HSS Hire Group Plc

Interim report: Half-year results for the 26 week period ended 29 June 2019

Improved returns; full-year expectations unchanged

HSS Hire Group plc ("HSS" or the "Group") today announces results for the 26 week period ended 29 June 2019.

Financial Highlights[1] (*Unaudited*)	H1 2019 (26 weeks)	H1 2018 (26 weeks)	Change
Revenue	**£161.4m**	£155.4m	**3.9%**
Adjusted EBITDA[2]	**£27.0m**	£24.4m	**10.9%**
Adjusted EBITDA margin	**16.7%**	15.7%	**1.0pp**
Adjusted EBITA[3]	**£8.8m**	£3.3m	**£5.5m**
Adjusted EBITA margin	**5.4%**	2.1%	**3.3pp**
ROCE[4]	**21.7%**	4.9%	**16.8pp**
Net debt leverage[5]	**3.0x**	3.7x	**0.7x**
Adjusted basic loss per share	**(0.77)p**	(1.88)p	**1.11p**
Other extracts			
Operating profit / (loss)	**£4.8m**	£(3.0)m	**£7.8m**
Profit / (loss) for the financial period	**£7.6m**	£(7.6)m	**£15.2m**
Total Basic earnings / (loss) per share	**4.44p**	(4.45)p	**8.89p**

The new accounting standard IFRS16 *Leases* will be adopted for the financial year beginning 29th December 2019. IFRS16 has not been adopted for the current period and as such all of the financial results have been presented excluding the impact of the standard.

Highlights for H1 19

- Significant improvement in returns, ROCE increased to 21.7%
  - Adjusted EBITDA growth of 10.9% and Adjusted EBITA increased £5.5m
  - Revenue growth and cost initiatives improved EBITDA margins by 1pp and EBITA margins by 3.3pp
  - ROCE improved 16.8pp by leveraging insight tools, improved price controls and growth in the capital light Services business

- Revenue growth of 3.9% driven by increased focus on Services, improved availability and fleet investment
  - Rental (and related) revenue growth of 1.1%
  - Continued strength in Services with revenue +10.6% and contribution +15.7%
  - LTM utilisation[6] has remained high following investment in new fleet at 51.3% in Core tool hire and 67.8% in Specialist

- Further reduction in net debt leverage to 3.0x (H1 18: 3.7x)
  - Net debt has reduced by £52.7m as a result of improved EBITDA and the use of proceeds from the sale of UK Platforms
  - Cash and total facility headroom greater than £50m as at 29 June 2019

- Continued progress against strategic priorities
  - Customer app launched and development is ongoing
  - New driver technology now in place, improving efficiency
  - OneCall automated platform rolled out for all suppliers

- Self-help initiatives already implemented to manage well reported market headwinds

Outlook

- Management confident that full year profit will be in line with market expectations

Steve Ashmore, Chief Executive Officer, said:

“I am pleased to report a solid performance for the first half of 2019 in which the continued focus on driving profitable revenue growth through strong price control and effective cost management led to a significant improvement in return on capital and a further reduction in leverage.

As set out in April, the next phase of our strategy is focused on strengthening our commercial proposition by enhancing the digital offer in our Rental business and transforming the customer experience in our OneCall Services business. We are pleased with the positive reaction to the launch of our customer app, the roll-out of new driver technology and the completion of our new automated OneCall system. We will continue to develop our digital offering, further improving the customer experience, and build on these early positive results.

The widely reported headwinds in the economy have affected the tool hire market but HSS is well placed to manage these more challenging conditions. We have taken additional action to further optimise our operating cost base and have a clear strategy to build upon our existing excellent market positions, leaving us well placed to continue to grow share in all of our markets.”

Notes

1) Results for H1 19 and H1 18 are for continuing operations and exclude the UK Platforms business which was sold in January 2019
2) Adjusted EBITDA is defined as operating profit before depreciation, amortisation, and exceptional items. For this purpose depreciation includes the net book value of hire stock losses and write offs, and the net book value of other fixed asset disposals less the proceeds on those disposals
3) Adjusted EBITA defined as Adjusted EBITDA less depreciation
4) ROCE calculated as Adjusted EBITA for the 12 months to 29th June 2019 divided by the average of total assets less current liabilities (excluding intangible assets, cash and debt items) over the same period
5) Net debt leverage is calculated as closing net debt divided by adjusted EBITDA for last 12 months (LTM). H119 LTM EBITDA excludes UK Platforms.
6) Utilisation is calculated for the 12 month period to 29th June 2019 and is value weighted based on rental revenue

-Ends-

Disclaimer:

This announcement contains forward-looking statements relating to the business, financial performance and results of HSS Hire Group plc and the industry in which HSS Hire Group plc operates. These statements may be identified by words such as “expect”, “believe”, “estimate”, “plan”, “target”, or “forecast” and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions and involve risks and uncertainties. Various factors could cause actual future results, performance or events to differ materially from those described in these statements and neither HSS Hire Group plc nor any other person accepts any responsibility for the accuracy of the opinions expressed in this presentation or the underlying assumptions. No obligation is assumed to update any forward-looking statements.

Notes to editors

HSS Hire Group plc provides tool and equipment hire, re-hire and related services in the UK and Ireland through a nationwide network of over 240 locations and its OneCall re-hire business. It offers a one-stop shop for all equipment through a combination of our complementary rental and re-hire businesses to a diverse, predominantly B2B customer base serving a range of end markets and activities. Over 90% of its revenues come from business customers. HSS is listed on the Main Market of the London Stock Exchange. For more information please see www.hsshiregroup.com.

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Group financial performance

The Group is working with third party specialists to develop IFRS 16 policies along with processes and systems to manage their successful implementation. This work will be completed by the fourth quarter of 2019 and as such, the decision has been taken not to adopt IFRS16 early for the financial year 30th December 2018 to 28th December 2019. The financial results are therefore presented on a non IFRS 16 basis. All comparisons, except where separately disclosed, are on a Continuing Operations basis.

Revenue

Revenue in H1 19 was £161.4m, 3.9% above the previous year (H1 18: £155.4m). This year on year increase reflects improved trading in H1 19 across both our Rental and Services segments.

Rental and related revenues were £110.3m in H1 19 (H1 18: £109.1m), £1.2m and 1.1% higher than in H1 18. This was a strong performance in a tougher trading environment compared to H1 18 and strong comparators. In line with our strategy, the Group has used new insight tools to drive focus on profitable growth combined with improved availability post the FY18 operating model change. Contribution was £73.5m (H1 18: £72.7m), an increase of 1.1% on H1 18 driven by improved revenues with margin consistent at 66.7%.

Services revenues were £51.2m in H1 19 (H1 18: £46.3m), growth of 10.6% reflecting a strong performance in our OneCall and Training businesses with customers continuing to value the “one stop shop” service offer. Contribution increased to £8.2m (H1 18: £7.1m), with margins improving to 16.0% (H1 18: 15.3%), reflecting ongoing focus on pricing discipline and effective supply chain management.

Costs

Cost of sales grew by £2.4m to £75.9m during the period (H1 18: £73.5m) primarily as a result of the growth in our Services business revenues and associated costs. Distribution costs decreased by £0.4m to £16.7m (H1 18: £17.1m), as the Group continued to control cost and benefit from network changes made in 2018. Administrative expenses decreased by £3.6m to £64.3m (H1 18: £67.9m) due to the benefit of cost actions taken in 2018 combined with lower exceptional costs.

Gross exceptional costs in H1 19 were lower at £2.8m (H1 18: £3.2m) and include £1.7m accelerated amortisation of debt issue costs following early repayment of debt in January post the disposal of UK Platforms, a £0.5m increase in the dark stores provision and £0.5m related to cost saving initiatives. This includes third party costs following the decision to close the cross-dock operation.

In H1 18, exceptional costs were £3.2m, of which £1.5m related to onerous leases on closed branches and £0.4m was impairment of property, plant and equipment related to those closures. There were no branch closures in H1 19 (H1 18: 12). The H1 18 costs are net of sub-let income on onerous leases of £0.2m.

Net finance expenses were £4.9m higher at £12.1m (H1 18: £7.2m) reflecting the interest rate on the term facility entered into in July 18 and a higher level of debt issue costs as a result of the accelerated amortisation noted above.

Profitability

Adjusted EBITDA of £27.0m in H1 19 was 10.9% higher than the prior year (H1 18: £24.4m), with adjusted EBITDA margins improving 1pp to 16.7% (H1 18: 15.7%). The improving profitability was driven by increased revenues in the period and lower costs due to continued focus on the strategic priorities including the ongoing benefit of annualised savings from initiatives implemented in FY18.

Adjusted EBITA increased from £3.3m in H1 18 to £8.8m in H1 18, with the margin improving to 5.4% (H1 18 - 2.1%), for the reasons described above, and reduced depreciation as a result of investment timing.

Loss before tax reduced by 27.7% to £7.4m, from £10.2m in H1 18, despite increased finance expense. This reflects stronger underlying performance year on year combined with lower exceptional costs.

The basic profit per share was 4.44p in H1 19 improving from a loss per share of 4.45p in H1 18, reflecting the improved trading in the business and the profit from disposal of UK Platforms.

The adjusted basic and diluted loss per share was 0.77p per share in H1 19, improving from a loss of 1.88p in H1 18. This reflects the underlying improvement in the adjusted loss before tax position.

Return on Capital Employed

ROCE increased to 21.7% reflecting a significant improvement compared to H1 18 (4.9%) and in line with our 2020 performance framework target of greater than 20%. This has been driven by the utilisation of new insight tools to determine fleet investment, improved pricing control driving profitability and growth in our capital light Services business.

This improvement comes at a time when the investment in fleet and asset book value has increased.

Sale of UK Platforms Limited

As part of the strategy to Delever the Group and Transform the Tool Hire Business, on 11 January 2019, the Group completed the disposal of UK Platforms Limited to Nationwide Platforms Limited, a wholly owned subsidiary of the Loxam Group. Proceeds of disposal, net of transaction costs, were £47.5m generating a profit on disposal of £12.8m. Costs of £2.1m were recognised in FY 18 and so the profit on sale recognised in H1 19 is £14.9m.

After completion, £38.0m of the proceeds was used to pay down Group debt, reducing the senior finance facility from £220.0m to £182.0m.

The Group continues to have access to the powered access fleet through its ongoing commercial agreement with UK Platform's new owner.

Net debt

Net debt at 29 June 2019 was £186.0m, £52.7m lower than December 2018 (FY 18 Total Operations: £238.7m) through the repayment of debt and reduction in finance lease obligations following completion of the disposal of UK Platforms in December, and improved Group profitability. Headroom in the Group's total facilities including net cash was £52.9m.

The debt facilities consist of a £182.0m term loan facility, with £167.0m maturing in June 2023 and £15.0m in December 2020, along with a revolving credit facility of £25.0m maturing in December 2022.

Accelerated amortisation of debt issue costs of £1.7m was recorded in H1 19 as a result of the repayment of a portion of the loan with proceeds from the sale of UK Platforms.

Dividend

The Board remains firmly focused on reducing net debt in line with the clear priorities set out in our Strategic Review. As such, it believes that the interests of the shareholders of the Group are best served by not paying a dividend until the net debt leverage ratio falls below 2.5x at the earliest. This is in line with the new term loan facility agreement.

Risks and uncertainties

The principal risks and uncertainties that could have a material impact upon the Group's performance over the remaining 26 weeks of the 2019 financial year have not changed significantly from those described in the Group's 2018 Annual Report and are summarised in note 13 of this interim report.

The main risk expected to affect the Group in the remaining 26 weeks of the 2019 financial year is macro-economic conditions, which includes the impact that the Brexit related developments could have on the business.

Free float

The strong improvement in the Group's performance is already leading to increased investor interest. However, the Company is cognisant of the level of the free float of its shares, which currently stands at c13.75%.

The Board and its advisors believe that:

(a) the market in the Company's shares operates properly, with a greater level of liquidity than many companies of its size;

(b) the excellent progress in the Group's turnaround will continue to lead to increased interest in the Company's shares from investors, both institutional and retail, thereby improving the level of free float.

The Company has been in dialogue with the FCA and agreed a modification of listing rule 9.2.15R, which would otherwise require a free float of at least 25%, until 21 August 2020. The Board expects to extend the free float in the Company's shares during this time; however the Board is also able to consider multiple other options.

Responsibility Statement

We confirm to the best of our knowledge that:

(a) the condensed interim set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union;

(b) the Interim Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the Interim Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Steve Ashmore
Director
5 September 2019

HSS Hire Group plc

Unaudited condensed consolidated income statement

	Note	**26 weeks ended 29 June 2019 £000s**	26 weeks ended 30 June 2018 £000s
Revenue	3	**161,436**	155,369
Cost of sales		**(75,892)**	(73,504)
Gross profit		**85,544**	81,865
Distribution costs		**(16,719)**	(17,126)
Administrative expenses		**(64,339)**	(67,888)
Other operating income		**268**	182
Operating profit / (loss)		**4,754**	(2,967)
Adjusted EBITDA[1]	3, 15	**27,038**	24,376
Less: Adjusted depreciation [1]	8	**(18,276)**	(21,090)
Adjusted EBITA[1]	15	**8,762**	3,286
Less: Exceptional items	4	**(1,018)**	(3,207)
Less: Amortisation[1]	7	**(2,990)**	(3,046)
Operating profit / (loss)		**4,754**	(2,967)
Net finance expense	5	**(12,124)**	(7,230)
Adjusted loss before tax		**(1,623)**	(3,944)
Less: Exceptional items (non-finance)	4	**(1,018)**	(3,207)
Less: Exceptional items (finance)	4	**(1,739)**	-
Less: Amortisation	7	**(2,990)**	(3,046)
Loss before tax		**(7,370)**	(10,197)
Income tax charge		**(109)**	(502)
Loss from continuing operations		**(7,479)**	(10,699)
Profit on disposal of discontinued operations	14	**14,869**	-
Profit from discontinued operations, net of tax	14	**162**	3,126
Profit/(loss) for the financial period		**7,552**	(7,573)
Total earnings/(loss) per share (pence)			
Basic earnings/(loss) per share	6	**4.44**	(4.45)
Diluted earnings/(loss) per share	6	**3.80**	(4.45)

(1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation, and exceptional items. For this purpose depreciation includes the net book value of hire stock losses and write offs, and the net book value of other fixed asset disposals less the proceeds on those disposals. Adjusted EBITA is defined as operating profit before amortisation and exceptional items.

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc

Unaudited condensed consolidated statement of comprehensive income

	26 weeks ended 29 June 2019 £000s	26 weeks ended 30 June 2018 £000s
Profit/(loss) for the financial period	**7,552**	(7,573)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**516**	(51)
Losses arising on cash flow hedges	**(344)**	-
Other comprehensive profit/(loss) for the period, net of tax	**172**	(51)
Total comprehensive profit/(loss) for the period	**7,724**	(7,624)

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc

Unaudited condensed consolidated statement of financial position

	Note	29 June 2019 £000s	29 December 2018 £000s
ASSETS			
Non-current assets			
Intangible assets	7	**161,693**	163,657
Property, plant and equipment	8	**109,257**	109,129
Deferred tax assets		**2,500**	2,500
Derivative financial instruments		**39**	405
		273,489	275,691
Asset associated with assets classified as held for sale		**-**	46,716
Current assets			
Inventories		**3,683**	4,333
Trade and other receivables	9	**93,685**	93,981
Cash		**15,329**	17,832
		112,697	116,146
Total assets		**386,186**	438,553
LIABILITIES			
Current liabilities			
Trade and other payables	10	**(74,412)**	(71,011)
Borrowings and finance lease liabilities	11	**(5,808)**	(19,304)
Provisions	12	**(7,929)**	(10,284)
Current tax liabilities		**(1,204)**	(101)
		(89,353)	(100,700)
Liabilities associated with assets classified as held for sale		**-**	(13,544)
Non-current liabilities			
Borrowings and finance lease liabilities	11	**(182,884)**	(217,630)
Provisions	12	**(33,372)**	(34,048)
Deferred tax liabilities		**(1,136)**	(1,168)
		(217,392)	(252,846)
Total liabilities		**(306,745)**	(367,090)
Net assets		**79,441**	71,463
EQUITY			
Share capital		**1,702**	1,702
Merger reserve		**97,780**	97,780
Warrant reserves		**2,694**	2,694
Foreign exchange translation reserve		**696**	180
Cash flow hedging reserve		**(506)**	(162)
Retained deficit		**(22,925)**	(30,731)
Total equity		**79,441**	71,463

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc

Unaudited condensed consolidated statement of changes in equity

	Share capital £000s	**Merger reserve £000s**	**Warrant reserve £000s**	**Foreign exchange translation reserve £000s**	**Cash flow hedging reserve £000s**	**Retained deficit £000s**	**Total equity £000s**
At 29 December 2018	1,702	97,780	2,694	180	(162)	(30,731)	71,463
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	7,552	7,552
Foreign currency translation differences arising on consolidation of foreign operations	-	-	-	516	-	-	516
Cash flow hedge	-	-	-	-	(344)	-	(344)
Total comprehensive income for the period	-	-	-	516	(344)	7,552	7,724
Transactions with owners recorded directly in equity							
Share based payment	-	-	-	-	-	254	254
At 29 June 2019	**1,702**	**97,780**	**2,694**	**696**	**(506)**	**(22,925)**	**79,441**

	Share capital £000s	Merger reserve £000s	Warrant reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained deficit £000s	Total equity £000s
At 30 December 2017	1,702	97,780	-	425	-	(26,335)	73,572
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(7,573)	(7,573)
Foreign currency translation differences arising on consolidation of foreign operations	-	-	-	-	-	(51)	(51)
Total comprehensive loss for the period	-	-	-	-	-	(7,624)	(7,624)
Transactions with owners recorded directly in equity							
Transfer to warrant reserve	-	-	2,694	-	-	-	2,694
Share based payment	-	-	-	-	-	31	31
At 30 June 2018	1,702	97,780	2,694	425	-	(33,928)	68,673

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc

Unaudited condensed consolidated statement of cash flows

	Note	**26 weeks ended 29 June 2019 £000s**	26 weeks ended 30 June 2018 £000s
Cash flows from operating activities			
Profit/(loss) after tax		**7,552**	(7,573)
Adjustments for:			
– Taxation charge		**109**	502
– Amortisation	7,14	**2,993**	3,069
– Depreciation	8,14	**14,231**	17,462
– Accelerated depreciation relating to hire stock customer losses, hire stock write-offs	8	**4,194**	5,474
– Impairment of property, plant and equipment		**-**	450
– Loss on disposal of property, plant and equipment		**-**	175
– Profit on disposal of subsidiary	14	**(14,869)**	-
– Share based payment charge		**254**	31
– Foreign exchange losses on operating activities		**541**	-
– Net finance expense	5	**12,124**	7,420
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**641**	(634)
– Trade and other receivables		**(73)**	(11,001)
– Trade and other payables		**2,743**	14,187
– Provisions	12	**(3,032)**	(5,586)
Net cash flows from operating activities before changes in hire equipment		**27,408**	23,976
Purchase of hire equipment	8	**(10,738)**	(5,837)
Cash generated from operating activities		**16,670**	18,139
Net interest paid		**(9,803)**	(6,902)
Tax paid		**962**	(240)
Net cash generated from operating activities		**7,829**	10,997
Cash flows from investing activities			
Proceeds on disposal of businesses, net of cash disposed of		**46,123**	-
Proceeds on disposal of assets held for sale		**-**	1,500
Purchases of non-hire property, plant, equipment and software	7,8	**(3,315)**	(2,862)
Net cash generated from/(used in) investing activities		**42,808**	(1,362)
Cash flows from financing activities			
Bank arrangement fees		**-**	(400)
Proceeds from borrowings (third parties)		**-**	8,000
Repayments of borrowings	11	**(51,018)**	(3,000)
Finance lease payments		**(4,197)**	(6,330)
Net cash used in financing activities		**(55,215)**	(1,730)
Net (decrease)/increase in cash		**(4,578)**	7,905
Cash at the start of the period		**19,907**	2,151
Cash at the start of the period - continuing operations		17,832	2,151
Cash at the start of the period - discontinued operations		2,075	-
Cash at the end of the period		**15,329**	10,056
Cash at the end of the period - continuing operations		15,329	9,099
Cash at the end of the period - discontinued operations		-	957

The notes form part of these condensed consolidated financial statements.

Notes forming part of the condensed consolidated financial statements

1. General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The address of the registered office is Oakland House, 76 Talbot Road, Old Trafford, Manchester, England, M16 0PQ.

The condensed consolidated financial statements as at, and for the 26 weeks ended 29 June 2019 comprise the Company and its subsidiaries (the 'Group').

The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland.

The condensed consolidated financial statements were approved for issue by the Board on 4 September 2019.

The condensed consolidated financial statements do not constitute the Statutory Accounts within the meaning of Section 434 of the Companies Act 2006. Statutory Accounts for the year ended 29 December 2018 were approved by the Board on 3 April 2019 and delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not include a reference to any matter by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The condensed consolidated financial statements for the 26 weeks ended 29 June 2019 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and relevant International Financial Reporting Standards ('IFRS') as adopted by the European Union (including IAS 34 *Interim Financial Reporting*). The condensed consolidated financial statements should be read in conjunction with the Group's Annual Report and Accounts for the year ended 29 December 2018, which were prepared in accordance with IFRS as adopted by the European Union.

IFRS16 Implementation

IFRS 16 *Leases* is mandatory for periods beginning on or after 1 January 2019. The Group is working with third party specialists to develop IFRS 16 policies along with processes and systems to manage their successful implementation. This work is now expected to be completed by the fourth quarter of 2019 and, as such the decision has now been taken not to adopt IFRS16 early for the financial year 30th December 2018 to 28th December 2019 as had been planned and noted in the Annual Report and Financial Statements 2018. The date of initial application will now be for the financial year starting 29th December 2019. By taking the time allowed by the standard it gives management the opportunity to perform a full review of its lease portfolio and accurately assess the impact of IFRS 16 and the required disclosure.

Going concern

The Directors have reviewed the Group's current performance, forecasts and projections, taking account of reasonably possible changes in trading performance and considering senior debt and interest repayments, combined with expenditure commitments. In particular the directors have considered the adequacy of the Group's debt facilities with specific regard to the following factors:

- the financial covenants relating to the term loan facility of £182 million and revolving credit facility of £25 million secured by the Group
- the maturity of the term loan facility (£15m in December 2020, £167m in June 2023) and revolving credit facility in December 2022

After reviewing the above, taking into account current and future developments and principal risks and uncertainties, and making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

3. Segmental reporting

The Group's operations are segmented into the following reportable segments:

- Rental and related revenue.
- Services.

Rental and related revenue comprises the rental income earned from owned tools and equipment, including powered access, power generation and HVAC assets, together with directly related revenue such as resale (fuel and other consumables) transport and other ancillary revenues.

Services comprise the Group's HSS OneCall rehire business and HSS Training. HSS OneCall provides customers with a single point of contact for the hire of products that are not typically held within HSS' fleet and are obtained from approved third party partners; HSS Training provides customers with specialist safety training across a wide range of products and sectors.

Contribution is defined as segment operating profit before branch and selling costs, central costs, depreciation, amortisation and exceptional items.

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group being the provision of tool and equipment hire and related services in, and to customers in, the United Kingdom and the Republic of Ireland. Revenue from one customer exceeded 10% of Group turnover in the period ending 29 June 2019 (26 weeks ending 30 June 2018: one).

	26 weeks ended 29 June 2019			
	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Total revenue from external customers	**110,267**	**51,169**	**-**	**161,436**
Contribution	**73,505**	**8,164**	**-**	**81,669**
Branch and selling costs	**-**	**-**	**(42,610)**	**(42,610)**
Central costs	**-**	**-**	**(12,021)**	**(12,021)**
Adjusted EBITDA				**27,038**
Less: Exceptional items	**-**	**-**	**(1,018)**	**(1,018)**
Less: Depreciation and amortisation	**(16,313)**	**(110)**	**(4,843)**	**(21,266)**
Operating profit				**4,754**
Net finance expenses				**(12,124)**
Loss before tax				**(7,370)**
	As at 29 June 2019			
Non-current assets net book value				
Intangibles	**129,314**	**258**	**32,121**	**161,693**
Property, plant and equipment	**81,045**	**183**	**28,029**	**109,257**
Unallocated corporate assets				
Non-current deferred tax assets			**2,500**	**2,500**
Derivative financial instruments			**39**	**39**
Current assets			**112,697**	**112,697**
Current liabilities			**-**	**-**
Non-current liabilities			**(217,392)**	**(217,392)**
Net assets				**168,794**

3. Segmental reporting (continued)

	26 weeks ended 30 June 2018			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	109,108	46,261	-	155,369
Contribution	72,734	7,058	-	79,792
Branch and selling costs	-	-	(41,308)	(41,308)
Central costs	-	-	(14,107)	(14,107)
Adjusted EBITDA				24,376
Less: Exceptional items	-	-	(3,207)	(3,207)
Less: Depreciation and amortisation	(19,022)	(81)	(5,034)	(24,136)
Operating loss				(2,967)
Net finance expenses				(7,230)
Loss before tax				(10,197)
	As at 29 December 2018			
Non-current assets net book value				
Intangibles	158,420	324	4,913	163,657
Property, plant and equipment	76,691	377	29,061	109,129
Unallocated corporate assets				
Non-current deferred tax assets			2,500	2,500
Derivative financial instruments			405	405
Assets held for sale (net)			33,172	33,172
Current assets			116,146	116,146
Current liabilities			(100,700)	(100,700)
Non-current liabilities			(252,846)	(252,846)
Net assets				71,463

4. Exceptional items

Items of income or expense have been shown as exceptional because of their size and nature or because they are non-recurring. An analysis of the amount presented as exceptional items in the consolidated income statement is given below.

During the period ended 29 June 2019, the Group has recognised net exceptional costs as follows:

	Included in cost of sales	**Included in distribution costs**	**Included in administrative expenses**	**Included in finance expense**	**26 weeks ended 30 June 2019**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Onerous leases	**-**	**-**	**483**	**-**	**483**
Cost reduction programme	**13**	**396**	**126**	**-**	**535**
Accelerated amortisation of debt issue costs	**-**	**-**	**-**	**1,739**	**1,739**
Exceptional items - continuing operations	**13**	**396**	**609**	**1,739**	**2,757**

During the period ended 30 June 2018, the Group recognised net exceptional costs as follows:

	Included in administrative expenses	Included in other operating income	26 weeks ended 30 June 2018
	£000s	£000s	£000s
Onerous leases	1,518	-	1,518
Impairment of property, plant and equipment	439	-	439
Cost reduction programme	710	-	710
Strategic review	722	-	722
Sub-let rental income on onerous leases	-	(182)	(182)
Exceptional items - continuing operations	3,389	(182)	3,207
Exceptional items - discontinued operations	128	-	128
Exceptional items total	3,517	(182)	3,335

Exceptional items incurred in 2019 and 2018

Onerous leases: branch closures

In 2017 and 2018 the number of branches was reduced to remove less profitable locations with activity centralised into remaining locations. During the 26 weeks ended 29 June 2019 no additional branches were closed (26 weeks ended 30 June 2018: 12).

An exceptional charge of £0.5 million has been recognised in the 26 weeks ended 29 June 2019 (26 weeks ended 30 June 2018: £1.5 million) and relates to a revision of the existing dark store and onerous lease provision. The onerous lease provision charge is shown net of £0.3 million of sublet rental income. This is a change from prior periods, where the sublet rental income was disclosed separately and included in other operating income £0.2 million for the 26 weeks ending 30 June 2018.

4. Exceptional items (continued)

Cost reduction programme

In light of headwinds emerging in the market, the Group has undertaken initiatives in Q2 2019 to reduce costs. These include internal restructuring, the closure of a centre used for hire fleet refurbishment and exiting contracts related to operation of the cross-dock facility used to redistribute assets across the network. This has resulted in an exceptional charge of £0.5 million.

In 2018 the Group carried out restructuring as it implemented plans to reduce central overhead, with most of the £0.7 million cost being redundancy.

Accelerated amortisation of debt issue costs

During 2019 an element of proceeds from the UK Platforms disposal was used to repay debt. The early repayment resulted in accelerated amortisation of debt issue costs of £1.7 million.

Exceptional items incurred in 2018

Strategic review

Following the appointment of the new Chief Executive Officer in 2017, a thorough Strategic Review was carried out by the Group. Non-recurring third party consultancy costs of £0.7 million were incurred for the period ended 30 June 2018 as part of this review.

Impairment of closed branch property, plant and equipment

Following the branch closures in 2018 management conducted an impairment review of property plant and equipment in closed branches to determine what can be reused across the network. During the 26 weeks ended 30 June 2018, an impairment of £0.4 million was recorded.

5. Finance income and expense

	26 weeks ended 29 June 2019 £000s	26 weeks ended 30 June 2018 £000s
Interest received on cash deposits	**(8)**	-
Bank loans and overdrafts	**212**	1,615
Interest on Financial instruments	**22**	-
Term facility	**8,431**	-
Senior secured notes	**-**	4,577
Finance leases	**365**	373
Interest unwind on discounted provisions	**109**	37
Debt issue costs	**1,254**	628
Accelerated amortisation of debt issue costs (note 4)	**1,739**	-
Net finance expense continuing operations	**12,124**	7,230
Net finance expense discontinued operations	**-**	190
Net finance expense	**12,124**	7,420

6. Earnings per share

Basic (loss)/earnings per share	**26 weeks ended 29 June 2019** Continuing operations	**Total**	26 weeks ended 30 June 2018 Continuing operations	Total
(Loss)/profit for the year and earnings used in basic EPS '£000	(7,479)	7,552	(10,699)	(7,573)
Weighted average number of shares '000s	170,207	170,207	170,207	170,207
Basic (loss)/earnings per share (pence)	**(4.39)**	**4.44**	(6.29)	(4.45)

Basic (loss)/earnings per share is calculated by dividing the result attributable to equity holders by the weighted average number of ordinary shares in issue for that period.

Diluted (loss)/earnings per share is calculated using the (loss)/profit for the year divided by the weighted average number of shares outstanding assuming the conversion of its potentially dilutive equity derivatives, being nil-cost share options (LTIP shares), Sharesave Scheme share options, Market value options and warrants.

	26 weeks ended 29 June 2019 000s	26 weeks ended 30 June 2018 000s
Weighted average number of shares		
Basic weighted average number of shares	**170,207**	170,207
Dilutive effect of issued equity instruments	**28,497**	10,273
Diluted weighted average number of shares	**198,704**	180,480

All of the Group's potentially dilutive equity derivatives were anti-dilutive for the periods ended 29 June 2019 and 30 June 2018 for the purpose of calculating the weighted average number of shares and hence the diluted loss per share on a continuing operations basis.

At a Total level the Group's potentially dilutive equity instruments were dilutive for the 26 weeks ended 29 June 2019 and anti-dilutive for the 26 weeks ended 30 June 2018.

Diluted (loss)/earnings per share	**26 weeks ended 29 June 2019 Total**	26 weeks ended 30 June 2018 Total
(Loss)/profit for the year and earnings used in basic EPS '£000	7,552	(7,573)
Weighted average number of shares '000s	198,704	170,207
Diluted (loss)/earnings per share (pence)	**3.80**	(4.45)

The following is a reconciliation between basic loss per share from continuing operations and adjusted basic loss per share from continuing operations.

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Basic loss per share (pence)	**(4.39)**	(6.29)
Add back:		
Exceptional items per share (1)	**1.62**	1.88
Amortisation per share (2)	**1.76**	1.79
Tax charge per share	**0.06**	0.29
Charge:		
Tax at prevailing rate	**0.18**	0.45
Adjusted basic and diluted loss per share (pence)	**(0.77)**	(1.88)

(1) Exceptional items per share are calculated as total finance and non-finance exceptional items divided by the weighted average number of shares in issue through the period.

(2) Amortisation per share is calculated as the amortisation charge divided by the weighted average number of shares in issue through the period.

7. Intangible assets

	Goodwill £000s	Customer £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 29 December 2018	124,877	26,744	23,222	22,228	197,071
Additions	-	-	-	1,026	1,026
At 29 June 2019	124,877	26,744	23,222	23,254	198,097
Amortisation					
At 29 December 2018	-	15,996	427	16,991	33,414
Charge for the period	-	1,349	73	1,568	2,990
At 29 June 2019	-	17,345	500	18,559	36,404
Net book value					
At 29 June 2019	**124,877**	**9,399**	**22,722**	**4,695**	**161,693**
Cost					
At 30 December 2017	128,991	26,744	24,102	20,481	200,318
Additions	-	-	-	761	761
At 30 June 2018	128,991	26,744	24,102	21,242	201,079
Amortisation					
At 30 December 2017	-	13,346	526	13,937	27,809
Charge for the period	-	1,326	71	1,672	3,069
At 30 June 2018	-	14,672	597	15,609	30,878
Net book value					
At 30 June 2018	128,991	12,072	23,505	5,633	170,201
Cost					
At 31 December 2017	128,991	26,744	24,102	20,481	200,318
Additions	-	-	-	1,844	1,844
Transferred to assets held	(4,114)	-	(880)	(97)	(5,091)
At 29 December 2018	124,877	26,744	23,222	22,228	197,071
Amortisation					
At 31 December 2017	-	13,346	526	13,937	27,809
Charge for the year	-	2,650	100	3,151	5,901
Transferred to assets held	-	-	(199)	(97)	(296)
At 29 December 2018	-	15,996	427	16,991	33,414
Net book value					
At 29 December 2018	124,877	10,748	22,795	5,237	163,657

8. Property, plant and equipment

	Land & Buildings £000s	Plant & Machinery £000s	Materials & Equipment held for hire £000s	Total £000s
Cost				
At 29 December 2018	73,286	61,934	161,748	296,968
Foreign exchange differences	-	(14)	(11)	(25)
Additions	-	2,287	16,142	18,429
Disposals	-	-	(12,148)	(12,148)
At 29 June 2019	73,286	64,207	165,731	303,224
Accumulated depreciation				
At 29 December 2018	52,628	53,154	82,057	187,839
Charge for the period	917	2,538	10,627	14,082
Disposals	-	-	(7,954)	(7,954)
At 29 June 2019	53,545	55,692	84,730	193,967
Net book value				
At 29 June 2019	**19,741**	**8,515**	**81,001**	**109,257**
Cost				
At 30 December 2017	71,771	60,282	237,498	369,551
Foreign exchange differences	(7)	(26)	(293)	(326)
Additions	676	1,694	6,894	9,264
Disposals	(571)	(70)	(14,339)	(14,980)
At 30 June 2018	71,869	61,880	229,760	363,509
Accumulated depreciation				
At 30 December 2017	48,115	51,585	118,936	218,636
Foreign exchange differences	-	(20)	(152)	(172)
Charge for the period	2,323	1,348	13,791	17,462
Impairment loss	-	450	-	450
Disposals	(432)	(34)	(8,865)	(9,331)
At 30 June 2018	50,006	53,329	123,710	227,045
Net book value				
At 30 June 2018	21,863	8,551	106,050	136,464
Cost				
At 31 December 2017	71,771	60,282	237,498	369,551
Foreign exchange differences	-	-	115	115
Additions	4,983	2,421	22,578	29,982
Transferred to assets held for sale	(2,304)	(649)	(69,907)	(72,860)
Disposals	(1,164)	(120)	(28,536)	(29,820)
At 29 December 2018	73,286	61,934	161,748	296,968
Accumulated depreciation				
At 31 December 2017	48,115	51,585	118,936	218,636
Charge for the year	6,090	2,241	18,492	26,823
Impairment loss	-	-	533	533
Transferred to assets held for sale	(1,159)	(557)	(37,144)	(38,860)
Disposals	(418)	(115)	(18,760)	(19,293)
At 29 December 2018	52,628	53,154	82,057	187,839
Net book value				
At 29 December 2018	20,658	8,780	79,691	109,129

9. Trade and other receivables

	29 June 2019	29 December 2018
	£000s	£000s
Gross trade receivables	**75,518**	78,026
Less provision for impairment	**(4,130)**	(3,819)
Net trade receivables	**71,388**	74,207
Other debtors	**4,410**	3,477
Prepayments	**11,807**	6,997
Accrued income	**6,080**	9,300
Total trade and other receivables	**93,685**	93,981

The following table details the movements in the provision for impairment of trade receivables:

	29 June 2019	29 December 2018
	£000s	£000s
Balance at the beginning of the period	**(3,819)**	(4,429)
Movement in provision	**(311)**	324
Balance related to discontinued operations	**-**	286
Balance at the end of the period	**(4,130)**	(3,819)

The provision for impairment of trade receivables is comprised as follows:

	29 June 2019	29 December 2018
	£000s	£000s
Bad debt provision	**(2,188)**	(1,885)
Credit note provision	**(1,942)**	(1,934)
	(4,130)	(3,819)

The bad debt provision based on expected credit losses and applied to trade receivables, all of which are current, is as follows:

Categories	**Current**	**0-60 days**	**61-365 days**	**1 - 2 years**	**Total**
Contract assets	63,025	8,223	8,530	1,820	**81,598**
Expected loss rate	0%	0.9%	20.9%	18.0%	**2.7%**
Provision for impairment charge	7	74	1,780	327	**2,188**

10. Trade and other payables

	29 June 2019	29 December 2018
	£000s	£000s
Current		
Trade payables	**43,895**	43,139
Other taxes and social security costs	**4,177**	4,104
Other creditors	**1,157**	368
Accrued interest on borrowings	**3,750**	4,557
Accruals	**21,257**	18,623
Deferred income	**176**	220
	74,412	71,011

11. Borrowings and lease liabilities

	29 June 2019 £000s	29 December 2018 £000s
Current		
Obligations under finance leases	**5,808**	6,304
Revolving credit facility	**-**	13,000
	5,808	19,304
Non-current		
Obligations under finance leases	**9,767**	9,468
Senior finance facility	**173,117**	208,162
	182,884	217,630

The nominal value of the Group's loans at each reporting period date is as follows:

	29 June 2019 £000s	29 December 2018 £000s
Senior finance facility	**181,982**	220,000
Revolving credit facility	**-**	13,000
	181,982	233,000

The interest rates on the Group's borrowings are as follows:

	Interest rate type		29 June 2019	29 December 2018
Senior finance facility	Floating	%age above LIBOR	**8.00%**	8.00%
Finance leases	Floating	%age above LIBOR	**2.75%**	3.10%
Revolving credit facility	Floating	%age above LIBOR	**-**	3.00%

The weighted average interest rate on the Group's borrowings are as follows:

	29 June 2019	29 December 2018
Weighted average interest rate on borrowings	**8.98%**	7.00%
Weighted average interest rate on leases	**4.99%**	5.70%

11. Borrowings and lease liabilities (continued)

The Group's leases and borrowings have the following maturity profile:

	29 June 2019		29 December 2018	
	£000s		£000s	
	Finance leases	**Borrowings**	Finance leases	Borrowings
Less than one year	**6,483**	**-**	6,927	13,000
Two to five years	**10,316**	**245,484**	9,993	306,158
	16,799	**245,484**	16,920	319,158
Less interest cash flows:				
Senior finance facility	**-**	**(63,502)**	-	(86,158)
Finance leases	**(1,224)**	**-**	(1,148)	-
Total principal cash flows	**15,575**	**181,982**	15,772	233,000

The maturity profile, excluding interest cash flows, of the Group's finance leases is as follows:

	29 June 2019	29 December 2018
Less than one year	**5,808**	6,295
Two to five years	**9,767**	9,477
	15,575	15,772

The Group has undrawn committed borrowing facilities of £37.6 million at 29 June 2019 (29 December 2018: £27.1 million) under its facilities in place at that date. Including net cash balances, the Group had access to £52.9 million at 29 June 2019 (20 December 2018: £44.7 million) of combined liquidity from available cash and undrawn committed borrowing facilities.

12. Provisions

	Onerous leases £000s	Dilapidations £000s	Onerous Contracts £000s	Total £000s
At 29 December 2018	4,745	16,779	22,808	44,332
Additions	505	-	-	505
Utilised during the period	(1,345)	(200)	(1,902)	(3,447)
Unwind of discount	10	23	76	109
Released	(198)	-	-	(198)
At 29 June 2019	**3,717**	**16,602**	**20,982**	**41,301**
Of which:				
Current	**1,623**	**2,919**	**3,387**	**7,929**
Non-current	**2,094**	**13,686**	**17,592**	**33,372**
	3,717	**16,605**	**20,979**	**41,301**

	Onerous leases £000s	Dilapidations £000s	Onerous Contracts £000s	Total £000s
At 31 December 2017	6,607	13,975	32,612	53,194
Additions	1,508	65	-	1,573
Utilised during the period	(1,889)	(546)	(4,125)	(6,560)
Unwind of discount	13	32	-	45
Released	(427)	-	-	(427)
At 30 June 2018	5,812	13,526	28,487	47,825
Of which:				
Current	2,176	2,641	5,486	10,303
Non-current	3,636	10,885	23,001	37,522
	5,812	13,526	28,487	47,825

	Onerous leases £000s	Dilapidations £000s	Onerous Contracts £000s	Total £000s
At 31 December 2017	6,607	13,975	32,612	53,194
Transferred to assets held for sale	-	(573)	-	(573)
Additions	2,054	5,841	-	7,895
Utilised during the period	(3,254)	(1,312)	(9,918)	(14,484)
Unwind of discount	11	44	114	169
Released	(673)	(1,196)	-	(1,869)
At 29 December 2018	4,745	16,779	22,808	44,332
Of which:				
Current	3,234	3,488	3,562	10,284
Non-current	1,511	13,291	19,246	34,048
	4,745	16,779	22,808	44,332

13. Risks and uncertainties

The principal risks and uncertainties which could have a material impact upon the Group's performance over the remaining 26 weeks of the 2019 financial year have not changed significantly from those set out on pages 24 to 27 of the Group's 2018 Annual Report, which is available at http://www.hsshiregroup.com/wp-content/uploads/2019/04/HSS-Annual-Report-2018.pdf. These risks and uncertainties were:

1) Macroeconomic conditions;
2) Competitor challenge;
3) Strategy execution;
4) Customer service;
5) Third party service levels;
6) IT infrastructure;
7) Financial risk;
8) Inability to attract and retain personnel; and
9) Safety, legal and regulatory requirements

The main risk expected to affect the Group in the remaining 26 weeks of the 2019 financial year is macroeconomic conditions, which includes the impact that the Brexit related developments could have on the prevailing demand from new and existing customers within the numerous and diverse market sectors which HSS serves.

14. Business disposal and discontinued operations

On 11 January 2019, the Group completed the disposal of UK Platforms Limited to Nationwide Platforms Limited, a wholly owned subsidiary of the Loxam Group, as part of the strategy to delever the group and transform the Tool Hire business. After completion of the sale £38.0 million of the net proceeds was used to pay down Group debt, reducing the senior finance facility from £220.0 million outstanding to £182.0 million. The table below shows the assets and liabilities disposed of and the calculation of the profit on disposal.

	£000s
Description of assets and liabilities	
Intangible assets (incl Goodwill)	**4,749**
Property, plant and equipment	**30,725**
Current assets, excluding cash	**6,454**
Cash	**2,373**
Debt - finance leases	**(5,253)**
Current liabilities, excluding debt	**(2,943)**
Deferred tax liabilities	**(1,375)**
Net assets disposed of	**34,730**
Proceeds of disposal less transaction costs	**47,519**
Total profit from disposal of UK Platforms Limited	**12,789**
Costs incurred on disposal of discontinued operations in 2018	**(2,080)**
Profit on disposal of discontinued operations in 2019	**14,869**
Total profit from disposal of UK Platforms Limited	**12,789**

14. Business disposal and discontinued operations (continued)

The post-tax gain on the disposal of discontinued operations was determined as follows:

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Result of discontinued operations	**£000s**	£000s
Revenue	**1,115**	14,403
Expenses other than finance costs, amortisation and depreciation	**(801)**	(9,043)
Amortisation	**(3)**	(23)
Depreciation	**(149)**	(2,021)
Finance costs	**-**	(190)
Profit from discontinued operations, net of tax	**162**	3,126
Profit on disposal of discontinued operations in 2019	**14,869**	-
Profit for the period	**15,031**	3,126

15. Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA is calculated as follows:

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
	£000s	£000s
Operating profit / (loss)	**4,754**	(2,967)
Add: Depreciation of property, plant and equipment	**14,082**	15,441
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**4,194**	5,649
Add: Amortisation	**2,990**	3,046
EBITDA	**26,020**	21,169
Add: Exceptional items	**1,018**	3,207
Adjusted EBITDA	**27,038**	24,376

Adjusted EBITA is calculated as follows:

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
	£000s	£000s
Operating profit / (loss)	**4,754**	(2,967)
Add: Amortisation	**2,990**	3,046
EBITA	**7,744**	79
Add: Exceptional items	**1,018**	3,207
Adjusted EBITA	**8,762**	3,286