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HSS Hire Group plc

("HSS Hire" or the "Company",
together with its consolidated subsidiaries, the "Group")

Proposed Capital Raise of up to £54 million

HSS Hire today announces that it proposes to raise gross proceeds of up to c.£54.0 million by way of a Firm Placing and Open Offer (the "Capital Raise") in the coming weeks and has secured commitments from three of its major shareholders to subscribe c.£43.5 million for Company shares as part of the Capital Raise.

As set out in the Company's 2020 interim results on 8 October 2020, the Board has been encouraged by the resilience that HSS Hire has shown during this period of unprecedented disruption brought about by the COVID-19 pandemic. Revenues have now returned to above 90% of 2019 levels and the Group has also seen a notable acceleration of its digital strategy with a significant increase in online penetration.

However, the COVID-19 pandemic and the significant disruption that it has caused has inevitably had a significant impact on the Group's revenue in 2020. In response, the Group implemented a number of measures to reduce costs and preserve liquidity which has enabled HSS Hire to meet the debt covenants under its borrowing facilities to date. However, given that the challenging economic environment may last for a prolonged period, it is possible that without the Capital Raise these covenants may be breached when tested at the end of 2020. Having fully reviewed the options available to the Group, the Board has concluded it is prudent to raise capital before the year end.

The Directors believe that the Capital Raise will ensure a strong cash position and reduce net leverage, enabling the Group to continue to its strong progress and successfully execute its strategy.

Transaction Summary

- Intention to raise gross proceeds of up to c.£54.0 million by way of a Firm Placing and Open Offer at a price of 10p per share

  - Three of the Company's major shareholders, representing approximately 78% of its issued share capital, have provided commitments to invest c.£43.5 million in the Capital Raise

  - Firm Placing of c.£18.6 million with Toscafund Asset Management LLP ("Toscafund") and Ravenscroft (CI) Limited ("Ravenscroft")

  - Open Offer of up to c.£35.5 million
    - Exponent Private Equity LLP ("Exponent") has committed to subscribe for £15 million of shares under the Open Offer
    - Toscafund has committed to subscribe for their pro-rata entitlement under the Open Offer
    - Ravenscroft has committed to subscribe for their pro-rata entitlement under the Open Offer
    - The commitments to subscribe for shares in the Open Offer are subject to certain conditions, as described below
    - The Open Offer will not be underwritten, save as described above

- The Company intends to use the net proceeds from the Capital Raise to:

  - Continue investment in the technology platform to strengthen the Group's commercial proposition

  - Continue investment in the hire fleet to support the Group's tool hire business

  - Repay £15 million of debt that falls due in January 2021 to enable the Group to continue to de-lever

- Given the current free float and size of HSS Hire, the Board is exploring alternative listing venues for the Company, while ensuring an active market in its ordinary shares

- A combined prospectus and circular (the "Prospectus") setting out full details of the Capital Raise is expected to be published during the coming weeks

- The Capital Raise is conditional on certain resolutions being passed by the Shareholders. A Notice of the General Meeting of the Company for the Shareholders to consider and approve the resolutions in connection with the Capital Raise will be included in the Prospectus. Each of Exponent, Toscafund and Ravenscroft has agreed to vote in favour of such resolutions.

Alan Peterson OBE, Chairman, commented today:

"This transaction is a major vote of confidence from three shareholders representing over 75% of the Company's shares. It is testament to the significant strategic and operational progress HSS Hire has made since the start of 2018 as well as its resilience in challenging economic conditions. This capital injection will enable the Group to further reduce its leverage - one of our foremost objectives - and gives us a strong platform from which to continue to implement change and drive growth. I am delighted that the Open Offer gives all current owners of the business the opportunity to participate on the same terms, and on behalf of the Board, I would like to thank all our shareholders as well as HPS and our other lenders for their continued positive support."

Background to the Capital Raise

The current executive Directors joined HSS Hire between August 2016 and June 2017, and in August 2017 launched a detailed strategic review, the conclusion of which was announced in December 2017. The Group engaged an independent third party to work with management to undertake an extensive strategic review of the business. The review was wide ranging in scope and involved analysis of 20 million contract lines, more than 35,000 customers, 1,600 products and more than 240 locations. The Group focused on a number of areas including profitability, the cost of its operations, processes it has in place and the market opportunity.

Following this strategic review, the Group set out its new strategy in December 2017. This set out three key strategic priorities: de-lever the Group, repair the tool hire business and strengthen the Group's commercial proposition. These priorities remain unchanged following the COVID-19 pandemic, albeit with a nuance from *repair* the tool hire business, to *transform* the tool hire business, following a successful transformation programme in 2018.

HSS Hire has made considerable progress against these three core elements of its strategy. Since the 2017 strategic review, the Group has reduced its total leverage from 4.8x as at the end of FY17 to 2.8x as at the end of FY19 through improved Adjusted EBITDA, a continued focus on working capital management and the use of proceeds from the sale of UK Platforms Limited.

The Group returned its tool hire business to profitability in FY18 and in FY19 grew revenue ahead of the market, recording revenue growth of 3.9% and EBITA of £26.5 million. Furthermore, it significantly improved EBITA margins (growing from 0.5% in FY17 to 8.1% in FY19), delivered a marked improvement in return on capital employed (growing from 1.0% in FY17 to 20.8% in FY19) and achieved a second record year of adjusted EBITDA on a comparable basis.

Lastly, the Group has significantly strengthened its commercial proposition and prioritised the investment in technology to transform the Group's digital offering and OneCall rehire proposition into a more scalable technology-led business with seamless customer experience. One of several successful digital initiatives was the launch of the new OneCall rehire platform, 'Brenda'. Brenda is a new, modern automated platform which has the ability to source hire equipment from the Group's extensive network of suppliers but significantly shortens the customer journey and provides superior visibility of the rehire process for customers, suppliers and colleagues alike. Combined with the launch of HSS Hire's customer and driver apps this investment is now enabling the Group to transform its operating model and remove significant fixed costs associated with its branch network whilst maintaining a national presence.

As part of the Group's new strategy, in June 2018 it put in place a Senior Financing Facility and a new Revolving Credit Facility. These facilities replaced the Group's existing revolving credit facility and listed bonds, each of which were due to mature in 2019. The Senior Financing Facility and the Revolving Credit Facility provided the liquidity and flexibility to continue the delivery of the Group's strategic priorities.

Reasons for the Capital Raise

The HSS Hire management team has made considerable progress in de-levering the Group. As at 27 June 2020, the Group's net debt (excluding the IFRS16 impact of £80.1 million of additional lease liabilities) stood at £156.7 million, a reduction of £22.8 million from 28 December 2019. This included a Senior Financing Facility fully drawn down at £182m, and £17.2 million of drawings from the Group's Revolving Credit Facility. Both the Senior Financing Facility and Revolving Credit Facility are subject to a net debt leverage financial covenant test every quarter.

The COVID-19 pandemic has significantly impacted the Group's revenue in 2020. As a result, the Group implemented the following measures to manage costs and preserve liquidity:

- The Group has reduced capital expenditure and continues to adopt a disciplined approach to investment driven by demand and returns.
- The Group has engaged in overhead reduction and utilised the UK Government's Job Retention Scheme placing, at the highest point, 62% of the Group's workforce on furlough in March 2020. Since then it has engaged in a significant restructuring and moved to a digital approach, including the following steps:
  - The Group plans to permanently shut 134 branches; and
  - The Group has made 12% of its approximately 2,400 employees redundant as of October 2020.
- The Group has also negotiated rental holidays with landlords, utilised rates relief, deferred certain HMRC payments and reduced the salaries of certain members of management.
- The Group has also utilised a number of additional measures made available by the UK Government to help conserve cash.

The Group's strategy and the actions taken by management to improve liquidity have enabled the Group to meet its debt covenants under its borrowing facilities to date. However, the current disruption caused by COVID-19 and consequential economic backdrop may last for a prolonged period. Without the Capital Raise, it is possible that the covenants may be breached when tested at the end of 2020. Consequently, if the Capital Raise does not successfully complete, the Group's lenders may be in a position to declare a default of the Group's debt, which could cause Shareholders to lose all or a substantial part of their investment in the Company.

The Directors believe that the Capital Raise will ensure a strong cash position and reduce net leverage, enabling the Group to continue with its strong progress and successfully execute its strategy. In particular, the Directors believe that HSS Hire is well placed to capitalise on its investment in technology. Since March 2020, the Group has seen a 33% increase in online users and a significant shift in orders being placed through digital channels, from less than 10% to over 30% penetration. During the COVID-19 pandemic, the Group has operated with just 20% of its branch network open and yet has returned the business to over 90% of prior year revenues as at 30 September 2020. This has been enabled by the Group's technology (e.g. click-and-collect, digital channels), the strength of the Group's distribution network (40 Customer Distribution Centres) and successful trials of alternative sales models (such as virtual sales colleagues and concessions within builders merchant partners). The Board believes that these changes have the capacity to allow the Group to generate a similar level of revenues as in previous years while operating with a significant lower cost base, driving both profitability and returns on capital.

Alongside the benefits from its investment in technology, the Directors believe that the COVID-19 pandemic could accelerate an ongoing trend among customers to outsource their equipment needs and equipment management as many companies look to rationalise their head-office functions and focus on core activities. Furthermore, the Directors believe that within this outsourcing trend there is an increasing demand to rationalise the number of suppliers of rental equipment, which the Directors expect to inevitably benefit the larger players such as the Group. The Directors believe that the Group is particularly well positioned to take advantage of this, given the strength of its Services division offering, the "one-stop-shop" proposition of OneCall and the opportunities created by the Brenda technology platform to add bolt-on product verticals to this online marketplace. The Directors believe the Capital Raise will provide a sustainable capital structure alongside strong liquidity to allow HSS Hire to capitalise on the evolving industry dynamics and continue to grow the business. As part of the Capital Raise the Board is also reviewing the current management incentive plans.

Irrevocable voting undertakings

Exponent, which holds in aggregate 85,681,708 of the Company's shares which represents 50.3% of the Company's issued share capital, Toscafund, which holds in aggregate 45,812,070 of the Company's shares which represents 26.9% of the issued share capital and Ravenscroft, which holds in aggregate 1,990,000 of the Company's shares which represents 1.2% of the issued share capital, in each case as at 22 October 2020 (being the last practicable date prior to the publication of this announcement), has each provided irrevocable undertakings including in respect of exercising all of the voting rights attaching to the shares in the Company to which they are the legal or beneficial owner (or over which they act on behalf of clients who are the beneficial owner) to vote in favour of each of the resolutions to approve the Capital Raise and other matters which will be proposed at the General Meeting and at any adjournment thereof.

Conditionality

The commitment of one of the major shareholders to participate in the Capital Raise is conditional on the outcome of the Group's property restructuring. The Group has certain leasehold properties within its portfolio which it no longer utilises (being 'dark stores' and certain other operational and office locations). As announced on 8 October 2020, the Group has taken the decision to close permanently a significant proportion of its branch network, as a result of which the Group's dark store liabilities may increase. The Group is working with property restructuring advisors as regards these site closures. The major shareholder's participation in the Capital Raise is conditional on the Group achieving a reduction of at least 75% in its dark store liabilities.

The aggregate commitment of c.£43.5 million from the major shareholders to participate in the Capital Raise is conditional on the participation of each of the other major shareholders.

Board observer

Following completion of the Capital Raise, Ravensworth International Limited (on whose behalf Ravenscroft is participating in the Capital Raise) will have the right to appoint an observer to the Board, who will be able to attend Board meetings but not vote. This right will continue for so long as Ravensworth International Limited owns or controls 20% or more of the issued share capital of the Company.

Related party transaction

As Toscafund holds 26.9% of the Company's issued share capital (as at 22 October 2020 (being the last practicable date prior to the publication of this announcement)), it is a related party for the purposes of the Listing Rules. The Firm Placing to Toscafund will constitute a related party transaction and will need to be approved at the General Meeting by the independent Shareholders (being Shareholders other than Toscafund or any of its associates). Further details will be included in the Prospectus which is expected to be published during the coming weeks.

HPS warrant instruments

Under the terms of the warrant instrument issued to various affiliates of HPS Investment Partners ("HPS") on 20 June 2018 (the "Warrant Instrument"), HPS has the right to subscribe for a number of shares in the Company representing 5% of the shares that will be issued under the Capital Raise, on the same terms as shares are issued under the Capital Raise.

Proposed transfer of listing

The Board believes that an alternative listing venue may be more suitable than the Company's existing listing on the premium segment of the Official List of the FCA.

HSS Hire's current free float stands at 13.8% and has been broadly unchanged for several years. Following the Capital Raise, the Company's free float is likely to be reduced further. As previously disclosed, the Company has been in dialogue with the FCA for some time and agreed a modification of Listing Rule 9.2.15R, which would otherwise require a free float of at least 25%. The current modification expires on 20 August 2021. Whilst a company's appropriateness for an alternative listing venue is, in part, dependent on it having sufficient free float in order that there is a properly functioning market in the shares, the Board notes that certain other listing venues have a lower minimum requirement for a number of shares to be held in public hands.

The Board believes an alternative venue may provide lower annual costs and simpler administration and regulatory requirements more appropriate to a company of HSS Hire's size and also more flexibility in relation to corporate transactions should such opportunities or initiatives arise or become relevant to the Group in the future. The Board is exploring alternative options and will update Shareholders in due course.

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR") EU no.596/2014. Upon the publication of this announcement via Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

The person responsible for releasing this announcement is Daniel Joll, Company Secretary.

HSS Hire Group plc LEI: 2138004DGL1J6VQO6S92

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This announcement has been issued by and is the sole responsibility of the Company. The information contained in this announcement is for background purposes only and does not purport to be full or complete. The information in this announcement is subject to change.

This announcement is not a prospectus but an advertisement. Neither this announcement nor anything contained in it shall form the basis of, or be relied upon in conjunction with, any offer or commitment whatsoever in any jurisdiction. Investors should not acquire any shares referred to in this announcement except on the basis of the information contained in the Prospectus to be published by the Company in connection with the Capital Raise.

Copies of the Prospectus when published will be available on the Company's website at www.HSShiregroup.com. Neither the content of the Company's website nor any website accessible by hyperlinks on the Company's website is incorporated in, or forms part of, this announcement. The Prospectus will provide further details of the new shares being offered pursuant to the Capital Raise.

This announcement does not contain or constitute an offer for sale or the solicitation of an offer to purchase securities in the United States. The new shares have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act") or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from or in a transaction not subject to the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the new shares in the United States.

This announcement contains "forward-looking statements", which include statements other than statements of historical facts, including, without limitation, those regarding the Company's intentions, beliefs or current expectations concerning, among other things, its future financial condition and performance and results of operations; its strategy, plans, objectives, prospects, growth, goals and targets; future developments in the industry and markets in which the Company participates or is seeking to participate; and anticipated regulatory changes in the industry and markets in which the Company operates. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believe", "continue", "could", "expect", "intend", "may", "plan", "should" or "will" or, in each case, their negative, or other variations or comparable terminology. By their nature, forward-looking statements are subject to known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Such forward-looking statements are based on numerous assumptions, some of which are outside of the Company's influence and/or control, regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Shareholders and potential investors are cautioned that forward-looking statements are not guarantees of future performance and that the Company's actual financial condition, results of operations, cash flows and distributions to Shareholders and the development of its financing strategies, and the development of the industry in which it operates, may differ materially from the impression created by the forward-looking statements contained in this announcement. In addition, even if the Company's financial condition, results of operations, cash flows and distributions to Shareholders and the development of their financing strategies, and the development of the industry in which they operate, are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. No statement in this announcement is intended to be a profit forecast.

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