HSS Hire Group plc

H1 18 Results

AUGUST 30th 2018

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Agenda

Half Year Highlights

H1 18 Results

Strategy Progress Update

Summary

Q&A

Half Year Highlights

Significant progress made against strategic priorities

Financial highlights

- Adjusted EBITDA growth of 74.7% year on year
  - Rental revenue growth and cost initiatives improved margins by 7.0pp to 17.6%
  - LTM Adjusted EBITDA of £61.7m
- Revenue growth of 5.8%
  - Underlying revenue growth 8.7%
  - Underlying core rental revenue growth 3.7%
  - LTM[1] utilisation increased in Tool Hire to 52.3% and remained high in our Specialist businesses at 73.6%
  - Continued strength in Services with revenue +13.9% and contribution +30.8%
- Significant reduction in net leverage to 3.7x [2] as at 30th June 2018 (H1 2017: 4.3x)

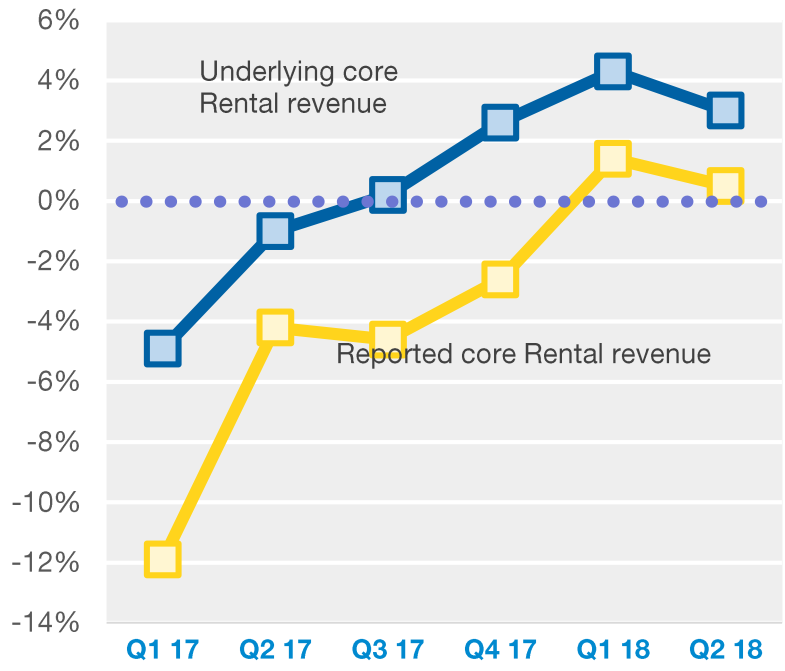
Strategic progress

- Making good progress on our Strategic priorities
  - Network reconfiguration delivered smoothly providing c.£11m expected cost savings in line with earlier guidance
  - Refinance successfully completed
  - Secured shareholder approval for proposed sale of UK Platforms Limited

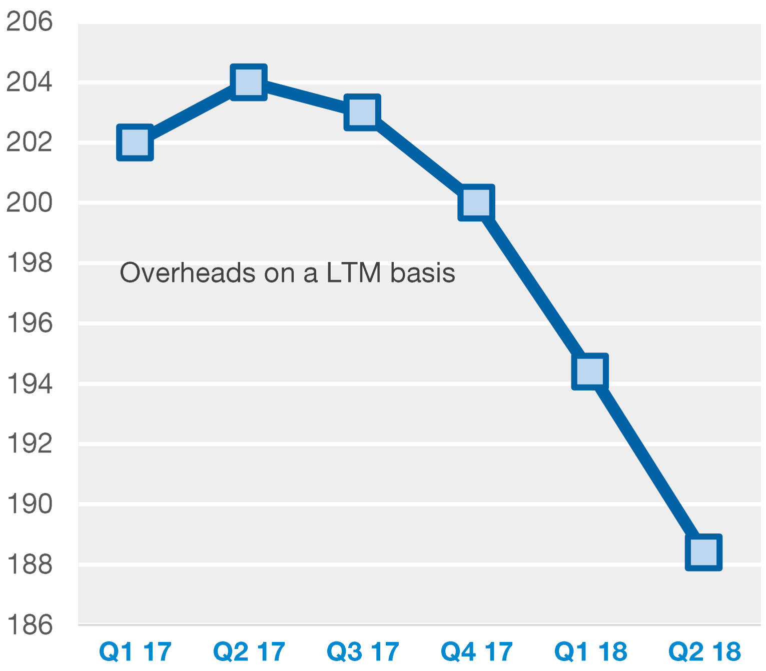
(1)Utilisation calculated over the last twelve months to the end of H1 2017
(2)Net debt divided by LTM Adjusted EBITDA, 30th June 2018

EBITDA 74.7% ahead of H1 17

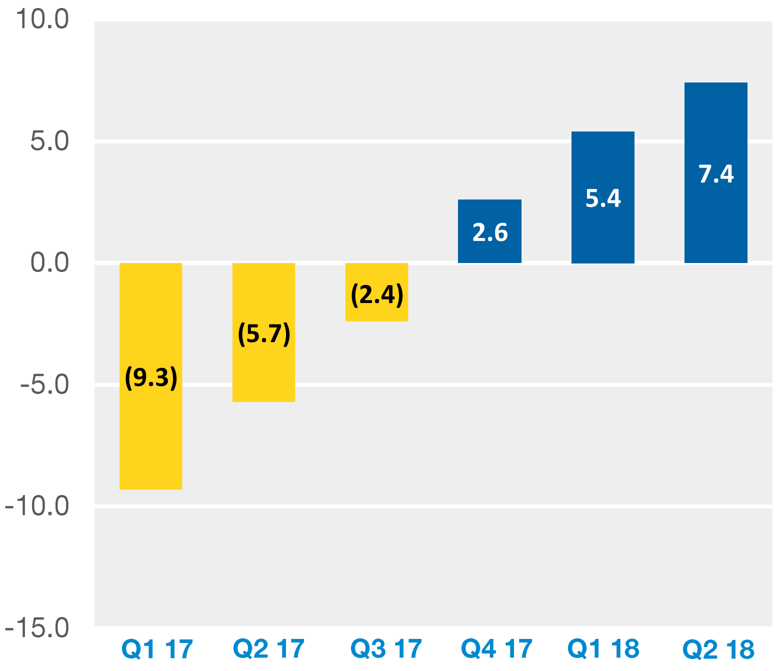
Underlying Rental revenue growth trend improving[1,2]



Overheads reducing (£m)



Year on Year EBITDA variance (£m)



1 2017; Underlying revenue is total rental revenue, excluding branch closures, seasonality, asset disposals and business divesture

2 2018 ; Underlying revenue is total rental revenue excluding business divesture

H1 18 Results

Financial summary

26 weeks ended 30 June / 1 July

£m	H1 18	H1 17	Variance
Revenue	**169.8**	**160.5**	**5.8%**
Adjusted EBITDA[1]	**29.9**	**17.1**	**74.7%**
Adjusted EBITDA margin	*17.6%*	*10.6%*	
Adjusted EBITA[2]	**6.8**	**(7.3)**	
Adjusted EBITA margin	*4.0%*	*(4.5%)*	
Exceptional items	3.3	12.6	
Adjusted loss per share (p)[3]	**(0.32)**	**(6.74)**	
Interim dividend (p)	-	-	

- Continued revenue growth driven by greater focus on our tool hire business and strength in our seasonal product range. Underlying revenue growth +8.7%
- Adjusted EBITDA grew significantly as a result of revenue growth and lower operational costs in H1. EBITDA margin improved to 17.6%
- Exceptional items significantly lower than H1 17 reflecting completion of strategic review and implementation of cost reduction initiatives

1 Earnings stated before interest, tax, depreciation and amortisation ("EBITDA") and before exceptional items relating to restructuring and acquisitions
2 Adjusted EBITDA less depreciation
3 Calculated as PBT before amortisation and exceptional items less tax at the average prevailing rate across period, divided by the diluted weighted average number of shares

Segmental analysis

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26 weeks ended 30 June / 1 July

£m	H1 18	H1 17	Variance
Rental (and related revenue)			
Revenue	122.7	119.3	2.9%
Contribution	80.5	73.9	8.8%
Contribution margin	65.6%	*62.0%*	
Services			
Revenue	47.0	41.3	13.9%
Contribution	6.7	5.2	30.8%
Contribution margin	14.3%	*12.5%*	
Branch and selling costs	(43.2)	(41.3)	
Central costs	(14.1)	(20.7)	
Adjusted EBITDA	**29.9**	**17.1**	**74.7%**

Rental

- Underlying rental revenue growth of 3.7% in H1 18
- Driven by improved availability and sales initiatives, with utilisation increasing in Tool Hire to 52.3% (H1 17: 49.5%)
- Contribution margin increased 3.6pp year on year driven by increased revenues and operating model cost efficiencies

Services

- Continued improvement in contribution through revenue growth, greater price discipline and effective supply chain management

Costs

- Strategic priorities on track to deliver cost savings

Movement in net debt

26 weeks ended 30 June / 1 July

£m	H1 18	H1 17
Adjusted EBITDA	**29.9**	**17.1**
Cash Exceptionals	(6.1)	(2.0)
Working capital	3.9	(1.1)
Capex	(13.1)	(18.2)
Tax	(0.2)	(0.2)
Net interest payable	(6.9)	(6.9)
Net decrease / (increase) in net debt	**7.5**	**(11.3)**
Closing net debt	225.2	230.5

- Higher EBITDA in 2018 compared to prior year
- Capital efficiency and lower investment in non-fleet capex
- Total facility and cash headroom of £35.4m as at 30 June 2018
- Entered into a new term loan facility of £220m and revolving credit facility (RCF) of £25m in July 2018, increasing cash and RCF headroom by £18m

Strategy Progress Update

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Progress made against strategic priorities

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1
Delever
the Group

2
Repair
the Tool Hire business

3
Strengthen
commercial proposition

Strategic priorities

1 **Delever** the Group

2 **Repair** the Tool Hire business

3 **Strengthen** commercial proposition

Significant focus to turnaround Tool Hire business

- Specialist businesses have delivered for the Group
  - Highly profitable
  - Cash generative
  - Valuable
- A key element of our strategy is focused on the Tool Hire business

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

Cost saving initiatives will result in savings at higher end of range

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Internal distribution

£4m - £5m

ACTIONS DELIVERED

- Savings delivered to plan
- Transport metrics on target and stable
- Cross-dock operating well

Test

£1m - £2m

ACTIONS DELIVERED

- Testing at source embraced well by colleagues
- Test and engineering KPIs on target and stable
- Quality standards maintained

Operational overheads

£2m - £3m

ACTIONS DELIVERED

- Reduction in space costs, fees, duplicated management costs and handling costs all executed to plan

Network reconfiguration implementation complete, on track to deliver savings of c£11m

Efficiencies

£3m - £4m

ACTIONS DELIVERED

- First set of savings delivered in H1
- Second set of savings is being unlocked by a comprehensive overhaul of finance back office processes

On track to deliver targeted savings

Network changes delivering benefits

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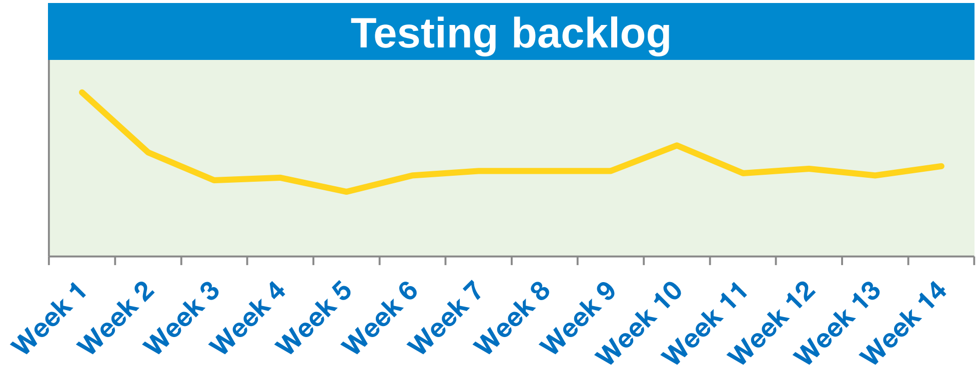
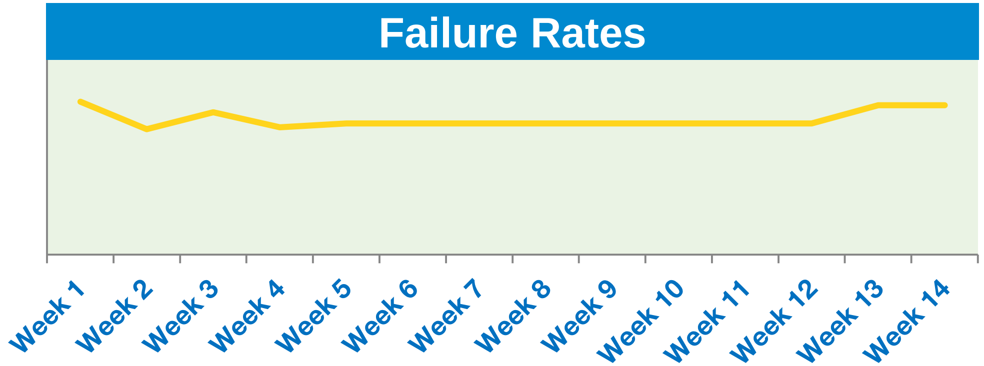
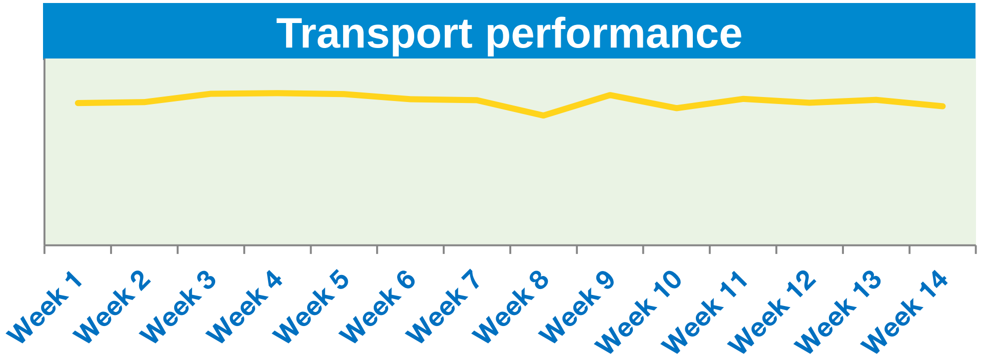
- Supply chain model transformation completed in H1:
  - 12,000 items moved out of NDEC
  - Removal of 100 FTE handling costs
  - Distribution trunking routes reduced from 42 to 8
  - Testing capacity increased from 30 to 200 HSS locations
  - 200 HSS colleagues trained
  - Engineering capacity increased by 30% in HSS network
- Service standards maintained whilst managing strong trading volumes
- On track to deliver c.£11m annualised cost savings







Refinancing complete, improving flexibility and liquidity

- Secured new £220m term loan facility providing flexibility to deliver strategy
  - £200m maturing in June 2023 and £20m, with flexibility to be settled before maturity, in December 2020
  - Interest rates of between 700bps and 800bps over LIBOR dependent upon Group net leverage
  - 8.5m equity Warrants granted as part of the transaction
  - UK Platforms cash proceeds can be utilised to prepay debt without penalty

- New £25m revolving credit facility (RCF) in place providing increased liquidity
  - Matures in December 2022
  - Interest rates of between 250bps and 300bps over LIBOR dependent upon Group net leverage

- Debt issuance costs of c£11m related to new capital structure

- Cash and RCF facility headroom increased by £18m

Proposed sale of UK Platforms

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- Strong strategic rationale for transaction
  - Delever through reduction in overall debt
  - Enables greater focus on the Tool Hire business
  - Maintains customer powered access offer without capital investment
- Enterprise value of £60.5m representing attractive valuation
  - Net cash proceeds of approximately £47.5m
  - At least 80% will be used to repay debt
  - Balance of net proceeds to invest in Tool Hire business
- Long term commercial agreement with Nationwide
  - Strategic partnership provides powered access equipment to complement HSS's existing fleet
  - Drives additional revenue for our Services business

Timetable of principal events

Event	Date
Shareholder approval	Approved 7th August
CMA decision expected	Q3/Q4 2018
Transitional Services	Q3/Q4 2018
Expected completion of transaction	Q4 2018
Long stop date	Q4 2018

Significant reduction in net debt leverage during 2018

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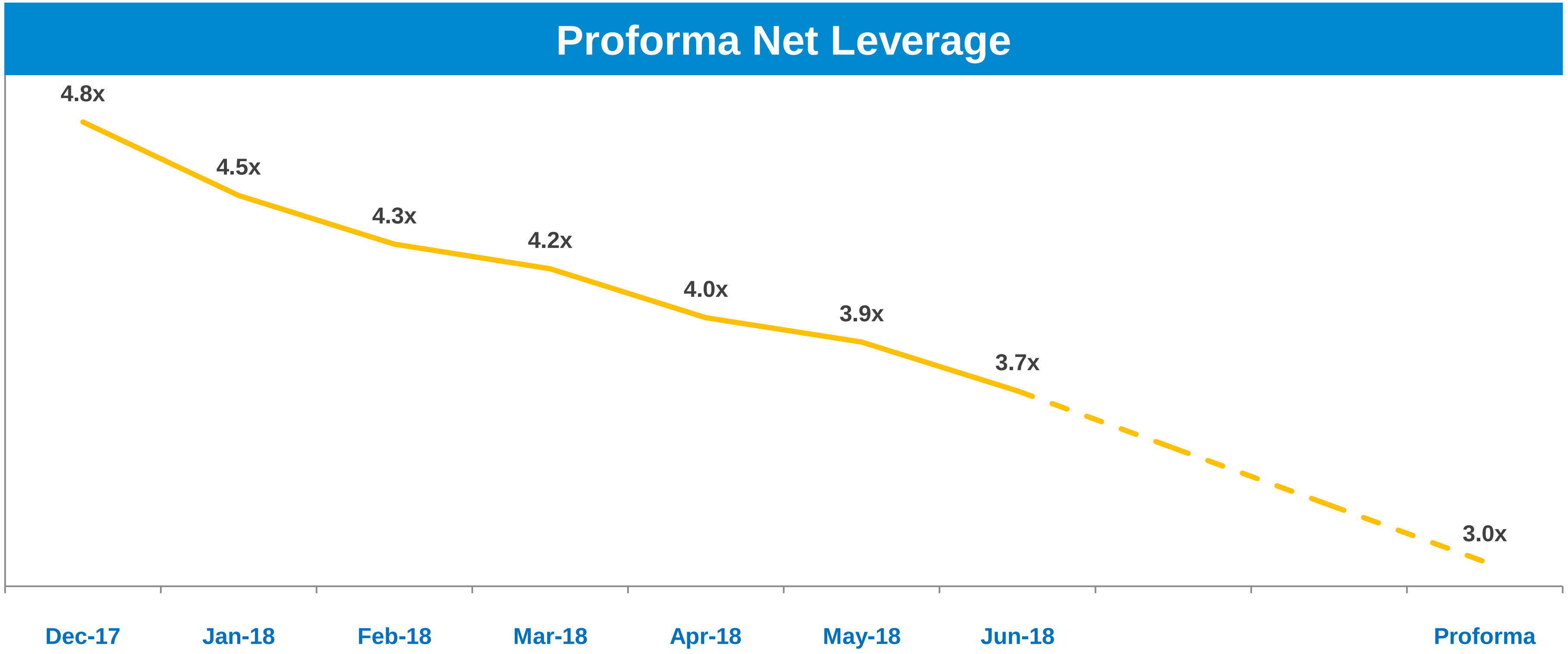

[1] Proforma for annualised central and network cost savings and proposed sale of UK Platforms Ltd

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Continuing progress made against two year programme

Customer

UPDATE

- Engaged with our 30 largest customer opportunities for targeted profitability improvement
- Agreed changes with 16 customers realigning price with cost-to-serve, 5 in progress
- Reallocation of equipment to more profitable customer groups
- Next 50 targets identified

Product

UPDATE

- Smart price increases implemented based on profitability analysis
- Improved discount control across network
- Identified 26 products to improve profitability including rationalisation, disposal and renegotiation. 21 actioned to date.
- Increasing investment in highly profitable categories

Branch

UPDATE

- P&Ls rolled out across the network and profitability-based incentives in place regionally
- Reduction in size and costs at 8 locations with excessive space
- Minor refinement of branch network, with 12 branches closed during 2018

Summary

Significant progress made against strategic priorities

- LTM EBITDA £61.7m at the end of June with H1 18 74.7% ahead of prior year and margins improved to 17.6%
- H1 18 revenue growth of 5.8%
  - Underlying revenue growth 8.7% vs H1 17
  - Underlying core rental revenue growth 3.7% vs H1 17
- Leverage reduced to 3.7x as at 30 June
- Significant progress made against strategic priorities; network changes completed, Group refinanced and proposed disposal of UK Platforms
- Continued trading momentum for the 8 weeks to 25th August supported by strength of our seasonal product range:
  - Underlying revenue growth more than 5% against comparable prior year period
  - Underlying core rental revenue growth more than 4% against comparable prior year period
  - Continued improvement in EBITDA

	2020
Revenue growth	Grow in line with market
Rental revenue growth	Ahead of market
EBITDA margin	>20%
EBITA margin	>9%
Leverage	<3x
Return on assets	>20%

Q&A

Appendices

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Appendix A
Balance sheet

26 weeks ended 30 June/ 1 July £m	H1 18	H1 17
Intangible assets	170.2	177.3
Tangible assets	136.5	161.9
Deferred tax asset	0.4	0.5
Net current assets / (liabilities)[1]	25.8	31.7
Other net liabilities	(39.0)	(17.7)
Net debt (ex accrued interest)[2]	(221.3)	(226.7)
Accrued interest	(3.9)	(3.8)
Net assets	**68.7**	**123.2**

[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.

Appendix B
Net debt calculations

26 weeks ended 30 June/ 1 July £m	H1 18	H1 17
Cash	(10.0)	(7.1)
RCF	74.0	68.5
Finance lease obligations	21.3	29.3
Senior Secured Notes[1]	136.0	136.0
Net debt (ex accrued interest)	**221.3**	**226.7**
Accrued interest	3.9	3.8
Net debt	**225.2**	**230.5**

- Reflects borrowings from all third parties and includes the net amounts due to group undertakings
- Leverage of 3.7x (H1 17: 4.3x)

[1] Shown gross of issue costs

Appendix C
Exceptional items

26 weeks ended 30 June/ 1 July £m	H1 18	H1 17
Branch Closure onerous leases	1.6	5.0
Impairment of property, plant & equipment	0.5	6.2
Cost reduction programme	0.7	1.9
Strategic Review	0.7	-
Other	(0.2)	(0.5)
Exceptional items	**3.3**	**12.6**

- Exceptional items significantly lower year on year as a result of fewer branch closures during the first half of 2018
- Onerous leases of £1.6m as a result of previous branch closures with £0.5m of associated asset impairment.
- Cost reduction programme associated with realising capital cost savings as outlined at the Strategic Review
- Third party consultancy costs to complete Strategic Review