HSS Hire Group Plc

Interim report: Half-year results for the 26 week period ended 27 June 2020

Resilient performance, digital strategy accelerated

HSS Hire Group plc ("HSS" or the "Group") today announces results for the 26 week period ended 27 June 2020.

Financial Highlights[1] (*Unaudited*)	H1 2020 (IFRS 16 basis)	H1 2020 (non-IFRS16 basis)		H1 2019 (non-IFRS16 basis)		Change (excl IFRS 16)
Revenue	£125.8m	£125.8m		£161.4m		(22.1)%
Adjusted EBITDA[2]	£28.7m	£16.8m		£27.0m		(37.9)%
Adjusted EBITDA margin	22.8%	13.3%		16.7%		(3.4)pp
Adjusted EBITA[3]	£1.1m	£(0.3)m		£8.8m		£(9.1)m
Adjusted EBITA margin	0.9%	(0.2)%		5.4%		(5.6)pp
ROCE[4]	n/a[6]	16.2%		21.9%		(5.7)pp
Net debt leverage[5]	n/a[6]	2.9x		3.0x		0.1x
Other extracts						
Operating (loss) / profit	£(0.7)m	£(2.4)m		£4.8m		£(7.1)m
Loss before tax	£(12.9)m	£(12.5)m		£(7.4)m		£(5.1)m
Total Basic (loss) / earnings per share	(7.57)p	(7.37)p		4.44p		(11.81)p

- Decisive response to COVID-19
  - Safety and wellbeing measures implemented across the Group including home-working where possible
  - Good operational and customer service levels maintained through Customer Distribution Centres (CDC) and OneCall rehire business
  - Leveraged recent technology investments, fully utilising digital channels and launch of new low-contact Click-and-Collect service

- Improving revenue and profit trend since April with recovery ahead of expectations
  - Group Adjusted EBITDA and Adjusted EBITA returned to pre-COVID levels in September
  - Revenue now above 90% of FY19 levels recovering from 63% in Q2
  - Group EBITDA remained positive throughout pandemic

- Strengthened liquidity position through pro-active cash and cost management
  - Cash and total facility headroom of £68.7m at 27 June, maintained at £66.4m at 26 September
  - Net debt leverage at 2.9x (non-IFRS16 basis), 30% headroom against June quarterly covenant test
  - Headroom of c0.6x against Q3 covenant test

- Accelerating digital strategy to drive value and create further efficiencies
  - Digital platform upgrade completed with ongoing investment to further enhance customer experience
  - Customers switching online, c30% of all new contracts raised through digital channels
  - Next stage of automated OneCall platform successfully piloted with roll out starting in Q4
  - New national coverage operating model being implemented in partnership with regional builders merchants resulting in material reduction in fixed costs and access to increased customer footfall

- Accordingly, the business is now operating above 90% of FY19 levels with 145 branches closed
  - Further investment planned in digital platforms to be a more agile, technology-driven business and allow the business to reduce its physical footprint to a leaner branch structure
  - Consequently the company proposes to permanently close 134 of its branches and has entered into consultation with around 300 employees
  - The Group is working with property restructuring advisors to finalise this site reduction

- Further to our previous announcement on 27 May 2020, the COVID-19 situation is likely to remain uncertain for some time. Accordingly the Group continues to consider it prudent not to provide market guidance in the near-term

Steve Ashmore, Chief Executive Officer, said:

"Our primary concern since the outbreak of COVID-19 has been the safety and wellbeing of our colleagues, customers, suppliers and other stakeholders. We responded quickly and decisively to preserve cash, optimise financial performance and ensure continuity of supply to our customers. I am incredibly proud of all our employees for their dedicated hard work in helping do this.

Whilst COVID-19 had a significant impact on our performance in the first six months, I am encouraged by the resilience of HSS during a very challenging period. Our recent investment in technology has proved critical, allowing us to support our customers during lockdown, our digital channels and Click-and-Collect service providing low-contact alternatives to branches. As a result, we have now seen revenue return to above 90% of 2019 levels with profitability back to pre-COVID-19 levels.

While our strategic ambitions remain unchanged, COVID-19 has demonstrated that we are now ready to accelerate our strategy by further investing in our technological platforms. These investments will allow us to reduce our physical footprint which, whilst regrettably resulting in the loss of around 300 roles, allows us to become a more agile, technology-driven business which is essential in our markets as well as reducing costs and enhancing shareholder value. This will build on our already differentiated commercial proposition and create the most advanced, customer-centric offer in an increasingly competitive marketplace."

Notes

1) Results for H1 20 and H1 19 are for continuing operations and exclude the UK Platforms business which was sold in January 2019
2) Adjusted EBITDA is defined as operating profit before depreciation, amortisation, and exceptional items. For this purpose depreciation includes the net book value of hire stock losses and write offs, and the net book value of other fixed asset disposals less the proceeds on those disposals
3) Adjusted EBITA defined as Adjusted EBITDA less depreciation
4) ROCE calculated as Adjusted EBITA for the 12 months to 27 June 2020 divided by the average of total assets less current liabilities (excluding intangible assets, cash and debt items) over the same period
5) Net debt leverage is calculated as closing net debt divided by adjusted EBITDA for last 12 months (LTM).
6) In adopting IFRS16 the Group has applied the cumulative catch-up ("modified") transition method. As such FY19 has not been restated with ROCE and net debt leverage therefore provided on a non-IFRS 16 basis only.

-Ends-

Disclaimer:

Notes to editors

HSS Hire Group plc provides tool and equipment hire, re-hire and related services in the UK and Ireland through a nationwide network and its OneCall re-hire business. It offers a one-stop shop for all equipment through a combination of our complementary rental and re-hire businesses to a diverse, predominantly B2B customer base serving a range of end markets and activities. Over 90% of its revenues come from business customers. HSS is listed on the Main Market of the London Stock Exchange. For more information please see www.hsshiregroup.com.

For further information, please contact:

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Steve Ashmore, Chief Executive Officer	Thereafter, please email: Investors@hss.com
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Chief Executive Officer's report

The first six months of 2020 posed unprecedented challenges for our colleagues, customers, suppliers and other stakeholders. We responded by focusing on the safety of our workforce, ensuring continuity of supply for our customers and optimising our financial performance. While a solid first quarter was followed by a weaker second quarter as a result of the COVID-19 pandemic, the business remained resilient and proactive measures enabled us to return to 90% of prior year revenue during September. Although the situation remains challenging, the period has provided significant insight and given us the opportunity to accelerate our strategic plans set out in 2018: to delever the group, transform the Tool Hire business and strengthen its commercial proposition.

COVID-19 response

Following the publication of Government guidelines on 23 March we took immediate and decisive action to protect our colleagues, preserve cash and maintain continuity of supply to critical customers. Since then our technology investments have enabled our office-based colleagues to successfully work from home, comprehensive social distancing and safety measures have been implemented across all our open locations, and increased communication is in place across the organisation.

We continued to provide a reliable service for our customers, keeping our Customer Distribution Centres open throughout and I am very proud of the dedication shown by our operations teams during this time. To complement this we launched our Click-and-Collect proposition in mid-April, offering customers a low-contact alternative to visiting branches, and the uptake has been strong with around 24% of contracts now fulfilled this way.

Our branch network was closed on 23 March and the majority of this network remains closed today. The closures are not having a significant impact on our levels of trading, with customers placing orders through our digital channels, over the phone and on email, which are then fulfilled through deliveries or Click-and-Collect. This shift away from branches for both ordering and fulfilment is an acceleration of changes in customer behaviour that we have witnessed over several years.

Our OneCall business has proved resilient thanks to the diversity of its supply chain and the efficiency of its new technology platform which has played a significant role in supporting business continuity and keeping our Customer Distribution Centres open throughout. Whilst our training business shrank significantly at the height of lockdown, we continued to offer online training and since the lockdown has eased, we have seen a rapid recovery in demand.

In response to COVID-19, we have also taken swift and decisive actions to reduce costs, conserve cash and strengthen our balance sheet. We took advantage of government job retention schemes, furloughing 60% of colleagues in April. We have since returned two-thirds of these colleagues back to work as demand has returned. Alongside this action, senior management took significant salary reductions throughout quarter two.

We have also worked with landlords to agree rent holidays and taken advantage of VAT payment deferrals and rates relief for our branch network. Whilst capex investment has been reduced, we have continued to invest where there is clear and profitable demand.

As a result of these efforts, liquidity headroom has increased to £68.7m at 27 June and has been maintained at healthy levels since this date. At the half year we have covenant headroom of 29% and, based on Q3 performance, we have passed the next quarterly covenant test.

With the improving revenue trend and cost action, our EBITDA remained positive throughout Q2 and continues to step forward. This resilience is testament to the hard work and dedication of our colleagues who I would like to thank for their efforts during a very challenging period.

Strategy update

Whilst COVID-19 has presented the business with considerable challenges, it has also provided significant opportunities in two key areas:

Firstly, the pandemic has accelerated the shift in customer behaviour with a dramatic increase in the use of digital platforms in the sales and fulfilment channels. Since May 2020, digital channels have consistently accounted for over 30% of all orders. This has dovetailed with our strategy to invest in technology, with our customer app and improved website strengthening our differentiated commercial proposition.

Secondly, the pandemic has demonstrated that there is a lower cost, more agile business model for rental. The technology we introduced last year has been a key enabler in operating this model and we have been delighted by how it has performed throughout the pandemic. As a result, and with the recent launch of HSS Pro, we are now ready to transform and become a more agile, technology-driven business.

On this basis, we now propose to accelerate HSS' digital strategy by making further investment in our technology platforms. Going forward, this investment will allow the business to reduce its physical footprint and operate a leaner branch structure, focused around its core CDC units and key branches. Consequently the Group proposes to permanently close 134 of its branches and is entering into consultation with around 300 colleagues.

To support this initiative, HSS is partnering with regional builders merchants to maintain national coverage at lower cost. Early trials of this model have been successful, not only in improving cost agility by switching fixed costs with variable costs but also in providing the business access to increased customer footfall. These proposed changes will enable us to optimise the efficiency of our network, improve customer service and enhance shareholder value, while driving overall cost agility and reducing overheads. This will build on our already differentiated commercial proposition and create the most advanced, customer-centric offer in an increasingly competitive marketplace.

Group Financial Performance

The Group has adopted IFRS16 Leases in the period, the impact of which is summarised in Note 2 of the condensed consolidated financial statements. The Group has applied the cumulative catch-up ('modified') transition method and, as prescribed by the standard, comparators have not been updated. In the commentary that follows and in the narrative disclosures performance and variance is between the results reported under IFRS16 and the comparator period under IAS 17 and IFRIC 4 unless otherwise noted.

Revenue and segmental contribution

Revenue in H1 20 was £125.8m, 22.1% lower than the previous year (H1 19: £161.4m). On an underlying basis, (after excluding the impact of loss of Services revenue associated with a change to one managed service contract), revenue declined 19.7%. This year on year performance mainly reflects the impact of the COVID-19 pandemic and associated lockdowns in the UK and Ireland.

Turning to segmental performance, Rental and related revenues were £84.6m in H1 20 (H1 19: £110.3m), 23.3% lower than in H1 19. This performance was driven by COVID-19 related lockdowns impacting HSS and our customers. As a result, contribution is 22.3% down at £57.1m (H1 19: £73.5m). Margin has very slightly improved to 67.5% (H1 19: 66.7%) thanks to effective price control, cost action taken and operating lease costs transferring to depreciation as a result of adopting IFRS16.

Services revenues declined on an underlying basis by 7.3% to £41.2m (H1 19: £51.2m) reflecting a resilient OneCall rehire business offset by a significant reduction in Training revenue as a result of centres having to completely close. Contribution decreased to £6.1m (H1 19: £8.2m), with margins reducing to 14.7% (H1 19: 16.0%), reflecting a mix impact from the closed training centres.

Rental and related revenues and Services contribution together benefited from around £2.2m from a total £6.6m of government grant furlough income in the UK and Ireland, with the balance allocated across branch and selling and central costs.

Costs

Cost of sales reduced to £63.6m during the period (H1 19: £75.9m) primarily as a result of the COVID-19 related decline in our Services business. Distribution costs decreased by £3.2m versus the prior year to £13.5m (H1 19: £16.7m). The primary driver was the decisive cost control action taken by the business.

Administrative expenses decreased by £7.9m to £56.5m (H1 19: £64.3m) with the reduction mainly driven by the cost action already noted offset by increased provisions against Trade receivables as the Group adjusted its view of expected credit losses in a post-COVID-19 economy. £1.5m was due to IFRS16 adoption - the majority of operating lease costs are in administrative expenses and under IFRS16 an element of these is replaced by interest on the discounted lease liability.

An exceptional credit of £0.8m was recognised in H1 20 as a result of changes to the Group's onerous lease provisions including £0.3m reversal of rent review accruals on adoption of IFRS16. In H1 19 exceptional costs of £2.8m were recognised including £1.7m accelerated amortisation of debt issue costs following early repayment of debt post the disposal of UK Platforms, a £0.5m increase in the dark stores provision and £0.5m related to cost saving initiatives.

Net finance expenses were in line with the prior year at £12.1m (H1 19: £12.1m) reflecting the £2.0m increase in interest on lease liabilities as a result of adopting IFRS16 largely offset by accelerated amortisation of debt issue costs in the prior year of £1.7m following the sale of UK Platforms.

Other operating income

The increase in Other operating income to £7.1m (H1 19: £0.3m) was driven predominately by the receipt of £6.6m in grant income as a result of participation in the UK Job Retention Scheme and a similar scheme operated in the Republic of Ireland. Rates grants of £0.3m were also received.

Profitability

Adjusted EBITDA of £28.7m in H1 20 is higher than the prior year (H1 19: £27.0m) including an increase of £11.9m due to the adoption of IFRS16 (under which operating lease rental cost is replaced by depreciation and interest). Excluding IFRS16, Adjusted EBITDA was down £10.3m, with the corresponding adjusted EBITDA margin dropping 3.4pp to 13.3% (H1 19: 16.7%) reflecting the impact of COVID-19 on revenues offset by mitigating cost actions.

Adjusted EBITA decreased from £8.8m in H1 19 to £1.1m in H1 20, and to a loss of £0.3m once the impact of IFRS16 is removed, with the margin reducing to (0.2)% (H1 19 5.4%) for the reasons described above.

The result of the drivers noted above is that the Group recognised a loss before tax of £12.9m versus a £7.4m loss in the prior year.

The basic and diluted loss per share was 7.57p in H1 20 versus a basic profit per share of 4.44p in H1 19 with the prior year benefitting from the profit on disposal of UK Platforms. The diluted profit per share was 3.80p in the prior year.

Return on Capital Employed

ROCE (on a non-IFRS16 basis) decreased to 16.2% reflecting the reduction of EBITA driven by COVID-19 (H1 19 21.9%). Although average capital employed did reduce as a result of reduced debtors and careful management of capital expenditure, this wasn't sufficient to fully offset the EBITA impact.

Net debt

Net debt at 27 June 2020 was £236.8m including the impact of adding circa £81.8m of additional lease liabilities on transition to IFRS16. Excluding the IFRS16 impact, Net debt is £156.7m, a reduction of £22.8m from the year end as a result of cash preservation activity following the emergence of COVID-19. Headroom in the Group's total facilities including net cash was £81.8m.

The debt facilities consist of a £182.0m senior finance facility, with £167.0m maturing in June 2023 and £15.0m in January 2021, along with a fully drawn revolving credit facility of £17.2m maturing in January 2023 and an unutilised overdraft facility of £6m.

Dividend

Beyond dealing with the immediate priorities of responding to COVID-19, the Board remains firmly focused on reducing net debt in line with the Group's strategy. As such, it believes that the interests of the shareholders of the Group are best served by not paying a dividend until the net debt leverage ratio falls below 2.5x at the earliest. This is in line with the senior finance facility agreement.

Going concern

While we are encouraged by the resilience HSS has shown during this period of unprecedented disruption, we continue to model a number of scenarios on the potential impact that COVID-19 could have on the Group results. In certain forecasts, there is an indication that financial covenants could be breached, indicating the existence of a material uncertainty in the adoption of going concern should our lenders not support addressing these areas if they arise. These continue to be discussed with our lenders, all of whom express their ongoing commitment and support for the business strategy. Our conclusion on going concern is expanded upon in Note 2 to the condensed consolidated financial statements.

Risks and uncertainties

The principal risks and uncertainties that could have a material impact upon the Group's performance over the remaining 26 weeks of the 2020 financial year have not changed significantly from those described in the Group's 2019 Annual Report and are summarised in note 15 of this interim report.

The main risk expected to affect the Group in the remaining 26 weeks of the 2020 financial year is macro-economic conditions, which includes the impact that COVID-19 and Brexit related developments could have on the business.

Responsibility Statement

We confirm to the best of our knowledge that:

(a) the condensed interim set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union;

(b) the Interim Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the Interim Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Steve Ashmore
Director
7 October 2020

HSS Hire Group plc
Unaudited condensed consolidated income statement

	Note	**26 weeks ended 27 June 2020 £000s**	26 weeks ended 29 June 2019 £000s
Revenue	3	**125,817**	161,436
Cost of sales		**(63,616)**	(75,892)
Gross profit		**62,201**	85,544
Distribution costs		**(13,544)**	(16,719)
Administrative expenses		**(56,465)**	(64,339)
Other operating income	4	**7,068**	268
Adjusted EBITDA[1]	3, 16	**28,710**	27,038
Less: Depreciation [1]	9,10	**(27,632)**	(18,276)
Adjusted EBITA[1]	16	**1,078**	8,762
Less: Exceptional items	5	**802**	(1,018)
Less: Amortisation[1]	8	**(2,620)**	(2,990)
Operating (loss)/profit		**(740)**	4,754
Net finance expense	6	**(12,140)**	(12,124)
Adjusted loss before tax		**(11,062)**	(1,623)
Less: Exceptional items (non-finance)	5	**802**	(1,018)
Less: Exceptional items (finance)	5	**-**	(1,739)
Less: Amortisation	8	**(2,620)**	(2,990)
Loss before tax		**(12,880)**	(7,370)
Income tax charge		**-**	(109)
Loss from continuing operations		**(12,880)**	(7,479)
Profit on disposal of discontinued operations		**-**	14,869
Profit from discontinued operations, net of tax		**-**	162
(Loss)/profit for the financial period		**(12,880)**	7,552
Total (loss)/earnings per share (pence)			
Basic (loss)/earnings per share	7	**(7.57)**	4.44
Diluted (loss)/earnings per share	7	**(7.57)**	3.80

(1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation, and exceptional items. For this purpose depreciation includes the net book value of hire stock losses and write offs, and the net book value of other fixed asset disposals less the proceeds on those disposals. Adjusted EBITA is defined as operating profit before amortisation and exceptional items.

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc
Unaudited condensed consolidated statement of comprehensive income

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
	£000s	£000s
(Loss)/profit for the financial period	**(12,880)**	7,552
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**842**	516
Gains/(losses) arising on cash flow hedges	**86**	(344)
Other comprehensive profit for the period, net of tax	**928**	172
Total comprehensive (loss)/profit for the period	**(11,952)**	7,724

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc
Unaudited condensed consolidated statement of financial position

	Note	**27 June 2020 £000s**	28 December 2019 £000s
ASSETS			
Non-current assets			
Intangible assets	8	**159,618**	160,378
Property, plant and equipment	9	**71,545**	101,851
Right of use assets	10	**99,140**	-
Derivative financial instruments		**-**	14
		330,303	262,243
Current assets			
Inventories		**3,266**	3,735
Trade and other receivables	11	**65,037**	88,396
Cash		**62,704**	22,658
		131,007	114,789
Total assets		**461,310**	377,032
LIABILITIES			
Current liabilities			
Trade and other payables	12	**(68,450)**	(66,031)
Borrowings including lease liabilities	13	**(43,154)**	(5,355)
Provisions	14	**(6,832)**	(8,145)
		(118,436)	(79,531)
Non-current liabilities			
Borrowings including lease liabilities	13	**(246,674)**	(185,729)
Provisions	14	**(28,795)**	(32,470)
Deferred tax liabilities		**(341)**	(341)
		(275,810)	(218,540)
Total liabilities		**(394,246)**	(298,071)
Net assets		**67,064**	78,961
EQUITY			
Share capital		**1,702**	1,702
Merger reserve		**97,780**	97,780
Warrant reserves		**2,694**	2,694
Foreign exchange translation reserve		**240**	(602)
Cash flow hedging reserve		**(220)**	(306)
Retained deficit		**(35,132)**	(22,307)
Total equity		**67,064**	78,961

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc
Unaudited condensed consolidated statement of changes in equity

	Share capital £000s	Merger reserve £000s	Warrant reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained deficit £000s	Total equity £000s
At 30 December 2019 - as previously presented	1,702	97,780	2,694	(602)	(306)	(22,307)	78,961
Implementation of IFRS 16	-	-	-	-	-	(166)	(166)
At 30 December 2019 - as restated	1,702	97,780	2,694	(602)	(306)	(22,473)	78,795
Total comprehensive income for the period							
Loss for the period	-	-	-	-	-	(12,880)	(12,880)
Foreign currency translation differences arising on consolidation of foreign operations	-	-	-	842	-	-	842
Cash flow hedge	-	-	-	-	86	-	86
Total comprehensive income for the period	-	-	-	842	86	(12,880)	(11,952)
Transactions with owners recorded directly in equity							
Share-based payment	-	-	-	-	-	221	221
At 27 June 2020	**1,702**	**97,780**	**2,694**	**240**	**(220)**	**(35,132)**	**67,064**

	Share capital £000s	Merger reserve £000s	Warrant reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained deficit £000s	Total equity £000s
At 29 December 2018	1,702	97,780	2,694	180	(162)	(31,728)	70,466
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	7,552	7,552
Foreign currency translation differences arising on consolidation of foreign operations	-	-	-	516	-	-	516
Cash flow hedge	-	-	-	-	(344)	-	(344)
Total comprehensive income for the period	-	-	-	516	(344)	7,552	7,724
Transactions with owners recorded directly in equity							
Share-based payment	-	-	-	-	-	254	254
At 29 June 2019	1,702	97,780	2,694	696	(506)	(23,922)	78,444

The notes form part of these condensed consolidated financial statements.

HSS Hire Group plc
Unaudited condensed consolidated statement of cash flows

	Note	**26 weeks ended 27 June 2020 £000s**	26 weeks ended 29 June 2019 £000s
Cash flows from operating activities			
(Loss)/profit after tax		**(12,880)**	7,552
Adjustments for:			
– Taxation charge		**-**	109
– Amortisation	8	**2,620**	2,993
– Depreciation	9,10	**25,294**	14,231
– Accelerated depreciation relating to hire stock customer losses and hire stock write-offs	9,10	**2,324**	4,194
– Loss on disposal of property, plant and equipment and right of use assets	9,10	**14**	-
– Profit on disposal of subsidiary		**-**	(14,869)
– Share-based payment charge		**221**	254
– Foreign exchange losses on operating activities		**516**	541
– Net finance expense	6	**12,140**	12,124
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**469**	641
– Trade and other receivables	11	**20,697**	(73)
– Trade and other payables	12	**4,154**	2,743
– Provisions	14	**(2,770)**	(3,032)
Net cash flows from operating activities before changes in hire equipment		**52,799**	27,408
Purchase of hire equipment	9	**(6,630)**	(10,738)
Cash generated from operating activities		**46,169**	16,670
Net interest paid		**(8,871)**	(9,803)
Tax reclaimed		**648**	962
Net cash generated from operating activities		**37,946**	7,829
Cash flows from investing activities			
Proceeds on disposal of businesses, net of cash disposed of		**-**	46,123
Purchases of non-hire property, plant, equipment and software	8,9	**(3,411)**	(3,315)
Net cash generated (used in)/from investing activities		**(3,411)**	42,808
Cash flows from financing activities			
Proceeds from borrowings (third parties)	13	**17,200**	-
Repayments of borrowings	13	**-**	(51,018)
Finance lease payments	13	**-**	(4,197)
Lease liability payments	13	**(11,689)**	-
Net cash used in financing activities		**5,511**	(55,215)
Net increase/(decrease) in cash		**40,046**	(4,578)
Cash at the start of the period		**22,658**	19,907
Cash at the start of the period - continuing operations		62,704	17,832
Cash at the start of the period - discontinued operations		-	2,075
Cash at the end of the period - continuing operations		**62,704**	15,329

The notes form part of these condensed consolidated financial statements.

Notes forming part of the unaudited condensed consolidated financial statements

1. General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The address of the registered office is Oakland House, 76 Talbot Road, Old Trafford, Manchester, England, M16 0PQ. These condensed consolidated financial statements comprise the Company and its subsidiaries (the 'Group') and cover the 26 week period ended 27 June 2020.

The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland.

The condensed consolidated financial statements were approved for issue by the Board on 7 October 2020.

The condensed consolidated financial statements do not constitute the Statutory Accounts within the meaning of Section 434 of the Companies Act 2006 and have not been subject to audit by the Group's auditor. Statutory Accounts for the year ended 28 December 2019 were approved by the Board on 26 May 2020 and delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The report did draw attention to the Directors' conclusion that a material uncertainty existed that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. As set out in Note 2 the Directors have reached the same conclusion on approving these condensed consolidated financial statements.

2. Basis of preparation and significant accounting policies

The condensed consolidated financial statements for the 26 weeks ended 27 June 2020 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and relevant International Financial Reporting Standards ('IFRS') as adopted by the European Union (including IAS 34 *Interim Financial Reporting*). The condensed consolidated financial statements should be read in conjunction with the Group's Annual Report and Accounts for the year ended 28 December 2019, which were prepared in accordance with IFRS as adopted by the European Union.

Accounting policies are consistent with those in the Statutory Accounts for the year ended 28 December 2019 other than for IFRS16 which was adopted in the period, and Government grants which is a policy that applied to a new transaction type in the period. Both are included in this note.

IFRS16 Implementation

IFRS 16 Leases is mandatory for periods beginning on or after 1 January 2019 and accordingly the Group has adopted the standard from the 29 December 2019 (the date of initial adoption or DIA). The Group has worked with third party specialists to develop IFRS 16 policies along with processes and systems to manage their successful implementation.

Adoption of IFRS16 has had a significant impact on the Condensed consolidated income statement and Condensed consolidated statement of financial position as set out in the tables below. There is no impact on the Group's underlying cash flows.

Impact of IFRS 16 on the Condensed consolidated income statement

	26 weeks ended 27 June 2020		
	Pre adoption of IFRS 16	IFRS 16 impact	As reported
	£000s	£000s	£000s
Revenue	125,817	-	125,817
Cost of sales	(63,771)	155	(63,616)
Gross profit	62,046	155	62,201
Distribution costs	(13,667)	123	(13,544)
Administrative expenses	(57,973)	1,508	(56,465)
Other operating income	7,220	(152)	7,068
Adjusted EBITDA	16,784	11,926	28,710
Less: Depreciation	(17,068)	(10,564)	(27,632)
Adjusted EBITA	(284)	1,362	1,078
Less: Exceptional items	530	272	802
Less: Amortisation	(2,620)	-	(2,620)
Operating (loss)/profit	(2,374)	1,634	(740)
Net finance expense	(10,172)	(1,968)	(12,140)
Adjusted loss before tax	(10,456)	(606)	(11,062)
Less: Exceptional items (non-finance)	530	272	802
Less: Amortisation	(2,620)	-	(2,620)
Loss before tax	(12,546)	(334)	(12,880)

The adoption has resulted in an increase of £0.3m in the loss before tax that would have been reported under IAS17. Administrative expenses reduced by £1.2m, the result of discounting lease liabilities with the discount unwind being reflected in net finance expense. Cost of sales and distribution costs reduced for the same reason (largely on vehicle leases). In addition to the impact of discounting, £0.3m of rent review accruals were released to administrative expenses on transition. As variable lease costs these are not accounted for under IFRS16 until agreed. Other operating income decreases on adoption with sub-lets income replaced by depreciation on the net investment in sub-lease created.

The increase in net finance expense is driven by discounting as noted above, with the front-end loading of the discount resulting in an additional £0.6m of interest versus the equivalent operating lease cost that would have been recognised under IAS17.

Adjusted EBITDA, which the Group reports as an additional performance measure is significantly increased (£12m) under IFRS16 as a result of operating lease costs being replaced by depreciation and interest.

Under the adoption method chosen by the Group (see below) comparators are not restated and as a result the Group has included commentary on a non-IFRS 16 basis in the financial review and CEO report where required to explain the underlying performance of the business.

Impact of IFRS 16 on the Condensed consolidated statement of financial position

	29 December 2019		
	Pre adoption of IFRS 16	IFRS 16 impact	Post adoption of IFRS 16
	£000s	£000s	£000s
Intangible assets	160,378	-	160,378
Property, plant and equipment	101,851	(24,852)	76,999
Right of use assets	-	104,059	104,059
Derivative financial instruments	14	-	14
Current assets	114,789	(1,851)	112,938
Lease liabilities	-	(98,351)	(98,351)
Finance leases	(16,583)	16,583	-
Other liabilities	(240,532)	2,024	(238,508)
Provisions	(40,615)	2,222	(38,393)
Deferred tax liabilities	(341)	-	(341)
Net assets	78,961	(166)	78,795

Right of use assets totalling £104m were created on transition with £24.8m of this being the result of reclassifying hire stock assets held under finance lease from property, plant and equipment. Lease liabilities of £98m were created with £16.6m being the equivalent transfer of finance lease liabilities. The difference between lease liability and asset is the impact of adjusting the right of use asset for prepayments, accruals and onerous lease provisions. A net investment in sub-leases, representing where the Group has sub-let excess space or properties under a finance lease, was created totalling £1.9m.

Capitalisation of lease contracts

Under IFRS 16, the Group capitalises the right of use of all its property leases, vehicle leases, hire and other equipment leases previously held under operating leases.

The Group has applied the cumulative catch-up ('modified') transition method. Under this option the Group has applied the option that calculates the right-of-use asset as equal to the lease liability for leases previously accounted for as operating leases. The comparative information has not been restated and continues be reported under IAS 17 and IFRIC 4. The Group has recognised a right of use (ROU) asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. The ROU asset is adjusted for any prepaid or accrued lease payments relating to that lease that were recognised in the statement of financial position immediately before the DIA. The company has taken the practical expedient available to rely on its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application, reducing the carrying value of its ROU asset at the DIA.

Operating lease expenses are replaced by a depreciation of right of use assets expense and an interest expense as the interest rate applied to the Group's lease liabilities unwinds.

Lease term

The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual termination or extension options.

For property, the Group's policy is to use the full lease term (as opposed to first exercisable break date) for trading branches, distribution centres and offices unless there is an intention to exit the property at the reporting date. Had lease liabilities been calculated to the first break rather than lease end date the transition liability would have reduced by around £23m.

For properties which are occupied beyond lease end date, liabilities are calculated based on specific extension clauses if they exist. Where they do not the Group reviews leases at twice annually and extends for a maximum of six months provided notice has not been served by the Group or relevant landlord. The increase in liabilities as a result of this judgement was less than £1m on transition.

Given the tenures and values involved, any similar judgements applied to vehicle and equipment leases are immaterial.

Discount rates

The Group has assessed that the interest rate implicit in the lease is not readily determinable for leases other than hire fleet financed via the lines agreed for that purpose with the Group's lenders. The Group therefore uses an incremental borrowing rate for all other leases, taking advantage of the expedient available to apply a single rate to leases of similar characteristics.

The incremental borrowing rate in use at transition and for new leases in the period is 3.5% for vehicles and equipment and between 5.1% and 6.0% for property leases.

The discount rate selected for non-property leases is the rate at which the Group expects to finance assets of a similar class. For property, rates are those at which the Group might expect to borrow at if acquiring an interest in property, over five and ten year tenures. These rates are adjusted upwards for properties considered to be higher risk because of geographic region or age.

Lessor accounting

The Group acts as intermediate lessor on vacant properties it sublets to assist in covering costs until the lease term ends or a break clause can be triggered. The Group has assessed whether the sub-lease is a finance or operating lease in the context of the ROU asset being leased. When the sublet is identified as a finance lease, a net investment in the sublease is created and included in Trade and other receivables and the corresponding ROU asset is accounted for as a disposal.

Sale and leaseback transactions

Under IFRS 16 the Group continues to account for any sale and leaseback transactions entered into for large hire equipment prior to 28 December 2019 as a sale and leaseback transaction. The Group has recognised a lease liability and ROU asset on 29 December 2019 measured in the same way as other finance leases on this date.

IFRS16 and COVID-19 concessions

The Group has not yet adopted any of the practical reliefs available to preparers as a result of the amendment to IFRS16 published by the IASB in May 2020 (COVID-19-Related Rent Concessions). The amendment had not been adopted by the EU at the balance sheet date. The Group is likely to review this approach in its Annual report and accounts for FY20 and may adopt one or more of the reliefs available.

Going concern

At 27 June 2020, the Group's financing arrangements consisted of a fully drawn senior finance facility of £182.0m, undrawn overdraft facilities of £6.0m, fully drawn revolving credit facilities of £17.2m and finance lease lines to fund hire fleet capital expenditure, of which £13.1m had not been utilised. Both the senior finance facility and revolving credit facility are subject to a net debt leverage financial covenant test every quarter. At the balance sheet date the Group had 29% headroom against this covenant.

The Group's forecasts and projections taking into account current trading post COVID-19, strategic initiatives and reasonably possible changes in trading performance, show that the business will be able to operate within the level of its facilities for at least 12 months from the approval date of these condensed consolidated interim financial statements.

In the first 12 weeks of FY20 COVID-19 did not have a material impact on the Group's performance. However, the first signs of a trading slowdown were detected in week 13, following the Government's lockdown instruction. In response to this instruction, the Group temporarily closed the majority of its UK branches and moved to a delivery-only operation through its national network of Customer Distribution Centres (CDCs) and its OneCall re-hire business, providing essential equipment to critical customers. Since this date, and after establishing additional safe working practices, the Group has added Click-and-Collect capability at each CDC and re-opened key branches.

Whilst it is difficult to quantify the impact COVID-19 will have on the Group's financial results, the Directors have considered a number of downside scenarios. In preparing these, key revenue assumptions have been applied for the period from October 2020 to October 2021; namely reductions in core hire revenue of between 12% and 25% against the Group's original forecasts for Q4 FY20 followed by between 10% and 15% from January 2021 to December 2022.

These downside scenarios have been mitigated by the expected impact of the restructuring action taken to migrate to the Group's new operating model and by the close management of capex to demand. Liquidity headroom had increased to £68.7m at the balance sheet date and been maintained at healthy levels since then. The Group could sustain between 12% and 14% reduction in core hire revenue against pre-COVID-19 forecasts without breaching financial covenants.

There are certain forecast scenarios which indicate that financial covenants would be breached. Should a breach occur, the Group would seek to obtain a waiver agreement with the senior finance facility and revolving credit facility lenders. Given the lack of certainty on reaching agreement with the lenders on a waiver in the event of a breach, the existence of a material uncertainty which may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern is indicated. The Directors have noted that discussions with the Group's lenders have resulted in ongoing commitment being expressed to the business and support for the Board's response to the COVID-19 pandemic. Accordingly, the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements.

The financial statements do not include the adjustments that would be required should the going concern basis of preparation no longer be appropriate.

Government Grants

The Group reports any government grant income within Other operating income. The income is recognised when there is a reasonable assurance that the relevant entity or the wider Group will comply with the conditions attached to the grant and that the grants will be received.

The grant income is recognised in the same period as any related costs for which the grants are intended to compensate.

Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of the valuation method of the Group's financial instruments.

The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable, for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair values have been determined for measurement purposes based on the following methods:

Derivative instruments (level 2)

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

The fair values of interest rate swap contracts are calculated by management based on external valuations received from the Group's bankers and are based on anticipated future interest yields.

3. Segmental reporting

The Group's operations are segmented into the following reportable segments:

- Rental and related revenue.
- Services.

Rental and related revenue comprises the rental income earned from owned tools and equipment, including powered access, power generation and HVAC assets, together with directly related revenue such as resale (fuel and other consumables), transport and other ancillary revenues.

Services comprise the Group's HSS OneCall rehire business and HSS Training. HSS OneCall provides customers with a single point of contact for the hire of products that are not typically held within HSS' fleet and are obtained from approved third party partners; HSS Training provides customers with specialist safety training across a wide range of products and sectors.

Contribution is defined as segment operating profit before branch and selling costs, central costs, depreciation, amortisation and exceptional items. In the 26 weeks ending 27 June 2020 the Group received £6.6m in grant income (26 weeks ending 29 June 2019: nil) as a result of participation in the UK COVID-19 Job Retention Scheme and a similar scheme operated in the Republic of Ireland. Income has been allocated to segments based on where the underlying costs were incurred. This resulted in £1.6m being allocated to Rental and related contribution and £0.6m to Services contribution, £4.2m to Branch and Selling Costs and £0.2m to Central costs. £0.3m of grant income related to property rates was allocated to Branch and Selling Costs.

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group being the provision of tool and equipment hire and related services in, and to customers in, the United Kingdom and the Republic of Ireland. Revenue from one customer was 10% or more of Group Revenue in the period ending 27 June 2020 (26 weeks ending 29 June 2019: one customer was 10% or more of Group Revenue).

26 weeks ended 27 June 2020

	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Total revenue from external customers	**84,574**	**41,243**	**-**	**125,817**
Contribution	**57,100**	**6,055**	**-**	**63,155**
Branch and selling costs			**(23,026)**	**(23,026)**
Central costs			**(11,419)**	**(11,419)**
Adjusted EBITDA				**28,710**
Add: Exceptional credit			**802**	**802**
Less: Depreciation and amortisation	**(15,729)**	**(236)**	**(14,287)**	**(30,252)**
Operating profit				**(740)**
Net finance expenses				**(12,140)**
Loss before tax				**(12,880)**

	As at 27 June 2020			
	Rental (and related revenue)	**Services**	**Central**	**Total**
	£000s	**£000s**	**£000s**	**£000s**
Non-current assets net book value				
Intangibles	**154,248**	**1,547**	**3,823**	**159,618**
Property, plant and equipment	**48,018**	**219**	**23,308**	**71,545**
Right of use assets	**26,705**	**287**	**72,148**	**99,140**
Current assets				**131,007**
Current liabilities				**(118,436)**
Non-current liabilities				**(275,810)**
Net assets				**67,064**

	26 weeks ended 29 June 2019			
	Rental (and related revenue)	Services	Central	Total
	£000s	£000s	£000s	£000s
Total revenue from external customers	110,267	51,169	-	161,436
Contribution	73,505	8,164	-	81,669
Branch and selling costs			(42,610)	(42,610)
Central costs			(12,021)	(12,021)
Adjusted EBITDA				27,038
Less: Exceptional items			(1,018)	(1,018)
Less: Depreciation and amortisation	(16,313)	(110)	(4,843)	(21,266)
Operating profit				4,754
Net finance expenses				(12,124)
Loss before tax				(7,370)

	As at 28 December 2019			
	Rental (and related revenue)	Services	Central	Total
	£000s	£000s	£000s	£000s
Non-current assets net book value				
Intangibles	155,624	785	3,969	160,378
Property, plant and equipment	76,794	187	24,870	101,851
Unallocated corporate assets				
Derivative financial instruments			14	14
Current assets			114,789	114,789
Current liabilities			(79,531)	(79,531)
Non-current liabilities			(218,540)	(218,540)
Net assets				78,961

4. Other operating income

During the period ended 27 June 2020 the Group received £6.6m (2019: nil) as a result of participation in the UK COVID-19 Job Retention Scheme and a similar scheme operated in the Republic of Ireland. Rates grants of £0.3m were also received (2019: nil). The balance of £0.2m represents sub-let rental income of vacant properties that are not deemed onerous (2019: sub-let income of £0.3m).

5. Exceptional items

Items of income or expense have been shown as exceptional because of their size and nature or because they are outside the normal course of business. An analysis of the amount presented as exceptional items in the consolidated income statement is given below.

During the period ended 27 June 2020, the Group has recognised a net exceptional credit as follows:

	Included in administrative expenses
	£000s
Onerous leases	**(828)**
Cost reduction programme	**26**
Exceptional items	**(802)**

During the period ended 29 June 2019, the Group recognised net exceptional costs as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in finance expense	26 weeks ended 29 June 2019
	£000s	£000s	£000s	£000s	£000s
Onerous leases	-	-	483	-	483
Cost reduction programme	13	396	126	-	535
Accelerated amortisation of debt issue costs	-	-	-	1,739	1,739
Exceptional items	13	396	609	1,739	2,757

Exceptional items incurred in 2020 and 2019

Costs related to onerous properties: branch and office closures

An exceptional credit of £0.5m has been recognised in the 26 weeks ended 27 June 2020 relating to an opening release of onerous lease provision (prior to adoption of IFRS16). An additional credit of £0.1m from lease liability was recognised as a result of surrendering properties. This was offset by £0.1m of non-lease costs incurred related to onerous properties. There have been three branch closures during the period as a result of a change in business model whereby HSS utilises space in third-party builders merchant locations (26 weeks to 29 June 2019: no branch closures).

On adoption of IFRS16 £0.3m of onerous lease provision was released, mainly related to rent-review accruals, which, as variable lease costs, are not included in lease liabilities under the standard.

Provisions are created net of expected sub-let income. During the 26 weeks to 27 June 2020, sub-let income of £0.2m was received and recognised as negative provision utilisation.

Cost reduction programme

During 2019 the Group reacted to market headwinds by taking initiatives to reduce costs which included internal restructuring and in the 26 weeks ended 27 June 2020 the Group incurred minor costs related to the completion of that activity.

In 2019 the Group recognised a charge of £0.5m related to the closure of a centre used for hire fleet refurbishment and exiting contracts related to the operation of the cross-dock facility used to redistribute assets across the network as well as internal restructuring.

Exceptional item incurred in 2019 only

Accelerated amortisation of debt issue costs

During 2019 an element of the proceeds from the UK Platforms disposal was used to repay debt. The early repayment resulted in accelerated amortisation of debt issue costs of £1.7m.

6. Finance income and expense

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
	£000s	£000s
Interest received on cash deposits	**(24)**	(8)
Bank loans and overdrafts	**234**	212
Interest on financial instruments	**100**	22
Senior finance facility	**8,167**	8,431
Finance leases	**-**	365
Interest on lease liabilities	**2,322**	-
Interest unwind on discounted provisions	**142**	109
Debt issue costs	**1,199**	1,254
Exceptional accelerated amortisation of debt issue costs	**-**	1,739
Net finance expense	**12,140**	12,124

7. Earnings per share

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019	
Basic (loss)/earnings per share		Continuing operations	Total
(Loss)/profit for the year and earnings used in basic EPS '£000	**(12,880)**	(7,479)	7,552
Weighted average number of shares '000s	**170,207**	170,207	170,207
Basic (loss)/earnings per share (pence)	**(7.57)**	(4.39)	4.44

Basic (loss)/earnings per share is calculated by dividing the result attributable to equity holders by the weighted average number of ordinary shares in issue for that period.

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Weighted average number of shares	**000s**	000s
Basic weighted average number of shares	**170,207**	170,207
Dilutive effect of issued equity instruments	**33,717**	28,497
Diluted weighted average number of shares	**203,925**	198,704

All of the Group's potentially dilutive equity derivatives were anti-dilutive for the purpose of diluted basic loss per share for the 26 week period ended 27 June 2020 and dilutive for the 26 week period ended 29 June 2019, with the exception of the 2017 options which were anti-dilutive in both periods.

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019 Total operations
Diluted (loss)/earnings per share		
(Loss)/profit for the year and earnings used in basic EPS '£000	**(12,880)**	7,552
Weighted average number of shares '000s	**170,207**	198,704
Diluted (loss)/earnings per share (pence)	**(7.57)**	3.80

For the 26 week period ended 27 June 2020 the diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares in issue. For the 26 week period ended 29 June 2019 diluted earnings per share is calculated using the profit for the year divided by the weighted average number of shares in issue assuming the conversion of its potentially dilutive equity derivatives outstanding, being nil-cost share options (LTIP shares), market value options, warrants and Sharesave Scheme share options.

The following is a reconciliation between basic loss per share from continuing operations and adjusted basic loss per share from continuing operations.

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Basic loss per share (pence)	**(7.57)**	(4.39)
Add back:		
Exceptional items per share (1)	**(0.47)**	1.62
Amortisation per share (2)	**1.54**	1.76
Tax charge per share	**-**	0.06
Charge:		
Tax at prevailing rate	**1.23**	0.18
Adjusted basic and diluted loss per share (pence)	**(5.27)**	(0.77)

(1) Exceptional items per share are calculated as total finance and non-finance exceptional items divided by the weighted average number of shares in issue through the period.

(2) Amortisation per share is calculated as the amortisation charge divided by the weighted average number of shares in issue through the period.

8. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 29 December 2019	124,877	26,744	23,222	24,409	199,252
Additions	-	-	-	1,860	1,860
Disposals					-
At 27 June 2020	124,877	26,744	23,222	26,269	201,112
Amortisation					
At 29 December 2019	-	18,694	525	19,655	38,874
Charge for the period	-	1,328	48	1,244	2,620
At 27 June 2020	-	20,022	573	20,899	41,494
Net book value					
At 27 June 2020	**124,877**	**6,722**	**22,649**	**5,370**	**159,618**

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 30 December 2018	124,877	26,744	23,222	22,228	197,071
Additions	-	-	-	1,026	1,026
At 29 June 2019	124,877	26,744	23,222	23,254	198,097
Amortisation					
At 30 December 2018	-	15,996	427	16,991	33,414
Charge for the period	-	1,349	73	1,568	2,990
At 29 June 2019	-	17,345	500	18,559	36,404
Net book value					
At 29 June 2019	124,877	9,399	22,722	4,695	161,693

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 30 December 2018	124,877	26,744	23,222	22,228	197,071
Additions	-	-	-	2,339	2,339
Disposals	-	-	-	(158)	(158)
At 28 December 2019	124,877	26,744	23,222	24,409	199,252
Amortisation					
At 30 December 2018	-	15,996	427	16,991	33,414
Charge for the period	-	2,698	98	2,726	5,522
Disposals	-	-	-	(62)	(62)
At 28 December 2019	-	18,694	525	19,655	38,874
Net book value					
At 28 December 2019	124,877	8,050	22,697	4,754	160,378

The Group tests property, plant and equipment, goodwill and indefinite life brands for impairment annually and considers at each reporting date whether there are indicators that impairment may have occurred. The emergence of COVID-19 and the resulting reduction in revenue and closure of HSS locations is considered to be an indicator of impairment and accordingly an impairment review has been performed.

The Group has three CGUs: HSS Core, HSS Power and Climate Control. The recoverable amounts of the goodwill and indefinite life brands, which are allocated to CGUs, are estimated from value in use (VIU) calculations which model pre-tax cash flows for the next four and a half years together with a terminal value using a long-term growth rate. The key assumptions underpinning the recoverable amounts of the CGUs tested for impairment are those regarding the discount rate, forecast revenue, EBITDA, and capital expenditure including cash flows required to maintain the Group's right of use assets.

The key variables applied to the VIU calculations were determined as follows:

- Cash flows were derived based on a post COVID-19 forecast for H2 2020 and model of the business for the following two years (to the end of 2022). Operational activity and capital expenditure then had a long-term growth rate applied to it giving a model of four and a half years in total after which a terminal value was calculated. The long-term growth factor used was 1.8% for each of the CGUs (2019: 1.4%).

- A pre-tax discount rate of 9.1% (2019: 9.1%), calculated by reference to a weighted average cost of capital (WACC) based on an industry peer group of quoted companies. The discount rate used has not been updated from that in use at year end due to the calculated risk-free and market returns decreasing as a result of COVID-19 leading to a lower WACC figure. The Directors felt that using this lower WACC was inappropriate in the current economic climate – this would have significantly increased headroom. The approach will be revisited in the impairment review to be carried out in advance of year-end reporting.

An impairment may be identified if changes to any of the factors mentioned above become significant, including underperformance of the Group against forecast, negative changes in the UK tool hire market or deterioration in the UK economy, which would cause the Directors to reconsider their assumptions and revise their cash flow projections.

Based on the VIU modelling and impairment testing, the Directors do not consider an impairment charge to be required in respect of any of the property, plant and equipment, right-of-use, goodwill and indefinite life brand assets carried in the balance sheet at 27 June 2020 for any of the CGUs.

Sensitivity analysis performed on the model does not result in an impairment charge. For the Group, at 27 June 2020, the headroom between VIU and carrying value of the related assets was £138.2m (2019: £291.3m). The Directors' sensitivity analysis shows that an increase in the discount rate to 16.61% (2019: 26.7%) or a long-term growth rate of negative 0.72% (2019: negative growth rate of 4.2%) would require impairment of the most sensitive CGU.

In addition, the Directors assessed a downside scenario which assumed further lock-down restrictions as a result of COVID-19. Given the level of headroom in VIU these calculations show, the Directors did not envisage reasonably possible changes, either individually or in combination, to the key assumptions that would be sufficient to cause an impairment charge at the balance sheet date.

On the 8th October 2020 the Group announced a programme of restructuring which includes the permanent closure of around 130 of its branches. All the impacted branches are allocated to the HSS Core CGU due to their dependence on the wider group to generate income. Once a branch ceases trading it is no longer dependent on the wider network and as such becomes a standalone asset and subject to impairment testing on that basis. Since the decision to permanently close branches was made after the balance sheet date the branches are included within the HSS Core CGU in the impairment testing carried out.

As a result of the decision to close branches the Group expects a reduction in right of use assets of around £13m. Since the forecasts used in the impairment review already assume the operation of a reduced branch network the headroom calculated will increase by approximately the same amount.

9. Property, plant and equipment

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 29 December 2019	73,505	61,925	184,799	320,229
Transferred to right of use assets	-	-	(44,199)	(44,199)
Foreign exchange differences	118	149	734	1,001
Additions	1,012	551	7,279	8,842
Disposals	(559)	(236)	(9,778)	(10,573)
At 27 June 2020	74,076	62,389	138,835	275,300
Accumulated depreciation				
At 29 December 2019	54,437	55,936	108,005	218,378
Transferred to right of use assets	-	-	(19,347)	(19,347)
Foreign exchange differences	95	123	426	644
Charge for the period	1,971	887	9,187	12,045
Disposals	(343)	(168)	(7,454)	(7,965)
At 27 June 2020	56,160	56,778	90,817	203,755
Net book value				
At 27 June 2020	**17,916**	**5,611**	**48,018**	**71,545**

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2018	73,293	62,685	195,384	331,362
Foreign exchange differences	-	(14)	(11)	(25)
Additions	-	2,287	16,142	18,429
Disposals	-	-	(12,148)	(12,148)
At 29 June 2019	73,293	64,958	199,367	337,618
Accumulated depreciation				
At 30 December 2018	51,431	55,125	115,677	222,233
Charge for the period	917	2,538	10,627	14,082
Disposals	-	-	(7,954)	(7,954)
At 29 June 2019	52,348	57,663	118,350	228,361
Net book value				
At 29 June 2019	20,945	7,295	81,017	109,257

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2018	73,293	62,685	195,384	331,362
Foreign exchange differences	-	(95)	(840)	(935)
Additions	2,415	1,891	27,097	31,403
Disposals	(2,131)	(1,482)	(37,988)	(41,601)
Transfers	(72)	(1,074)	1,146	-
At 28 December 2019	73,505	61,925	184,799	320,229
Accumulated depreciation				
At 30 December 2018	51,431	55,125	115,677	222,233
Foreign exchange differences	-	(79)	(546)	(625)
Charge for the period	4,316	2,521	21,764	28,601
Impairment	209	154	-	363
Disposals	(1,568)	(1,469)	(29,157)	(32,194)
Transfers	49	(316)	267	-
At 28 December 2019	54,437	55,936	108,005	218,378
Net book value				
At 28 December 2019	**19,068**	**5,989**	**76,794**	**101,851**

The results of the impairment review for property, plant and equipment are included in Note 8.

10. Right of use assets

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
Cost				
Recognised on transition date	56,558	21,577	25,924	104,059
Foreign exchange differences	167	26	-	193
Additions	3,254	961	3,652	7,867
Disposals	(110)	(136)	-	(246)
At 27 June 2020	59,869	22,428	29,576	111,873
Accumulated depreciation				
Charge for the period	6,180	3,927	2,871	12,978
Disposals	(110)	(135)	-	(245)
At 27 June 2020	6,070	3,792	2,871	12,733
Net book value				
At 27 June 2020	**53,799**	**18,636**	**26,705**	**99,140**

On the 8th October 2020 the Group announced a programme of restructuring which includes the permanent closure of around 130 of its branches. The impact of the decision on ROU assets is explained in Note 8.

11. Trade and other receivables

	27 June 2020	28 December 2019
	£000s	£000s
Gross trade receivables	**52,055**	72,056
Less provision for impairment	**(5,642)**	(3,745)
Net trade receivables	**46,413**	68,311
Other debtors	**4,094**	2,762
Net investment in subleases	**1,727**	-
Prepayments	**6,218**	10,499
Accrued income	**6,585**	6,824
Total trade and other receivables	**65,037**	88,396

The following table details the movements in the provision for impairment of trade receivables:

	27 June 2020	28 December 2019
	£000s	£000s
Balance at the beginning of the period	**(3,745)**	(3,819)
Movement in provision	**(1,897)**	74
Balance at the end of the period	**(5,642)**	(3,745)

The provision for impairment of trade receivables is comprised as follows:

	27 June 2020	28 December 2019
	£000s	£000s
Bad debt provision	**(2,999)**	(1,568)
Credit note provision	**(2,643)**	(2,177)
	(5,642)	(3,745)

The bad debt provision based on expected credit losses and applied to trade receivables, all of which are current, is as follows:

27 June 2020

Categories	**Current**	**0-60 days**	**61-365 days**	**1 - 2 years**	**Total**
Contract assets	45,189	5,825	6,479	1,147	**58,640**
Expected loss rate	2.4%	7.8%	17.5%	27.0%	**5.1%**
Provision for impairment charge	1,101	452	1,136	310	**2,999**

28 December 2019

Categories	**Current**	**0-60 days**	**61-365 days**	**1 - 2 years**	**Total**
Contract assets	63,633	7,500	6,631	1,116	**78,880**
Expected loss rate	1%	3.0%	8.3%	13.9%	**2.0%**
Provision for impairment charge	633	228	552	155	**1,568**

Contract assets consist of trade receivables and accrued income.

The bad debt provision is estimated using the simplified approach to expected credit loss methodology and is based upon past default experience and the Directors' assessment of the current economic environment for each of the Group's ageing categories.

The Directors have given specific consideration to the impact of COVID-19 on the general economy, particularly given expected tapering of government support. At the balance sheet date the Group has not seen a marked increase in debt write-offs, in fact reduced sales combined with an intense focus on collections have resulted in debt that is significantly lower than year end. However the Group expects the situation to deteriorate as government support is reduced and localised COVID-19 lockdowns continue. Given the above, historical losses are not a good predictor of future failures and the Group has exercised judgement in increasing the expected loss rates across all categories of debt. In so doing the provision has been increased by around £1.5m from that which would have been required based on rates used at year end. The position is being monitored closely and the Group expects to review these judgements at year-end based on ageing of debt, write-offs in the second half of the year and the economic outlook at that point.

The provision for credit notes has increased predominately as the result of an expected increase in credit notes during the second half of 2020 for revenue billed between April and June as lock-down restrictions were being lifted.

12. Trade and other payables

	27 June 2020 £000s	28 December 2019 £000s
Current		
Trade payables	**27,966**	33,841
Other taxes and social security costs	**12,598**	6,856
Other creditors	**1,485**	1,565
Accrued interest on borrowings	**3,383**	3,608
Accruals	**22,872**	20,058
Deferred income	**146**	103
	68,450	66,031

13. Borrowings and lease liabilities

	27 June 2020 £000s	28 December 2019 £000s
Current		
Senior finance facility	**15,000**	-
Lease liabilities	**28,154**	-
Obligations under finance leases	**-**	5,355
	43,154	5,355
Non-current		
Senior finance facility	**160,700**	174,501
Revolving credit facility	**17,200**	-
Lease liabilities	**68,774**	-
Obligations under finance leases	**-**	11,228
	246,674	185,729

The senior finance facility is stated net of unamortised debt issue costs of £6.3m (29 December 2019: £7.5m). The nominal value of the Group's loans at each reporting period date is as follows:

	27 June 2020 £000s	28 December 2019 £000s
Senior finance facility	**181,982**	181,982
Revolving credit facility	**17,200**	-
	199,182	181,982

The interest rates on the Group's borrowings are as follows:

	Interest rate type		**27 June 2020**	28 December 2019
Senior finance facility	Floating	%age above LIBOR	**8.00%**	8.00%
Finance leases	Floating	%age above LIBOR	**3.10%**	3.10%
Revolving credit facility	Floating	%age above LIBOR	**2.50%**	2.50%

The weighted average interest rates on the Group's borrowings and lease liabilities are as follows:

	27 June 2020	28 December 2019
Borrowings	**8.57%**	10.40%
Lease liabilities	**5.12%**	-
Finance leases	**-**	4.80%

The Group's leases and borrowings have the following maturity profile:

	27 June 2020		28 December 2019	
	Lease liabilities	**Borrowings**	Finance leases	Borrowings
	£000s	**£000s**	£000s	£000s
Less than one year	**25,332**	**16,348**	6,306	-
Two to five years	**52,162**	**231,735**	11,615	237,228
Over five years	**23,887**	**-**	-	-
	101,381	**248,083**	17,921	237,228
Less interest cash flows:				
Senior finance facility	-	**(47,079)**	-	(55,246)
Revolving credit facility	-	**(1,822)**	-	-
Leases	**(4,453)**	**-**	(1,338)	-
Total principal cash flows	**96,928**	**199,182**	16,583	181,982

The maturity profile, excluding interest cash flows, of the Group's leases is as follows:

	27 June 2020 Lease liabilities	28 December 2019 Finance leases
	£000s	£000s
Less than one year	**28,154**	5,355
Two to five years	**56,471**	11,228
More than five years	**12,303**	-
	96,928	16,583

The Group has undrawn committed borrowing facilities of £19.1m at 27 June 2020 (28 December 2019: £36.6m) under its facilities in place at that date. Including net cash balances, the Group had access to £81.8m at 27 June 2020 (28 December 2019: £59.3m) of combined liquidity from available cash and undrawn committed borrowing facilities.

14. Provisions

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 29 December 2019	4,833	16,209	19,573	40,615
Eliminated on transition to IFRS 16	(2,222)	-	-	(2,222)
Utilised during the period	(235)	(198)	(1,687)	(2,120)
Unwind of discount	2	22	114	138
Released	(803)	-	-	(803)
Foreign exchange	-	19	-	19
At 27 June 2020	**1,575**	**16,052**	**18,000**	**35,627**
Of which:				
Current	396	3,326	3,110	6,832
Non-current	1,179	12,726	14,890	28,795
	1,575	**16,052**	**18,000**	**35,627**

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 30 December 2018	4,745	16,779	22,808	44,332
Additions	4,942	555	-	5,497
Utilised during the period	(2,570)	(790)	(3,580)	(6,940)
Unwind of discount	20	49	345	414
Released	(2,304)	(360)	-	(2,664)
Foreign exchange differences	-	(24)	-	(24)
At 28 December 2019	4,833	16,209	19,573	40,615
Of which:				
Current	2,043	2,990	3,112	8,145
Non-current	2,790	13,219	16,461	32,470
	4,833	16,209	19,573	40,615

On the 8th October 2020 the Group announced a programme of restructuring which includes the permanent closure of around 130 of its branches. The Group expects to recognise additional provisions related to the non-rent costs of onerous properties of around £4m.

15. Risks and uncertainties

The principal risks and uncertainties which could have a material impact upon the Group's performance over the remaining 26 weeks of the 2020 financial year have not changed significantly from those set out on pages 26 to 31 of the Group's 2019 Annual Report, which is available at https://www.hsshiregroup.com/wp-content/uploads/2020/06/HSS_ARA2019_WEBSITE.pdf. These risks and uncertainties are:

1) Macroeconomic conditions;

2) Competitor challenge;

3) Strategy execution;

4) Customer service;

5) Third party service levels;

6) IT infrastructure;

7) Financial risk;

8) Inability to attract and retain personnel; and

9) Safety, legal and regulatory requirements

COVID-19 is considered in terms of its impact on each of the principal risks and uncertainties. The main risk expected to affect the Group in the remaining 26 weeks of the 2020 financial year is macroeconomic conditions, which includes the impact COVID-19 and Brexit related developments could have on the prevailing demand from new and existing customers within the numerous and diverse market sectors which HSS serves.

16. Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA is calculated as follows:

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
	£000s	£000s
Operating (loss)/profit	**(740)**	4,754
Add: Depreciation of property, plant and equipment	**12,045**	14,082
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**2,609**	4,194
Add: Depreciation of right of use assets	**12,978**	-
Add: Amortisation	**2,620**	2,990
EBITDA	**29,512**	26,020
Add: Exceptional items	**(802)**	1,018
Adjusted EBITDA	**28,710**	27,038

Adjusted EBITA is calculated as follows:

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
	£000s	£000s
Operating (loss)/profit	**(740)**	4,754
Add: Amortisation	**2,620**	2,990
EBITA	**1,880**	7,744
Add: Exceptional items	**(802)**	1,018
Adjusted EBITA	**1,078**	8,762

17. Post Balance Sheet Event

On the 8th October 2020 the Group announced its intention to accelerate its digital strategy by further investing in its technology platforms. This investment will allow the business to reduce its physical footprint and operate a leaner branch structure, focused around its core CDC units and key branches. Consequently, the Group proposes to permanently close around 130 of its branches and has entered into a consultation period with c. 300 employees.

The expected impact of this restructuring on the Group's impairment review, right of use assets and provisions is disclosed in the relevant note within these financial statements. In addition the Group expects to incur other restructuring costs, including redundancy, of between £2 and £3m.