

# Hero Acquisitions

A subsidiary of HSS Hire Group plc

## Investor Presentation

July 2017

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# Today's presenters



## Chief Executive Officer



**Steve Ashmore**

*Joined June 2017*

Previously held a number of senior roles at Exel, along with being UK Managing Director at both Wolseley, prior owners of Brandon Hire, and Brammer

## Chief Financial Officer



**Paul Quested**

*Joined August 2016*

Previously Chief Corporate Development Officer at Electrocomponents, General Manager at RS UK and Finance Director at Western European Supply Chain at InBev

## Chief Commercial Officer



**Tom Shorten**

*Joined January 2017*

Previously held a number of senior board level roles during a ten year career with Phones4u, along with being Interim CCO for Regus

# Executive summary

- Transformational change has now been materially completed
- New operating model improves customer service, flexibility as well as operational and capital efficiency
- Revenue momentum building on the back of recent sales initiatives
- Majority of cost actions completed and on track to deliver top end of targeted savings
- Deleveraging underpinned by sustained profit growth and cash generation
- New experienced Executive team in place, focussed on delivering the strategy and maximising benefits of the operating model

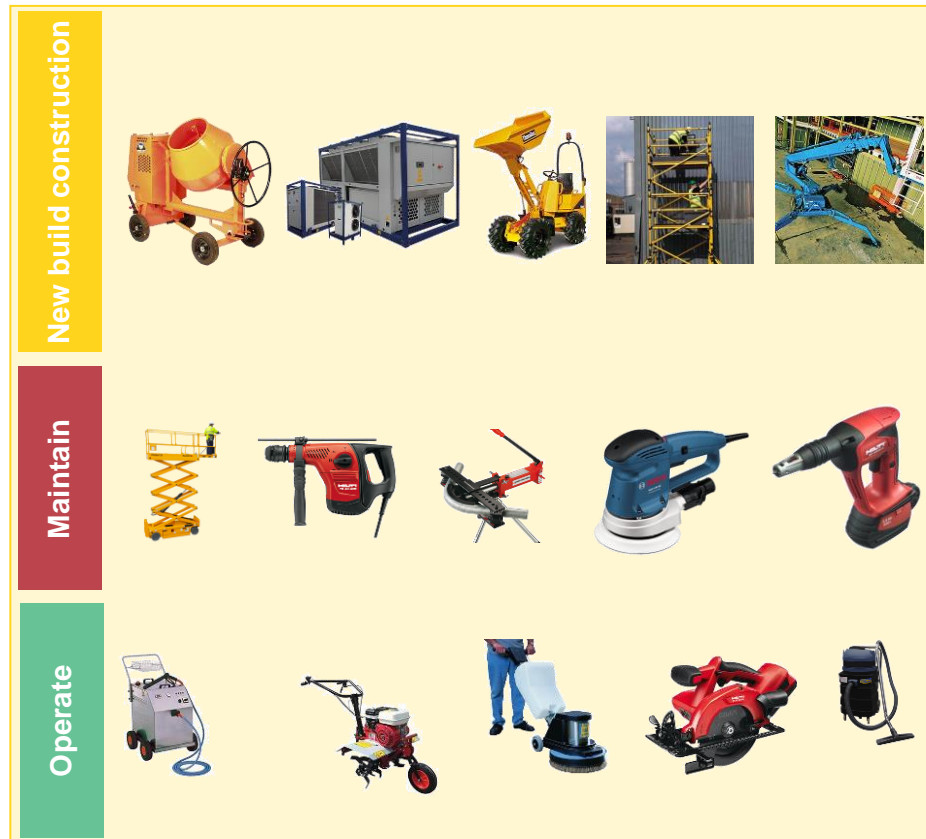
# Agenda

1	Introduction to HSS	6
2	Our strong and unique credit story	16
3	Historical financial overview	25
4	Q2 momentum building, restoring profitable growth	30
5	Conclusion	38

# An overview of the equipment rental market

## What products does the rental market comprise of?

- Hired equipment is generally used in applications relating to the “new- build construction”, “maintenance” or “operation” of property and related assets

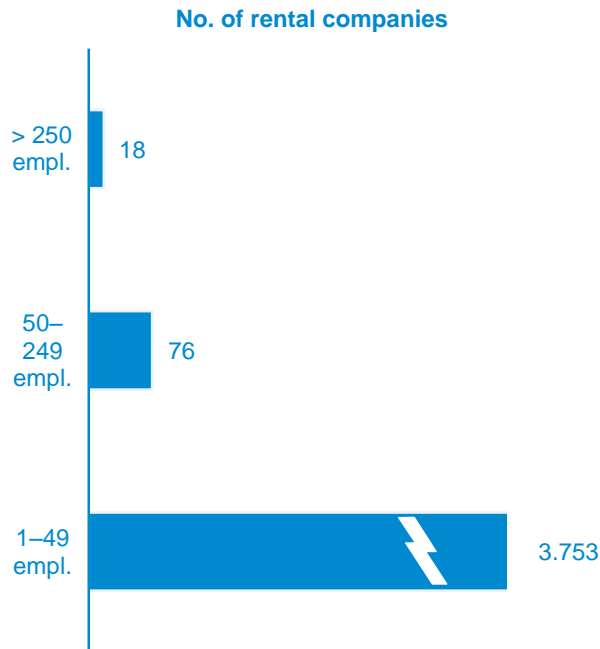


## Benefits of renting vs owning for customers

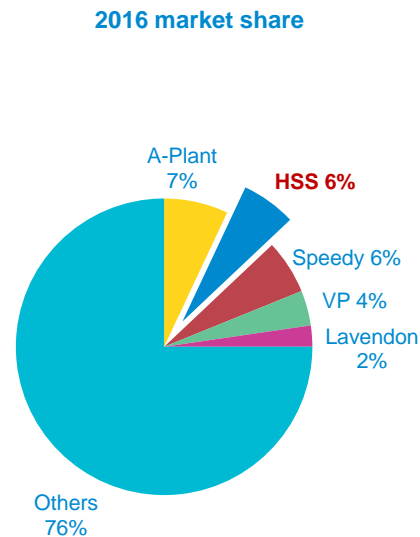
- Lower large-scale capital outlay required for equipment purchases
- Access a comprehensive range of well maintained, ready-to-use equipment
- Avoiding costs of idle fleet and lower costs for equipment storage, maintenance and transportation
- Access to complementary support services from the rental company
- Easier allocation and movement of equipment through rental company distribution networks
- Minimise exposure to variable and unpredictable credit market conditions

# The rental market remains fragmented and weighted towards construction end markets...

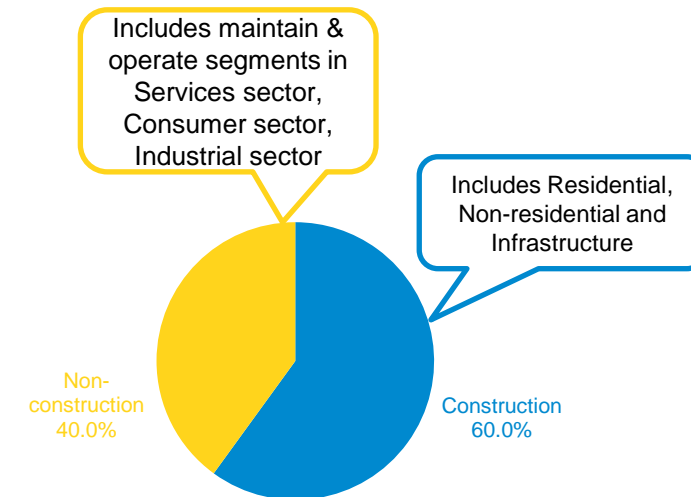
Number of rental companies by employees



UK tool and rental market shares



UK equipment rental end-markets



Source: European Rental Association 2016, data as of 2013

Source: Company filings, European Rental Association 2016

Source: European Rental Association 2016

...however, HSS focused on more resilient “maintain” and “operate” market segments with limited construction exposure



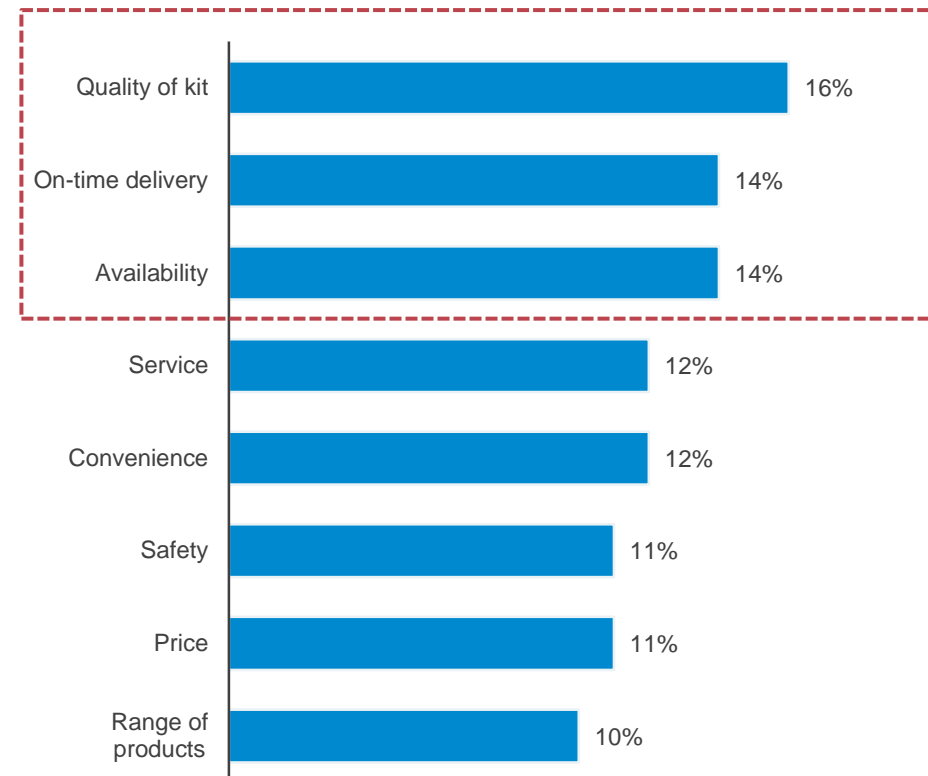
# The UK equipment rental industry is facing a number of challenges...

## Key challenges in rental market

- Ongoing maintenance and quality control of fleet
- Balancing availability across national network to meet customer demand
- Driving utilisation of existing fleet
- Ensuring health and safety compliance
- Providing customer proposition that enables margin retention

## Key purchasing criteria<sup>1</sup>

■ 1st choice

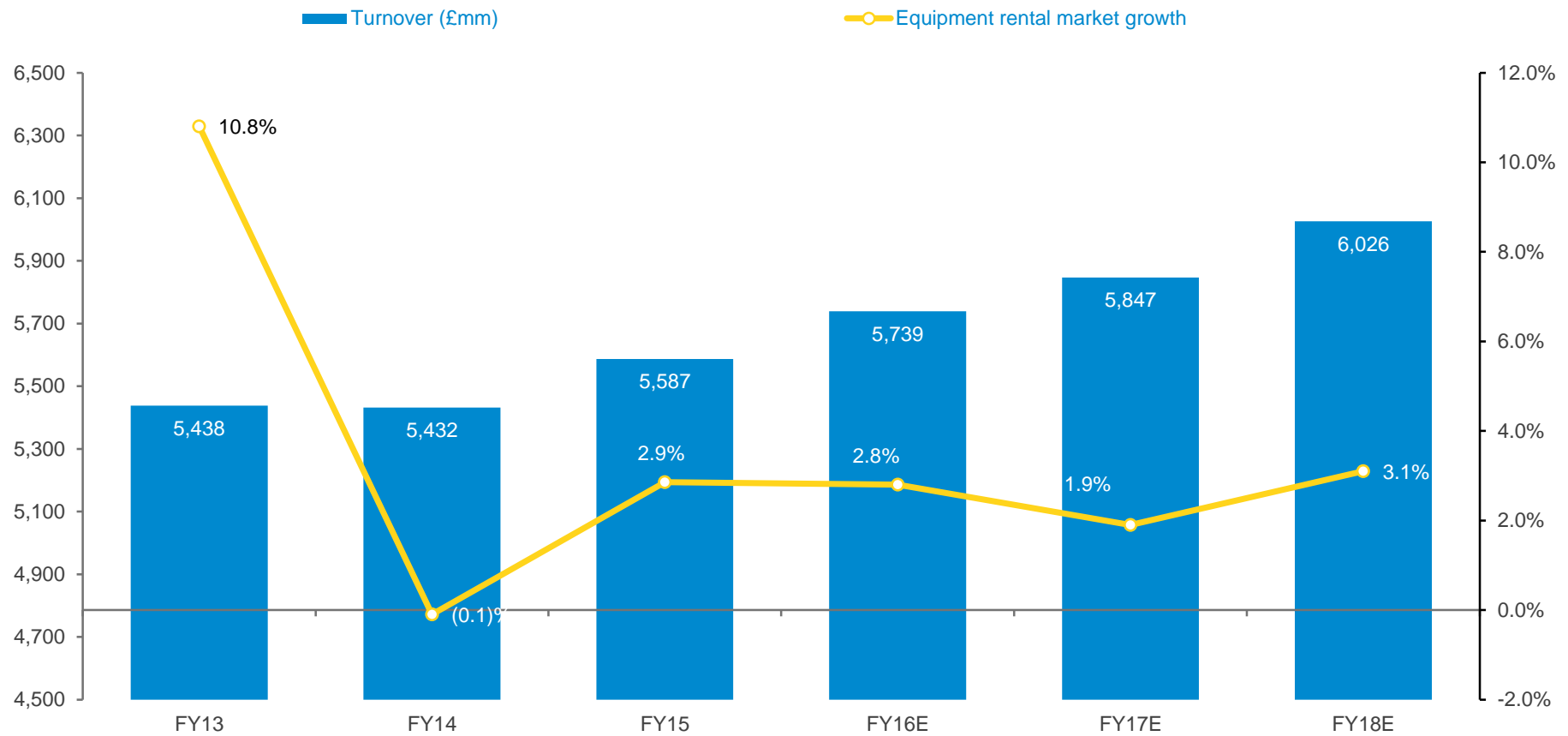


Source: Kantar TNS

<sup>1</sup> What is most important to you when choosing a tool hire company? Base: 805

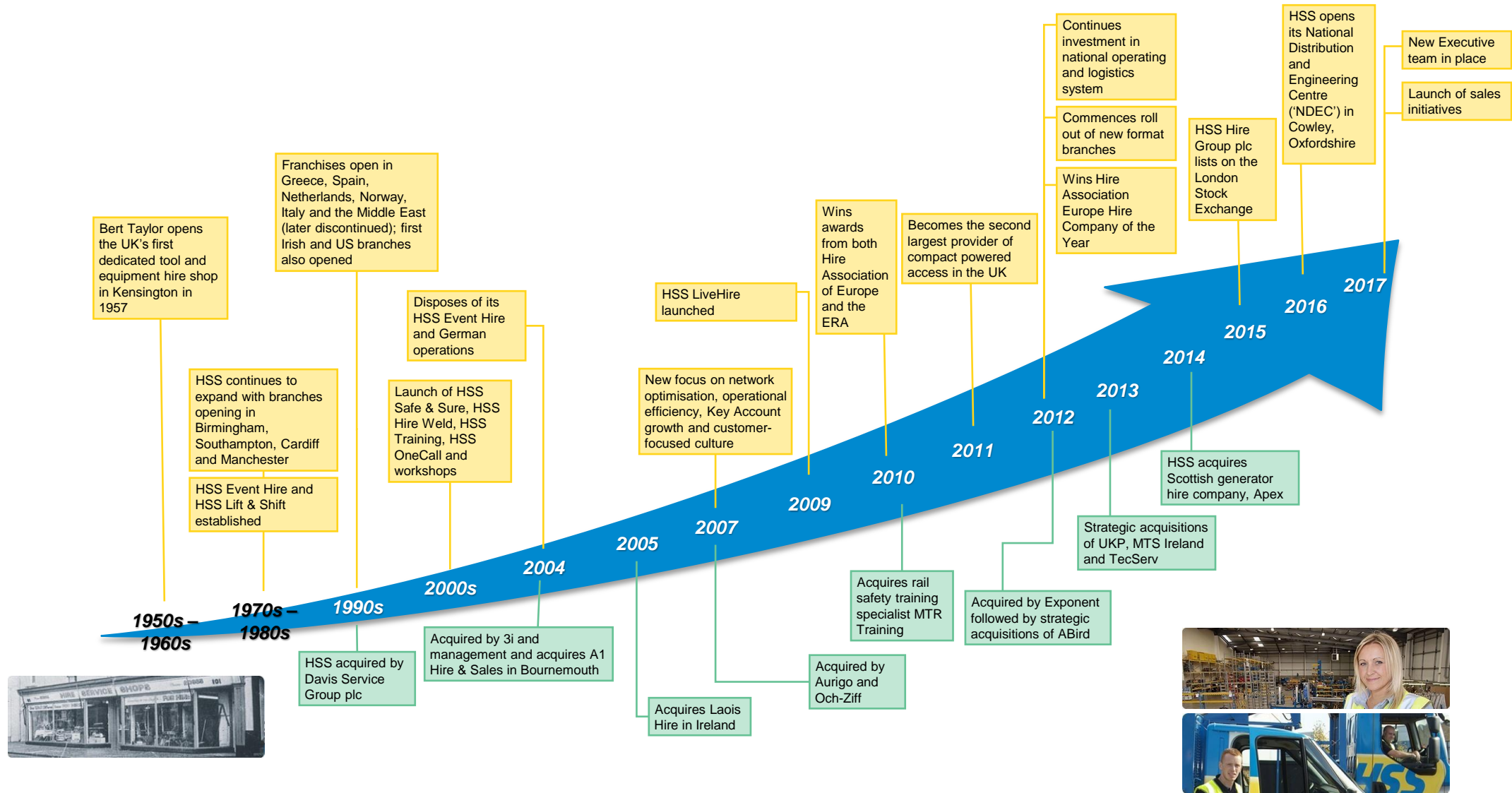


## ...and stable growth is set to continue



Source: ERA report 2016

# Our history



Source: Company information

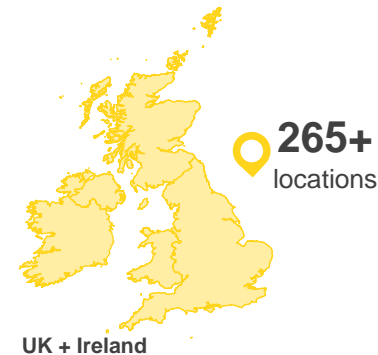
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# HSS Hire Group Overview

## Business overview

- Market leading provider of tool and equipment hire and related services across the UK & Ireland with a well-established brand
- Operates primarily in the highly attractive 'maintain and operate' segment of the market
- Offers a broad range of equipment and services across its core and specialist businesses
- Complementary services offered include one-stop shop hire solutions, health and safety, and general training
- On average over 37,000 trade customers, of which over 90% of revenue from B2B market
- Listed on the LSE Main Market since February 2015

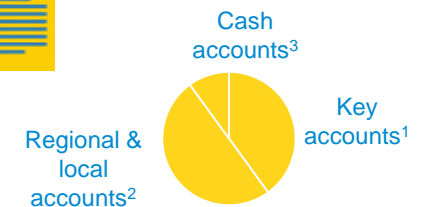
## At a glance



90%  
B2B



37,000+  
Live customer  
accounts on average



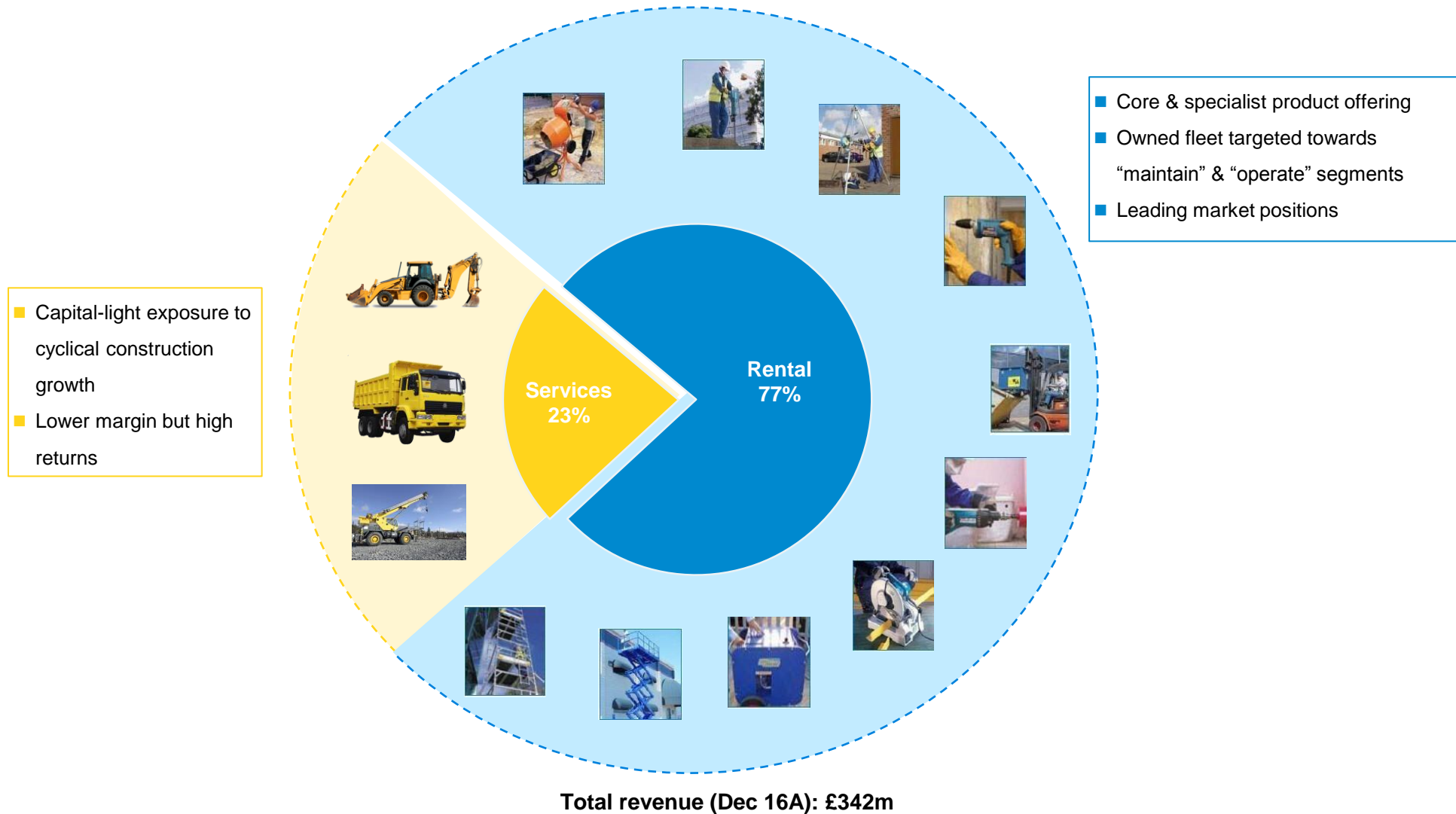
## 23 PRODUCT CATEGORIES

c. 1,600 PRODUCTS...  
...but access to a wider  
range of thousands  
more through OneCall



<sup>1</sup> Defined as accounts earning or with a potential to earn over £100k; <sup>2</sup> Defined as accounts typically earning less than £100k; <sup>3</sup> Defined as customers with no credit terms who pay a deposit up front then the remaining balance on completion of the contract

# HSS has a highly diversified equipment rental and services offering



# Transformational change has created a flexible platform

2007 - 2010

## De-centralised multi site hire depot model

Engineering and logistics locally managed

Large footprint depot network

High 'fixed' costs per site

Low utilisation of rental fleet

Limited opportunity for national economies of scale

2011 - 2016

## Semi-consolidated hub and spoke model

Engineering and logistics consolidated to 30-35 CDC<sup>1</sup> locations

>70 smaller, lower cost branches opened

Better cost control

Improved productivity and utilisation

Opportunity to drive limited level of scale efficiencies

Today

## Centralised, industrialised NDEC



Core engineering and logistics industrialised



Optimised CDC and branch network



Scalable infrastructure providing flexibility



Improved utilisation and capital efficiency



Continuous improvement philosophy driving operational efficiency

Improving customer availability and fulfilment

Platform continually improves customer experience, efficiency, flexibility and utilisation

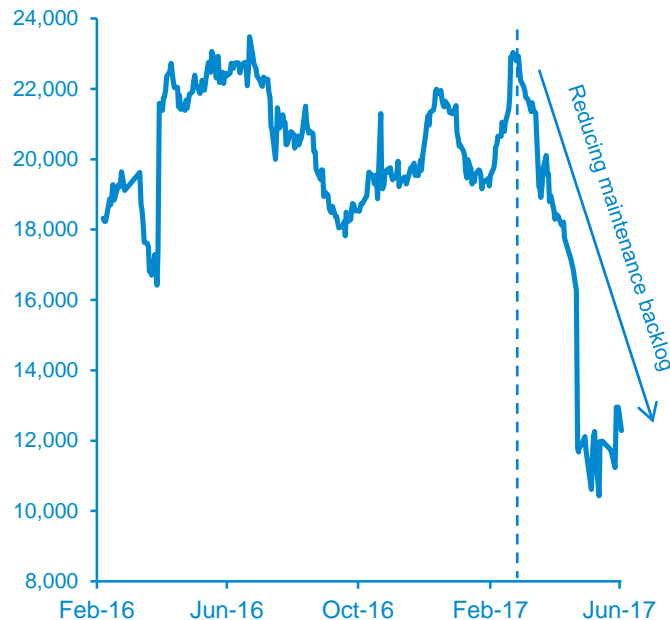
<sup>1</sup> CDC = Customer Distribution Centre

# New operating model delivering improved capital and operational efficiency leading to better customer service

## Improved availability and capital efficiency

- New operating model allows superior maintenance capability, driving availability
- Realising c.£4-6m capex savings

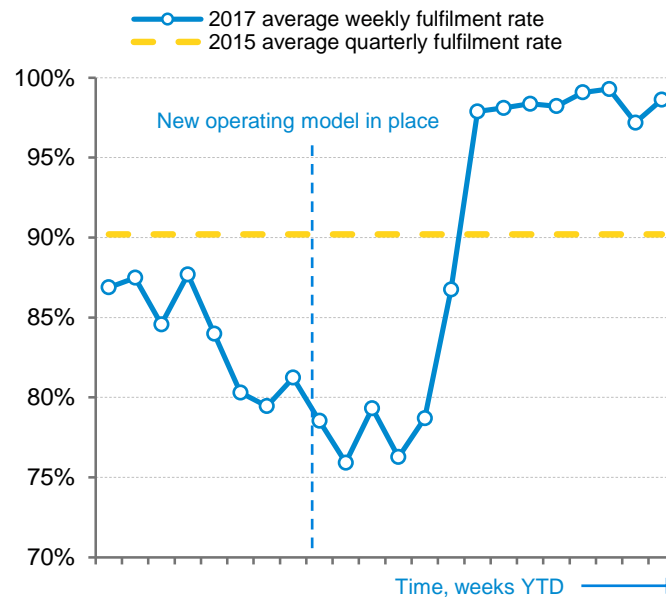
Units of maintenance YTD



## Fulfillment levels consistently above 2015 levels

- Higher fulfilment levels driving greater consistency in service and supporting regain of market share

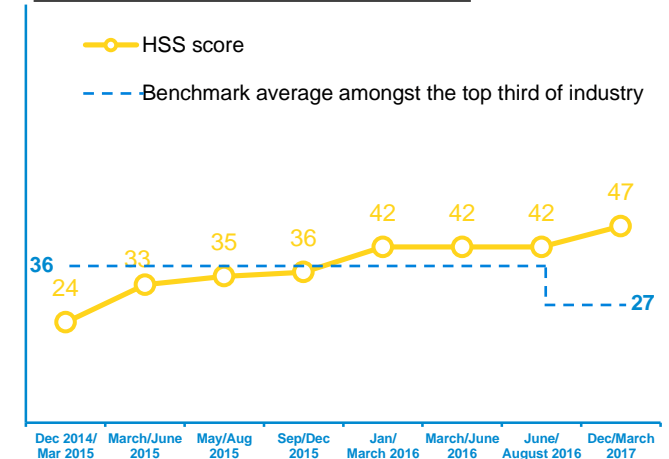
% of fast moving fleet items fulfilled



## Enhanced customer experience

- HSS is now placed well above the top third of the TNS B2B Benchmark<sup>1</sup>
- Increased availability and enhanced customer promise supporting continued growth in same day contracts

NPS Score – All HSS Customers in UK



Source: Kantar TNS; <sup>1</sup> Benchmark data used in this report comes from Business to Business studies. The sectors included in the benchmark are Manufacturing (e.g. durables, consumer goods, investment goods, other manufacturing industry), Service providers (e.g. logistics, call centres, leasing, consulting), Utilities (e.g. water, gas, electricity)



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2	<b>Our strong and unique credit story</b>	<b>16</b>
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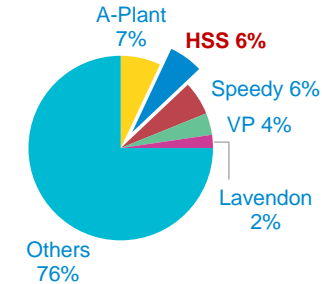
# Our strong and unique credit story



# 1 Strong and improving market positions

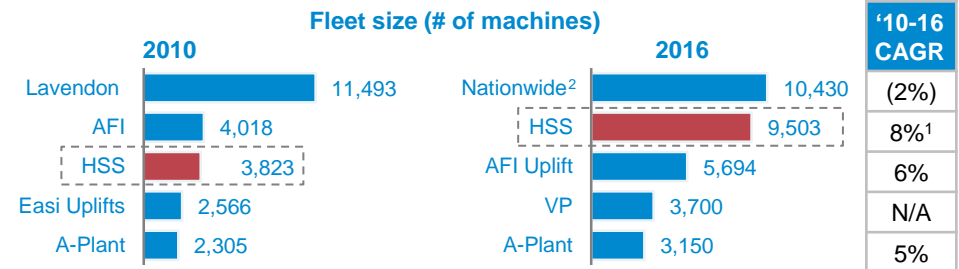
- Clear leadership positions underpinned by differentiated business model
  - #2 in the UK tool and equipment rental market by revenue in our market segment
  - #2 in the UK powered access market by fleet size, with the strongest growth amongst peers since 2010
- Continued market share gain from 2010 to 2016
- Structural share gains set to continue given fragmented market and HSS's superior fleet availability and network coverage

UK tool and rental market shares  
2016 market share



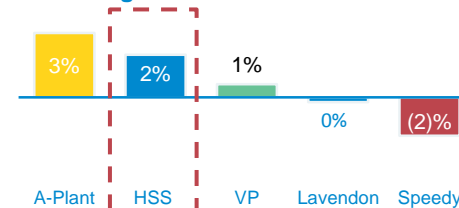
Source: Company filings, ERA report 2016

Leadership position in the UK powered access market



Source: Cranes & Access Top 30 List  
<sup>1</sup> Includes impact of UK Platforms acquisition  
<sup>2</sup> A Lavendon Group Company

Change in mkt share from 2010-2016

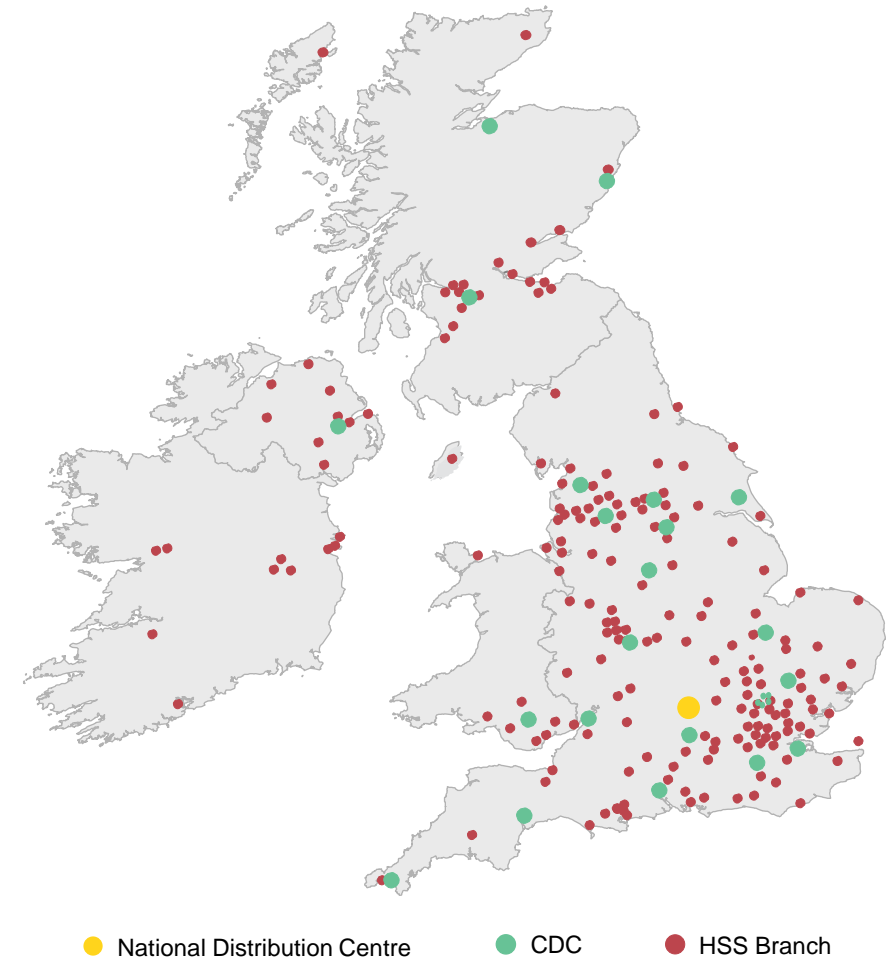
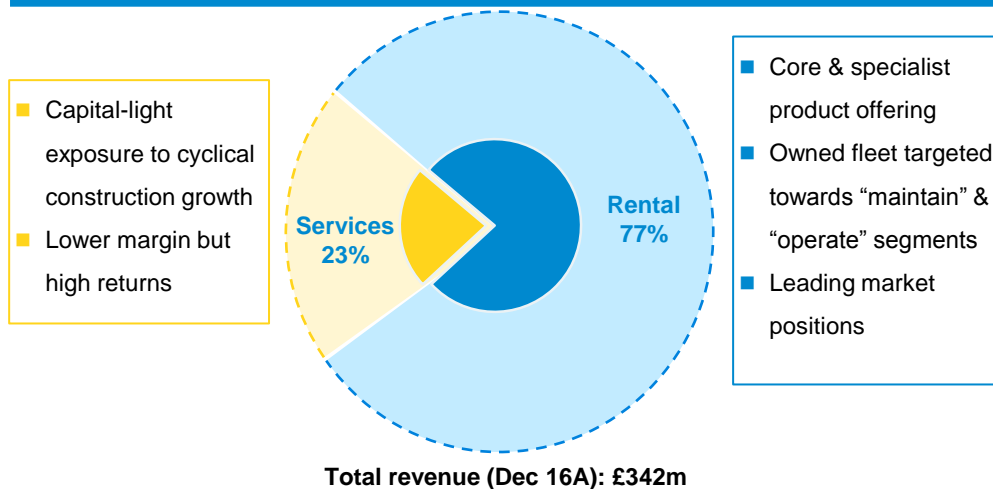


Source: Company filings, ERA report 2016

## 2 Enhanced barriers to entry with differentiated customer proposition

- National coverage with high fleet availability underpinned by distinctive distribution model
- Unique ability to provide a one-stop solution through an integrated supply chain
- Sector leading digital platform, with 48% market share of online hire traffic<sup>1</sup>
- Best-in-class proprietary IT infrastructure systems
- Rigorous training and investment in industry standards to deliver a high quality and safe working environment

### One-stop customer product solution



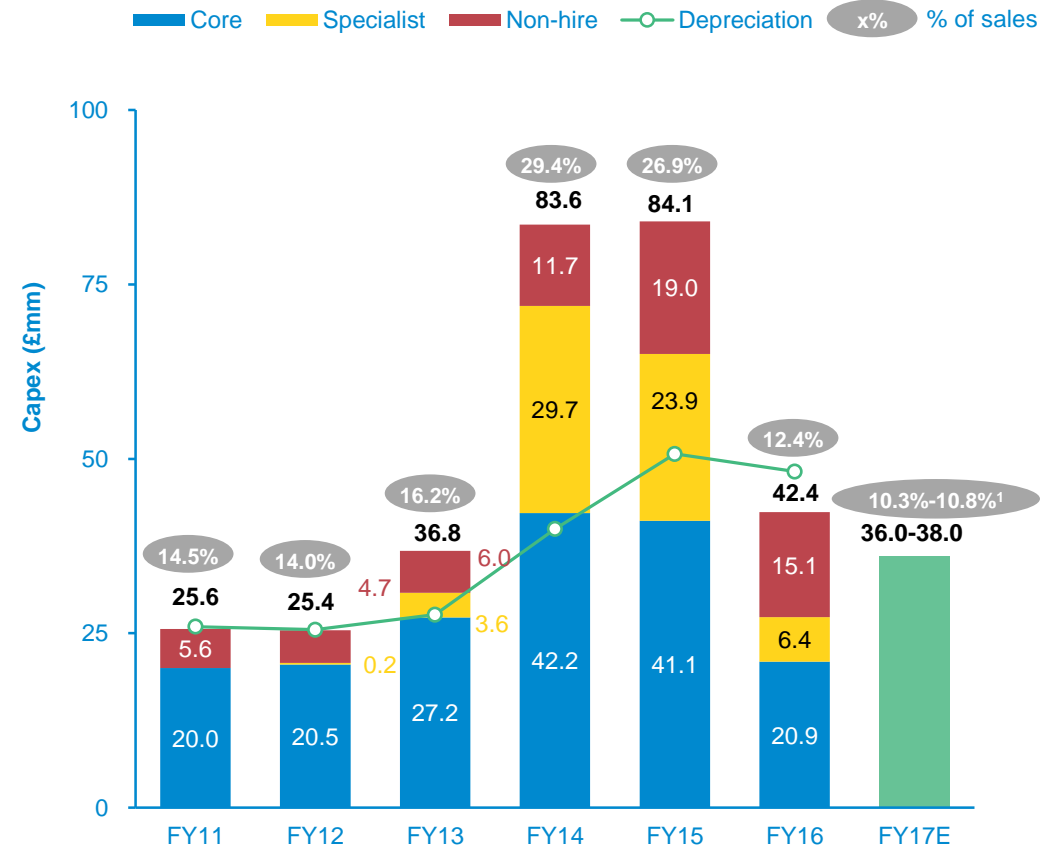
Comprehensive product offering addressing >90% of industry equipment demand

Retail-like distribution model, enhanced by NDEC rollout, supports unique service capability and industry-leading product availability

<sup>1</sup> 48.4% of total web visits from a defined competitor set within the Hire Industry; Source: SimilarWeb

### 3 Well invested asset base

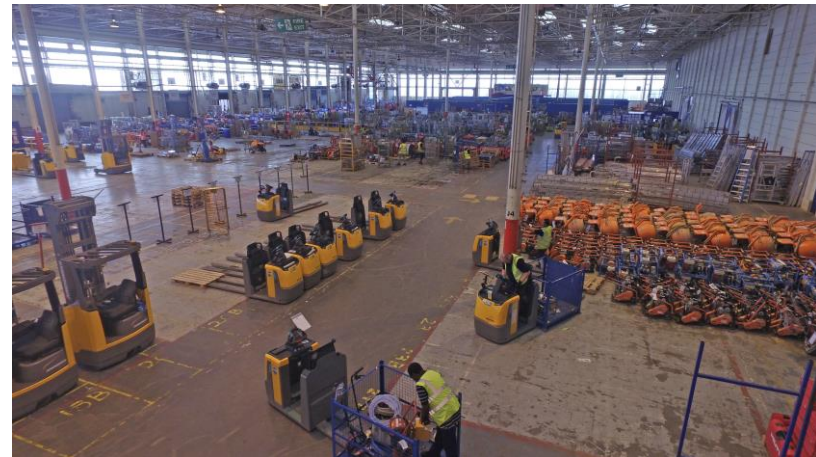
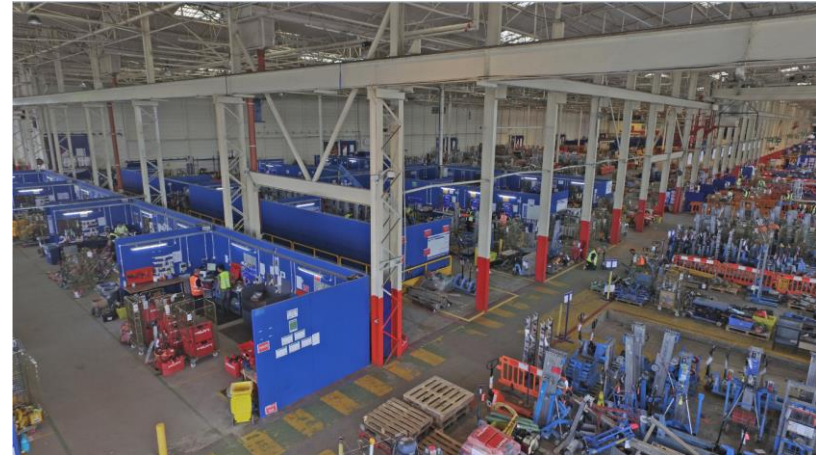
- Nationally managed fleet with a current replacement value of c. £250m
- £164m invested in hire fleet over the past 3 years
- Young fleet with average age of c. 3 years
- Capex now returned to normalised run rate levels
  - Maintenance capex of c.£25m per annum
  - Flexibility in capex requirement to match demand / utilisation
- Improved fleet management driving utilisation to record highs
  - Core utilisation improving from low 40s in Mar-13 to c. 50% in Mar-17
  - Specialist utilisation improving from low 50s in Mar-13 to mid 70s in Mar-17
- New operating model enabling further opportunities to improve utilisation/ capital efficiency
- Nationwide footprint and NDEC provide effective opportunity to align availability to demand
- Capitalise on relatively young fleet to build future revenues



<sup>1</sup> Based on FY17E consensus sales estimate

## 4 Efficient and flexible operating model following NDEC implementation

- Market leading facility located in Cowley with significant flexibility for expansion, dealing in 196 products with 2,413 deliveries every day<sup>1</sup>
- Underpinned by centralised and industrialised engineering and logistics through NDEC & refurbishment centre
- Scalable and flexible infrastructure and integrated systems to support faster, low cost growth
- Opportunity to optimise CDC and branch network and to further develop digital offering



**Enhanced integrated customer service proposition  
supporting further revenue and growth**

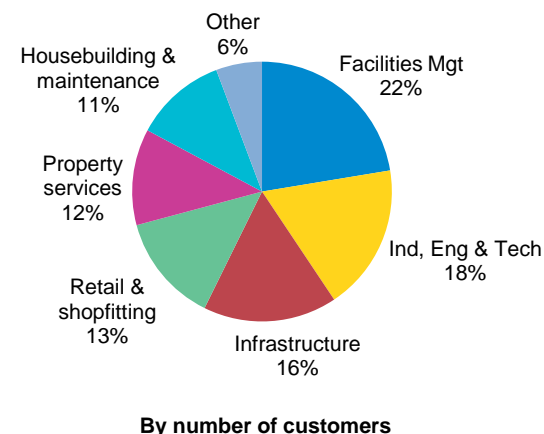
<sup>1</sup> Based on 121 calendar delivery days this year



## 5 Diverse customer base across resilient end markets

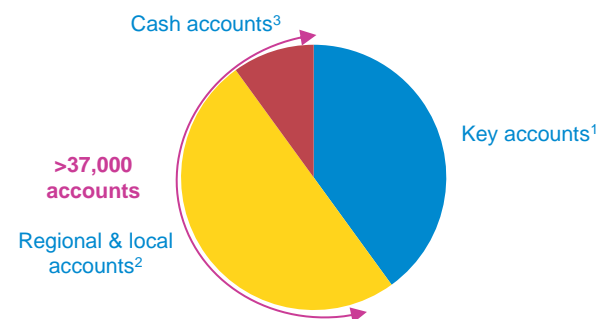
- Low customer concentration on average >37,000 regional & local trade accounts
  - Over 90% of revenue from B2B market
- Focus on “maintain & operate” market segment, which is opex driven and less cyclical
  - Only modest exposure to new build construction sector
- Broad end market exposure with leading blue-chip customers
- Visibility underpinned by recurring customer hire needs

### Key accounts diversification<sup>1</sup>



<sup>1</sup> Based on customer information split as per 2016 revenue where sector split is available and excludes Regional Accounts

### Breakdown of clients (by revenue)



Source: Company data, broker research

<sup>1</sup> Defined as accounts earning or with a potential to earn over £100k; <sup>2</sup> Defined as accounts typically earning less than £100k;

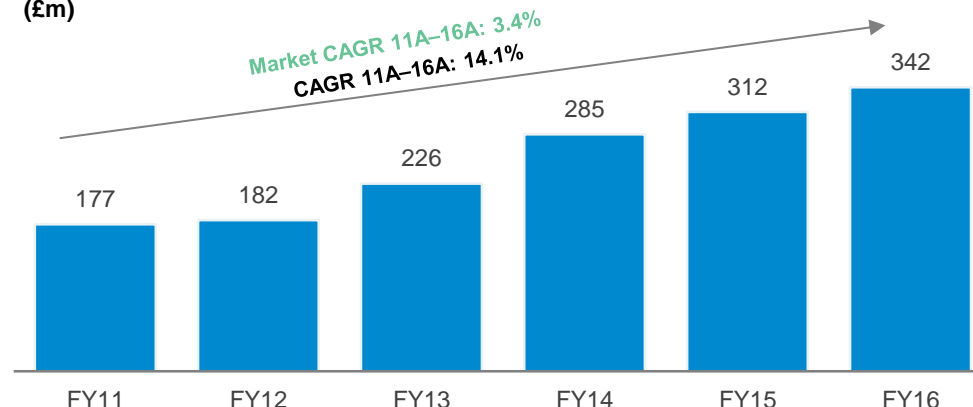
<sup>3</sup> Defined as customers with no credit terms who pay a deposit up front then the remaining balance on completion of the contract

## 6 Sector leading financial track record through the cycle

- Attractive revenue growth track record, ahead of the market
- Sector leading returns driven by maximum product availability and superior asset turnover
- Investment in new operating model provides platform to drive further growth and improved profitability
- Clear upside to bring returns in line with historic averages

### Revenue

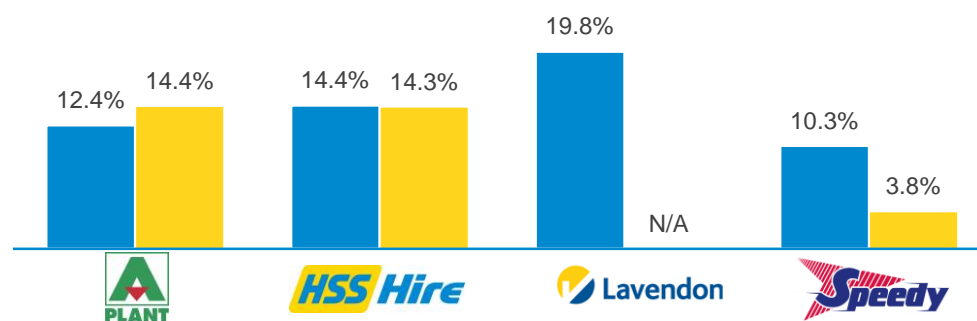
(£m)



### ROA vs peers

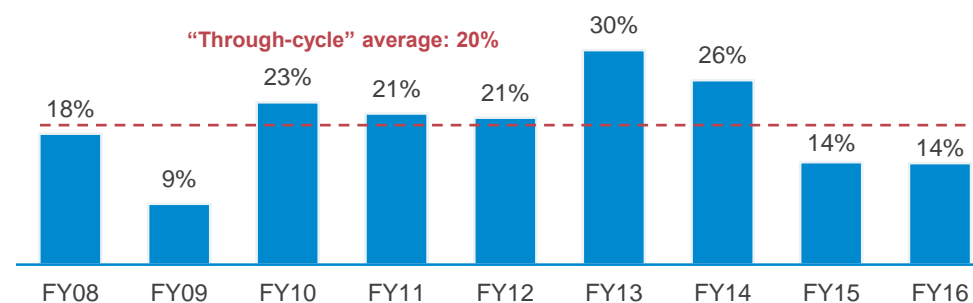
% return on assets

■ 2015 ■ 2016



### ROA (FY08-16)<sup>1</sup>

(£m)



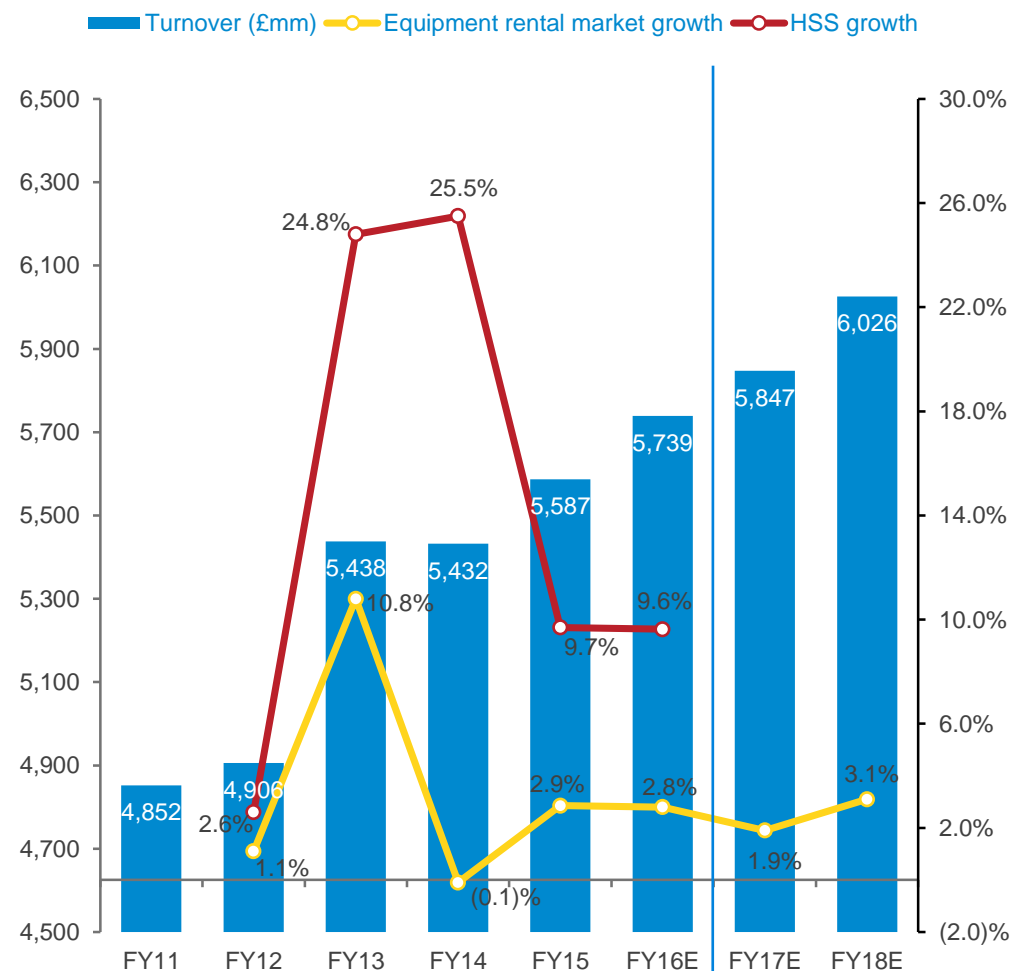
<sup>1</sup> ROA company defined as adjusted EBITA / (Average Total Assets (excluding intangible assets) – Average Current Liabilities (excluding amounts due to group undertakings))



## 7 Positioned for future profitable growth

- ERA estimates market growth of 1.9% for 2017 and 3.1% for 2018
- More resilient end-markets through the cycle with focus on “maintain” and “operate” market segments
- Customers with recurring hire needs
- Focus on high opportunity hire segments
- Ability to take advantage of operational gearing to drive incremental profit growth

### Industry turnover and HSS revenue growth



Source: Company filings, ERA report 2016

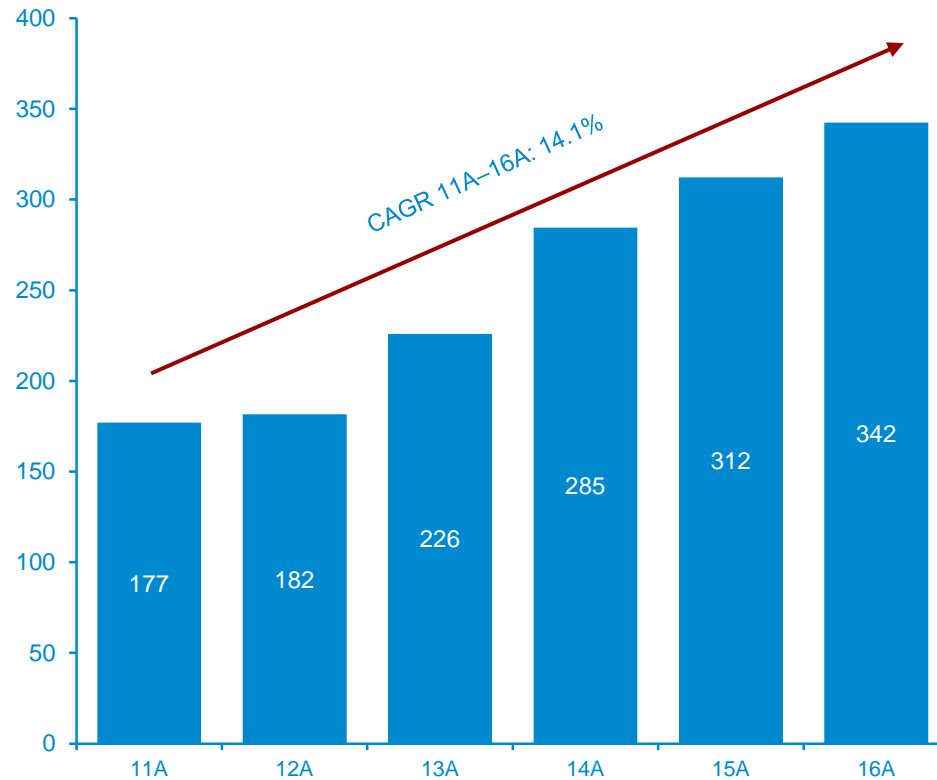
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# Historical financial performance

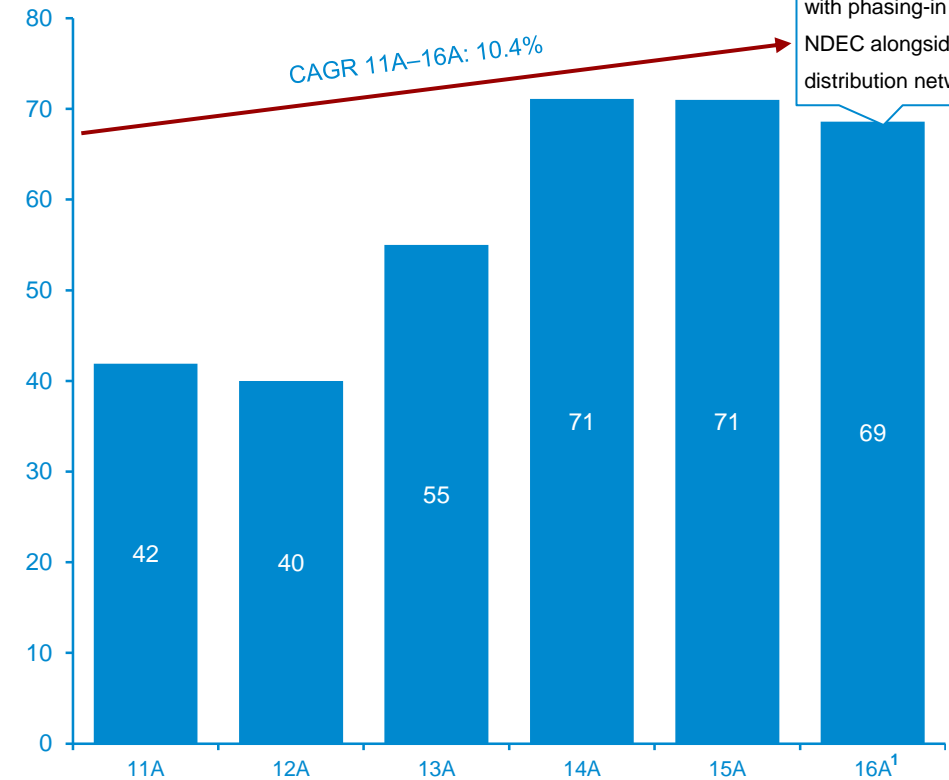
## Revenue

£mm, Revenue



## Adj. EBITDA

£mm, EBITDA



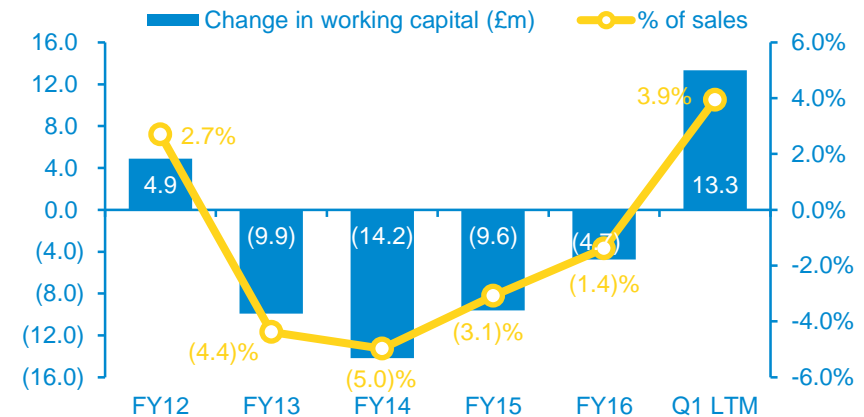
<sup>1</sup> Adjusted EBITDA  
Source: Company information

# HSS expects to see a FCF gain as a result in 2H 2017 based on historical trends

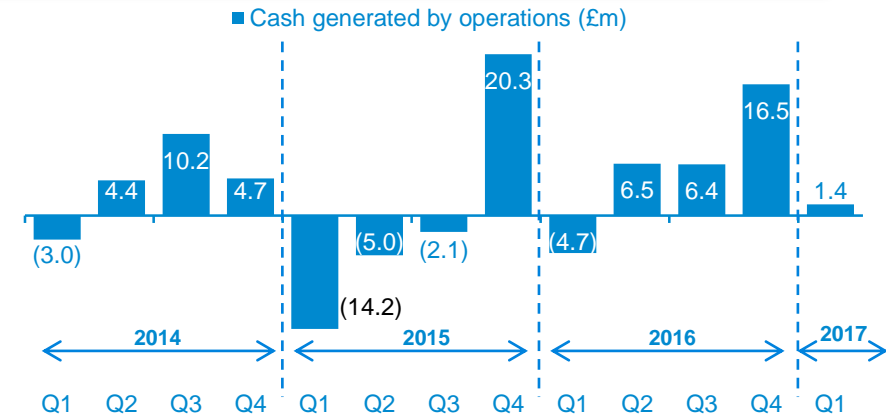
- Working capital performance improving due to proactive management action
- Higher revenue and cashflow contribution in second half of the year
  - Seasonality of equipment rental industry leads to higher demand in H2
- H217 expected to have improved cash generation in line with previous years
- Management focus on net debt reduction to reduce RCF drawdown in H2

<sup>1</sup> Defined as cash from operations pre interest and tax, post purchase of hire equipment

## Change in working capital

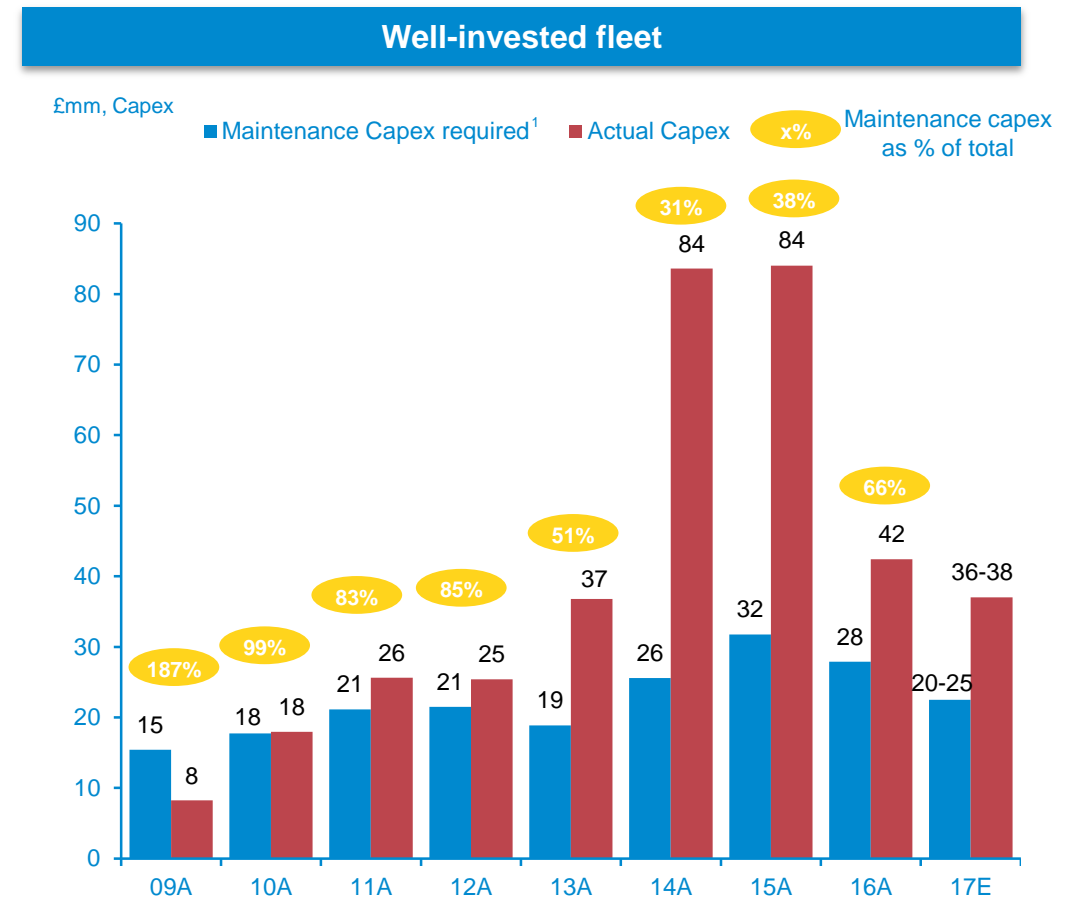


## Cash generated by operations<sup>1</sup>



# HSS has a well invested fleet and a proven ability of managing capex through economic cycles

- Well-invested fleet maintained through the cycle
- Disciplined investment approach with decisions made centrally
- Optimised procurement and focus on refurbishment reduces capex requirements
- Flexible capex requirements with ability to materially decrease investment if demand / utilisation falls
- Flexibility to manage capex without impacting revenue and profitability

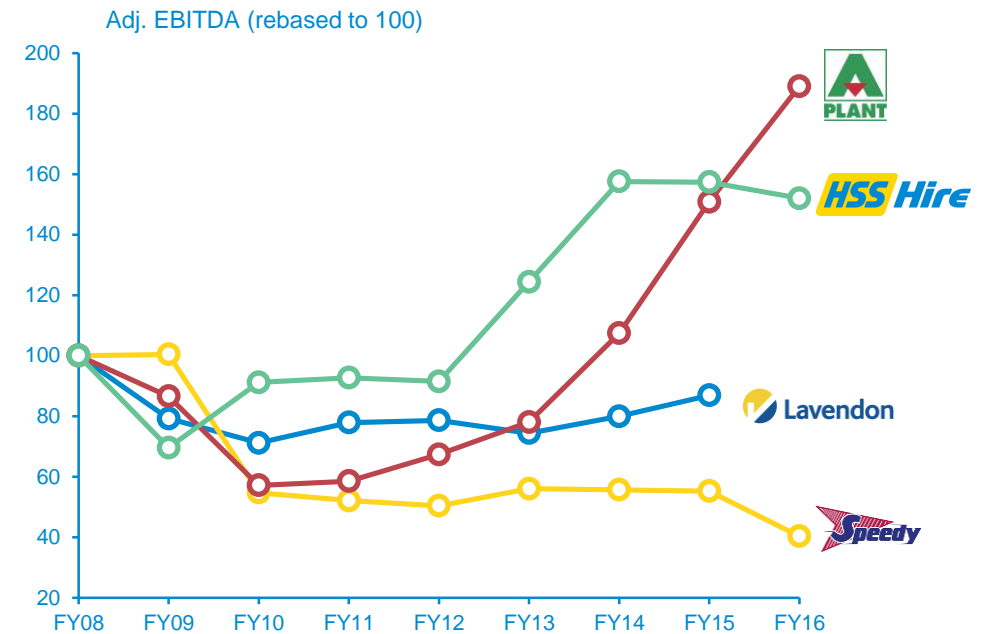
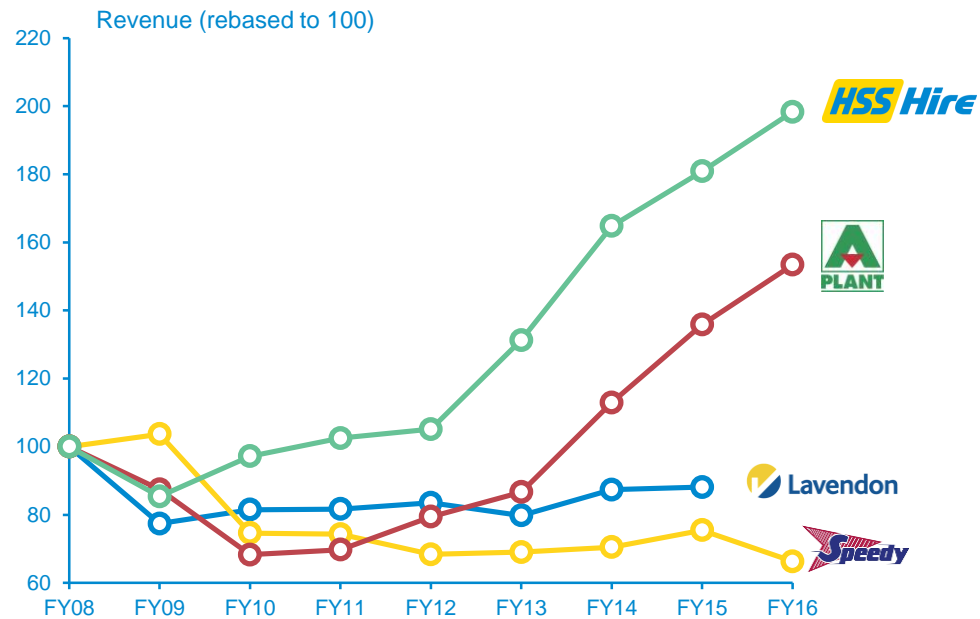


**Maintenance capex of approximately £20-25m**

<sup>1</sup> Maintenance capex defined as depreciation of materials and equipment held for hire

# HSS has demonstrated resilience through the last downturn...

## Revenue & Adj. EBITDA performance



Source: Company filings

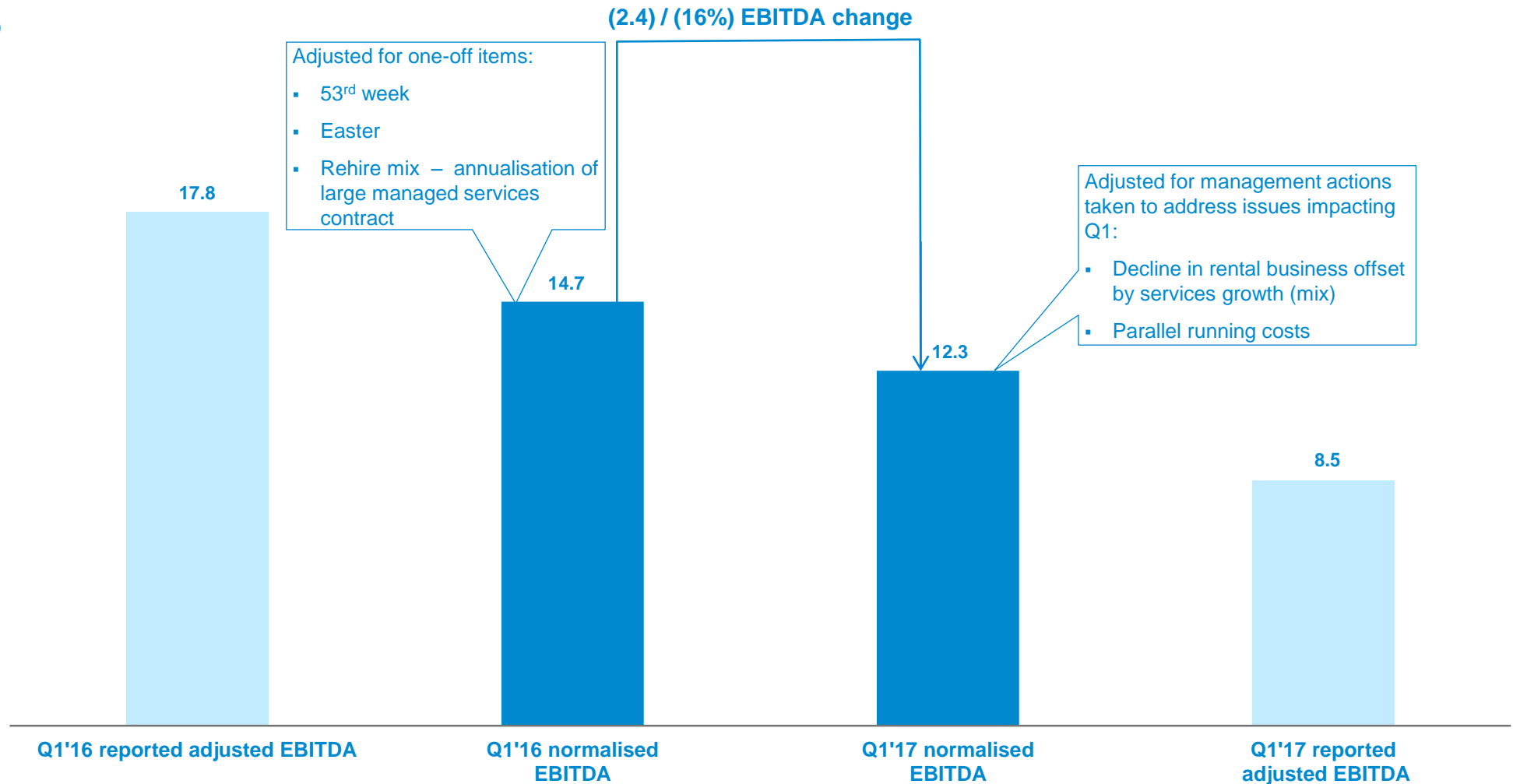
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# Q1 17 comparators impacted by non-recurring items

(£m)



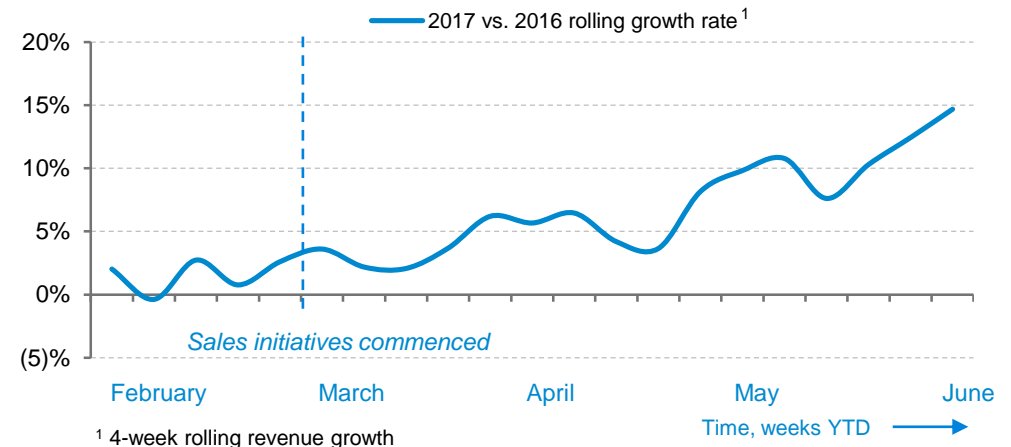
# Management initiatives are delivering improving revenue growth and profitability

1	Revenue momentum building	<ul style="list-style-type: none"><li>■ Launched new sales initiatives for re-engagement with SMEs delivering positive revenue growth</li><li>■ Re-focus on Specialist business growth to drive market share growth in attractive segments</li></ul>	✓
2	Significant progress on delivering announced cost savings	<ul style="list-style-type: none"><li>■ Management expects to achieve top end of annualised target range of £11-13m, against Q1 run rate</li><li>■ No disruption to ongoing operations</li></ul>	✓
3	Benefitting from the new operating model	<ul style="list-style-type: none"><li>■ Roll out of new operating model now complete</li><li>■ Enhanced customer proposition, through better availability and fulfilment</li><li>■ Evidence of utilisation levels driving operational and capital efficiencies</li></ul>	✓
4	Improvement in working capital management	<ul style="list-style-type: none"><li>■ Improved cash collection through implemented process changes</li><li>■ Strong working capital management through harmonising the terms between customers and suppliers</li></ul>	✓

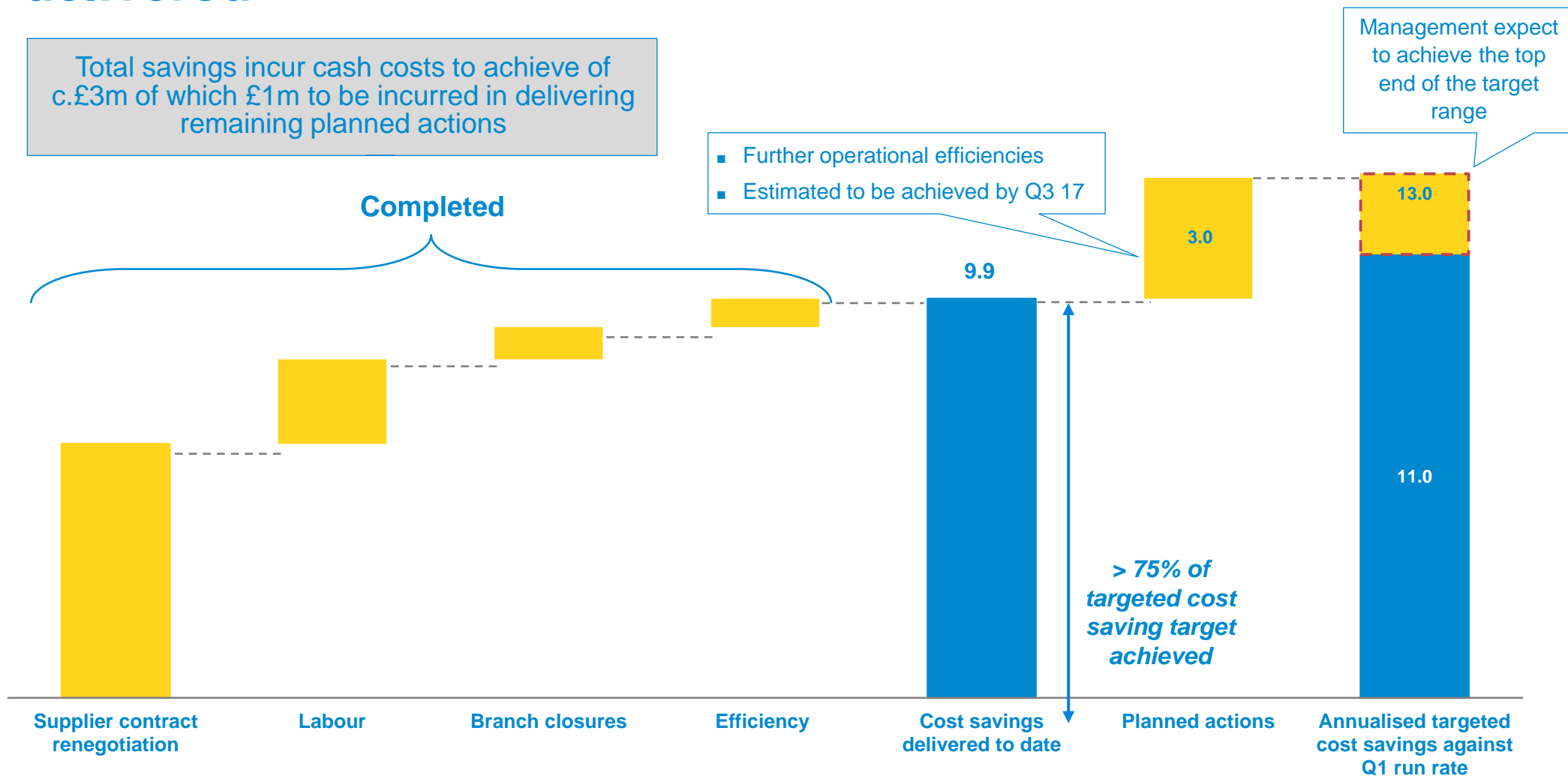
# 1 Recent revenue trends showing benefit of management sales initiatives

- Stable customer base with c. 37,000 accounts on average
- New sales initiatives launched in large core markets in March 2017
- Re-engagement with over 1,650 SMEs
- Already seeing benefits through enhanced growth in London & Manchester markets
- Industrialising the initiatives across other major markets

Improving YoY growth in key markets



## 2 Targeted annualised savings against Q1 run rate largely delivered

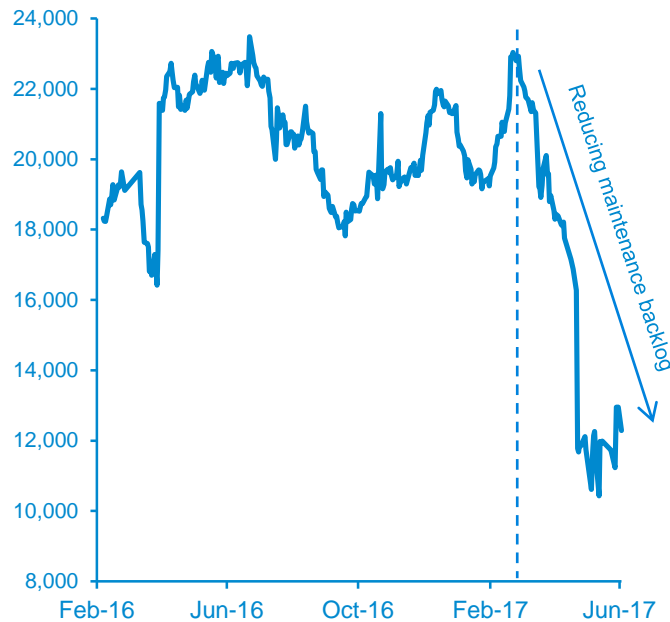


# 3 New operating model delivering improved capital and operational efficiency leading to better customer service

## Improved availability and capital efficiency

- New operating model allows superior maintenance capability, driving availability
- Realising c.£4-6m capex savings

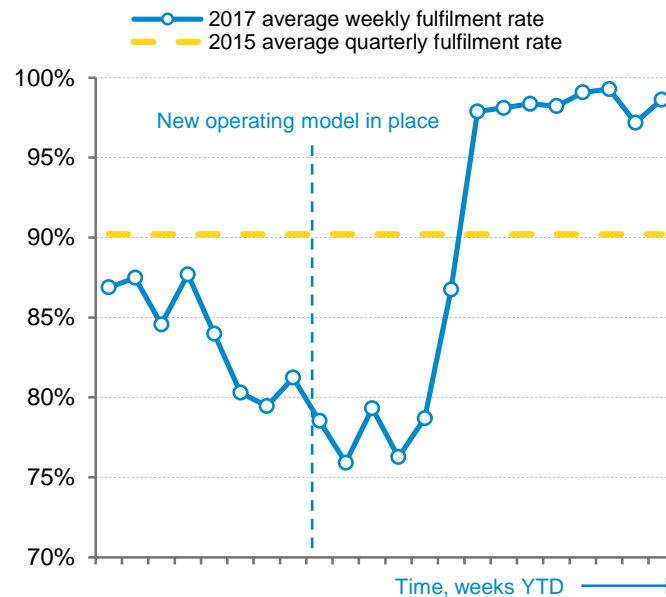
Units of maintenance YTD



## Fulfillment levels consistently above 2015 levels

- Higher fulfilment levels driving greater consistency in service and supporting regain of market share

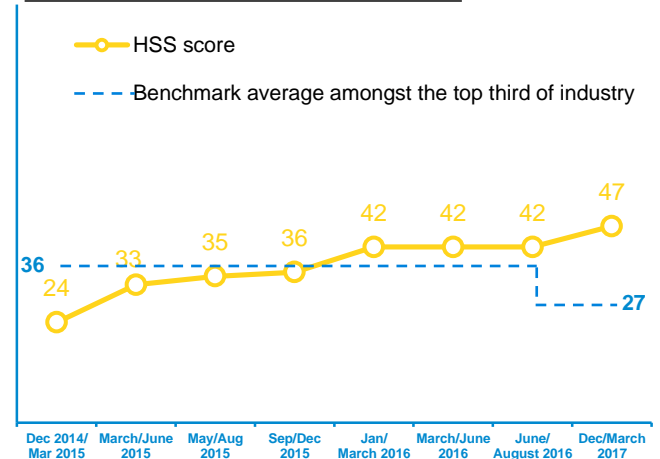
% of fast moving fleet items fulfilled



## Enhanced customer experience

- HSS is now placed well above the top third of the TNS B2B Benchmark<sup>1</sup>
- Increased availability and enhanced customer promise supporting continued growth in same day contracts

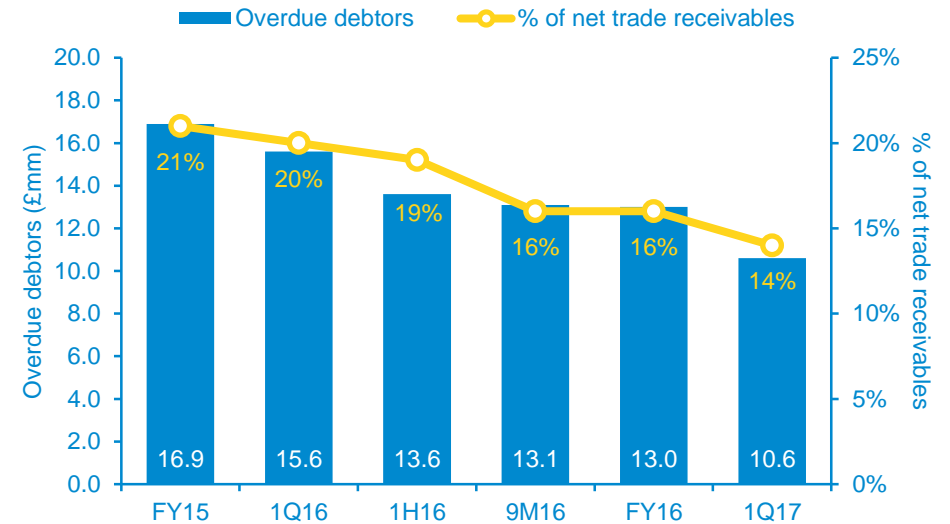
NPS Score – All HSS Customers in UK



Source: Kantar TNS; <sup>1</sup> Benchmark data used in this report comes from Business to Business studies. The sectors included in the benchmark are Manufacturing (e.g. durables, consumer goods, investment goods, other manufacturing industry), Service providers (e.g. logistics, call centres, leasing, consulting), Utilities (e.g. water, gas, electricity)

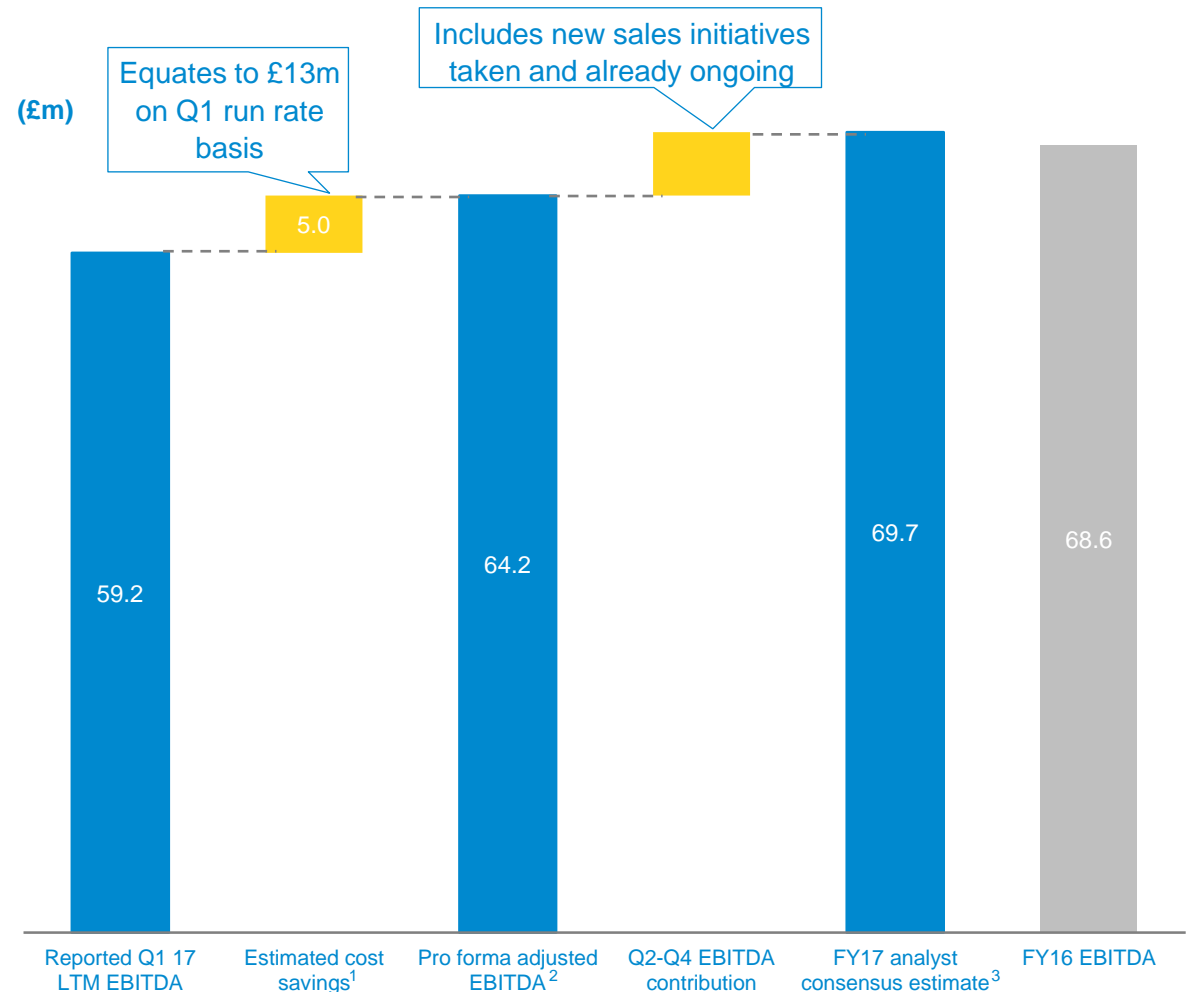
## 4 Enhanced process in place for better working capital management

- Implemented process changes to improve receivables (e.g. invoicing systems)
  - Reduced overdue debtors by 37%
- Harmonising payment terms between customers and suppliers
- Q1 working capital inflow of £2.5m (prior year outflow of £15.6m)



# Management actions driving EBITDA growth

- 1 Revenue momentum building
- 2 Significant progress on delivering announced cost savings
- 3 Benefitting from the new operating model
- 4 Improvement in working capital management



<sup>1</sup> Represents estimated costs savings would have retained had certain cost savings measures that are currently being implemented or have recently been implemented been put into effect as at 3 April 2016. These include cost savings resulting from (i) certain operational contract re-negotiations, (ii) employee headcount reductions, (iii) branch closures and consolidations and (iv) rationalisation of our spend policy

<sup>2</sup> EBITDA adjusted to remove the effects of certain exceptional costs, which the Company believes to not be indicative of its underlying operating performance

<sup>3</sup> Based on third party analyst reports



# Agenda

1	Introduction to HSS	6
2	Our strong and unique credit story	16
3	Historical financial overview	25
4	Q2 momentum building, restoring profitable growth	33
5	<b>Conclusion</b>	<b>38</b>

# Foundations in place to drive profitable growth

- Market leadership position with strong, heritage brand
- National coverage with high fleet availability underpinned by unique flexible distribution model
- Well invested, young fleet with high utilisation
- Evolving and differentiating routes to market to serve large and diverse customer base
- High quality team driving operational success

**Well positioned to gain profitable market share in a fragmented market**

# Key drivers of future performance

1

## Supportive market environment



- ERA estimates that the market will grow 1.9% and 3.1% in 2017 and 2018 respectively
  - ERA estimates already reflect the potential impact of the Brexit vote

2

## Revenue growth momentum



- Enhanced customer proposition
- Benefit of sales initiatives with SMEs
- Winning and driving breadth of purchase in key customer contracts
- Maintain pricing levels across portfolio mix

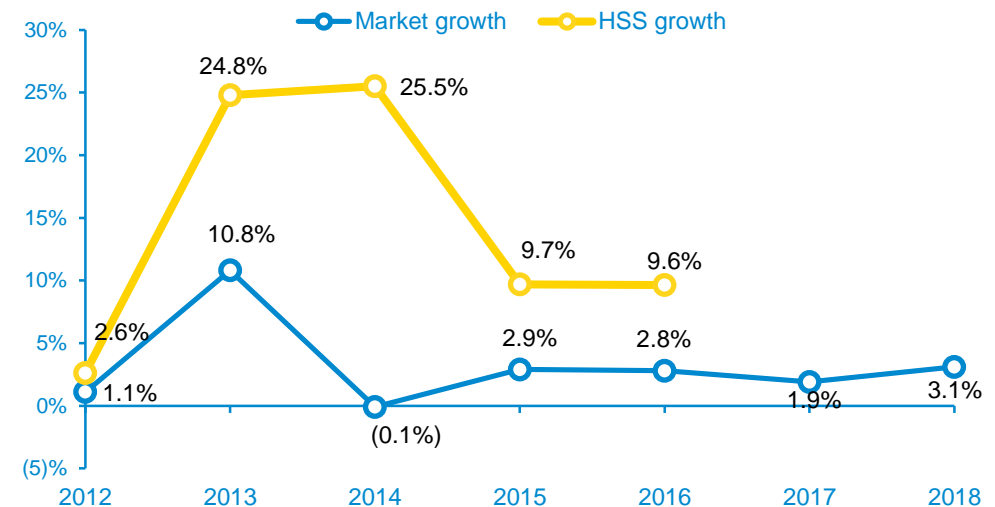
3

## Margin expansion



- Benefit from flexible operating model as top line grows
- Drive operating efficiency in new operating model
- Reduce central overheads and discretionary expenditure
- Run-off parallel operating costs
- Improved procurement of rehire product and general overheads

## Historically HSS has outperformed market growth



Source: ERA 2016 Equipment Rental Industry Report

4

## Enhanced capital efficiency



Capital efficiency

- Large well invested fleet with capex reduced to 'steady state'
- Relatively new fleet, expected to benefit from greater capital efficiency

# Our strong and unique credit story



## ... supported by our new operating model

- ✓ Transformational change has now been materially completed
- ✓ New operating model improves customer service, flexibility as well as operational and capital efficiency
- ✓ Revenue momentum building on the back of recent sales initiatives
- ✓ Majority of cost actions completed and on track to deliver top end of targeted savings
- ✓ Deleveraging underpinned by sustained profit growth and cash generation
- ✓ New experienced Executive team in place, focussed on delivering the strategy and maximising benefits of the operating model

# Q&A

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