

SPECIALTY INDUSTRIES spotlight

Equipment Leasing Industry

MARCH 2001

RAPID GROWTH AND CONSOLIDATION

The U.S. equipment rental industry has seen significant merger and acquisition activity in the last four years. While segments of the industry grew by more than 15% last year, the consolidation of small and mid-size equipment rental companies continues to increase the margin pressures now felt by regional firms. The premium valuations currently being paid for rental service companies present owners with a viable alternative to future earnings pressure from the industry's larger players. Furthermore, access to the additional capital and distribution channels that a strategic buyer can bring is a way for small to mid-sized rental service companies to capitalize on a long-established local presence.

VALUE DRIVERS

RCW Mirus believes the following points are critical in driving premium pricing for middle market equipment rental companies:

- **Regional Market Share** – *Players with dominant market share of a given territory can significantly influence pricing for competitors regionally.*
- **Scalability** – *Independent companies that have the management and infrastructure to scale up their operations can drive premium pricing.*
- **Niche Focus** – *Buyers will generally pay a premium for companies that can act as a platform for growth into a particular niche compared to those companies that are seen as commodity renters or add-on operations.*
- **Utilization Rate** – *Although utilization benchmarks vary depending on rental product and fleet mix, in general, superior utilization rates drive higher margins, and therefore significant value for sellers.*
- **Rentals vs. Sales** – *Since equipment rentals are seen as recurring revenue, rental income commands a higher multiple in a transaction than income from equipment sales.*

Additional points that impact purchase price are:

- Multiple stores and distribution centers;
- Age of rental fleet; and,
- Locations near high growth residential and commercial areas.

RECENT TRANSACTIONS

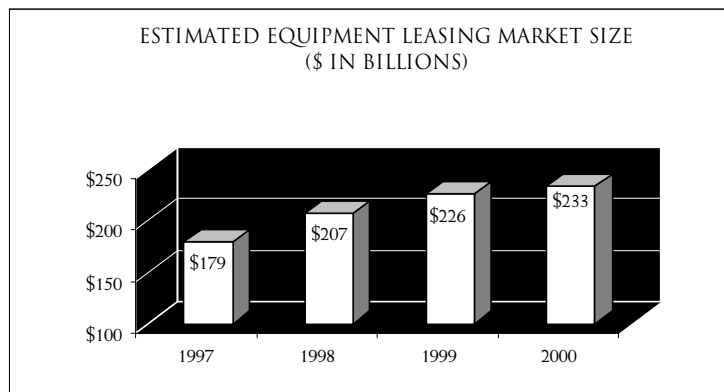
The tremendous expansion of the industry is fueling consolidation at attractive prices for owners. The following is a list of recent transactions:

- United Rentals bid on Neff Corp. - 1/2/2001 - \$314 MM
- Penske Truck Leasing acq. Rollins Truck Leasing - 12/16/01 \$754MM
- Prime Service, Inc. merged with Rental Service Corp - 10/24/00 - \$4.2 B
- United Rentals acq. Horizon High Reach – 9/29/00 - \$90 MM
- N.E. S. acquired Cassidy & Lee, Inc. - 3/7/2000 - \$9.2 MM

Overall competition for acquisitions has been further fueled by several well-financed roll-ups in the space:

- United Rentals completed 48 acquisitions in the 9 months ended 9/30/00 for a \$313 million aggregate value.
- Hertz Equipment acquired 13 equipment rental & sales companies in 1999, for an aggregate value of \$143.6 million.
- National Equipment Services has acquired 37+ businesses since 1997.
- National Rent acquired 57 equipment rental businesses between August 1997 and March 2000.

Mirus' research of recent disclosed M&A transactions shows that equipment leasing companies are valued at an average of 5.9x EBITDA which equates to a range in price-to-sales multiples between 0.6x and 3.9x.



INDUSTRY TRENDS

Ten years ago, industrial companies turned to rental firms to meet 5% of their equipment needs and today, rental companies supply between 17 and 20% of total equipment needs. The entire equipment rental industry including industrial/ heavy equipment, tools, event/party, and electronics equipment totaled \$233 billion in 2000. The dynamic growth of the U.S. equipment rental industry over the past ten years has been fueled in large part by the decision of corporations to restructure and reduce their capital expenditures in order to enjoy the benefits that leasing provides. Those tangible benefits include access to increased cash flow, lower up-front costs, multiple tax benefits and the flexibility to purchase or return the equipment at the end of the lease.

Although the rental industry has grown from a relative cottage industry to one of significant mass, it is still highly fragmented. RCW Mirus believes that continued industry expansion coupled with the high degree of fragmentation suggests that consolidation activity will continue to expand far into the 21st century.

If you would like to discuss consolidation and mergers and acquisitions in the equipment sales and leasing industry please contact Jeffrey Hamon at 617-338-1333.