.1</b>	<b>22,774.6</b>	<b>21,729.0</b>	<b>20,574.9</b>	<b>20,203.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8,780.9</b>	<b>11,451.4</b>	<b>17,727.4</b>	<b>19,350.1</b>	<b>29,688.4</b>	<b>31,445.9</b>	<b>32,947.9</b>	<b>34,899.1</b>

<b>Cash Flow</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Cash flows from operating activities:</b>								
Profit after taxation	787.1	1,855.326	1,208.7	(56.2)	(243.2)	3,083.1	2,936.1	2,602.7
<b>Cash generated from operations</b>	<b>939.8</b>	<b>766.1</b>	<b>2,934.8</b>	<b>(1,572.5)</b>	<b>(3,532.8)</b>	<b>2,828.7</b>	<b>5,876.1</b>	<b>5,931.9</b>
<b>Net cash from investing activities</b>	<b>(246.2)</b>	<b>(155.8)</b>	<b>(192.0)</b>	<b>(338.1)</b>	<b>(6,314.5)</b>	<b>(260.0)</b>	<b>(200.0)</b>	<b>(200.0)</b>
<b>Net cash from financing activities</b>	<b>(466.3)</b>	<b>(488.2)</b>	<b>(2,222.4)</b>	<b>1,389.0</b>	<b>11,274.3</b>	<b>(851.6)</b>	<b>(2,557.6)</b>	<b>(1,608.9)</b>
Net incr/ (decr) in cash and equivalents	(84.3)	(57.9)	1,036.2	(550.3)	1,509.8	1,717.0	2,547.1	2,819.2
Cash and cash equivalents at start of year	1,121.6	1,037.3	979.4	2,015.5	1,465.3	2,975.1	4,692.1	7,239.3
Cash and cash equivalents at end of year	1,037.3	979.4	2,015.5	1,465.3	2,975.1	4,692.1	7,239.3	10,058.5
Cash and cash equivalents at end of year comprises:								
Cash at bank and in hand	1,037.3	979.4	2,015.6	1,465.3	2,975.1	4,692.1	7,239.3	10,058.5
Borrowings	0.0	0.0	(344.6)	(3,139.5)	(14,480.3)	(14,770.6)	(13,415.5)	(12,948.8)
Lease liabilities			(5,698.8)	(7,546.0)	(4,209.7)	(4,027.3)	(3,821.3)	(3,592.8)
<b>Net debt</b>	<b>1,037.3</b>	<b>979.4</b>	<b>(4,027.9)</b>	<b>(9,220.2)</b>	<b>(15,714.9)</b>	<b>(14,105.7)</b>	<b>(9,997.5)</b>	<b>(6,483.2)</b>

## SOURCES

<https://www.vinci.com/vinci.nsf/en/press-releases/pages/20200415-0806.htm>

<https://www.balfourbeattycareers.com/bbvhs2/>

<https://www.competefor.com/business/viewOpportunityDetailsSupplier.html?id=52811705>

<https://www.globenewswire.com/news-release/2020/04/15/2016151/0/en/Balfour-Beatty-VINCI-joint-venture-is-awarded-the-contract-for-HS2-s-main-civil-engineering-works-packages-lots-N1-and-N2-in-the-United-Kingdom.html>

<https://balfourbeattyvinci.co.uk/staying-on-track-using-the-rail-industrys-funding-model-to-drive-skills-and-technology-2/>

[https://assets.hs2.org.uk/wp-content/uploads/2018/03/23150335/HS2\\_Supplier-Guide\\_update-231120-hi.pdf](https://assets.hs2.org.uk/wp-content/uploads/2018/03/23150335/HS2_Supplier-Guide_update-231120-hi.pdf)

<https://www.constructionenquirer.com/2021/05/25/hs2-pioneers-concrete-piling-vacuum-technique/>

<https://www.businessleader.co.uk/hs2-project-set-to-create-more-than-22000-jobs/>

<https://www.statista.com/topics/3797/construction-industry-in-the-uk/>

<https://evolution5.co.uk/top-10-construction-contractors-uk/>

<https://www.constructionenquirer.com/2019/12/16/hochtief-uk-losses-deepen-to-over-21m/>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/938049/NIS\\_final\\_web\\_single\\_page.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938049/NIS_final_web_single_page.pdf)

<https://www.pinsentmasons.com/out-law/news/uk-publishes-long-awaited-national-infrastructure-strategy>

<https://realassets.ipe.com/news/uk-budget-government-to-invest-640bn-in-infrastructure-and-12bn-in-housing/10044240.article>

<https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020>

<https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020>

<https://www.gov.uk/government/publications/the-construction-playbook>

<https://www.gov.uk/government/publications/national-infrastructure-and-construction-procurement-pipeline-202021>

<https://www.citb.co.uk/about-citb/construction-industry-research-reports/construction-skills-network-csn-2021-25/>

<https://www.constructionnews.co.uk/supply-chain/demand-for-construction-workers-nears-20-year-high-16-07-2021/>

<https://www.ft.com/content/6ddd9b7e-781c-477e-87b2-d4fd283362da>

<https://www.reminetwork.com/articles/attracting-new-generation-construction-workers/>

[https://www.remolding.hw.net/business/how-top-construction-companies-are-attracting-and-retaining-talent-in-the-midst-of-a-worker-shortage\\_o](https://www.remolding.hw.net/business/how-top-construction-companies-are-attracting-and-retaining-talent-in-the-midst-of-a-worker-shortage_o)

<https://www.heavyequipmentrentals.com/about/news/young-people-construction>

## Disclaimer – Non-independent Investment Research

This note is a marketing communication and comprises non-independent research. This means it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

**MiFID:** Based on our analysis, we have concluded that this note may be received free of charge by any person subject to the new MiFID rules on research unbundling pursuant to the exemptions within Article 12(3) of the MiFID Delegated Directive and FCA COBS Rule 2.3A.19. Further and fuller analysis may be viewed here <http://www.spangel.co.uk/legal-and-regulatory-notice.html>.

This note has been issued by SP Angel Corporate Finance LLP ('SPA') in order to promote its investment services. Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. The information contained herein is based on sources which we believe to be reliable, but we do not represent that it is wholly accurate or complete. SPA is not responsible for any errors or omissions or for the results obtained from the use of such information. Where the subject of the research is a client company of SPA we will usually have shown a draft of the research (or parts of it) to the company prior to publication in order to check factual accuracy, soundness of assumptions etc.

No reliance may be placed for any purpose whatsoever on the information, representations, estimates, or opinions contained in this note, and no liability is accepted for any such information, representation, estimate or opinion. All opinions and estimates included in this report are subject to change without notice. This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed, or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

In some cases, this research may have been sent to you by a party other than SPA, and if so, the contents may have been altered from the original, or comments may have been added, which may not be the opinions of SPA. In these cases, SPA is not responsible for this amended research.

The investments discussed in this report may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the currency of the investments, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This note is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Conduct Authority and is not directed at Retail Clients.

Distribution of this note does not imply distribution of future notes covering the same issuers, companies, or subject matter.

SPA has put in place a number of measures to avoid or manage conflicts of interest with regard to the preparation and distribution of research. These include (i) physical, virtual, and procedural information barriers (ii) a prohibition on personal account dealing by analysts and (iii) measures to ensure that recipients and persons wishing to access the research receive/are able to access the research at the same time.

You are advised that SPA and/or its partners and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. SPA is or may be providing or has or may have provided within the previous 12 months, significant advice, or investment services in relation to some of the investments concerned or related investments.

SP Angel Corporate Finance LLP is a company registered in England and Wales with company number OC317049 and its registered office is SP Angel Corporate Finance LLP, 35 – 39 Maddox Street, London W1S 5PP United Kingdom. SP Angel Corporate Finance LLP is Authorised and Regulated by the Financial Conduct Authority whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

SP Angel Corporate Finance LLP definition of research ratings:

Expected performance over 12 months: Buy - Expected return of greater than +15%, Hold - Expected return from -15% to +15%, Sell - Expected return



4th Floor  
Prince Frederick House  
35-39 Maddox Street  
London, W1S 2PP  
United Kingdom

Tel: +44 20 3463 2260  
Fax: +44 20 7629 1341  
Web: [www.spangel.co.uk](http://www.spangel.co.uk)