
# Hero Acquisitions

## FY14 Results

April 2015

# Agenda

- Chris Davies, CEO: Continued delivery of profitable growth and expansion
- Steve Trowbridge, CFO: Financial performance
- Chris Davies, CEO: Strategic and operational overview
- Q&A

# Continued delivery of profitable growth and expansion





- 25.5% revenue growth and 27.3% Adj. EBITDA[1] growth in 2014
- Accelerated rollout of proven local branch format through Q4 - 23 branches opened in 2014
- Focus on ‘maintain’ and ‘operate’ segments delivering growth and development of key accounts
- £71.9m investment in hire fleet[2] driven by customer demand, generating industry-leading ROA of 25.9%
- Acquisition and integration of Apex Generators and trade and assets of MTS UK
- Trading in FY15 started in line with management expectations

*[1] EBITDA stated before exceptional costs relating to restructuring and acquisition costs. See appendix C*
*[2] Fixed asset additions to materials and equipment held for hire*

# Income statement



*Year ended 27 December / 28 December*

| £m | 2014 | 2013 | Growth (%) | Organic (%) |
|---|---|---|---|---|
| **Revenue** | **284.6** | **226.7** | ***25.5%*** | ***18.7%*** |
| EBITDA | 69.7 | 52.0 | *34.2%* | *28.7%* |
| Exceptionals (non-finance) | 1.4 | 3.9 | | |
| **Adj. EBITDA[1]** | **71.1** | **55.9** | ***27.3%*** | ***22.2%*** |
| *Adj. EBITDA margin* | *25.0%* | *24.6%* | | |

- Continued expansion of local branch network alongside focused fleet investment and sales initiatives
- Further economies of scale driving improvement in Adj. EBITDA margin



[1] *Adjusted earnings stated before exceptional costs relating to restructuring and acquisition costs. See appendix C*

# Segmental analysis

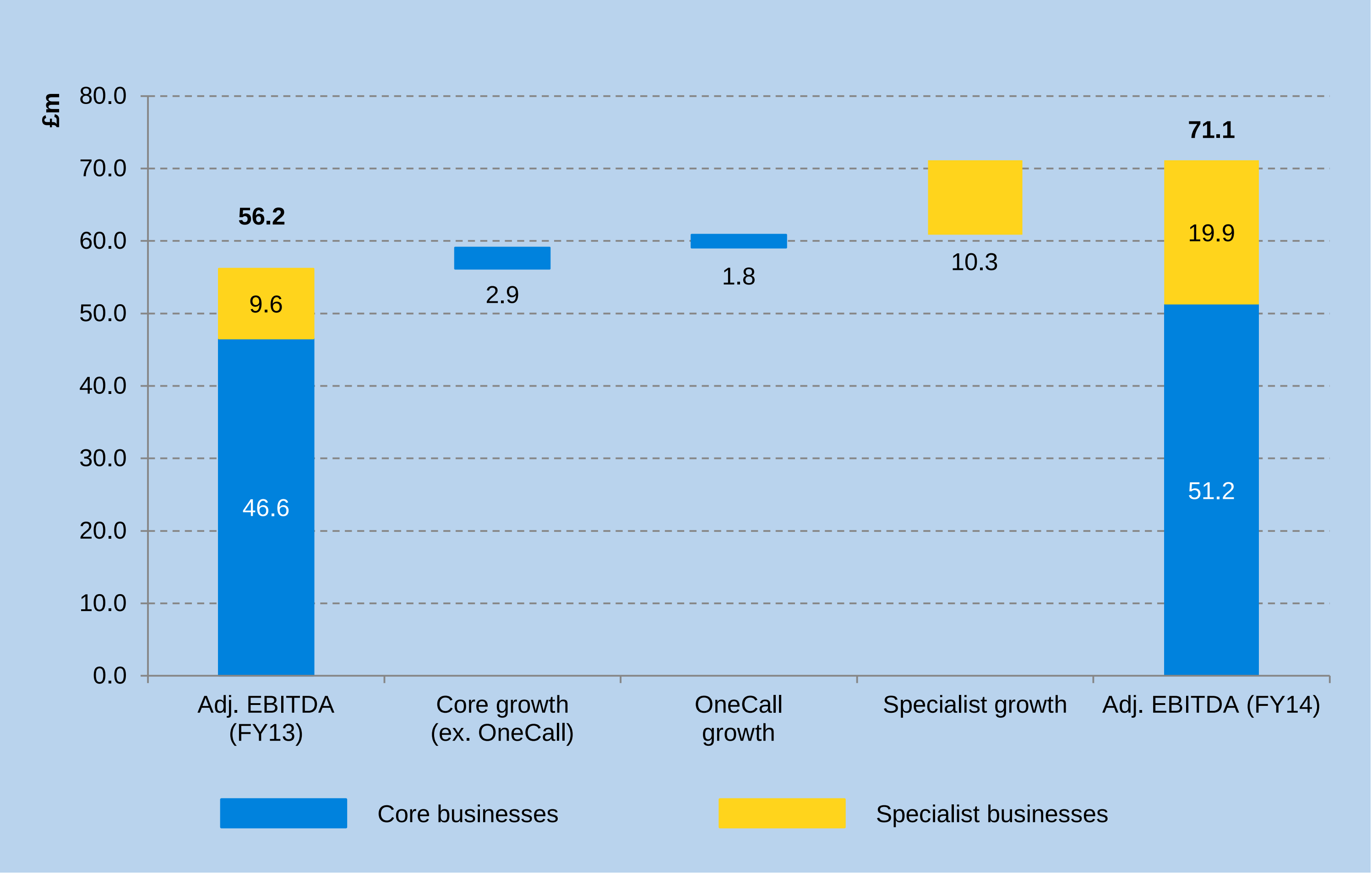


***Year ended 27 December / 28 December***

| £m | 2014 | 2013 | Growth (%) |
|---|---|---|---|
| **Core businesses** | | | |
| Revenue | 247.4 | 208.0 | *18.9%* |
| Adj. EBITDA | 51.2 | 46.2 | *10.7%* |
| *Adj. EBITDA margin* | *20.7%* | *22.2%* | |
| **Specialist businesses** | | | |
| Revenue | 37.1 | 18.6 | *99.1%* |
| Adj. EBITDA | 19.9 | 9.6 | *107.1%* |
| *Adj. EBITDA margin* | *53.6%* | *51.5%* | |

- Core performance driven by growth in all geographies, investment in local branches and performance of OneCall and Training businesses
- Specialist growth through geographic expansion and successful targeting of customer demand supplemented with Apex acquisition

# Adj. EBITDA bridge



# Adjusted PBT, reported PBT and reported PAT



***Year ended 27 December / 28 December***

| £m | 2014 | 2013 | Growth (%) |
|---|---|---|---|
| **Adj. EBITDA** | **71.1** | **55.9** | ***27.3%*** |
| Depreciation | (39.9) | (27.7) | *44.3%* |
| Amortisation | (1.4) | (0.8) | *71.7%* |
| **Adj. Operating profit** | **29.7** | **27.3** | ***8.7%*** |
| Net finance cost (pre exceptionals)[1] | (22.7) | (14.0) | |
| **Adj. PBT** | **7.1** | **13.3** | ***(46.9)%*** |
| Exceptionals (all) | (9.1) | (2.3) | |
| **Reported PBT** | **(2.1)** | **11.1** | |
| Tax | 3.4 | (2.0) | |
| **Reported PAT** | **1.3** | **9.1** | |

- Depreciation increase reflects acquisitions and increased hire fleet investment
- Net finance cost impacted by changes in capital structure
- Tax planning delivered credit in year

[1] *Pre exceptional finance costs which principally relate to costs related to the restructure of the group's debt during the year*

# Cash flow

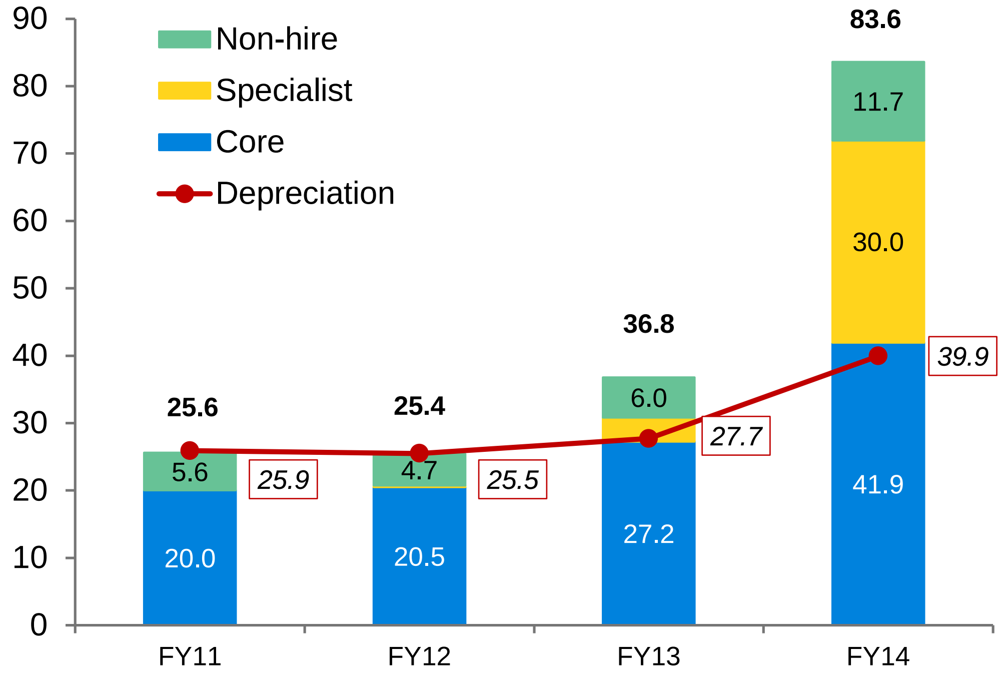
| *Year ended 27 December / 28 December* | | |
|---|---|---|
| **£m** | **2014** | **2013** |
| **Operating cashflow ("OCF")[1]** | **55.6** | **42.1** |
| Less: Capex[2] | (60.6) | (55.1) |
| **OCF less Capex** | **(5.0)** | **(13.0)** |
| Less: Tax | (0.2) | (1.5) |
| **Net cash flow before financing** | **(5.3)** | **(14.5)** |
| Less: Debt issue costs | (7.3) | (1.7) |
| Less: Net interest payable | (10.8) | (8.2) |
| Add: Net proceeds from borrowing | 26.3 | 29.8 |
| **Net increase in cash** | **3.0** | **5.4** |

- Strong growth in operating cashflow
- 90% of trade receivables under 30 days aged
- Significant investment in hire and non hire fleet and small acquisitions to support growth



[1] *Operating profit before depreciation and amortisation but after exceptionals and the net movement in working capital. See appendix E*
[2] *Capex includes purchase of hire equipment, non hire property, plant and equipment and software and acquisitions of subsidiaries*

# Capital expenditure and utilisation




| Utilisation (LTM) | FY13 | | | | FY14 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Core | 43% | 43% | 44% | 45% | 46% | 46% | 47% | 47% |
| Specialist | 51% | 58% | 62% | 68% | 69% | 69% | 70% | 70% |

- Well invested hire fleet: Hire fleet additions of c. 2.1x hire fleet depreciation in FY14
- Growing utilisation and capex reflects ability to match investment to demand
- Small portion of FY15 capex brought forward to support FY15 branch openings and rapid growth in ABird
- 25.9% ROA with significant hire fleet expansion during year

[1] *Fixed asset additions to materials and equipment held for hire*

# Balance sheet

| *Year ended 27 December / 28 December* | | |
|---|---|---|
| **£m** | **2014** | **2013** |
| Intangible assets | 141.9 | 135.3 |
| Tangible assets | 147.2 | 99.9 |
| Deferred tax asset | 2.5 | - |
| Derivative financial instruments | - | 1.2 |
| Working capital[1] | 13.8 | 28.6 |
| Other net liabilities | (16.0) | (15.7) |
| Net debt[2] | (304.5) | (265.3) |
| **Net liabilities** | **(15.1)** | **(15.9)** |

- Growth in intangible assets principally due to Apex acquisition (March 2014)
- Larger net liabilities position reflects investment in tangible assets offset by increased gearing and trade payables relating to preferable capex payment terms
- IPO post year end has subsequently de-geared the business. Proforma net debt at IPO of c. £155m

*[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 and accrued interest balances, including those which would ordinarily be shown within current assets, current liabilities or non current liabilities. See appendix D*

# FY15 guidance



- Targeting Adj. EBITDA margins **> 25.0%** for existing Group (full year) with margin growth in **both Core and Specialist** businesses
- Capex investment expected to be **slightly below FY14 capex**
- Pace of local branch openings faster in H1 FY15 than in H1 FY14
- Targeting **ROA > 25%** across existing portfolio
- Targeting **leverage of c. 2.0x Adj. EBITDA** at end of FY15
- First dividend expected to be interim payment in respect of FY15

# Our strategy



- Local branch rollout to take share from the c. 48% of market held by independents
- Gaining greater share of customer wallet through our one-stop-shop solution
- Further complementary and value accretive bolt-on acquisitions

**Achieved by:**

- Driving availability and utilisation through "one fleet" approach and retail-like logistics network
- Being customer-driven, delivering against four foundations (safety, value, availability and support)
- Targeting customer segments which provide higher asset returns

# Local branch rollout





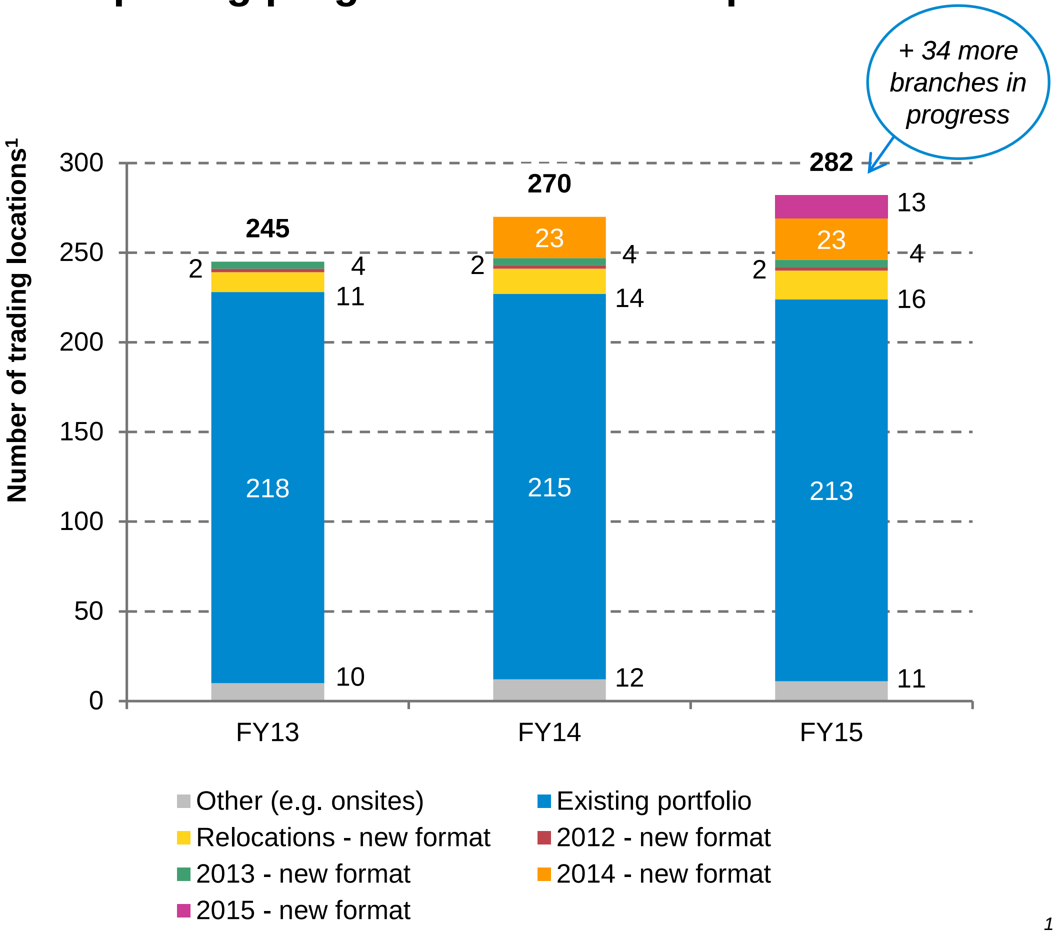



# Local branch rollout (cont…)

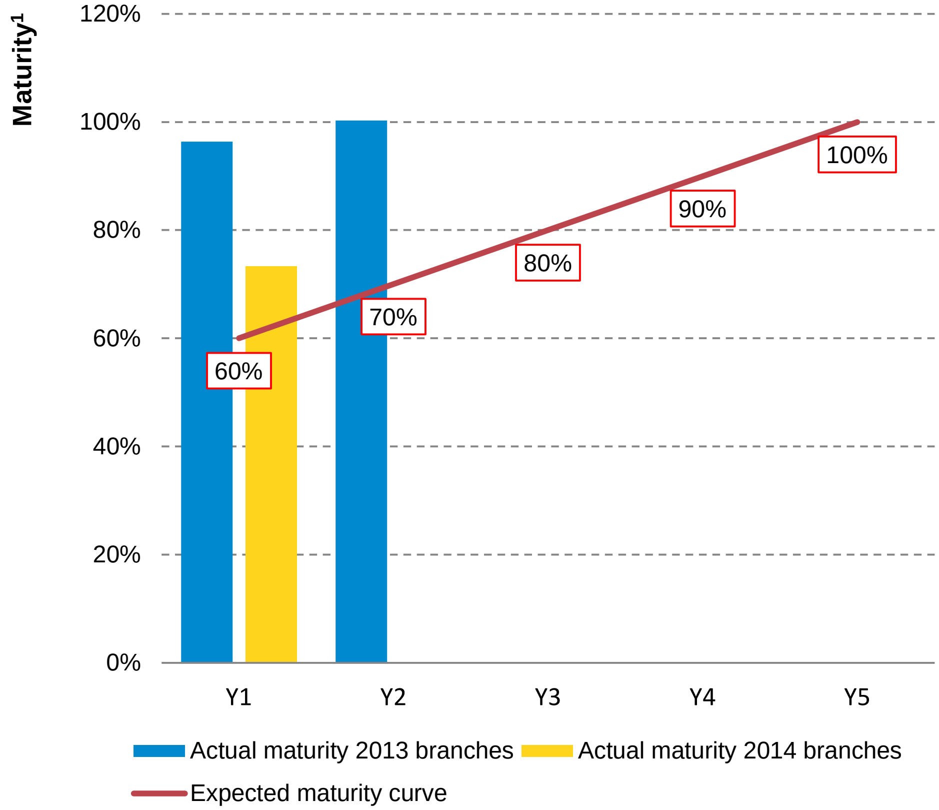




## Opening programme built on experience




## Branches continue to outperform expectations




[1] *Maturity measured against mature revenue of £450k per branch (grown at 2% p.a.)*

# Key accounts

- Focused effort to increase share of wallet of large key accounts through:
  - Cross-selling group services
  - Targeted M&A activity
- Growth in our Total Equipment Management offer reflecting ongoing drive to outsource
- Consolidated position in key markets including airports, facilities management, infrastructure and retail
- Expanded Group onsite offer across major London build projects

# Continued growth in Core business





| | |
|---|---|
| **Easier to do business with** | ▪ 23 new local branches opened<br>▪ Opened new customer service centre in Manchester |
| **Trusted business partner** | ▪ Continued strong growth in HSS OneCall and HSS Training<br>▪ Reinforces the one-stop solution we provide customers and their employees |
| **Enhanced product / service offering** | ▪ Acquired MTS UK rental fleet and integrated into HSS Scotland<br>▪ Core hire fleet investment of £41.9m[2] supported 18.9% revenue growth |

*[1] Fixed asset additions to materials and equipment held for hire*

# Continued investment in our Specialist businesses



- Specialist hire fleet investment of £30.0m[1] supported revenue growth of 99.1%
- Extended power generation and powered access businesses into Ireland
- Apex Generators acquisition (in Scotland) created a truly national temporary power solutions business and UK Platforms opened in Scotland
- Strong organic growth in Reintec


[1] *Fixed asset additions to materials and equipment held for hire*

# Investing in our colleagues

- 378 new colleagues graduated from Academy Induction Programme
- 86% first year retention rate
- 76 new apprentices joined HSS in 2014


# Summary and outlook



- Good progress against plans through FY14
- Trading in FY15 started in line with plan
- Element of short term uncertainty amongst customers due to UK general election
- 13 local branch openings, 34 more in progress

**Revenue ↑ 25.5%**

**ROA**
**25.9%**

**Adj. EBITDA margin**
**25.0%**

**Core utilisation**
**47%**

**Specialist utilisation**
**70%**

# Q&A

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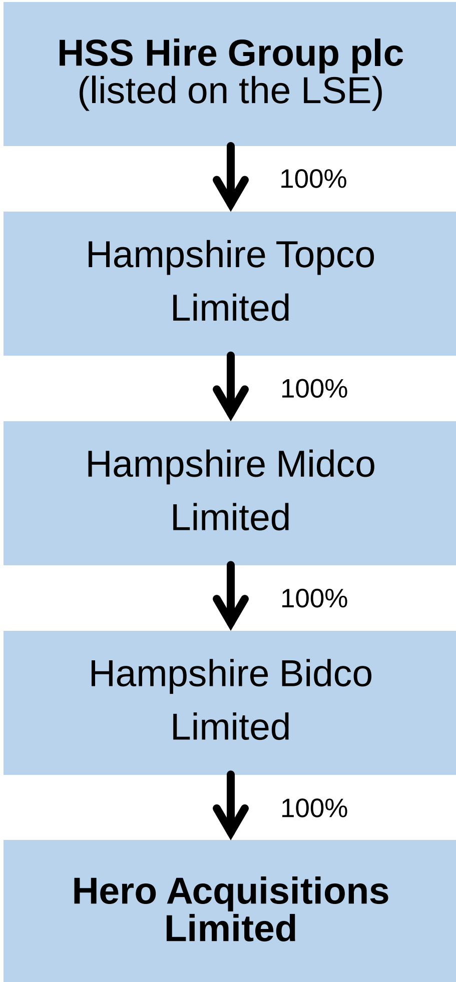
# Appendices

April 2015

# 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) on 9 February 2015;
    - Hampshire Topco Limited, the previous top company in the group whose FY14 numbers we have also reported on today; and
    - Hero Acquisitions Limited, the consolidated level at which we present numbers in this document



# Appendix B
## Hampshire Topco Ltd 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
- This appendix provides a reconciliation and summary explanation for differences between the FY14 accounts for Hampshire Topco Limited and Hero Acquisitions Limited
- 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 Hampshire Topco group, principally related to intangibles relating to the acquisition of the Hero Acquisitions group in 2012;
  - Higher net debt in Hampshire Topco including shareholder loan notes instead of lower group payables balance; and
  - Differences in tax and interest resulting from the above differences

# Appendix B (cont…)

# Hampshire Topco Ltd vs Hero Acquisitions Ltd – P&L

| Income Statement | Hampshire Topco £m | Hero Acquisitions £m | *Difference £m* | Explanation |
|---|---|---|---|---|
| **Revenue** | **284.6** | **284.6** | **-** | |
| Cost of sales | (103.0) | (103.0) | **-** | |
| **Gross profit** | **181.5** | **181.5** | - | |
| | | | | |
| Distribution costs | (37.2) | (37.2) | - | |
| Administrative expenses | (121.9) | (117.1) | *(4.8)* | *IPO fees and higher amortisation in Hampshire Topco* |
| Other operating income | 1.1 | 1.1 | - | |
| **Operating profit** | **23.6** | **28.4** | ***(4.8)*** | |
| | | | | |
| **Adjusted EBITDA(1)** | **71.1** | **71.1** | ***0.0*** | |
| Less: Exceptional items (non-finance) | (3.7) | (1.4) | *(2.4)* | *IPO fees in Hampshire Topco* |
| Less: D&A | (43.8) | (41.4) | *(2.5)* | *Higher amortisation in Hampshire Topco on larger intangibles* |
| **Operating profit** | **23.6** | **28.4** | ***(4.8)*** | |
| | | | | |
| Net finance expense | (32.1) | (30.4) | *(1.7)* | *Interest on loan notes, rather than group payables* |
| **(Loss)/profit before tax** | **(8.5)** | **(2.1)** | ***(6.5)*** | |
| | | | | |
| Income tax credit/(expense) | 3.0 | 3.4 | *(0.4)* | |
| **(Loss)/profit for the financial year** | **(5.5)** | **1.3** | ***(6.8)*** | |

# Appendix B (cont…)
# Hampshire Topco Ltd vs Hero Acquisitions Ltd – BS

| Statement of financial position | Hampshire Topco £m | Hero Acquisitions £m | *Difference £m* | Explanation |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 170.4 | 141.9 | *28.4* | *Higher acquired intangible assets in Hampshire Topco* |
| Property, plant and equipment | 147.2 | 147.2 | - | |
| Deferred tax assets | 2.5 | 2.5 | - | |
| | **320.1** | **291.6** | ***28.4*** | |
| **Current assets** | | | | |
| Inventories | 6.8 | 6.8 | - | |
| Trade and other receivables | 84.9 | 87.1 | *(2.2)* | *Hampshire Topco net of group receivables above Hero Aqns* |
| Cash | 5.9 | 5.9 | - | |
| | **97.6** | **99.8** | ***(2.2)*** | |
| **Total assets** | **417.7** | **391.4** | ***26.3*** | |
| **Current liabilities** | | | | |
| Trade and other payables | (102.8) | (96.6) | *(6.2)* | *Loan notes rather than group payables in Hampshire Topco* |
| Borrowings | (19.5) | (22.3) | *2.8* | *Hero Aqns includes short term element of group payables* |
| Current tax liabilities | (0.6) | (0.6) | - | |
| | **(122.8)** | **(119.5)** | ***(3.3)*** | |
| **Non-current liabilities** | | | | |
| Trade and other payables | (7.0) | (7.0) | - | |
| Borrowings | (275.0) | (264.0) | *(11.1)* | *Loan notes rather than group payables in Hampshire Topco* |
| Provisions | (14.9) | (14.9) | - | |
| Deferred tax liabilities | (9.4) | (1.2) | *(8.2)* | *Higher acquired intangible assets in Hampshire Topco* |
| | **(306.3)** | **(287.0)** | ***(19.3)*** | |
| **Total liabilities** | **(429.2)** | **(406.5)** | ***(22.6)*** | |
| **Net liabilities** | **(11.5)** | **(15.1)** | ***3.6*** | |

# Appendix B (cont…)
# Hampshire Topco Ltd vs Hero Acquisitions Ltd – CFS

| Statement of cash flows | Hampshire Topco £m | Hero Acquisitions £m | *Difference £m* | Explanation |
|---|---|---|---|---|
| **(Loss)/profit before income tax** | **(8.5)** | **(2.1)** | ***(6.5)*** | *IPO fees and higher amortisation in Hampshire Topco* |
| – Amortisation | 3.9 | 1.4 | *2.5* | *Higher amortisation in Hampshire Topco* |
| – Depreciation | 31.8 | 31.8 | - | |
| – Loss on hire stock disposals | 8.0 | 8.0 | - | |
| – Loss on disposal of PPE | 0.2 | 0.2 | - | |
| – Loss on financial instruments at fair value | 1.2 | 1.2 | - | |
| – finance expense | 31.0 | 29.3 | *1.7* | *Interest on loan notes, rather than group payables* |
| Changes in working capital | (11.8) | (14.2) | *2.3* | *Repayment of portion of group payables through SSN issue* |
| Purchase of hire equipment | (39.2) | (39.2) | - | |
| **Cash generated from operations** | **16.4** | **16.4** | **-** | |
| | | | | |
| Net interest paid | (18.1) | (18.1) | - | |
| Income tax paid | (0.2) | (0.2) | - | |
| **Net cash utilised in operating activities** | **(1.9)** | **(1.9)** | **-** | |
| | | | | |
| Net cash used in investing activities | (21.4) | (21.4) | - | |
| Net cash used in financing activities | 26.3 | 26.3 | - | |
| **Net increase in cash** | **3.0** | **3.0** | - | |

# Appendix C
# Adjusted earnings calculations

*Year ended 27 December / 28 December*

| £m | 2014 | 2013 |
|---|---|---|
| **Operating profit** | **28.4** | **23.5** |
| *Add: Depreciation & amortisation* | *41.4* | *28.5* |
| *Add: Non finance exceptionals* | *1.4* | *3.9* |
| **Adjusted EBITDA** | **71.1** | **55.9** |
| *Less: Depreciation* | *(39.9)* | *(27.7)* |
| **Adjusted EBITA** | **31.2** | **28.2** |
| *Less: Amortisation* | *(1.4)* | *(0.8)* |
| *Less: Net finance cost[1]* | *(22.7)* | *(14.0)* |
| **Adjusted PBT** | **7.1** | **13.3** |

*[1] Pre exceptional finance costs which principally relate to costs related to the restructure of the group's debt during the year.*

# Appendix D
# Net debt calculations

*Year ended 27 December / 28 December*

| £m | 2014 | 2013 |
|---|---|---|
| Cash | **5.9** | **2.9** |
| Term Loans[1] | - | (159.6) |
| Senior Secured Notes[1] | (200.0) | - |
| RCF | (19.5) | (3.0) |
| Amounts due to group undertakings | (72.9) | (95.1) |
| Finance leases | (12.4) | (8.4) |
| Accrued Interest | (5.6) | (2.0) |
| **(Net debt) / Cash** | **(304.5)** | **(265.3)** |
| Leverage[2] | 4.3x | 4.7x |

- Reflects borrowings from all third parties and includes the amounts due to group undertakings

[1] *Shown gross of issue costs*
[2] *Calculated as Net debt / Adj. EBITDA*

# Appendix D (cont…)

## Net third party debt calculations

***Year ended 27 December / 28 December***

| £m | 2014 | 2013 |
|---|---|---|
| Cash | **5.9** | **2.9** |
| Term Loans[1] | - | (159.6) |
| Senior Secured Notes[1] | (200.0) | - |
| RCF | (19.5) | (3.0) |
| Finance leases | (12.4) | (8.4) |
| Accrued Interest (Term Loans / SSN only) | (5.6) | (2.0) |
| **(Net third party debt) / Cash** | **(231.6)** | **(170.2)** |
| Third party leverage[2] | 3.3x | 3.0x |

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

*[1] Shown gross of issue costs*
*[2] Calculated as Net third party debt / Adj. EBITDA*

# Appendix E
## Operating cash flow

*Year ended 27 December / 28 December*

| £m | 2014 | 2013 |
|---|---|---|
| **Operating profit** | **28.4** | **23.5** |
| Depreciation & amortisation | 41.4 | 28.5 |
| Increase in Inventories | (0.9) | (1.7) |
| Increase in Trade and other receivables | (16.4) | (10.2) |
| Increase in Trade and other payables | 3.9 | 2.3 |
| Decrease in Provisions | (0.8) | (0.4) |
| **Operating cash flow** | **55.6** | **42.1** |