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HALF YEAR 2026 VESUVIUS PLC EARNINGS CALL

EVENT DATE/TIME: July 30, 2026 / 8:00AM UTC

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- **Mark Collis** *Vesuvius plc - Chief Financial Officer, Executive Director*

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- **Thomas Elgar** *Deutsche Numis - Analyst*
- **Harry Philips** *Peel Hunt LLP - Analyst*
- **Mark Fielding** *RBC Capital Markets Inc - Analyst*
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PRESENTATION

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

Good morning, ladies and gentlemen. Welcome to the Vesuvius half-year 2026 results presentation. My name is Patrick Andre, Chief Executive of Vesuvius, and with me this morning is Mark Collis, our Chief Financial Officer. I will start with some updates on our performance during the half year. Then Mark will give you more details on our financials.

I will conclude at the end of the meeting with some perspectives for the full year 2026 and beyond before opening the floor for questions. Our performance for the half year was resilient and in line with last year's, driven by self-help actions offsetting temporary operational disruptions.

Our revenues slightly increased by 1.5% on a constant currency basis. Our trading profit at GBP74 million was similar to last year's, also on a constant currency basis. Our return on sales decreased marginally by 10 basis points as compared to last year on a constant currency basis. As expected, our free cash flow generation increased significantly by GBP41.4 million year-on-year to a total of GBP27.5 million, driven by improved working capital discipline and stronger operating cash generation.

Working capital intensity declined from 23.6% to 23.1% and is expected to improve further in the second half. Our net debt to EBITDA ratio improved to 1.9 times on a pro forma basis and is expected to improve further in the second half. These positive trends in cash generation made the Board confident to propose an interim dividend of 7.1p per share, similar to last year's.

Both divisions achieved a strong performance in terms of pricing and cost management during the first half. The structural recovery of our steel market is now becoming increasingly evident and is expected to gather steam in the coming months. The Steel Division performed very well from a pricing and structural cost reduction point of view.

However, the division performance was temporarily affected during the first half by operational issues, in particular in North America and in India. We'll come back to that. Despite these challenges, the Flow Control business unit could improve both trading profit and return on sales as compared with last year.

The performance of the Advanced Refractories business unit, however, was more affected by the ongoing operational challenges and declined significantly as compared with last year. The Foundry Division performed very well and achieved significant revenue and profitability growth, supported by self-help measures and by the successful integration of the MMS acquisition.

Cash management remained a strong area of focus during the first half, enabling a 50 basis points reduction of our working capital intensity and a first step in the targeted reduction of our leverage ratio. Cash management and deleveraging will remain a key area of management focus in the coming months.

We continue to make good progress, even very good progress, in our global cost reduction programme with GBP7.4 million of recurring cash cost savings delivered during the first half. We remain fully on track with our target of a minimum GBP55 million savings to be delivered by 2028.

The operational challenges which affected the performance of the Steel Division during the first half are now clearly identified and are being addressed. First, as you can see on this slide, we were confronted with a quality defect from one of our suppliers of graphite raw material. This affected the quality of the production of our Charleston plant in the United States. But this Charleston site is supplying intermediary products to several isostatic plants worldwide.

The consequence of this quality incident affected several plants in North America, but also in Europe and in Asia. Fortunately, our quality controls detected the problem before final products could be shipped to our steel customers, which were thus not affected. The deficient raw material was replaced, and internal quality controls have been reinforced worldwide to avoid a repeat of a similar incident in the future.

However, the capacity of several of our isostatic plants was temporarily reduced during several weeks, preventing us from satisfying the growing demand addressed to us and triggering significant excess logistics costs to deliver customers and avoid a disruption of their steel production. This quality incident is now, as we speak, fully solved.

Second, we identified deficient maintenance practices in two of our important manufacturing plants in the US. These deficient practices were not detected and corrected in a timely way by our local regional management. As a consequence, the availability rate of some of our key manufacturing equipment has been constrained during the first half, reducing our production capacity and preventing us from following the increase in demand.

Maintenance management in those plants has been upgraded and reinforced control mechanisms have been put in place to avoid a repeat in the future. Maintenance catch-up is ongoing in those plants and is expected to be completed by the end of the year, re-establishing the plants' full production capacity.

We have also identified a general loss of some specific manufacturing process expertise in several of our US plants. Following the natural departure of some long-standing and experienced personnel, as it has proved excessively difficult to identify and hire locally qualified successors. We are now transferring qualified and experienced manufacturing resources from other parts of the Vesuvius Group to the US.

Several transfers are already effective and we expect most planned transfers to be implemented by year end. Taken together, we assessed those three operational challenges in the US to have impacted our global results by around GBP6 million during the first half. At the same time, we experienced some ramp-up difficulties in our new Vizag plants in India due to the higher level of technology and digitalisation of the equipment recently installed in these plants.

These difficulties are gradually being solved and production bottlenecks being removed in a systematic way. Already, two out of the three newly installed production lines are able to operate at full capacity, and the third one should be able to reach nameplate capacity before the end of the year, removing any constraints for our commercial teams to follow the increasing demand for our products in the Indian market.

The ramp-up difficulties in our Vizag plants in India impacted our trading profits during the first half by an estimated GBP2 million. As you can see, all the operational challenges which limited our growth and profitability during the first half are now fully identified and are being addressed. We are confident they will be resolved by the end of the year, enabling Vesuvius to fully benefit as from 2027 from the positive dynamic now evident in our steel market.

Turning to the steel market. You can see on this slide how steel production evolved during the first half of the year. The size of the bubbles is proportional to the sales of our Steel Division in each region. The structural dynamism of steel production outside of China, Russia, Iran and Ukraine is now clearly confirmed, with a 3.8% growth during the first half.

Growth expanded beyond the traditionally strong regions of India and Southeast Asia to North America, which grew 5.7%, with US and Mexico growth more than compensating for the Canada decline. EMEA, excluding Iran, Russia and Ukraine, where we don't sell, also grew circa 3.4% despite the situation in the Gulf area.

China's steel production continued its structural decline with a decrease of 3% of its steel production during the first half. EU plus UK and South America's steel production slightly declined in the first half of the year, but production there is expected to improve from the second half thanks to the steel protection measures recently introduced in these markets.

So the structural improvement in steel production outside of China is now clearly confirmed, will gather steam in the months ahead, and should support the performance of Vesuvius in the coming years. And an important point, we believe these ongoing positive changes to the steel market are structural. It's not a cyclical recovery; it is a structural change. They are not only short term.

First, the new European Union regulations, which have been discussed for a long time, are now fully effective as from July 1 this year. This should have a significantly positive and long-lasting impact on steel production in the EU as from the first quarter next year, once accumulated inventories of imported steel into the EU have been exhausted. Already, the second quarter production in the EU, as you can see on this slide, is showing some improvement as compared with last year.

Second, we expect Chinese steel exports to progressively reduce or, at worst, stabilise, as the Chinese government is taking action to control exports and curtail excess steel production and capacities. In parallel, more and more importing countries are introducing or tightening measures against unfair trade of steel, thereby reducing the size of potential markets accessible to Chinese steel exports.

And in effect, Chinese net steel exports during the first half of this year declined by 5.3% as compared with last year. The volume performance of the Steel Division in the first half was obviously temporarily held back by the operational issues we discussed earlier, especially in North America for both Flow Control and Advanced Refractories, but also in India for Advanced Refractories.

As a consequence, Flow Control and Advanced Refractories experienced temporary market share pressure during the period. Market share evolution was also impacted by tight credit control measures in EMEA vis-a-vis customers not paying on time and by the one-off effects of the closure mid-year last year of three customer sites in North America where we had exclusive supply contracts.

We are confident and we expect market share to be progressively regained in the coming months. As operational issues are being resolved, new production sites where we gained exclusive supply contracts are starting production both in North America and in Europe.

The Steel Division achieved a strong positive net pricing performance in the first half. The division also made very good progress in its structural cost improvement programme during the period. Thanks to this, and despite temporary operational difficulties, Flow Control improved both trading profit and return on sales during the period.

Advanced Refractories performance was significantly lower than anticipated last year due to those operational challenges in North America and India, but also due to a challenging pricing environment in EMEA where some Chinese advanced refractories producers are trying to get a foothold through predatory pricing. The global impact of the temporary operational challenges on the Steel Division globally was around GBP8 million in the first half and is expected to reduce in the second half before disappearing as from 2027.

Let's now turn to the Foundry Division. India and China foundry markets continued to exhibit positive growth. North America and Japan are also, for the first time over the past three years, starting to show clear signs of improvement. On the other hand, however, EU plus UK and South America markets, for the time being still representing a little bit less than 40% of our sales, remain negatively oriented.

Non-ferrous foundry markets, to which we have increased our exposure with the MMS acquisition, are also confirming their higher growth potential as compared with our traditional ferrous foundry markets. The Foundry Division showed strong performance in both its base business and in the newly acquired MMS business during the first half.

The division achieved a significantly positive net pricing performance and at the same time gained market share in all regions. The division also fully delivered on its structural cost improvement initiatives. The newly acquired MMS Crucible activity is being very successfully integrated, and synergies are on track to exceed expectations.

As a consequence, the Foundry Division could increase its revenue by 8.7%, its trading profit by 32.7% and its return on sales over the period, both on a constant currency basis. We expect the performance of the Foundry Division to continue to improve in the coming months. We maintained during the first half our industry-leading investment in research and development at around 2% of our sales.

This R&D spend is fully expensed in our P&L. This allows us to increase again our new product sales ratio during the year, defined as the percentage of our sales realised with products which didn't exist five years ago. At 21%, our new product sales ratio is now exceeding our internal objective of 20%, demonstrating again our continued success in commercialisation of our innovations.

We could launch nine new products during the first half, reinforcing our technology leadership in the market. Thanks to the productivity of our R&D organisation, we maintain a full pipeline of products to be progressively introduced in the second half and beyond. We are also strengthening our robotics innovation and offering, partnering with OEMs and steel producers both for the modernisation of existing steel mills and for new state-of-the-art steel plants coming on stream.

During the first half, we could secure orders for four Flow Control and three Advanced Refractories robotic equipment versus one and two respectively for the same period last year. And you can see on this slide two illustrative examples of innovative robotic solutions delivered to our steel customers this year.

On the upper part of the slide, you can see the integrated robotic solution recently commissioned at our steel partner, Trinec Steel, in the Czech Republic. This includes, and this is what you can see in the picture, the first fully robotised oxygen lancing equipment for the ladle make-up area developed in close cooperation with our customer.

This is a world-first innovation, which will improve the safety of our customers' operations and, at the same time, improve the consistency of its steel production. On the lower side of the slide, you can see the new tundish dry-vibe robot assembled in our Belgian robotic centre prior to shipping and installation at the new Nucor West Virginia plant in the United States. This will enable our customer to improve its cost and at the same time the quality and reliability of its operations.

I will now hand over to Mark, who will give you more information on our financial performance during the first half.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

Thank you, Patrick, and good morning, everyone. Starting with revenue, the key message is that revenue is resilient despite the operational challenges that we've had, with positive pricing of around GBP21 million more than offsetting a volume decline of GBP16 million. You can see the volume reduction is mainly in the Steel Division despite the strong growth in steel production.

The box at the top shows a gap when we benchmark our regional revenue against regional steel production. We estimate that our revenue could have grown by around GBP20 million. Mathematically then, our revenue is GBP34 million lower compared to the market. The important point is this is not a market share loss, and I've broken it out on the table to the right.

Firstly, GBP12.6 million is customer demand, which we could not have met due to the operational challenges. A further GBP9.6 million is from lower equipment sales, which clearly fluctuate period to period. In addition, as we mentioned in the 2025 results, our revenues have been impacted due to the closure of three steel plants in North America, where we had very high market share, which had an impact of GBP8.5 million. And finally, we decided to avoid sales of GBP4.5 million due to credit risk in Europe.

In Foundry, excluding MMS, volumes were stable. We delivered net market share gains of GBP6 million. Offsetting these was a net market decline of around GBP8 million, this being split 50/50 between Europe and South America. Finally, we've called out our revenue from loss-making operations, which we have closed, removing revenue of GBP9.2 million.

So to summarise, revenue growth should have been better in this first half. Putting aside the operating issues though, there are some positives, namely a steel market which is showing strong growth and a strong price performance in both our Steel and Foundry divisions.

And now turning to trading profit. In summary, it's a flat year or a flat half year, but there are a number of movements on the bridge which require further explanation. Firstly, MMS integration is delivering as planned. When we acquired this business, it was generating a trading profit of GBP6 million per annum. And we are already at GBP4 million for the first half.

The lower volume seen on the previous page is coming through at 60%, which is on the high side. And this is mainly caused by Advanced Refractories in Europe and is due to the lower margin contracts referenced earlier. On the positive, we have seen net positive pricing come through at GBP7 million. This is mainly in Flow Control but also in Foundry.

Structural cost savings are ahead of expectations where we guided to GBP10 million for the year and are already over GBP7 million. The incentives delta was previously guided and the impact of GBP8 million from the operational inefficiencies has been discussed at length. For these operational inefficiencies, we have carefully considered the H2 impact, making estimates of the future cost impact, but most importantly, the pace at which we expect to regain market share.

The discontinued operations are the losses that were made on the businesses which we are closing. And finally, within the other bar, there is the one-off benefit of GBP4 million from a lower tariff, which is offsetting a smaller number of items. So to summarise, the profits of GBP74 million have been held back by operational issues, but you can also see the benefit of the ongoing improvements from the self-help measures. Once we have these operational issues behind us, our self-help measures will position us well for 2027.

Now looking at the income statement. I've already covered the main trading elements here, so I'll address the finance costs, the tax charge and the minority interest line. Our finance costs are broadly consistent. Our tax rate has now come down by 50 basis points. This reduction from the prior year is mainly driven by profit mix, but also some structuring.

The good news is that, barring any unusual one-off items, we are now confident that our underlying tax rate for '26 and beyond is now 27%. For minority interest, the higher charge reflects the increase in the minority share of our Indian Foundry business, where we used our Indian listed shares to pay for the majority of MMS. Finally, our half-year headline EPS was 16.3p, down slightly by 0.7% on a constant currency basis, leading the Board to maintain the interim dividend, which has been approved at 7.1p per share.

And now we move into working capital. Working capital has remained a key priority for Vesuvius management and in the first half, we delivered a solid result. We have maintained the absolute balance at a low level, especially at the point in the year when it is typically the highest.

Our 12-month average has also come down, demonstrating that the improved performance has not just been achieved at the reporting date, but is from a lower level over the last 12 months. We have achieved this by targeting raw materials in our plants, and it's mainly through increasing the frequency of our ordering.

Beyond this, we still see a significant opportunity to reduce working capital further. Particularly in trade debtors where we know there is plenty of opportunity to gradually implement improved credit terms. And as we have said before, we remain confident that a long-term target of 21% is entirely valid for Vesuvius.

So moving on to operating cash flow. As you can see, we have delivered a much-improved cash flow conversion, reporting 81% compared to 33%. This was mainly achieved by the improved working capital, as well as an ongoing focus on managing our VAT balances, which previously led to an outflow of other working capital.

CapEx is running a little bit higher for the first half, reflecting the phasing of investment in our automated central warehouse in Skawina and some ongoing investment in North America. We believe it prudent to increase our full year CapEx guidance to between GBP75 million and GBP80 million for FY26, which is circa GBP5 million higher than we initially communicated. At the same time, we aim to mitigate this by further improvements in working capital, as well as reducing our VAT balances further over the second half.

Now looking at the free cash flow and net debt. Our free cash flow has inflected to an inflow of GBP27.5 million compared to an outflow this time last year of GBP13.4 million. On a full-year basis, we are targeting to further improve working capital and after paying the final dividend from 2025 and an interim dividend in the second half, we are targeting to maintain net debt at a similar level.

This means that in practice, our year-end leverage will remain at around 2 times. Beyond 2026 though, Vesuvius can still generate significant free cash flow. Clearly a higher level of operating profit is required, but once the operational issues are behind us and based on a combination of market share gains and improving end markets, we expect to deliver significant free cash flow on a recurring basis.

And now moving into our cost reduction programme. Firstly, I do need to reconfirm that we carefully track projects to ensure only structural cost reductions qualify. We do not include, for example, vacant positions or lower maintenance costs. Reported savings have come from the closure of surplus plants, the transition of production to lower-cost operations, headcount reductions through automation, and reductions in OpEx through better systems and reorganisations.

We continue to make good progress, delivering GBP7.4 million of in-year savings so far, with a target for the year remaining at GBP10 million. The cash costs to achieve, which are the P&L charge excluding non-cash impairments, were GBP6 million in H1. For the year, this will be as previously guided at between GBP10 million and GBP12 million. In addition, there's been an H1 non-cash charge of GBP10.4 million that relates to the impairment, of which GBP7.8 million relates to our AR production facilities in South Africa.

So with that, thank you. And now back to Patrick for the outlook and closing remarks.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

Thank you, Mark. The Vesuvius Group has continued to make very significant strategic progress over the first half. Our pricing leadership has been confirmed. Our cost improvement programme is proceeding ahead of schedule. Our technology strategy continues to deliver the expected benefits. And the turnaround of the Foundry Division is now firmly engaged.

The impact of those positive developments has been temporarily offset by short-term operational issues. But those are now clearly identified and are expected to be resolved by the end of the year, which will then enable the Group to benefit from the ongoing positive developments in our main steel markets.

Whilst we remain mindful of the geopolitical uncertainty stemming from the Middle East situation, we believe this structural recovery in our steel market is resilient and will continue in the second half and beyond. We expect full year trading profit to be slightly ahead of trading profit for 2025 on a constant currency basis.

Thank you for your attention, and now I propose to open the floor for questions.

QUESTIONS AND ANSWERS

Andrew Douglas *Jefferies - Analyst*

Good morning, gents. Thank you for the presentation. It's Andrew Douglas from Jefferies. The standard three questions, please. Can you talk about European recovery and what's going to come through hopefully in the second half from the system? I appreciate Mittal is out today giving their view.

What's your view on when you think your business might start to see that benefit from Europe? And also what has to happen for that to then actually take place? I'm assuming it's related to inventories, but maybe you can tell me.

Secondly, on the lost revenue, how easy do you think it would be to get back that market share or get back those volumes in both Steel Flow Control and Advanced Refractories? I'm assuming it's a bit easier in Flow Control, but again, interested in what you're going to say.

And clearly, MMS is going really well. So just a little bit of an update on the integration and what is going on there and other opportunities to bolt things onto MMS because it's been such a good acquisition for you. Thank you.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

Thank you, Andy. As we discussed, the global steel market has clearly engaged its recovery, steel market outside of China, with a 3.8% growth over the first half. What is interesting is that Europe didn't contribute at all for the time being. This 3.8% was achieved without any participation from Europe.

In fact, Europe was even a slight negative, 0.6% as compared with last year over the first half. Europe has not joined the party yet in terms of steel market recovery. We believe this will start happening as from the second half. Our vision is quite similar to the one exposed by ArcelorMittal this morning.

We believe that we should see the first step of recovery. I think it's important to be prudent in terms of pace because we believe there has been some excess imports of steel into the EU just ahead of the July 1 deadline for implementation of the new EU regulation.

So there is probably some time needed for these excess inventories to be absorbed by the market. But our own vision is that, as from Q4, we should start seeing an acceleration of steel production in the EU and definitely 2027 should mark a significant acceleration of steel production in the European Union.

Your second question, I think there again it's important to be cautious, but there are good reasons to believe that this market share, temporarily lost sales because of the operational incident, should be, in particular in Flow Control, relatively rapidly regained.

Once these operational issues will be solved, we will have clear available capacity in North America in particular. We have in the months to come, several new projects starting in North America, where we have secured exclusive supply contracts, in particular for our Flow Control products, which will trigger a kind of a reversal of what we've seen.

These three plants, where we had high market share, which closed last year, we will see the opposite in '27, in particular with new plants starting now in the US, both the US and Mexico, where we have secured exclusive supply contracts, so we should play on the positive. So globally, I feel that the recovery of market share, temporary lost sales in Flow Control, should be relatively smooth and rapid in the coming 6, 12 months.

Advanced Refractories will probably take a bit longer because we don't have the same technological differentiation in Advanced Refractories than in Flow Control. This being said, in a growing market, which is the case now of both North America and India where the operational problems happened, the ramp-up of volume of sales in Advanced Refractories in both those areas should be significant also in the months to come, and we believe that lost sales should, all in all, relatively rapidly come back also in Advanced Refractories.

Your third question on MMS, yes, the MMS acquisition is really a success. It's going very well. I would say it's going very well first from a people point of view, which is the key of everything, as always. The management team of MMS coming from Morgan is integrating very well in Vesuvius. We are extremely happy to have them part of the Vesuvius family. They are doing a very good job integrating into the global Vesuvius management family, and this plays a key role in the success of this integration.

Which is clearly now on track to exceed expectations in terms of synergies in particular. We are only now starting to deliver the synergies, so SG&A synergies are starting to flow and the manufacturing synergies will flow over the next 12 to 18 months in particular. And this has been announced already to the unions.

One of our crucible plants in Germany will close by the end of 2027, triggering significant manufacturing synergies for the consolidated Vesuvius Group. It's clear that we don't have anything to announce today, obviously, but considering the success of the MMS acquisition, we have an appetite to study other potential opportunities going in the same direction, which could complement even further the good success story of the MMS acquisition. So if there are opportunities on the market, we are talking about small bolt-ons, but in case there will be opportunities on the market, we will clearly be interested to move forward with them.

Andrew Douglas *Jefferies - Analyst*

Thank you very much.

Thomas Elgar *Deutsche Numis - Analyst*

Hi guys, [Tom Elgar] from Deutsche Numis. Probably a couple of areas just to ask questions on. So I think the first part, on the Advanced Refractories side in Europe, can you talk more around what you've assumed in terms of the pricing environment?

Obviously, you've made those comments around the challenges there and what gives you confidence around your assumption? Have you tested that with customers already? So perhaps that's the first question.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

I mentioned during the presentation that there is some pressure on pricing in Advanced Refractories due to Chinese imports of Advanced Refractories products into Europe. We have not assumed any improvement in that respect going forward. I think the pricing pressure on Advanced Refractories products in Europe is there.

I would say, an external parameter that we have to integrate. So we have not integrated any improvement. Volumes are good because the steel market is getting better. So volumes are good in Europe. But specifically for Advanced Refractories, pricing is under pressure.

Thomas Elgar *Deutsche Numis - Analyst*

And then just as a second area, you touched on the sort of outlook for Europe. So I guess, what do you expect your customers' sort of inventory cycle to look like for your products, given this is a sustained improvement that we haven't seen for quite a number of years?

Is there anything different that you might expect in terms of, given the structural nature to the growth, they might hold on, given the greater confidence, hold on to more of your products? Can you sort of talk around that?

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

The level of inventories of our products held by our customers is relatively low as we speak, and the customers, which were under themselves strong financial pressure up until relatively recently, have had a tendency to reduce their level of inventories.

We have not integrated in our forecast any increase of this level of inventories back to what we think would be a more normal level, but it may happen. If it would happen, it would be a further tailwind for our business, but we have not integrated this, for the time being, in our reasoning.

Harry Philips *Peel Hunt LLP - Analyst*

Excuse me, it's Harry Phillips at Peel Hunt. Also, a couple of questions, please. I'm just wanting to get clear in my mind that I'm not going to get too carried away and double-count into recovery some of the revenue numbers you gave us, Mark. I'm just thinking that the GBP12.6 million lost opportunity, and let's just take a sort of case that doesn't pick up in the second half.

So I'm just thinking of the base year for Steel as then looking at '27. So, in theory, if you say to yourself, we've resolved all the issues, let's say steel does one, then you could add this in '26, you could add the lost opportunity to your base assumption for '27. Would that be broadly --

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Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

Yes, subject to the pace of recovery, or regaining the market share as well. So I think the interesting thing is we know we have backlog of Flow Control. So as Patrick said, we're relatively confident that we'll be able to recover Flow Control revenues in the US just by virtue of drawing down our backlog, let alone winning back some of the work that we perhaps have lost.

But yeah, theoretically, the GBP12.6 million is there to be fully regained. And the assumption at the moment is the GBP12.6 million obviously flows into the second half by virtue of the H1/H2 being flat. So it's effectively GBP25 million of lost revenue on an annualised basis.

Harry Philips *Peel Hunt LLP - Analyst*

And then just thinking about the sort of steel -- the three mill closures last year were a hit on revenue this year, which you've talked about consistently, so that's not sort of new news. But obviously, with all the new capacity coming on stream, sort of you will get a bounce.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

We should get a bounce. Yeah, I think, I mean, we were looking at the new plants that opened this morning, either opened or planned to be opened. There's about five plants in the US and Mexico, of which we've got supply contracts for all of them.

And mainly for Flow Control, but also a bit for AR, so again that should give us a positive bounce in '27. In fact, some of them opened in the second half of '26 and some of them are actually scheduled to open in '27.

Harry Philips *Peel Hunt LLP - Analyst*

I think just the equipment sales, is that GBP9.6 million a peculiarly high, is that a greater level of volatility than you'd normally see?

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

I would say yes, it normally does not feature in our analysis, but this time it was a significant amount. I think there's always a kind of volatility between the periods, but it was a bit higher than normal. What I can say though is that we do see quite a nice pipeline of equipment opportunities.

Some of those become customer installations and drive consumable sales and some of them are just outright purchases, but we can see a high level of interest from a lot of our customers, particularly from the acquisition of [Piromet] and more generally robotics, as Patrick touched on in his slides.

Harry Philips *Peel Hunt LLP - Analyst*

And then just finally on Foundry, just if you crudely strip out MMS, both the revenue and profit as per the bar chart, sort of underlying Foundry is sort of flat profit revenue, which given sort of what's happening, that sort of seems pretty robust. But in terms of momentum, can you split out what the sort of underlying organic sort of progression was in the first year?

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

An order of magnitude, Harry, is that in the improvement of the Foundry Division year on year during the first half, two-thirds is MMS, one-third is the underlying base business, order of magnitude.

And we expect both parts, I would say, historical base of Foundry and the MMS-related business, knowing that it's not MMS anymore because it's completely merged with the existing business, but the MMS-origin part, both to continue to grow in the coming months and years.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

30 basis points improvement in the core business that we've calculated. So that's the benefit of the price rises coming through and a little bit of decline in volume because of Europe and South America. So there is, as Patrick said, clear progress and profit improvement in the core business ex-MMS.

Harry Philips *Peel Hunt LLP - Analyst*

And then just finally thinking about the sort of cost programme, obviously that reaches conclusion, but I would imagine given the difference in sort of geographic performance within the various businesses, are you sort of thinking there could be an extension or sort of reappraisal of what you might do?

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

I mean the GBP15 million which is still to go is fully broken down in terms of things that we want to do and some of those things obviously continue to focus on the more troublesome parts of the business. So there are definitely some opportunities in terms of production for European AR, for example, that we're studying and are somewhat factored into that number. I think we always believe that there's more to go after.

So at the end of 2028, we do not believe we'll be done. There's ongoing efficiencies that you can make on a daily basis, and we're always trying to get after those.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

It's a never-ending story, as you know. Our first task is to exceed the GBP55 million by 2028. But as Mark said, we are both very confident that once this is done, we'll find something else.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

And the key message that I wanted to outline was these are structural cost savings because obviously people were concerned that we were cutting areas that we shouldn't have cut, but that is not the mindset of the Group. We do focus on very discrete things when we look to remove cost, not just holding back spend. We look to close, reorganise, transfer, etc. And that all has to meet our definitions of structural cost savings.

Harry Philips *Peel Hunt LLP - Analyst*

And then just lastly. Around the 12.5% margin target, so an unfair question, but I'm going to ask it anyway. I mean, your confidence in that 12.5% margin target, sat here today, say, compared to a while ago. I mean, that acceleration in steel was almost at a level we haven't seen in 25 years, if not longer. Sort of, it gets me excited. I'm just hoping it gets you excited.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

It's a very tricky question, if you allow me, in the current short-term circumstances, but short term is short term and long term is long term. The operational issues that we have, firstly, they are not rocket science, which doesn't make it very glorious, but what happened to us during the first half is not very complicated to solve.

That is one of the reasons why it should not have happened, by the way, but it's not very complicated, so it will be solved. And the fundamentals of the business, what we should take into account to answer your question about the 12.5%, not only remain exactly the same as what they were six months ago, but they are probably a bit better. They are probably a bit better. So I don't really see why we would change our opinion about our ability to reach that target because we had short-term difficulties during the first half.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

I would add that the presumption of the 12.5% has always been underpinned by 2% market growth and 2% revenue from market share gains. The 2% market growth has been 3.8% in this first half, so it's double what we thought it was going to be. The market share gains, clearly how we calculate them, we benchmark ourselves to the steel production.

Yes, it's negative, but as we've explained, the negatives, some of them are self-inflicted, but a lot of the negatives are just timing. So I think the position still stands, but as Patrick said, it's hard to get confident on that when you're sat here after a difficult week. Thank you.

Mark Fielding *RBC Capital Markets Inc - Analyst*

Hi, I'm Mark Fielding from RBC. Not wanting to rain on Harry's parade of optimism, but I want to go back to the one bit that feels a little bit more negative, which is we've already touched on the EU price pressure you're seeing in refractories, and I suppose just a bit more thoughts about it.

I know you've not assumed an improvement, but what can you actually do to counter that? What is the risk that it becomes a more global phenomenon? I mean, could you start to see the same price pressure in other markets around the world?

And against that backdrop, it feels like given you're doing really well in the Flow Control side and it's still improving profitability, you're probably not making much money right now in Advanced Refractories. So just how do you think about the margin potential of that business in the context of that sort of 12.5% aspiration?

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

Thank you very much. It's a very good question. The rest of the world, there is not much change as compared with the situation before. So this situation is specific to Europe. And our own response to that is that today Europe is not our priority in terms of Advanced Refractories.

Flow Control, absolutely. We are clearly having a very good business of Flow Control in Europe, by the way, which is doing already significantly better in the first half than last year, even before the steel market starts to get better in Europe, so very resilient, very strong. But the geographical priorities of Advanced Refractories are Asia and North America.

We will maintain an activity in Europe because we have some good assets there, but our priority is not to grow in Europe in Advanced Refractories. Our priority is to cultivate the regions where we have strong assets and strong presence and good profitability, which are Asia, generally speaking, or the Asian area, and North America. This is where our focus will be.

Again, we will absolutely not retreat completely from Europe, but we are re-examining our manufacturing footprint in some parts of Europe. We are closing our manufacturing footprint in South Africa. We are optimizing our manufacturing footprint in other parts of Europe for Advanced Refractories, I mean.

So we are preparing ourselves to probably have a reduced footprint in Europe for Advanced Refractories, but more resilient, more solid and able to compete in these, I would say, new competition parameters with Chinese competition. We are fighting with Chinese everywhere in Asia with our Asian footprint, and it goes very well. We have no specific issue there.

So we have to adapt our manufacturing footprint in Europe to the new reality of the competition with Chinese imports, and it's on the way and it will be fully over by Q1 '27. So in Q1 '27, thanks to the manufacturing footprint optimization specifically in Advanced Refractories that is ongoing as we speak in Europe, we will have adapted our Advanced Refractories footprint and competitive situation to the new reality of what we believe is a new reality of the Advanced Refractories market in the Europe region. I think that the market is what it is, it's our job to adapt.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

Probably worth adding that where it makes sense, we do move production to China and then export it back into the markets that we're finding more challenging. So that's a good example of how we adapt.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

If you need to be Chinese in Europe to succeed, we'll be Chinese in Europe.

Mark Fielding *RBC Capital Markets Inc - Analyst*

So in that context, when we get to 12.5% margins in a year or so for Harry, what are the margins going to be like in Advanced Refractories? Are they getting up towards double-digit?

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

I think margins in Advanced Refractories have always been lower and will always be lower than the rest of the Steel Division, and Flow Control in particular. They will improve significantly as compared with what they are today. And our objective is that they will improve, not in 10 years, but we believe that the margins in Advanced Refractories will improve significantly as compared with the abnormally low level where they are in the first half, already towards the end of this year.

So, we are progressing at accelerated speed with the reorganisation and adaptation, in particular in Europe, of our manufacturing footprint. And this will support, together with the resolution of the operational issues in North America and India, which are a bit of a pity for Advanced Refractories because normally this is where they should make good money and they are making good money there. But we believe that both in the strong regions of Asia and North America, but also in Europe, the profitability will significantly improve between now and the end of the year.

Mark Collis *Vesuvius plc - Chief Financial Officer, Executive Director*

I mean, to answer your question, we don't project to get to double-digit in Advanced Refractories. That's not a core working assumption, but a decent improvement and actually an improved product mix is possible in Advanced Refractories.

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

This being said, double-digit in Asia and North America, yes, of course. Are there any further questions? Are there some questions online?

Operator

(Operator Instructions)

Patrick Andre *Vesuvius plc - Chief Executive Officer, Executive Director*

As there doesn't seem to be any questions online, I would like to thank you all for your attendance today. As always, with Rachel and Mark, we remain at your disposal to answer any questions you may have. Thank you very much, and I wish you a very nice day.

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