

Support Services Insights

January 2022

Digital change is impacting construction



Digital change is in construction

Digital change is sweeping across nearly every industry, accelerated by the pandemic. Construction has long been viewed as slow to change and at the back of the queue in terms of technological innovation, reinforced by age-old problems of contract issues and inefficiencies.

But there are pockets of change and expertise in the supply chain, especially if we consider the Equipment Hire space. A number of players operate a B2C and B2B model alongside each other. Success in the B2C world requires rapid innovation in customer interaction and service extending into fulfilment and the back office. Progress and lessons that can then be applied in the B2B world.

Leveraging B2C digital skills

The construction industry is understandably viewed as traditional and slow to change, particularly regarding technology. But there are pockets of change and expertise in the supply chain, Equipment Hire being a good example.

One of the real enablers of change for the industry is the fact that a number of companies have B2C as well as B2B models. This means the rapid changes and usage of tech in the consumer world is filtering through to their whole operations. The additional pressures on operators to reduce costs and meet net zero targets demand improvements in efficiency, to which digitisation can be a key contributor, not least in enabling measurement of key performance metrics.

Some operators are further ahead than others. Speedy and HSS have ramped up digital investment over the last two years, taking advantage of interruption during the pandemic. Ashtead is investing heavily as part of its Sunbelt 3.0 strategic growth plan while Vp already has significant in-house digital capability and is therefore continuing to invest at strong levels compared to its history.

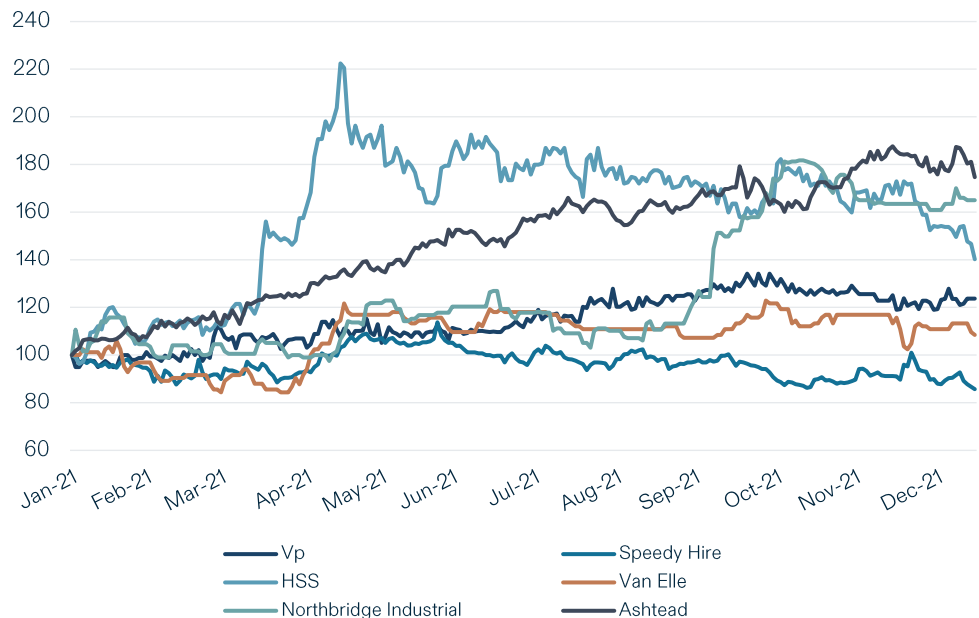
In an industry where smaller, local, privately owned players still have significant market share, this investment will place the larger players at an increasing advantage. Looking at a selection of KPIs, Ashtead and Vp tend to come out on top with HSS, Speedy and Northbridge Industrial around the middle.



Equipment hire sector update

2021 has been a good year for most in the equipment hire sector, with the recovery underpinned so far by progress on HS2 and sustained demand in housebuilding. Ashtead, Northbridge Industrial, HSS Hire and Vp have all performed particularly well with share prices up 75%, 65%, 40% and 24% YTD, respectively.

Figure 1: Sector share-price performance



Source: FactSet

Figure 2: HS2 plan following announcement of the IRP



Source: Department for transport, BBC

We maintain that plenty of opportunity exists for the sector over the next 5-10 years, underpinned by the public and private investment in large infrastructure projects (e.g., the £650bn National Infrastructure and Construction Pipeline), and strong demand from housebuilders. Recent sets of results have pointed towards a positive outlook for H2, with Speedy Hire upgrading expectations and Vp also optimistic, noting that AMP7 and CP6 offer significant upside potential as they ramp up over the next few months following a slower recovery compared to HS2 which has helped underpin the sector so far.

Looking further forward, the recently announced £96bn Integrated Rail Plan (IRP) could provide another opportunity in the medium term. It drew criticism as it will, in part, be used to replace most of the Eastern leg of HS2 between the East Midlands hub and Leeds, which would not have come into service until the 2040s whereas the IRP will provide a much more immediate opportunity.

Benefits of digital

Investment in digital opens the door for a step-change in efficiency. Better digital platforms can greatly improve the customer journey which can in turn boost conversion rates and rehire enquiries. It is crucial for operators who are looking to engage more with B2C customers, but is becoming more of a necessity for all as they try to keep pace with progress being made by B2B clients.

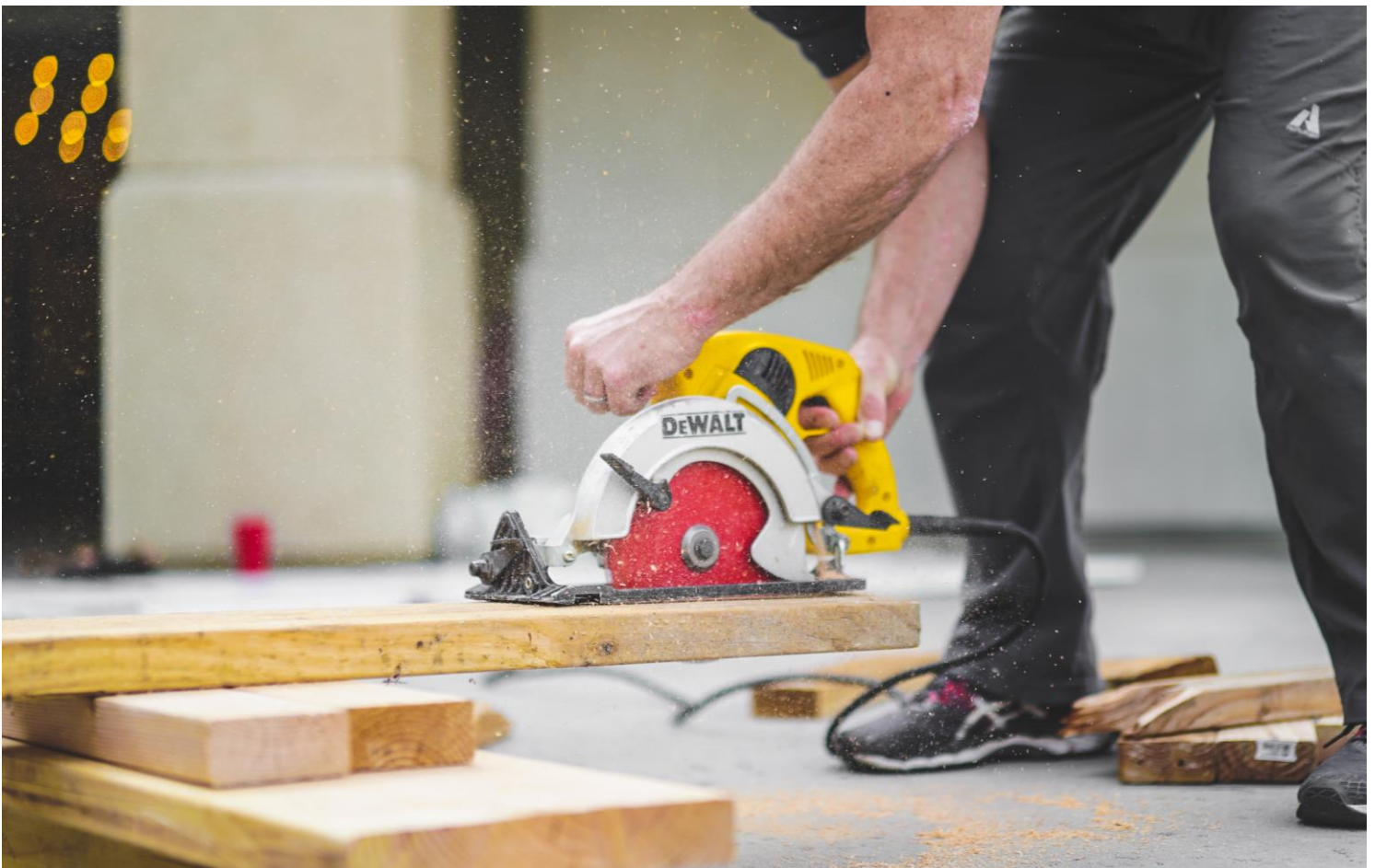
Artificial intelligence can be used to leverage customer data to help optimise equipment distribution and dynamic pricing which filters down to elevated utilisation, margins and returns, each of which we look at below.

ESG is growing in importance in the sector. Speedy Hire and Vp have both declared net zero carbon targets (for 2035 and 2050, respectively). Digital investment, and the efficiency improvements it brings, will be a key tool helping them reach these targets, along with investment in more sustainable fleets and customer education.

Utilisation

Artificial intelligence and other advancements allow operators to rent out their fleets more optimally. They can leverage customer data to better understand behaviour and ensure equipment is positioned appropriately.

Speedy and HSS have the highest levels of utilisation, and it is unsurprising to see them performing well, with both having made good progress optimising their own digital platforms over the last two years.



What are operators doing?

Equipment hire operators are approaching digitisation and investment in different ways. It forms a key pillar of Ashtead's Sunbelt 3.0 strategy, while HSS and Speedy have emphasised it heavily in recent presentations.

Northbridge is heavily exposed to data centres and digital infrastructure but does not speak to internal digital investment specifically. Van Elle also chooses not to stress digital investment, instead focussing on investment elsewhere in the business and growing its market share.

Vp has a strong track record with digital, with its own significant internal team and systems, and continues to invest to maintain its market-leading infrastructure. As a result it does not stress recent progress to the same extent as some competitors, a missed opportunity we expect to change.

Ashtead

Advancing technology is the third pillar of Ashtead's Sunbelt 3.0 strategic growth plan. It is aiming to be a leader in the broader industrial and service sector by leveraging its experience, culture and data, building a technology driven ecosystem, enabling ecommerce across all channels, and migrating common applications to a group-wide platform (among other things).

It has a robust technological infrastructure allowing it to provide the highest possible level of client service, with c.65% of orders being delivered within 24 hours, and its sales force is backed up by Chronos, its proprietary cloud-based sourcing decision engine.

Customer experience is enhanced through Ashtead's omnichannel offering and predictive analytics. Order capture and fulfilment is improved through process optimisation and 'creating a larger funnel'.

HSS Hire

HSS has transformed its network following the completion of its strategic plan and is set for a digital future. It now operates 135 click & collect locations nationwide with online revenue growth of 75%, representing 24% of transactions in H1. Its sales acquisition division is underpinned by its tech platform with hss.com acting as an interface for small customers, HSS Pro POS for colleagues, and ProService for large customers.



What are operators doing?

Northbridge Industrial

Due to its exposure to data centres and other elements of digital infrastructure, elements of Northbridge’s strategy are naturally digitally led. Most parts of the business are otherwise exposed to critical sectors – power utilities and critical infrastructure for example – with digital support ensuring that equipment in these sectors is able to remain ‘always on’.

Externally, due to its reliance on B2B as opposed to B2C, digital does not feature as saliently, only needing to keep pace with what Northbridge’s B2B clients require. Aside from comments on exposure to digital infrastructure it is unclear what the Group is investing in, in terms of digital capability.

Speedy Hire

Speedy has been working hard recently on enhancing its digital capabilities. It is arguably more pressing in Speedy’s case as it looks to grow its B2C business (which has led to it spending on app development) and pursues an ambitious target of net zero by 2035.

In its own words, digital is crucial for its B2C market as consumers demand a digital transaction, there is increased digital activity with B2B customers as they start to develop their own digital ecosystems, and costs are lower for serving digital transactions.

Its most recent progress update Speedy flagged the following:

- New cloud-based ‘Evergreen’ ERP system is now implemented to accelerate digital capability
- Digital customer journey has been enhanced
- Digital on/off hires up c.80% y-o-y
- New B2C website under development for launch in Q4
- Work underway to improve digital capability of services business

Figure 8: Speedy’s strategic growth initiatives



Source: Speedy

What are operators doing?

Van Elle

Based on recent reporting, digital seems to be less of a priority for Van Elle. It is instead focusing on simplifying its structure and improving leadership, strengthening its commercial approach, and otherwise improving operational performance, utilisation and cost efficiencies. All of this is intended to drive an increase in market share alongside an expansion of its services and product offering, and acquisitions.

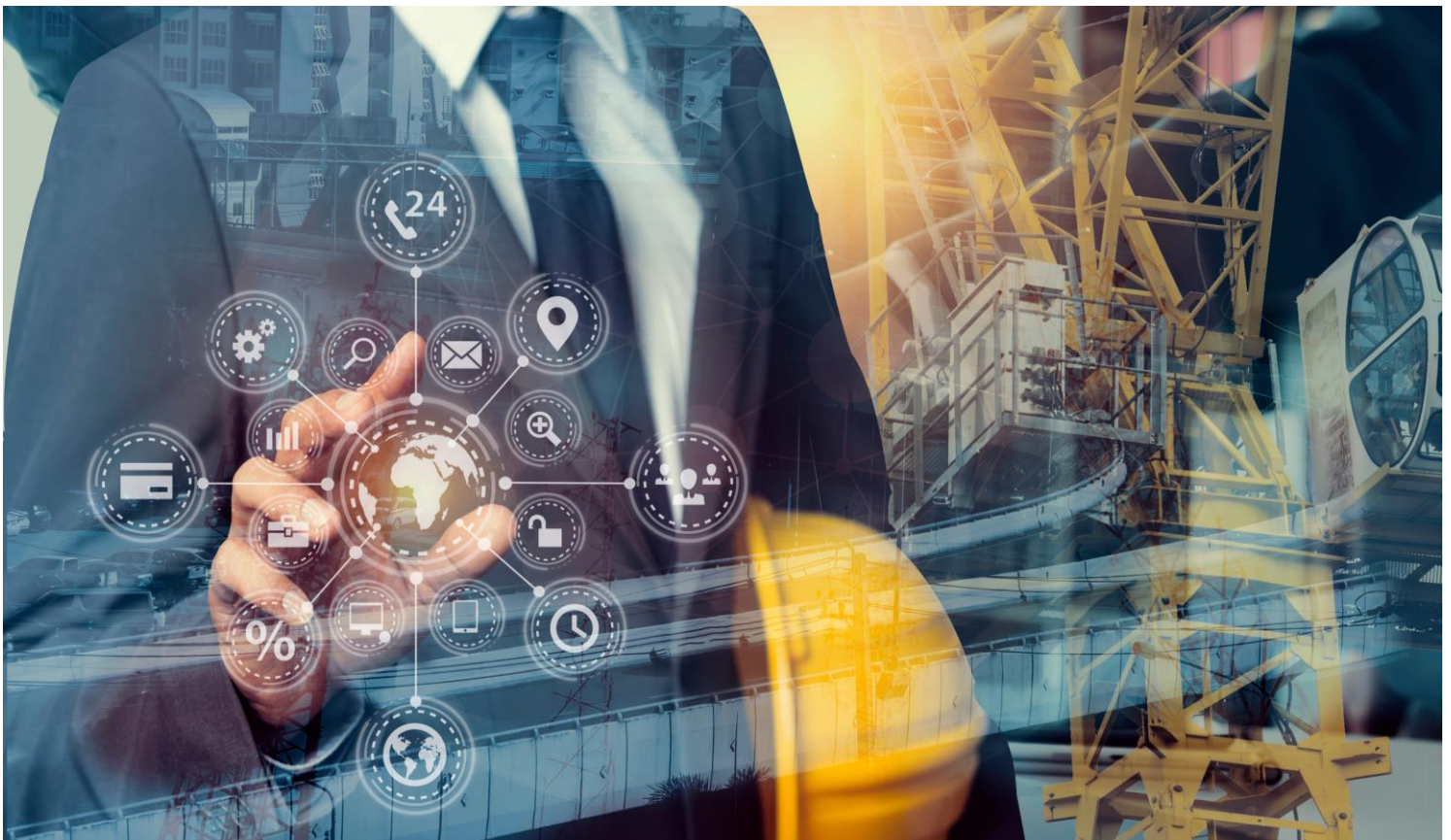
It is unlikely that investment in digital is not an element of this wider strategy, but it does not seem to be a focus.

Vp

Vp's digital capability is fully controlled in-house with a team of developers working on its own proprietary platforms. Consequently, its digital development has been ahead of most rivals for some time and is one of the factors behind its strong track record on KPIs such as ROCE.

As digital investment has become second nature to the business, Vp generally does not flag more minor developments. However it did recently outline how digital enhancements enable customers to receive more real-time data on metrics like fleet usage, and can better manage targets such as fuel consumption and emissions.

Externally, B2C is not a huge part of the business but it does interface with healthy levels of traffic through its Brandon Hire business.



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TECHNOLOGIES

£20m Placing and
AIM IPO

£92m Market Cap

NOMAD AND BROKER
November 2021

K3 capital
group plc

£10m Placing

£270m Market Cap

NOMAD AND JOINT BROKER
July 2021

RJD partners

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Improve
International

Debt Provider

Santander

RECAPITALISATION
Business Services

ROCKPOOL..

Target

CAMBRIDGE
Maintenance Services

Debt Provider

Clydesdale Bank

ACQUISITION FINANCING
Business Services

ELIXIRR

£6.3m Director
Sell-Down

£98m Market Cap

NOMAD AND SOLE BROKER
December 2020

BELVOIR!

£3m Sell-Down

£59m Market Cap

BROKER
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