



H&E Equipment Services' Rental Revenue Jumps 7.8 Percent in Fourth Quarter

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H&E Equipment Services posted total equipment rental revenue in the fourth quarter of \$193.8 million compared to \$179.8 million in the fourth quarter of 2018 (as adjusted), a 7.8-percent increase. H&E reported \$348.1 million in fourth quarter total revenue compared to \$346 million in the fourth quarter of 2018, a 0.6-percent year over year increase.

Included in the company's fourth quarter net income was a \$12.2 million pre-tax non-cash goodwill impairment charge. Net income decreased 12.5 percent year over year to \$21.9 million in the fourth quarter compared to \$25.1 million in the fourth quarter of 2018. Excluding the impairment charge, net income was \$31.9 million, a 27.2-percent increase.

Adjusted EBITDA increased 10.7 percent in the fourth quarter to \$126.8 million compared to \$114.6 million a year ago, yielding a margin of 36.4 percent of revenues compared to 33.1 percent a year ago.

New equipment sales were \$61.4 million in the fourth quarter compared to \$79.7 million a year ago, a 23-percent drop. Meanwhile, used equipment sales increased 12.1 percent to \$42.4 million in the fourth quarter compared to \$37.8 million a year ago.

Gross margin was 36.9 percent compared to 35.6 percent a year ago. The increase in gross margin was largely the result of a shift in revenue mix to rentals and higher margins on used equipment sales which were partially offset by lower margins in other business segments.

Total equipment rental gross margins were 45.6 percent in the fourth quarter of 2019 compared to 46.7 percent in the fourth quarter of 2018 (as adjusted). Rental gross margins (as previously reported) were 50.3 percent in the fourth quarter of 2019 compared to 51.5 percent a year ago primarily because of lower time utilization.

Average time utilization (based on original equipment cost) was 69.0 percent compared to 72.9 percent a year ago. The size of the company's rental fleet based on original acquisition cost increased 10.2 percent from a year ago, to \$1.9 billion.

Average rental rates increased 1.7 percent compared to a year ago and declined 0.1 percent sequentially. Dollar utilization was 36.0 percent in the fourth quarter compared to 37.0 percent a year ago. Average rental fleet age at December 31, 2019, was 36.3 months compared to an industry average age of 46.8 months.

"With seasonality, the balancing of supply and demand and a challenging comparable in the year ago quarter, the year finished as we expected during the fourth quarter," said Brad Barber, H&E Equipment Services' CEO and president. "We produced solid results for the quarter despite these factors - growing revenues, gross profit and adjusted EBITDA. The strength in our rental business continued with rental revenues increasing 8.2 percent from a year ago and we again achieved rate growth, which increased 1.7 percent. Our performance for the full year of 2019 was also positive as we delivered an 8.8-percent increase in revenues and a 16.7-percent increase in adjusted EBITDA.

"The metrics for our rental business were impressive as rental revenues for the year increased 17.3 percent from 2018. Average physical utilization for the year remained solid at 70.4 percent and average rates were 2.1 percent higher than in 2018. Overall, we are pleased with our execution and results for 2019."

Barber expressed positive expectations for 2020. "Based on current industry indicators and customer sentiment, the non-residential construction markets we serve are expected to be stable in 2020. Increasing the scale and scope of our rental business through selective acquisitions and organic expansion remains one of our highest priorities."

For the full year, H&E posted total revenue of \$1,348.4 million compared to \$1,239 million in 2018, an 8.8 percent increase. Equipment rental revenue for 2019 was \$766.4 million compared to an adjusted total of \$655.3 million in 2018, a 17-percent jump. New equipment sales decreased 9.1 percent to \$239.1 million from \$262.9 million a year ago. Used equipment sales increased 11.4 percent to \$139.3 million compared to \$125.1 million a year ago. Parts sales increased 2.8 percent to \$123.9 million from \$120.5 million in 2018. Service revenues increased 7.0 percent to \$67.9 million from \$63.5 million a year ago.

Income from operations for 2019 increased 8.1 percent to \$180.2 million, or 13.4 percent of revenues, compared to \$166.6 million, or 13.5 percent of revenues, a year ago. Excluding the impairment charge, income from operations was \$192.3 million, an increase of 15.4 percent, or 14.3 percent of revenues compared to year ago.

H&E Equipment Services, No. 8 on the *RER* 100, is based in Baton Rouge, La.