

# HSS Hire Group plc

## Project Edgbaston

16 November 2020



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# Agenda

**Our Market**

**Recent Journey and Performance**

**Response to Covid-19**

**Vision**

**Strategy Acceleration**

**Proposed Transaction**



# Summary

## Attractive Market

- Large and fragmented market provides growth opportunity for a differentiated technology-led operator
- HSS technology platform, alongside breadth of offering and new agile business model expected to provide competitive advantage

## New Leadership Team: Strong Track Record

- Two years of record results and successful execution of strategy
- On track to deliver performance framework before COVID-19

## Response to COVID-19

- Decisive action taken and acceleration of digitally-led agile model
- Substantial recovery of revenue and profit; 90%+ of FY19 revenue by September, with continued momentum in October and November

## Strong Vision, Clear Strategy

- COVID-19 has reinforced our vision to be the market-leading digitally-led brand for equipment services
- Changes to operating model implemented in October, realising significant cost savings and positioning ourselves as a more agile digitally-led business

## Proposed Transaction

- Firm Placing and Open Offer of up to £54m to continue investment in technology and the hire fleet as well as reduce leverage
  - Irrevocable commitments from three existing major holdings to subscribe up to £43.5m as part of the proposed transaction
- Proposed transfer to AIM market

# Our Market



Significant opportunity, HSS well positioned

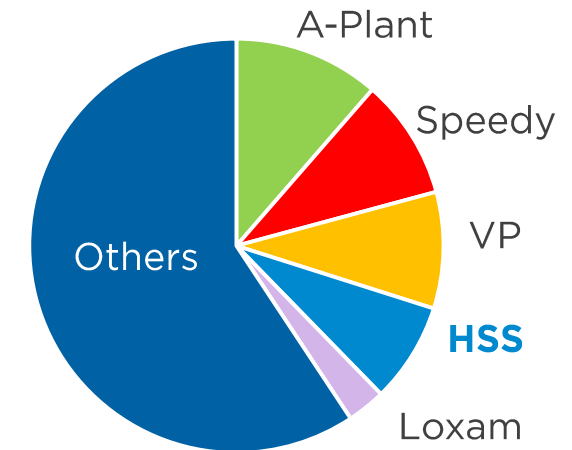
## Market Overview

- The equipment hire market is large, £4bn, and fragmented. Approximately 1,000 small independent hire companies
- There has been a lack of differentiation amongst leading players
- Diverse market. Customers require a wide range of equipment and serve a diverse set of end-markets

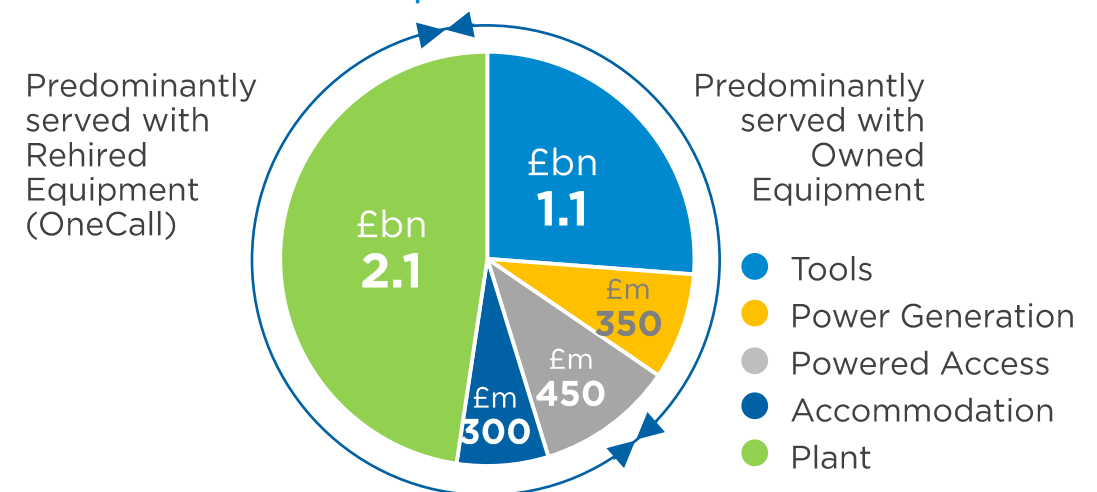
## HSS Position

- HSS currently has c.7-8% of the market
- HSS is well-positioned:
  - Addresses the entire market via a blend of directly hired equipment and rehire
  - Strong distribution network
  - Fast-growing services division
  - Investment in technology platform

## UK&I Equipment hire market Fragmented supply



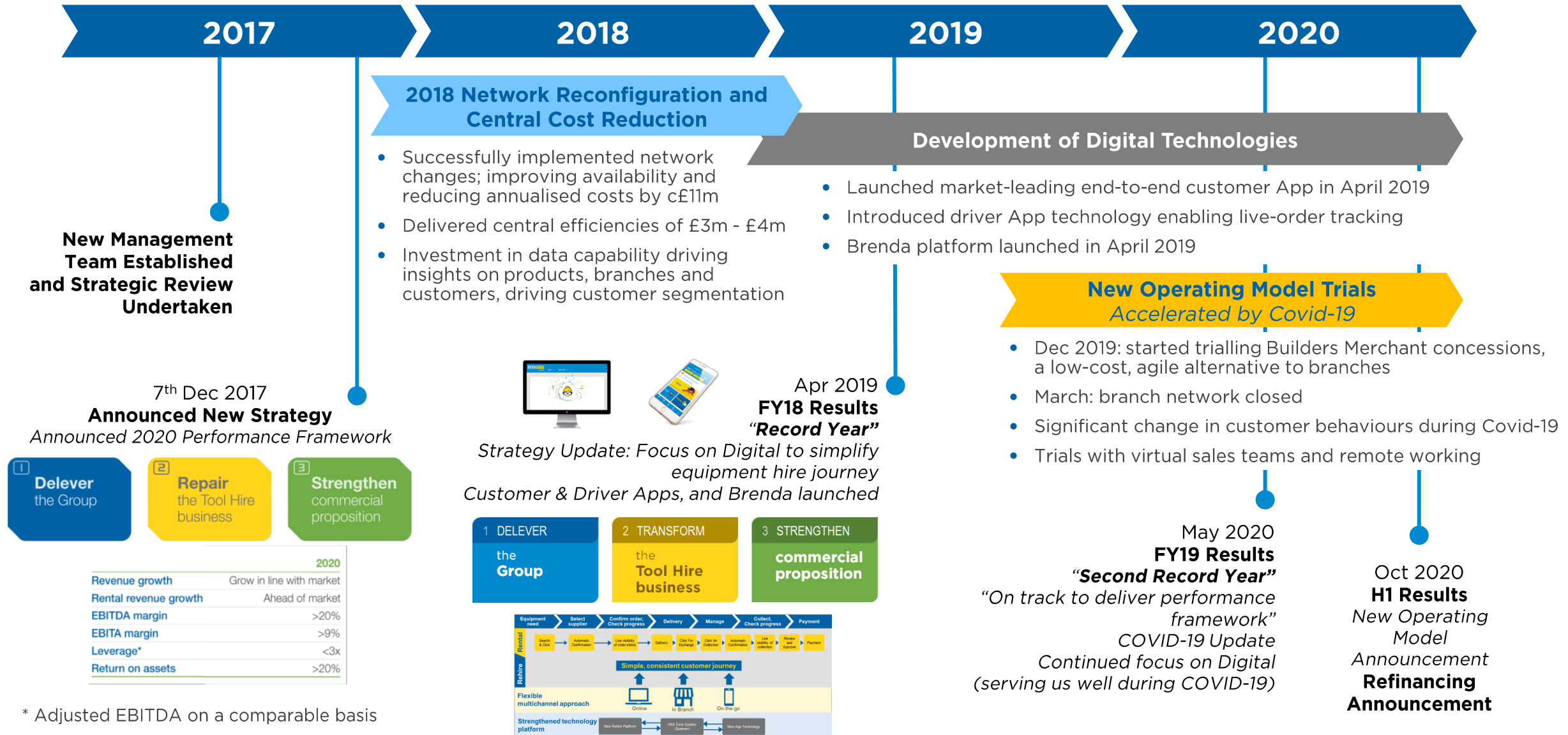
## Diverse set of requirements



# Our Recent Journey



Successful progress under new management, two record profit years\*



\* Adjusted EBITDA on a comparable basis

# Recent Performance



On track to deliver performance framework targets before COVID-19

	2017	2018 <sup>1</sup>	2019 <sup>1,2</sup>		Framework Targets
<b>Revenue growth</b>	(1.9%)	6.2%	<b>3.9%</b>	✓	Ahead of market*
<b>Rental revenue growth</b>	(5.7%)	3.8%	<b>1.3%</b>	✓	Ahead of market
<b>Adjusted EBITDA margin</b>	14.6%	18.6%	<b>19.5%</b>	↗	>20%
<b>Adjusted EBITA margin</b>	0.5%	6.8%	<b>8.1%</b>	↗	>9%
<b>Leverage</b>	4.8x	3.3x	<b>2.8x</b>	↘	<2.5x*
<b>Return on Capital Employed</b>	1.0%	16.7%	<b>20.8%</b>	✓	>20%

<sup>1</sup> Results for 2018 and 2019 on a continuing operations basis, stripping out the disposal of UK Platforms

<sup>2</sup> 2019 revenue adjusted for loss of Services volume related to managed service contract

\*Targets revised to be more challenging April 2019

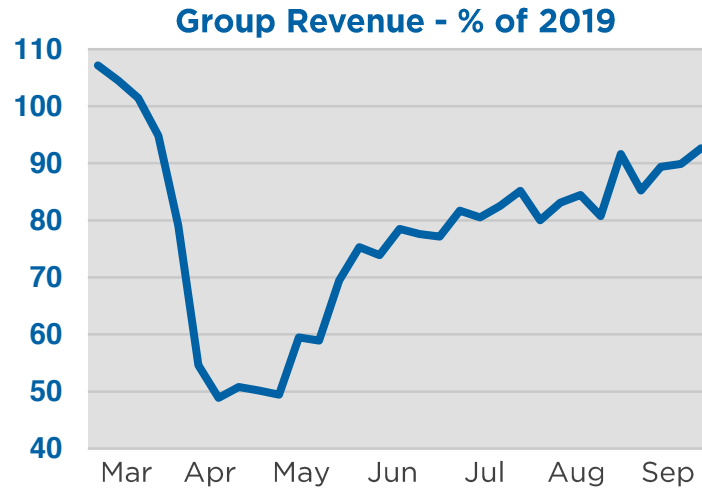
Note: Performance Framework was introduced by the new management team in December 2017 alongside the launch of the new strategic plan. This framework reflects management's vision of industry-leading performance in the rental sector

# Response to Covid-19



Resilient performance delivered following decisive actions

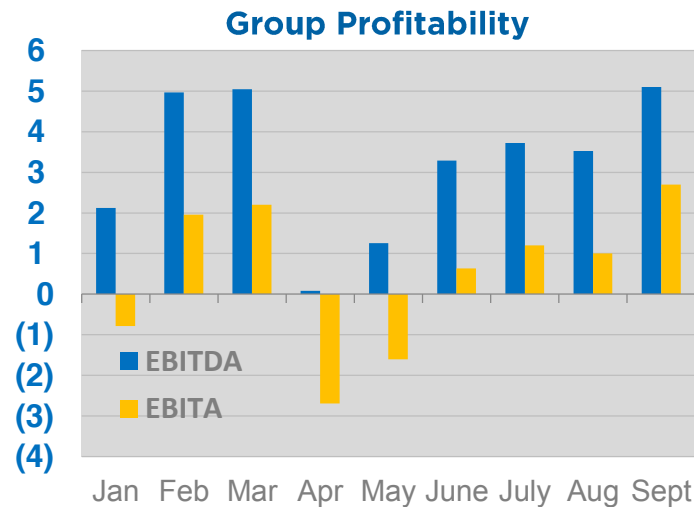
## Revenue over 90% of 2019 levels



Strong recovery in activity driven by:

- Enhancements to digital channels, driving online orders
- Launch of our Click-and-Collect proposition, providing low-touch fulfilment channel
- Controlled return of colleagues from furlough, focusing on sales activity and operational capacity
- Continuity of service delivered by our operations teams
- Services performance: resilient OneCall division and recent rapid recovery of Training
- Regional recovery rates different and driven by local policy

## Profitability recovered to pre-Covid-19 levels



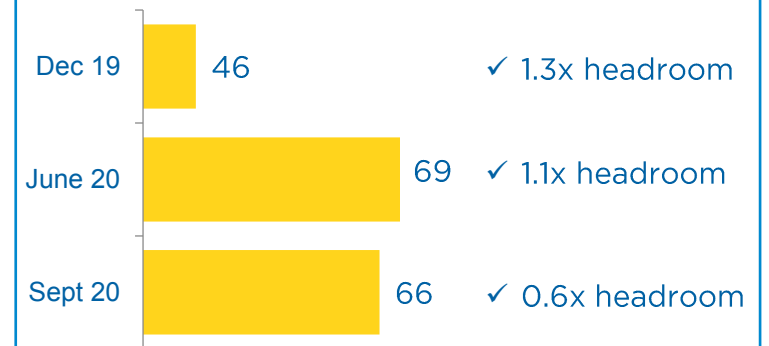
EBITDA remained positive throughout, following decisive action:

- During Q2 a peak of 62% of colleagues furloughed
- Management salary reductions throughout Q2
- Rent & rates savings
- Reductions in other discretionary spend
- September EBITDA and EBITA at pre-COVID-19 levels

## Decisive Actions Taken to Increase Liquidity

**Liquidity headroom £m**  
significantly enhanced

**Covenant Tests**  
successfully met



Cash outflow reduced by 50% in Q2:

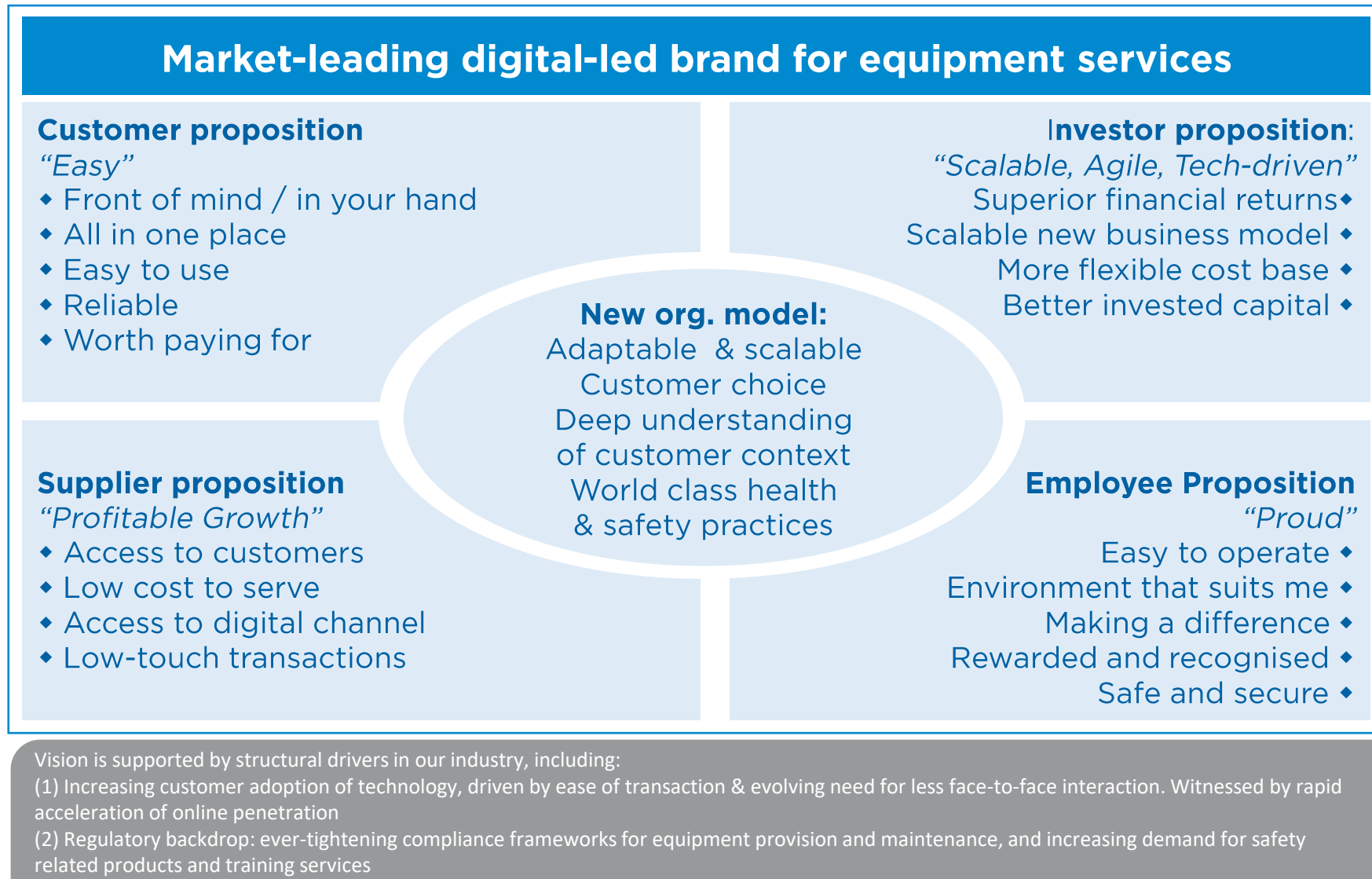
- Fleet capex reduced
- Actions taken to furlough colleagues and reduce management salaries realised c£12m cash savings
- Rent holidays agreed with landlords and increased flexibility over payments during 2020
- Taking advantage of tax relief:
  - VAT for Q2 20 deferred to 2021/22 tax year
  - Business rates relief for branch network
  - All other HMRC liabilities are being settled on time
- Reduced overdue debt:
  - Debt team strengthened
  - New dispute management team created



# Clear Strategic Vision



Acceleration of agile, digitally-led elements, reinforced by COVID-19



# Strategy Acceleration: Digital



2019

2020

## What We Did

- Launched **market-leading** end-to-end customer App in April 2019
- Introduced driver App technology enabling **live-order tracking** and improved operational efficiency
- **Fully integrated** both Apps with our industry-leading fully transactional website
- Launched **Click-and-Collect** during lockdown
- National salesforce digital rollout targeting **increased adoption**

## Results Achieved

- 50,000+ downloads
- 4.7 Apple App Store rating
- 33% increase in online users since pre-COVID-19<sup>1</sup>
- Significant customer shifts to **digital channels** for placing orders (from <10% to 32% penetration)<sup>1</sup>
- Also significant shift to low-contact **Click-and-Collect** (currently 23% of contracts) or **delivered-to-site** (increased from 52% to 65% of contacts) as an alternative to branch collections<sup>1</sup>

## Adapting to New Norm

- Continued investment in technology
- Creating **virtual sales colleague roles**, focused and incentivised colleagues
- **Strengthening** field-based salesforce
  - Additional colleagues
  - New training
  - New technology
- Reduced need for **branch network** as customers adapt to digital and low-contact channels



<sup>1</sup> Recent figures based on 8 weeks to Sept Wk3; comparators based on 8 weeks prior to Mar Wk 4

# Strategy Acceleration: OneCall



## What We Did

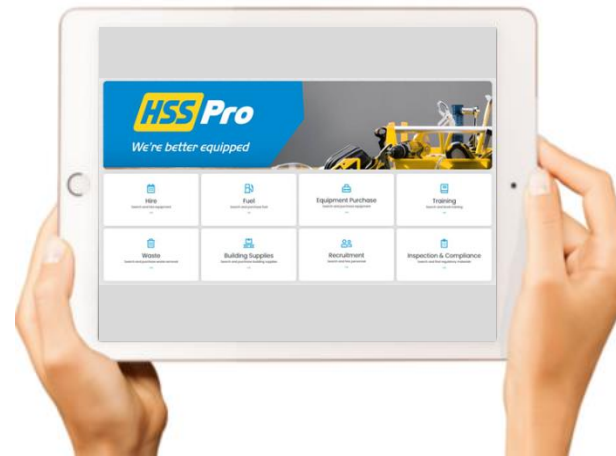
- **Brenda** platform launched and went live in 2019
- Colleagues trained and suppliers on-boarded
- Introduced **remote working** to ensure business continuity
- Continued **technology** investment: creation of a single online platform for all colleagues offering the full range of our services

## Results Achieved

- Significant improvement in metrics during rollout:
  - 10% **conversion** improvement
  - 68% increase in **productivity**
  - 100bp **margin** improvement
- Depth of supply chain and responsiveness has been beneficial to us during pandemic

## Adapting to New Norm

- Flexible **remote-working** solution for OneCall team and suppliers' employees
- **National rollout** of single online platform to salesforce in Q4
  - New tool for virtual order-takers
  - Full access to extended range of rehire products
- **Differentiation** will be key in a challenging market



2019

2020

# Strategy Acceleration: Operating model



2019

2020

## What We Did

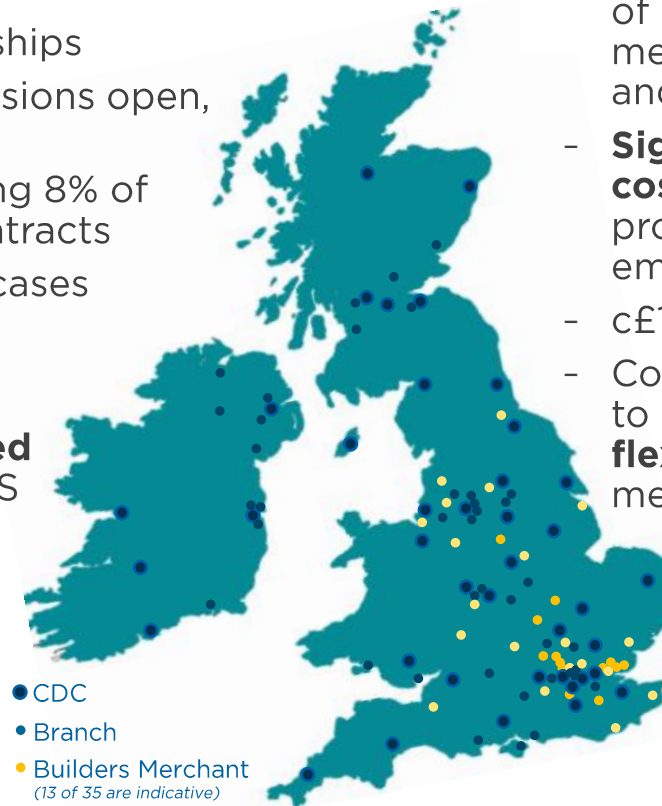
- **Removed excess** distribution network capacity
- Trialled builders merchant concession model:
  - **Low-cost** and **agile**
  - Access to **new customers** and footfall
- Leveraged new **technology** to enable new ways of working
- Trialled '**virtual-teams**' model during COVID-19 phase, keeping majority of small branches closed as lockdown has been released

## Results Achieved

- Distribution **fixed costs reduced**
- Builders merchant model proving **successful**
  - 8 partnerships
  - 23 concessions open, 2 in build
  - Now raising 8% of group contracts
  - Business cases exceeded
- **Above 90% of revenue retained** with 20% of HSS branches open

## Adapting to New Norm

- Moving to new agile model
  - **Digitally-led**
  - National footprint, blend of branches, builders merchant concessions and virtual teams
  - **Significantly reduced cost base** (134 fewer properties, c300 fewer employees)
  - c£15m cost reduction
  - Conversion of fixed cost to variable costs, enabling **flexible** growth model to meet demand



New Agile  
Operating  
Model:

- CDC
- Branch
- Builders Merchant  
(13 of 35 are indicative)



# Proposed Transaction



Capital Raise  
up to £54m

## Structure

- Three of the Company's major shareholders have provided commitments to invest up to £43.5m
- Firm Placing of c.£18.6m with Toscafund and Ravenscroft
- Open Offer of up to £35.5m
  - Exponent has committed to subscribe £15 million for shares
  - Ravenscroft and Toscafund to subscribe for pro-rata entitlement

## Use of Proceeds

- Repay the £15m of debt that falls due in January 2021 to enable the group to continue to de-lever
- Continued investment in the technology platform to strengthen the Group's commercial proposition and in the hire fleet to support the Group's tool hire business

## Transfer to AIM

- Expected to provide lower annual costs and simpler administration and regulatory requirements more appropriate to the Company's size
- Greater flexibility in relation to corporate transactions should such opportunities or initiatives arise
- Currently reliant on a modification of Listing Rule 9.2.15R, which would otherwise require a free float of at least 25%

## Reasonable Worst Case Scenario Analysis (“RWC”)

- The second nationwide lockdown commencing in November 2020 is assumed to last for 4 consecutive months until the start of March 2021 and have a worse than expected and materially negative impact on demand
- Activity in the construction industry is assumed to be negatively impacted during the Second National Lockdown, but to a lesser extent than was experienced during the spring 2020 nationwide lockdown as a result of:
  - The UK Government’s stated intention that construction should continue even if other COVID-19 restrictions are imposed
  - Increased preparedness of the construction industry to operate in a lockdown, having already established and implemented new COVID-19 compliant working practices
  - HSS shift to an increasingly digital and Click and Collect business model, which has already successfully serviced customers in a lockdown environment, combined with increased preparedness from the roll out of remote working and setting up virtual teams
- As a consequence, under the Second National Lockdown, sales across all regions and divisions are assumed to decline to the following levels of revenue vs the corresponding period in 2019:

November 2020	December 2020	January 2021	February 2021	March 2021	Remainder of FY21
83%	76%	79%	81%	86%	87-88%

### With The Proposed Transaction

- Enables investment in the technology platform and hire fleet deliver the strategy
- Ability to manage business through period of lower trading
- No further call for capital or liquidity requirements beyond existing facilities
- No covenant waivers or bank consents required

### Without The Proposed Transaction

- Business decisions influenced by short-term leverage/covenant management
- The Group may breach its existing financial covenants
- 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

# Timing of Key Events

- Prospectus published 16<sup>th</sup> November 2020
- Open offer closes 3<sup>rd</sup> December 2020
- General meeting 4<sup>th</sup> December 2020
- Settlement 8<sup>th</sup> December 2020
- AIM admission 14<sup>th</sup> January 2021

November						
M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						
December						
M	T	W	T	F	S	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			
January						
M	T	W	T	F	S	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

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