Equipment Rental and Dealer State of the Market: Q1 2024

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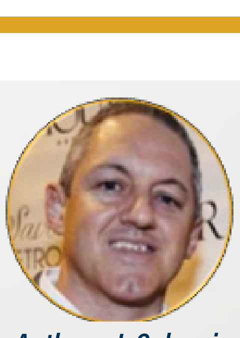
The macroeconomic backdrop for the Equipment Rental and Dealer sectors remains robust in early 2024, driven by strong commercial, industrial and infrastructure construction activity, all sectors which are benefitting from federal stimulus that remains in the early innings of deployment. Supply chain pressures continue to ease, which is driving greater equipment availability and enabling industry participants to better address demand. Sustained pricing and utilization evidences that the supply – demand dynamic remains net favorable. This robust market environment – overlaid with an ever-increasing rental penetration rate as rental reliability continues to increase – generated strong earnings performance for public companies in the industry. As of mid March, the median TEV / EBITDA trading multiple for public rental companies reached an all-time high. See below for what public company executives had to say regarding the state of the market on recent earnings calls in January, February and March 2024:

"As equipment supply chains began to normalize at the end of 2022, Alta, like many other industry participants saw an unprecedented level of inventory replenishment in the first half of '23 – what I've been referring to as the 'Great Replenishment.'"

"I think what we're seeing is a little bit of – not a pullback, but a lengthening of the sales cycle for your general contractor. One of the things that's true is that labor utilization is the key to construction right now. You can't stimulate something when everyone's already got a job. You can't sell an excavator when no one has an operator to put in the seat. I think that is the phenomenon playing out with some of the pivot to larger job types right now."

"The [M&A] pipeline continues to be active. We are continuing to pursue accretive acquisitions and opportunities, which would further expand the scale and scope of product offerings for our customers."



Anthony J. Colucci,
Chief Financial Officer
ALTA EQUIPMENT COMPANY
March 14, 2024

"In terms of end markets, [it is] very favorable in the utility space, infrastructure, rail and telecom [due to] the impact of the IIJA. It's hundreds of billions of dollars [in investment], as well as [significant] capital expenditure in the industry – it's [been] a high single-digit to low double-digit kind of CAGR over the past 3 or 4 years. So just great end market [demand], and we're seeing that in terms of our backlog and our overall demand."

"We definitely think there will be a closing of [the general rental vs. specialty rental penetration rate] gap. I think GenRent is 50, mid-50s, high 50 kind of penetration. Specialty rentals [is] low to mid-20s. There's obviously a lot of room to move there. . . we do think, longer term, there's probably an opportunity there for a bigger market for rental – we do see that gap closing [over time]."

Chris Eperjesy,
Chief Financial Officer
CUSTOM TRUCK ONE SOURCE
March 12, 2024

"Supply is certainly catching up with demand, and we're starting to see a more normalized environment in many regards. We can get what we need from manufacturers in a much more reasonable timeline with good predictability, and we're managing for a normal environment."

"Our [fourth quarter] performance was supported by the favorable rental rate environment with consistent annual cumulative improvement continuing to serve as a meaningful component for growth. For the year, rental rates posted a year-over-year average improvement of 5.6%, adding to the average improvement of 9.3% in 2022."

"We remain confident that growing rental penetration will be a steady and meaningful catalyst for increased industry growth as the attractiveness of equipment rental ownership continues to evolve. Recently, the American Rental Association announced rental penetration improved to 56.4% in 2023, up from 53.5% in 2022. The measure is now a mere 30 basis points below the pre-pandemic high."

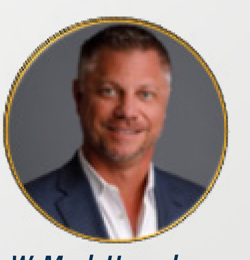
Brad Barber, CEO
H&E EQUIPMENT SERVICES
February 22, 2024

"The equipment rental market is continuing to benefit from strong demand across a variety of end markets, customer segments and geographies in 2024, and this diversification provides for growth and resiliency. . . the federal and privately funded mega projects, large infrastructure jobs and domestic manufacturing build out continue to gather steam. These mega projects represent the beginning of a multiyear flow of dollars into the industrial and infrastructure space."

"Industrial Info Resources is projecting the second highest level [of industrial spending] on record for 2024 at $408 billion. Dodge forecasts nonresidential construction starts in 2024 are estimated to increase 4% to $458 billion, which reflects growth over pre-pandemic levels. Last year and the next three years are projected to be the strongest periods of activity that this industry has ever seen."

"The ARA estimate for 2024 North American rental industry revenue is $82 billion, or 6.5% growth over 2023."

Lawrence H. Silber,
President & CEO



W. Mark Humphrey,
Senior VP & CFO
HercRentals
February 13, 2024

"Construction activity has proven to be incredibly resilient. . . the drivers behind a significant portion of the recent levels of starts fall into 3 main categories. First, reversing the multigenerational globalization of U.S. manufacturing and production to domestic onshoring and reshoring. Second, the role technology now plays in society, business and manufacturing, and by relation, making up a larger portion of the U.S. construction landscape. And third, legislative acts – three of them – injecting $2 trillion of direct funding and stimulus, amounting to a once-in-a-lifetime trifecta of acts."

"The structural progression in our industry is demonstrably clear in the sense that rental will continue to grow versus ownership now that there is a more reliable alternative. The output of this undeniable structural progress is a business and indeed industry which has progressed secularly and has the hallmarks of larger TAMs, less cyclicality and pricing discipline."

Brendan Horgan, CEO
SUNBELT RENTALS
December 5, 2023

"We expect [CapEx] to be a more normalized cadence from what you've seen in the last couple of years as our partners have repaired their supply chain at the ~90% level – almost all the way there."

"Within our construction markets, both infrastructure and nonresidential continue to show solid growth year-over-year as our customers kicked off new projects across a diverse range of end markets – including battery plants, semiconductor-related jobs, power, infrastructure and data centers. The majority of our customers surveyed in our customer confidence index continue to feel positive."

"Year-on-year, fleet productivity [was] up 2.4%, reflecting a healthy rate environment that continues to be supported by good industry discipline."

Matthew J. Flannery, CEO
United Rentals
January 25, 2024

TM Capital's Sector Leadership Generates Premium 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 14 transactions since January 1, 2021, totaling over $2.5 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.

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