# Hero Acquisitions Limited
## (subsidiary of HSS Hire Group plc)
## 9M16 Results


# Agenda



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|---|---|
| Highlights | John Gill, CEO |
| 9M results | Paul Quested, CFO |
| Summary and outlook | John Gill, CEO |

# Highlights



## Continued market share gains

- Revenue up 10.9%

## EBITA margin progression through FY16

- Adj EBITA up 7.1%
- Adj EBITA margin progression (+120bps vs H1 16)

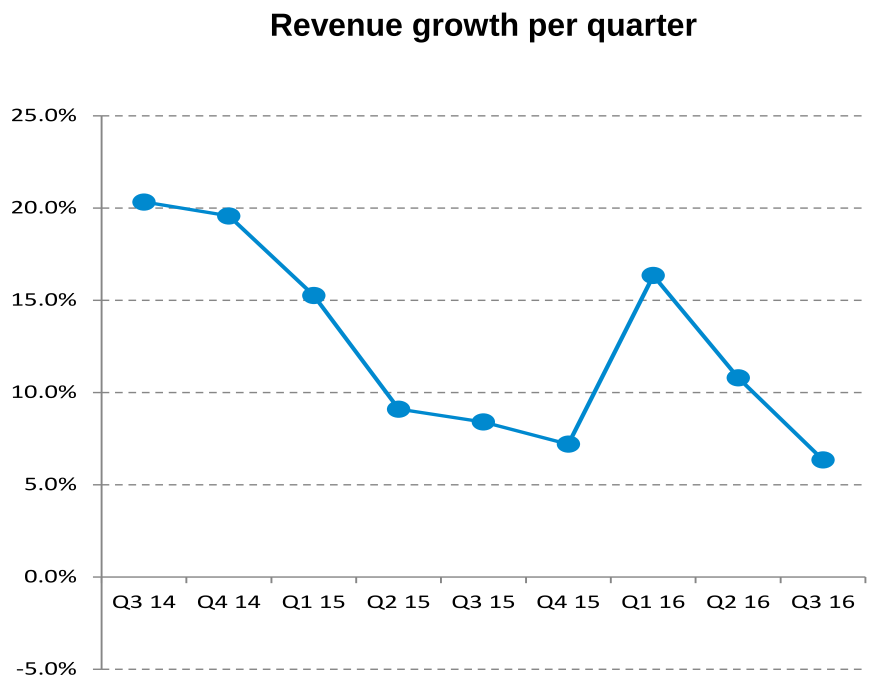
## Driving capital efficiency through the business

- Utilisation strong at c. 50% (core), c. 75% (specialist)
- Capex of £38m, materially lower than prior year

## NDEC implementation substantially complete

- All branches in England and Wales now rolled in
- Scottish locations to be rolled in in Q1 17

## Strong track record of revenue growth




***Investing in a platform for sustainable, profitable growth***

# Financial summary

*40 weeks ended 1 October / 39 weeks ended 26 September*

| £m | 2016 | 2015 | Growth (%) |
|---|---|---|---|
| **Revenue** | **256.0** | **230.8** | ***10.9%*** |
| Adj. EBITDA[1] | 52.8 | 51.4 | *2.7%* |
| *Adj. EBITDA margin* | *20.6%* | *22.3%* | |
| **Adj. EBITA[2]** | **15.1** | **14.1** | *7.1%* |
| *Adj. EBITA margin* | *5.9%* | *6.1%* | |
| *Non-finance exceptionals* | 12.5 | 4.1 | |
| *Finance exceptionals* | - | 4.3 | |
| ***Total exceptional costs*** | **12.5** | **8.4** | |

- Revenue growth across the business; particularly strong in Services and larger key accounts
- EBITDA margin movement continues to reflect evolving revenue mix
- EBITA margin up 120bps from H1 16 (4.7%) and broadly flat period on period
- Exceptional costs principally relate to the optimisation of our network including the closure of CDCs and underperforming branches



*[1] Earnings stated before interest, tax, depreciation and amortisation ("EBITDA") and before exceptional costs relating to restructuring and acquisitions*
*[2] Adjusted EBITDA less depreciation*

# Segmental analysis

*40 weeks ended 1 October / 39 weeks ended 26 September*

| £m | 2016 | 2015 | Growth |
|---|---|---|---|
| **Rental (and related revenue)** | | | |
| Revenue | 204.7 | 199.9 | *2.4%* |
| Contribution | 135.5 | 136.3 | *(0.6%)* |
| *Contribution margin* | *66.2%* | *68.2%* | |
| **Services** | | | |
| Revenue | 51.3 | 30.8 | *66.6%* |
| Contribution | 7.2 | 5.2 | *38.5%* |
| *Contribution margin* | *14.0%* | *16.9%* | |
| Branch and selling costs | (73.8) | (71.0) | |
| Central costs | (16.1) | (19.1) | |
| Adj. EBITDA | 52.8 | 51.4 | *2.7%* |
| Depreciation | (37.7) | (37.3) | |
| **Adj. EBITA** | **15.1** | **14.1** | ***7.1%*** |

## Rental

- Rental performance impacted by implementation of new operating model
- Actions taken at the end of Q3 / start of Q4 to mitigate lower growth

## Services

- Continued growth in lower margin supply chain management contracts

## Costs

- Annualisation of FY15 investment in sales network, partly offset by branch and selling, and central costs savings

# Movement in net debt

*40 weeks ended 1 October / 39 weeks ended 26 September*

| £m | 2016 | 2015 |
|---|---|---|
| **Adj. EBITA** | **15.1** | **14.1** |
| Depreciation | 37.7 | 37.3 |
| Exceptionals | (12.5) | (8.4) |
| Working capital | (10.3) | (12.7) |
| Capex[1] | (40.1) | (78.3) |
| Acquisition of All Seasons Hire | - | (11.0) |
| Tax | (0.1) | 1.1 |
| Net interest payable | (12.1) | (13.3) |
| Movement in group undertakings / IPO funds flow | (8.4) | (36.6) |
| **Net (increase) / decrease in net debt** | **(30.7)** | **(107.8)** |
| Closing net debt | **460.9** | |

## Larger net debt balance reflects:

- Exceptional costs related to NDEC
- Additional rental payment (Q1)
- Settlement of FY15 capex purchases

[1] *Gross of finance lease funding*

# Our strategy

## Customer needs

- Availability
- Safety
- Support
- Value

## Our strategy

Optimise the distribution and branch network

Win new, and deepen existing, customer relationships

Continued development and growth of our specialist businesses

## Scalable benefits

- Enhanced customer service proposition
- Operational and capital efficiencies
- Shareholder value

# Optimise the distribution and branch network: NDEC implementation

- Roll in expanded to 243 branches and distribution centres; England and Wales branches complete
- Remaining implementation timetable extended to Q1 17
  - Scottish branches and distribution centres
  - Leverage experience to date and drive “right first time” behaviour
  - Reduce potential for disruption through high operational volume Christmas period
- Action taken to remove underperforming branches; 18 branches closed (October)
- 4 DCs closed since H1 16 as part of NDEC roll in plans

***Driving continuous improvement as we build capacity for growth***

# Summary and FY16 outlook





- Positive revenue and underlying profit growth in 9M 16
- NDEC implementation timetable extended; impacting core rental and related revenues and speed of network optimisation
- Q4 16 trading will be at lower end of management expectations; FY16 adjusted EBITA now expected to be above the prior year, but below the range of market expectations
- Small reduction in net debt expected by the year end
- Continued careful management of capex; FY16 capex will be in line with £40m - £45m range
- New operating platform will be completed in Q1 17 enabling us to drive and enhance our customer proposition and deliver capital and operational efficiencies

# Q&A

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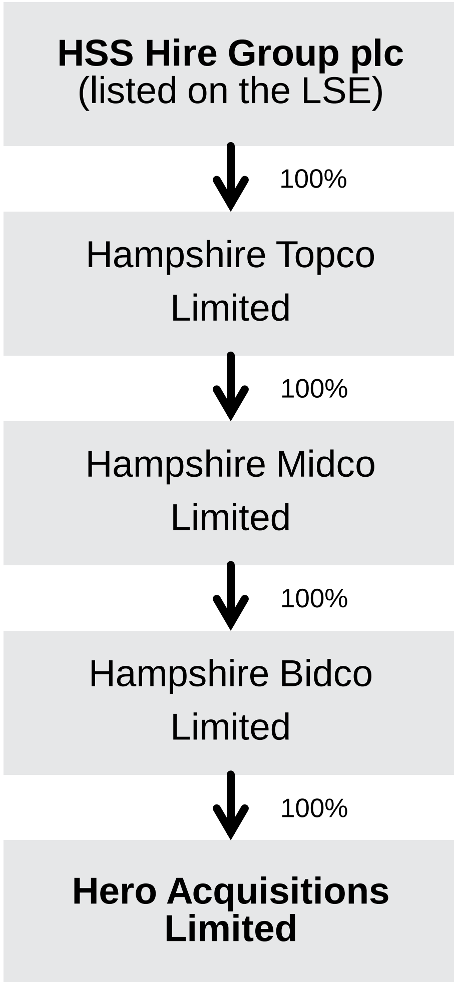
# Appendices

# Appendix A
## Group structure

- This appendix provides the reader with an overview of the group structure between:
  - HSS Hire Group plc, the new holding company admitted to the London Stock Exchange (LSE) in 2015;
  - Hampshire Topco Limited, the previous top company in the group; and
  - Hero Acquisitions Limited, the consolidated level at which we report 9M16 numbers today to meet the reporting obligations attached to our Senior Secured Notes



# Appendix B
## HSS Hire Group plc vs Hero Acquisitions Ltd

- Under the reporting obligations of our Senior Secured Notes issued in February 2014 we report Hero Acquisitions Limited group consolidated accounts on a quarterly basis
- The main differences between the two reporting levels are:
  - IPO and other advisory fees charged above the Hero Acquisitions group;
  - Higher intangibles and higher amortisation costs in the HSS Hire Group plc group, principally related to intangibles relating to the acquisition of the Hero Acquisitions group in 2012;
  - Lower net debt in HSS Hire Group plc group due to the netting down of intercompany debts; and
  - Differences in tax and interest resulting from the above differences

# Appendix C
## Result after tax

*40 weeks ended 1 October / 39 weeks ended 26 September*

| £m | 2016 | 2015 |
|---|---|---|
| **Adj. EBITA** | **15.1** | **14.1** |
| Amortisation | (2.6) | (1.8) |
| Adjusted finance expense | (26.8) | (21.3) |
| Exceptionals | (12.5) | (8.4) |
| **Reported LBT** | **(26.9)** | **(17.3)** |
| Tax | (0.8) | - |
| **Reported LAT** | **(27.6)** | **(17.3)** |

# Appendix D
# Balance sheet

***As at 1 October / 26 September***

| **£m** | **2016** | **2015** |
|---|---|---|
| Intangible assets | 154.9 | 153.4 |
| Tangible assets | 181.2 | 183.4 |
| Deferred tax asset | 1.2 | 2.5 |
| Net current assets / (liabilities)[1] | 41.0 | 21.9 |
| Other net liabilities | (9.4) | (8.4) |
| Net debt (ex. accrued interest)[2] | (459.4) | (410.8) |
| Accrued interest | (1.5) | (1.4) |
| **Net liabilities** | **(91.9)** | **(59.5)** |

*[1] Current assets less current liabilities. Current assets / liabilities captured within net debt e.g. the current portion of finance leases are not reflected in working capital*
*[2] Comprises cash and all debt principal balances, including those which would ordinarily be shown within current assets, current liabilities (excluding accrued interest) or non current liabilities. See appendix F*

# Appendix E
## Net third party debt calculations

*As at 1 October / 26 December*

| £m | 2016 | 2015 |
|---|---|---|
| Cash | (4.4) | (1.8) |
| Bank overdraft | 5.1 | 1.5 |
| RCF | 71.0 | 46.0 |
| Finance lease obligations | 31.1 | 32.6 |
| Senior Secured Notes[1] | 136.0 | 136.0 |
| **Net third party debt (ex accrued interest)** | **238.9** | **214.4** |
| Accrued interest | 1.5 | 3.8 |
| **Net third party debt** | **240.4** | **218.1** |

- Reflects net debt owed to unrelated third parties
- Net third party debt therefore excludes the net amounts due to group undertakings

[1] *Shown gross of issue costs*

# Appendix F
## Net debt calculations

*As at 1 October / 26 December*

| £m | 2016 | 2015 |
|---|---|---|
| Cash | (4.4) | (1.8) |
| Bank overdraft | 5.1 | 1.5 |
| RCF | 71.0 | 46.0 |
| Finance lease obligations | 31.1 | 32.6 |
| Net amounts due to group undertakings | 220.5 | 212.1 |
| Senior Secured Notes[1] | 136.0 | 136.0 |
| **Net third party debt (ex accrued interest)** | **459.4** | **426.4** |
| Accrued interest | 1.5 | 3.8 |
| **Net third party debt** | **460.9** | **430.2** |

[1] *Shown gross of issue costs*