HSS Hire Group Plc

Audited Results for HSS Hire Group plc for the year ended 26 December 2020

Strategy delivering improved performance

HSS Hire Group plc ("HSS" or the "Group") today announces results for the year ended 26 December 2020

Financial Highlights[1]	FY20 (IFRS 16 basis)	FY20 (pre-IFRS16 basis)		FY19[6] (pre-IFRS16 basis)		Change (pre-IFRS 16)
Revenue	£269.9m	£269.9m		£328.0m		(17.7)%
Adjusted EBITDA[2]	£69.4m	£47.0m		£63.9m		(26.4)%
Adjusted EBITDA margin	25.7%	17.4%		19.5%		(2.1)pp
Adjusted EBITA[3]	£19.8m	£16.7m		£26.5m		£(9.8)m
Adjusted EBITA margin	7.3%	6.2%		8.1%		(1.9)pp
ROCE[4]	10.7%	15.2%		20.8%		(5.6)pp
Net debt leverage[5]	2.8x	2.6x		2.8x		0.2x
Other extracts						
Operating profit / (loss)	£1.5m	£(3.5)m		£16.8m		£(20.3)m
Loss before tax	£(23.6)m	£(24.3)m		£(5.8)m		£(18.5)m
Basic loss per share	(12.02)p	(12.40)p		(3.66)p		(8.74)p

- Resilient performance through COVID-19 with strong trading in Q4
  - Progressive revenue growth over H2 FY20, trading revenues in Q4 at 94% of 2019 levels
  - Positive EBITDA maintained throughout FY20, Q4 ahead of prior year
  - Decisive actions taken maintained healthy EBITDA margins and ROCE

- Strengthened balance sheet, reduced leverage
  - Net debt (pre-IFRS16) materially reduced to £120.4m (FY19: £179.5m)
  - Leverage reduced to 2.56x (pre-IFRS 16)
  - Capital raise realised £52.6m gross proceeds
  - Strong working capital management, overdue debt at lowest level in over 5 years

- Accelerated strategy implementation to better serve our customers and suppliers
  - Transformed our national operating model, delivering £15m annualised net cost savings and improved operational efficiency
  - Expanded low cost builders merchant network, currently 31 locations and growing

- Continued technology investment including enhancements to HSS.com, 22% of transactions online in Q4
- OneCall automated platform expanded to cover our full range of products and services, improving the customer experience with a faster and more efficient ordering process

- Strong start to FY21
  - Q1 FY21 EBITDA (pre-IFRS 16) ahead of both FY20 and FY19
  - Revenue continues to improve, Q1 FY21 like for like[7] at around FY19 levels
  - Leverage (pre-IFRS 16) further reduced to 2.1x as at 3rd April 2021, targeting FY21 exit rate below 2.0x
  - Reached agreement to surrender 95% of the 134 closed branches, minimal ongoing liability
  - Sale of Laois completed April 2021 for €11.2 million, reinvestment into additional capex for core Tool Hire business
  - Strategy delivering, well positioned to capitalise on market opportunities.

Steve Ashmore, Chief Executive Officer, said:

"HSS has delivered a resilient performance in a year of unprecedented disruption. The onset of the pandemic had a significant impact across our markets but decisive action to preserve cash and adapt our business supported a strong recovery in the second half of the year with EBITDA ahead of 2019 levels in the final quarter.

During the course of the year, we took the decision to accelerate the implementation of our strategy. By increasing our focus on digital platforms, closing 134 of our branches, and partnering with builders merchants, we have been able to maintain national coverage while significantly reducing fixed costs. We are grateful for the overwhelming shareholder support for our strategy and in October successfully completed a £53m capital raise, further strengthening our balance sheet.

This significant progress has been possible due to the hard work and dedication of our colleagues who have shown outstanding commitment during a uniquely challenging year. Our people are the heart of our business and our most important asset and I would like to thank them for their hard work.

We have had an encouraging start to 2021, with EBITDA in the first quarter ahead of 2019 and 2020 levels. We are well positioned to capitalise on market opportunities as we continue to build on our differentiated commercial proposition to create the most advanced, customer-centric offer in the tool hire marketplace."

Notes

1) Results for FY20 and FY19 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 26 December 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. On this basis FY19 has not been restated to reflect the standard
7) Like for like excludes impact of loss of Services volume associated with FY19 announced change to one managed service contract and impact of additional week's trading in Q1 FY21

-Ends-

Disclaimer:

This announcement contains forward-looking statements relating to the business, financial performance and results of HSS Hire Group plc and the industry in which HSS Hire Group plc operates. These statements may be identified by words such as "expect", "believe", "estimate", "plan", "target", or "forecast" and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions and involve risks and uncertainties. Various factors could cause actual future results, performance or events to differ materially from those described in these statements and neither HSS Hire Group plc nor any other person accepts any responsibility for the accuracy of the opinions expressed in this presentation or the underlying assumptions. No obligation is assumed to update any forward-looking statements.

Notes to editors

HSS Hire Group plc provides tool and equipment hire and related services in the UK and Ireland through a nationwide network and its OneCall rehire business. It offers a one-stop shop for all equipment through a combination of its complementary rental and re-hire business 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 AIM Market of the London Stock Exchange. For more information please see www.hsshiregroup.com.

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Chairman's Statement

2020 has demonstrated the resilience of our Group and the value of our digital transformation to customers and suppliers. We responded exceptionally well to COVID-19 whilst continuing the excellent execution of our strategic plan. The acceleration of our strategy has put the foundations in place for our transformation into a digitally-led, agile leader in the equipment services market.

Accelerating our strategy

Dear shareholder,

We have made considerable progress in delivering our strategy during 2020 despite the challenging market conditions. The Group has delivered a resilient performance, both operationally and financially, taking fast, decisive action in response to COVID-19 thereby ensuring the safety of our colleagues, customers, suppliers and other stakeholders as well as protecting the Group's liquidity.

The onset of the pandemic in March 2020 and the subsequent national lockdown significantly impacted performance as our business, customers and suppliers adapted to working in the new environment. By leveraging our rapidly evolving technology platform we were able to adapt our operating model, including the introduction of low-contact Click-and-Collect capability, and maintain customer service through our national Customer Distribution Centres and OneCall rehire business. Revenues recovered to 94% of FY19 levels by Q4 FY20. Combined with cost action, this has meant that Adjusted EBITDA has remained positive throughout 2020, improving throughout the year from the low point of April 2020.

During 2020 preserving liquidity has been a key focus. Multiple actions were taken across the business including deferring capital expenditure, working with landlords to agree rent holidays and taking advantage of Government job retention schemes. I am pleased that these actions have strengthened the Group's liquidity position.

We have also continued to execute against the strategic priorities we launched in December 2017. During 2020 we invested further in our technology platform and restructured our network allowing us to continue providing national coverage with a significantly lower and more flexible cost base. I am pleased with the progress made implementing our strategy and believe that these changes will further optimise our network efficiency, improve customer service and ultimately enhance shareholder value.

The Board was delighted by the strong support of our shareholders for the Group's strategy during the capital raise which completed in December 2020. £52.6m of gross proceeds were raised enabling a reduction in net debt (a key element of our Delever the Group strategic priority) and further investment in our technology platforms and hire fleet to support the Tool Hire business.

Sector opportunity

The UK hire industry is large (£4bn), but still highly fragmented and the players relatively homogeneous. Most companies have struggled to differentiate their offering and embrace new technologies, providing a significant opportunity for HSS to take a lead. I am confident that the digital transformation programme taking place at HSS will deliver clear advantages for the Group, its customers, colleagues, suppliers and investors alike.

Delivering our strategy

I am pleased to report that, despite the backdrop of COVID-19, material progress has been made against all our strategic priorities with significant changes implemented to create the foundations to transform our colleague, customer and supplier experiences.

Our digital transformation continued with the upgrade of HSS.com and the launch of HSS Pro POS, a single online platform that enables every colleague to offer the full range of the Group's services to customers. This platform represents the evolution of our existing OneCall integrated system. We will continue to invest in our technology in 2021 as we deliver what I believe to be a very exciting roadmap.

Since the start of the first national lockdown, the Group has successfully trialled alternative sales models, including sales colleagues working remotely and partnership concessions with regional builders merchant chains.

The success of these trials, combined with the acceleration of customer behaviour towards the use of our digital platforms in sales and fulfilment channels, has demonstrated that there is a lower cost, more agile business model for rental. This was evidenced by the Group returning to revenue of over 90% of FY19 levels at the end of September with just 20% of the branch network open.

Consequently, the Group permanently closed 134 of its 234 locations, saving c£15m per annum. Working with our property restructuring partners, we have now successfully surrendered or agreed to surrender 95% of these sites.

We now have market-leading technology platforms supported by a national agile distribution network and extensive rehire business, enabling us to transform to a digitally-led agile equipment services provider which we believe will deliver superior returns.

Our results

FY20 performance has been heavily impacted by COVID-19. After a solid first quarter, the first national lockdown resulted in a weaker second quarter; however the business remained resilient and proactive measures enabled us to return to 94% of prior year revenue through Q4 FY20.

Total revenue for the year declined 17.7% with our Rental segment down 21.0% and Services showing more resilience down 3.3% like-for-like (after excluding the loss of Services revenue associated with a change to one managed services contract), having benefited from complementary revenue streams such as PPE sales. Through effective cost management segment margins were maintained.

Adjusted EBITDA (pre-IFRS 16) for the year at £47.0m, whilst a 26.4% decline year on year, benefited from the decisive management actions taken by the Group in response to the pandemic which have enabled margins to be maintained at 17.4% (2019: 19.5%). Adjusted EBITA (pre-IFRS 16) was £16.7m with margin at 6.2%.

Working capital management has been exceptional during FY20 with overdue debt reducing by £3.0m since last year. This, combined with the liquidity preservation actions in response to COVID-19 and gross proceeds from the recent capital raise (£52.6m), mean net debt (pre-IFRS16) has reduced to £120.4m (2019: £179.5m) and liquidity headroom (cash and undrawn revolving credit/overdraft facility) has increased to £103.6m as at 26 December 2020 from £45.9m in FY19. Group net debt leverage (pre-IFRS16 basis) was 2.6x, down from last year (2019: 2.8x), and the lowest level since the Group listed in 2015, an achievement all the more significant given the backdrop of COVID-19.

Capital expenditure was reduced in the financial year, and tightly managed to match the lower sales volume. We continue to use our insight tools, ensuring that investment is targeted on products with high demand and margins. Consequently ROCE (pre-IFRS16) remained healthy at 15.2% (2019: 20.8%).

Our results, including the impact of IFRS 16, are discussed in more detail in the Financial Review.

Our Board and management team

The Board aspires to lead by example and practice the HSS values: Make it: Safe, Happen, Better and Together.

I want to thank all Directors for their individual contributions, determination and increased governance which helped the Group calmly navigate through another year of change for our business against the backdrop of a global pandemic.

Governance

I reported last year that we were taking steps to implement the changes to corporate governance reflected in the 2018 Code and reinforce the work we were already doing. Since then, the Company has moved markets and, with its shares admitted to trading on AIM in January 2021, the Board has decided to adopt the QCA Corporate Governance Code, in line with many other AIM companies. We are reporting this year under the 2018 Code and from FY21 onwards will report under the QCA Corporate Governance Code. More detail on this, including our efforts to date around stakeholder engagement, can be found in the Corporate Governance section and throughout the Strategic Report.

Our people

The strength of our culture shone through this year and I am proud to be able to represent HSS. The way the Group responded in such a resilient manner to the challenges of the COVID-19 pandemic as well as accelerating many aspects of our strategy is a testament to the dedication, skills, can-do attitude and adaptability of our colleagues. This strong resonance with our culture, purpose and values has been evidenced by further improvement in our colleague engagement score in the 2020 survey. On behalf of the Board, I would like to take this opportunity to thank everyone for all of their extraordinary efforts during 2020.

Sustainability

Our primary responsibility is always to ensure the safety of HSS colleagues, customers, suppliers and other stakeholders, and never more so than in the current climate. To this end the Board remains fully committed to providing a safe and secure environment for all, monitoring and supporting senior management's plans including the implementation of COVID-19 safe practices. The processes and procedures in place have been appropriately recognised with the Group becoming ISO 45001 (Occupational Health and Safety) accredited during 2020.

Pleasingly, the progress has been translated well into results with another material reduction in the number of RIDDORs (incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) with only 2 reported in FY20 (FY19: 11). This remains an ongoing focus.

The Board is also active in ensuring that the business operates with transparency and integrity, delivering a sound economic performance, whilst paying close attention to reducing our impact on the environment, and that we are contributing in a positive way to the local communities in which we operate.

Dividend
The Board is committed to delivering our strategic priorities, and after careful consideration of the performance of the Group during the year, believes it is in the best interests of the shareholders of the Group to not pay a final dividend in respect of 2020. The Board will re-evaluate this position once the net debt leverage ratio falls below 2.5x.

Looking ahead
Our business has demonstrated significant resilience in 2020, maintaining high customer service levels despite challenging conditions. Our strategic investment in technology is meeting changing customer needs and providing a high level of differentiation in a competitive marketplace. Combined with our more agile, lower cost national operating model and strengthened balance sheet, we believe the Group is well positioned to take advantage of recovering trading conditions as they occur and deliver enhanced returns for our shareholders.

I am delighted with the Group's performance at the start of 2021. Despite being in a national lockdown, revenue has continued to recover towards FY19 levels. Adjusted EBITDA (pre-IFRS16 basis) for Q1 FY21 is ahead of the comparable periods for FY19 and FY20.

We are well placed to benefit as restrictions are relaxed in the coming months.

Disposal of Laois Hire
To continue our strategic focus on the tool hire business we announced after the balance sheet date the sale of Laois, our Irish large plant hire business, to Briggs Equipment Ireland limited. The Laois business has made an excellent contribution to the Group over recent years and I wish our former colleagues every success for the future. As part of the disposal we have entered into a commercial agreement with Briggs to ensure we continue to provide our Irish customers with their large plant requirements.

Alan Peterson OBE
Chairman

Chief Executive Officer's Strategic Review

I am pleased to report a resilient performance and good strategic progress despite the challenging market conditions in 2020. We took decisive action throughout the year, immediately reacting to lockdown to protect colleagues and customers, whilst offering continuity of supply, before accelerating our strategy, transforming our operating model and removing significant fixed costs. We have continued to invest in our technology platforms to drive digital adoption, and this, together with our new agile operating model, sets us up very well to differentiate ourselves in the market.

Resilient business, accelerating strategy

2020 was a year of both challenge and opportunity. I am pleased to report that the business responded quickly and decisively to the challenges presented by COVID-19 in the first half of the year, and then took advantage of the opportunities presented as the market recovered in the second half, accelerating the delivery of our strategy.

The excellent progress made can be attributed to four key factors:

1. **People.** Our colleagues really excelled this year, exemplifying our cultural values: Make it: Safe, Happen, Better and Together. I am very proud of the way they adapted to new working practices, stayed safe and continued to deliver exceptional customer service in challenging conditions.
2. **Technology.** Our technology platform put us in a great position, allowing customers to switch to digital channels in April and enabling our launch of Click-and-Collect in May. Technology also supported home working for all office-based colleagues in March.
3. **Resilient Business Model.** Our national network of Customer Distribution Centres allowed us to continue to offer high levels of customer service on critical projects during the initial lockdown. Our substantial Services division, in particular OneCall, provided a valuable source of equipment to customers who were facing supply chain challenges.
4. **Strong Governance.** It is testament to the governance we have in place that the Board, Executive Team and senior leadership teams have been able to calmly navigate the Group through the year, particularly during the rapidly changing environment we found ourselves in during Q2.

Our business exists to equip our customers with the tools, training and information required so they can safely and efficiently build, maintain and operate the UK and Ireland's infrastructure and services. Our customers are responsible for schools, hospitals, housing, offices, factories, roads, retail, hospitality and many other important elements of our infrastructure. It is therefore critical that we offer consistently good service, never more so than during the pandemic.

Our Services business, which has a vast supply chain, is a convenient source of equipment for customers wanting a one-stop shop for all their equipment needs. This year we sourced significant amounts of personal protective equipment, welfare units and cleaning equipment as our customers adapted to new working practices on site.

Overview of the year

During the first quarter of 2020 we traded in line with our expectations and made progress on several strategic initiatives. We continued to invest in our technology platforms and to drive customers to our digital channels. In our pursuit of leaner operating models, we set up several builders merchant concessions and removed some excess distribution capacity.

By February we were putting in place additional plans in response to the increasing threat of COVID-19. We equipped office-based colleagues with the technology to work from home, trialling this in early March. In our branches we introduced social distancing measures including new signage, barriers and screens. We also identified high-risk colleagues and encouraged shielding, and from a very early stage we increased colleague communications.

Trading was largely unaffected until the Government announcement of a national lockdown on 23 March. At this point we immediately closed all of our branches. We kept open our network of Customer Distribution Centres, so that we could continue servicing critical projects, but we stopped serving cash customers for safety reasons.

We relaxed this in May alongside the launch of our low-contact Click-and-Collect service.

Whilst some activity continued in April, many construction sites were initially closed and demand fell significantly. Revenues initially fell to 50% of prior year levels, with varying performance across divisions and geographies. Our rehire business was particularly resilient, as was our heating, ventilation and cooling business All Seasons Hire.

In response to the fall in revenue we focused on maximising liquidity. We preserved colleagues' roles using the Government's Job Retention Scheme, furloughing 60% of colleagues at peak and agreed a tapered series of salary reductions from Board level through to managers. Tax support was also utilised, deferring PAYE and VAT payments (all of which were settled before the financial year end), and obtaining business rates relief for our branch network. We worked with landlords, negotiating rent holidays and our lenders supported us with repayment deferrals. Discretionary spend was significantly reduced, as was capital expenditure to reflect weaker demand. In addition, our debt collection team was strengthened to ensure strong working capital management.

These actions allowed us to increase liquidity to over £68m by June and maintain a significant amount of headroom against our debt covenants during this critical period..

The role of technology

Our technology platform, which has seen significant investment over the last two years, served us really well during the pandemic. The home working we introduced in March was enabled in part by the Brenda technology introduced to the OneCall business in 2019. The Customer App launched in April 2019, and the enhancements made over the last two years to our website, helped address a surge in demand for online ordering, which in May exceeded 40% of all orders. Our technology also made possible the launch of Click-and-Collect, as well as contact-free deliveries and collections.

Colleagues living our values

I said it at the outset, but it is worth repeating; our colleagues made an incredible contribution to our success this year in the face of unprecedented challenges. I cannot thank them enough for the dedication and determination they demonstrated.

They MADE IT SAFE, adapting to new working practices and using the additional protective equipment provided.

They MADE IT HAPPEN, offering continuity of service for our customers working on critical projects during lockdown.

They MADE IT BETTER, launching our Click-and-Collect service in May and continuing to enhance customers' online experience.

And they MADE IT TOGETHER, supporting each other during difficult times and maximising cross-selling opportunities.

I am very proud of our colleagues and our culture, and was delighted to see the improvements in engagement scores in our recent colleague survey, which has been achieved despite a period of significant challenge and change. Colleague participation was at its highest since we began these surveys in 2016, with 84% of colleagues completing the survey. Our engagement score was also at its highest, at 75%, from 72% in 2019, and significantly above the industry average in the UK of 61%. I am also delighted to report a record reduction in RIDDORS and our highest ever levels of safety observations.

Accelerating our strategy

In my Strategic Review in last year's Annual Report I highlighted our desire to drive e-channel adoption, to continue digitising our business and to optimise our go-to-market proposition, becoming more agile. COVID-19 accelerated a change in customer behaviour and allowed us to prove an alternative operating model with significantly fewer branches.

During April and May customers shifted to our digital channels, utilising our website and Customer App technology. They also shifted towards delivery rather than collection. These shifts in behaviour accelerated a long-term trend away from branch-based customer interactions.

As demand returned in May and June, we resisted the temptation to open up our branch network and instead began trialling remote sales teams. Sales colleagues returned from furlough, but worked from home, responding to customer enquiries and raising orders. This worked extremely well and by September we saw revenue return to 90% of prior year levels with the majority of our branches still closed.

During the summer we also accelerated the roll-out of HSS hire desk concessions inside regional builders merchants, something we had pioneered late in 2019. They provide additional Click-and-Collect venues at materially lower cost. These locations typically give us access to significantly higher footfall than we experience in traditional hire branches, and access to new customers. We are very pleased to finish the year with 24 builders merchants concessions, which together are typically raising 10% of daily Group contracts, and we are excited to be planning a further 26 in 2021.

The shift in customer behaviours, the successful trials of remote sales teams and builders merchant concessions, and the resultant return to 90% of pre-COVID revenues led us to announce the permanent closure of 134 branches in October 2020. Unfortunately, this was also accompanied by the loss of c300 colleagues who were made redundant as part of this restructure.

Together these changes have delivered a net fixed cost saving of c£15m per annum, and I am pleased to report that in the final quarter of the year we traded at 94% of 2019 levels with this new operating model. This is an incredible achievement and testament to the hard work of our colleagues.

Our technology development continued in the final quarter of the year, with the roll-out of HSS Pro POS, a web-based front end for our salesforce enabling them to place orders across our full range of products and services, quickly and easily on their mobile devices and laptops. This has been developed on the technology platform created to deliver the OneCall system, Brenda, in 2019.

With our restructure complete, revenues significantly recovered, a leaner, more agile operating model in place and advancing technology, we finished the year well placed to achieve our vision of being the digitally-led leader in our industry.

Capital raise

In the second half of the year, in pursuit of our strategic goal to reduce leverage below 2.5x, we approached our largest investors for additional capital. The successful outcome of this capital raise, £52.6m of gross proceeds, completed on 8 December, is testament to investors' belief in our compelling strategic plan. The capital raise has enabled us to significantly reduce net debt, and will allow us to continue investing in our technology platforms and hire fleet to support our strategy going forward.

2021 project focus

We enter 2021 with three strategic projects that will help deliver our vision:

1. Technology Development
2. Sales Acquisition
3. Standout Service

Technology Development. We continue to develop the Brenda technology, striving for quicker response times, higher conversion rates, better service and improved margins. In 2021 we plan to roll-out the technology to the procurement teams of our larger customers, providing them with direct online access to our services. We also intend to integrate the technology with our website, providing smaller customers with instant access to our entire offering.

Sales Acquisition. We are very pleased with the performance of our remote sales teams and builders merchant concessions, but both models are still in their infancy. We believe there is much more scope to optimise their performance, improve sales acquisition and ultimately take market share. This project will fully leverage our new operating model, allowing us to grow the business while minimising fixed cost.

Standout Service. There remains an opportunity in our sector to differentiate on service, by offering outstanding reliability, delivering and collecting at the agreed time. Our technology platform now allows us to introduce enhanced scheduling and route optimisation functionality which will be the focus of our operations teams in 2021.

Our market

The equipment hire market in the UK is large, c£4bn, and fragmented with approximately 1,000 small independent hire companies. It is attractive because it covers a wide range of equipment and a diverse set of end-markets. We believe there is still a lack of differentiation amongst the leading players, particularly when it comes to digital adoption. Our investment in technology, combined with our transition to a digitally-led and more agile business model, will set us apart going forward.

Whilst COVID-19 had a significant impact on trading in 2020, the current trading environment appears strong with limited impact from the Government's third national lockdown. The construction sector appears much more resilient this time with companies far better prepared with COVID-19 working practices, virus testing and personal protection now well established. With the Government's plans to relax restrictions in the coming months, we see further strengthening of demand, and whatever the short term brings us, our new operating model is well placed to adapt and take advantage.

To summarise, I believe the business is in great shape to deliver on our strategy and our performance framework. We are well positioned with a more agile cost base, a superior, digitally-led proposition and a strengthened balance sheet, allowing us to continue achieving our strategic goals and differentiating in this fragmented market. We retain our vision of being the market-leading digitally-led brand for equipment services.

On 6th April 2021 we sold Laois Hire, our Irish large plant rental business, to Briggs Equipment Ireland Limited for €11.2m. This disposal is consistent with our strategy to focus on the core Tool Hire business. As part of the transaction, HSS entered into a commercial agreement with Briggs to ensure we continue to provide our Irish customers with their large plant requirements. As the disposal occurred after 26th December 2020 it has been treated as a non-adjusting post balance sheet event.

Steve Ashmore
Chief Executive Officer

Financial Review

Decisive action, balance sheet strengthened

Financial highlights - pre and post IFRS16[1,2]

	£m	**2020 reported**	**2020 pre-IFRS16**	2019	2020 pre-IFRS16 v. 2019
Revenue	Rental	**180.8**	**180.8**	229.0	(21.0)%
	Services	**89.1**	**89.1**	99.0	(10.0)%
	Group	**269.9**	**269.9**	328.0	(17.7)%
Contribution[3]	Rental	**122.9**	**122.0**	155.5	(21.5)%
	Services	**12.6**	**12.6**	15.5	(18.7)%
	Group	**135.5**	**134.6**	171.0	(21.3)%
Adjusted EBITDA[4]		**69.4**	**47.0**	63.9	(26.4)%
Adjusted EBITA[4]		**19.8**	**16.7**	26.5	(37.0)%
Operating Profit/(Loss)[4]		**1.5**	**(3.5)**	16.8	(20.3)

1 The Group adopted IFRS16 Leases in 2020 and chose the modified retrospective approach under which prior year figures are not restated. The reported results for FY20 are therefore not comparable directly to the prior year. Commentary within this review considers pre- and post-IFRS16 results where relevant to aid comparability. An explanation of the adoption and impact of IFRS16 on results is provided in note 2.

2 2019 results are for continuing operations

3 Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment).

4 These measures are not reported on a segmental basis because branch and selling costs, central costs and exceptional items (non-finance) are allocated centrally rather than to each reportable segment.

Overview

FY20 was an extraordinarily demanding year for the business as we responded to COVID-19. Unsurprisingly the financial results have been heavily impacted by the pandemic, however the resilience demonstrated by each and every colleague to respond to the challenge, maintain customer service and accelerate strategy delivery has been truly exceptional.

Following the announcement of the first national lockdown in March 2020, demand fell significantly with revenue, at its lowest point, 50% of prior year levels. Decisive action was taken to preserve cash including reducing fleet capital expenditure, temporary reductions in Board and Management salaries, utilising the Government job retention scheme, securing rates relief and grants, agreeing rent holidays with a number of our landlords, a significant reduction in discretionary spend and the deferral of PAYE and VAT payments (although all tax deferrals were settled prior to the financial year end). Additional focus and resource was placed on working capital management; I am pleased to say this resulted in a 20% reduction in overdue debt taking it to the lowest level in my tenure with HSS.

During the year we accelerated our strategy execution, continuing to invest in the technology roadmap and progressing to a lower fixed-cost, more agile operating model, resulting in circa £15m of annualised cost savings. This involved the permanent closure of 134 branches. As at the date of this report we have surrendered or reached agreement to surrender 95% of related leases, limiting onerous lease liabilities going forward.

In December, shareholders demonstrated their support for the business and our strategy by investing £52.6m via the placing of new shares in the market. After fees, net proceeds were £50.8m (see note 15). This positive endorsement materially reduced the Group's net debt and strengthened the balance sheet.

The combination of the actions noted above ensured that the Group delivered positive adjusted EBITDA throughout the year with an improving trend as revenue recovered to close to 100% of FY19 levels, improved liquidity headroom to £103.6m (FY19: £45.9m), reduced net debt leverage pre-IFRS16 to 2.6x (FY19: 2.8x) and ensured that financial covenant tests were passed every quarter.

While we continue to monitor the COVID-19 situation and respond appropriately, I remain confident that the strategic changes made for our customers and to our operating model put the Group in a strong position to face the challenges and create future shareholder value. This is evident in our strong start to FY21 where adjusted EBITDA pre-IFRS 16 for Q1 is above both FY20 and FY19.

Revenue

Group revenue declined by 17.7% to £269.9m (FY19: £328.0m). Q1 was in line with management expectations until the first national lockdown in late March 2020 after which trading was heavily impacted by COVID-19. Revenue dropped as low as 50% of prior year in Q2 before recovering to 94% by Q4.

Group revenue growth is one of our KPIs as, combined with estimates of market size and growth rates, it provides us with a measure of our market share.

Segmental performance

Rental and related revenues

Our Rental revenues were significantly impacted by COVID-19, declining by 21.0% to £180.8m (FY19: £229.0m) and accounted for 67.0% of Revenue (FY19: 69.8%).

While we scaled back capital investment we continued to invest where customer demand was strong. Following the decision to accelerate our strategy, which included rolling out HSS Pro POS and other technology to sales colleagues and streamlining the operating model with the permanent closure of 134 branches, we have been pleased to see Rental and related revenue recover as the year progressed. Rental and related revenues is one of our KPIs.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs, of £122.0m excluding a £0.9m benefit on the adoption of IFRS16 (FY19: £155.5m) was down 21.5% broadly in line with revenue, but benefiting from £2.7m of COVID-19 support (see other operating income below).

Services

Services revenues decreased on a like-for-like basis by 3.3% to £89.1m (FY19: £99.0m), accounting for 33.0% (FY19: 30.2%) of Group revenues. This was principally due to the resilience demonstrated in our HSS OneCall business which reacted quickly to support customer demand on critical projects following the first national lockdown, with the entire team able to move immediately to remote working, a benefit of our investments in technology. Meanwhile our HSS Training business also reacted quickly, switching to online delivery of classes. The business has since recovered very well.

Contribution from Services fell by 18.7% to £12.6m (FY19: £15.5m), including £0.7m of COVID-19 grant income but higher than the reported revenue growth rate, reflecting the impact of fixed costs and mix on an unprecedented drop in overall demand due to COVID-19.

Costs

Our cost analysis set out below is on a reported basis and therefore includes exceptional costs, the most significant of which are associated with our strategy acceleration.

Our cost of sales reduced by 12.9% to £130.4m from £149.7m, mainly reflecting reduced sales volume and lower depreciation following scaled back capital expenditure.

Distribution costs reduced to £28.1m (2019: £33.2m) reflecting reduced operations during the lockdown but also the full year benefit of cost actions taken in prior years.

Administrative expenses were reduced by £7.1m, of which £4.9m was due to IFRS16 adoption with the balance being driven by cost action including the reduction in the branch network in Q4. Included within administrative expenses is £12.9m of exceptional items (2019: £3.8m) – refer to the exceptional items section of this review for more detail.

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA pre-IFRS16 for 2020 was 26.4% lower at £47.0m (2019: £63.9m) driven by the impact of COVID-19 on revenues, offset partially by grant income and cost savings noted above. IFRS16 resulted in £22.4m of additional EBITDA due to lease costs previously reflected in EBITDA now reported as depreciation and interest. As a result, the Group’s Adjusted EBITDA margin pre-IFRS16 for FY20 was 17.4% (FY19: 19.5%). Adjusted EBITDA and margin pre-IFRS16 are included in our KPIs.

Our Adjusted EBITA pre IFRS16 was £16.7m (FY19: £26.5m), a 37.0% decline with reduced depreciation following careful management of fleet to match demand. Adjusted EBITA margin pre-IFRS16 decreased by 1.9pp to 6.2% (FY19: 8.1%).

Adjusted EBITA pre-IFRS16 and EBITA margin pre-IFRS16 are included in our KPIs.

Other operating income

The Group benefited from government grant income of £9.8m as a result of participating in the UK and Irish governments’ furlough programmes. £0.6m of grants for UK rates were also received. Support has not been taken in 2021 and so it is expected that this income will not recur. We also received £1.2m of insurance proceeds following a successful claim under our business interruption policy, with a further £1.2m received following the year-end. The remaining £0.2m (2019: £0.5m) reflects income received from the sub-letting of unutilised space across our network.

Operating profit

Our operating profit decreased from £16.8m in 2019 to £1.5m in 2020, driven by the impacts described above but also including a £5.0m benefit from adoption of IFRS16.

Exceptional items

We have incurred exceptional expenditure in FY20, with the majority of this being the result of our strategy acceleration, part of which meant the permanent closure of 134 branches and, unfortunately, the redundancy of around 300 colleagues.

The property related costs totalled £7.4m with £9.5m of this being impairment of right of use assets associated with closed branches. Additional non-lease onerous provisions associated with the properties (e.g. rates and utilities) were established totalling £2.1m. A gain of £4.0m was recognised on disposal of leases in the year. A net credit of £0.3m was generated from the impairment, reassessment or disposal of dilapidations liabilities. Following the emergence of the pandemic the Group sought to agree rent concessions from landlords – £0.3m of these were recognised as exceptional because they were related to branches that were non-trading.

£4.6m of non-property cost associated with the network restructure was also recorded. Of this, £3.0m related to the impairment or disposal of property plant and equipment and surplus resale stock arising from the branch closures. £1.6m was expensed on redundancy and associated costs.

£0.9m of costs were incurred related to the Capital Raise and preparation for the transfer of the Group's listing to AIM, and a downward revision of the rate used to discount the onerous contract provision related to NDEC liability resulted in a £0.6m charge.

Profit on disposal of UK Platforms (2019 only)

The disposal of UK Platforms resulted in a profit on disposal of £14.8m in 2019. Proceeds were used to partially repay the senior finance facility resulting in the accelerated amortisation of related debt issue costs of £1.9m in 2019.

Finance costs

Net finance expense increased to £25.1m (FY19: £22.6m). The increase is mainly driven by the adoption of IFRS16 which resulted in £4.3m of additional interest, but offset by the £1.9m accelerated amortisation of debt costs in the prior year.

Taxation

The Group has an immaterial net tax charge compared with a charge of £0.4m in FY19. The Group made an overall loss for tax purposes in the UK, and the key components of the current year charge are Irish tax payable of £0.1m and a release of deferred tax liabilities held in respect of fixed assets.

Reported and adjusted earnings per share

Our basic and diluted reported loss per share increased to a loss of 12.02p (FY19: loss of 3.66p) due to COVID-19's impact on trading, partially offset by the increase in average shares following the capital raise in December.

Our basic adjusted earnings per share, being profit from continuing operations before amortisation and exceptional costs less tax at the prevailing rate of corporation tax divided by the weighted average number of shares, moved from earnings of 2.76p in FY19 to a loss of 2.03p in FY20. Our diluted adjusted earnings per share, calculated in the same manner as basic adjusted earnings per share but with the weighted average number of shares increased to reflect Long-Term Incentive Plan (LTIP) and Sharesave options, was a loss of 2.03p (FY19: earnings of 2.31p). These reflect the decline in Adjusted profit before tax in FY20 compared with FY19. Adjusted EPS (diluted) is one of our KPIs.

Capital expenditure

Additions to intangible assets and property, plant and equipment in the year were £24.8m (2019: £33.7m) on a pre-IFRS16 basis. The majority was invested to support our Rental business with £19.0m (2019: £27.1m) spent on hire fleet, albeit scaled back following the emergence of COVID-19. £3.3m was spent on developing software assets as the Group continues its investment in technology (FY19: £2.3m). The remaining £2.5m was spent on property, plant and equipment (2019: £4.3m).

IFRS16 saw the introduction of right of use assets with £9.2m of additions in the year, of which £4.1m relate to leases that would previously have been categorised as operating leases.

Return on capital employed

Our ROCE pre-IFRS16 for FY20 was 15.2% compared with 20.8% for FY19. ROCE is calculated as Adjusted EBITA from continuing operations divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items). Adjusted EBITA declined by £9.8m (2019: £4.4m increase) whilst the average capital employed by the Group decreased by 14.5% from the level calculated at the end of 2019, reflecting depreciation and asset disposals being higher than capital expenditure and the significant reduction in trade receivables.

On a reported basis for FY20 ROCE is 10.7%. ROCE is one of our KPIs.

Trade and other receivables

There has been a reduction in Gross contract assets of 7.0%. This is the result of reduced trading through the year and a very strong focus on collections which has meant overdue debt has reduced by £3.0m and to the lowest level in several years.

Despite the focus on collections the economic outlook is far from certain given the ongoing pandemic and we have increased the level at which we provide versus the historic loss rate. This reflects our expectation that insolvencies will increase following the removal of government furlough support. The situation will be kept under review moving forward.

Provisions

The onerous contract related to exiting arrangements with Unipart, which was established in 2017, saw £3.3m utilisation in the year and additions of £0.6m after revising the discount rate. This leaves £17.0m as the closing provision to be utilised over the remaining five years of the contract.

Following IFRS16, onerous lease provisions have been eliminated and now form part of Lease liability (see Leverage and net debt). However, the Group has onerous property cost provisions for non-lease costs (discussed earlier in the Financial review).

Adjustments made to the Group's dilapidations provision, which has decreased from £16.2m in 2019 to £12.7m in FY20, are also largely related to the reduction in the property footprint described earlier.

Cash generated from operations

Net cash generated from operating activities was £34.1m for FY20, an increase of £11.9m. IFRS16 accounts for an increase of £16.7m with operating lease payments now recorded as finance lease liability. Excluding this, a reduction of £4.8m was driven by trading offset by liquidity preservation actions described earlier.

Leverage and net debt

Net debt pre-IFRS16 (stated gross of issue costs) decreased by £59.1m to £120.4m (FY19: £179.5m). This reflects the steps taken to preserve liquidity following the emergence of COVID-19 including the completion of a Capital Raise in December, which generated net proceeds of £50.8m. As at 26 December 2020 the Group had access to £118.3m (2019: £59.3m) of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage (pre-IFRS16), calculated as net debt divided by Adjusted EBITDA, decreased from 2.8x in FY19 to 2.6x at the end of FY20. This was primarily due to the efforts made to preserve liquidity already outlined offset by the decline in adjusted EBITA. Leverage or Net Debt Ratio is one of our KPIs.

Net debt as reported is £194.6m with £74.3m of additional lease liabilities arising from IFRS16 reported at the year-end date.

Use of alternative performance measures to assess and monitor performance

In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures (APMs) to assess the Group's ongoing performance. The main APMs we use are adjusted EBITDA, adjusted EBITA, adjusted profit before tax, adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, which, with the exception of adjusted profit before tax, are included in our KPIs.

We believe that Adjusted EBITDA, a widely used and reported metric amongst listed and private companies, presents a 'cleaner' view of the Group's operating profitability in each year by excluding exceptional costs, finance costs, tax charges and non-cash accounting elements such as depreciation and amortisation. This metric is used to calculate any annual bonuses payable to Executive Directors.

Additionally, analysts and investors assess our operating profitability using the adjusted EBITA metric, which treats depreciation charges as an operating cost to reflect the capital-intensive nature of the sector in which we operate.

Analysts and investors also assess our earnings per share using an adjusted earnings per share measure, calculated by dividing an adjusted profit after tax by the weighted average number of shares in issue over the period. This approach aims to show the implied underlying earnings of the Group. The adjusted profit before tax figure comprises the reported loss before tax of the business with amortisation and exceptional costs added back. This amount is then reduced by an illustrative tax charge at the prevailing rate of corporation tax (currently 19%) to give an adjusted profit after tax. Adjusted earnings per share is used as a performance metric for the vesting of 2017 market value options and 2019 LTIP awards.

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit/(loss) and adjusted profit before tax to loss before tax is provided on the face of the Group's income statement. A reconciliation of reported loss per share to adjusted earnings per share is provided in the full Financial Statements.

In accordance with broader market practice we comment on the amount of net debt in the business by reference to leverage (or Net Debt Ratio), which is the multiple of our Adjusted EBITDA that the net debt represents. This metric is also used in the calculation of any annual bonuses payable to Executive Directors.

We use ROCE to assess the return (the Adjusted EBITA) that we generate on the average tangible fixed assets and average working capital employed in each year. We exclude all elements of net debt from this calculation. This metric is also used as a performance metric for the vesting of 2019 LTIP awards.

IFRS16 and APMs
In this, the year of IFRS16 adoption, the Group has made use of additional APMs, being measures reported excluding the impact of IFRS16. These are clearly identified as such in the measure description and performance commentary. The Group believes that such additional measures are helpful to readers of the Annual Report and Accounts, particularly because under the method of adoption chosen by the Group comparators are not restated. This makes like-for-like performance analysis difficult without the use of these measures. The Group does not expect to use the additional measures in future years since from the FY21 report results will be directly comparable.

Post-balance sheet event - sale of Laois Hire
As noted in the Chairman's introduction and CEO statement, we announced on the 7th April the sale of Laois, our Irish large plant hire business, to Briggs Equipment Ireland limited for €11.2m of which €0.5m is deferred until completion accounts are finalised in Q2 2021. The sale is in continuation of our strategy to focus on the core Tool Hire business.

Paul Quested
Chief Financial Officer

Principal Risks and Uncertainties

Managing risk

The Group has risk management and internal control processes which identify, assess and manage the risks likely to affect the achievement of strategic priorities and performance objectives.

Ownership

The Board sets the strategic priorities and relevant KPIs for the Group, monitors performance against these measures and establishes the risk appetite.

Overall responsibility for the principal risks lies with the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), with specific mitigating actions and controls owned by senior management. The Group risk register is maintained by the Risk and Assurance Director and is collectively reviewed in detail by the Executive Management Team (EMT) on a quarterly basis with changes to the risk landscape, assessment and mitigating actions agreed.

Identification

Risks are identified through a variety of sources, both external, to ensure that developing risk themes are considered, and from within the Group. This process is focused on those risks which, if they occurred, would have a material financial or reputational impact on the Group.

Assessment

Management identifies the controls in place for each risk and assesses the impact and likelihood of the risk occurring, taking into account the effect of these controls, being the residual risk. This assessment is compared with the Group's risk appetite to determine whether further mitigating actions are required.

Monitoring

A risk-based internal audit programme is in place to ensure that assurance activity is targeted at key risk areas. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review. In addition, the Risk and Assurance Director reports to the EMT and the senior management team on a monthly basis to review the findings of risk-based assurance activity and investigation, provided by the internal audit and Health, Safety, Environment and Quality (HSEQ) teams.

COVID-19

In 2020 the COVID-19 pandemic has had a material impact on the risks across the Group, principally macroeconomic conditions and Financial. Immediate steps were taken to ensure the safety of our colleagues and customers, ranging from home working to the introduction of low-contact Click-and-Collect capability, all supported by clear, risk assessed procedures and policies. Decisive action was also taken to preserve cash. Combined with the capital raise completed in December 2020, these actions resulted in increased liquidity and materially strengthened the Group balance sheet. The EMT continues to regularly monitor the evolving COVID-19 situation with appropriate mitigating actions taken as required.

Principal risks and strategy

The Board has carried out a robust assessment of the principal financial and operating risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, based on its three strategic priorities:

- Delever the business (control cost)
- Transform the Tool Hire business (increase profit)
- Strengthen our commercial proposition (growth)

These risks, how they have changed and how they are mitigated are shown in the table that follows.

Key

= Unchanged

\+ Increased

\- Decreased

Key risks	Description and impact	Mitigation
Macroeconomic conditions Risk change =	An economic downturn in the UK and Ireland may adversely affect the Group's revenue and operating results by decreasing the demand for its services and the prices it may charge. The ongoing COVID-19 pandemic and resultant restrictions have a material adverse impact on demand and therefore financial performance.	The Group focuses on the 'fit-out, maintain and operate' markets, which are less cyclical, less discretionary and have a larger proportion of recurring, spend than the new-build construction sector. While the Group is not isolated from the construction sector, it focuses on the non-construction portion of the market, with specific exposure in the facilities management, retail, commercial fit-out, property, utilities and waste, infrastructure and energy services markets. Significant activity has been undertaken in 2020 to mitigate the impact of COVID-19, including the deferral of capital expenditure and utilising the Government's Job Retention Scheme. This also included accelerating the Group's digital strategy and the optimisation of the operating network to a leaner, more agile cost model through the closure of 134 physical locations and transition to virtual branches. These strategic changes mitigate any downside in future demand. We continue to monitor and model economic performance, assessing whether the business needs to take further action from that of 2020. This is reviewed regularly by the EMT.
Competitor challenge Risk change =	The Group's industry is highly competitive, and competition may increase. The equipment rental industry is highly fragmented, with competitors ranging from national equipment rental companies to smaller multi-regional companies and small, independent businesses operating in a limited number of locations. Competition in the market could lead to excess capacity and resultant pricing pressure.	The Group's implementation of its digitally-led operating model has reduced annual fixed costs by £15m. This, combined with the economies of scale derived from being a national player, allows the Group to be highly competitive. The Group's national presence (through Customer Distribution Centres, branches and partnerships with regional builders merchants), effective distribution service model and well-maintained fleet provide high levels of customer availability. Through its Services business, the Group provides customers with access to a significantly wider range of products and complementary services such as training courses. A key strategic priority is to strengthen the Group's commercial proposition, differentiating in the market by developing the Digital and Services business offer. To date the technology roadmap to support this has included the upgrade of HSS.com, development of the fully integrated Customer App and enhancement of the OneCall automated platform. All these initiatives have been implemented in line with planned timescales and the Group's governance process. Increased technology investment is planned in 2021, utilising proceeds from the Group's recent capital raise. A central trading team is in place to monitor and manage changes in price, providing controls to ensure effective management. New technology roll-out in 2021 will provide further control.

Key risks	Description and impact	Mitigation
Strategy execution Risk change =	Failure to successfully implement the Group's strategic plans could lead to lower than forecast financial performance in terms of revenue growth and cost savings.	A clearly defined and communicated strategic plan has been established with appropriate performance metrics and key performance indicators. Prioritised projects have been identified to deliver the strategic plan and have been appropriately resourced. A clear governance structure has been established, with accountabilities designed to support delivery on time, to quality and within budget. Implementation of projects is monitored by the EMT with regular updates, including initiative specific deep dives, to the Board. Throughout the pandemic investment in the strategy has been maintained with projects reprioritised where appropriate, including the implementation of digital technology that supported the introduction of a safe, low-contact Click-and-Collect service, and the telephone system upgrade which has been critical in supporting home working and the establishment of virtual branches. The established governance approach has ensured these changes were implemented effectively.
Customer service Risk change =	The reliable supply of safe, good-quality and well-maintained equipment in a timely and cost-effective manner is critical for delivery of the Group's customer promise. The provision of the Group's expected service levels depends on its ability to efficiently transport hire fleet across the network to ensure that it is in the right place, at the right time and of the appropriate quality. The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply, reduced availability or unreliable equipment can reduce potential revenue and drive additional operating costs into the business. In addition, a decline in the Group's customer service levels could result in a loss of customers and market share. COVID-19 leads to disruption in supply for our customers due to site closures or colleague absenteeism. The supply chain is adversely impacted with rehire suppliers unable to fulfil their obligations or by restricted access to spares leading to reduced product availability for our customers.	The Group has clear business continuity plans to ensure continuity of supply. COVID-19 risk assessments have been completed across all locations with policies and procedures implemented, including stricter hygiene protocols, to reduce the risk of a virus outbreak. These are reviewed frequently by both operational management and independent assurance teams to ensure compliance. Colleagues at our head office moved to home working in March 2020. This included our OneCall business, helping minimise any disruption to the Services business due to absenteeism. This way of working has continued into 2021. Whilst COVID-19 had minimal impact on rehire supply during 2020, the wide and diverse range of OneCall suppliers provides ongoing flexibility to ensure continuity of supply for customers and manage the risk should one fail to fulfil its obligations in the future. We have worked closely with our suppliers to ensure that appropriate spares have been available throughout the pandemic and post Brexit. Extensive colleague training is conducted to ensure that testing and repair quality standards continue to be maintained. The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers. A number of business accreditations are maintained, including ISO, which provides our customers with confidence in the quality of the services provided.

Key risks	Description and impact	Mitigation
Third party reliance Risk change =	A significant amount of the Group revenue is derived from the Services business (OneCall) which is dependent upon the performance of third party service providers. If any third parties become unable or refuse to fulfil their obligations, or violate laws or regulations, there could be a negative impact on the Group's operations leading to an adverse impact on profitability and publicity. An important element of the strategy is the expansion of the regional builders merchant model. At the balance sheet date there were 24 concessions with plans to expand to 50 over 2021. The Group is reliant on the relationship with the relevant builders merchant and the provision of service in line with HSS standards.	Third parties supporting OneCall are subject to stringent procurement and service criteria and all contracts are subject to demanding service level agreements. Performance and quality KPIs are monitored on an ongoing basis. The wide and diverse range of OneCall suppliers provides flexibility to select those who meet the required service levels. There is an extensive assessment process before entering into a relationship with a builders merchant which requires EMT approval. Legal contracts are in place with each partner. Any concession is subject to a financial business case before opening. Risk assessments are conducted at each location with follow up audits conducted by internal audit. Performance of each location is monitored and regularly reviewed with the builders merchant partner.
IT infrastructure Risk change =	The Group requires an agile IT system that supports the delivery of its strategic plan. Where this involves third party technology it is critical that this is effectively integrated into the Group's core systems. All Group systems need to be appropriately resourced to support the delivery of day-to-day business operations. Any IT system malfunction may affect the ability to manage its operations and distribute its hire equipment and services to customers, affecting revenue and reputation. An internal or external security attack, the risk of which has potentially increased with more home working, could lead to a loss of confidential information and disruption to the business' transactions with customers and suppliers.	The current IT system has been fully reviewed and, following extensive due diligence, the Group has engaged with third party technology providers to develop organisational agile capacity ensuring that current and future IT systems are optimised to deliver the strategic plan. Third party specialists continue to be engaged to assess the appropriateness of IT controls, including the risk of malicious or inadvertent security attacks. This includes penetration testing on a regular basis to detect weakness in our IT and cyber security. Any resultant actions are prioritised through the Group's governance process. A detailed review is scheduled for 2021. With more colleagues home working, improved antivirus software has been introduced, and endpoint detection and clean up tools have been implemented to remove malware and similar agents. Disaster recovery tests are carried out on a regular basis and appropriate back-up servers are in place to manage the risk of primary server failure. A cross-departmental Data Governance Team is in place to ensure that business process are, and continue to be, adequate.

Key risks	Description and impact	Mitigation
Financial Risk change -	To deliver its strategic goals the Group must have access to funding at a reasonable cost. The impact of COVID-19 could lead to a breach of financial covenants and requirement for additional liquidity due to significantly reduced demand and delays in customers settling their debt. In executing the Group strategy, 134 branches were closed in October 2020, some with unexpired term on the lease. Failure to surrender these leases will result in ongoing onerous liabilities reducing free cash flow. Some of the Group's customers may be unwilling or unable to fulfil the terms of their rental agreements with the Group. Bad debts and credit losses can also arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments could be made, leading to financial loss or delays in payment which could adversely affect the relationship with suppliers and lead to a disruption in supply.	The Group raised gross proceeds of £52.6m from the capital raise completed in December 2020. Working capital management remains a clear focus with cash collection targets (which roll up into our net debt KPI) cascaded throughout the business. These are reviewed by the EMT on a regular basis. Overdue debt reduced by £3.0m in FY20. The capital raise, strong working capital management and COVID-19 mitigating actions have enabled a material increase in liquidity headroom and ensured that financial covenant tests have been passed each quarter. Working with property restructuring specialists, to date 95% of leases related to the closed branches have been surrendered or agreed to be surrendered. The risk of fluctuating interest rates reducing profitability has been mitigated by entering into an interest rate cap arrangement. The Group runs extensive credit checking for its account customers and maintains strict credit control over its diversified customer base. Credit insurance is in place to minimise exposure to larger customer default risk. The Group's investigation team conducts proactive and reactive work in order to minimise the Group's exposure to fraud, and provides ongoing training in this area. Payments and amendments authority is defined by the Group's authorisation matrix with periodic IA risk-based audits to ensure that they are being adhered to.
Inability to attract and retain personnel Risk change =	The Group needs to ensure that the appropriate human resources are in place to support the existing and future growth of the business. Failure to attract and retain high-performing colleagues could adversely impact targeted financial performance. Failure of colleagues to adapt to the new digitally-led operating model could adversely impact targeted financial performance.	The Group regularly benchmarks market rates and seeks to ensure a competitive pay and benefits package. It also focuses on building the right working environment for its colleagues. Training for colleagues is provided at all levels to build capability and improve compliance. Training is job related and behaviour focused, all through blended learning. Colleague engagement surveys are conducted, with actions taken as a result of the feedback. Integral to enabling delivery of the Group's strategic goals are a series of people-related projects. These projects are aimed at colleague development, retention and engagement including embedding Group values, equipping individuals with the skills to succeed in the new operating model, targeted management development, expansion of apprenticeships and increased communications at all levels. These are managed and monitored through a clear governance structure.

Key risks	Description and impact	Mitigation
Safety, legal and regulatory requirements Risk change -	Failure to comply with laws or regulation, such as the Companies Act 2006, accounting regulations, health and safety law, the Bribery Act 2010, Modern Slavery Act 2015, Criminal Finances Act 2017 or General Data Protection Regulation (GDPR), leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance. The Group operates in industries where safety is paramount for colleagues, customers and the general public. Failure to maintain high safety standards could lead to the risk of serious injury or death. COVID-19 has an adverse impact on colleague health and safety. However, the Group's response to COVID-19, the achievement of ISO 45001 and a reduction in accidents mean that the level of risk faced is reducing.	Robust governance is maintained within the Group including: a strong financial structure; assurance provision from internal and external audit, and employment of internal specialist expertise supported by suitably qualified and experienced external practitioners. Since the introduction of GDPR, the Group's Data Governance Team has continued to meet regularly to review and monitor progress and developments. Training and awareness programmes are in place, focusing on anti-bribery, anti-modern slavery, anti-facilitation of tax evasion and data protection legislation. Colleagues are encouraged to raise concerns through the policy, either through their line manager, via any of our three whistleblowing officers (anonymously, should a colleague so wish) or via 'Protect', an independent charity specialising in whistleblowing advisory services. The Audit Committee reviews all whistleblowing cases, including gaining satisfaction of appropriate resolution. The Group operates a clear health and safety policy with ongoing risk management, monitoring of accidents and colleague engagement overseen by the EMT and a Health and Safety Forum comprising senior managers. Additional assurance and support is provided by a fully skilled HSEQ team and an internal Group investigation team. This has been complemented in the year with improved reporting tools to make it easier to log near misses and safety observations. The Group is ISO 45001 accredited. In light of the pandemic, actions have been taken to ensure colleague and customer safety ranging from stricter hygiene procedures to the introduction of the low-contact Click-and-Collect service. Support is in place for colleagues who need to self-isolate or shield and mental health programmes, including greater communication, have been increased, especially for those remote working.

Consolidated Income Statement
For the year ended 26 December 2020

	Note	**Year ended 26 December 2020 £000s**	Year ended 28 December 2019 £000s
Revenue	3	**269,933**	328,005
Cost of sales		**(130,434)**	(149,706)
Gross profit		**139,499**	178,299
Distribution costs		**(28,072)**	(33,190)
Administrative expenses		**(121,743)**	(128,830)
Other operating income	4	**11,815**	542
Adjusted EBITDA	3	**69,362**	63,929
Less: Depreciation	10,11	**(49,590)**	(37,396)
Adjusted EBITA		**19,772**	26,533
Less: Exceptional items (non-finance)	5	**(13,076)**	(4,094)
Less: Amortisation	9	**(5,197)**	(5,618)
Operating profit		**1,499**	16,821
Finance expense	6	**(25,065)**	(22,609)
Adjusted (loss)/profit before tax		**(4,920)**	5,806
Less: Exceptional items (non-finance)	5	**(13,076)**	(4,094)
Less: Exceptional items (finance)	5	**(373)**	(1,882)
Less: Amortisation	9	**(5,197)**	(5,618)
Loss before tax		**(23,566)**	(5,788)
Income tax charge	7	**(15)**	(436)
Loss from continuing operations		**(23,581)**	(6,224)
Profit on disposal of discontinued operations	5	**–**	14,770
Profit from discontinued operations, net of tax		**–**	162
(Loss)/profit for the financial period		**(23,581)**	8,708
(Loss)/profit per share (pence)			
Continuing operations			
Basic and diluted loss per share	8	**(12.02)**	(3.66)
Adjusted basic (loss)/earnings per share[1]	8	**(2.03)**	2.76
Adjusted diluted (loss)/earnings per share[1]	8	**(2.03)**	2.31

Continuing and discontinued operations			
Basic and diluted (loss)/earnings per share	8	**(12.02)**	5.12
Adjusted basic (loss)/earnings per share[1]	8	**(2.03)**	2.84
Adjusted diluted (loss)/earnings per share[1]	8	**(2.03)**	2.38

1 Adjusted (loss)/earnings per share is defined as profit before tax with amortisation and exceptional costs added back less tax at the prevailing rate of corporation tax divided by the weighted average number of ordinary shares.

Consolidated Statement of Comprehensive Income
For the year ended 26 December 2020

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
(Loss)/profit for the financial period	**(23,581)**	8,708
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**617**	(782)
Gains/(losses) arising on cash flow hedges	**306**	(144)
Other comprehensive gain/(loss) for the period, net of tax	**923**	(926)
Total comprehensive (loss)/profit for the period	**(22,658)**	7,782
Attributable to owners of the Company	**(22,658)**	7,782

Consolidated Statement of Financial Position
For the year ended 26 December 2020

	Note	**Year ended 26 December 2020 £000s**	Year ended 28 December 2019 £000s
ASSETS			
Non-current assets			
Intangible assets	9	**158,498**	160,378
Property, plant and equipment	10	**62,024**	101,851
Right of use assets	11	**89,839**	–
Derivative financial instruments		**–**	14
		310,361	262,243
Current assets			
Inventories		**3,183**	3,735
Trade and other receivables	12	**75,880**	88,396
Cash		**97,573**	22,658
		176,636	114,789
Total assets		**486,997**	377,032
LIABILITIES			
Current liabilities			
Trade and other payables		**(61,821)**	(66,031)
Borrowings and finance lease liabilities	13	**(38,395)**	(5,355)
Provisions	14	**(7,448)**	(8,145)
Current tax liabilities		**(1)**	–
		(107,665)	(79,531)
Non-current liabilities			
Borrowings and finance lease liabilities	13	**(245,276)**	(185,729)
Provisions	14	**(26,206)**	(32,470)
Deferred tax liabilities		**(260)**	(341)
		(271,742)	(218,540)
Total liabilities		**(379,407)**	(298,071)
Net assets		**107,590**	78,961

EQUITY			
Share capital	15	**6,965**	1,702
Share premium	15	**45,580**	–
Warrant reserves		**2,694**	2,694
Merger reserve		**97,780**	97,780
Foreign exchange translation reserve		**15**	(602)
Cash flow hedging reserve		**–**	(306)
Retained deficit		**(45,444)**	(22,307)
Total equity		**107,590**	78,961

The Financial Statements were approved and authorised for issue by the Board of Directors on 28 April 2021 and were signed on its behalf by:

P Quested
Director
28 April 2021

Consolidated Statement of Changes in Equity

For the year ended 26 December 2020

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings/ (deficit) £000s	Total equity £000s
At 29 December 2019 – as previously presented	**1,702**	**–**	**2,694**	**97,780**	**(602)**	**(306)**	**(22,307)**	**78,961**
Implementation of IFRS 16 (note 2)	–	–	–	–	–	–	(9)	(9)
At 29 December 2019 – as restated	**1,702**	**–**	**2,694**	**97,780**	**(602)**	**(306)**	**(22,316)**	**78,952**
Loss for the period	–	–	–	–	–	–	(23,581)	(23,581)
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	–	617	–	–	617
Hedging of financial instruments	–	–	–	–	–	306	–	306
Total comprehensive profit/(loss) for the period	–	–	–	–	617	306	(23,581)	(22,658)
Transactions with owners recorded directly in equity								
Share issue	5,263	45,580	–	–	–	–	–	50,843
Share-based payment charge	–	–	–	–	–	–	453	453
At 26 December 2020	**6,965**	**45,580**	**2,694**	**97,780**	**15**	**–**	**(45,444)**	**107,590**

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings £000s	Total equity £000s
At 30 December 2018	1,702	–	2,694	97,780	180	(162)	(31,728)	70,466
Total comprehensive loss for the period								
Profit for the period	–	–	–	–	–	–	8,708	8,708
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	–	(782)	–	–	(782)
Hedging of financial instruments	–	–	–	–	–	(144)	–	(144)
Total comprehensive (loss)/profit for the period	–	–	–	–	(782)	(144)	8,708	7,782
Transactions with owners recorded directly in equity								
Share-based payment charge	–	–	–	–	–	–	713	713
At 28 December 2019	1,702	–	2,694	97,780	(602)	(306)	(22,307)	78,961

Consolidated Statement of Cash Flows
For the year ended 26 December 2020

	Note	**Year ended 26 December 2020 £000s**	Year ended 28 December 2019 £000s
(Loss)/profit after income tax		**(23,581)**	8,708
Adjustments for:			
– Tax		**15**	436
– Profit on disposal of discontinued operations		**–**	(14,770)
– Amortisation		**5,197**	5,525
– Depreciation		**44,709**	28,750
– Accelerated depreciation relating to hire stock customer losses and hire stock write-offs		**4,727**	8,257
– Impairment of property, plant and equipment and right of use assets		**11,557**	363
– Disposal of sub-lease		**59**	–
– Disposal of intangible assets		**–**	96
– Loss on disposal of property, plant and equipment and right of use assets		**2,110**	576
– Lease disposals		**(4,012)**	–
– Rent concessions		**(996)**	–
– Share-based payment charge		**453**	714
– Foreign exchange loss/(gains) on operating activities		**535**	(474)
– Finance expense	6	**25,065**	22,609
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**552**	589
– Trade and other receivables		**9,845**	5,863
– Trade and other payables		**(1,780)**	(4,362)
– Provisions		**(5,181)**	(3,718)
Net cash flows from operating activities before changes in hire equipment		**69,274**	59,162
Purchase of hire equipment	10	**(13,673)**	(18,972)
Cash generated from operating activities		**55,601**	40,190
Net interest paid		**(22,052)**	(18,498)
Income tax repaid		**552**	490
Net cash generated from operating activities		**34,101**	22,182
Cash flows from investing activities			
Proceeds on disposal of business, net of cash disposed of		**–**	45,618
Purchases of non-hire property, plant, equipment and software	9,10	**(5,814)**	(6,670)
Net cash (used in)/generated from investing activities		**(5,814)**	38,948

Cash flows from financing activities			
Proceeds from capital raise (net of share issue costs paid)	15	**52,335**	–
Proceeds from borrowings (third parties)	13	**17,200**	–
Repayment of borrowings		**–**	(51,018)
Capital element of lease liability payments		**(23,263)**	–
Capital element of net investment in sublease receipts		**356**	–
Capital element of finance lease payments		**–**	(7,361)
Net cash received/(paid) from financing activities		**46,628**	(58,379)
Net increase in cash		**74,915**	2,751
Cash at the start of the year		**22,658**	19,907
Cash at the end of the year		**97,573**	22,658

1. Basis of preparation

The Group's financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and on a basis consistent with those policies set out in our audited financial statements for the year ended 26 December 2020 (which will be available at www.hsshiregroup.com/ investor-relations/financial-results). These policies are consistent with those shown in the audited financial statements for the year ended 28 December 2019 with the exception of IFRS 16 *Leases* which the Group adopted in the year ended 26 December 2020. The financial statements were approved by the Board on 28 April 2021.

The financial information for the year ended 26 December 2020 and the year ended 28 December 2019 does not constitute the company's statutory accounts for those years. Statutory accounts for the year ended 28 December 2019 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 26 December 2020 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors' reports on the accounts for the years ended 26 December 2020 and the year ended 28 December 2019 were unqualified and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The auditors' report on the accounts for the year ended 26 December 2020 did not draw attention to any matters by way of emphasis but the report for the year ended 28 December 2019 included a reference to a material uncertainty related to going concern as follows:

> We draw attention to note 1e in the financial statements, which indicates that the Group and Parent Company may breach their bank covenants and may require further liquidity due to the possible effects of the ongoing COVID-19 pandemic. As stated in note 1e, these events or conditions, along with other matters as set out in note 1e, indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The Annual Report and Accounts for the year ended 26 December 2020 will be posted to shareholders in early May 2021.

Going concern

At 26 December 2020, the Group's financing arrangements consisted of fully drawn senior finance and revolving credit facilities of £199.2m, an undrawn overdraft facility of £6.0m and finance lines to fund hire fleet capital expenditure, of which £14.7m had not been utilised. Both the senior finance and revolving credit facilities are subject to a net debt leverage covenant test each quarter. At the financial year end the Group had 36% headroom against this covenant. Subsequent to year end the Group repaid £15m of the senior finance facility and the £17.2m RCF. Cash at 26 December 2020 was £97.6m (28 December 2019: £22.7m).

The Directors have prepared a going concern assessment covering the 12 month period from the date of signing of the Financial Statements, which confirms that the Group is capable of continuing to operate within its existing facilities and can meet its covenant tests during that period. The key assumptions on which the projections are based include an assessment of the impact of future market conditions on projected revenues and the capital investment required to support that level of revenue. The Group has considered the impact of continued economic uncertainty resulting from COVID-19 as part of its assessment.

The Group's base case used for the going concern assessment was the Board approved budget and three year model. The budget assumes a continued recovery of revenue during 2021 albeit a conservative one in that it will not reach pre-COVID levels. The Group remains comfortably within covenant tests and maintains sufficient liquidity throughout the period modelled. In addition, the Board has considered various downside scenarios including a 'reverse stress test' case to assess the level of revenue (and ultimately EBITDA) loss the Group could sustain without breaching covenants or requiring additional liquidity should there be further COVID-19 lockdowns later in 2021. The reverse stress test scenario updates the base case for actual performance for the 14 weeks to 3 April 2021 and assumes revenue is reduced so that, expressed as a percentage of 2019 levels, it is 72% in Q4 2021 and 85% in Q1 2022, mirroring the revenue decline experienced by the Group during the first COVID-19 lockdown from April to September 2020. The only mitigation applied is a c£3m reduction in capital expenditure during the same period.

In this largely unmitigated 'reverse stress test' scenario the Group maintains significant liquidity and meets its covenant requirements. The Directors consider this scenario extremely unlikely to occur given that it is worse than the industry's current worst case expectation and the revenue profile seen in the second and third national lockdowns was more than 90% of 2019 levels. The Group has introduced new operating procedures, launched Click-and-Collect and changed its operating model, all of which have reduced physical contact with customers and allowed trading to continue. Similarly, customers now have established operating procedures that allow their operations to continue and Government has shown support for continuity in the construction sector.

Whilst the Directors consider that there is a degree of subjectivity involved in their assumptions, taking into account the adequacy of the Group's debt facilities, current and future developments and the principal risks and uncertainties and, after making appropriate enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing its Consolidated Financial Statements.

2. New accounting standards, accounting standards not yet effective and changes in accounting policy

Implementation of IFRS 16 Leases

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

Adoption of IFRS 16 has had a significant impact on the consolidated income statement and 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 consolidated income statement for the year ended 26 December 2020

	Year ended 26 December 2020		
	Pre adoption of IFRS 16 £000s	IFRS 16 impact £000s	As reported £000s
Revenue	**269,933**	**–**	**269,933**
Cost of sales	**(130,851)**	**417**	**(130,434)**
Gross profit	**139,082**	**417**	**139,499**
Distribution costs	**(28,637)**	**565**	**(28,072)**
Administrative expenses	**(126,683)**	**4,940**	**(121,743)**
Other operating income	**12,726**	**(911)**	**11,815**
Adjusted EBITDA	**46,977**	**22,385**	**69,362**
Less: Depreciation	**(30,311)**	**(19,279)**	**(49,590)**
Adjusted EBITA	**16,666**	**3,106**	**19,772**
Less: Exceptional items	**(14,981)**	**1,905**	**(13,076)**
Less: Amortisation	**(5,197)**	**–**	**(5,197)**
Operating (loss)/profit	**(3,512)**	**5,011**	**1,499**
Net finance expense	**(20,798)**	**(4,267)**	**(25,065)**
Adjusted loss before tax	**(4,035)**	**(885)**	**(4,920)**
Less: Exceptional items (non-finance)	**(14,981)**	**1,905**	**(13,076)**
Less: Exceptional items (finance)	**(97)**	**(276)**	**(373)**
Less: Amortisation	**(5,197)**	**–**	**(5,197)**
(Loss)/profit before tax	**(24,310)**	**744**	**(23,566)**

The adoption has resulted in additional operating profit of £5.0m compared to the loss before tax that would have been reported under IAS 17. Administrative expenses reduced by £4.9m, 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). Other operating income decreases following adoption, with sub-let income reduced to only discount unwind on the net investment on sub-leases deemed to be finance leases.

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 £4.3m of interest versus the equivalent operating lease cost that would have been recognised under IAS 17.

Adjusted EBITDA, which the Group reports as an additional performance measure, is significantly increased (by £22.4m) under IFRS 16 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.

Impact of IFRS 16 on the consolidated statement of financial position at DIA

	29 December 2019		
	Pre adoption of IFRS 16 £000s	IFRS 16 impact £000s	As reported £000s
Intangible assets	160,378	–	160,378
Property, plant and equipment	101,851	(29,312)	72,539
Right of use assets	–	109,531	109,531
Derivative financial instruments	14	–	14
Current assets	114,789	(1,476)	113,313
Lease liabilities	–	(99,309)	(99,309)
Finance leases	(16,583)	16,583	–
Other liabilities	(240,532)	1,752	(238,780)
Provisions	(40,615)	2,222	(38,393)
Deferred tax liabilities	(341)	–	(341)
Net assets	78,961	(9)	78,952

Right of use (ROU) assets totalling £109.5m were created on transition with £29.3m of the total being a reclassification of hire stock assets held under finance lease from property, plant and equipment. Lease liabilities of £99.3m were created with £16.6m being related to the transfer of finance lease liabilities. The difference between lease liability and asset is the impact of adjusting the ROU 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.

Reconciliation of transition date commitments under non-cancellable operating leases to opening lease liability

The table below shows a reconciliation from the total operating lease commitment as disclosed at 29 December 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	29 December 2019 £000s
Operating lease commitments at 29 December 2019 (restated)	76,569
Finance leases for property, plant and equipment transferred from finance lease liability	16,583
Impact of discounting at the incremental borrowing rates as at 29 December 2019	(17,969)
Payments due for periods beyond break clauses where the Group expects not to exercise the break	24,126
Total lease liabilities recognised on 29 December 2019	99,309

Capitalisation of lease contracts

Under IFRS 16, the Group capitalises the ROU of all its qualifying 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 ROU asset as equal to the lease liability for leases previously accounted for as operating leases. The comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The Group has recognised a 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 ROU assets expense and an interest expense as the discount 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 early as 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 £24m. 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 least 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 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 sub-lets 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 by reference to the ROU asset arising from the head lease. A sublease whose term covers substantially all of the remaining economic life of the head lease is accounted for as a finance lease; otherwise it is accounted for as an operating lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

IFRS 16 and COVID-19 concessions

The Group has taken advantage of the practical expedient available under the amendment to IFRS 16. As such the Group assessed if rent concessions that occurred as a direct consequence of the COVID-19 pandemic meet the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

Where these conditions were met the change in the lease payments were not accounted for as a lease modification. The amount of qualifying rent concessions recorded in the income statement amounted to £1.3m.

Government grants
The Group received grant income as a result of Government support in response to the COVID-19 pandemic. Government grant income is reported 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.

Holiday pay accrual
As a result of the COVID-19 pandemic an exception to HR policy has been made, permitting colleagues to carry over an amount of unused annual leave into 2021. The Directors consider that the likelihood of any holidays not being utilised or paid out is low. The Group has accrued for the related salaries, employer's national insurance and pension costs.

Other standards effective for the first time in the year
IFRIC 23 Uncertainty over Income Tax Treatments: The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Company has considered the application of IFRIC 23 and concluded that its income tax filings do not contain any uncertain positions requiring disclosure.

Standards effective in future periods
The Company is currently assessing the impact of the following accounting standards and amendments:

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material);

IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current);

IFRS 3 Business Combinations (Amendment – Definition of Business);

Conceptual Framework for Financial Reporting (Amendments to IFRS 3);

Revised Conceptual Framework for Financial Reporting;

IBOR Reform and its Effects on Financial Reporting – Phase 1 & 2;

Annual Improvements to IFRS: 2018-2020 Cycle;

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract);

IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use); and

IFRS 17 Insurance Contracts.

3. Segment reporting

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

- Rental and related revenue; and
- Services.

Rental and related revenue comprises the rental income earned from owned tools and equipment, including powered access, power generation 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's 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. During the year the Group received £9.8m in grant income (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 £2.7m being allocated to Rental and related contribution, £0.7m to Services contribution, £5.9m to branch and selling costs, £0.3m to central costs, and £0.2m to exceptional items. £0.6m 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 the Group revenue in the year (2019: one).

	Year ended 26 December 2020			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	**180,843**	**89,090**	**–**	**269,933**
Contribution	**122,914**	**12,629**	**–**	**135,543**
Branch and selling costs			**(44,394)**	**(44,394)**
Central costs			**(21,787)**	**(21,787)**
Adjusted EBITDA				**69,362**
Less: Exceptional items			**(13,076)**	**(13,076)**
Less: Depreciation and amortisation	**(27,910)**	**(600)**	**(26,277)**	**(54,787)**
Operating profit				**1,499**
Net finance expenses				**(25,065)**
Loss before tax				**(23,566)**
Income tax				**(15)**
Loss after tax				**(23,581)**

	Year ended 26 December 2020			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	**14,099**	**59**	**2,286**	**16,444**
Right of use assets	**4,880**	**–**	**4,357**	**9,237**
Intangibles	**979**	**861**	**1,477**	**3,317**
Non-current assets net book value				
Property, plant and equipment	**44,078**	**203**	**17,743**	**62,024**
Right of use assets	**26,976**	**212**	**62,651**	**89,839**
Intangibles	**153,804**	**1,246**	**3,448**	**158,498**
Current assets			**176,636**	**176,636**
Current liabilities			**(107,665)**	**(107,665)**
Non-current liabilities			**(271,742)**	**(271,742)**
				107,590

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers from continuing operations	228,973	99,032	–	328,005
Contribution	155,490	15,518	–	171,008
Branch and selling costs			(83,974)	(83,974)
Central costs			(23,105)	(23,105)
Adjusted EBITDA				63,929
Less: Exceptional items			(4,094)	(4,094)
Less: Depreciation and amortisation	(32,817)	(217)	(9,980)	(43,014)
Operating profit				16,821
Net finance expenses				(22,609)
Loss before tax from continuing operations				(5,788)
Income tax				(436)
Profit on disposal of discontinued operations				14,770
Profit for the year from discontinued operations				162
Profit after tax and discontinued operations				8,708

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	27,097	29	4,277	31,403
Intangibles	–	878	1,461	2,339
Non-current assets net book value				
Property, plant and equipment	76,794	187	24,870	101,851
Intangibles	155,624	785	3,969	160,378
Unallocated corporate assets				
Financial instruments			14	14
Current assets			114,789	114,789
Current liabilities			(79,531)	(79,531)
Non-current liabilities			(218,540)	(218,540)
				78,961

4. Other operating income

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
COVID-19 Government grant income: job retention schemes	**9,783**	–
COVID-19 Government grant income: rates grants	**595**	–
Insurance proceeds (net of fees)	**1,216**	–
Sub-lease rental and service charge income	**221**	542
	11,815	542

During the year the Group received £9.8m (2019: nil) as a result of participation in the UK COVID-19 Job Retention Scheme and a similar scheme in the Republic of Ireland; COVID-19 rates grants of £0.6m (2019: nil); and £1.2m from a COVID-19 business interruption insurance claim.

Sub-let rental income of £0.2m (£0.5m) was received on vacant properties which are not onerous.

5. Exceptional items

Items of income or expense have been shown as exceptional either because of their size or nature or because they are outside the normal course of business. As a result, during the year ended 26 December 2020 the Group has recognised exceptional items as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Year ended 26 December 2020 £000s
Onerous property costs	**–**	**–**	**7,058**	**(21)**	**373**	**7,410**
Network restructure	**305**	**27**	**4,434**	**(152)**	**–**	**4,614**
Capital Raise and AIM listing	**–**	**–**	**868**	**–**	**–**	**868**
Onerous contract	**–**	**–**	**557**	**–**	**–**	**557**
	305	**27**	**12,917**	**(173)**	**373**	**13,449**

During the year ended 28 December 2019, the Group recognised exceptional costs analysed as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Included in discontinued operations £000s	Year ended 28 December 2019 £000s
Onerous leases	–	9	2,924	(46)	–		2,887
Accelerated amortisation of debt issue costs	–	–	–	–	1,882	–	1,882
Cost reduction programme	17	308	519	–	–	–	844
Impairment of property, plant and equipment	–	–	363	–	–	–	363
Exceptional items – continuing operations	17	317	3,806	(46)	1,882	–	5,976
Business divestiture – discontinued operations	–	–	–	–	–	(14,770)	(14,770)
Total	17	317	3,806	(46)	1,882	(14,770)	(8,794)

Exceptional items incurred in 2020 and 2019

Costs related to onerous properties: branch and office closures

In October the Group announced a decision to permanently close 134 stores as part of an acceleration of strategy. Since that date the Group has been working hard to agree exits from these and pre-existing dark stores. Right of use assets valuing £9.5m were fully impaired following the decision to close stores in October. Associated onerous property costs of £2.1m have been recognised, including £0.4m in advisory fees. Around 60 of these leases were also disposed during the year resulting in a net gain of £4.0m. Interest (discount unwind) of £0.4m on dark store liability has also been recognised through exceptional finance costs.

Dilapidations assets totalling £1.2m were written off as a result of the decision to close branches, following which settlements were agreed for certain properties resulting in a release of liability of £1.2m. Reassessment of remaining non-trading store liabilities resulted in a further release of £0.3m. COVID-19 rent concessions have been negotiated with landlords. £0.3m of the rent concession agreed has been recognised as exceptional because it related to stores that were already non-trading and previously been considered onerous.

During 2019 a distribution centre was closed with operations transferred to nearby centres resulting in an onerous lease provision of £2.1m. No other branches were closed; however, the decision to cease using one of the floors at the Manchester registered office resulted in an additional onerous lease provision of £1.0m. The remaining reduction of £0.2m related to the reassessment of existing dark store and onerous lease provisions.

Network restructure (excluding onerous property items)

As a result of the decision to close branches and operate a more flexible structure the Group incurred significant other, non-property costs. 300 colleagues were placed at risk of redundancy with the majority of these leaving the business on completion of consultation. £1.6m has been recognised in this regard. Property, plant and equipment £2.0m was impaired and a further £0.8m disposed of. Excess resale stock valued at £0.3 was written off.

Capital raise and AIM listing

Fees totalling £0.9m were recognised related to the Group's successful capital raise and preparation for its subsequent move to AIM (which completed on 14 January 2021). These costs have been classified as exceptional due to both their size and the infrequent nature of the activity. Costs that related specifically to the capital raise were deducted from the net proceeds and included in the share premium account (note 15).

Onerous contract

The discount rate applied to the Group's provision for an onerous contract related to the (closed) National Distribution and Engineering Centre (NDEC) (note 14) was reviewed in line with market conditions resulting in an addition of £0.6m to the onerous contract provision.

Exceptional items incurred in 2019 only

Accelerated amortisation of debt issue costs

During 2019 an element of proceeds from the UK Platforms disposal was used to repay debt. The early repayment resulted in accelerated amortisation of debt issue costs of £1.9m.

Cost reduction programme

In light of headwinds that emerged in the market during 2019, the Group undertook initiatives to reduce costs. These include the closure of a centre used to refurbish hire stock and costs to exit contracts related to the operation of a cross-dock facility used to redistribute assets across the network. Internal restructuring was also carried out, resulting in £0.8m of total costs which include £0.6m redundancy costs.

Impairment of closed branch property, plant and equipment

During the year ended 28 December 2019, an impairment of £0.4m to property, plant and equipment was recognised related to the closed distribution centre and Manchester registered office referenced above.

Business divestiture

On 19 July 2018 the Group announced the agreement to sell UK Platforms Limited, HSS's powered access business, to Loxam. The transaction completed in 2019 and was treated as a discontinued operation.

6. Finance expense

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Senior finance facility	**16,334**	16,552
Debt issue costs	**2,398**	2,468
Lease liabilities	**5,042**	–
Finance leases	**–**	721
Interest unwind on discounted provisions	**429**	414
Revolving credit facility	**382**	37
Interest on financial instruments	**320**	247
Bank loans and overdrafts	**160**	288
Exceptional accelerated amortisation of debt issue costs	**–**	1,882
	25,065	22,609

7. Income tax charge

(a) Analysis of tax charge in the year

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Current tax charge/(credit)		
UK corporation tax on the result for the year	**79**	58
Adjustments in respect of prior years	**17**	(1,295)
Total current tax charge/(credit)	**96**	(1,237)
Deferred tax (credit)/charge for the year		
Deferred tax (credit)/charge for the year	**(646)**	1,643
Deferred tax charge impact of change in tax rate	**40**	175
Adjustments in respect of prior years	**525**	(145)
Total deferred tax (credit)/charge	**(81)**	1,673
Income tax charge	**15**	436

In 2019 the Group received refunds of tax in Ireland related to prior years totalling £1.3m.

(b) Factors affecting the income tax expense/(credit) in the year

The tax assessed on the loss for the year differs from the standard UK corporation rate of tax. The differences are explained below:

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Loss before tax	**(23,566)**	(5,788)
Loss before tax multiplied by the effective standard rate of corporation tax of 19% (2019: 19%)	**(4,478)**	(1,100)
Effects of:		
Utilisation of tax losses brought forward	**–**	(3)
Unprovided deferred tax movements on short-term temporary differences and capital allowance timing differences	**2,972**	(609)
Adjustments in respect of prior years	**542**	(1,513)
Expenses not deductible for tax purposes	**860**	677
Losses carried forward	**–**	452
Foreign tax suffered	**79**	58
Deferred tax write-back	**–**	2,237
Impact of change in tax rate	**40**	237
Income tax charge	**15**	436

(c) Factors that may affect future tax charge

In the March 2021 Budget the Government announced that the 2021 Finance Bill will contain provisions for the standard rate of UK corporation tax to increase to 25% from 1 April 2023. The existing rate of 19% has been used to calculate the above deferred tax disclosures above as the 2021 Finance Bill is not yet substantively enacted.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £12.8m (2019: £9.6m) and relating to losses of £13.3m (2019: £10.4m).

These potential deferred tax assets have not been recognised on the basis that it is not sufficiently certain when taxable profits that can be utilised to absorb the reversal of the temporary differences will be made.

8. Earnings per share

	Loss after tax from continuing operations £000s	**Weighted average number of shares 000s**	**Loss after tax from continuing operations per share pence**
Year ended 26 December 2020	**(23,581)**	**196,232**	**(12.02)**
Year ended 28 December 2019	(6,224)	170,207	(3.66)

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

Diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares outstanding assuming the conversion of potentially dilutive equity derivatives outstanding, being market value options, nil-cost share options (LTIP shares), restricted stock grants, deferred bonus shares, Sharesave Scheme share options and warrants.

All of the Group's potentially dilutive equity derivative securities were anti-dilutive for the purpose of diluted basic loss per share for the years ended 26 December 2020 and 28 December 2019. This also applies to the adjusted diluted loss per share for the year ended 26 December 2020, while the potentially dilutive equity derivative securities were dilutive for the purpose of diluted adjusted earnings per share for the year ended 28 December 2019, with the exception of the 2017 options which were anti-dilutive due to the 2018 options lapsing if the 2017 options vest.

The following is a reconciliation between the basic loss per share and the adjusted basic earnings per share:

	Year ended 26 December 2020 pence	Year ended 28 December 2019 pence
Basic loss per share	**(12.02)**	(3.66)
Add back:		
Exceptional items per share[1]	**6.85**	3.51
Amortisation per share[2]	**2.65**	3.30
Tax per share	**0.01**	0.26
Charge:		
Tax credit/(charge) at prevailing rate	**0.48**	(0.65)
Adjusted basic (loss)/earnings per share	**(2.03)**	2.76

1 Exceptional items per share is calculated as total exceptional items divided by the weighted average number of shares in issue through the year.

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

The following is a reconciliation between the basic and diluted loss per share and the adjusted diluted (loss)/earnings per share:

	Year ended 26 December 2020 pence	Year ended 28 December 2019 pence
Basic and diluted loss per share	**(12.02)**	(3.66)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities[1]	**–**	0.59
Exceptional items per share[2]	**6.85**	2.94
Amortisation per share[3]	**2.65**	2.77
Tax per share	**0.01**	0.21
Charge:		
Tax credit/(charge) at prevailing rate	**0.48**	(0.54)
Adjusted diluted (loss)/earnings per share	**(2.03)**	2.31

1 All of the Group's potentially dilutive equity derivative securities were anti-dilutive for the purpose of adjusted diluted loss per share for the year ended 26 December 2020. The warrants, LTIP options, market value options, CSOP options, Sharesave scheme options and Directors' deferred bonus shares were dilutive in the year ended 28 December 2019, with the exception of the 2017 options which were anti-dilutive.

2 Exceptional items per share is calculated as total finance and non-finance exceptional items divided by the diluted weighted average number of shares in issue through the year.

3 Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the year.

The weighted average number of shares (excluding the 2017 anti-dilutive options) for the purposes of calculating the adjusted diluted earnings per share are as follows:

	Year ended 26 December 2020 Weighted average number of shares 000s	Year ended 28 December 2019 Weighted average number of shares 000s
Basic	**196,232**	170,207
Market value options	**–**	14,915
Warrants	**–**	8,510
LTIP share options	**–**	7,576
CSOP options	**–**	585
Sharesave Scheme options	**–**	972
Directors' deferred bonus shares	**–**	247
Diluted	**196,232**	203,012

9. 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	**–**	**–**	**–**	**3,317**	**3,317**
Disposals	**–**	**–**	**–**	**(146)**	**(146)**
At 26 December 2020	**124,877**	**26,744**	**23,222**	**27,580**	**202,423**
Amortisation					
At 29 December 2019	**–**	**18,694**	**525**	**19,655**	**38,874**
Charge for the period	**–**	**2,654**	**97**	**2,446**	**5,197**
Disposals	**–**	**–**	**–**	**(146)**	**(146)**
At 26 December 2020	**–**	**21,348**	**622**	**21,955**	**43,925**
Net book value					
At 26 December 2020	**124,877**	**5,396**	**22,600**	**5,625**	**158,498**

	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 year	–	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

Analysis of goodwill, indefinite life brands, other brands and customer relationships by cash generating unit:

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	**111,497**	**21,900**	**236**	**4,397**	**138,030**
Climate control	**7,327**	**–**	**273**	**708**	**8,308**
Power generation	**6,053**	**–**	**191**	**291**	**6,535**
At 26 December 2020	**124,877**	**21,900**	**700**	**5,396**	**152,873**

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	111,497	21,900	256	6,849	140,502
Climate control	7,327	–	336	820	8,483
Power generation	6,053	–	205	381	6,639
At 28 December 2019	124,877	21,900	797	8,050	155,624

The remaining life of intangible assets other than goodwill and indefinite life brands is between nil and fourteen years (2019: one and fifteen years). For the purpose of calculating Adjusted EBITDA and Adjusted EBITA, amortisation, as disclosed on the face of the income statement, is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets.

The Group tests property, plant and equipment, right of use assets, goodwill and indefinite life brands for impairment annually and considers at each reporting date whether there are indicators that impairment may have occurred. The Group has three cash generating units (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 five years (2019: five 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 the budget for 2021 and model of the business for the following two years (to the end of 2023).
- Operational activity then had a long-term growth rate applied to it while capital expenditure was specifically adjusted to reflect expectations of spend in the following years giving a model of five 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 9.16% (2019: 9.15%), calculated by reference to a weighted average cost of capital (WACC) based on an industry peer group of quoted companies.

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 a 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, goodwill or indefinite life brands assets carried in the balance sheet at 26 December 2020 for any of the CGUs.

The Directors carried out sensitivity analysis on various inputs to the models, including growth rates, discount rates and percentage reductions to ongoing cash flows which did not result in an impairment charge for any CGU. As part of the sensitivity analysis the Directors assessed combined outcomes utilised as part of the going concern and long-term viability assessments (refer to note 1), particularly in light of the potential impact of economic uncertainty arising from 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.

In respect of HSS Core, at 26 December 2020, the headroom between VIU and carrying value of the related assets was £75.1m (2019: £192.7m). The Directors' sensitivity analysis with regard to the most sensitive CGU, HSS Core, shows that an increase in the discount rate to 11.5% (2019: 26.7%) or a reduction in the long-term growth rate to a decline of 0.7% (2019: decline of 4.2%) would eliminate the headroom shown. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero (2019: zero) and an increase in the discount rate of 1% to 10.16% (2019: 10.15%). This shows that the headroom drops to £53.9m (2019: £131.3m) for HSS Core but that impairment is not required for any CGU.

10. 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	179,788	315,218
Transferred to right of use assets	–	–	(46,888)	(46,888)
Transferred from right of use assets	–	–	3,144	3,144
Additions	1,284	1,061	14,099	16,444
Disposals	(16,408)	(7,748)	(17,328)	(41,484)
Foreign exchange differences	38	77	465	580
At 26 December 2020	**58,419**	**55,315**	**133,280**	**247,014**
Accumulated depreciation				
At 29 December 2019	54,437	55,936	102,994	213,367
Transferred to right of use assets	–	–	(17,576)	(17,576)
Transferred from right of use assets	–	–	1,652	1,652
Charge for the year	3,516	2,139	14,518	20,173
Impairment	1,789	227	–	2,016
Disposals	(14,536)	(7,592)	(13,004)	(35,132)
Foreign exchange differences	2	40	448	490
Transfers	–	(170)	170	–
At 26 December 2020	**45,208**	**50,580**	**89,202**	**184,990**
Net book value				
At 26 December 2020	**13,211**	**4,735**	**44,078**	**62,024**

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2018[1]	73,293	62,685	190,373	326,351
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	179,788	315,218
Accumulated depreciation				
At 30 December 2018[1]	51,431	55,125	110,666	217,222
Foreign exchange differences	–	(79)	(546)	(625)
Charge for the year	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	102,994	213,367
Net book value				
At 28 December 2019	19,068	5,989	76,794	101,851

1 As part of the ongoing improvements to hire stock processes some historic consolidation entries have been corrected which resulted in a reduction to cost and accumulated depreciation of £5.0m. The adjustment had no impact on net book value.

Transferred to right of use assets category represents the transfer of assets previously recognised under finance leases, while transferred from right of use assets category represents assets no longer under lease acquired at the end of the lease term. The right of use asset is depreciated over the lease term on a straight line basis, except where the Group has the right, and expects to exercise that right, to take ownership of the assets after the end of the lease; in such cases the assets are depreciated over the useful life.

Materials and equipment held for hire with a net book value of £29.3m at 28 December 2019 (restated) were held under finance leases and transferred to right of use assets on the adoption of IFRS 16 Leases (note 2). The depreciation charge for assets held under finance leases in the year ended 28 December 2019 was £5.5m (restated). The amounts disclosed relating to assets held under finance lease have been restated due to a review carried out as part of IFRS 16 adoption. This had no impact on the total net book value or depreciation charge in the 2019 financial statements.

The results of the impairment review for property, plant and equipment are included in note 9.

11. Right of use assets

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
Cost				
Recognised on transition date	58,014	21,416	30,101	109,531
Foreign exchange differences	155	22	–	177
Additions	1,317	3,040	4,880	9,237
Re-measurements	6,931	17	–	6,948
Transfers to property, plant and equipment	–	–	(3,144)	(3,144)
Disposals	(5,164)	(814)	(1,776)	(7,754)
At 28 December 2020	**61,253**	**23,681**	**30,061**	**114,995**
Accumulated depreciation				
Transfers to property, plant and equipment	–	–	(1,652)	(1,652)
Charge for the period	10,999	7,613	5,924	24,536
Impairments	9,541	–	–	9,541
Disposals	(5,137)	(759)	(1,373)	(7,269)
At 28 December 2020	**15,403**	**6,854**	**2,899**	**25,156**
Net book value				
At 28 December 2020	**45,850**	**16,827**	**27,162**	**89,839**

On adoption of IFRS 16 on 29 December 2019, the Group recognised right of use assets representing the Group's right to use leased assets. Right of use assets are depreciated over the lease term on a straight line basis, except where the Group has the right, and expects to exercise that right, to take ownership of the assets at the end of the lease; in such cases the assets are depreciated over the useful life and transferred to property, plant and equipment at the end of the lease.

Right of use assets are measured at cost comprising the initial measurement of lease liability, initial direct costs and restoration costs. Right of use assets arising on transition to IFRS16 are 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. During the year the Group recorded re-measurements of £6.9m on its property leases due to changes in property footprint, including lease extensions and disposals following the decision to close 134 branches and subsequent negotiations with landlords to surrender leases. Under HSS accounting policy, locations that have not been permanently closed are deemed to be part of a wider cash generating unit (CGU) when being tested for impairment. The act of permanently closing a location has the effect of separating it from the CGU and is also a trigger for impairment. The value of ROU assets impaired as a result of decision to permanently close locations is £9.5m.

Disclosures relating to lease liabilities are included in note 13.

12. Trade and other receivables

	Year ended 26 December 2020			Year ended 28 December 2019		
	Gross £000s	**Provision for impairment £000s**	**Net of provision £000s**	Gross £000s	Provision for impairment £000s	Net of provision £000s
Trade receivables	**66,434**	**(5,374)**	**61,060**	72,056	(3,745)	68,311
Accrued income	**6,965**	**(107)**	**6,858**	6,824	–	6,824
Contract assets	**73,399**	**(5,481)**	**67,918**	78,880	(3,745)	75,135
Net investment in sub-lease	**1,497**	**–**	**1,497**	–		–
Other debtors	**3,502**	**–**	**3,502**	2,762	–	2,762
Prepayments	**2,963**	**–**	**2,963**	10,499	–	10,499
Total trade and other receivables	**81,361**	**(5,481)**	**75,880**	92,141	(3,745)	88,396

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

	26 December 2020 £000s	28 December 2019 £000s
Balance at the beginning of the period	**(3,745)**	(3,819)
Increase in provision	**(5,962)**	(4,590)
Utilisation	**4,226**	4,664
Balance at the end of the period	**(5,481)**	(3,745)

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

	26 December 2020 £000s	28 December 2019 £000s
Bad debt provision	**(3,023)**	(1,568)
Credit note provision	**(2,458)**	(2,177)
	(5,481)	(3,745)

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

26 December 2020	**Current**	**0 to 60 days past due**	**61 to 365 days past due**	**1 to 2 years past due**	**Total**
Contract assets	**61,197**	**5,902**	**4,962**	**1,338**	**73,399**
Expected loss rate	**1.4%**	**4.6%**	**25.7%**	**47.5%**	**4.1%**
Provision for impairment charge	**839**	**272**	**1,276**	**636**	**3,023**

28 December 2019	Current	0 to 60 days past due	61 to 365 days past due	1 to 2 years past due	Total
Contract assets	63,633	7,500	6,631	1,116	78,880
Expected loss rate	1.0%	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 2019. However, as has been widely reported, there is an expectation that the situation will deteriorate as Government support is reduced and that the rate of insolvencies will increase. Given these facts, the Group considers that historical losses are not a good predictor of future failures and has exercised judgement in increasing the expected loss rates across all categories of debt. In so doing the provision has been increased by around £1.2m from that which would have been required based on loss experience over the past two years. As in the prior year, historical loss rates have been increased where debtors have been identified as high risk with a reduction applied to customer debt covered by credit insurance. The total amount expensed was £4.1m (2019: £3.6m). Unless the counterparty is in liquidation, these amounts are still subject to enforcement action.

Provisions are made for credit notes expected to be raised after year end for income recognised during the year.

The overall provisions for bad debt and credit notes amount to 7.5% of contract assets at 26 December 2020 (2019: 4.7%). A 0.5% increase in the rate of provision required would give rise to an increased provision of £0.4m (2019: £0.4m).

13. Borrowings

	26 December 2020 £000s	28 December 2019 £000s
Current		
Senior finance facility	**15,000**	–
Lease liabilities	**23,395**	–
Obligations under finance leases	**–**	5,355
	38,395	5,355
Non-current		
Senior finance facility	**161,899**	174,501
Revolving credit facility	**17,200**	–
Lease liabilities	**66,177**	–
Obligations under finance leases	**–**	11,228
	245,276	185,729

The nominal value of the Group's loans at each reporting date is as follows:

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

The Group's Senior finance facility and Revolving credit facility (RCF) expire on 10 July 2023 and 10 January 2023 respectively. The £15.0m current element of the Senior finance facility was repaid in January 2021 and the £17.2m RCF was repaid in April 2021.

The senior finance facility and RCF are secured over the assets of a Group company, Hero Acquisitions Limited, and all of its subsidiaries. These subsidiaries comprise all of the trading activities of the Group. The lenders under the RCF rank above those under the senior finance facility. The overall £25.0m RCF includes a £6.0m overdraft facility and a £1.8m guarantee arrangement to secure the Group's card-acquiring services provided by a third party.

The Group had undrawn committed borrowing facilities of £20.7m at 26 December 2020 (2019: £36.6m), including £14.7m of finance lines to fund hire fleet capital expenditure not yet utilised. Including net cash balances, the Group had access to £118.3m of combined liquidity from available cash and undrawn committed borrowing facilities at 26 December 2020 (2019: £59.3m).

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

			26 December 2020	28 December 2019
Senior finance facility	Floating	%age above LIBOR	**8.0%**	8.0%
Revolving credit facility	Floating	%age above LIBOR	**2.5 to 3.0%**	2.5%
Lease liabilities	Floating	%age above LIBOR	**2.4 to 2.9%**	–
Finance leases	Floating	%age above LIBOR	**–**	3.1%

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

	26 December 2020	28 December 2019
Borrowings	**9.8%**	10.4%
Lease liabilities	**4.8%**	–
Finance leases	**–**	4.8%

Amounts under the RCF are typically drawn for a one- to three-month borrowing period, with the interest set for each borrowing period based upon LIBOR and a fixed margin.

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

	26 December 2020		28 December 2019	
	Lease liabilities £000s	Borrowings £000s	Finance leases £000s	Borrowings £000s
Less than one year	**27,452**	**30,581**	6,306	16,423
Two to five years	**55,544**	**208,725**	11,615	220,805
More than five years	**23,483**	**–**	–	–
	106,479	**239,306**	17,921	237,228
Less interest cash flows:				
Senior finance facility	**–**	**(38,822)**	–	(55,246)
Revolving credit facility	**–**	**(1,302)**	–	–
Lease liabilities	**(16,907)**	**–**	–	–
Finance leases	**–**	**–**	(1,338)	–
Total principal cash flows	**89,572**	**199,182**	16,583	181,982

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

	26 December 2020 Lease liabilities £000s	28 December 2019 Finance leases £000s
Less than one year	**23,395**	5,355
Two to five years	**47,030**	11,228
More than five years	**19,147**	–
	89,572	16,583

Finance leases held at 28 December 2019 principally related to hire fleet assets.

14. Provisions

	Onerous property costs £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 29 December 2019	**4,833**	**16,209**	**19,573**	**40,615**
Adoption of IFRS 16 (note 2)	**(2,222)**	**–**	**–**	**(2,222)**
Additions	**5,326**	**1,452**	**–**	**6,778**
Utilised during the period	**(601)**	**(2,726)**	**(3,330)**	**(6,657)**
Unwind of provision	**7**	**204**	**218**	**429**
Impact of change in discount rate	**88**	**747**	**557**	**1,392**
Releases	**(3,472)**	**(3,226)**	**–**	**(6,698)**
Foreign exchange	**–**	**17**	**–**	**17**
At 26 December 2020	**3,959**	**12,677**	**17,018**	**33,654**

Of which:				
Current	**1,328**	**2,823**	**3,297**	**7,448**
Non-current	**2,631**	**9,854**	**13,721**	**26,206**
	3,959	**12,677**	**17,018**	**33,654**

	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 provision	20	49	345	414
Released, including disposal on sale of business	(2,304)	(360)	–	(2,664)
Foreign exchange	–	(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

Onerous property costs

Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable costs on leasehold properties the Group no longer uses or where a site is partially in use and as a whole, loss-making. Until the implementation of IFRS 16 on 29 December 2019, the provision also included amounts for future rent payments. The Company has taken the practical expedient available under IFRS 16 to rely on its assessment of whether a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, reducing the carrying value of its right of use asset on implementation. This resulted in the elimination of onerous property costs of £2.2m and a corresponding impairment of the right of use asset on transition date.

The liabilities, assessed on a property-by-property basis, are expected to arise over a period of up to 9 years (2019: 8 years) with the weighted average of the onerous property costs post IFRS 16 being 3.76 years (2019: pre IFRS 16 3.9 years). Prior to implementation of IFRS 16, they were stated net of expected sub-let income based on existing sub-let agreements (2019: £0.7m). Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable costs. These costs are treated as exceptional. The onerous property cost provision has been inflated at a rate of 0.1% (2019: discounted at 0.9%). A 1% increase in the discount rate at 26 December 2020 would reduce the provision post the implementation of IFRS 16 by £0.09m (2019: pre IFRS 16 £0.1m).

Since the implementation of IFRS 16, right of use assets are subject to impairment testing (note 9). Prior to the implementation of IFRS 16, the assessment of whether a site was onerous was based on the current year profit or loss being projected forward to the end of the lease. In considering profitability, expected sub-let income for unused space was considered. The amount of expected sub-let income leases included in the onerous lease provision amounted to £0.9m at 28 December 2019.

Dilapidations

An amount equivalent to the provision for dilapidation is recognised as part of the asset of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors' reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The estimates used by management in the calculation of the provision take into consideration the location, size and age of the properties. The weighted average dilapidations provision at 26 December 2020 was £6.65 per square foot (psf) (2019: £8.68 psf). The reduction is due to an increase in surveys and landlord negotiations in the Group's effort to exit all its dark store liabilities. Estimates for future dilapidations costs are regularly reviewed as and when new information is available. A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 26 December 2020 of £0.7m (2019: £0.9m).

The dilapidations provision has been discounted at a rate of 0.25% (2019: 1.26%) at 26 December 2020 based on ten-year UK gilt yields. A 1% increase in the discount rate at 26 December 2020 would decrease the dilapidations provision by £0.7m (2019: £0.8m). The inflation rate applied in the calculation of the dilapidations provision was 1.8% (2019: 1.8%).

Onerous contract

The onerous contract represents amounts payable in respect of the agreement reached between the Group and Unipart to terminate the contract to operate the NDEC. Under the terms of the agreement at 26 December 2020 £17.0m is payable over the period to 2026 (2019: £20.3m) and £3.3m has been paid during the year (2019: £3.6m). The provision has been restated to present value by applying an inflation rate of 0.1% (2019: discount rate of 1.2%). A 1% reduction in the inflation rate at 26 December 2020 would decrease the provision by £0.5m (2019: a 1% increase in the discount rate would decrease the provision by £0.6m).

15. Share Capital and Capital raise

On 8 December 2020 the Group completed a capital raise from existing and new shareholders resulting in gross proceeds of £52.6m. 526,270,512 ordinary shares of 1p each were issued for 10p each.

	Year ended 26 December 2020 £000
Gross proceeds	**52,627**
Cost of share issue[1]	**(1,784)**
Net proceeds	**50,843**

Accounted for as:	
Share capital	**5,263**
Share premium	**45,580**
	50,843

The number of shares in issue and the related share capital and share premium are as follows.

	Ordinary shares Number	Ordinary shares £000s	Share premium £000s
At 29 December 2019	170,207,142	1,702	–
Shares issued	526,270,512	5,263	45,580
At 26 December 2020	**696,477,654**	**6,965**	**45,580**

1 £1,492,000 of the £1,784,000 costs had not been paid as at 26 December 2020.

16. Post balance sheet events

On 14 January 2021 the Group's ordinary shares of 1 pence each were admitted to trading on AIM. Simultaneously, the admission of the ordinary shares to trading on the Main Market of London Stock Exchange plc and to the premium listing segment of the Official List were cancelled. This follows the Group's announcement on 16 November 2020 and the General Meeting held on 4 December 2020.

During the year the Group recognised £1.2m of insurance proceeds claimed under the business interruption policy due to the impact of the COVID-19 pandemic (note 4). Since the year end the Group has received a further £1.2m.

Since the year end a series of national lockdowns have come into force across the UK nations and the Republic of Ireland. These have not had a material impact on the Group's trading performance.

Since the year end the Group has continued to negotiate with landlords and has surrendered or agreed to surrender 95% of leases associated with dark stores.

On 7 April 2021 the Group announced that it has entered into an unconditional agreement to sell Laois Hire Services Limited, the Group's Irish large plant hire business, to Brigg's Equipment Ireland Limited ("Briggs"), for a cash consideration of €11.2m. Of this, €10.7m was received on completion with a further €0.5m payable on finalisation of completion accounts later in 2021. The proceeds will be used to invest in the core Tool Hire business in line with the Group's strategy. As part of this transaction, the Group has entered into a commercial agreement with Briggs for the cross hire of equipment to ensure we continue to provide our Irish customers with their large plant requirements. The sale has been treated as a non-adjusting post balance sheet event.