

Equipment Rental and Dealer State of the Market: Q1 2023



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The macroeconomic backdrop for the Equipment Rental and Dealer sectors remains robust, driven by strong construction activity and project backlogs in the commercial, industrial and infrastructure construction spaces, overlaid with an ever-increasing rental penetration rate. This strong market environment produced record earnings in 2022 for public companies in the industry – see below for what public company CEOs had to say regarding the state of the market on recent earnings calls in January, February and March 2023:

"Favorable trends have emerged in the equipment rental industry and represent a promising outlook. We expect the robust business environment to persist through the year as strong project backlogs and accelerating federally funded programs escalate spending, particularly in the non-residential and industrial end markets."

"Customer feedback regarding non-residential and industrial project backlog continues to indicate a robust scope of work in 2023, which is expected to drive healthy fleet utilization over the next year. [The Dodge Momentum Index and AIA's Architecture Billings Index] continue to reflect robust non-residential construction project backlogs and active planning agendas, which is likely to bode well for 2023 and beyond."

"We expect further growth in rental penetration to drive new demand for equipment as the combination of unfavorable fiscal conditions, including rising interest rates and lingering delays in equipment availability encourage a shift by certain customers away from the ownership of equipment."



Brad Barber, CEO

RE EQUIPMENT SERVICES

February 22, 2023

"From a macro standpoint, the North American Equipment Rental market generated 11% growth in 2022 on robust infrastructure, industrial and other non-residential spending. Tailwinds came from a ramp-up in domestic manufacturing after years of inadequate investment, the beginnings of federal funding for construction projects and the ongoing shift that is now taking place in specialty categories from equipment ownership to equipment rental."

"Contractors understand better than ever the economic, environmental and logistical benefits of [renting] equipment across categories."



Larry Silber, CEO

Herc Rentals

February 14, 2023

"Consistent with our update in December, the supply and demand equation remains incredibly favorable. This effect continues to contribute market share gains and record levels of time utilization throughout the business. The ongoing reality, which has now sustained for nearly two years, clearly evidences the structural change we are witnessing."

"Rental penetration is deepening before our eyes. Year-on-year rental revenue [for specialty rentals] demonstrates the ongoing and compounding growth across all specialty business lines. This continues to tangibly demonstrate the structural shift our customers are making from ownership to rental. . . [this] is, without question, a growing market."

"Construction starts and the Dodge Momentum Index are at or near record levels. This is fueling the latest Dodge forecast, amounting to an increase in non-residential and non-building construction of \$450 billion between 2023 and 2026 when compared to what was shown in December. The 2023 forecast alone increased by 13%, or \$135 billion."

"[Canadian] conditions are not dissimilar to the U.S. in terms of activity, demand and supply environment, and thus we're experiencing equally strong performance from a utilization and rate



Brendan Horgan, CEO

SUNBELT RENTALS

March 7, 2023

"There are plenty of reasons to feel confident about our operating environment. . . contractor backlogs are growing and, not surprisingly, the employment reports indicate that U.S. contractors continue to be in expansion mode. Industry indicators like the Dodge Momentum Index show healthy growth trends in commercial construction, and this includes the planning for future projects. And importantly, our own survey shows that customer sentiment remains strong, with the majority of our customers pointing to growth over the next 12 months."

"Longer term, the outlook for our industry continues to be very favorable, driven by several tailwinds that we believe are largely independent of macro conditions. . . things like infrastructure spending, the Inflation Reduction Act and the return of manufacturing to North America, as well as investments in both energy and power."



Matthew J. Flannery, CEO

United Rentals

January 26, 2023

"The Construction Equipment segment is starting to see the benefits from infrastructure and other governmental legislation. Our Florida operations are performing very well, helped in part by the significant growth in non-residential construction projects and significant state spending on highways and other infrastructure."

"As evidenced by our increasing levels of new equipment inventory, supply chains and our ability to take delivery of new equipment is stabilizing. And to the extent the demand backlogs remains intact in 2023, we should be able to work down the large equipment sales backlogs that we have been carrying over the past few years."

"In looking at the current M&A landscape, we remain active, and our pipeline remains robust as we expect it to be for the foreseeable future given demographic and strategic reasons for dealer consolidation."



Ryan Greenawalt, CEO

ALTA EQUIPMENT COMPANY

March 9, 2023

TM CAPITAL'S ROBUST MARKET ACTIVITY & ATTRACTIVE VALUATIONS FOR LEADING BUSINESSES

Over the last 15 years, TM Capital has established a market-leading Equipment Rental and Dealer sector practice, advising a broad range of privately-owned and financial-backed clients. With an emphasis on M&A transactions (both sell-side and buy-side), TM's sector activity is accelerating, having completed 11 transactions since January 1, 2021, totaling over \$2 billion in aggregate enterprise value.

TM Capital has successfully represented an impressive client roster in the Equipment Rental and Dealer sectors, achieving premium market valuations with both strategic and financial buyers/investors. Our substantial experience across a wide range of transactions reinforces recurring relationships with an expanding universe of domestic and foreign strategic buyers, as well as a growing roster of private equity and family office investors that are increasingly focused on these categories. We would welcome the opportunity to discuss M&A trends, valuation dynamics and the competitive landscape with you.