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

# H1 FY17 Results

# Agenda

| | |
|---|---|
| **Headlines** | **Steve Ashmore, CEO** |
| **H1 17 results** | **Paul Quested, CFO** |
| **Early views and outlook** | **Steve Ashmore, CEO** |

# H1 17 headlines





- Operating model changes have impacted Rental revenue growth and cost base in H1
- Management have taken decisive action to improve revenue, profitability and service
  - Improved revenue / earnings trend through Q2
  - On track to deliver annualised cost savings of c. £13m compared to Q1 run rate
  - Enhanced fleet availability; Net Promoter Score has improved to 47 (H1 16: 42)
  - Improved capital efficiency enabling reduction of £4m - £6m in capex year on year
- Group returned to profit (EBITA) in June, July and August
- Revenue back in growth from July, however rental revenue rate of recovery materially slower than targeted
- We now expect H2 Adjusted EBITA profit to be in the range of £8m to £11m

# Financial summary

*26 weeks ended 1 July / 27 weeks ended 2 July*

| £m | 2017 | 2016 | Growth (%) |
|---|---|---|---|
| **Revenue** | **160.5** | **166.2** | ***(3.4%)*** |
| Adj. EBITDA[1] | 17.3 | 32.5 | *(46.8%)* |
| *Adj. EBITDA margin* | *10.8%* | *19.5%* | |
| **Adj. EBITA[2]** | **(7.1)** | **9.8** | |
| *Adj. EBITA margin* | *(4.4%)* | *5.9%* | |
| **Exceptional costs** | 12.6 | 7.0 | |

- Revenue broadly flat on a comparable 26 week basis after impact of branch closures with improving trend
- Adj. EBITDA impacted by revenue mix, parallel running costs through Q1 and into Q2
- Exceptional costs reflect:
  - Impact of branch closures and associated fixed assets impairment
  - Implementation of cost reduction programme

*[1] Earnings stated before interest, tax, depreciation and amortisation (“EBITDA”) and before exceptional items*
*[2] Adjusted EBITDA less depreciation*

# Segmental analysis

*26 weeks ended 1 July / 27 weeks ended 2 July*

| £m | 2017 | 2016 | Growth |
|---|---|---|---|
| **Rental (and related revenue)** | | | |
| Revenue | 119.3 | 128.7 | (7.3%) |
| Contribution | 73.9 | 86.7 | (14.8%) |
| *Contribution margin* | *61.9%* | *67.4%* | |
| **Services** | | | |
| Revenue | 41.3 | 37.5 | 10.1% |
| Contribution | 5.2 | 5.2 | 0.0% |
| *Contribution margin* | *12.6%* | *13.9%* | |
| Branch and selling costs | (41.3) | (45.5) | |
| Central costs | (20.5) | (13.9) | |
| **Adj. EBITDA** | **17.3** | **32.5** | ***(46.8%)*** |

## Rental

- Revenues impacted by strong comparator period and additional week's trading in H1 16
- Contribution down by 5.5pp driven by 53rd week (1pp), customer and product mix (2.8pp) and parallel running costs (1.7pp)

## Services

- Continued growth in OneCall and training revenues
- Annualisation of large MSP contract and continued investment in teams to support future growth impacting contribution

## Costs

- Branch and selling costs reduced reflecting cost reduction programmes
- New operating model costs included in central costs and against Rental contribution

# Net third party debt lower year on year



*26 weeks ended 1 July / 27 weeks ended 2 July*

| £m | 2017 | 2016 |
|---|---|---|
| **Adj. EBITDA** | **17.3** | **32.5** |
| Exceptional costs (cash) | (2.0) | (6.2) |
| Working capital | (1.2) | (11.3) |
| Capex [1] | (18.1) | (29.3) |
| Net interest paid | (6.9) | (6.4) |
| Tax paid | (0.2) | (0.7) |
| Funds flow from parent post Dec 2016 equity placing | 12.5 | - |
| **Net (increase) / decrease in net debt** | **1.4** | **(21.5)** |
| **Closing net third party debt** | **230.7** | **239.6** |
| Net amounts due to group undertakings | 250.1 | 222.4 |
| **Closing net debt** | **480.8** | **462.0** |

**Lower net third party debt balance reflects:**

- Lower adjusted EBITA
- Funds flow from parent company post equity placing (Dec 2016)
- Improved working capital management
- Capital efficiency and lower investment in non-fleet capex

*[1] Gross of finance lease funding*

***>£35m headroom in cash and existing facilities***

Headlines
H1 17 results
Building momentum
Q&A
Appendix

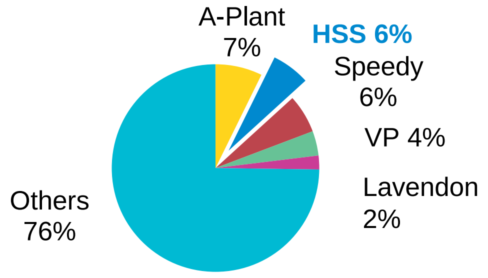
# Early views
## Since joining the business

### 1. Established stable of brands with market leading positions in chosen markets

**#2**

in the UK tool and equipment rental market by revenue

**2016 market share[1]**

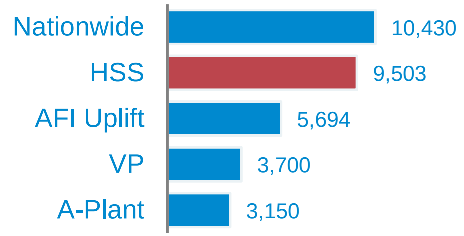



[1] Company reports, ERA industry reports

**#2**

in the UK powered access market by fleet size

**Fleet size (# of machines)[2]**

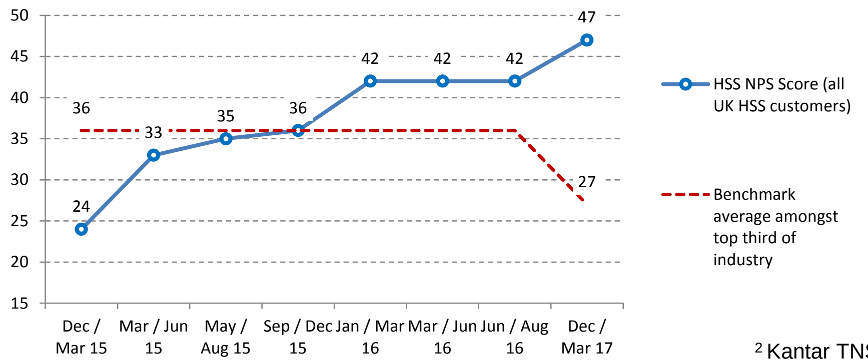



[2] Cranes & Access Top 30 List

### 2. Great brand strength and leading levels of customer service

Leading NPS score:

**47**[1]




Significantly above the top third of the TNS B2B Benchmark[2] score of **27**

[1] Kantar TNS

[2] Kantar TNS benchmark includes manufacturing, service providers and utilities sectors

# Early views
## Since joining the business (cont…)

### 3. Committed and knowledgeable colleagues

**512** years' experience across 64 colleagues in Manchester Piccadilly

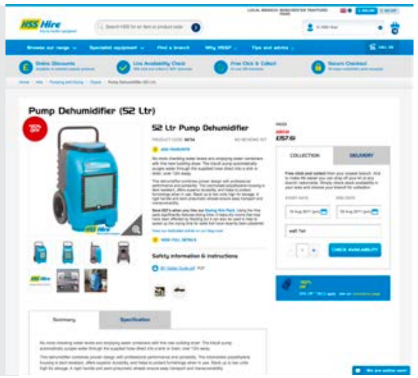
UK CUSTOMER EXPERIENCE AWARDS '16 WINNER

### 4. Forward thinking and innovative business

Centralised engineering and distribution capability

Purpose built hire fleet refurb centre

Fully mobile enabled transactional customer facing website



# Building momentum:
# 4 clear sets of actions



**1 Revenue momentum building**

- Focus on driving rental revenue growth, initiatives starting to deliver
- New sales initiatives in larger markets gaining traction
- Re-focus on Specialist businesses to drive profitable market share growth

**2 Delivering cost savings**

- Management expects to achieve top end of annualised target range of £11-13m, against Q1 run rate
- Majority of cost actions implemented by end of Q2. Benefit will flow through H2
- Management remain focused on further cost opportunities

**3 Improving customer experience**

- Roll out of centralised engineering and distribution capability now complete
- Enhanced customer proposition, through better availability and fulfilment
- Evidence of utilisation levels driving operational and capital efficiencies

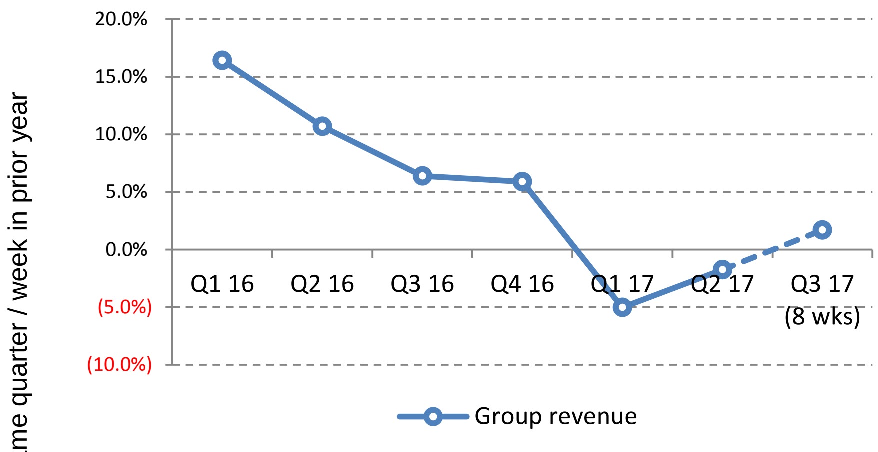
**4 Enhancing working capital management**

- Improved cash collection through implemented process changes
- Strong working capital management through harmonising the terms between customers and suppliers

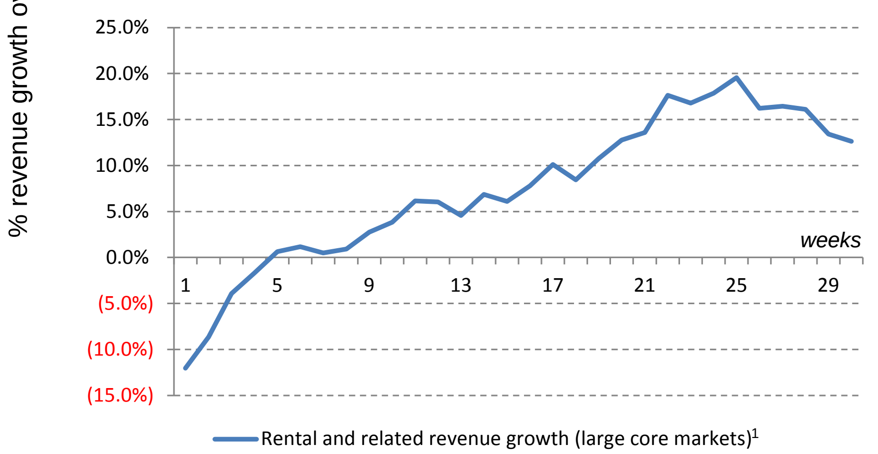
***Targeting growth in Adjusted EBITA through decisive action***

# Building momentum:
# Revenue trend improving

## Group revenue growth



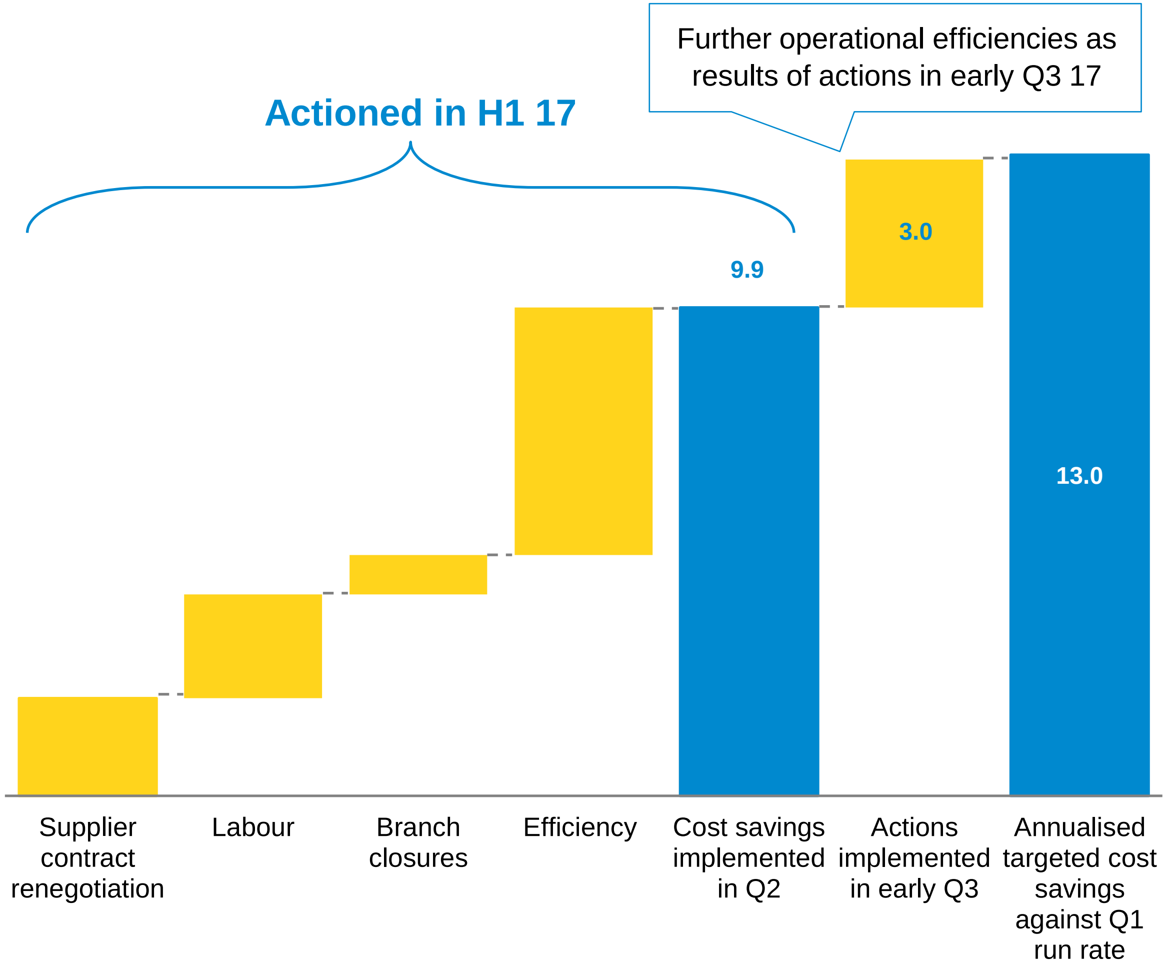

## Rental revenue growth in large core markets




- Revenue growth from July
- Focus on large core markets (London and NW) continues to drive rental revenue growth, especially with SMEs
- Re-focus on Specialist businesses to drive market share growth in attractive segments
- Rental revenue momentum building but materially behind target
- Management targeting driving profitable rental revenue in H2

[1] *4-week rolling revenue growth*

# Building momentum:
# Delivering cost savings

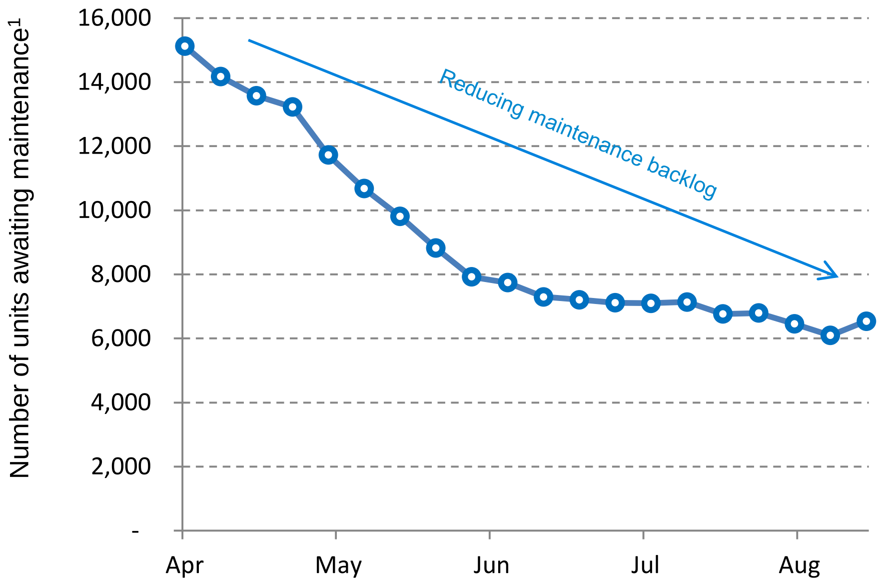



### Costs actions implemented towards end of Q2:

- Efficiency through NDEC: improved productivity and distribution routing
- Closed 13 branches in Q2 17, 68 since Q3 16
- Reduced central headcount by 92
- Renegotiated terms with rehire suppliers
- Benefits will flow through H2

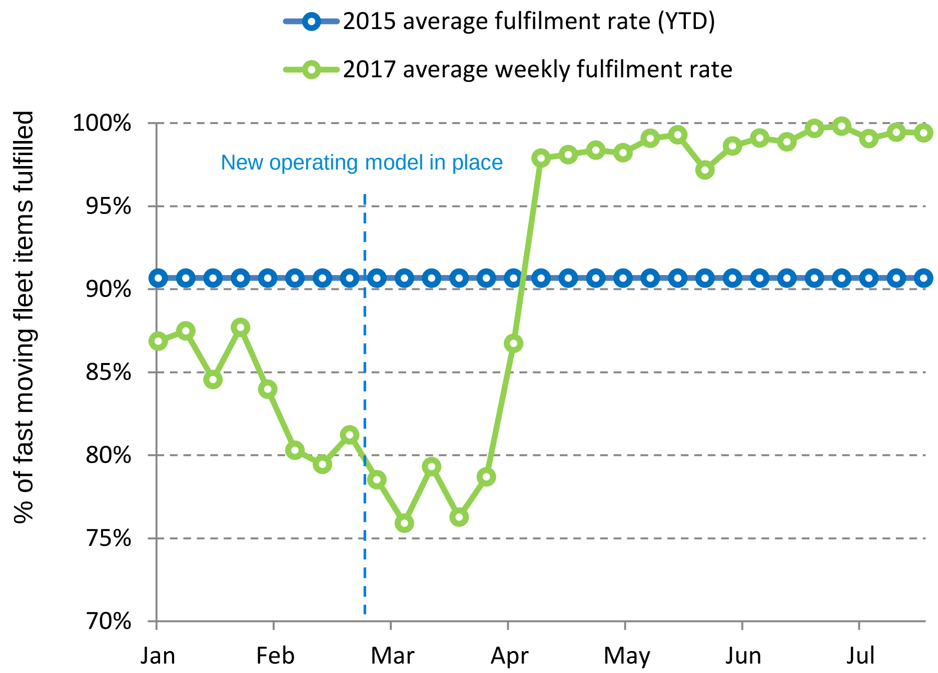
# Building momentum:
# Improving customer experience

## Improved availability and capital efficiency




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

## Fulfillment levels consistently above 2015 levels




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

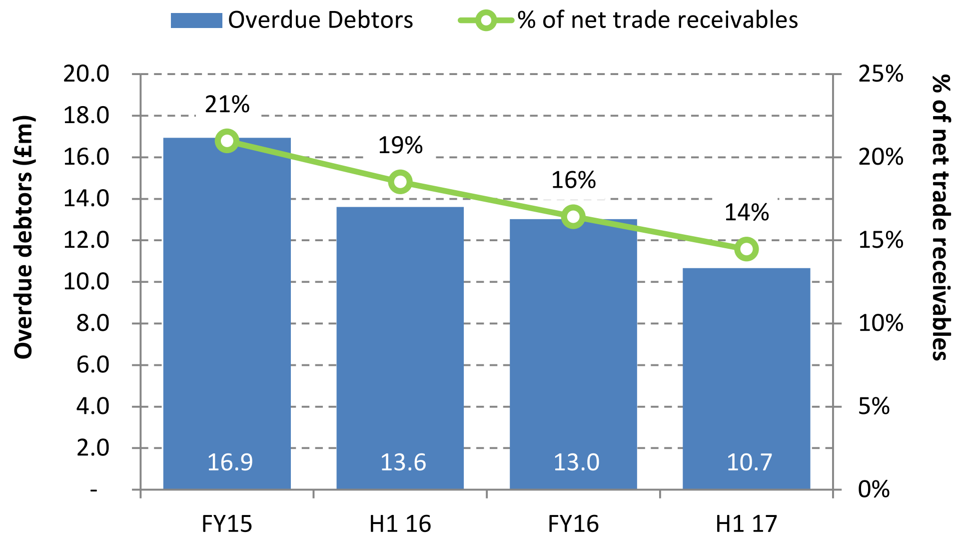
[1] Tracked across top 500 SKUs in business

***Improved NPS score of 47***

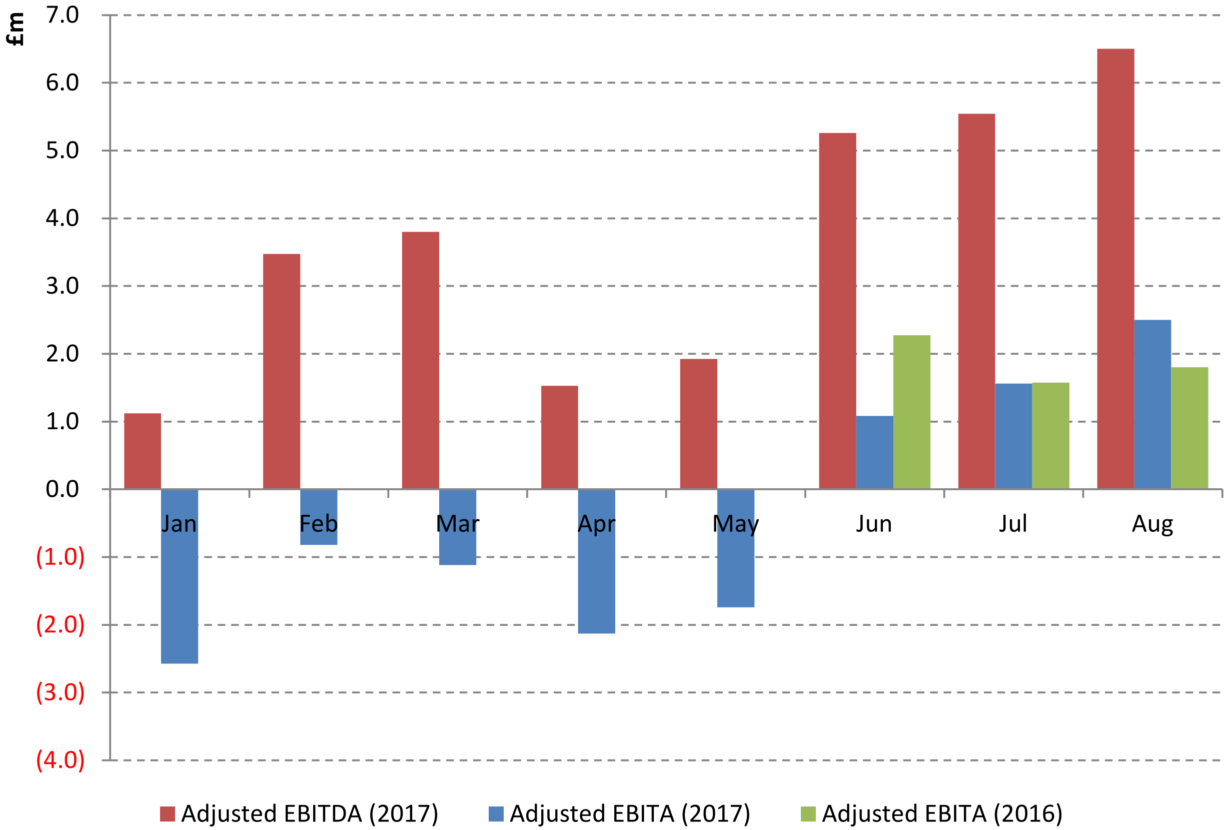
# Building momentum:
# Enhanced cash management



- Implemented process changes to improve receivables (e.g. invoicing systems)
  - Debtor days reduced from 94 days (FY15) to 80 days (H1 17)
  - Reduced overdue debtors by 37% since FY15
  - Targeting overdue debts of less than 10%
- Harmonising payment terms between customers and suppliers
- H1 17 working capital outflow of £1.1m against prior year outflow of £10.6m



# Building momentum:
# Driving business into profitability

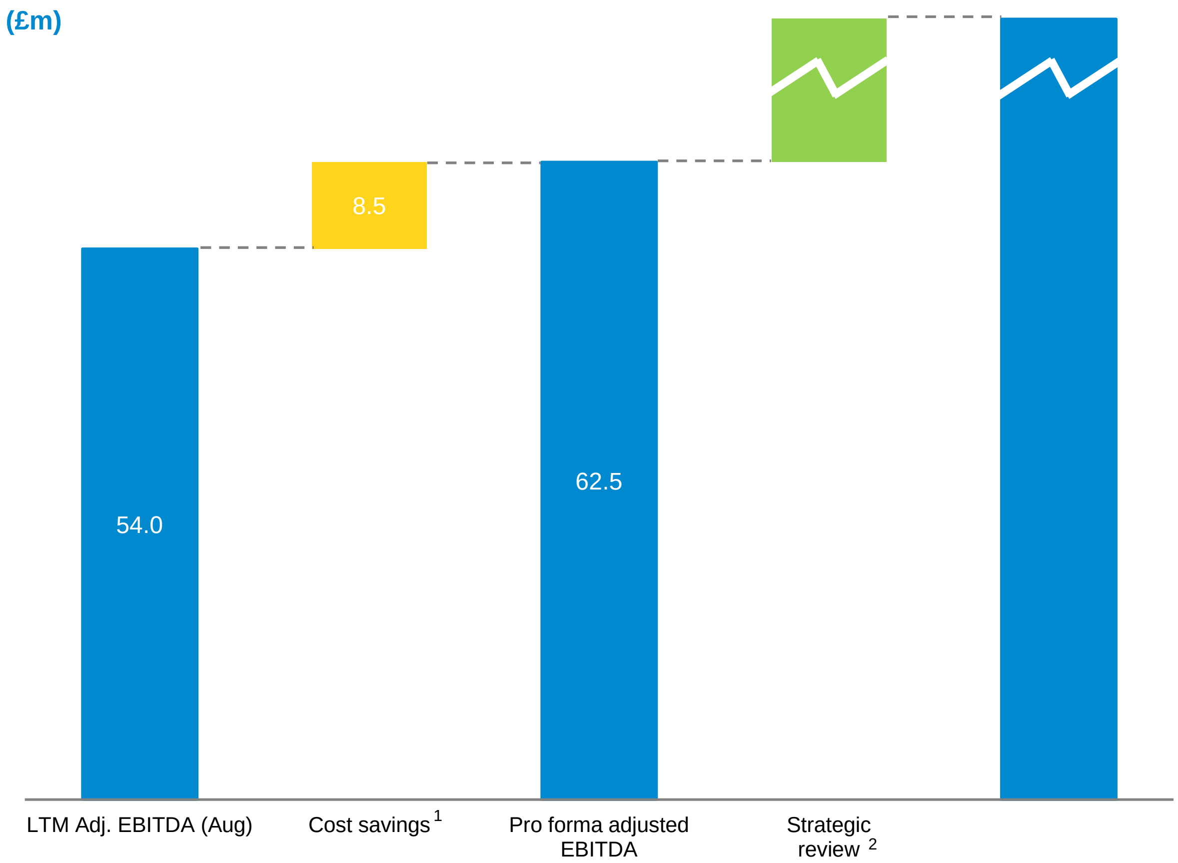



- H1 impacted by transition to new operating model
- Significant improvement in Adjusted EBITDA and EBITA since June
- Improvement reflects positive impact of sales initiatives and cost actions
- Continued focus on actions drive profitability through rest of year

[1] Per management accounts
[2] Latest management view

# Strategic review to drive sustainable profit growth

1. **Revenue momentum building**
2. **Delivering cost savings**
3. **Improving customer experience**
4. **Enhancing working capital management**




[1] Annualised impact of already announced and executed cost reduction plans (LTM basis)
[2] From FY17 strategic review

# Strategic review
## Thorough review already underway

- Leadership team currently conducting strategic review to accelerate profitable market share gains and to de-lever the business

- Key areas of focus:
  - Business performance diagnostic: customer, product, branch and market profitability;
  - Defining future target segments offering high growth and profit potential;
  - Developing the most efficient route to market for our target areas; and
  - Delivering the most cost effective business model to drive profitable growth

- Update will be presented to the market in November 2017

# Summary and outlook

- Continued focus to drive Rental revenue and EBITDA growth through sales and cost initiatives
- Net debt reduction remains management focus; No interim dividend declared
- Management expect H2 Adjusted EBITA profit to be in the range of £8m to £11m
- Leadership team will present update on strategic review in November 2017

# Q&A

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# Appendices

# Appendix A
# Group structure

- This appendix provides the reader with an overview of the group structure between:
  - HSS Hire Group plc, the new holding company admitted to the London Stock Exchange (LSE) on 9 February 2015, whose **H1 FY17** numbers we also report today;
  - Hampshire Topco Limited, the previous top company in the group; and
  - Hero Acquisitions Limited, the consolidated level at which we report today to meet the reporting obligations attached to our Senior Secured Notes

**HSS Hire Group plc**
(listed on the LSE)

↓ 100%

Hampshire Topco Limited

↓ 100%

Hampshire Midco Limited

↓ 100%

Hampshire Bidco Limited

↓ 100%

**Hero Acquisitions Limited**

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

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

# Appendix C
## Result after tax

*26 weeks ended 1 July / 27 weeks ended 2 July*

| £m | 2017 | 2016 |
|---|---|---|
| **Adj. EBITA** | **(7.1)** | **9.8** |
| Amortisation | (2.1) | (1.7) |
| Adjusted finance expense | (18.6) | (18.0) |
| Exceptionals | (12.6) | (7.0) |
| **Reported LBT** | **(40.4)** | **(16.9)** |
| Tax | (0.5) | (0.7) |
| **Reported LAT** | **(40.9)** | **(17.6)** |

# Appendix D
# Balance sheet

***As at 1 July / As at 2 July***

| £m | 2017 | 2016 |
|---|---|---|
| Intangible assets | 155.0 | 154.9 |
| Tangible assets | 161.9 | 187.7 |
| Deferred tax asset | 0.5 | 1.3 |
| Net current assets / (liabilities)[1] | 31.7 | 38.8 |
| Other net liabilities | (7.0) | (2.8) |
| Net debt (ex. accrued interest)[2] | (476.9) | (458.2) |
| Accrued interest | (3.8) | (3.9) |
| **Net liabilities** | **(138.6)** | **(82.3)** |

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

# Appendix E
## Net third party debt calculations

***As at 1 July / As at 2 July***

| £m | 2017 | 2016 |
|---|---|---|
| Cash | (7.0) | (1.4) |
| Bank overdraft | - | 1.1 |
| RCF | 68.5 | 67.0 |
| Finance lease obligations | 29.3 | 33.0 |
| Senior Secured Notes[1] | 136.0 | 136.0 |
| **Net debt (ex accrued interest)** | **226.9** | **235.7** |
| Accrued interest | 3.8 | 3.9 |
| **Net debt** | **230.7** | **239.6** |



[1] *Shown gross of issue costs*

# Appendix F
## Net debt calculations

*As at 1 July / As at 2 July*

| £m | 2017 | 2016 |
|---|---|---|
| Cash | (7.0) | (1.4) |
| Bank overdraft | - | 1.1 |
| RCF | 68.5 | 67.0 |
| Finance lease obligations | 29.3 | 33.0 |
| Net amounts due to group undertakings | 250.1 | 222.4 |
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| Accrued interest | 3.8 | 3.9 |
| **Net debt** | **480.8** | **462.0** |

[1] *Shown gross of issue costs*