

# HSS Hire Group plc

## Strategic Review

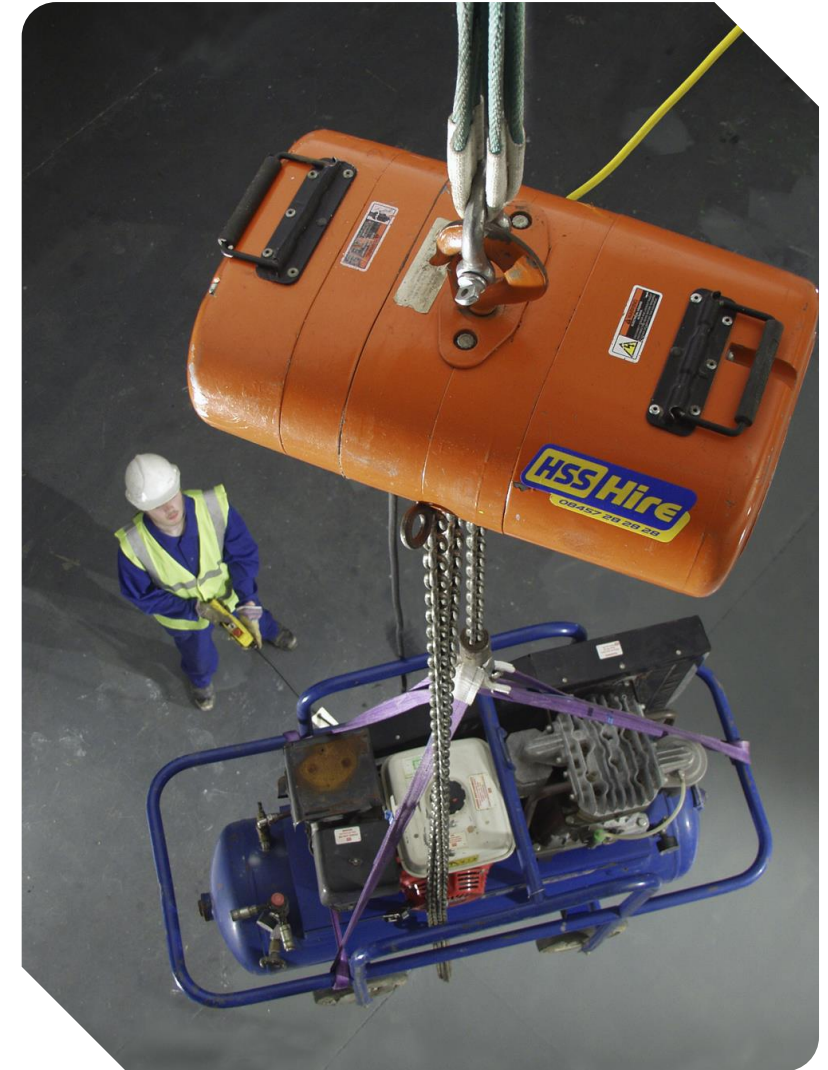
DECEMBER 7<sup>th</sup> 2017



# Agenda

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- Introduction
- Market environment
- Strategic Review
- Looking ahead
- Q&A



# Introduction

# Introduction

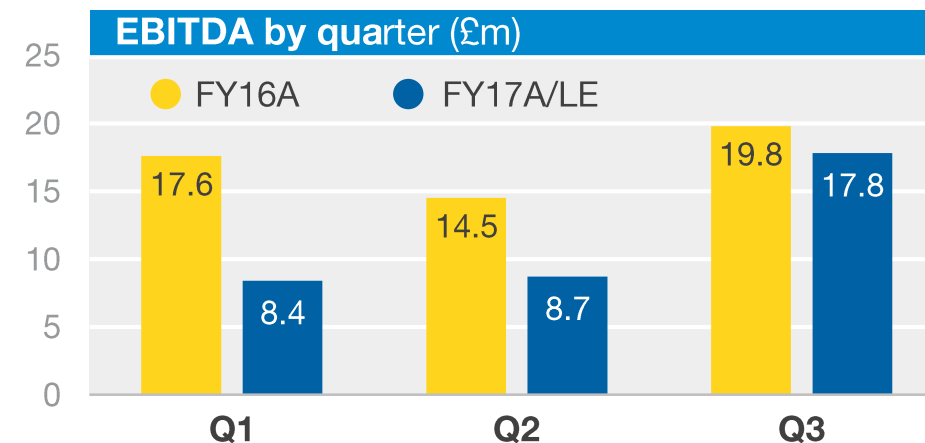
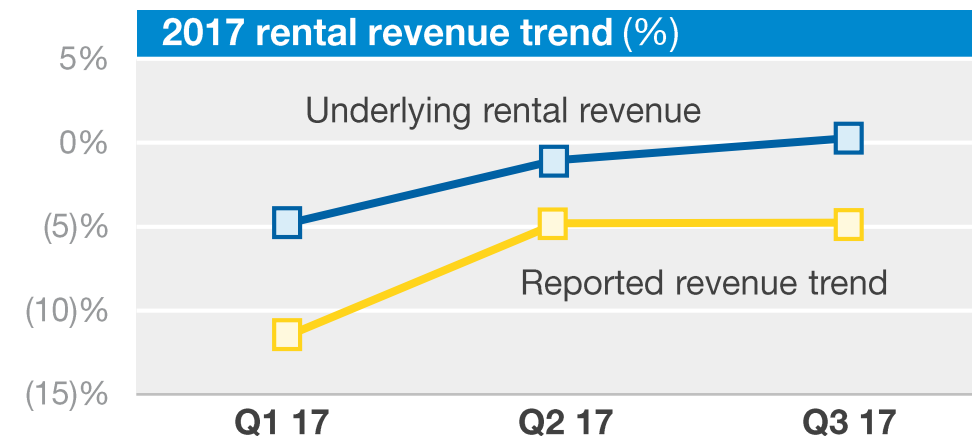


## Business stabilised and on solid platform to move forward

- Improved rental revenue trend in Q3 with EBITDA growth returning from July
- Delivered annualised cost savings of c.£13m compared to Q1 run rate
- Improved capital efficiency reducing capex by £4m - £6m by FY17

## Strategic review complete

- Most in depth review ever undertaken at HSS
- Developed a clear plan, which will:
  - Restore business to historic levels of performance
  - Delever the Group
  - Make us more resilient
- We see significant potential in the business



	Q1 2017	Q2 2017	Q3 2017
<b>EBITA</b>	(4.5)	(2.8)	6.6

# Rationale for 2015-2016 strategy



## Strategic rationale

①

### NETWORK OPTIMISATION

Branch  
expansion

Centralised  
Distribution and  
Engineering

- Capture share from independents
- Increase national coverage
- Expand proven low cost model

- Deliver improved and consistent customer service
- Drive capital and operational efficiency
- Scalable model

②

### GROW KEY ACCOUNTS

- Develop strong and enduring relationships
- Increase volume through 'one-stop shop'

③

### BOLT ON ACQUISITIONS

- Strengthen competitive position with broader product proposition
- Complement organic growth strategy
- Build share of customer wallet



# Impact of 2015-2016 strategy



	What worked	What didn't	Learnings
NETWORK OPTIMISATION	<ul style="list-style-type: none"><li>Consolidating transport improved productivity</li><li>Overnight distribution increased fleet utilisation</li><li>Consolidation of engineering improved quality, productivity and centralised engineering</li></ul>	<ul style="list-style-type: none"><li>Taking testing away from the frontline reduced responsiveness</li><li>Extensive branch rollout added cost without sufficient incremental revenue</li></ul>	<ul style="list-style-type: none"><li>The cost base is too high</li><li>Balance resource allocation across all branches</li><li>Smaller branches require experienced managers with relevant product knowledge</li></ul>
GROW KEY ACCOUNTS	<ul style="list-style-type: none"><li>Investment in salesforce</li><li>Greater focus on systems / compliance / procedures credentials</li></ul>	<ul style="list-style-type: none"><li>Reduced focus on commercial discipline and profitability<ul style="list-style-type: none"><li>More unprofitable contracts</li><li>Increase in central overheads</li></ul></li><li>Reduced focus on local and regional customers</li></ul>	<ul style="list-style-type: none"><li>The focus needs to be on profitability, not sales</li><li>Account teams require a balance of relevant industry specialisms</li></ul>
BOLT ON ACQUISITIONS	<ul style="list-style-type: none"><li>Effective cross-selling</li><li>Significant growth in UKP, ABird, Apex and ASH</li><li>All specialist businesses profitable and successful in their own right</li></ul>	<ul style="list-style-type: none"><li>Operational synergy opportunities were limited</li><li>Attempts to use a generalist sales force reduced focus on both tool hire and specialist businesses</li></ul>	<ul style="list-style-type: none"><li>Tool Hire business needs to be a focus</li><li>Go to market as specialised businesses</li></ul>

# Group financial performance deteriorated



	2012-14	2015-17
Revenue growth	CAGR >10%	CAGR 3%
Rental revenue growth	CAGR >10%	CAGR -2%
EBITDA margin	20-25%	15-20%
EBITA margin	9-13%	0-6%
Return on assets	>20%	<15%

- Focus on building key accounts reduced margins
- Focus on new distribution network led to lower rental revenue growth
- Loss of focus post acquisitions damaged Tool Hire business

**Huge potential remains in the Tool Hire business**

# Market environment



# Attractive markets



	Tool hire	Powered access	Power generation
Size of addressable market	£1.1bn	£430m	£350m
Market share <sup>1</sup>	14%	12%	9%
Position in market	Joint 2	3	3
Expected growth rate <sup>2</sup>	1-2%	2%	1%
Competitive advantage	<ul style="list-style-type: none"> <li>• Store footprint</li> <li>• Brand trust</li> <li>• Product offering and quality</li> <li>• Knowledgeable staff</li> </ul>	<ul style="list-style-type: none"> <li>• Customer base</li> <li>• Scale</li> <li>• Specialist expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Customer base</li> <li>• Scale</li> <li>• Specialist expertise</li> </ul>

- Diverse end markets
- Leadership positions
- High barriers to entry
- Large and diverse customer base

<sup>1</sup> Estimates based on AMA market research

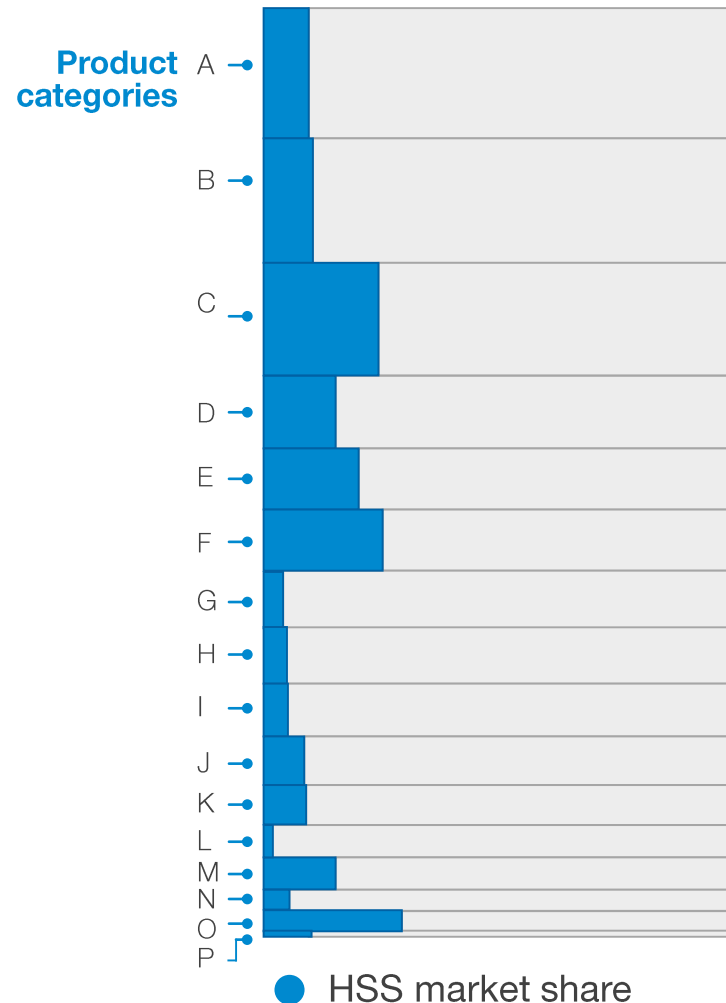
<sup>2</sup> 2017-2020

# Example opportunities in Tool Hire market



- Fragmented market represents opportunities
- Exciting potential in some product areas
- Diverse product portfolio

£1.1bn market



## Example opportunities

**Low Level Powered Access:** Growing market, driven by safety legislation. Potential for margin improvement

**Lighting:** Growing faster than overall market, driven by safety requirements for better lit spaces and declining operating costs from more efficient technology

**Access:** Health & safety regulations are putting more emphasis on quality of equipment

**Heating, Cooling, Drying:** A segment where we have good penetration, strong differentiation and good margins

14% total market share

# Strategic Review

# Wide ranging strategic review



Engaged independent third party to work with HSS management on the most extensive review of the business to date

## Analysis involved

**20m**  
contract lines

**37,000**  
customers

**1,600**  
products

**250**  
locations

## Profitability

- Comprehensive business unit profitability diagnostic
- Profitability model contains 20 million contract lines, over 50 fields and over one billion calculations during each iteration

## Cost of operations

- Every move a product makes
- Transaction line level detail
- Detailed central cost analysis

## Assessed processes

- Product life cycle
- Pricing
- Business development

## Market opportunity

- Market attractiveness study
- Relative competitive position

# Initial perceptions reaffirmed



## A strong brand

- 60 years of serving UK and Irish customers
- NPS score (47) above market average

## Leading positions in chosen markets

- No.2 in UK tool and equipment rental market by revenue
- National coverage
- Operates primarily in the highly attractive 'repair, maintain and operate' segment of the market

## Committed and knowledgeable colleagues

- 2,900 employees
- UK customer experience award winner 2016













## Innovative, forward thinking business model

- Multichannel digital technology
- National distribution network provides capital efficiency

# Strategy focused on fixing Tool Hire business

- Specialist businesses are delivering for the Group
  - Highly profitable
  - Cash generative
  - Valuable
- A key element of our strategy will be to focus on the Tool Hire business

## Significant problems identified in Tool Hire business

		Revenue	Profit	
Rental business	Tool Hire			Specialist businesses performing
	UKP			
	ABIRD/APEX			
	ASH			
Services business	OneCall			Services businesses performing
	Training			



# Strategic priorities

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1

**Delever**  
the Group

2

**Repair**  
the Tool Hire  
business

3

**Strengthen**  
commercial  
proposition

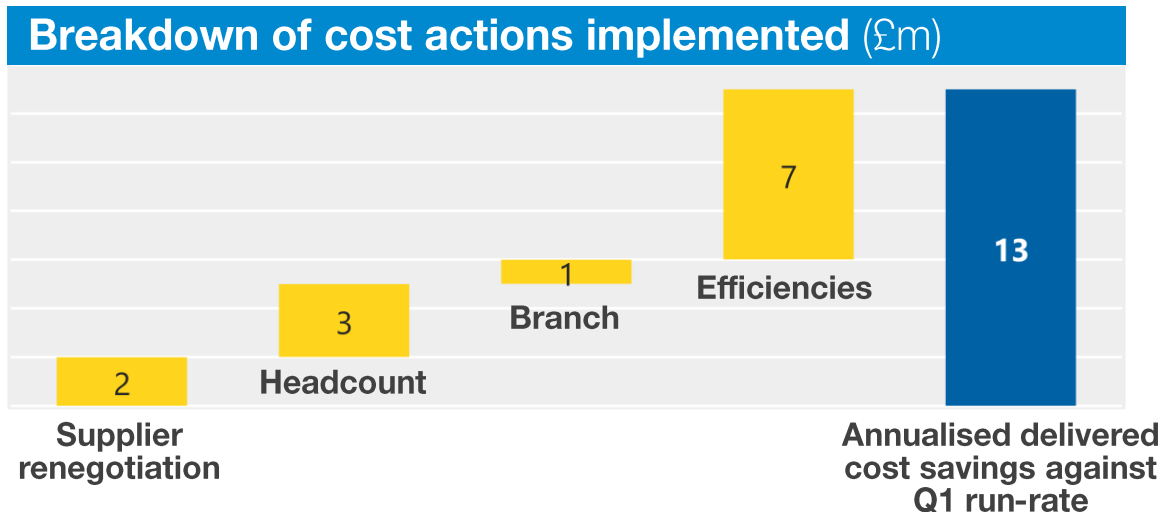
# Delivered savings will see leverage reduce from Q1 18 and beyond

## 2017 Cost actions

### £13m

#### Phase 1 delivered

- Worked with suppliers to reduce costs
- Reduced central headcount
- Closed 13 branches
- Network efficiencies



### Costs reducing in line with plan

	Q1 2017	Q2 2017	Q3 2017	Q3 v Q1
<b>Rental segment;</b>				
Distribution, stock maintenance and other non-variable costs	(20)	(19)	(19)	+1
<b>Services segment;</b>				
Non-variable costs	(1)	(1)	(1)	-
Branch, selling and central overheads	(31)	(31)	(29)	+2
<b>Total overheads</b>	<b>(52)</b>	<b>(51)</b>	<b>(49)</b>	<b>+3</b>

# Further annualised savings planned of £10m-£14m

## Internal distribution

**£4m - £5m**

- Reduction in distribution movements
- Deploy stock more effectively and closer to customers in regions
- Improve stock utilisation through cross-dock
- Execute more product testing at source

## Test

**£1m - £2m**

- Utilise excess capacity in network
- Improve asset utilisation by reducing turnaround time
- Reduce handling costs
- Improve utilisation of space
- Deploy central engineering best practice

## Operational overheads

**£2m - £3m**

- Improved productivity
- Leverage existing management resources
- Improved utilisation of space
- Reduced handling costs

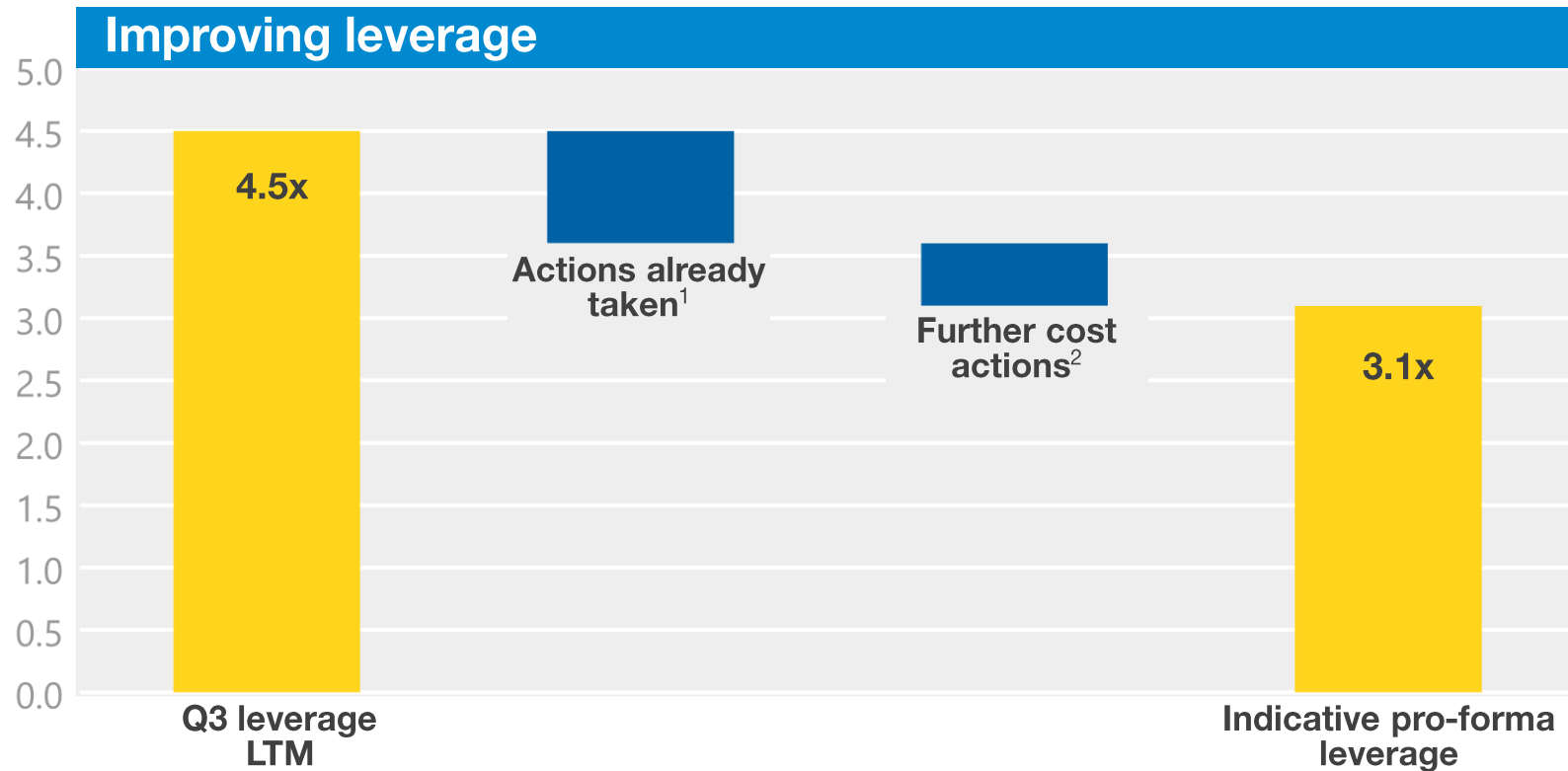
## Efficiencies

**£3m - £4m**

- Focus on profit-generating activities
- Eliminating duplication / consolidation of activity
- Simplify processes
- Enhance automation

**Implement in early 2018, benefits fully realised in 2019**

# Savings deliver substantial reduction in net leverage



<sup>1</sup> Sales and cost initiatives already implemented in FY17

<sup>2</sup> Based on further annualised saving of £10m, net of the funding of implementation costs

# Repair the Tool Hire business

## Customer

### Diagnosis

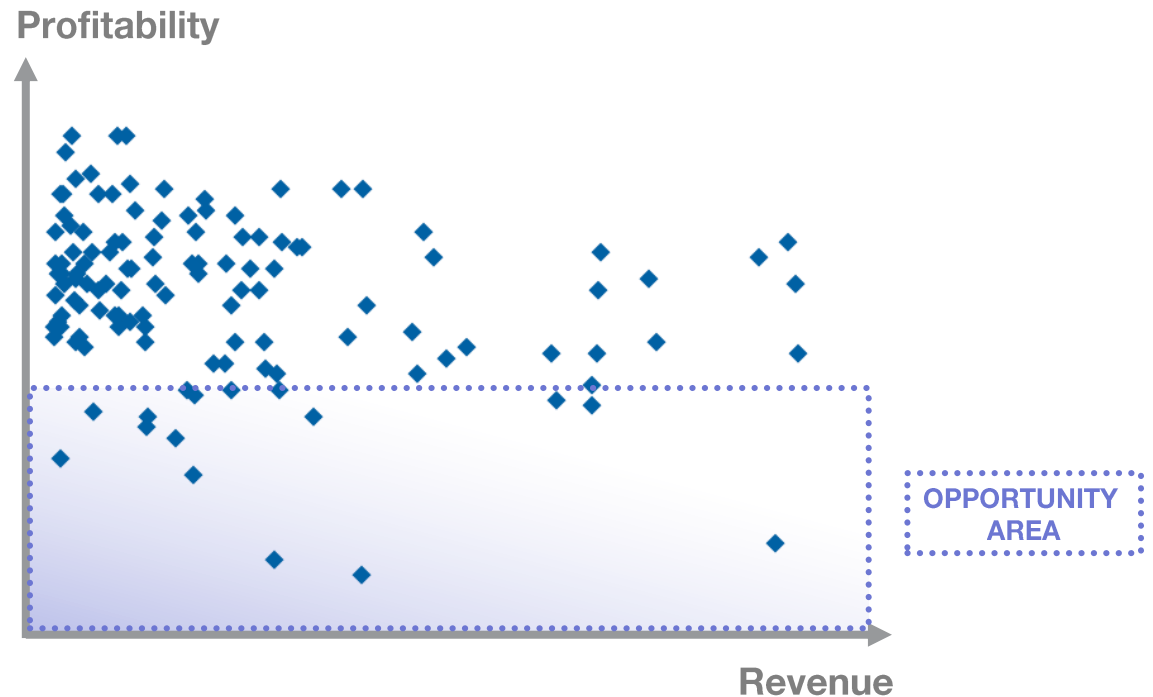
- Several unprofitable customers
- Misalignment between price and cost-to-serve
- High demand products overly discounted for larger customers resulting in poor returns

### Actions

- Introduce targeted customer renegotiation
- Selectively increase pricing on unprofitable products (or exit)
- Increase transport recovery
- Reallocate products to more profitable customer groups
- Optimise pricing

### Example

#### Indicative customers by revenue and contribution



# Repair the Tool Hire business

## Product

### Diagnosis

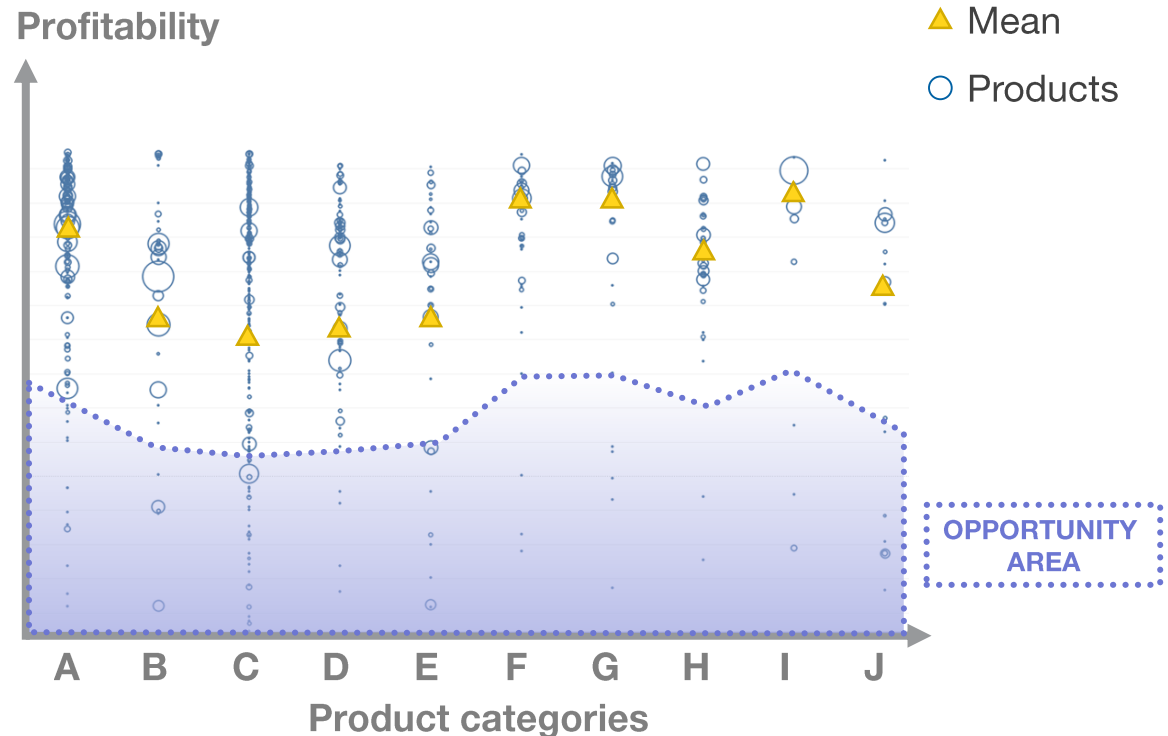
- Highly valuable products; commodity-priced with certain large customers
- Inconsistent prices within product categories
- Stock profile not matching profit opportunity

### Actions

- Introduce smart pricing to reflect utilisation and service
- Improve discount effectiveness
- Rationalise ranges and optimise fleet size

### Example

#### Indicative product categories range of profitability





# Repair the Tool Hire business



## Branch

### Diagnosis

- Significant growth opportunity in several local markets
- Location of branch (proximity to CDC) is a significant driver of performance
- Staff quality is a significant driver of profitability

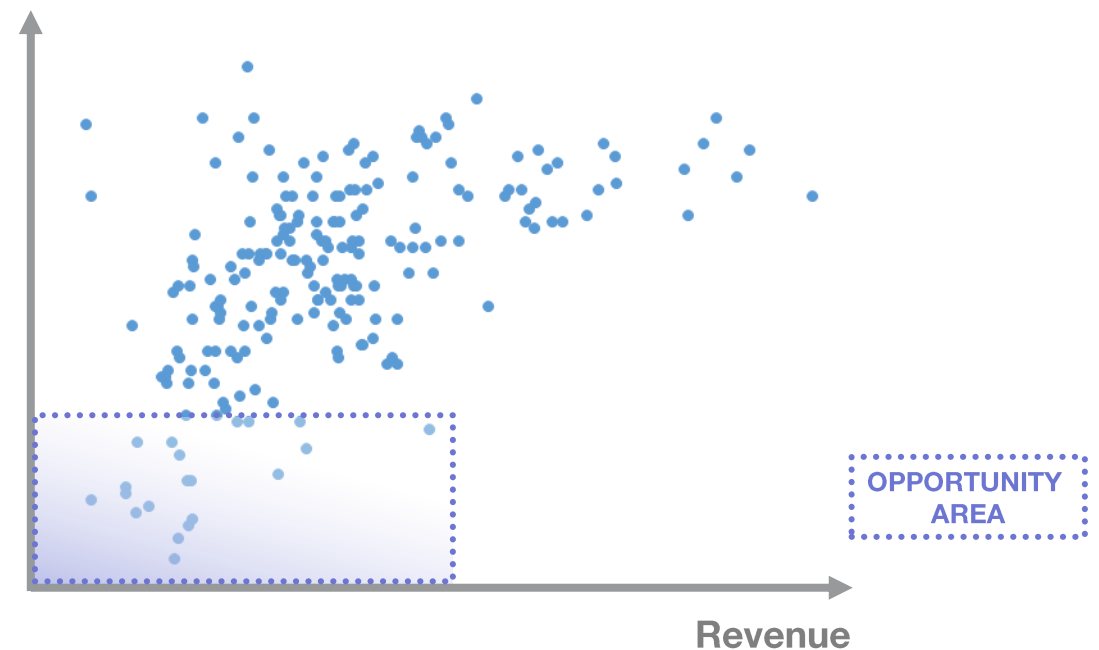
### Actions

- Develop staffing model and people capability
- Incentivise on contribution not sales
- Refine branch network and operating model

### Example

Indicative branches by revenue growth and profitability

Profitability



# Strengthen commercial proposition



## Enablers

To strengthen our commercial proposition we will have:

- A strong commercial management framework
- The right tools to support decision making
- Incentivised and motivated team

## Actions

### • Customer Segmentation

More targeted sales plans based on customer segmentation that provides focus on the most profitable opportunities.

### • Geographic Focus

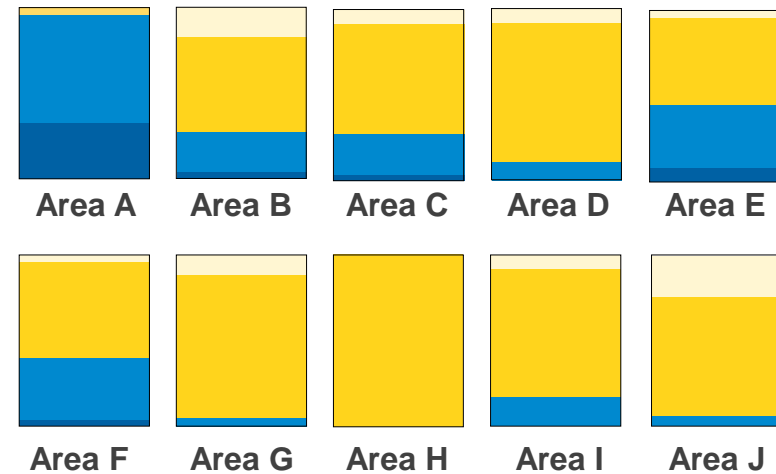
Prioritisation of local market opportunities based on strong evidence for profit growth

### • Sales Channel Development

Maximise our digital competitive advantage to increase the mix of innovative low-cost channels

## Example

### HSS penetration in indicative UK markets



- High penetration
- Mid-high penetration
- Mid-low penetration
- Low penetration

Looking  
ahead



# The route back to historic performance is clear



	2012-14 CAGR	2015-17	2020
Revenue growth	>10%	CAGR 3%	Grow in line with market
Rental revenue growth	>10%	CAGR -2%	Ahead of market
EBITDA margin	20-25%	15-20%	>20%
EBITA margin	9-13%	0-6%	>9%
Leverage*	3.4-4.9x	3.1-4.6x	<3x
Return on assets	>20%	<15%	>20%

\* Leverage based on net debt

# HSS Hire 2018 and beyond

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## Focus will be on:

- Leaner operation
- Manageable debt levels
- Operational efficiency
- Being excellent in our core product categories
- Growing share ahead of the market
- Improving profitability and returns
- Growing profit share of market



# Conclusions

## Business review

Given us a thorough understanding of the business

A clear route map of how to return HSS to historic performance levels

## Strategy reset

1

**Delever**  
the Group

2

**Repair**  
the Tool Hire business

3

**Strengthen**  
commercial proposition

## Immediate action

- Cost reduction programme
- Optimise branch performance
- Rationalise product base
- Improve customer profitability

## 2018 & beyond

Capture growth opportunity

- Customer segmentation
- Geographic focus
- Sales channel development