

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-51759

**H&E EQUIPMENT SERVICES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

7500 Pecue Lane,  
Baton Rouge, Louisiana 70809  
(Address of Principal Executive Offices, including Zip Code)

81-0553291  
(IRS Employer  
Identification No.)

(225) 298-5200  
(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	HEES	Nasdaq Global Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$663,679,928 (computed by reference to the closing sale price of the registrant's common stock on the Nasdaq Global Market on June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter).

As of February 10, 2021, there were 36,113,317 shares of common stock, par value \$0.01 per share, of the registrant outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the document listed below have been incorporated by reference into the indicated parts of this Form 10-K, as specified in the responses to the item numbers involved.

Part III The registrant's definitive proxy statement, for use in connection with the Annual Meeting of Stockholders, to be filed within 120 days after the registrant's fiscal year ended December 31, 2020.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words “may”, “could”, “would”, “should”, “believe”, “expect”, “anticipate”, “plan”, “estimate”, “target”, “project”, “intend”, “foresee” and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the “Risk Factors” section of this Annual Report on Form 10-K. These factors should not be construed as exhaustive and should be read with the other cautionary statements in this Annual Report on Form 10-K.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management’s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new marketing applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. In addition, even if our actual results are consistent with the forward-looking statements contained in this Annual Report on Form 10-K, those results may not be indicative of results or developments in subsequent periods. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- risks related to the impact of the COVID-19 global pandemic, such as the scope and duration of the outbreak, government actions and restrictive measures implemented in response, material delays and cancellations of construction or infrastructure projects, supply chain disruptions and other impacts to the business;
- general economic conditions and construction and industrial activity in the markets where we operate in North America;
- our ability to forecast trends in our business accurately, and the impact of economic downturns and economic uncertainty on the markets we serve (including as a result of current uncertainty due to COVID-19);
- the impact of conditions in the global credit and commodity markets (including as a result of current volatility and uncertainty in credit and commodity markets due to COVID-19) and their effect on construction spending and the economy in general;
- trends in oil and natural gas could adversely affect the demand for our services and products;
- relationships with equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment’s residual value;
- our indebtedness;
- risks associated with the expansion of our business and any potential acquisitions we may make, including any related capital expenditures, or our ability to consummate such acquisitions;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- security breaches and other disruptions in our information technology systems;
- adverse weather events or natural disasters;
- compliance with laws and regulations, including those relating to environmental matters, corporate governance matters and tax matters, as well as any future changes to such laws and regulations; and
- other factors discussed under Item 1A – Risk Factors or elsewhere in this Annual Report on Form 10-K.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (“SEC”), we are under no obligation to publicly update or revise any forward-looking statements after we file this Annual Report on Form 10-K, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance.

## PART I

### Item 1. Business

#### Our Company

Through our predecessor companies, we have been in the equipment services business for approximately 60 years. H&E Equipment Services L.L.C. was formed in June 2002 through the combination of Head & Engquist Equipment, LLC (“Head & Engquist”), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. (“Gulf Wide”), and ICM Equipment Company L.L.C. (“ICM”). Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E Equipment Services L.L.C. (“H&E LLC”). In connection with our initial public offering in February 2006, we converted H&E LLC into H&E Equipment Services, Inc., a Delaware corporation.

We are one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment. We rent, sell and provide parts and services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) material handling equipment. We engage in five principal business activities in these equipment categories:

- equipment rentals;
- new equipment sales;
- used equipment sales;
- parts sales; and
- repair and maintenance services.

By providing rental, sales, parts, repair and maintenance functions under one roof, we offer our customers a one-stop solution for their equipment needs. This full-service approach provides us with (1) multiple points of customer contact; (2) cross-selling opportunities among our rental, new and used equipment sales, parts sales and services operations; (3) an effective method to manage our rental fleet through efficient maintenance and profitable distribution of used equipment; and (4) a mix of business activities that enables us to operate effectively throughout economic cycles. We believe that the operating experience and extensive infrastructure we have developed throughout our history as an integrated equipment services company provide us with a competitive advantage over rental-focused companies and equipment distributors. In addition, our focus on four core categories of heavy construction and industrial equipment enables us to offer specialized knowledge and support to our customers.

We have built an extensive infrastructure that as of February 10, 2021 includes 97 full-service facilities located throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct and focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists, and regional and district managers. Our management, from the corporate level down to the branch store level, has extensive industry experience. We focus our rental and sales activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales forces and strengthen our customer relationships. In addition, we operate our day-to-day business on a branch basis, which we believe allows us to more closely service our customers, fosters management accountability at local levels and strengthens our local and regional relationships.

#### Industry Background

Although there has been some consolidation within the industry in recent years, including the acquisitions of Rental Services Corporation, NES Rentals and Neff Corporation by United Rentals, Inc. (“URI”), the U.S. construction equipment distribution industry remains highly fragmented and consists mainly of a small number of multi-location regional or national operators and a large number of relatively small, independent businesses serving discrete local markets. The industry is driven by a broad range of economic factors including total U.S. non-residential construction trends, construction machinery demand, demand for rental equipment and additional, region-specific factors. Construction equipment is largely distributed to end users through two channels: equipment rental companies and equipment dealers. Examples of equipment rental companies include URI, Sunbelt Rentals, and Hertz Equipment Rental. Examples of equipment dealers include Finning and Toromont. Unlike many of these companies, which principally focus on one channel of distribution, we operate substantially in both channels. As an integrated equipment services company, we rent, sell and provide parts and services support. Although many of the historically pure equipment rental companies also provide parts and service support to customers, their service offerings are typically limited and may prove difficult to expand due to the

infrastructure, training and resources necessary to develop the breadth of offerings and depth of specialized equipment knowledge that our services and sales staff provides.

## **Products and Services**

*Equipment Rentals.* We rent our heavy construction and industrial equipment to our customers on a daily, weekly and monthly basis. We have a well-maintained rental fleet that, at December 31, 2020, consisted of approximately 39,389 pieces of equipment having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately \$1.8 billion and an average age of approximately 40.9 months. Our rental business creates cross-selling opportunities for us in sales and service support activities.

*New Equipment Sales.* We sell new heavy construction and industrial equipment in all four core equipment categories, and are a leading U.S. distributor for nationally recognized suppliers including JLG Industries, Gehl, Genie Industries (Terex), Komatsu, Takeuchi and JCB. In addition, we are the world's largest distributor of Grove and Manitowoc crane equipment. Our new equipment sales operation is a source of new customers for our parts sales and service support activities, as well as for used equipment sales.

*Used Equipment Sales.* We sell used equipment primarily from our rental fleet, as well as inventoried equipment that we acquire through trade-ins from our customers and selective purchases of high-quality used equipment. For the year ended December 31, 2020, approximately 92.5% of our used equipment sales revenues were derived from sales of rental fleet equipment. Used equipment sales, like new equipment sales, generate parts and services business for us.

*Parts Sales.* We sell new and used parts to customers and also provide parts to our own rental fleet. We maintain an extensive in-house parts inventory in order to provide timely parts and service support to our customers as well as to our own rental fleet. In addition, our parts operations enable us to maintain a high-quality rental fleet and provide additional product support to our end users.

*Service Support.* We provide maintenance and repair services for our customers' owned equipment and to our own rental fleet. In addition to repair and maintenance on an as-needed or scheduled basis, we provide ongoing preventative maintenance services and warranty repairs for our customers. We devote significant resources to training our technical service employees and over time, we have built a full-scale services infrastructure that we believe would be difficult for companies without the requisite resources and lead time to effectively replicate.

In addition to our principal business activities mentioned above, we provide ancillary equipment support activities including transportation, hauling, parts shipping and loss damage waivers.

## **Sales and Marketing**

We have two distinct, focused sales forces; one specializing in equipment rentals and one focused specifically on new and used equipment sales. We believe maintaining separate sales forces for equipment rental and equipment sales is important to our customer service, allowing us to effectively meet the demands of different types of customers.

Both our rental sales force and equipment sales force are divided into smaller, product focused teams which enhances the development of in-depth product application and technical expertise. To further develop knowledge and experience, we provide our sales forces with extensive training, including frequent factory and in-house training by manufacturer representatives regarding the operational features, operator safety training and maintenance of new equipment. This training is essential, as our sales personnel regularly call on customers' job sites, often assisting customers in assessing their immediate and ongoing equipment needs. In addition, we have a commission-based compensation program for our sales forces.

We maintain a company-wide customer relationship management system. We believe that this comprehensive customer and sales management tool enhances our territory management program by increasing the productivity and efficiency of our sales representatives and branch managers as they are provided real-time access to sales and customer information.

We have developed strategies to identify target customers for our equipment services in all markets. These strategies allow our sales force to identify frequent rental users, function as advisors and problem solvers for our customers and accelerate the sales process in new operations.

While our specialized, well-trained sales force strengthens our customer relationships and fosters customer loyalty, we also promote our business through marketing and advertising, including industry publications, direct mail campaigns, television, the Yellow Pages and our Company website at [www.he-equipment.com](http://www.he-equipment.com).

## **Our Competitive Strengths**

*Integrated Platform of Products and Services.* We believe that our operating experience and the extensive infrastructure we have developed through years of operating as an integrated equipment services company provides us with a competitive advantage over rental-focused companies and equipment distributors. Key strengths of our integrated equipment services platform include:

- ability to strengthen customer relationships by providing a full-range of products and services;
- purchasing power gained through purchases for our new equipment sales and rental operations;
- high quality rental fleet supported by our strong product support capabilities;
- established retail sales network resulting in profitable disposal of our used equipment; and
- mix of business activities that enables us to effectively operate through economic cycles.

*Complementary, High Margin Parts and Services Operations.* Our parts and services businesses allow us to maintain our rental fleet in excellent condition and to offer our customers high-quality rental equipment. Our after-market parts and services businesses together provide us with a high-margin revenue source that has proven to be relatively stable throughout a range of economic cycles.

*High-Quality, Multipurpose Fleet.* Our focus on four core types of heavy construction and industrial equipment allows us to better provide the specialized knowledge and support that our customers demand when renting and purchasing equipment. These four types of equipment are attractive because they have a long useful life, high residual value and generally strong industry demand.

*Well-Developed Infrastructure.* We have built an infrastructure that as of February 10, 2021 included a network of 97 full-service facilities in 23 states. Our workforce included, as of December 31, 2020, a highly-skilled group of approximately 505 service technicians and an aggregate of 280 sales people in our specialized rental and equipment sales forces. We believe that our well-developed infrastructure helps us to better serve large multi-regional customers than our historically rental-focused competitors and provides an advantage when competing for lucrative fleet and project management business as well as the ability to quickly capitalize on new opportunities.

*Leading Distributor for Suppliers.* We are a leading U.S. distributor for nationally-recognized equipment suppliers, including JLG Industries, Gehl, Genie Industries (Terex), Komatsu, Takeuchi and JCB. In addition, we are the world's largest distributor of Grove and Manitowoc crane equipment. These relationships improve our ability to negotiate equipment acquisition pricing and allow us to purchase parts at wholesale costs.

*Customized Information Technology Systems.* Our information systems allow us to actively manage our business and our rental fleet. We have a customer relationship management system that provides our sales force with real-time access to customer and sales information. In addition, our enterprise resource planning system enhances our ability to provide more timely and meaningful information to manage our business.

*Strong Customer Relationships.* We have a diverse base of approximately 45,400 customers as of December 31, 2020 who we believe value our high level of service, knowledge and expertise. Our customer base includes a wide range of industrial and commercial companies, construction contractors, manufacturers, public utilities, municipalities, maintenance contractors and numerous and diverse other large industrial accounts. Our branches enable us to closely service local and regional customers, while our well-developed full-service infrastructure enables us to effectively service multi-regional and national accounts. We believe that our expansive presence and commitment to superior service at all levels of the organization is a key differentiator to many of our competitors. As a result, we spend a significant amount of time and resources to train all key personnel to be responsive and deliver high quality customer service and well-maintained equipment so that we can maintain and grow our customer relationships.

*Experienced Management Team.* Our senior management team is led by Bradley W. Barber, our Chief Executive Officer, who has over 26 years of industry experience. Our senior and regional managers have approximately 25 years on average of industry experience. Our branch managers have extensive knowledge and industry experience as well.

## **Our Business Strategy**

Our business strategy includes, among other things, managing the life cycle of our rental equipment, expanding our rental product offerings, increasing the availability of our product offerings through branch expansion, and pursuing selective acquisitions. However, the timing and extent to which we implement these various aspects of our strategy depend on a variety of factors, many of which are outside our control, such as general economic conditions and construction activity in the U.S.

*Managing the Life Cycle of Our Rental Equipment.* We actively manage the size, quality, age and composition of our rental fleet, employing a “cradle through grave” approach. During the life of our rental equipment, we (1) aggressively negotiate on purchase price; (2) use our customized information technology systems to closely monitor and analyze, among other things, time utilization (equipment usage based on customer demand), rental rate trends and pricing optimization and equipment demand; (3) continuously adjust our fleet mix and pricing; (4) maintain fleet quality through regional quality control managers and our on-site parts and services support; and (5) dispose of rental equipment through our retail sales force. This allows us to purchase our rental equipment at competitive prices, optimally utilize our fleet, cost-effectively maintain our equipment quality and maximize the value of our equipment at the end of its useful life.

*Expanding our Rental Product Offerings.* We intend to expand our product offerings to customers by offering specialty rental product solutions. Recently, we introduced trench safety product solutions in selected markets. We expect to expand these specialty rental offerings throughout our geographic footprint. Specialty rental product offerings typically provide higher margin opportunities than general rental products.

*Increasing the Availability of our Product Offerings through Branch Expansion.* We intend to expand our network of branch locations, thereby increasing the availability of both general rental and specialty rental products to our customers to meet their specific needs. Our branch expansion strategy focuses on expanding in markets where we have a presence and benefit from name and brand recognition. Expanding our branch network allows us to grow our margins and improve Company profitability through revenue mix and by leveraging our fixed costs.

*Pursuing Selective Acquisitions.* We intend to continue to evaluate and pursue, on an opportunistic basis, acquisitions that meet our selection criteria, including favorable financing terms, with the objective of increasing our revenues, improving our profitability, and strengthening our competitive position. We are focused on identifying and acquiring rental companies, including general rental and specialty rental companies, to complement our existing business, broaden our geographic footprint, and increase our density in existing markets, as well enter new markets where feasible expansion opportunities may exist. Growth through acquisitions allows us to leverage our fixed costs and grow profitability. We have completed three acquisitions over the last three years. Effective January 1, 2018, we completed the acquisition of Contractors Equipment Center, LLC (“CEC”), an equipment rental company serving the greater Denver, Colorado area with three branch locations, for approximately \$132.4 million in cash. Effective April 1, 2018, we completed the acquisition of Rental Inc., an equipment rental company with five branch locations in Alabama and Florida, for approximately \$68.6 million in cash. Effective February 1, 2019, we completed the acquisition of Cobra Equipment Rentals, LLC, dba We-Rent-It (“WRI”), a central Texas based non-residential construction-focused equipment rental company with six branch locations for approximately \$107.9 million in cash.

## **Customers**

We serve approximately 45,400 customers in the United States, primarily in the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions. Our customers include a wide range of industrial and commercial companies, construction contractors, manufacturers, public utilities, municipalities, maintenance contractors and numerous and diverse other large industrial accounts. They vary from small, single machine owners to large contractors and industrial and commercial companies who typically operate under equipment and maintenance budgets. Our branches enable us to closely service local and regional customers, while our well-developed full-service infrastructure enables us to effectively service multi-regional and national accounts. Our integrated strategy enables us to satisfy customer requirements and increase revenues from customers through cross-selling opportunities presented by the various products and services that we offer. As a result, our five reporting segments generally derive their revenue from the same customer base. In 2020, no single customer accounted for more than 0.9% of our total revenues, and no single customer accounted for more than 10% of our revenue on a segmented basis. Our top ten customers combined accounted for approximately 5.8% of our total revenues in 2020.

## **Suppliers**

We purchase a significant amount of equipment from the same manufacturers with whom we have distribution agreements. We purchased approximately 51% of our new equipment and rental fleet from five manufacturers (Grove/Manitowoc, Komatsu, Takeuchi, JCB, and Genie Industries (Terex)) during the year ended December 31, 2020. These relationships improve our ability to negotiate equipment acquisition pricing. Additionally, we are also a leading U.S. distributor for nationally-recognized equipment suppliers including JLG Industries, Gehl, Yanmar and John Deere. As an authorized distributor for a wide range of suppliers, we are also able to provide our customers parts and services that in many cases are covered under the manufacturer’s warranty. While we believe that we have alternative sources of supply for the equipment we purchase in each of our principal product categories, termination of one or more of our relationships with any of our major suppliers of equipment could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain adequate or timely rental and sales equipment.

## **Competition**

The equipment industry is generally comprised of either pure rental equipment companies or manufacturer dealer/distributorship companies. We are an integrated equipment services company and rent, sell and provide parts and services support. Although there has been some consolidation within the equipment industry in recent years, including the recent acquisitions of Rental Services Corporation, NES Rentals and Neff Corporation by URI, the equipment industry remains highly fragmented and consists mainly of a small number of multi-location regional or national operators and a large number of relatively small, independent businesses serving discrete local markets. Many of the markets in which we operate are served by numerous competitors, ranging from national and multi-regional equipment rental companies (for example, URI, Sunbelt Rentals and Hertz Equipment Rental) or equipment dealers (for example, Finning and Toromont) to small, independent businesses with a limited number of locations.

We believe that participants in the equipment rental industry generally compete on the basis of availability, quality, reliability, delivery and price. In general, large operators enjoy substantial competitive advantages over small, independent rental businesses due to a distinct price advantage. Many rental equipment companies' parts and services offerings are limited and may prove difficult to expand due to the training, infrastructure and management resources necessary to develop the breadth of service offerings and depth of knowledge our service technicians are able to provide. Some of our competitors have significantly greater financial, marketing and other resources than we do.

Traditionally, equipment manufacturers distributed their equipment and parts through a network of independent dealers with distribution agreements. As a result of consolidation and competition, both manufacturers and distributors sought to streamline their operations, improve their costs and gain market share. Our established, integrated infrastructure enables us to compete directly with our competitors on either a local, regional or national basis. We believe customers place greater emphasis on value-added services, teaming with equipment rental and sales companies who can meet all of their equipment, parts and services needs.

## **Seasonality**

Although our business is not significantly impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities is directly related to commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of current construction activities. The severity of weather conditions can have a temporary impact on the level of construction activities.

Equipment sales cycles are also subject to some seasonality with the peak selling period occurring during the spring season and extending through the summer. Parts and services activities are less affected by changes in demand caused by seasonality.

## **Environmental and Safety Regulations**

Our facilities and operations are subject to comprehensive and frequently changing federal, state and local environmental and occupational health and safety laws. These laws regulate (1) the handling, storage, use and disposal of hazardous materials and wastes and, if any, the associated cleanup of properties affected by pollutants; (2) air quality (emissions); and (3) wastewater. We do not currently anticipate any material adverse effect on our business or financial condition or competitive position as a result of our efforts to comply with such requirements. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect to incur material capital expenditures for environmental controls or compliance.

In the future, federal, state or local governments could enact new or more stringent laws or issue new or more stringent regulations concerning environmental and worker health and safety matters, or effect a change in their enforcement of existing laws or regulations, that could affect our operations. Also, in the future, contamination may be found to exist at our facilities or off-site locations where we have sent wastes. There can be no assurance that we, or various environmental regulatory agencies, will not discover previously unknown environmental non-compliance or contamination. We could be held liable for such newly-discovered non-compliance or contamination. It is possible that changes in environmental and worker health and safety laws or liabilities from newly-discovered non-compliance or contamination could have a material adverse effect on our business, financial condition and results of operations.

## **Human Capital**

H&E's operating philosophy is that our growth and continued success are the result of management and employees working together in a spirit of cooperation and teamwork. Our core values emphasize an environment where safety, diversity, inclusion, talent development, training and retention are top priorities. We believe this has enabled us to meet various challenges over the years, and the progress that has been achieved by us reflects this strong mutual commitment between the Company and its employees. We believe our employees are our greatest asset. We remain focused on furnishing friendly and safe working conditions, providing competitive pay and offering quality benefits, and producing revenue for the continued growth of the Company and the communities in which we operate, with an emphasis on the welfare of our employees and their families. We realize our success is a direct result of



the hard work and dedication of our employees. Each employee at H&E is a contributing partner in our future growth and we strive to maintain a mutually beneficial workplace culture that also fosters the professional development of each employee.

As of December 31, 2020, we had approximately 2,254 employees. Of these employees, 824 are salaried personnel and 1,430 are hourly personnel. Our employees perform the following functions: sales operations, parts operations, rental operations, technical services and office and administrative support. A collective bargaining agreement relating to two branch locations covers approximately 72 of our employees. We believe our relations with our employees are good, and we have never experienced a work stoppage.

Generally, the total number of employees does not significantly fluctuate throughout the year. However, acquisition activity or the opening of new branches may increase the number of our employees or fluctuations in the level of our business activity could require some staffing level adjustments in response to actual or anticipated customer demand.

#### **Available Information**

We file electronically with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. The SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of these reports, proxy and information statements and other information may be obtained by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov). Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, ownership reports for insiders and any exhibits to and amendments to these reports filed with or furnished to the SEC are available free of charge through our internet website ([www.he-equipment.com](http://www.he-equipment.com)) as soon as reasonably practicable after filing with the SEC. We use the Investor Relations section of our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following press releases, SEC filings and public conference calls and webcasts.

Additionally, we make available free of charge on our internet website:

- our Code of Conduct and Ethics;
- the charter of our Corporate Governance and Nominating Committee;
- the charter of our Compensation Committee; and
- the charter of our Audit Committee.

#### **Item 1A. Risk Factors**

Investing in our securities involves a high degree of risk. You should consider carefully the following risk factors and the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, before making any investment decisions regarding our securities. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our securities could decline and you may lose part or all of your investment.

##### Operational and Competitive Risks

***Our business could be adversely affected by declines in construction and industrial activities, or a downturn in the economy in general, which could lead to decreased demand for equipment, depressed equipment rental rates and lower sales prices, resulting in a decline in our revenues, gross margins and operating results.***

Our equipment is principally used in connection with construction and industrial activities. Consequently, a downturn in construction or industrial activities, or the economy in general, may lead to a decrease in the demand for equipment or depress rental rates and the sales prices for our equipment. Our business may also be negatively impacted, either temporarily or long-term, by:

- a reduction in spending levels by customers;
- unfavorable credit markets affecting end-user access to capital;
- adverse changes in federal, state and local government infrastructure spending;
- an increase in the cost of construction materials;
- adverse weather conditions or natural disasters which may affect a particular region;

- a decrease in the level of exploration, development, production activity and capital spending by oil and natural gas companies;
- a prolonged shutdown of the U.S. government;
- an increase in interest rates; or
- terrorism or hostilities involving the United States.

Weakness or deterioration in the non-residential construction and industrial sectors caused by these or other factors could have a material adverse effect on our financial position, results of operations and cash flows in the future and may also have a material adverse effect on residual values realized on the disposition of our rental fleet. Recently, in early 2020, oil prices and consumption decreased significantly and we believe the uncertainty regarding future oil prices and consumption may negatively impact customer capital expenditure decisions.

***The COVID-19 pandemic has significantly impacted worldwide economic conditions and could have a material adverse effect on our operations and business.***

The outbreak of coronavirus spread globally and has adversely affected economic conditions throughout the United States of America and the world, including in the primary regions we operate. Many State Governors issued, and may re-issue, temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most industries and businesses, having the effect of suspending or severely curtailing operations. While we were considered an essential business pursuant to the various Executive Orders and our branch locations remain operational, if repercussions of the outbreak are prolonged, or if the Executive Orders are re-implemented or expanded, it could have a significant adverse impact to the underlying industries of some of our customers or in some or all of the primary markets in which we operate, including our customers in the oil and natural gas industry. The extent of the ultimate impact of the pandemic on the Company's operational and financial performance and liquidity will depend on various developments, including the duration and spread of the outbreak, governmental limitations on business operations generally, and its and their impact on potential customers, employees, and suppliers vendors and distribution partners, all of which are uncertain and cannot be reasonably predicted at this time. As we cannot predict the duration or scope of the COVID-19 pandemic, any resulting financial impact cannot be reasonably estimated at this time.

***The inability to forecast trends accurately may have an adverse impact on our business and financial condition.***

An economic downturn or economic uncertainty makes it difficult for us to forecast trends. For example, the current economic uncertainty related to COVID-19 and its impact on the Company's future operational and financial performance is highly dependent on the depth and duration of the pandemic, as well as any government-mandated restrictions on economic activity and any government economic stimulus package in response to the economic downturn. This uncertainty makes it difficult to forecast our future operating performance, cash flows and financial position, which could have an adverse impact on our business and financial condition. Additionally, recent declines in oil and natural gas prices, and uncertainty regarding future price levels, have negatively impacted the exploration, production and construction activity of our customers in those markets. Uncertainty regarding future equipment product demand could cause us to maintain excess equipment inventory and increase our equipment inventory carrying costs. Alternatively, this forecasting difficulty could cause a shortage of equipment for sale or rental that could result in an inability to satisfy demand for our products and a loss of market shares.

***Our revenue and operating results may fluctuate, which could result in a decline in our profitability and make it more difficult for us to grow our business.***

Our revenue and operating results have historically varied from quarter to quarter. Periods of decline could result in an overall decline in profitability and make it more difficult for us to make payments on our indebtedness and grow our business. We expect our quarterly results to continue to fluctuate in the future due to a number of factors, including:

- general economic conditions in the markets where we operate;
- the cyclical nature of our customers' business, particularly our construction customers and customers in the oil and gas industry;
- sales and rental patterns of our construction customers, with sales and rental activity tending to be lower in the winter months;
- changes in the size of our rental fleet and/or in the rate at which we sell our used equipment from the fleet;
- an overcapacity of fleet in the equipment rental industry;
- severe weather and seismic conditions temporarily affecting the regions where we operate;

- changes in corporate spending for plants and facilities or changes in government spending for infrastructure projects;
- changes in interest rates and related changes in our interest expense and our debt service obligations;
- the possible need, from time to time, to record goodwill impairment charges or other write-offs or charges due to a variety of occurrences, such as the adoption of new accounting standards, the impairment of assets, rental location divestitures, dislocation in the equity and/or credit markets, consolidations or closings, restructurings, or the refinancing of existing indebtedness;
- the effectiveness of integrating acquired businesses and new start-up locations; and
- timing of acquisitions and new location openings and related costs.

In addition, we incur various costs when integrating newly acquired businesses or opening new start-up locations, and the profitability of a new location is generally expected to be lower in the initial months of operation.

***We are subject to competition, which may have a material adverse effect on our business by reducing our ability to increase or maintain revenues or profitability.***

The equipment rental and retail distribution industries are highly competitive and the equipment rental industry is highly fragmented. Many of the markets in which we operate are served by numerous competitors, ranging from national and multi-regional equipment rental companies to small, independent businesses with a limited number of locations. We generally compete on the basis of availability, quality, reliability, delivery and price. Some of our competitors have significantly greater financial, marketing and other resources than we do, and may be able to reduce rental rates or sales prices. We may encounter increased competition from existing competitors or new market entrants in the future, which could have a material adverse effect on our business, financial condition and results of operations.

***We purchase a significant amount of our equipment from a limited number of manufacturers. Termination of one or more of our relationships with any of those manufacturers could have a material adverse effect on our business, as we may be unable to obtain adequate or timely rental and sales equipment.***

We purchase most of our rental and sales equipment from leading, nationally-known original equipment manufacturers (“OEMs”). For the year ended December 31, 2020, we purchased approximately 51% of our rental and sales equipment from five manufacturers (Grove/Manitowoc, Komatsu, Takeuchi, JCB, and Genie Industries (Terex)). Although we believe that we have alternative sources of supply for the rental and sales equipment we purchase in each of our core product categories, termination of one or more of our relationships with any of these major suppliers could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain adequate or timely rental and sales equipment.

***Our suppliers of new equipment may appoint additional distributors, sell directly or unilaterally terminate our distribution agreements, which could have a material adverse effect on our business due to a reduction of, or inability to increase, our revenues.***

We are a distributor of new equipment and parts supplied by leading, nationally-known OEMs. Under our distribution agreements with these OEMs, manufacturers retain the right to appoint additional dealers and sell directly to national accounts and government agencies. We have both written and oral distribution agreements with our new equipment suppliers. Under our oral agreements with the OEMs, we operate under our established course of dealing with the supplier and are subject to the applicable state law regarding such relationship. In most instances, the OEMs may appoint additional distributors, elect to sell to customers directly or unilaterally terminate their distribution agreements with us at any time without cause. Any such actions could have a material adverse effect on our business, financial condition and results of operations due to a reduction of, or an inability to increase, our revenues.

***The cost of new equipment that we sell or purchase for use in our rental fleet may increase and therefore we may spend more for such equipment. In some cases, we may not be able to procure new equipment on a timely basis due to supplier constraints.***

The cost of new equipment from manufacturers that we sell or purchase for use in our rental fleet may increase as a result of increased raw material costs, including increases in the cost of steel, which is a primary material used in most of the equipment we use, or due to increased regulatory requirements, such as those related to emissions. These increases could materially impact our financial condition or results of operations in future periods if we are not able to pass such cost increases through to our customers.

***Our rental fleet is subject to residual value risk upon disposition.***

The market value of any given piece of rental equipment could be less than its depreciated value at the time it is sold. The market value of used rental equipment depends on several factors, including:

- the market price for new equipment of a like kind;
- wear and tear on the equipment relative to its age;
- the time of year that it is sold (prices are generally higher during the construction season);
- worldwide and domestic demands for used equipment;
- the supply of used equipment on the market; and
- general economic conditions.

We include in operating income the difference between the sales price and the depreciated value of an item of equipment sold. Although for the year ended December 31, 2020, we sold used equipment from our rental fleet at an average selling price of approximately 150.8% of net book value, we cannot assure you that used equipment selling prices will not decline. Any significant decline in the selling prices for used equipment could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***We incur maintenance and repair costs associated with our rental fleet equipment that could have a material adverse effect on our business in the event these costs are greater than anticipated.***

As our fleet of rental equipment ages, the cost of maintaining such equipment, if not replaced within a certain period of time, generally increases. Determining the optimal age for our rental fleet equipment is subjective and requires considerable estimates by management. We have made estimates regarding the relationship between the age of our rental fleet equipment, and the maintenance and repair costs, and the market value of used equipment. Our future operating results could be adversely affected because our maintenance and repair costs may be higher than estimated and market values of used equipment may fluctuate.

***Labor disputes could disrupt our ability to serve our customers and/or lead to higher labor costs.***

As of December 31, 2020, we have approximately 72 employees in Utah, a significant territory in our geographic footprint, who are covered by a collective bargaining agreement and approximately 2,182 employees who are not represented by unions or covered by collective bargaining agreements. Various unions periodically seek to organize certain of our nonunion employees. Union organizing efforts or collective bargaining negotiations could potentially lead to work stoppages and/or slowdowns or strikes by certain of our employees, which could adversely affect our ability to serve our customers. Further, settlement of actual or threatened labor disputes or an increase in the number of our employees covered by collective bargaining agreements can have unknown effects on our labor costs, productivity and flexibility.

***Fluctuations in fuel costs or reduced supplies of fuel could harm our business.***

We could be adversely affected by limitations on fuel supplies or significant increases in fuel prices that result in higher costs to us for transporting equipment from one branch to another branch or one region to another region. A significant or protracted disruption of fuel supplies could have an adverse effect on our financial condition and results of operations.

*Strategic Risks*

***We may not be able to facilitate our growth strategy by identifying or completing transactions with attractive acquisition candidates, which could limit our revenues and profitability. Future acquisitions may result in significant transaction expenses and we may involve significant costs. We may experience integration and consolidation risks associated with future acquisitions.***

An element of our growth strategy is to selectively pursue on an opportunistic basis acquisitions of additional businesses, in particular rental companies that complement our existing business and footprint, such as our acquisitions of CEC and Rental Inc. in January 2018 and April 2018, respectively, and WRI in February 2019. The success of this element of our growth strategy depends, in part, on selecting strategic acquisition candidates at attractive prices and effectively integrating their businesses into our own, including with respect to financial reporting and regulatory matters. We cannot assure you that we will be able to identify attractive acquisition candidates or complete the acquisition of any identified candidates at favorable prices and upon advantageous terms and conditions, including financing alternatives. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities and lead to higher acquisition costs. We may not have the financial resources necessary to consummate any

acquisitions or the ability to obtain the necessary funds on satisfactory terms. Any future acquisitions may result in significant transaction expenses and risks associated with entering new markets. We may also be subject to claims by third parties related to the operations of these businesses prior to our acquisition and by sellers under the terms of our acquisition agreements. The Company also regularly reviews other potential strategic transactions, including dispositions.

We may not have sufficient management, financial and other resources to integrate and consolidate any future acquisitions. Any significant diversion of management's attention or any major difficulties encountered in the integration of the businesses we acquire could have a material adverse effect on our business, financial condition or results of operations, which could decrease our profitability and make it more difficult for us to grow our business. Among other things, these integration risks could include:

- the loss of key employees;
- the disruption of operations and business;
- the retention of the existing clients and the retention or transition of customers and vendors;
- the integration of corporate cultures and maintenance of employee morale;
- inability to maintain and increase competitive presence;
- customer loss and revenue loss;
- possible inconsistencies in standards, control procedures and policies;
- unexpected problems with costs, operations, personnel, technology and credit;
- problems with the assimilation of new operations, sites or personnel, which could divert resources from our regular operations;
- integration of financial reporting and regulatory reporting functions, including with the Securities & Exchange Commission and pursuant to the Sarbanes-Oxley Act of 2002; and/or
- potential unknown liabilities.

Furthermore, general economic conditions, economic uncertainty related to COVID-19, or unfavorable global capital and credit markets could affect the timing and extent to which we successfully acquire or integrate new businesses, which could limit our revenues and profitability.

***We may not be able to facilitate our growth strategy by identifying and opening attractive start-up locations, which could limit our revenues and profitability.***

An element of our growth strategy is to selectively identify and implement start-up locations in order to add new customers. The success of this element of our growth strategy depends, in part, on identifying strategic start-up locations.

We also cannot assure you that we will be able to identify attractive start-up locations. Opening start-up locations may involve significant costs and limit our ability to expand our operations. Start-up locations may involve risks associated with entering new markets and we may face significant competition.

We may not have sufficient management, financial and other resources to successfully operate new locations. Any significant diversion of management's attention or any major difficulties encountered in the locations that we open in the future could have a material adverse effect on our business, financial condition or results of operations, which could decrease our profitability and make it more difficult for us to grow our business. Furthermore, general economic conditions or unfavorable global capital and credit markets could affect the timing and extent to which we open new start-up locations, which could limit our revenues and profitability.

#### Liquidity and Capital Resource Risks

***Unfavorable conditions or disruptions in the capital and credit markets may adversely impact business conditions and the availability of credit.***

Disruptions in the global capital and credit markets as a result of an economic downturn, economic uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our customers' ability to access capital and could adversely affect our access to liquidity needed for business in the future. Additionally, unfavorable market conditions may depress demand for our products and services or make it difficult for our customers to obtain financing and credit on

reasonable terms. Unfavorable market conditions also may cause more of our customers to be unable to meet their payment obligations to us, increasing delinquencies and credit losses. If we are unable to manage credit risk adequately, or if a large number of customers should have financial difficulties at the same time, our credit losses could increase above historical levels and our operating results would be adversely affected. Delinquencies and credit losses generally can be expected to increase during economic slowdowns or recessions. Moreover, our suppliers may be adversely impacted by unfavorable capital and credit markets, causing disruption or delay of product availability. These events could negatively impact our business, financial position, results of operations and cash flows.

***Our substantial indebtedness could adversely affect our financial condition.***

We have a significant amount of indebtedness outstanding. As of December 31, 2020, we had total outstanding indebtedness of approximately \$1.3 billion, consisting of the \$1.25 billion aggregate amounts outstanding under our senior unsecured notes, and approximately \$0.3 million of finance lease obligations.

Our substantial indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes.

We expect to use cash flow from operations and borrowings under our senior secured credit facility (“Credit Facility”) to meet our current and future financial obligations, including funding our operations, debt service and capital expenditures. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough capital, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including the senior unsecured notes and our Credit Facility, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements governing the senior unsecured notes and the Credit Facility may limit our ability to pursue any of these alternatives. As of February 10, 2021, we had borrowing availability under the Credit Facility of \$741.3 million, net of an \$8.7 million outstanding letter of credit.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The Credit Facility and the indenture governing the senior unsecured notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from such dispositions. Any proceeds we do receive from a disposition may not be adequate to meet any debt service obligations then due.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including the Credit Facility or the indenture governing the senior unsecured notes.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our credit facilities, including the Credit Facility, could terminate their commitments to lend us money and foreclose against the assets securing our borrowings; and
- we could be forced into bankruptcy or liquidation.

***Despite current indebtedness levels, we may still be able to incur more indebtedness, which could further exacerbate the risks described above.***

Under the terms of the agreements governing the Credit Facility and the senior unsecured notes, we and our subsidiaries may be able to incur substantial indebtedness in the future.

Additionally, our Credit Facility provides revolving commitments of up to \$750.0 million in the aggregate. As of February 10, 2021, we had \$741.3 million of availability under the Credit Facility, net of an \$8.7 million outstanding letter of credit. If new debt is added to our current debt levels, the risks that we now face relating to our substantial indebtedness could intensify.

***The agreements governing the Credit Facility and our senior unsecured notes restrict our business and our ability to engage in certain corporate and financial transactions.***

The agreements governing the Credit Facility and the senior unsecured notes contain certain covenants that, among other things, restrict or limit our and our restricted subsidiaries' ability to:

- incur more debt;
- pay dividends and make distributions;
- issue preferred stock of subsidiaries;
- make investments;
- repurchase stock;
- create liens;
- enter into transactions with affiliates;
- enter into sale and lease-back transactions;
- merge or consolidate; and
- transfer and sell assets.

Our ability to borrow under the Credit Facility depends upon compliance with the restrictions contained in the Credit Facility. Events beyond our control could affect our ability to meet these covenants. In addition, the Credit Facility requires us to meet certain financial conditions tests and availability thereunder is subject to borrowing base availability.

Events beyond our control can affect our ability to meet these financial conditions tests and to comply with other provisions governing the Credit Facility and the senior unsecured notes. Our failure to comply with obligations under the agreements governing the Credit Facility and the senior unsecured notes may result in an event of default under the agreements governing the Credit Facility and the senior unsecured notes, respectively. A default, if not cured or waived, may permit acceleration of this indebtedness and our other indebtedness. We may not be able to remedy these defaults. If our indebtedness is accelerated, we may not have sufficient funds available to pay the accelerated indebtedness and may not have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

***Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.***

Borrowings under the Credit Facility are at variable rates of interest, based on the U.S. prime rate and the London Interbank Offered Rate ("LIBOR"), and expose us to interest rate risk. As such, our results of operations are sensitive to movements in interest rates.

There are many economic factors outside our control that have in the past and may, in the future, impact rates of interest, including publicly announced indices that underlie our interest obligations related to borrowings under the Credit Facility based on LIBOR. LIBOR is an interest rate benchmark used as a reference rate for a wide range of financial transactions, including derivatives and loans. In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR rates by the end of 2021. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to LIBOR for use in financial contracts that are currently indexed to United States dollar LIBOR. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to financial derivative contracts exposed to LIBOR. Uncertainty exists as to the transition process and broad acceptance of SOFR as the primary alternative to LIBOR. The discontinuation of LIBOR will require us to amend our Credit Facility, which matures on January 31, 2024. At this time, we cannot predict the future impact of a departure from LIBOR as a reference rate.

Factors that also impact interest rates include governmental monetary policies, inflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our results of operations would be adversely impacted. Such increases in interest rates could have a material adverse effect on our financial conditions and results of operations.

***Our business could be hurt if we are unable to obtain additional capital as required, resulting in a decrease in our revenues and profitability. In addition, our inability to refinance our indebtedness on favorable terms, or at all, could materially and adversely affect our liquidity and our ongoing results of operations.***

The cash that we generate from our business, together with cash that we may borrow under our Credit Facility, if available, may not be sufficient to fund our capital requirements. We may require additional financing to obtain capital for, among other purposes, purchasing equipment, completing acquisitions, establishing new locations and refinancing existing indebtedness. Any additional indebtedness that we incur will make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures. Moreover, we may not be able to obtain additional capital on acceptable terms, if at all. If we are unable to obtain sufficient additional financing in the future, our business could be adversely affected by reducing our ability to increase revenues and profitability.

In addition, our ability to refinance indebtedness will depend in part on our operating and financial performance, which, in turn, is subject to prevailing economic conditions and to financial, business, legislative, regulatory and other factors beyond our control. In addition, prevailing interest rates or other factors at the time of refinancing could increase our interest expense. A refinancing of our indebtedness could also require us to comply with more onerous covenants and further restrict our business operations. Our inability to refinance our indebtedness or to do so upon attractive terms could materially and adversely affect our business, prospects, results of operations, financial condition and cash flows, and make us vulnerable to adverse industry and general economic conditions.

***The continued payment of our quarterly dividend is subject to, among other things, the availability of funds and the discretion of our board of directors.***

The payment of future dividends and the amount thereof is uncertain, at the sole discretion of our board of directors and considered by the board of directors each quarter. The payment of dividends is dependent upon, among other things, operating cash flow generated by our business, financial requirements for our operations, the execution of our growth strategy, the restrictions and covenants pursuant to our Credit Facility and senior unsecured notes, and the satisfaction of solvency tests imposed by the Delaware General Corporation Law and other applicable law for the declaration and payment of dividends.

#### Governmental Regulation Risks

***We have operations throughout the United States, which exposes us to multiple federal, state and local regulations. Changes in applicable law, regulations or requirements, or our material failure to comply with any of them, can increase our costs and have other negative impacts on our business.***

Our 97 branch locations, as of February 10, 2021, in the United States are located in 23 different states, which exposes us to a host of different federal, state and local regulations. These laws and requirements address multiple aspects of our operations, such as worker safety, consumer rights, privacy, employee benefits and more, and can often have different requirements in different jurisdictions. Changes in these requirements, or any material failure by our branches to comply with them, could increase our costs, affect our reputation, limit our business, drain management's time and attention or otherwise, generally impact our operations in adverse ways.



***We could be adversely affected by environmental and safety requirements, which could force us to increase significant capital and other operational costs and may subject us to unanticipated liabilities.***

Our operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, we are subject to the requirements of federal, state and local environmental and occupational health and safety laws and regulations. We may not be in complete compliance with all such requirements at all times. We are subject to potentially significant civil or criminal fines or penalties if we fail to comply with any of these requirements. We have made and will continue to make capital and other expenditures in order to comply with these laws and regulations. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. It is possible that these requirements will change or that liabilities will arise in the future in a manner that could have a material adverse effect on our business, financial condition and results of operations.

Environmental laws also impose obligations and liability for the cleanup of properties affected by hazardous substance spills or releases. These liabilities can be imposed on the parties generating or disposing of such substances or the operator of the affected property, often without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if a contaminated property is not currently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. Given the nature of our operations (which involve the use of petroleum products, solvents and other hazardous substances for fueling and maintaining our equipment and vehicles), there can be no assurance that prior site assessments or investigations have identified all potential instances of soil or groundwater contamination. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to additional remediation liabilities, which may be material.

***Our business may be materially affected by changes to fiscal and tax policies. Negative or unexpected tax consequences could adversely affect our results of operations.***

Adverse changes in the underlying profitability and financial outlook of our operations or future changes in tax law could lead to changes in the value of tax assets or liabilities that we currently or in the future may hold, which could materially affect our results of operations.

### General Business Risks

***Fluctuations in the stock market, as well as general economic and market conditions, may impact the market price of our common stock.***

The market price of our common stock has been and may continue to be subject to significant fluctuations in response to general economic changes and other factors including, but not limited to:

- variations in our quarterly operating results or results that vary from investor expectations;
- changes in the strategy and actions taken by our competitors, including pricing changes;
- securities analysts' elections to discontinue coverage of our common stock, changes in financial estimates by analysts or a downgrade of our common stock or of our sector by analysts;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the price of oil and other commodities;
- investor perceptions of us and the equipment rental and distribution industry; and
- national or regional catastrophes or circumstances and natural disasters, hostilities and acts of terrorism.

Broad market and industry factors may materially reduce the market price of our common stock, regardless of or in a manner that is disproportionate to any related impact on our operating performance. Most recently, in the first quarter of 2020, worldwide crude oil and natural gas prices sharply declined as a result of the lack of agreement on production levels by members of the Organization of the Petroleum Exporting Countries and other oil- and gas-producing countries, which resulted in production outstripping the demand for oil and gas. Additionally, the effects of the COVID-19 outbreak, has decreased demand for oil and gas products as companies and other organizations have suspended or curtailed operations and travel. Although worldwide crude oil and natural gas prices have partially recovered from the 2020 first quarter decline, we believe the uncertainty regarding future oil and natural gas prices continues to impact customer capital expenditure decisions. In addition, the stock market historically has experienced price and volume

fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, including those listed above and others, may harm the market price of our common stock.

***Security breaches and other disruptions in our information technology systems, including our customer relationship management system, could limit our capacity to effectively monitor and control our operations, compromise our or our customers' and suppliers' confidential information or otherwise adversely affect our operating results or business reputation.***

Our information technology systems, some of which are managed by third parties, facilitate our ability to monitor and control our operations and adjust to changing market conditions, including processing, transmitting, storing, managing and supporting a variety of business processes, activities and information. Further, as we pursue our strategy to grow through acquisitions and to pursue new initiatives that improve our operations, we are also expanding and improving our information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. Any disruption in any of these systems, including our customer management system, or the failure of any of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions.

Additionally, we collect and store sensitive data, including proprietary business information and the proprietary business information of our customers and suppliers, in data centers and on information technology networks, including cloud-based networks. The secure operation of these information technology networks and the processing and maintenance of this information is critical to our business operations and strategy. Despite security measures and business continuity plans, our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by cyber criminals or breaches due to employee error or malfeasance or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures, terrorist acts or natural disasters or other catastrophic events. Further, the growing use and rapid evolution of technology, including mobile devices, has heightened the risk of unintentional data breaches or leaks. The occurrence of any of these events could compromise our networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. In addition, as security threats continue to evolve we may need to invest additional resources to protect the security of our systems or to comply with privacy, data security, cybersecurity and data protection laws applicable to our business.

Any failure to effectively prevent, detect and/or recover from any such access, disclosure or other loss of information, or to comply with any such current or future law related thereto, could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage our reputation, which could adversely affect our business.

***We are dependent on key personnel. A loss of key personnel could have a material adverse effect on our business, which could result in a decline in our revenues and profitability.***

Our senior and regional managers have an average of approximately 25 years of industry experience. Our branch managers have extensive knowledge and industry experience as well. Our success is dependent, in part, on the experience and skills of our management team. Competition for top management talent within our industry is generally significant. If we are unable to fill and keep filled all of our senior management positions, or if we lose the services of any key member of our senior management team and are unable to find a suitable replacement in a timely manner, we may be challenged to effectively manage our business and execute our strategy.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report financial results or prevent fraud.***

Effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. We must annually evaluate our internal procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires management and auditors to assess the effectiveness of our internal controls. If we fail to remedy or maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory scrutiny, civil or criminal penalties or stockholder litigation.

In addition, failure to maintain effective internal controls could result in financial statements that do not accurately reflect our financial condition or results of operations. There can be no assurance that we will be able to maintain a system of internal controls that fully complies with the requirements of the Sarbanes-Oxley Act of 2002 or that our management and independent registered public accounting firm will continue to conclude that our internal controls are effective.

***We are exposed to various risks related to legal proceedings or claims that could adversely affect our operating results. The nature of our business exposes us to various liability claims, which may exceed the level of our insurance coverage resulting in us not being fully protected.***

We are a party to lawsuits in the normal course of our business. Litigation in general can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against us, or legal actions that we may initiate, can often be expensive and time-consuming. Unfavorable outcomes from these claims and/or lawsuits could adversely affect our business, results of operations, or financial condition, and we could incur substantial monetary liability and/or be required to change our business practices.

Our business exposes us to claims for personal injury, death or property damage resulting from the use of the equipment we rent or sell and from injuries caused in motor vehicle accidents in which our delivery and service personnel are involved and other employee related matters. Additionally, we could be subject to potential litigation associated with compliance with various laws and governmental regulations at the federal, state or local levels, such as those relating to the protection of persons with disabilities, employment, health, safety, security and other regulations under which we operate.

We carry comprehensive insurance, subject to deductibles, at levels we believe are sufficient to cover existing and future claims made during the respective policy periods. However, we may be exposed to multiple claims, and, as a result, we could incur significant out-of-pocket costs before reaching the deductible amount which could adversely affect our financial condition and results of operations. In addition, the cost of such insurance policies may increase significantly upon renewal of those policies as a result of general rate increases for the type of insurance we carry as well as our historical experience and experience in our industry. Although we have not experienced any material losses that were not covered by insurance, our existing or future claims may exceed the coverage level of our insurance, and such insurance may not continue to be available on economically reasonable terms, or at all. If we are required to pay significantly higher premiums for insurance, are not able to maintain insurance coverage at affordable rates or if we must pay amounts in excess of claims covered by our insurance, we could experience higher costs that could adversely affect our financial condition and results of operations.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of February 10, 2021, we had a network of 97 full-service facilities in 23 states in the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions of the United States. In our facilities, we rent, display and sell equipment, including tools and supplies, and provide maintenance and basic repair work. Of the 97 total facilities, we own 11 of our locations and lease 86 locations. Our leases typically provide for varying terms and renewal options. The following table provides data on our locations and the number of multiple branch locations in each city is indicated by parentheses:

<u>City/State</u>	<u>Leased/Owned</u>	<u>City/State</u>	<u>Leased/Owned</u>
<b>Alabama (5)</b>		<b>Montana (2)</b>	
Birmingham (2)	Leased (2)	Belgrade	Leased
Dothan	Leased	Billings	Leased
Huntsville	Leased	<b>Nevada (2)</b>	
Opelika	Leased	Las Vegas	Leased
<b>Arizona (3)</b>		Reno	Leased
Phoenix (2)	Leased (1) Owned (1)	<b>New Mexico (1)</b>	
Tucson	Owned	Albuquerque	Leased
<b>Arkansas (2)</b>		<b>North Carolina (6)</b>	
Little Rock	Owned	Arden	Leased
Springdale	Owned	Charlotte	Leased
<b>California (9)</b>		Durham	Leased
Bakersfield	Leased	North Raleigh	Leased
Benicia	Leased	Raleigh	Leased
Fontana	Leased	Winston-Salem	Leased
La Mirada	Owned	<b>Oklahoma (2)</b>	
Los Angeles	Leased	Oklahoma City	Leased
Sacramento	Leased	Tulsa	Leased
San Diego	Leased	<b>Oregon (1)</b>	
San Francisco	Leased	Prineville	Leased
San Jose	Leased	<b>South Carolina (3)</b>	
<b>Colorado (5)</b>		Charleston	Leased
Colorado Springs	Leased	Columbia	Leased
Denver	Owned	Greenville	Leased
Erie	Leased	<b>Tennessee (3)</b>	
Fort Collins	Leased	Chattanooga	Leased
Greeley	Leased	Memphis	Leased
<b>Florida (8)</b>		Nashville	Leased
Fort Myers	Leased	<b>Texas (21)</b>	
Ft. Walton Beach	Leased	Aledo	Leased
Jacksonville	Leased	Austin	Leased
Orlando	Leased	Beaumont	Leased
Panama City	Leased	Bryan	Leased
Pompano Beach	Leased	Buda	Leased
Tallahassee	Leased	Corpus Christi	Leased
Tampa	Leased	Dallas(2)	Leased(1) Owned(1)
<b>Georgia (3)</b>		Fort Worth	Leased
Atlanta	Leased	Freeport	Leased
Savannah	Leased	Houston(2)	Leased(2)
Suwannee	Leased	Katy	Leased
<b>Idaho (2)</b>		Lubbock	Leased
Boise	Leased	McKinney	Leased
Coeur d'Alene	Leased	Mesquite	Leased
<b>Louisiana (9)</b>		Midland	Leased
Alexandria	Leased	Pasadena	Leased
Baton Rouge	Owned	San Antonio	Leased
Belle Chasse	Leased	Schertz	Leased
Kenner	Owned	Temple	Leased
Lafayette	Leased	<b>Utah (2)</b>	
Lake Charles	Leased	Salt Lake City	Leased
New Orleans	Leased	St. George	Leased
Shreveport(2)	Leased(2)	<b>Virginia (3)</b>	
<b>Maryland (2)</b>		Ashland	Owned
Baltimore	Leased	Norfolk	Leased
Forestville	Leased	Warrenton	Owned
<b>Mississippi (1)</b>		<b>Washington(2)</b>	
Jackson	Leased	Seattle	Leased
		Lynwood	Leased

Each facility location has a branch manager who is responsible for day-to-day operations. In addition, branch operating facilities are typically staffed with approximately 10 to over 100 people, who may include technicians, salespeople, rental operations staff and parts specialists. While facility offices are typically open five days a week, we provide 24 hour, seven day per week service.

Our corporate headquarters employs approximately 335 people. Our corporate headquarters facility is on 3.1 acres of company-owned land where we occupy a total of approximately 42,550 square feet.

**Item 3. Legal Proceedings**

For information on Company legal proceedings, see Note 13 to our Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

Our common stock, par value \$0.01 per share, trades on the Nasdaq Global Market (“Nasdaq”) under the symbol “HEES.”

**Holdings**

As of December 31, 2020, there were 67 stockholders of record of our common stock. This does not include beneficial owners of our common stock whose stock is held in nominee or “street name”.

**Dividends**

During the years ended December 31, 2020 and 2019, the Company paid quarterly cash dividends totaling \$1.10 per share in each year, or approximately \$39.6 million and \$39.4 million, respectively. The Company intends to continue to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its review of, among other things, business and market conditions.

**Securities Authorized for Issuance Under Equity Compensation Plans**

For certain information concerning securities authorized for issuance under our equity compensation plan, see Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

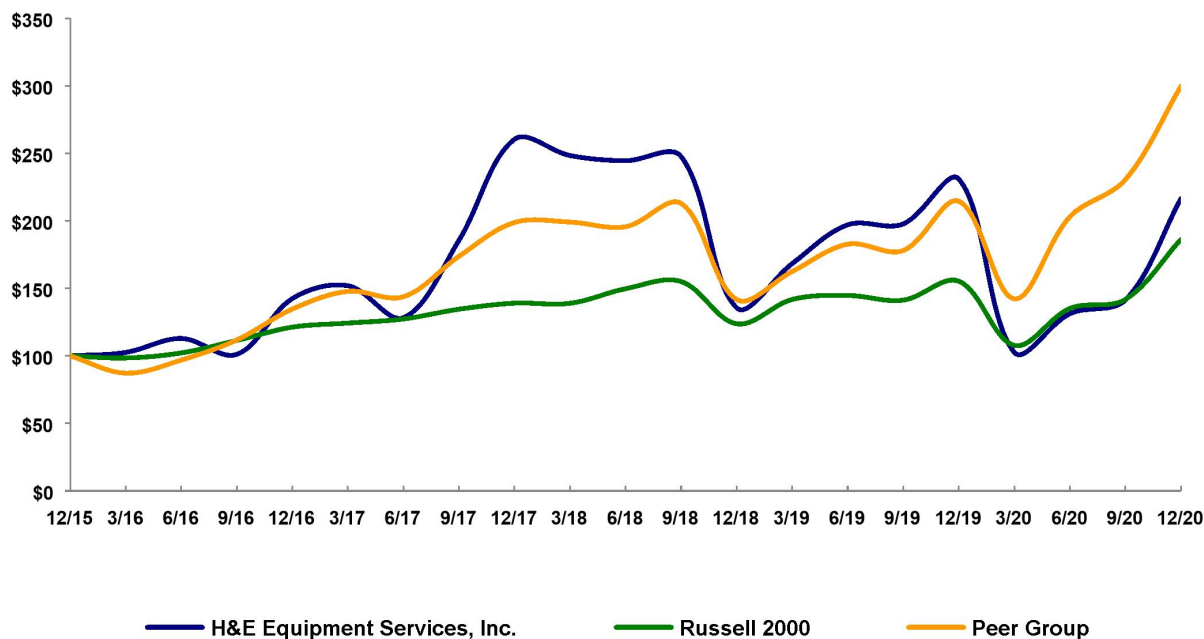
**Performance Graph**

The Performance Graph below compares the cumulative total stockholder return on H&E Equipment Services, Inc.’s common stock beginning on December 31, 2015 and for each subsequent quarter period end through and including December 31, 2020, with the cumulative returns of the Russell 2000 Index and an industry peer group selected by us. The peer group we selected is comprised of the following companies: URI, Toromont Industries, Ltd., Finning International, Inc., and The Ashtead Group, PLC. In our Annual Reports on Form 10-K for the years ended December 31, 2015, we included within our peer group, Hertz Global Holdings, which previously owned Herc Holdings Inc., the then parent company of Herc Rentals Inc., Hertz’s equipment rental business. On July 1, 2016, Herc Holdings Inc. was separated from Hertz Global Holdings, Inc. and became an independent, publicly-traded corporation. Accordingly, we have excluded Herc Holdings Inc. and Hertz Global Holdings, Inc. from our industry peer group in the five-year Performance Graph below. Herc Holdings Inc. will be included in our peer group when they have five years of comparative historical data.

The Performance Graph comparison assumes \$100 was invested in our common stock and in each of the other indices described above on December 31, 2015. Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization. The stock performance shown on the graph below is not necessarily indicative of future price performance.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among H&E Equipment Services, Inc., the Russell 2000 Index,  
and a Peer Group



\*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

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	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
H&E Equipment Services, Inc.	\$ 100.00	\$ 142.48	\$ 260.47	\$ 135.58	\$ 230.98	\$ 216.58
Russell 2000 Index	100.00	121.31	139.08	123.76	155.35	186.36
Peer Group	100.00	134.71	198.83	141.71	214.57	299.77

This stock performance information is “furnished” and shall not be deemed to be “soliciting material” or subject to Rule 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation by reference language in any such filing, except to the extent that we specifically incorporate this information by reference.

### Issuer Purchases of Equity Securities

On October 12, 2020, 2,983 shares of non-vested stock that were issued in 2015 vested at \$23.06 per share. The holder of those vested shares returned 1,264 shares of common stock to the Company during the quarter ended December 31, 2020 as payment for their withholding taxes. This resulted in an addition of 1,264 shares to treasury stock.

### Item 6. Selected Financial Data

Omitted pursuant to SEC Final Rule Release No. 33-10890, *Management’s Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*, with respect to Item 301, effective February 10, 2021.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of December 31, 2020, and its results of operations for the year ended December 31, 2020, and should be read in conjunction with the Selected Financial Data and our consolidated financial statements and the accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of “Forward-Looking Statements” included elsewhere in this Annual Report on Form 10-K). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A—Risk Factors of this Annual Report on Form 10-K.

The outbreak of the COVID-19 pandemic continues to affect the United States of America and the world, including in the primary regions we operate. Many State Governors issued temporary Executive Orders in 2020, which continue to remain effective in most states that, among other stipulations, effectively limit in-person work activities for most industries and businesses having the effect of suspending or severely curtailing operations. While we are considered an essential business pursuant to the various Executive Orders, if repercussions of the outbreak are prolonged, it could have a significant adverse impact to the underlying industries of some of our customers or in some or all of the primary markets in which we operate, including our customers in the oil and gas industry. To date, our branch locations remain operational and we have not incurred any significant interruptions to our day-to-day operations or supply chain, except most of our corporate employees are working remotely. In response to the COVID-19 pandemic, we proactively implemented certain measures to strengthen cash flow, manage costs, strengthen liquidity and enhance employee safety. These measures included the reduction of payroll costs, a reduction in capital expenditures and other discretionary spending, the elimination of most business travel and restriction of visitors to our corporate office, enhanced cleaning and disinfection procedures at our corporate office and branch locations, promotion of social distancing and the wearing of face coverings (masks) at our corporate office and branch locations, and requirements for employees to work from home where possible.

As the impact of COVID-19 became more widespread in March 2020, our equipment rental utilization and sales volumes began to decline from February 2020 levels and this decline continued through mid-April, where we began to see utilization and sales levels improve and stabilize for the remainder of the year and into early 2021, as adjusted for normal seasonality. Even with these recent sequential improvements, our total revenues for the year ended December 31, 2020, were 13.3% lower than those of the year ended December 31, 2019. The timing and the extent of any continued recovery, or subsequent contraction, in our equipment rental utilization and sales volumes cannot be reasonably estimated at this time. As such, the extent of the ultimate impact of the pandemic on the Company’s operational and financial performance will depend on various developments, including the duration and spread of the outbreak, the impact on capital and financial markets, governmental limitations on business operations generally, and its and their impact on potential customers, employees, vendors and distribution partners, all of which cannot be reasonably predicted at this time. For a discussion of liquidity, see Liquidity and Capital Resources below.

### ***Background***

As one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment, we rent, sell and provide parts and services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) material handling equipment. By providing equipment rental, sales, on-site parts, repair and maintenance functions under one roof, we are a one-stop provider for our customers’ varied equipment needs. This full service approach provides us with multiple points of customer contact, enables us to maintain a high quality rental fleet, as well as an effective distribution channel for fleet disposal and provides cross-selling opportunities among our new and used equipment sales, rental, parts sales and services operations.

As of February 10, 2021, we operated 97 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists and regional and district managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers for each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 60 years. H&E L.L.C. was formed in June 2002 through the business combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In connection with our initial public offering in February 2006, we converted H&E LLC into H&E Equipment Services, Inc., a Delaware corporation.

Effective January 1, 2018, we completed the acquisition of CEC, a privately-held company focused on non-residential construction equipment rentals serving the greater Denver, Colorado area out of three branch locations. Effective April 1, 2018, we completed the acquisition of Rental, Inc., a privately-held equipment rental and distribution company with five branch locations in Alabama and Florida. Effective February 1, 2019, we completed the acquisition of WRI, a privately-held equipment rental company with six branch locations in Central Texas.

### ***Business Segments***

We have five reportable segments because we derive our revenues from five principal business activities: (1) equipment rentals; (2) new equipment sales; (3) used equipment sales; (4) parts sales; and (5) repair and maintenance services. These segments are based upon how we allocate resources and assess performance. In addition, we also have non-segmented revenues and costs that relate to equipment support activities.

- *Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.
- *New Equipment Sales.* Our new equipment sales operation sells new equipment in all of our four core product categories. We have a retail sales force focused by equipment type that is separate from our rental sales force. Manufacturer purchase terms and pricing are managed by our product specialists.
- *Used Equipment Sales.* Our used equipment sales are generated primarily from sales of used equipment from our rental fleet, as well as from sales of inventoried equipment that we acquire through trade-ins from our equipment customers and through selective purchases of high quality used equipment. Used equipment is sold by our dedicated retail sales force. Our used equipment sales are an effective way for us to manage the size and composition of our rental fleet and provide a profitable distribution channel for disposal of rental equipment.
- *Parts Sales.* Our parts business sells new and used parts for the equipment we sell and also provides parts to our own rental fleet. To a lesser degree, we also sell parts for equipment produced by manufacturers whose products we neither rent nor sell. In order to provide timely parts and services support to our customers as well as our own rental fleet, we maintain an extensive parts inventory.
- *Services.* Our services operation provides maintenance and repair services for our customers' equipment and to our own rental fleet at our facilities as well as at our customers' locations. As the authorized distributor for numerous equipment manufacturers, we are able to provide service to that equipment that will be covered under the manufacturer's warranty.

Our non-segmented revenues and costs for the periods presented in the Annual Report on Form 10-K relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments.

You can read more about our business segments in note 18 of the consolidated financial statements in this Annual Report on Form 10-K.

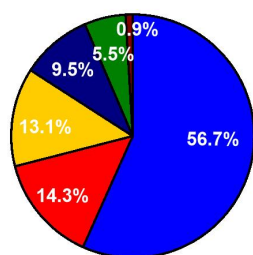
### ***Revenue Sources***

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues.

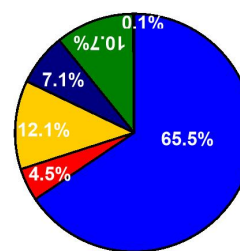


The pie charts below illustrate a breakdown of our revenues and gross profit for the year ended December 31, 2020 by business segment (see note 18 to our consolidated financial statements for further information regarding our business segments):

**Revenue by Segment  
(\$ in millions)**



**Gross Profit in Segments  
(\$ in millions)**



The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds, as well as in the petrochemical and energy sectors. As a result, our total revenues are affected by several factors including, but not limited to, the demand for and availability of rental equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions.

*Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

*New Equipment Sales.* We seek to optimize revenues from new equipment sales by selling equipment through a professional in-house retail sales force focused by product type. While sales of new equipment are impacted by the availability of equipment from the manufacturer, we believe our status as a leading distributor for some of our key suppliers improves our ability to obtain equipment. New equipment sales are an important component of our integrated model due to customer interaction and service contact and new equipment sales also lead to future parts and services revenues.

*Used Equipment Sales.* We generate the majority of our used equipment sales revenues by selling equipment from our rental fleet. The remainder of our used equipment sales revenues comes from the sale of inventoried equipment that we acquire through trade-ins from our equipment customers and selective purchases of high-quality used equipment. Our policy is not to offer specified price trade-in arrangements on equipment for sale. Sales of our rental fleet equipment allow us to manage the size, quality, composition and age of our rental fleet, and provide us with a profitable distribution channel for the disposal of rental equipment.

*Parts Sales.* We generate revenues from the sale of new and used parts for equipment that we rent or sell, as well as for other makes of equipment. Our product support sales representatives are instrumental in generating our parts revenues. They are product specialists and receive performance incentives for achieving certain sales levels. Most of our parts sales come from our extensive in-house parts inventory. Our parts sales provide us with a relatively stable revenue stream that is generally less sensitive to the economic cycles that tend to affect our rental and equipment sales operations.

*Services.* We derive our services revenues from maintenance and repair services to customers for their owned equipment. In addition to repair and maintenance on an as-needed or scheduled basis, we also provide ongoing preventative maintenance services to industrial customers. Our after-market service provides a high-margin, relatively stable source of revenue through changing economic cycles.

Our non-segmented other revenues for the periods presented in this Annual Report on Form 10-K relate primarily to ancillary charges associated with equipment maintenance and repair services, and are not generally allocated to reportable segments.

### ***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the year ended December 31, 2020, our total cost of revenues was approximately \$766.5 million. Our operating expenses consist principally of selling, general and administrative (“SG&A”) expenses. For the year ended December 31, 2020, our SG&A expenses were \$289.3 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of operations are not generally allocated to our reportable segments.

We are also subject to federal and state income taxes. Future income tax examinations by state and federal agencies could result in additional income tax expense based on probable outcomes of such matters.

#### ***Cost of Revenues:***

***Rental Depreciation.*** Depreciation of rental equipment represents the depreciation costs attributable to rental equipment. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving over a five year estimated useful life with a 25% salvage value, and material handling equipment over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives assigned to rental equipment.

***Rental Expense.*** Rental expense represents the costs associated with rental equipment, including, among other things, the cost of repairing and maintaining our rental equipment, property taxes on our fleet and other miscellaneous costs of owning rental equipment.

***Rental Other.*** Rental other expenses consist primarily of equipment support activities that we provide our customers in connection with renting equipment, such as hauling services, damage waiver policies, environmental fees and other recovery fees.

***New Equipment Sales.*** Cost of new equipment sold primarily consists of the equipment cost of the new equipment that is sold, net of any amount of credit given to the customer towards the equipment for trade-ins.

***Used Equipment Sales.*** Cost of used equipment sold consists of the net book value of rental equipment for used equipment sold from our rental fleet, the equipment costs for used equipment we purchase for sale or the trade-in value of used equipment that we obtain from customers in equipment sales transactions.

***Parts Sales.*** Cost of parts sales represents costs attributable to the sale of parts directly to customers.

***Services Support.*** Cost of services revenues represents costs attributable to service provided for the maintenance and repair of customer-owned equipment and equipment then on-rent by customers.

Our non-segmented other expenses include costs associated with ancillary charges associated with equipment maintenance and repair services.

#### ***Selling, General and Administrative Expenses:***

Our SG&A expenses include sales and marketing expenses, payroll and related benefit costs, including stock compensation expense, insurance expenses, legal and professional fees, rent and other occupancy costs, property and other taxes, administrative overhead, depreciation associated with property and equipment (other than rental equipment) and amortization expense associated with intangible assets. These expenses are not generally allocated to our reportable segments.

#### ***Interest Expense:***

Interest expense for the periods presented represents the interest on our outstanding debt instruments, including aggregate amounts outstanding under our revolving Credit Facility, senior unsecured notes and our finance lease obligations. Interest expense also includes interest on our outstanding manufacturer flooring plans payable, which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs and the accretion/amortization of note discount/premium are also included in interest expense.

#### ***Principal Cash Flows***

We generate cash primarily from our operating activities and, historically, we have used cash flows from operating activities, manufacturer floor plan financings and available borrowings under the Credit Facility as the primary sources of funds to purchase inventory and to fund working capital and capital expenditures, growth and expansion opportunities (see also “Liquidity and Capital Resources” below). Our management of our working capital is closely tied to operating cash flows, as working capital can be significantly impacted by, among other things, our accounts receivable activities, the level of new and used equipment inventories,

which may increase or decrease in response to current and expected demand, and the size and timing of our trade accounts payable payment cycles.

### **Rental Fleet**

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at December 31, 2020 was \$1.0 billion, or approximately 51.9% of our total assets. Our rental fleet as of December 31, 2020 consisted of 39,389 units having an original acquisition cost (which we define as the cost originally paid to manufacturers) of approximately \$1.8 billion. As of December 31, 2020, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total Units	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	21,068	53.5%	\$ 676.4	38.4%	48.9
Cranes	183	0.5%	73.5	4.1%	53.9
Earthmoving	4,392	11.2%	400.3	22.7%	25.6
Material Handling Equipment	6,394	16.2%	494.9	28.1%	42.3
Other	7,352	18.6%	118.6	6.7%	25.7
Total	39,389	100.0%	\$ 1,763.7	100.0%	40.9

Determining the optimal age and mix for our rental fleet equipment is subjective and requires considerable estimates and judgments by management. We constantly evaluate the mix, age and quality of the equipment in our rental fleet in response to current economic and market conditions, competition and customer demand. The mix and age of our rental fleet, as well as our cash flows, are impacted by sales of equipment from the rental fleet, which are influenced by used equipment pricing at the retail and secondary auction market levels, and the capital expenditures to acquire new rental fleet equipment. In making equipment acquisition decisions, we evaluate current economic and market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated useful life of the specific equipment, among other things. As a result of our in-house service capabilities and extensive maintenance program, we believe our rental fleet is well-maintained.

The original acquisition cost of our gross rental fleet decreased by approximately \$179.1 million, or 9.2%, for the year ended December 31, 2020, largely reflective of the decrease in rental capital expenditures in response to the COVID-19 pandemic's impact on equipment rental demand. The average age of our rental fleet equipment increased by approximately 4.6 months for the year ended December 31, 2020. Our average rental rates for the year ended December 31, 2020 were approximately 2.6% lower than the year ended December 31, 2019 (see further discussion on rental rates in "Results of Operations" below).

The rental equipment mix among our four core product lines for the year ended December 31, 2020 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost.

### **Principal External Factors that Affect our Businesses**

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and under the heading "Forward-Looking Statements," and in Item 1A—Risk Factors in this Annual Report on Form 10-K.

- *Economic downturns.* The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries, as well as adverse credit market conditions, can cause demand for our products to materially decrease.
- *Spending levels by customers.* Rentals and sales of equipment to the construction industry and to industrial companies constitute a significant portion of our total revenues. As a result, we depend upon customers in these businesses and their ability and willingness to make capital expenditures to rent or buy specialized equipment. Accordingly, our business is impacted by fluctuations in customers' spending levels on capital expenditures and by the availability of credit to those customers.
- *Adverse weather.* Adverse weather in a geographic region in which we operate may depress demand for equipment in that region. Our equipment is primarily used outdoors and, as a result, prolonged adverse weather conditions may prohibit our customers from continuing their work projects. Adverse weather also has a seasonal impact in parts of our Intermountain region, particularly in the winter months.

- Regional and Industry-Specific Activity and Trends.* Expenditures by our customers may be impacted by the overall level of construction activity in the markets and regions in which they operate, the price of oil and other commodities and other general economic trends impacting the industries in which our customers and end users operate. As our customers adjust their activity and spending levels in response to these external factors, our rentals and sales of equipment to those customers will be impacted. For example, high levels of industrial activity in our Gulf Coast and Intermountain regions have been a meaningful driver of recent growth in our revenues. Conversely, declines in oil and natural gas prices and the related downturn in oil industry activities can result in a significant decrease in our new equipment sales, primarily the sale of new cranes, due to lower demand. Most recently, in the first quarter of 2020, worldwide crude oil and natural gas prices sharply declined as a result of the lack of agreement on production levels by members of the Organization of the Petroleum Exporting Countries and other oil and gas-producing countries, which resulted in production outstripping the demand for oil and gas. Additionally, the effects of the COVID-19 outbreak, has decreased demand for oil and gas products as companies and other organizations have suspended or curtailed operations and travel. Although worldwide crude oil and natural gas prices have partially recovered from the 2020 first quarter decline, we believe the uncertainty regarding future oil and natural gas prices continues to impact customer capital expenditure decisions.

### Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The application of many accounting principles requires us to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and they and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts first become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. See also note 2 to our consolidated financial statements for a summary of our significant accounting policies.

*Useful Lives of Rental Equipment and Property and Equipment.* We depreciate rental equipment and property and equipment over their estimated useful lives (generally three to ten years), after giving effect to an estimated salvage value ranging from 0% to 25% of cost. The useful life of rental equipment is determined based on our estimate of the period the asset will generate revenues, and the salvage value is determined based on our estimate of the minimum value we could realize from the asset after such period. We periodically review the assumptions utilized in computing rates of depreciation. We may be required to change these estimates based on changes in our industry or other changing circumstances. If these estimates change in the future, we may be required to recognize increased or decreased depreciation expense for these assets.

The amount of depreciation expense we record is highly dependent upon the estimated useful lives and the salvage values assigned to each category of rental equipment. Generally, we assign estimated useful lives to our rental fleet ranging from a three-year life, five-year life with a 25% salvage value, seven-year life and a ten-year life. Depreciation expense on our rental fleet for the year ended December 31, 2020 was approximately \$233.8 million. For the year ended December 31, 2020, the estimated impact of a change in estimated useful lives for each category of equipment by two years was as follows:

	Aerial Work Platforms	Cranes	Earth- moving	Material Handling Equipment	Other	Total
	(\$ in millions)					
<i>Impact of 2-year change in useful life on results of operations for the year ended December 31, 2020</i>						
Depreciation expense for the year ended December 31, 2020	\$ 79.3	\$ 8.6	\$ 73.1	\$ 51.5	\$ 21.3	\$ 233.8
Increase of 2 years in useful life	72.7	6.6	46.3	39.4	25.2	190.2
Decrease of 2 years in useful life	109.0	10.0	108.0	70.9	21.3	319.2

For purposes of the sensitivity analysis above, we elected not to decrease the useful lives of other equipment, which are primarily three-year estimated useful life assets; rather, we have held the depreciation expense constant at the actual amount of depreciation expense. We believe that decreasing the life of the other equipment by two years is an unreasonable estimate and would potentially lead to the decision to expense, rather than capitalize, a significant portion of the subject asset class. In general terms, a one-year increase in the estimated life across all classes of our rental equipment will give rise to an approximate decrease in our annual depreciation expense of approximately \$21.8 million. Additionally, a one-year decrease in the estimated life across all classes of our rental equipment (with the exception of other equipment as discussed above) will give rise to an approximate increase in our annual depreciation expense of approximately \$42.7 million.

Another significant assumption used in our calculation of depreciation expense is the estimated salvage value assigned to our earthmoving equipment. Based on our recent experience, we have used a 25% factor of the equipment's original cost to estimate its salvage value. This factor is subjective and subject to change in the future based upon actual results at the time we dispose of the equipment. A change of 5%, either increase or decrease, in the estimated salvage value would result in a change in our annual depreciation expense of approximately \$4.3 million.

*Acquisition Accounting.* We have made significant acquisitions in the past and we intend to make additional acquisitions in the future that meet our selection criteria that solidify our presence in the contiguous regions where we operate with an objective of increasing our revenues, improving our profitability, and strengthening our competitive position. Pursuant to Topic 350, *Intangibles-Goodwill and Other*, we record as goodwill the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Such fair market value assessments require judgments and estimates that can be affected by various factors over time, which may cause final amounts to differ materially from original estimates.

Long-lived assets (principally rental equipment), goodwill and other intangible assets generally represent the largest component of our acquisitions. Historically, virtually all of the rental equipment that we have acquired through business combinations have been classified as "To be Used," rather than as "To be Sold." Equipment that we acquire and classify as "To be Used" is recorded at fair value. Any significant inventories of new and used equipment acquired in the transaction are valued at fair value, which should approximate a market participant's estimated selling price adjusted for (1) costs in the selling effort and (2) a reasonable profit allowance.

In addition to long-lived fixed assets, we also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these assets and liabilities generally approximate the carrying values reflected on the acquired entities balance sheets. However, when appropriate, we adjust these carrying values for factors such as collectibility and existence. The intangible assets that we have acquired generally consist primarily of the goodwill recognized. Depending upon the applicable purchase agreement and the particular facts and circumstances of the business acquired, we may identify other intangible assets, such as trade names or trademarks, non-compete agreements and customer-related intangibles (specifically, customer relationships). A trademark has a fair value equal to the present value of the royalty income attributable to it. The royalty income attributable to a trademark represents the hypothetical cost savings that are derived from owning the trademark instead of paying royalties to license the trademark from another owner. When specifically negotiated by the parties in the applicable purchase agreements, we base the value of non-compete agreements on the amounts assigned to them in the purchase agreements as these amounts represent the amounts negotiated in an arm's length transaction. When not negotiated by the parties in the applicable purchase agreements, the fair value of non-compete agreements is estimated based on an income approach since their values are representative of the current and future revenue and profit erosion protection they provide. Customer relationships are generally valued based on an excess earnings or income approach with consideration to projected cash flows.

*Evaluation of Goodwill Impairment.* We have made acquisitions in the past that resulted in the recognition of goodwill. Goodwill is the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. We evaluate goodwill for impairment annually or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability.

Application of the goodwill impairment test requires judgment, including: the identification of reporting units; assignment of assets and liabilities to reporting units; assignment of goodwill to reporting units; determination of the fair value of each reporting unit; and an assumption as to the form of the transaction in which the reporting unit would be acquired by a market participant (either a taxable or nontaxable transaction). Impairment of goodwill is evaluated at the reporting unit level. A reporting unit is defined as an operating segment (i.e., before aggregation or combination), or one level below an operating segment (i.e., a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. We have identified two components within our Rental operating segment (Equipment Rentals Component 1 and Equipment Rentals Component 2) and have determined that each of our other four operating segments (New Equipment, Used Equipment, Parts, and Service segments) represents a reporting unit, resulting in six total reporting units.

As of December 31, 2020, our goodwill was comprised of the following carrying values for our six reporting units (amounts in thousands):

Reporting Unit	Carrying Value at December 31, 2020
Equipment Rentals Component 1	\$ 48,976
Equipment Rentals Component 2	—
New Equipment Sales	—
Used Equipment Sales	8,953
Parts Sales	10,922
Services Revenues	—
<b>Total Goodwill</b>	<b>\$ 68,851</b>

During 2018, we performed, as of October 1, our annual impairment testing date, a Step 0 qualitative assessment and determined that it was more likely than not that the fair value of each of our reporting units was not less than its carrying value and, therefore, did not perform the prescribed quantitative Step 1 goodwill impairment test. We considered various factors in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting units, the Company's stock price and the excess amount or "cushion" between our reporting unit's fair value and carrying value as indicated on our most recent quantitative assessment.

We performed a Step 1 quantitative assessment of goodwill impairment as of October 1, 2019, our annual impairment test date. Based on this quantitative test, we determined that the New Equipment Sales and Service Revenues reporting units were less than the carrying value of each reporting unit, resulting in a goodwill impairment totaling \$12.2 million, or \$10.7 million and \$1.5 million for the New Equipment Sales and Service Revenues reporting units, respectively. The New Equipment Sales reporting unit 2019 impairment was largely due to a sharp decline in our 2019 fourth quarter new equipment sales revenues as over 75% of our full-year new equipment sales decline occurred in the fourth quarter. The fourth quarter new equipment sales decline was primarily driven by lower new crane sales, which were down 28.7%, or \$12.0 million. As noted elsewhere in this Annual Report on Form 10-K, we believe that demand for cranes is impacted by oil prices and while oil prices have partially recovered from their low point in 2016, which represented a 13-year low at the time, there remains considerable uncertainty regarding future oil prices and this uncertainty impacts customer capital expenditure decisions. This fourth quarter decline in new equipment sales, combined with our new equipment sales revenues growth rate and operating results assumptions for the forecast period under the income approach, resulted in a fair value determination, that when combined with the weighted fair value of the reporting unit determined under the market approach, was less than the reporting unit's carrying value as of October 1, 2019, resulting in a \$10.7 million impairment charge.

The impairment of the Service Revenues reporting unit was largely due to our service revenues growth rate and operating results assumptions for the forecast period under the income approach, which resulted in a fair value determination, that when combined with the weighted fair value of the reporting unit determined under the market approach, was less than the reporting unit's carrying value as of October 1, 2019, resulting in a \$1.5 million impairment charge. The impairment charges are non-cash items and does not affect our cash flows, liquidity or borrowing capacity under the senior credit facility, and the charges are excluded from our financial results in evaluating our financial covenant under the Credit Facility.

Based on our evaluation of the impact to our business in the first quarter of 2020 from the COVID-19 pandemic, we identified triggering events requiring an interim impairment test as of March 31, 2020. These triggering events included a deterioration in macroeconomic conditions, declines in business volume in our industry, a decline in our actual revenue and earnings compared with our planned revenue and earnings, and a sustained decrease in our stock price. For the interim impairment test as of March 31, 2020, we determined that our Equipment Rental Component 2 reporting unit had a fair value less than its carrying value, resulting in a \$62.0 million impairment charge. The impairment was largely due to Equipment Rental Component 2's forecasted declines in 2020 rental revenues, which was driven by the decrease in equipment rental demand that began in March 2020 as COVID-19's impact became more widespread across our geographic footprint, combined with our revenue growth rate and cash flow assumptions as of March 31, 2020, for the remaining forecast period under the income approach, and the decline in the fair value of Equipment Rental Component 2 based on the market approach from declining business enterprise values of comparable companies in our industry, resulting in a decrease in revenue and EBITDA multiples of those companies. The impairment charge is a non-cash item and does not affect our cash flows, liquidity or borrowing capacity under the senior credit facility, and the charge is excluded from our financial results in evaluating our financial covenant under the Credit Facility.

We performed a Step 1 quantitative assessment of goodwill impairment as of October 1, 2020, our annual impairment test date. For all reporting units, we compared the carrying values of each reporting unit, inclusive of goodwill and definite-lived intangible assets, to its fair value. We estimated the fair value of these reporting units by weighting results from the income approach and the market approach, as further described below. Based on this quantitative test, we determined that our Equipment Rental Component 1, Used Equipment Sales and Parts Sales reporting units were not impaired as of the October 1, 2020 annual impairment testing date as their respective fair values exceeded their respective carrying values by approximately 44%, 90% and 33%, respectively.

For purposes of performing the quantitative impairment test described above, we estimate the fair value of our reporting units by utilizing fair value techniques consistent with the income approach and market approach. When performing the income approach for each reporting unit, we use a discounted cash flow analysis based on our internal projected results of operations, weighted average cost of capital ("WACC") and terminal value assumptions. Our cash flow projections are based on ten-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth. The WACC is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise and represents the expected cost of new capital likely to be used by market participants. The WACC is used to discount our combined future cash flows. The inputs and variables used in determining the fair value of a reporting unit require management to make certain assumptions regarding the impact of operating and macroeconomic changes, as well as estimates of future cash flows. Our estimates regarding future cash flows are based on historical experience and projections of future operating performance, including revenues, margins and operating expenses. We also make certain forecasts about future economic conditions, interest rates and other market data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods. Changes in assumptions or estimates could materially affect the estimate of a reporting unit's fair value, and therefore could affect the likelihood and amount of potential impairment. Under the market approach, we compare the reporting units to selected reasonably similar (or "guideline") publicly-traded companies. Under this method, valuation multiples are: (i) derived from the operating data of selected guideline companies; (ii) evaluated and adjusted based on the strengths and weaknesses of our reporting unit relative to the selected guideline companies; and (iii) applied to the operating data of our reporting unit to arrive at an indication of value. The application of the market approach results in an estimate of the price reasonably expected to be realized from the sale of the reporting unit.

*Impairment of Long-lived Assets (Excluding Goodwill).* Our long-lived assets principally consist of rental equipment and property and equipment. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived and intangible assets involves significant estimates and judgment on the part of management. Our estimates and assumptions may prove to be inaccurate due to factors such as changes in economic conditions, changes in our business prospects or other changing circumstances.

In support of our review for indicators of impairment, we perform a review of our long-lived assets at the branch level relative to branch performance and conclude whether indicators of impairment exist associated with our long-lived assets, including our rental and non-rental equipment and right-of-use assets. Based on our most recently completed quarterly reviews, there were no indications of impairment associated with our long-lived assets (excluding goodwill).

*Income Taxes.* The Company files a consolidated federal income tax return with its wholly-owned subsidiaries. The Company is a C-Corporation under the provisions of the Internal Revenue Code. We utilize the asset and liability approach to measure deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rate is recognized as income or expense in the period that includes the enactment date of that tax rate.

The Company recognizes the effect of an income tax position only if it is more likely than not (a likelihood of greater than 50%) that such position will be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions in net other income (expense).

Our deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Our U.S. federal tax returns for 2017 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2013 and subsequent years.

## **Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the years ended December 31, 2020 and 2019. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

Our prior year discussion for the years ended December 31, 2019 and 2018 can be found [here](#), in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019, which is incorporated by reference herein.

### Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

#### Revenues.

	For the Year Ended December 31,		Total Dollar Increase (Decrease)	Total Percentage Increase (Decrease)
	2020	2019		
<b>Segment revenues:</b>				
Equipment rentals				
Rentals	\$ 598,425	\$ 694,547	\$ (96,122)	(13.8)%
Rentals other	64,568	71,807	(7,239)	(10.1)%
Total equipment rentals	662,993	766,354	(103,361)	(13.5)%
New equipment sales	167,130	239,091	(71,961)	(30.1)%
Used equipment sales	153,152	139,349	13,803	9.9%
Parts sales	110,594	123,855	(13,261)	(10.7)%
Services revenues	64,253	67,941	(3,688)	(5.4)%
Non-Segmented other revenues	10,998	11,775	(777)	(6.6)%
Total revenues	\$ 1,169,120	\$ 1,348,365	\$ (179,245)	(13.3)%

**Total Revenues.** Our total revenues were \$1.2 billion for the year ended December 31, 2020 compared to \$1.3 billion for the year ended December 31, 2019, a decrease of \$179.2 million, or 13.3%. Revenues of all reportable segments and non-segmented other revenues are further discussed below.

**Equipment Rental Revenues.** Our total revenues from equipment rentals for the year ended December 31, 2020 decreased \$103.4 million, or 13.5%, to \$663.0 million from \$766.4 million in 2019. The decrease in equipment rental revenues was largely due to decreased demand from the impact of the COVID-19 economic downturn.

**Rentals:** Rental revenues decreased \$96.1 million, or 13.8%, to \$598.4 million for the year ended December 31, 2020 compared to \$694.5 million for the year ended December 31, 2019. Rental revenues from aerial work platform equipment decreased \$36.1 million, material handling equipment rental revenues decreased \$21.7 million, and rental revenues from earthmoving equipment decreased \$14.3 million. Other equipment rental revenues and crane rental revenues decreased \$13.9 million and \$5.4 million, respectively, as compared to the prior period. The product line equipment rental revenue fluctuations above do not include the impact of legacy WRI equipment rental revenues of \$4.7 million for February 2019 through April 2019.

Our average rental rates, based on the American Rental Association's calculation methodology, for the year ended December 31, 2020 decreased 2.6% compared to the year ended December 31, 2019. Our average rental rates for the year ended December 31, 2019 do not include the impact of legacy WRI equipment rental revenues for February 2019 through April 2019.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the year ended December 31, 2020 decreased 4.2% to 32.1% from 36.3% in 2019. The decrease in comparative rental equipment dollar utilization was primarily the result of the decrease in equipment rental rates as noted above and a decrease in rental equipment time utilization. Rental equipment time utilization as a percentage of original equipment cost was approximately 63.2% for the year ended December 31, 2020 compared to 70.4% in the year ended December 31, 2019, a decrease of 7.2%, largely attributable to the decrease in demand due to the economic downturn surrounding the COVID-19 pandemic.

**Rentals Other:** Our rentals other revenues consist primarily of equipment support activities that we provide to customers in connection with renting equipment, such as hauling charges, damage waiver policies, environmental and other recovery fees. Rental other revenues for the year ended December 31, 2020 were \$64.6 million compared to \$71.8 million for the year ended December 31, 2019, a decrease of \$7.2 million, or 10.1%, primarily due to the decrease in equipment rental revenues as described above.

**New Equipment Sales Revenues.** Our new equipment sales for the year ended December 31, 2020 decreased \$72.0 million, or 30.1%, to \$167.1 million from \$239.1 million in 2019. This decrease, as noted below, was driven primarily by decreased sales of new cranes from continuing uncertainty related to oil and gas prices, and decreases in sales of our other product lines as customers have delayed, and in some cases, canceled large capital purchases due to the uncertainty surrounding the COVID-19 pandemic. Sales of new cranes decreased \$53.4 million. Sales of new material handling equipment, earthmoving equipment and aerial work platform



equipment decreased \$14.5 million, \$5.8 million and \$2.9 million, respectively. Partially offsetting these decreases, sales of new other equipment sales increased \$4.7 million.

*Used Equipment Sales Revenues.* Our used equipment sales increased \$13.8 million, or 9.9%, to \$153.2 million for the year ended December 31, 2020, from \$139.3 million for the same period in 2019. This increase in used equipment sales reflects some downsizing of our rental fleet in response to COVID-19's impact on rental demand combined with improved customer demand for used equipment. Sales of used earthmoving equipment, used material handling equipment and other used equipment sales increased \$12.2 million, \$3.5 million and \$2.6 million, respectively. Partially offsetting these increases were decreases of used cranes and used aerial work platform equipment of \$3.1 million and \$1.4 million, respectively.

*Parts Sales Revenues.* Our parts sales revenues decreased \$13.3 million, or 10.7%, to \$110.6 million for the year ended December 31, 2020 from \$123.9 million for the same period in 2019. The decrease in parts sales was largely attributable to decreases in equipment parts sales across all product lines, reflecting the COVID-19 impacts on our parts business.

*Services Revenues.* Our services revenues for the year ended December 31, 2020 decreased \$3.7 million, or 5.4%, to \$64.3 million from \$67.9 million in the same period last year. The decrease in service revenues was largely attributable to decreases in earthmoving equipment, aerial work platforms and material handling equipment services.

*Non-Segmented Other Revenues.* Our non-segmented other revenues relate to equipment support activities that we provide to customers in connection with new and used equipment sales and parts and services revenues and are generally not allocated to our reportable segments. For the year ended December 31, 2020, our other revenues were \$11.0 million, a decrease of approximately \$0.8 million, or 6.6%, from \$11.8 million in 2019.

### Gross Profit

	<u>For the Year Ended December 31,</u>		<u>Total Dollar Increase (Decrease)</u>	<u>Total Percentage Increase (Decrease)</u>
	<u>2020</u>	<u>2019</u>		
	(in thousands, except percentages)			
<b>Segment Gross Profit (Loss):</b>				
<b>Equipment rentals</b>				
Rentals	\$ 264,558	\$ 345,688	\$ (81,130)	(23.5)%
Rentals other	(626)	1,194	(1,820)	(152.4)%
<b>Total equipment rentals</b>	<b>263,932</b>	<b>346,882</b>	<b>(82,950)</b>	<b>(23.9)%</b>
New equipment sales	18,064	27,719	(9,655)	(34.8)%
Used equipment sales	48,562	47,328	1,234	2.6%
Parts sales	28,439	32,892	(4,453)	(13.5)%
Services revenues	43,077	45,995	(2,918)	(6.3)%
Non-Segmented other	545	(1,646)	2,191	133.1%
<b>Total gross profit</b>	<b>\$ 402,619</b>	<b>\$ 499,170</b>	<b>\$ (96,551)</b>	<b>(19.3)%</b>

*Total Gross Profit.* Our total gross profit was \$402.6 million for the year ended December 31, 2020 compared to \$499.2 million for the year ended December 31, 2019, a decrease of \$96.6 million, or 19.3%. Total gross profit margin for the year ended December 31, 2020 was approximately 34.4%, a decrease of 2.6% from the 37.0% gross profit margin for the same period in 2019. Gross profit and gross margin for all reportable segments and non-segmented other revenues are further described below.

*Equipment Rentals Gross Profit.* Our total gross profit from equipment rentals for the year ended December 31, 2020 decreased \$83.0 million, or 23.9%, to approximately \$263.9 million from \$346.9 million in 2019. Total gross profit margin from equipment rentals for the year ended December 31, 2020 was approximately 39.8% compared to 45.3% for the year ended December 31, 2019, a decrease of 5.5%. See Rentals and Rentals Other below for additional information.

*Rentals:* Rental revenue gross profit decreased \$81.1 million to \$264.6 million for the year ended December 31, 2020 compared to \$345.7 million for the year ended December 31, 2019. The decrease in equipment rentals gross profit was the result of a \$96.1 million decrease in equipment rental revenues for the year ended December 31, 2020 compared to last year, which was partially offset by a \$10.0 million decrease in rental equipment depreciation expense and \$5.0 million decrease in rental expenses. The decreases in rental equipment depreciation expense and rental expenses are primarily due to a smaller fleet size in 2020 compared to 2019 due to the decrease in capital expenditures in 2020 due to the COVID-19 pandemic. Gross profit margin on equipment rentals for the year ended December 31, 2020 was approximately 44.2% compared to 49.8% in 2019, a decrease of 5.6%. As a percentage of equipment

rental revenues, rental expenses were 16.7% and 15.1% for the years ended December 31, 2020 and 2019, respectively, an increase of 1.6%. Depreciation expense was 39.1% of equipment rental revenues for the year ended December 31, 2020 compared to 35.1% for the same period in 2019, an increase of 4.0%. These increases are primarily the result of decreases in rental revenues.

*Rentals Other:* Our rentals other consist primarily of equipment support activities that we provide to customers in connection with renting equipment, such as hauling charges, damage waiver policies, environmental and other recovery fees. Rental other revenues gross loss for the year ended December 31, 2020 was \$0.6 million compared to a gross profit of \$1.2 million for the year ended December 31, 2019, a decrease of \$1.8 million. Gross loss margin was 1.0% for the year ended December 31, 2020 compared to a gross profit margin of 1.7% for the same period last year, a decrease of 2.7%.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the year ended December 31, 2020 decreased \$9.7 million, or 34.8%, to \$18.1 million compared to \$27.7 million in 2019 on a decrease in total new equipment sales of \$72.0 million. Gross profit margin on new equipment sales for the year ended December 31, 2020 was approximately 10.8%, a decrease of 0.8% from 11.6% in 2019. The decrease in gross profit margin was primarily due to the mix of new equipment sold combined with lower gross margins on new crane sales and new earthmoving equipment sales.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the year ended December 31, 2020 increased approximately \$1.2 million, or 2.6%, to \$48.6 million from \$47.3 million in 2019, on a used equipment sales increase of \$13.8 million. Gross profit margin on used equipment sales for the year ended December 31, 2020 was 31.7%, down 2.3% from 34.0% for the year ended December 31, 2019, primarily as a result of lower gross margins on all product lines.

Our used equipment sales from the rental fleet, which comprised approximately 92.4% and 91.5% of our used equipment sales for the years ended December 31, 2020 and 2019, respectively, were approximately 150.8% and 157.6% of net book value for the years ended December 31, 2020 and 2019, respectively.

*Parts Sales Gross Profit.* For the year ended December 31, 2020, our parts sales revenue gross profit decreased \$4.5 million, or 13.5%, to \$28.4 million from \$32.9 million for the same period in 2019, on a \$13.3 million decrease in parts sales revenues. Gross profit margin on parts sales for the year ended December 31, 2020 was 25.7%, a decrease of approximately 0.8% from 26.6% in the same period in 2019, resulting from the mix of parts sold.

*Services Revenues Gross Profit.* For the year ended December 31, 2020, our services revenues gross profit decreased \$2.9 million, or 6.3%, to \$43.1 million from \$46.0 million for the same period in 2019, on a \$3.7 million decrease in services revenues. Gross profit margin on services revenues for the years ended December 31, 2020 and 2019 was 67.0% and 67.7%, respectively, a decrease of 0.7%, as a result of services revenues mix.

*Non-Segmented Other Gross Profit (Loss).* Our non-segmented other revenues relate to equipment support activities that we provide to customers in connection with new and used equipment sales and parts and services revenues and are not generally allocated to our reportable segments. Our non-segmented other gross profit was approximately \$0.5 million for the year ended December 31, 2020 compared to a gross loss of \$1.6 million for the same period last year, an increase of \$2.2 million.

*Selling, General and Administrative Expenses.* SG&A expenses decreased approximately \$21.8 million, or 7.0%, to \$289.3 million for the year ended December 31, 2020 compared to \$311.0 million for the year ended December 31, 2019.

The net decrease in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes and related employee benefit and other employee expenses decreased \$22.2 million, primarily as a result of lower commissions and incentive pay combined with headcount reductions and reduced employee hours in response to COVID-19's impact to our business. Promotional expenses decreased \$2.1 million. Bad debt expense decreased \$1.7 million and supplies expense decreased \$1.2 million. Non-real estate lease operating expenses decreased \$1.5 million and fuel and utilities costs decreased \$0.7 million. These decreases were partially offset by a \$6.4 million increase in liability insurance costs, a \$0.7 million increase in depreciation and amortization expenses and a \$0.6 million increase in legal and professional fees.

Approximately \$4.4 million of incremental SG&A expenses were attributable to branches opened since January 1, 2019 with less than a full year of comparable operations in either or both of the years ended December 31, 2020 and 2019.

As a percentage of total revenues, SG&A expenses were 24.7% for the year ended December 31, 2020 compared to 23.1% for the year ended December 31, 2019, an increase of approximately 1.7%.

*Impairment of Goodwill.* Impairment of goodwill incurred in the year ended December 31, 2020 was \$62.0 million, compared to \$12.2 million in 2019. The 2020 impairment related to one reporting unit, Equipment Rental Component 1. The 2019 impairment

related to two of our six reporting units, New Equipment Sales and Service Revenues. See note 2 to the consolidated financial statements for additional information.

**Gain on Sales of Property and Equipment, Net.** During the year ended December 31, 2020, gain on sales of property and equipment, net amounted to \$11.0 million for the period, compared to \$4.6 million for the year ended December 31, 2019, an increase of approximately \$6.3 million. This increase is primarily due to a gain on a sale-leaseback transaction in the first quarter of 2020, a gain on a company-owned closed branch location in the second quarter of 2020 and gains on sales in the normal course of business.

**Other Income (Expense).** For the year ended December 31, 2020, our net other expenses increased approximately \$38.9 million to \$103.2 million compared to \$64.3 million for the same period in 2019.

During the year ended December 31, 2020, we recognized a \$44.6 million loss due to the early extinguishment of our Old Notes. For additional information regarding the extinguishment of our Old Notes and the issuance of our New Notes, see note 9 to our consolidated financial statements.

Interest expense decreased approximately \$6.5 million to \$61.8 million for the year ended December 31, 2020 compared to \$68.3 million for the year ended December 31, 2019. Interest costs related to the Credit Facility decreased \$7.2 million for the year ended December 31, 2020 compared to the same period last year. The decrease in Credit Facility interest costs is largely due to lower borrowings in 2020 compared to 2019.

Other income, net, decreased \$0.8 million to \$3.2 million for the year ended December 31, 2020 compared to \$4.0 million for the year ended December 31, 2020, primarily attributable to proceeds from a favorable litigation settlement in 2019.

**Income Taxes.** We recorded an income tax benefit of \$8.7 million for the year ended December 31, 2020 compared to an income tax expense of approximately \$28.7 million for the year ended December 31, 2019. Our effective income tax rate for the year ended December 31, 2020 was 21.1% compared to 24.7% for the same period last year, a decrease of 3.6%. The decrease in our effective tax rate is primarily due to the net change in permanent differences in relation to profit before tax. Our rate for the year ended December 31, 2020 includes the impact of \$2.6 million income tax expense related to nondeductible goodwill impairment.

On March 27, 2020, the CARES Act was signed into law. The income tax related provisions of the CARES Act did not have a material impact to our recorded income tax benefit for the year ended December 31, 2020. See note 12 to the consolidated financial statements for a discussion of the CARES Act's favorable cash impact to our liquidity. We are continuing to evaluate any further impact that the CARES Act may have on the Company's future operations, financial position and liquidity.

Based on available evidence, both positive and negative, we believe it is more likely than not that our federal deferred tax assets at December 31, 2020 are fully realizable through future reversals of existing taxable temporary differences and future taxable income. For the year ended December 31, 2020, we recorded a valuation allowance of \$6.4 million for certain state tax credits that may not be realized.

### **Liquidity and Capital Resources**

**Cash Flow from Operating Activities.** For the year ended December 31, 2020, the cash provided by our operating activities was \$286.0 million. Our reported net loss of \$32.7 million, when adjusted for non-cash income and expense items, such as depreciation and amortization (including net amortization (accretion) of note discount (premium)), deferred income taxes, non-cash operating lease expense, amortization of finance lease right-of-use assets, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense, goodwill impairment, loss on early extinguishment of debt and net gains on the sale of long-lived assets, provided positive cash flows of \$296.2 million. These cash flows from operating activities were positively impacted by a \$9.3 million decrease in receivables and a \$31.0 million increase in accounts payable. Partially offsetting these positive cash flows were a \$23.2 million decrease in accrued expenses and other liabilities, a \$9.5 million increase in inventories, and a \$15.6 million decrease in manufacturing flooring plans payable. Additionally, prepaid expenses and other assets increased \$0.1 million and deferred compensation payable decreased \$2.1 million.

For the year ended December 31, 2019, the cash provided by our operating activities was \$319.2 million. Our reported net income of \$87.2 million, when adjusted for non-cash income and expense items, such as depreciation and amortization (including net amortization (accretion) of note discount (premium)), deferred income taxes, non-cash operating lease expense, amortization of finance lease right-of-use assets, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense, goodwill impairment and net gains on the sale of long-lived assets, provided positive cash flows of \$375.5 million. These cash flows from operating activities were positively impacted by a \$9.2 million decrease in receivables. Also, prepaid expenses and other assets decreased \$0.3 million. Additionally, manufacturing flooring plans payable and deferred compensation

increased \$1.5 million and \$0.1 million, respectfully. Partially offsetting these positive cash flows were a \$19.6 million increase in inventories, a \$43.4 million decrease in accounts payable and a \$4.4 million decrease in accrued expenses and other liabilities.

**Cash Flow from Investing Activities.** For the year ended December 31, 2020, net cash provided by our investing activities were approximately \$21.1 million. The purchases of rental and non-rental equipment totaled approximately \$135.0 million and proceeds from the sale of rental and non-rental equipment were approximately \$156.1 million.

For the year ended December 31, 2019, our cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$325.9 million. The acquisition of WRI totaled approximately \$106.7 million (net of cash acquired) and purchases of rental and non-rental equipment totaled approximately \$352.8 million, which were partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$133.6 million.

**Cash Flow from Financing Activities.** For the year ended December 31, 2020, our cash provided by our financing activities was exceeded by our cash used in financing activities, resulting in net cash used in our financing activities of \$10.5 million. Net payments under our Credit Facility for the year ended December 31, 2019 were \$216.9 million, dividends paid were \$39.6 million, or \$1.10 per common share, treasury stock purchases were approximately \$1.4 million, and payments on finance lease obligations were \$0.2 million. In connection with the issuance of our New Notes, gross proceeds were \$1.25 billion, which were primarily used to tender and redeem our Old Notes totaling \$990.9 million, representing aggregate principal payments of \$950.0 million and tender and redemption premiums totaling approximately \$40.9 million. Deferred financing costs paid in connection with the issuance of the New Notes totaled \$11.4 million.

For the year ended December 31, 2019, net cash provided by our financing activities was \$4.3 million. Net borrowings under our Credit Facility for the year ended December 31, 2019 were \$46.1 million, which was partially offset by dividends paid totaling \$39.4 million, or \$1.10 per common share, treasury stock purchases totaling approximately \$1.7 million, payments on finance lease obligations of \$0.2 million and payments of deferred financing costs of \$0.6 million.

#### **Senior Unsecured Notes**

On December 14, 2020, we completed the offering of our \$1.25 billion, 3.875% senior unsecured notes due 2028 (the “New Notes”), and the settlement of a cash tender offer and redemption notice to repurchase or redeem all of our previously outstanding \$950 million, 5.625% senior unsecured notes due 2025 (the “Old Notes”). No principal payments on the New Notes are due until their scheduled maturity date (December 15, 2028).

The New Notes were issued by H&E Equipment Services, Inc. (the parent company) and are guaranteed by GNE Investments, Inc. and its wholly-owned subsidiaries Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E California Holding, Inc., H&E Equipment Services (Mid-Atlantic), Inc. and H&E Finance Corp (collectively, the guarantor subsidiaries). The guarantees, made on a joint and several basis, are full and unconditional (subject to subordination provisions and subject to a standard limitation which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws). There are no restrictions on H&E Equipment Services, Inc.’s ability to obtain funds from the guarantor subsidiaries by dividend or loan. There are no registration rights associated with the New Notes or the subsidiary guarantees.

For additional information regarding our senior unsecured notes, see note 9 to our consolidated financial statements.

#### **Senior Secured Credit Facility**

We and our subsidiaries are parties to a \$750.0 million Credit Facility with Wells Fargo Capital Finance, LLC as Agent, and the lenders named therein.

On December 22, 2017, we amended, extended and restated the Credit Facility by entering into the Fifth Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”). On February 1, 2019, we further amended and extended the Amended and Restated Credit Agreement with the First Amendment to the Fifth Amended and Restated Credit Agreement (the “First Amendment”). The First Amendment, among other things, (i) extends the maturity date of the credit facility to February 1, 2024, and (ii) lowers the interest rate in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.25% to 1.75%, depending on the Average Availability and (iii) lowers the interest rate in the case of Base Rate loans, to the Base Rate (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 0.25% to 0.75%, depending on the Average Availability.

At December 31, 2020, we had no borrowings under the Credit Facility and we could borrow up to \$741.3 million and remain in compliance with the debt covenants under the Company’s credit facility. At February 10, 2021, we had \$741.3 million of available

borrowings under our Credit Facility, net of an \$8.7 million outstanding letter of credit. We do not anticipate any near-term impacts to our liquidity under the Credit Facility as a result of the COVID-19 pandemic, nor do we anticipate any covenant violations related to the Credit Facility. See also Cash Requirements Related to Operations below.

For additional information regarding our senior secured credit facility, see note 10 to our consolidated financial statements.

### ***Cash Requirements Related to Operations***

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under the Credit Facility. Our principal uses of cash have been to fund operating activities and working capital (including new and used equipment inventories), purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, fund acquisitions and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions and seek to open new start-up locations, the frequency of which could be tempered depending on the depth and duration of the current COVID-19 pandemic.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance. Our gross rental fleet capital expenditures for the year ended December 31, 2020 and 2019 were approximately \$138.7 million and \$349.1 million, respectively, including \$22.4 million and \$39.5 million, respectively, of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the year ended December 31, 2020 and 2019 were \$18.7 million and \$43.1 million, respectively. The above comparative capital expenditures are reflective of the significant decreases in our capital expenditures as a result of the downturn in our business and continuing economic uncertainty related to COVID-19.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the Credit Facility, the New Notes and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the Credit Facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. At December 31, 2020, we have cash on hand of approximately \$310.9 million. At December 31, 2020, we had available borrowings of \$741.3 million, net of \$8.7 million of outstanding letters of credit, compared to \$525.4 million at December 31, 2019, net of \$7.7 million of outstanding letters of credit. At February 10, 2021, we had \$741.3 million of available borrowings under the Credit Facility, net of an \$8.7 million of outstanding letters of credit. These sequential improvements in the amounts we have available for borrowing under the Credit Facility since December 31, 2019 are substantially due to the decrease in capital expenditures as noted in the preceding paragraph. We do not expect our liquidity to be materially negatively impacted by the current COVID-19 pandemic.

### **Quarterly Dividend**

On each of February 14, 2020, May 20, 2020, August 11, 2020 and November 10, 2020, the Company announced a quarterly dividend of \$0.275 per share to stockholders of record, which were paid on March 13, 2020, June 12, 2020, September 11, 2020 and December 11, 2020, respectively, totaling approximately \$39.6 million. On February 11, 2021, the Company announced a quarterly dividend of \$0.275 per share to stockholders of record as of the close of business on February 26, 2021, which is to be paid on March 12, 2021.

The Company intends to continue to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its review of, among other things, business and market conditions.

## Certain Information Concerning Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging or research and development arrangements with the Company.

We have no off-balance sheet arrangements as described above. Further, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We have also evaluated our relationships with related parties and determined that none of the related party interests represent variable interest entities pursuant to Topic 810, *Consolidation*.

## Contractual and Commercial Commitments

Our contractual obligations and commercial commitments principally include obligations associated with our outstanding indebtedness and interest payments as of December 31, 2020.

	Payments Due by Year				
	Total	2021	2022-2023	2024-2025	Thereafter
	(Amounts in thousands)				
Senior unsecured notes (1)	\$ 1,250,000	\$ —	\$ —	\$ —	\$ 1,250,000
Interest payments on senior unsecured notes (2)	387,500	48,438	96,876	96,876	145,310
Senior secured credit facility fees (3)	8,678	2,813	5,626	239	—
Finance lease right-of-use liabilities (4)	315	270	45	—	—
Operating lease right-of-use liabilities (5)	223,720	24,075	47,900	47,681	104,064
Other lease commitments (6)	8,471	745	1,765	1,849	4,112
Other long-term obligations (7)	9,615	6,774	2,841	—	—
Total contractual cash obligations	<u>\$ 1,888,299</u>	<u>\$ 83,115</u>	<u>\$ 155,053</u>	<u>\$ 146,645</u>	<u>\$ 1,503,486</u>

- (1) See note 9 to the consolidated financial statements for additional information regarding our New Notes.
- (2) Future interest payments are calculated based on the assumption that all of the senior unsecured notes remain outstanding until maturity.
- (3) This represents fees associated with the unused portion of the senior secured credit facility's line of credit, and assumes all amounts under the senior secured credit facility remain undrawn.
- (4) This includes a real estate finance lease for which the related liability has been recorded (including interest) at the present value of future minimum lease payments due under the leases.
- (5) This includes total minimum operating lease rental payments having initial or remaining non-cancelable lease terms longer than one year, including interest.
- (6) Represents total minimum operating lease rental payments for leases executed but not commenced as of December 31, 2020, including interest.
- (7) Represents amounts due on manufacturer flooring plans payable, which are used to finance certain purchases of new equipment inventory and rental equipment.

As of December 31, 2020, we had standby letters of credit issued under our Credit Facility totaling \$8.7 million that expire in May 2021. The Company expects to renew those letters of credit under similar terms upon their expiration.

## Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had for the three most recent fiscal years ended, and is not likely in the foreseeable future to have, a material impact on our results of operations.

## Acquisitions and Start-up Facilities

We periodically engage in evaluations of potential acquisitions and start-up facilities. We intend to continue to evaluate and pursue, on an opportunistic basis, acquisitions that meet our selection criteria, and we are focused on identifying and acquiring rental companies to complement our existing business, broaden our geographic footprint, and increase our density in existing markets.

Effective January 1, 2018, we completed the acquisition of CEC, a privately-held company focused on non-residential construction equipment rentals serving the greater Denver, Colorado area out of three branch locations. Effective April 1, 2018, we completed the acquisition of Rental Inc., an equipment rental and distribution company with five branch locations in Alabama and Florida. Effective February 1, 2019, we completed the acquisition of WRI, an equipment rental company with six branch locations in Central Texas. See note 3 to the consolidated financial statements for additional information on these acquisitions.

The success of our growth strategy depends, in part, on selecting strategic acquisition candidates at attractive prices and identifying strategic start-up locations. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities and lead to higher acquisition costs. We may not have the financial resources necessary to consummate any acquisitions or to successfully open any new facilities in the future or the ability to obtain the necessary funds on satisfactory terms. For further information regarding our risks related to acquisitions, see Item 1A – Risk Factors of this Annual Report on Form 10-K.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon (a) the Base Rate plus an applicable margin of 0.25% to 0.75%, depending on the Average Availability (as defined in the Credit Facility), in the case of index rate revolving loans and (b) LIBOR plus an applicable margin of 1.25% to 1.75%, depending on the Average Availability (as defined in the Credit Facility), in the case of LIBOR revolving loans.

At December 31, 2020, we had no outstanding borrowings under the Credit Facility. At February 10, 2021, we had no outstanding borrowings, with \$741.3 million of available borrowings, net of an \$8.7 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of December 31, 2020 on the fixed-rate senior unsecured notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

#### **Item 8. Financial Statements and Supplementary Data**

Index to consolidated financial statements of H&E Equipment Services, Inc. and Subsidiaries

See note 17 to the consolidated financial statements for summarized quarterly financial data.

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## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
H&E Equipment Services, Inc.  
Baton Rouge, Louisiana

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of H&E Equipment Services, Inc. (the “Company”) and subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 17, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Goodwill Impairment Assessment*

As described in Note 2 to the consolidated financial statements, the Company has recognized goodwill of approximately \$68.9 million as of December 31, 2020. The Company performs its annual impairment assessment on October 1st every year or more frequently if events or circumstances dictate. On March 31, 2020, the Company observed a deterioration in macroeconomic conditions, declines in business volume in the industry, a decline in actual revenue and earnings compared with planned revenue and earnings, and a sustained decrease in stock price as a result of the economic impact of the COVID-19 pandemic. The Company determined these events constituted triggering events requiring the performance of a quantitative assessment of goodwill impairment, which resulted in a \$62.0 million impairment charge related to the Equipment Rental Component 2 reporting unit. The Company’s annual impairment assessment, which consisted of a comparison between the carrying value and fair value of the Company’s reporting units with



goodwill balances, did not result in any additional impairment of goodwill. A combination of the income and the market approaches were used to estimate the fair value of the Company's reporting units for both the March 31, 2020 and October 1, 2020 assessments.

We identified management's judgments used in the income approach in estimating the fair value of the reporting units with goodwill balances as a critical audit matter. Significant judgments are required by management to develop assumptions used in the discounted cash flow analysis including internally projected results of operations, the weighted average cost of capital ("WACC"), and the terminal value growth rate. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required in performing procedures, and evaluating audit evidence obtained, related to management's assumptions, including the use of professionals with specialized skill and knowledge to assist in performing these procedures.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the reasonableness of management's assumptions used in the Company's discounted cash flow analysis, including evaluating whether the internally projected results of operations were reasonable, considering the historical performance of the reporting units and consistency with industry data.
- Testing the completeness, accuracy and relevance of the underlying data used in the discounted cash flow analysis.
- Utilizing personnel with specialized skill and knowledge in valuation to assist in evaluating the Company's discounted cash flow analysis and certain significant assumptions, including reviewing internally projected results of operations to ensure the WACC adequately captures the conditions present in the projections, as well as comparison of growth rates and internally projected results of operations to historical measures, and those of other market participants.

BDO USA, LLP

We have served as the Company's auditor since 2004.

Dallas, Texas

February 17, 2021

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31,**

	2020	2019
	(Amounts in thousands, except share amounts)	
<b>Assets</b>		
Cash	\$ 310,882	\$ 14,247
Receivables, net of allowance for doubtful accounts of \$4,741 and \$5,236, respectively	178,858	192,204
Inventories, net of reserves for obsolescence of \$350 and \$331, respectively	72,488	85,478
Prepaid expenses and other assets	10,379	10,262
Rental equipment, net of accumulated depreciation of \$701,588 and \$676,376, respectively	1,028,745	1,217,673
Property and equipment, net of accumulated depreciation and amortization of \$158,803 and \$156,782, respectively	116,740	130,564
Operating lease right-of-use assets, net of accumulated amortization of \$23,920 and \$11,197, respectively	162,220	156,570
Finance lease right-of-use assets, net of accumulated amortization of \$2,213 and \$2,051, respectively	203	365
Deferred financing costs, net of accumulated amortization of \$15,119 and \$14,419, respectively	2,157	2,857
Intangible assets, net of accumulated amortization of \$10,939 and \$6,952, respectively	28,961	32,948
Goodwill	68,851	131,442
Total assets	<u>\$ 1,980,484</u>	<u>\$ 1,974,610</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$ —	\$ 216,879
Accounts payable	89,295	58,853
Manufacturer flooring plans payable	9,615	25,201
Accrued expenses payable and other liabilities	67,290	78,382
Dividends payable	155	171
Senior unsecured notes, net of unaccreted discount of \$9,323 and \$2,691 and deferred financing costs of \$2,017 and \$1,743, respectively	1,238,660	945,566
Operating lease right-of-use liabilities	165,921	159,265
Finance lease right-of-use liabilities	305	550
Deferred income taxes	171,010	180,126
Deferred compensation payable	—	2,098
Total liabilities	<u>1,742,251</u>	<u>1,667,091</u>
<b>Commitments and Contingencies (Note 13)</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value, 175,000,000 shares authorized; 40,242,711 and 39,921,838 shares issued at December 31, 2020 and 2019, respectively, and 36,092,555 and 35,848,089 shares outstanding at December 31, 2020 and 2019, respectively	401	398
Additional paid-in capital	240,206	235,844
Treasury stock at cost, 4,150,156 and 4,073,749 shares of common stock held at December 31, 2020 and 2019, respectively	(66,188)	(64,783)
Retained earnings	63,814	136,060
Total stockholders' equity	<u>238,233</u>	<u>307,519</u>
Total liabilities and stockholders' equity	<u>\$ 1,980,484</u>	<u>\$ 1,974,610</u>

The accompanying notes are an integral part of these consolidated statements.

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2020	2019	2018
	(Amounts in thousands, except per share amounts)		
<b>Revenues:</b>			
Equipment rentals	\$ 662,993	\$ 766,354	\$ 627,181
New equipment sales	167,130	239,091	262,948
Used equipment sales	153,152	139,349	125,125
Parts sales	110,594	123,855	120,454
Services revenues	64,253	67,941	63,488
Other	10,998	11,775	39,765
Total revenues	<u>1,169,120</u>	<u>1,348,365</u>	<u>1,238,961</u>
<b>Cost of revenues:</b>			
Rental depreciation	233,809	243,780	208,453
Rental expense	100,058	105,079	89,520
Rental other	65,194	70,613	55,449
	<u>399,061</u>	<u>419,472</u>	<u>353,422</u>
New equipment sales	149,066	211,372	232,057
Used equipment sales	104,590	92,021	86,052
Parts sales	82,155	90,963	88,263
Services revenues	21,176	21,946	21,328
Other	10,453	13,421	19,305
Total cost of revenues	<u>766,501</u>	<u>849,195</u>	<u>800,427</u>
Gross profit	402,619	499,170	438,534
Selling, general and administrative expenses	289,264	311,026	278,298
Impairment of goodwill	61,994	12,184	—
Merger costs	503	416	708
Gain from sales of property and equipment, net	10,966	4,617	7,118
Income from operations	<u>61,824</u>	<u>180,161</u>	<u>166,646</u>
<b>Other income (expense):</b>			
Interest expense	(61,790)	(68,277)	(63,707)
Loss on early extinguishment of debt	(44,630)	—	—
Other, net	3,210	3,977	1,724
Total other expense, net	<u>(103,210)</u>	<u>(64,300)</u>	<u>(61,983)</u>
Income (loss) before provision (benefit) for income taxes	(41,386)	115,861	104,663
Provision (benefit) for income taxes	(8,719)	28,650	28,040
Net income (loss)	<u>\$ (32,667)</u>	<u>\$ 87,211</u>	<u>\$ 76,623</u>
<b>Net income (loss) per common share:</b>			
Basic	\$ (0.91)	\$ 2.43	\$ 2.15
Diluted	\$ (0.91)	\$ 2.42	\$ 2.13
<b>Weighted average common shares outstanding:</b>			
Basic	36,067	35,859	35,677
Diluted	36,067	36,033	35,903
Dividends declared per common share outstanding	\$ 1.10	\$ 1.10	\$ 1.10

The accompanying notes are an integral part of these consolidated statements.

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares Issued	Amount				
Balances at December 31, 2017	39,623,773	\$ 395	\$ 227,070	\$ (61,749)	\$ 51,077	\$ 216,793
Stock-based compensation	—	—	4,214	—	—	4,214
Cash dividends declared on common stock (\$1.10 per share)	—	—	—	—	(39,368)	(39,368)
Issuances of non-vested restricted common stock, net of restricted stock forfeitures	124,789	1	(110)	—	—	(109)
Repurchases of 37,805 shares of restricted common stock	—	—	—	(1,350)	—	(1,350)
Net income	—	—	—	—	76,623	76,623
Balances at December 31, 2018	39,748,562	396	231,174	(63,099)	88,332	256,803
Cumulative effect adjustment for Finance Lease pursuant to the adoption of ASC 842	—	—	—	—	(56)	(56)
Stock-based compensation	—	—	4,670	—	—	4,670
Cash dividends declared on common stock (\$1.10 per share)	—	—	—	—	(39,427)	(39,427)
Issuances of non-vested restricted common stock, net of restricted stock forfeitures	173,276	2	—	—	—	2
Repurchases of 58,756 shares of restricted common stock	—	—	—	(1,684)	—	(1,684)
Net income	—	—	—	—	87,211	87,211
Balances at December 31, 2019	39,921,838	398	235,844	(64,783)	136,060	307,519
Stock-based compensation	—	—	4,362	—	—	4,362
Cash dividends declared on common stock (\$1.10 per share)	—	—	—	—	(39,579)	(39,579)
Issuances of non-vested restricted common stock, net of restricted stock forfeitures	320,873	3	—	—	—	3
Repurchases of 76,407 shares of restricted common stock	—	—	—	(1,405)	—	(1,405)
Net loss	—	—	—	—	(32,667)	(32,667)
Balances at December 31, 2020	<u>40,242,711</u>	<u>\$ 401</u>	<u>\$ 240,206</u>	<u>\$ (66,188)</u>	<u>\$ 63,814</u>	<u>\$ 238,233</u>

The accompanying notes are an integral part of these consolidated statements.

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2020	2019	2018
	(Amounts in thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (32,667)	\$ 87,211	\$ 76,623
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization of property and equipment	29,359	28,425	24,593
Depreciation of rental equipment	233,809	243,780	208,453
Amortization of intangible assets	3,987	4,132	3,320
Amortization of deferred financing costs	1,004	1,010	1,083
Accretion of note discount, net of premium amortization	508	477	477
Non-cash operating lease expense	12,723	11,680	—
Amortization of finance lease right-of-use assets	162	163	—
Provision for losses on accounts receivable	4,018	5,793	2,741
Provision for inventory obsolescence	127	152	122
Deferred income taxes	(9,116)	27,013	26,695
Stock-based compensation expense	4,362	4,670	4,214
Impairment of goodwill	61,994	12,184	—
Loss on early extinguishment of debt	44,630	—	—
Gain from sales of property and equipment, net	(10,966)	(4,617)	(7,118)
Gain from sales of rental equipment, net	(47,728)	(46,613)	(38,352)
<b>Changes in operating assets and liabilities, net of acquisitions:</b>			
Receivables	9,328	9,222	(17,761)
Inventories	(9,521)	(19,637)	(48,230)
Prepaid expenses and other assets	(117)	267	(965)
Accounts payable	31,042	(43,358)	6,994
Manufacturer flooring plans payable	(15,586)	1,535	1,664
Accrued expenses payable and other liabilities	(23,238)	(4,380)	2,572
Deferred compensation payable	(2,098)	109	86
Net cash provided by operating activities	<u>286,016</u>	<u>319,218</u>	<u>247,211</u>
<b>Cash flows from investing activities:</b>			
Acquisition of businesses, net of cash acquired	—	(106,746)	(196,027)
Purchases of property and equipment	(18,664)	(43,111)	(34,960)
Purchases of rental equipment	(116,363)	(309,654)	(416,600)
Proceeds from sales of property and equipment	14,524	6,050	9,261
Proceeds from sales of rental equipment	141,594	127,558	112,086
Net cash provided by (used in) investing activities	<u>21,091</u>	<u>(325,903)</u>	<u>(526,240)</u>
<b>Cash flows from financing activities:</b>			
Purchases of treasury stock	(1,405)	(1,684)	(1,350)
Borrowings on senior secured credit facility	1,694,055	1,457,744	1,436,849
Payments on senior secured credit facility	(1,910,934)	(1,411,626)	(1,266,088)
Principal payments on senior unsecured notes due 2025	(950,000)	—	—
Costs paid to tender and redeem senior unsecured notes due 2025	(40,944)	—	—
Proceeds from issuance of senior unsecured notes due 2028	1,250,000	—	—
Payments of deferred financing costs	(11,404)	(559)	(97)
Dividends paid	(39,595)	(39,388)	(39,274)
Payments of finance lease obligations	(245)	(232)	—
Payments of capital lease obligations	—	—	(212)
Net cash provided by (used in) financing activities	<u>(10,472)</u>	<u>4,255</u>	<u>129,828</u>
Net increase (decrease) in cash	296,635	(2,430)	(149,201)
Cash, beginning of year	14,247	16,677	165,878
Cash, end of year	<u>\$ 310,882</u>	<u>\$ 14,247</u>	<u>\$ 16,677</u>

The accompanying notes are an integral part of these consolidated statements.

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2020	2019	2018
	(Amounts in thousands)		
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Accrued acquisition purchase price consideration	\$ —	\$ 3,432	\$ 3,432
<b>Non-cash asset purchases:</b>			
Assets transferred from new and used inventory to rental fleet	\$ 22,384	\$ 39,478	\$ 24,341
Purchases of property and equipment included in accrued expenses payable and other liabilities	\$ (429)	\$ 468	\$ (473)
Operating lease right-of-use assets and lease liabilities recorded upon adoption of ASC 842	\$ —	\$ 162,814	\$ —
Finance lease right-of-use assets and lease liabilities recorded upon adoption of ASC 842	\$ —	\$ 782	\$ —
Operating lease assets obtained in exchange for new operating lease liabilities	\$ 18,372	\$ 7,094	\$ —
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest	\$ 76,547	\$ 66,608	\$ 62,424
Income taxes paid (refunds received), net	\$ (223)	\$ 996	\$ 2,366

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Nature of Operations**

H&E Equipment Services, Inc. (or “the Company”, “we”, “us”, or “our”) is an integrated equipment services company operating in the United States with a focus on heavy construction and industrial equipment. We rent, sell and provide parts and services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) material handling equipment. We offer a full service approach by providing equipment rental, sales, on-site parts, repair and maintenance functions under one roof for our customers’ varied equipment needs. This full service approach provides us with multiple points of customer contact, enables us to maintain our rental fleet, as well as a distribution channel for fleet disposal, and provides cross-selling opportunities among our new and used equipment sales, rental, parts sales and services operations.

**COVID-19**

The novel coronavirus (“COVID-19”) was first identified in late 2019. COVID-19 spread rapidly throughout the world and, in March 2020, the World Health Organization characterized COVID-19 as a pandemic and recommended containment and mitigation measures worldwide. COVID-19 is a pandemic of respiratory disease spreading from person-to-person that poses a serious public health risk. The spread of COVID-19 and the resulting economic contraction has resulted in increased business uncertainty in our industry. Even as some states began to partially or completely lift stay-at-home restriction orders to reopen their economies, several areas of the country are experiencing increases in infection rates relative to the number of positive COVID-19 cases, thereby limiting the pace and extent of any economic recovery that may have otherwise occurred, and certain jurisdictions have begun to re-implement containment restrictions.

As the impact of COVID-19 became more widespread in March 2020, our equipment rental utilization and sales volumes began to decline from February 2020 levels in response to shelter-in-place orders and other end-user market restrictions and this decline continued through mid-April, where we began to see utilization and sales levels improve and stabilize for the remainder of the year and into early 2021, as adjusted for normal seasonality. Even with these recent sequential improvements, our total revenues for the year ended December 31, 2020, were 13.3% lower than those of the year ended December 31, 2019. The extent of any further recovery, or subsequent contraction, in our business volumes from the impact of the COVID-19 pandemic, and the resulting impact to our financial results and liquidity, will depend largely on future developments, including the duration of the spread of the COVID-19 outbreak within the U.S. and globally, the impact on capital and financial markets, and the related impact on our customers.

**(2) Summary of Significant Accounting Policies**

**Principles of Consolidation and Basis of Presentation**

Our consolidated financial statements include the financial position and results of operations of H&E Equipment Services, Inc. and its wholly-owned subsidiaries H&E Finance Corp., GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holding, Inc., H&E Equipment Services (California), LLC and H&E Equipment Services (Mid-Atlantic), Inc., collectively referred to herein as “we” or “us” or “our” or the “Company.”

All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements. Business combinations are included in the consolidated financial statements from their respective dates of acquisition.

The nature of our business is such that short-term obligations are typically met by cash flows generated from long-term assets. Consequently, and consistent with industry practice, the accompanying consolidated balance sheets are presented on an unclassified basis.

**Use of Estimates**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. These assumptions and estimates could have a material effect on our consolidated financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

## Revenue Recognition

We recognize revenue in accordance with two different accounting standards: 1) Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 842 (“Topic 842”) and 2) FASB ASC Topic 606 (“Topic 606”).

Under Topic 842, *Leases*, we account for equipment rental contracts as operating leases. We recognize revenue from equipment rentals in the period earned, regardless of the timing of billing to customers. A rental contract includes rates for daily, weekly or monthly use, and rental revenues are earned on a daily basis as rental contracts remain outstanding. Because the rental contracts can extend across multiple reporting periods, we record unbilled rental revenues and deferred rental revenues at the end of reporting periods so rental revenues earned is appropriately stated for the periods presented.

Under Topic 606, *Revenue from Contracts with Customers*, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenue from contracts with customers is measured based on the consideration specified in the contract with the customer, and excludes any sales incentives and amounts collected on behalf of third parties. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. Our contracts with customers generally do not include multiple performance obligations. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for such products or services.

The tables below summarize our revenues as presented in our consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 by revenue type and by the applicable accounting standard (amounts in thousands).

	Year Ended December 31, 2020		
	Topic 842	Topic 606	Total
Revenues:			
Rental revenues			
Owned equipment rentals	\$ 573,565	\$ 961	\$ 574,526
Re-rent revenue	23,900	—	23,900
Ancillary and other rental revenues:			
Delivery and pick-up	—	35,793	35,793
Other	28,774	—	28,774
Total ancillary rental revenues	28,774	35,793	64,567
Total equipment rental revenues	626,239	36,754	662,993
New equipment sales	—	167,130	167,130
Used equipment sales	—	153,152	153,152
Parts sales	—	110,594	110,594
Services revenues	—	64,253	64,253
Other	—	10,998	10,998
Total revenues	\$ 626,239	\$ 542,881	\$ 1,169,120

	Year Ended December 31, 2019		
	Topic 842	Topic 606	Total
Revenues:			
Rental revenues			
Owned equipment rentals	\$ 668,087	\$ 1,118	\$ 669,205
Re-rent revenue	25,342	—	25,342
Ancillary and other rental revenues:			
Delivery and pick-up	—	40,049	40,049
Other	31,758	—	31,758
Total ancillary rental revenues	31,758	40,049	71,807
Total equipment rental revenues	725,187	41,167	766,354
New equipment sales	—	239,091	239,091
Used equipment sales	—	139,349	139,349
Parts sales	—	123,855	123,855
Services revenues	—	67,941	67,941
Other	—	11,775	11,775
Total revenues	\$ 725,187	\$ 623,178	\$ 1,348,365



	Year Ended December 31, 2018		
	Topic 840(1)	Topic 606	Total
<b>Revenues:</b>			
<b>Rental revenues</b>			
Owned equipment rentals	\$ 568,412	\$ 1,334	\$ 569,746
Re-rent revenue	22,447	—	22,447
<b>Ancillary and other rental revenues:</b>			
Delivery and pick-up	—	34,988	34,988
Other	—	—	—
Total ancillary rental revenues	—	34,988	34,988
Total equipment rental revenues	590,859	36,322	627,181
New equipment sales	—	262,948	262,948
Used equipment sales	—	125,125	125,125
Parts sales	—	120,454	120,454
Services revenues	—	63,488	63,488
Other	21,693	18,072	39,765
<b>Total revenues</b>	<b>\$ 612,552</b>	<b>\$ 626,409</b>	<b>\$ 1,238,961</b>

(1) Prior to our adoption of Topic 842 on January 1, 2019, leases were accounted for under Topic 840.

Revenues by reporting segment are presented in note 18 of our condensed consolidated financial statements, using the revenue captions reflected in our consolidated statements of operations. We believe that the disaggregation of our revenues from contracts to customers as reflected above, coupled with further discussion below and the reporting segment in note 18, depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors.

### *Nature of goods and services*

#### Lease revenues

##### Topic 842 (for the years ended December 31, 2020 and 2019)

*Owned equipment rentals:* Owned equipment rentals represent revenues from renting equipment. We account for these rental contracts as operating leases. We recognize revenue from equipment rentals in the period earned, regardless of the timing of billing to customers. A rental contract includes rates for daily, weekly or monthly use, and rental revenues are earned on a daily basis as rental contracts remain outstanding. Because the rental contracts can extend across multiple reporting periods, we record unbilled rental revenues and deferred rental revenues at the end of reporting periods so rental revenues earned is appropriately stated for the periods presented.

*Re-rent revenue:* Re-rent revenue reflects revenues from equipment that we rent from vendors and then rent to our customers. We account for such rentals as subleases. The accounting for re-rent revenue is the same as the accounting for owned equipment rentals described above.

*Other equipment rental revenue:* Other equipment rental revenue is primarily comprised of (i) revenue from customers who purchase insurance to protect against potential damages or loss the equipment they rent, (ii) environmental charges associated with the rental of equipment, and (iii) fuel recovery fees charged to customers. Fuel consumption charges are recognized upon return of the rental equipment when fuel consumption by the customer, if any, can be measured. Income from environmental fees and damage waiver insurance policies are recognized when earned over the period the equipment is rented.

##### Topic 840 (for the year ended December 31, 2018)

*Owned equipment rentals:* Owned equipment rentals represent revenues from renting equipment. We account for these rental contracts as operating leases. We recognize revenue from equipment rentals in the period earned, regardless of the timing of billing to customers. A rental contract includes rates for daily, weekly or monthly use, and rental revenues are earned on a daily basis as rental contracts remain outstanding. Because the rental contracts can extend across multiple reporting periods, we record unbilled rental revenues and deferred rental revenues at the end of reporting periods so rental revenues earned is appropriately stated for the periods presented.

*Re-rent revenue:* Re-rent revenue reflects revenues from equipment that we rent from vendors and then rent to our customers. We account for such rentals as subleases. The accounting for re-rent revenue is the same as the accounting for owned equipment rentals described above.

### **Revenues from contracts with customers (Topic 606)**

Substantially all of our revenues under Topic 606 are recognized at a point-in-time rather than over time.

*Owned equipment rentals:* An insignificant portion of our total equipment rental revenues are recognized pursuant to Topic 606 rather than pursuant to Topic 842. These revenues represent services performed by us in connection with the rental of equipment and are comprised of customer training fees on rented equipment and erection and dismantling services on rental equipment. Revenues for these services are recognized upon completion of such services. See discussion above regarding rental revenues recognized pursuant to Topic 842.

*Delivery and pick-up:* Delivery and pick-up revenue associated with renting equipment is recognized when the service is performed.

*New equipment sales:* Revenues from the sales of new equipment are recognized at the time of delivery to, or pick-up by, the customer, which is when the customer obtains control of the promised good.

*Used equipment sales:* Revenues from the sales of used equipment are recognized at the time of delivery to, or pick-up by, the customer, which is when the customer obtains control of the promised good.

*Parts sales:* Revenues from the sales of equipment parts are recognized at the time of pick-up by the customer for parts counter sales transactions. For parts that are shipped to a customer, we made an accounting policy election permitted by Topic 606 to treat such shipping activities as fulfillment costs, which results in the fees for shipping activities being included in the parts sales transaction price.

*Services revenues:* We derive our services primarily from maintenance and repair services to customers for their owned equipment. We recognize services revenues at the time such services are completed, which is when the customer obtains control of the promised service.

*Other revenues:* Other revenues relate primarily to ancillary charges associated with equipment maintenance and repair services. Such revenues are recognized at the time the services are performed.

### ***Receivables and contract assets and liabilities***

We manage credit risk associated with our accounts receivables at the customer level. Because the same customers typically generate the revenues that are accounted for under both Topic 606 and Topic 842, the discussions below on credit risk and our allowances for doubtful accounts address our total revenues from Topic 606 and Topic 842.

We believe concentration of credit risk with respect to our receivables is limited because our customer base is comprised of a large number of geographically diverse customers. Our largest customer accounted for less than two percent of total revenues for the years ended December 31, 2020, 2019 and 2018. No single customer accounted for more than 10% of our revenues on an overall or segment basis for any of the three years ended December 31, 2020. We manage credit risk through credit approvals, credit limits and other monitoring procedures.

Pursuant to Topic 842 and Topic 326 for rental and non-rental receivables, respectively, we maintain an allowance for doubtful accounts that reflects our estimate of our expected credit losses. Our allowance is estimated using a loss rate model based on delinquency. The estimated loss rate is based on our historical experience with specific customers, our understanding of our current economic circumstances, reasonable and supportable forecasts, and our own judgment as to the likelihood of ultimate payment based upon available data. Our largest exposure to doubtful accounts is in our rental operations. We perform credit evaluations of customers and establish credit limits based on reviews of our customers' current credit information and payment histories. We believe our credit risk is somewhat mitigated by our geographically diverse customer base and our credit evaluation procedures. The actual rate of future credit losses, however, may not be similar to past experience. Our estimate of doubtful accounts could change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be

required to increase or decrease our allowance for doubtful accounts. Bad debt expense as a percentage of total revenues for the years ended December 31, 2020, 2019 and 2018 were approximately 0.4%, 0.5% and 0.2%, respectively.

We do not have material contract assets, impairment losses associated therewith, or material contract liabilities associated with contracts with customers. Our contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. We did not recognize material revenues during the years ended December 31, 2020, 2019 or 2018 that was included in the contract liability balance as of the beginning of such periods.

#### ***Performance obligations***

Most of our Topic 606 revenue is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, we do not generally recognize a significant amount of revenue from performance obligations satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the years ended December 31, 2020, 2019 and 2018 was not material.

#### ***Payment terms***

Our Topic 606 revenues do not include material amounts of variable consideration. Our payment terms are typically net 30 days, but can vary by the type and location of our customer and the products or services offered. The time between invoicing and when payment is due is not significant. Our contracts do not generally include a significant financing component. Our contracts with customers do not generally result in significant obligations associated with returns, refunds or warranties. See above for a discussion of how we manage credit risk.

Sales tax amounts collected from customers are recorded on a net basis.

#### ***Contract costs***

We do not recognize any assets associated with the incremental costs of obtaining a contract with a customer (for example, a sales commission) that we expect to recover. Most of our revenue is recognized at a point-in-time or over a period of one year or less, and we use the practical expedient that allows us to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less.

#### ***Contract estimates and judgments***

Our revenues accounted for under Topic 606 generally do not require significant estimates or judgments as the transaction price is generally fixed and stated on our contracts. Our contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation. Also, our revenues do not include material amounts of variable consideration. Substantially all of our revenues are recognized at a point-in-time and the timing of the satisfaction of the applicable performance obligations is readily determinable. As noted above, our Topic 606 revenues are generally recognized at the time of delivery to, or pick-up by, the customer.

#### **Inventories**

We measure inventory at the lower of cost or net realizable value; where net realizable value is considered to be estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. For new and used equipment inventories, cost is determined by specific-identification. For inventories of parts and supplies, cost is determined by using average cost.

#### **Long-lived Assets and Goodwill**

##### ***Rental Equipment***

The rental equipment we purchase is stated at cost and is depreciated over the estimated useful life of the equipment using the straight-line method and is included in rental depreciation within our consolidated statements of operations. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving equipment over a five year estimated useful life with a 25% salvage value, and material handling equipment over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated generally over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives and any salvage value assigned to rental equipment. Depreciation expense on rental equipment is reflected in rental depreciation in cost of revenues on the consolidated statements of operations.

Ordinary repair and maintenance costs and property taxes are reflected in rental expenses in cost of revenues on the consolidated statements of operations. However, expenditures for additions or improvements that significantly extend the useful life of the asset are capitalized in the period incurred. When rental equipment is sold or disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses are included in gross profit in the statements of operations. We receive individual offers for fleet on a continual basis, at which time we perform an analysis on whether or not to accept the offer. The rental equipment is not transferred to inventory under the held for sale model as the equipment is used to generate revenues until the equipment is sold.

### ***Property and Equipment***

Property and equipment are recorded at cost and are depreciated over the assets' estimated useful lives using the straight-line method. Ordinary repair and maintenance costs are included in sales, general and administrative ("SG&A") expenses on our consolidated statements of operations. However, expenditures for additions or improvements that significantly extend the useful life of the asset are capitalized in the period incurred. At the time assets are sold or disposed of, the cost and accumulated depreciation are removed from their respective accounts and the related gains or losses are reflected in the statements of operations in gains from sales of property and equipment, net.

We capitalize interest on qualified construction projects. We additionally capitalize certain costs associated with internally developed software and cloud computing arrangements.

We periodically evaluate the appropriateness of remaining depreciable lives assigned to property and equipment. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the remaining term of the lease, whichever is shorter. Depreciation expense on property and equipment is included in SG&A expenses on our consolidated statements of operations. Generally, we assign the following estimated useful lives to these categories:

<b>Category</b>	<b>Estimated Useful Life</b>
Transportation equipment	5 years
Buildings	39 years
Office equipment	5 years
Computer equipment	3 years
Machinery and equipment	7 years

When events or changes in circumstances indicate that the carrying amount of our rental fleet and property and equipment might not be recoverable, the expected future undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined based on discounted cash flows or appraised values, as appropriate. In support of our review for indicators of impairment, we perform a review of our long-lived assets at the branch level relative to branch performance and conclude whether indicators of impairment exist. We did not record any impairment losses related to our rental equipment or property and equipment during 2020, 2019 or 2018.

### ***Goodwill***

We have made acquisitions in the past that included the recognition of goodwill. Goodwill is recorded as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. We evaluate goodwill for impairment at least annually, as of October 1, or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability. Impairment of goodwill is evaluated at the reporting unit level. A reporting unit is defined as an operating segment (i.e., before aggregation or combination), or one level below an operating segment (i.e., a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. We have identified two components within our Rental operating segment (Equipment Rental Component 1 and Equipment Rental Component 2) and have determined that each of our other operating segments (New Equipment Sales, Used Equipment Sales, Parts Sales and Service Revenues) represent a reporting unit, resulting in six total reporting units.

Topic 350 consists of a one-step assessment to determine whether goodwill is impaired ("Step 1"). Step 1 requires an entity to compare each reporting unit's carrying value, including goodwill, and its fair value. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the total amount of goodwill allocated to the reporting unit. An entity also has an option to perform a qualitative assessment ("Step 0") to determine if the

quantitative impairment test is necessary. Considerable judgment is required by management in performing Step 0 to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value.

During 2019, we performed, as of October 1, our annual goodwill impairment test date, a Step 1 quantitative assessment of goodwill impairment. For all reporting units, we compared the carrying values of each reporting unit, inclusive of goodwill and definite-lived intangible assets, to its fair value. We estimated the fair value of these reporting units by weighting results from the income approach and the market approach. Based on this quantitative test, we determined that our Rental Component 1, Rental Component 2, Used Equipment Sales and Parts reporting units were not impaired as their respective fair values exceeded their respective carrying values by at least 24% or more. However, the results of the quantitative test indicated that the respective fair values of the New Equipment Sales and Service Revenues reporting units were less than the carrying value of each reporting unit, resulting in a goodwill impairment totaling \$12.2 million, or \$10.7 million and \$1.5 million for the New Equipment Sales and Service Revenues reporting units, respectively. The New Equipment Sales reporting unit impairment was largely due to a sharp decline in our 2019 fourth quarter new equipment sales revenues as over 75% of our full-year new equipment sales decline occurred in the fourth quarter. This decline, combined with our new equipment sales revenues growth rate and operating results assumptions for the forecast period under the income approach, resulted in a fair value determination, that when combined with the weighted fair value of the reporting unit determined under the market approach, was less than the reporting unit's carrying value as of October 1, 2019, resulting in a \$10.7 million impairment charge. The impairment of the Service Revenues reporting unit was largely due to our service revenues growth rate and operating results assumptions for the forecast period under the income approach, which resulted in a fair value determination, that when combined with the weighted fair value of the reporting unit determined under the market approach, was less than the reporting unit's carrying value as of October 1, 2019, resulting in a \$1.5 million impairment charge.

Based on our evaluation of the impact to our business in the first quarter of 2020 from the COVID-19 pandemic, we identified triggering events requiring an interim impairment test as of March 31, 2020. These triggering events included a deterioration in macroeconomic conditions, declines in business volume in our industry, a decline in our actual revenue and earnings compared with our planned revenue and earnings, and a sustained decrease in our stock price. For the interim impairment test as of March 31, 2020, we estimated the fair value of our reporting units by equally weighting results from the income approach and the market approach. We compared those fair values to the carrying values of our four reporting units with carrying values, and determined that our Equipment Rental Component 2 reporting unit had a fair value less than its carrying value, resulting in a \$62.0 million impairment charge. The impairment was largely due to Equipment Rental Component 2's forecasted declines in 2020 rental revenues, which was driven by the decrease in equipment rental demand that began in March 2020 as COVID-19's impact became more widespread across our geographic footprint, combined with our revenue growth rate and cash flow assumptions for the remaining forecast period under the income approach, and the decline in the fair value of Equipment Rental Component 2 based on the market approach from declining business enterprise values of comparable companies in our industry, resulting in a decrease in revenue and EBITDA multiples of those companies. We determined that our Equipment Rental Component 1, Used Equipment Sales and Parts Sales reporting units were not impaired as of the March 31, 2020 interim impairment testing date as their respective fair values exceeded their respective carrying values by approximately 34%, 90% and 40%, respectively.

In addition, during 2020, we performed, as of October 1, our annual impairment test date, a Step 1 quantitative assessment of goodwill impairment. For all reporting units, we compared the carrying values of each reporting unit, inclusive of goodwill and definite-lived intangible assets, to its fair value. We estimated the fair value of these reporting units by weighting results from the income approach and the market approach. Based on this quantitative test, we determined that our Equipment Rental Component 1, Used Equipment Sales and Parts Sales reporting units were not impaired as of the October 1, 2020 annual impairment testing date as their respective fair values exceeded their respective carrying values by approximately 44%, 90% and 33%, respectively.

Significant assumptions inherent in the valuation methodologies for goodwill are employed and include, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry. The inputs and variables used in determining the fair value of a reporting unit require management to make certain assumptions regarding the impact of operating and macroeconomic changes, as well as estimates of future cash flows. Our estimates regarding future cash flows are based on historical experience and projections of future operating performance, including revenues, margins and operating expenses. We also make certain forecasts about future economic conditions, such as the timing and duration of economic expansion or contraction cycles in our business, interest rates, and other market data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods. An adverse change in any of the assumptions used in our impairment testing (e.g., projected revenue and profit, discount rates, industry price multiples, etc.), including the uncertainty related to the depth and duration of COVID-19's impact on our forecasted cash flows, could affect our fair value measurements and result in future impairments. If we are unable to achieve the financial forecasts used in our impairment analysis, we may also be required to record an impairment charge to our goodwill.

The impairment charges described above are non-cash items and do not affect our cash flows, liquidity or borrowing capacity under the Credit Facility, and the impairment charges are excluded from our financial results in evaluating our financial covenant under the Credit Facility.

The changes in the carrying amount of goodwill for our reporting units for the years ended December 31, 2020 and 2019 were as follows (amounts in thousands):

	Eq. Rental Comp. 1	Eq. Rental Comp. 2	New Eq. Sales	Used Eq. Sales	Parts Sales	Service Revenues	Total
Balance at December 31, 2018	\$ 34,297	\$ 42,536	\$ 10,434	\$ 8,461	\$ 8,910	\$ 1,205	\$ 105,843
Increases (1)	14,918	19,775	254	500	2,045	291	37,783
Decreases (2)	—	—	(10,688)	—	—	(1,496)	(12,184)
Balance at December 31, 2019	49,215	62,311	—	8,961	10,955	—	131,442
Decreases (3)	(239)	(317)	—	(8)	(33)	—	(597)
Decreases (4)	—	(61,994)	—	—	—	—	(61,994)
Balance at December 31, 2020	\$ 48,976	\$ —	\$ —	\$ 8,953	\$ 10,922	\$ —	\$ 68,851

- (1) Increases are related to goodwill recognized in the Cobra Equipment Rentals, LLC 2019 acquisition. See footnote 3 for further information.
- (2) Decreases are related to the goodwill impairment calculated as of October 1, 2019, as described above.
- (3) Decreases are related to an adjustment during the first quarter of 2020 from the final closing settlement of the Cobra Equipment Rentals, LLC 2019 acquisition. See footnote 3 for further information.
- (4) Decrease is related to the goodwill impairment calculated as of March 31, 2020, as described above.

### Intangible assets

Our intangible assets include customer relationships, tradenames and leasehold interests that we acquired in recent acquisitions (see note 3 for further acquisition information). The customer relationships, tradenames and leasehold interests are amortized on a straight-line basis over estimated useful lives of ten, one and ten years, respectively, from the date of acquisition.

The gross carrying values, accumulated amortization and net carrying amounts of our major classes of intangible assets as of December 31, 2020 and 2019 are as follows (dollar amounts in thousands):

	December 31, 2020			December 31, 2019		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships	\$ 39,500	\$ 10,679	\$ 28,821	\$ 39,500	\$ 6,729	\$ 32,771
Tradenames	200	200	—	200	183	17
Leasehold interests	200	60	140	200	40	160
Total	\$ 39,900	\$ 10,939	\$ 28,961	\$ 39,900	\$ 6,952	\$ 32,948

Intangible assets are tested for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of the asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The impairment loss to be recorded would be the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis or other valuation technique.

Total amortization expense for the years ended December 31, 2020, 2019 and 2018 totaled \$4.0 million, \$4.1 million and \$3.3 million, respectively, and is included within SG&A expenses on the consolidated statements of operations. The following table presents the expected amortization expense for each of the next five years ending December 31 and thereafter for those intangible assets with remaining carrying value as of December 31, 2020 (dollar amounts in thousands):

	Amortization Expense
2021	\$ 3,970
2022	3,970
2023	3,970
2024	3,970
2025	3,970
Thereafter	9,111
	\$ 28,961

## Leases

### *The Company as Lessee*

We determine whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset and we have the right to control the asset for a period of time in exchange for consideration. Lease arrangements can take several forms. Some arrangements are clearly within the scope of lease accounting, such as a real estate contract that provides an explicit contractual right to use a building for a specified period of time in exchange for consideration. However, the right to use an asset can also be conveyed through arrangements that are not leases in form, such as leases embedded within service and supply contracts. We analyze all arrangements with potential embedded leases to determine if an identified asset is present, if substantive substitution rights are present, and if the arrangement provides the customer control of the asset.

Our lease portfolio is substantially comprised of operating leases related to leases of real estate and improvements at our branch locations. From time to time, we may also lease various types of small equipment and vehicles.

Operating lease right-of-use (“ROU”) assets represent our right to use an individual asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide the lessor’s implicit rate, we use our incremental borrowing rate (“IBR”) at the commencement date in determining the present value of lease payments by utilizing a fully collateralized rate for a fully amortizing loan with the same term as the lease.

Lease terms include options to extend the lease when it is reasonably certain those options will be exercised. For leases with terms greater than 12 months, we record the related asset and obligation at the present value of lease payments over the term. Many of our leases include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments when such renewal options and/or termination options are reasonably certain of exercise. We do not separate lease and non-lease components of contracts. Variable lease payments, which represent lease payments that vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the obligation for these payments was incurred.

A ROU asset is subject to the same impairment guidance as assets categorized as plant, property, and equipment. As such, any impairment loss on ROU assets is presented in the same manner as an impairment loss recognized on other long-lived assets.

A lease modification is a change to the terms and conditions of a contract that change the scope or consideration of a lease. For example, a change to the terms and conditions to the contract that adds or terminates the right to use one or more underlying assets, or extends or shortens the contractual lease term, is a modification. Depending on facts and circumstances, a lease modification may be accounted as either: (1) the original lease plus the lease of a separate asset(s) or (2) a modified lease. A lease will be remeasured if there are changes to the lease contract that do not give rise to a separate lease.

See note 11 related to the required lease disclosures.

### *The Company as Lessor*

Our equipment rental business involves rental contracts with customers whereby we are the lessor in the transaction and therefore, such transactions are subject to Topic 842. We account for such rental contracts as operating leases. We recognize revenue from equipment rentals in the period earned, regardless of the timing of billing to customers. A rental contract includes rates for daily, weekly or monthly use, and rental revenues are earned on a daily basis as rental contracts remain outstanding. Because the rental contracts can extend across multiple reporting periods, we record unbilled rental revenues and deferred rental revenues at the end of reporting periods so rental revenues earned is appropriately stated for the periods presented.

## **Deferred Financing Costs and Initial Purchasers’ Discounts**

Deferred financing costs include legal, accounting and other direct costs incurred in connection with the issuance and amendments thereto, of the Company’s debt. These costs are amortized over the terms of the related debt using the straight-line method which approximates amortization using the effective interest method.

Initial purchasers’ discount and bond premium is the differential between the price paid to an issuer for the new issue and the prices (below and above, respectively) at which the securities are initially offered to the investing public. The amortization expense of

deferred financing costs and bond premium and accretion of initial purchasers' discounts are included in interest expense as an overall cost of the related financings. Such costs are presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

### **Reserves for Claims**

We are exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure include: (1) workers compensation claims; (2) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (3) automobile liability claims; and (4) employee health insurance claims. Losses that exceed our deductibles and self-insured retentions are insured through various commercial lines of insurance policies. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. Our methodology for developing self-insurance reserves is based on management estimates. Our estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in our claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, we may be required to increase or decrease our reserve levels. At December 31, 2020, our claims reserves related to workers compensation, general liability and automobile liability, which are included in "Accrued expenses payable and other liabilities" in our consolidated balance sheets, totaled \$7.3 million and our health insurance reserves totaled \$1.5 million. At December 31, 2019, our claims reserves related to workers compensation, general liability and automobile liability totaled \$5.9 million and our health insurance reserves totaled \$1.6 million.

### **Advertising**

Advertising costs are expensed as incurred and totaled \$0.3 million, \$0.6 million and \$0.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

### **Income Taxes**

The Company files a consolidated federal income tax return with its wholly-owned subsidiaries. The Company is a C-Corporation under the provisions of the Internal Revenue Code. We utilize the asset and liability approach to measure deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rate is recognized as income or expense in the period that includes the enactment date of that rate.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax provisions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions in net other income (expense).

Our deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

### **Fair Value of Financial Instruments**

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB fair value measurement guidance established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three broad levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for which little or no market data exists, therefore requiring a company to develop its own assumptions



The carrying value of financial instruments reported in the accompanying consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures as of December 31, 2020 and 2019 are presented in the table below (amounts in thousands).

	December 31, 2020	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 3.5% (Level 3)	\$ 9,615	\$ 8,976
Senior unsecured notes due 2028 with interest computed at 3.875% (Level 2)	1,238,660	1,259,413
	December 31, 2019	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 5.25% (Level 3)	\$ 25,201	\$ 21,615
Senior unsecured notes due 2025 with interest computed at 5.625% (Level 2)	945,566	995,125

At December 31, 2020 and 2019, the fair value of our senior unsecured notes due 2028 and 2025, respectively, were based on quoted bond trading market prices for those notes. For our Level 3 unobservable inputs, we calculate a discount rate for our manufacturing floor plans payable based on the U.S. prime rate plus the applicable margin on our Credit Facility. The discount rate is disclosed in the above table.

During the years ended December 31, 2020 and 2019, there were no transfers of financial assets or liabilities in or out of Level 3 of the fair value hierarchy.

#### *Fair Value Measurements on a Nonrecurring Basis*

Our non-financial assets, such as goodwill, intangible assets and property and equipment, are adjusted to fair value only when an impairment charge is recognized or the underlying investment is sold. Such fair value measurements are based predominately on Level 3 inputs. The results of our 2019 goodwill impairment quantitative test indicated that the respective fair values of the New Equipment Sales and Service Revenues reporting units were less than the carrying value of each reporting unit, resulting in a goodwill impairment totaling \$12.2 million, or \$10.7 million and \$1.5 million for the New Equipment Sales and Service Revenues reporting units, respectively. The results of our first quarter 2020 goodwill impairment quantitative test indicated that the respective fair values of the Equipment Rental Component 2 reporting unit was less than the carrying value of the reporting unit, resulting in a goodwill impairment totaling \$62.0 million for the Equipment Rental Component 2 reporting unit. See above for additional information.

#### **Concentrations of Credit and Supplier Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash deposits and trade accounts receivable. Credit risk can be negatively impacted by adverse changes in the economy or by disruptions in the credit markets.

The Company maintains its cash deposits with established commercial banks. At times, balances may exceed federally insured limits. We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk associated with our cash deposits.

We believe that credit risk with respect to trade accounts receivable is somewhat mitigated by our large number of geographically diverse customers and our credit evaluation procedures. Although generally no collateral is required, when feasible, mechanics' liens are filed and personal guarantees are signed to protect the Company's interests. We maintain reserves for potential losses.

We record trade accounts receivables at sales value and establish specific reserves for certain customer accounts identified as known collection problems due to insolvency, disputes or other collection issues. The amounts of the specific reserves estimated by management are determined by a loss rate model based on delinquency, as further described above in receivables and contract assets and liabilities.

We purchase a significant amount of equipment from the same manufacturers with whom we have distribution agreements. During the year ended December 31, 2020, we purchased approximately 51% from five manufacturers (Grove/Manitowoc, Genie Industries (Terex), JCB, Komatsu, and Takeuchi) providing our rental and sales equipment. We believe that while there are alternative sources of supply for the equipment we purchase in each of the principal product categories, termination of one or more of our

relationships with any of our major suppliers of equipment could have a material adverse effect on our business, financial condition or results of operation if we were unable to obtain adequate or timely rental and sales equipment.

### Income (loss) per Share

Income (loss) per common share for the years ended December 31, 2020, 2019 and 2018 is based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of diluted income (loss) per share. We include all common shares granted under our incentive compensation plan which remain unvested (“restricted common shares”) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (“participating securities”), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period. The number of restricted common shares outstanding during the years ended December 31, 2020, 2019 and 2018 were less than 1% of total outstanding shares for each of the years ended December 31, 2020, 2019 and 2018 and consequently, were immaterial to the basic and diluted EPS calculations. Therefore, use of the two-class method had no impact on our basic and diluted EPS calculations as presented for the years ended December 31, 2020, 2019 and 2018.

The following table sets forth the computation of basic and diluted net income (loss) per common share for the years ended December 31, (amounts in thousands, except per share amounts):

	2020	2019	2018
Basic net income (loss) per share:			
Net income (loss)	\$ (32,667)	\$ 87,211	\$ 76,623
Weighted average number of common shares outstanding	36,067	35,859	35,677
Net income (loss) per common share — basic	<u>\$ (0.91)</u>	<u>\$ 2.43</u>	<u>\$ 2.15</u>
Diluted net income (loss) per share:			
Net income (loss)	\$ (32,667)	\$ 87,211	\$ 76,623
Weighted average number of common shares outstanding	36,067	35,859	35,677
Effect of dilutive securities:			
Effect of dilutive non-vested stock	—	174	226
Weighted average number of common shares outstanding — diluted	36,067	36,033	35,903
Net income (loss) per common share — diluted	<u>\$ (0.91)</u>	<u>\$ 2.42</u>	<u>\$ 2.13</u>
Common shares excluded from the denominator as anti-dilutive:			
Non-vested stock	<u>147</u>	<u>32</u>	<u>43</u>

### Stock-Based Compensation

Stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant).

Our 2016 Stock-Based Incentive Compensation Plan (the “2016 Plan”) is administered by the Compensation Committee of our Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, if any, and other provisions of the award. Under the 2016 Plan, we may offer deferred shares or restricted shares of our common stock and grant options, including both incentive stock options and nonqualified stock options, to purchase shares of our common stock. Shares available for future stock-based payment awards under our 2016 Plan were 1,324,541 shares of common stock as of December 31, 2020.

### Non-vested Stock

From time to time, we issue shares of non-vested stock typically with vesting terms of three years. The following table summarizes our non-vested stock activity for the years ended December 31, 2020 and 2019:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at January 1, 2019	379,559	\$ 25.87
Granted	194,192	\$ 30.20
Vested	(161,615)	\$ 23.79
Forfeited	(34,396)	\$ 22.90
Non-vested stock at December 31, 2019	377,740	\$ 29.26
Granted	364,981	\$ 18.21
Vested	(203,638)	\$ 25.65
Forfeited	(14,207)	\$ 28.11
Non-vested stock at December 31, 2020	524,876	\$ 23.00

As of December 31, 2020, we had unrecognized compensation expense of approximately \$5.9 million related to non-vested stock award payments that we expect to be recognized over a weighted average period of 2.0 years. Stock compensation expense, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations, for the years ended December 31, 2020, 2019 and 2018 was \$4.4 million, \$4.7 million and \$4.2 million, respectively.

### Purchases of Company Common Stock

Purchases of our common stock are accounted for as treasury stock in the accompanying consolidated balance sheets using the cost method. Repurchased stock is included in authorized shares, but is not included in shares outstanding.

### Segment Reporting

We have five reportable segments. We derive our revenues from five principal business activities: (1) equipment rentals; (2) new equipment sales; (3) used equipment sales; (4) parts sales; and (5) repair and maintenance services. These segments are based upon how we allocate resources and assess performance. See note 18 to the consolidated financial statements regarding our segment information.

### Recent Accounting Pronouncements

#### *Pronouncements Not Yet Adopted*

In December 2019, the FASB issued Accounting Standards Update (“ASU”) No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). The guidance removes the following exceptions: 1) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, 2) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, 3) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary and 4) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally, the guidance simplifies the accounting for income taxes by: 1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, 2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, 3) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements (although the entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority), 4) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date and 5) making minor improvements for income tax accounting related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. ASU 2019-12 became effective on January 1, 2021 and is not expected to have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”), which provides optional guidance for a limited time to ease the potential

burden in accounting for or recognizing the effects of reference rate reform, particularly, the risk of cessation of the London Interbank Offered Rate (“LIBOR”) on financial reporting. The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments are elective and are effective upon issuance for all entities through December 31, 2022. The amendments of this ASU should be applied on a prospective basis. We intend to continue to monitor the developments with respect to the planned phase-out of LIBOR after 2021 and work with our lenders to seek to ensure any transition away from LIBOR will have minimal impact on our financial condition. However, we can provide no assurances regarding the impact of the discontinuation of LIBOR as there can be no assurances as to whether such replacement or alternative base rate will be more or less favorable than LIBOR. Our exposure related to the expected cessation of LIBOR is limited to the interest expense we incur on balances outstanding under our Credit Facility. The potential impact from the cessation of LIBOR as a reference rate, as well as the applicability of ASU 2020-04, is not currently estimable.

#### *Recently Adopted Accounting Pronouncements*

#### **Credit Losses**

On January 1, 2020, we adopted Accounting Standards Codification Topic 326, Credit Losses (Topic 326). This standard establishes an impairment model (known as the current expected credit loss (“CECL”) model) that is based on expected losses rather than incurred losses. Under the new guidance, we recognize an allowance for our estimate of expected credit losses over the entire contractual term of our receivables from the date of initial recognition of the financial instrument. Measurement of expected credit losses are based on relevant forecasts that affect collectability. Topic 326 applies to trade receivables from certain revenue transactions including receivables from equipment sales, parts and service sales. Under Topic 606 (Revenue from Contracts with Customers), revenue is recognized when, among other criteria, it is probable that the entity will collect the consideration to which it is entitled for goods or services transferred to a customer. At the point that these trade receivables are recorded, they become subject to the CECL model and estimates of expected credit losses over their contractual life are recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. The adoption of Topic 326 did not have a material impact on our consolidated financial statements and related disclosures or our existing internal controls because our non-rental accounts receivable are of short duration and there is not a material difference between incurred losses and expected losses.

#### **Fair Value**

On January 1, 2020, we adopted ASU No. 2018-13, Fair Value Measurement - Disclosure Framework. ASU 2018-13 modifies the disclosure requirements for fair value measurements. Entities are no longer required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies are required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The adoption of ASU 2018-13 did not have a material impact on our consolidated financial statements and footnotes.

### **(3) Acquisitions**

#### *2019 Acquisitions*

#### **Cobra Equipment Rentals, LLC (dba “We-Rent-It”)**

Effective February 1, 2019, we completed the acquisition of We-Rent-It (“WRI”), an equipment rental company with six branches located in central Texas. The acquisition expands our presence in the surrounding market.

The aggregate consideration paid to the owners of WRI was approximately \$107.9 million. The acquisition and related fees and expenses were funded from borrowings under our Credit Facility. The following table summarizes the fair value of the assets acquired and liabilities assumed as of the acquisition date. The final closing statement was settled during the first quarter of 2020, resulting in a \$0.6 million decrease in the total consideration paid and is reflected in the amounts presented in the table below.

	<b>\$'s in thousands</b>
Cash	\$ 1,745
Accounts receivable	5,119
Inventory	731
Prepaid expenses and other assets	544
Rental equipment	51,747
Property and equipment	3,207
Other assets	21
Intangible assets (1)	8,700
Total identifiable assets acquired	<u>71,814</u>
Accounts payable	(115)
Accrued expenses payable and other liabilities	(991)
Total liabilities assumed	<u>(1,106)</u>
Net identifiable assets acquired	70,708
Goodwill (2)	37,186
Net assets acquired	<u>\$ 107,894</u>

(1) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	<b>Fair Value (amounts in thousands)</b>	<b>Life (years)</b>
Customer relationships	\$ 8,500	10
Tradenames	200	1
	<u>\$ 8,700</u>	

(2) We have allocated the \$37.2 million goodwill among our six goodwill reporting units as follows (amounts in thousands):

Rental Component 1	\$ 14,679
Rental Component 2	19,458
New Equipment	254
Used Equipment	492
Parts	2,012
Service	291
	<u>\$ 37,186</u>

The level of goodwill that resulted from the WRI acquisition is primarily reflective of WRI's going-concern value, the value of WRI's assembled workforce, new customer relationships expected to arise from the acquisition and expected synergies from combining operations. We currently expect approximately \$36.7 million of the \$37.2 million of goodwill recognized to be deductible for income tax purposes.

Total WRI acquisition costs were \$0.4 million. Since our acquisition of WRI on February 1, 2019, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired WRI locations, as well as branch consolidations among the WRI branches acquired and H&E branches have occurred, and therefore, it is impractical to reasonably estimate the amount of WRI revenues and earnings since the acquisition date.

**Contractors Equipment Center (“CEC”)**

Effective January 1, 2018, we completed the acquisition of CEC, a non-residential construction focused equipment rental company with three branches located in the greater Denver, Colorado area. The acquisition significantly expands our presence in the Denver area and surrounding markets.

The aggregate consideration paid to the pre-acquisition owners of CEC was approximately \$132.4 million. The acquisition and related fees and expenses were funded through available cash. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	<u>\$'s in thousands</u>
Cash	\$ 1,244
Accounts receivable	7,583
Inventory	504
Prepaid expenses and other assets	324
Rental equipment	55,342
Property and equipment	2,700
Intangible assets (1)	21,500
Total identifiable assets acquired	89,197
Accounts payable	(1,023)
Accrued expenses payable and other liabilities	(876)
Total liabilities assumed	(1,899)
Net identifiable assets acquired	87,298
Goodwill (2)	45,092
Net assets acquired	<u>\$ 132,390</u>

- (1) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	<u>Fair Value (amounts in thousands)</u>	<u>Life (years)</u>
Customer relationships	\$ 21,000	10
Tradenames	300	1
Leasehold interests	200	10
	<u>\$ 21,500</u>	

- (2) We have allocated the \$45.1 million goodwill among our six goodwill reporting units as follows (amounts in thousands):

Rental Component 1	\$ 25,233
Rental Component 2	18,391
New Equipment	217
Used Equipment	632
Parts	379
Service	240
	<u>\$ 45,092</u>

The level of goodwill that resulted from the CEC acquisition is primarily reflective of CEC’s going-concern value, the value of CEC’s assembled workforce, new customer relationships expected to arise from the acquisition and expected synergies from combining operations. We currently expect the goodwill recognized to be 100% deductible for income tax purposes.

Total CEC acquisition costs were \$1.0 million. Since our acquisition of CEC on January 1, 2018, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired CEC locations, as well as branch consolidations

among the CEC branches acquired and H&E branches have occurred, and it is impractical to reasonably estimate the amount of CEC revenues and earnings since the acquisition date.

### Rental, LLC (dba "Rental Inc.")

Effective April 1, 2018, we completed the acquisition of Rental Inc., a non-residential equipment rental and distribution company with five branches located in Alabama, Florida and Western Georgia. The acquisition expands our presence in the surrounding market.

The aggregate consideration paid to the owners of Rental Inc. was approximately \$68.6 million. The acquisition and related fees and expenses were funded through available cash and from borrowings under our Credit Facility. The following table summarizes the fair value of the assets acquired and liabilities assumed as of the acquisition date.

	<b>\$'s in thousands</b>
Cash	\$ 260
Accounts receivable	2,873
Inventory	5,324
Prepaid expenses and other assets	47
Rental equipment	22,578
Property and equipment	1,935
Intangible assets (1)	10,200
Total identifiable assets acquired	43,217
Accounts payable	(439)
Manufacturer flooring plans payable	(3,293)
Accrued expenses payable and other liabilities	(469)
Total liabilities assumed	(4,201)
Net identifiable assets acquired	39,016
Goodwill (2)	29,554
Net assets acquired	\$ 68,570

- (1) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	<b>Fair Value (amounts in thousands)</b>	<b>Life (years)</b>
Customer relationships	\$ 10,000	10
Tradenames	200	1
	\$ 10,200	

- (2) We have allocated the \$29.6 million goodwill among our six goodwill reporting units as follows (amounts in thousands):

Rental Component 1	\$ 9,064
Rental Component 2	5,445
New Equipment	10,217
Used Equipment	1,692
Parts	2,171
Service	965
	\$ 29,554

Included in the total goodwill amount of \$29.6 million is approximately \$3.4 million of accrued purchase price consideration to be paid to the sellers pursuant to the terms of the purchase agreement among the parties named thereto. The level of goodwill that resulted from the Rental Inc. acquisition is primarily reflective of Rental Inc.'s going-concern value, the value of Rental Inc.'s assembled workforce, new customer relationships expected to arise from the acquisition and expected synergies from combining operations. We currently expect the goodwill recognized to be 100% deductible for income tax purposes.

Total Rental Inc. acquisition costs were \$0.3 million. Since our acquisition of Rental Inc. on April 1, 2018, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired Rental Inc. locations, and it is impractical to reasonably estimate the amount of Rental Inc. revenues and earnings since the acquisition date.

#### *Pro forma financial information*

We completed the CEC acquisition effective January 1, 2018. Therefore, the operating results of CEC are included in our reported consolidated statements of income for the full year ended December 31, 2018. We completed the Rental Inc. acquisition effective April 1, 2018. Therefore, our reported consolidated statements of income for the year ended December 31, 2018 do not include Rental Inc. for the period from January 1, 2018 through March 31, 2018. We completed the WRI acquisition on February 1, 2019. Therefore, our reported consolidated statements for the year ended December 31, 2019 do not include WRI for the month of January 2019.

Pursuant to Topic 805, *Business Combinations*, pro forma disclosures should be repeated whenever the year or interim period of the acquisition is presented. The pro forma information below gives effect to the CEC and Rental Inc. acquisitions as if they had been completed on January 1, 2017 (the “pro forma acquisition date”). The pro forma information is not necessarily indicative of our results of operations had the acquisitions been completed on the above date, nor is it necessarily indicative of our future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisitions, nor does it reflect additional revenue opportunities following the acquisitions. The unaudited tables below present unaudited pro forma consolidated statements of income information for the year December 31, 2017 as if CEC and Rental Inc. were included in our consolidated results for the entire period presented.

	(amounts in thousands)			
	Year Ended December 31, 2017			
	H&E(1)	CEC	Rental Inc.	Total
Total revenues	\$ 1,030,019	\$ 36,790	\$ 34,942	\$ 1,101,751
Pretax income	59,344	3,043	7,267	69,654
<i>Pro forma adjustments to pretax income:</i>				
Impact of fair value mark-ups/useful life changes on depreciation (2)	—	(3,575)	(2,794)	(6,369)
Intangible asset amortization (3)	—	(2,420)	(1,200)	(3,620)
Interest expense (4)	—	—	(1,609)	(1,609)
Elimination of merger related costs	788	4,497	—	5,285
Elimination of historic interest expense (5)	—	1,966	382	2,348
Pro forma pretax income	60,132	3,511	2,046	65,689
Income tax expense	(50,511)	(2,949)	(1,719)	(55,179)
Net income	\$ 110,643	\$ 6,460	\$ 3,765	\$ 120,868
Net income per share – basic (6)	\$ 3.12	\$ 0.18	\$ 0.11	\$ 3.40
Net income per share – diluted (6)	\$ 3.10	\$ 0.18	\$ 0.11	\$ 3.39

- (1) Amounts presented above for “H&E” are derived from the Company’s consolidated statement of income from our Annual Report on Form 10-K for the year ended December 31, 2017.
- (2) Depreciation of rental equipment and non-rental equipment were adjusted for the fair value markups, and the changes in useful lives and salvage values of the equipment acquired in the acquisitions.
- (3) Represents the amortization of the intangible assets acquired in the acquisitions.
- (4) A portion of the consideration paid for Rental Inc. was funded with borrowings from our Credit Facility. Interest expense was adjusted to reflect the additional debt resulting from such acquisition.
- (5) Represents the elimination of historic debt of CEC and Rental Inc. that is not part of the combined entity.
- (6) Because of the method used in calculating per share data, the summation of entities may not necessarily total to the per share data computed for the total company due to rounding.

The pro forma information below gives effect to the Rental Inc. and WRI acquisitions as if they had been completed on January 1, 2018 (the “pro forma acquisition date”). The pro forma information is not necessarily indicative of our results of operations had the acquisitions been completed on the above date, nor is it necessarily indicative of our future results. The pro forma information does



not reflect any cost savings from operating efficiencies or synergies that could result from the acquisitions, nor does it reflect additional revenue opportunities following the acquisitions. The unaudited tables below present unaudited pro forma consolidated statements of income information for the year December 31, 2018 as if Rental Inc. and WRI were included in our consolidated results for the entire period presented.

	(amounts in thousands, except per share data)			
	Year Ended December 31, 2018			
	H&E(1)	Rental Inc.(7)	We-Rent-It	Total
Total revenues	\$ 1,238,961	\$ 7,408	\$ 36,002	\$ 1,282,371
Pretax income	104,663	1,020	6,892	112,575
Pro forma adjustments to pretax income:				
Impact of fair value mark-ups/useful life changes on depreciation (2)	—	(749)	(4,452)	(5,201)
Intangible asset amortization (3)	—	(300)	(1,050)	(1,350)
Interest expense (4)	—	(480)	(5,664)	(6,144)
Elimination of historic interest expense (5)	—	82	517	599
Pro forma pretax income (loss)	104,663	(427)	(3,757)	100,479
Income tax expense (benefit)	28,040	(114)	(973)	26,953
Net income (loss)	\$ 76,623	\$ (313)	\$ (2,784)	\$ 73,526
Net income (loss) per share – basic (6)	\$ 2.15	\$ (0.01)	\$ (0.08)	\$ 2.05
Net income (loss) per share – diluted (6)	\$ 2.13	\$ (0.01)	\$ (0.08)	\$ 2.04

- (1) Amounts presented above for “H&E” are derived from the Company’s consolidated statement of income in this Annual Report on Form 10-K for the year ended December 31, 2018 and includes actual results for CEC for the full twelve months ended December 31, 2018 and actual results for Rental Inc. for the period April 1, 2018 through December 31, 2018.
- (2) Depreciation of rental equipment and non-rental equipment were adjusted for the fair value markups, and the changes in useful lives and salvage values of the equipment acquired in the acquisitions.
- (3) Represents the amortization of the intangible assets acquired in the acquisitions.
- (4) Interest expense was adjusted to reflect the additional debt resulting from the acquisition.
- (5) Represents the elimination of historic debt of Rental Inc. and WRI that is not part of the combined entity.
- (6) Because of the method used in calculating per share data, the summation of entities may not necessarily total to the per share data computed for the total company due to rounding.
- (7) Represents Rental Inc. pro forma operating results for the three month period ended March 31, 2018. We completed the Rental Inc. acquisition effective April 1, 2018.

#### (4) Receivables

Receivables consisted of the following at December 31, (amounts in thousands):

	2020	2019
Trade receivables	\$ 175,285	\$ 186,472
Unbilled rental revenue	7,583	9,529
Income tax receivables	704	1,405
Other	27	34
	183,599	197,440
Less allowance for doubtful accounts	(4,741)	(5,236)
Total receivables, net	\$ 178,858	\$ 192,204

**(5) Inventories**

Inventories consisted of the following at December 31, (amounts in thousands):

	2020	2019
New equipment	\$ 57,612	\$ 65,549
Used equipment	803	1,993
Parts, supplies and other	14,073	17,936
Total inventories, net	<u>\$ 72,488</u>	<u>\$ 85,478</u>

The above amounts are presented net of reserves for inventory obsolescence at December 31, 2020 and 2019 totaling approximately \$0.4 million and \$0.3 million, respectively.

**(6) Property and Equipment**

Net property and equipment consisted of the following at December 31, (amounts in thousands):

	2020	2019
Land	\$ 6,991	\$ 7,597
Transportation equipment	124,790	130,099
Building and leasehold improvements	68,490	69,031
Office and computer equipment	52,614	53,597
Machinery and equipment	19,366	18,732
Construction in progress	3,292	8,290
	<u>275,543</u>	<u>287,346</u>
Less accumulated depreciation and amortization	(158,803)	(156,782)
Total net property and equipment	<u>\$ 116,740</u>	<u>\$ 130,564</u>

Total depreciation and amortization on property and equipment was \$29.4 million, \$28.4 million and \$24.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

**(7) Manufacturer Flooring Plans Payable**

Manufacturer flooring plans payable are financing arrangements for inventory and rental equipment. The interest cost incurred on the manufacturer flooring plans ranged from 0% to the prime rate (3.25% at December 31, 2020) plus an applicable margin at December 31, 2020. Certain manufacturer flooring plans provide for a one to twelve-month reduced interest rate term or a deferred payment period. We recognize interest expense based on the effective interest method. We make payments in accordance with the original terms of the financing agreements. However, we routinely sell equipment that is financed under manufacturer flooring plans prior to the original maturity date of the financing agreement. The related manufacturer flooring plan payable is then paid at the time the equipment being financed is sold. The manufacturer flooring plans payable are secured by the equipment being financed.

Maturities (based on original financing terms) of the manufacturer flooring plans payable as of December 31, 2020 for the following years ending December 31 until paid are as follows (amounts in thousands):

2021	\$ 6,774
2022	2,841
Total	<u>\$ 9,615</u>

## (8) Accrued Expenses Payable and Other Liabilities

Accrued expenses payable and other liabilities consisted of the following at December 31, (amounts in thousands):

	2020	2019
Payroll and related liabilities	\$ 32,096	\$ 30,903
Sales, use and property taxes	11,036	11,042
Accrued interest	2,420	18,804
Accrued insurance	6,203	5,837
Deferred revenue	4,422	4,038
Other	11,113	7,758
Total accrued expenses payable and other liabilities	<u>\$ 67,290</u>	<u>\$ 78,382</u>

## (9) Senior Unsecured Notes

On December 14, 2020, we completed an offering of \$1,250 million aggregate principal amount of 3.875% senior notes due 2028 (the “New Notes”) and the settlement of a cash tender offer (the “Tender Offer”) with respect to our previously outstanding 5.625% senior notes due 2025 (the “Old Notes”). The New Notes were sold in a private placement pursuant to a purchase agreement, dated November 30, 2020, by and among the Company, certain subsidiary guarantors and BofA Securities, Inc. There are no registration rights associated with the New Notes or the subsidiary guarantees.

The New Notes were issued at par and require semiannual interest payments on June 15<sup>th</sup> and December 15<sup>th</sup> of each year, commencing on June 15, 2021. No principal payments are due until maturity (December 15, 2028).

The New Notes were issued under an indenture, dated as of December 14, 2020, by and among the Company, the subsidiary guarantors named therein, and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Indenture”). The Company may redeem some or all of the New Notes at any time prior to December 15, 2023 by paying a “make-whole” premium, plus accrued and unpaid interest, if any, to the date of redemption. At any time prior to December 15, 2023, the Company may use the net proceeds of certain equity offerings to redeem up to 40% of the principal amount of the New Notes at a redemption price equal to 103.875% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date; provided that at least 60% of the aggregate principal amount of such New Notes originally issued remains outstanding immediately following such redemption and such redemption occurs within 90 days of such equity offering. Subsequent to December 15, 2023, the New Notes may be redeemed pursuant to a declining schedule of redemption prices set forth in the Indenture.

Net proceeds, after deducting \$11.4 million of estimated offering expenses, from the sale of the New Notes totaled approximately \$1,238.6 million. We used a portion of the net proceeds from the sale of the New Notes to repurchase \$553.6 million of aggregate principal amount of the Old Notes in early settlement of the Tender Offer, which the Company launched on November 30, 2020. Holders who tendered their Old Notes prior to the early tender deadline of December 14, 2020, received \$1,043.75 per \$1,000 principal amount of Old Notes tendered, plus accrued and unpaid interest up to, but not including, the payment date of December 16, 2020. Effective as of December 16, 2020, we (i) provided notice of the redemption of all remaining Old Notes that were not validly tendered in the Tender Offer at the expiration time and (ii) satisfied and discharged the indenture governing the Old Notes in accordance with its terms. On December 30, 2020, we redeemed the remaining \$396.4 million principal amount outstanding of the Old Notes at a redemption price equal to 104.2188% of the principal amount thereof, plus accrued and unpaid interest up to, but not including, the date of redemption.

In connection with the above transactions, we recorded a one-time loss on the early extinguishment of debt of approximately \$44.6 million, or approximately \$31.3 million after-tax, reflecting payment of \$24.2 million of tender premiums and \$16.7 million of premiums in accordance with the indenture governing the Old Notes to redeem the Old Notes that remained outstanding following completion of the Tender Offer, combined with the write-off of approximately \$7.2 million of unaccreted note discount, \$5.0 million of unamortized note premium and \$1.5 million of other financing costs related to the Old Notes. Additional transaction costs incurred in connection with the offering of the New Notes totaled approximately \$11.4 million and are presented as a direct deduction from the face amount of the related liability in our consolidated balance sheets.

The New Notes are senior unsecured obligations of the Company and rank equally in right of payment to all of the Company’s existing and future senior indebtedness and rank senior to any of the Company’s subordinated indebtedness. The New Notes are unconditionally guaranteed on a senior unsecured basis by all of the Company’s current and future significant domestic subsidiaries (the “Guarantors”). In addition, the New Notes are effectively subordinated to all of the Company’s and the guarantors’ existing and future secured indebtedness, including the Company’s existing senior secured credit facility, to the extent of the value of the assets securing such indebtedness, and are structurally subordinated to all of the liabilities and preferred stock of any of the Company’s subsidiaries that do not guarantee the New Notes.

If we experience a change of control, we will be required to offer to purchase the New Notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of repurchase.

The indenture governing the New Notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional debt; (ii) pay dividends or make distributions; (iii) make investments; (iv) repurchase stock; (v) create liens; (vi) enter into transactions with affiliates; (vii) merge or consolidate; and (viii) transfer and sell assets. Each of the covenants is subject to exceptions and qualifications. As of December 31, 2020, we were in compliance with these covenants.

The following table reconciles our Senior Unsecured Notes to our Consolidated Balance Sheets (amounts in thousands):

Balance at December 31, 2018	\$	944,780
Accretion of discount through December 31, 2019		1,539
Amortization of note premium through December 31, 2019		(1,062)
Amortization of deferred financing costs through December 31, 2019		309
Balance at December 31, 2019	\$	945,566
Accretion of discount on Old Notes through December 14, 2020		1,466
Amortization of note premium on Old Notes through December 14, 2020		(1,011)
Amortization of deferred financing costs on Old Notes through December 14, 2020		293
Aggregate principal amount paid on Old Notes		(950,000)
Writeoff of unaccreted discount on Old Notes		7,225
Writeoff of unamortized premium on Old Notes		(4,988)
Writeoff of deferred financing costs on Old Notes		1,449
Aggregate principal amount issued on New Notes		1,250,000
Notes discount and deferred transaction costs on New Notes		(11,404)
Accretion of discount on New Notes from December 14, 2020 through December 31, 2020		53
Amortization of deferred financing costs on New Notes from December 14, 2020 through December 31, 2020		11
Balance at December 31, 2020	\$	<u>1,238,660</u>

#### (10) Senior Secured Credit Facility

We and our subsidiaries are parties to a \$750.0 million Credit Facility with Wells Fargo Capital Finance, LLC as administrative agent, and the lenders named therein.

On December 22, 2017, we amended, extended and restated the Credit Facility by entering into the Fifth Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), LLC, the other credit parties named therein, the lenders named therein, Wells Fargo Capital Finance, LLC, as administrative agent, the other credit parties named therein, the lenders named therein, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent named therein.

The Amended and Restated Credit Agreement, among other things, (i) extended the maturity date of the credit facility to December 22, 2022, (ii) increased the commitments under the senior secured asset based revolver provided for therein to \$750 million, (iii) increased the uncommitted incremental revolving capacity to \$250 million, (iv) provided that the unused line fee margin will be either 0.375% or 0.25%, depending on the Average Revolver Usage (as defined in the Amended and Restated Credit Agreement) of the borrowers, (v) lowered the interest rate (a) in the case of base rate revolving loans, to the base rate plus an applicable margin of 0.50% to 1.00% depending on the Average Availability (as defined in the Amended and Restated Credit Agreement) and (b) in the case of LIBOR revolving loans, to LIBOR (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 1.50% to 2.00%, depending on the Average Availability, (vi) lowered the margin applicable to the letter of credit fee to between 1.50% and 2.00%, depending on the Average Availability, and (vii) permitted, subject to certain conditions, an unlimited amount of Permitted Acquisitions, Restricted Payments and prepayments of Indebtedness (in each case, as defined in the Amended and Restated Credit Agreement).

On February 1, 2019, we further amended and extended the Amended and Restated Credit Agreement with the First Amendment to the Fifth Amended and Restated Credit Agreement (the "First Amendment") by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), LLC, the other credit parties named therein, the lenders named therein, Wells Fargo Capital Finance, LLC, as administrative agent, the other credit parties named

therein, the lenders named therein, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent named therein.

The First Amendment, among other things, (i) extended the maturity date of the credit facility from December 22, 2022 to January 31, 2024, and (ii) lowered the interest rate in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.25% to 1.75%, depending on the Average Availability and (iii) lowered the interest rate in the case of Base Rate loans, to the Base Rate (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 0.25% to 0.75%, depending on the Average Availability.

As amended, the Amended and Restated Credit Agreement continues to provide for, among other things, a \$30.0 million letter of credit sub-facility, and a guaranty by certain of the Company's subsidiaries of the obligations under the Credit Facility. In addition, the Credit Facility remains secured by substantially all of the assets of the Company and certain of its subsidiaries.

At December 31, 2020, we had no borrowings outstanding under the Credit Facility and could borrow up to \$741.3 million and remain in compliance with the debt covenants under the Company's credit facility.

## (11) Leases

We adopted Topic 842 on January 1, 2019. Because we adopted Topic 842 using the transition method that allowed us to initially apply Topic 842 as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, prior year financial statements were not recast under the new standard and, therefore, those prior year amounts are not presented below.

When available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. Therefore, we estimate our IBR to discount the lease payments based on information available at lease commencement. Our IBR represents a fully collateralized rate for a fully amortizing loan with the same term as the lease.

At December 31, 2020, as disclosed in our consolidated balance sheet, we had net operating lease right-of-use assets of \$162.2 million and net finance lease right-of-use assets of \$0.2 million. Our operating lease liabilities at December 31, 2020 were \$165.9 million and finance lease liabilities were \$0.3 million. The weighted average remaining lease term for operating leases was approximately 9.5 years and the weighted average remaining lease term for finance leases was approximately 1.3 years. The weighted average discount rate for operating and finance leases was approximately 6.6% and 5.9%, respectively.

At December 31, 2019, as disclosed in our consolidated balance sheet, we had net operating lease right-of-use assets of \$156.6 million and net finance lease right-of-use assets of \$0.4 million. Our operating lease liabilities at December 31, 2019 were \$159.3 million and finance lease liabilities were \$0.6 million. The weighted average remaining lease term for operating leases was approximately 10.4 years and the weighted average remaining lease term for finance leases was approximately 2.3 years. The weighted average discount rate for operating and finance leases was approximately 6.8% and 5.9%, respectively.

The table below presents certain information related to lease costs, under Topic 842, for our operating and finance leases for the years ended December 31, (in thousands).

	Classification	Year Ended December 31,	
		2020	2019
Operating lease cost	SG&A expenses	\$ 24,060	\$ 22,293
Finance lease costs			
Amortization of leased assets	SG&A expenses	162	162
Interest on lease liabilities	Interest expense	25	39
Variable lease cost	SG&A expenses	4	523
Sublease income	Other income	(850)	(567)
Total lease cost		\$ 23,401	\$ 22,450

Under Topic 840, rent expense under non-cancelable operating lease agreements for the year ended December 31, 2018 amounted to approximately \$23.1 million.

The table below presents supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019 (in thousands).

	Year Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurements of lease liabilities:		
Operating cash flows for operating leases	\$ 22,952	\$ 21,720
Operating cash flows for finance leases	25	39
Finance cash flows for finance leases	245	232

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities recorded on our consolidated balance sheet as of December 31, 2020 (in thousands).

	Operating Leases	Finance Leases
2021	\$ 24,075	\$ 270
2022	23,900	45
2023	24,000	—
2024	24,251	—
2025	23,430	—
Thereafter	104,064	—
Total minimum lease payments	223,720	315
Less: amount of lease payments representing interest	(57,799)	(10)
Present value of future minimum lease payments	\$ 165,921	\$ 305

The future minimum lease payments of operating leases executed but not commenced as of December 31, 2020 are estimated to be \$0.7 million, \$0.9 million, \$0.9 million, \$0.9 million and \$0.9 million for the years ended December 31, 2021, 2022, 2023, 2024 and 2025, respectively, and \$4.1 million thereafter. It is expected that these leases will commence during the first half of 2021.

## (12) Income Taxes

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law and includes certain income tax provisions relevant to businesses. For the year ended December 31, 2020, the CARES Act did not have a material impact on our provision for income taxes. However, certain provisions of the CARES Act did have a favorable cash impact. Specifically, with respect to the suspension of the 80% of taxable income limitation on net operating loss carryforwards that allows corporate entities to fully utilize net operating loss carryforwards to offset taxable income in 2018, 2019 or 2020, we were able to fully offset 2020 taxable income with net operating loss carryforwards, realizing an estimated total reduction of approximately \$2.6 million of cash taxes paid for the 2020 tax year. Also, taxpayers with alternative minimum tax credits may claim a refund for the entire amount of such credit instead of recovering the credit through refunds over a period of multiple years, as required by the 2017 Tax Cut and Jobs Act, which resulted in a \$1.5 million federal tax refund for the Company, which we received in June 2020. Finally, the non-income tax-based provision allowing an employer to pay its share of Social Security payroll taxes that would otherwise be due from the date of enactment through December 31, 2020 over the following two years resulted in the deferral of \$6.8 million of those payroll taxes, half of which we expect to remit by September 15, 2021 and the remaining amounts in 2022.

Our income tax provision (benefit) for the years ended December 31, 2020, 2019 and 2018, consists of the following (amounts in thousands):

	Current	Deferred	Total
<b>Year ended December 31, 2020:</b>			
U.S. Federal	\$ (761)	\$ (5,467)	\$ (6,228)
State	1,158	(3,649)	(2,491)
	<u>\$ 397</u>	<u>\$ (9,116)</u>	<u>\$ (8,719)</u>
<b>Year ended December 31, 2019:</b>			
U.S. Federal	\$ (761)	\$ 25,134	\$ 24,373
State	2,398	1,879	4,277
	<u>\$ 1,637</u>	<u>\$ 27,013</u>	<u>\$ 28,650</u>
<b>Year ended December 31, 2018:</b>			
U.S. Federal	\$ (1,523)	\$ 23,127	\$ 21,604
State	2,868	3,568	6,436
	<u>\$ 1,345</u>	<u>\$ 26,695</u>	<u>\$ 28,040</u>

Significant components of our deferred income tax assets and liabilities as of December 31 are as follows (amounts in thousands):

	2020	2019
<b>Deferred tax assets:</b>		
Accounts receivable	\$ 1,023	\$ 1,283
Inventories	87	83
Net operating losses	70,459	101,212
AMT and tax credits	7,119	1,334
Sec 263A costs	538	608
Accrued liabilities	4,231	2,970
Deferred compensation	396	1,499
Accrued interest	—	410
Stock-based compensation	201	247
Goodwill and intangible assets	10,682	711
Other assets	214	597
	<u>94,950</u>	<u>110,954</u>
Valuation allowance	(6,396)	—
	<u>88,554</u>	<u>110,954</u>
<b>Deferred tax liabilities:</b>		
Property and equipment	(257,077)	(287,654)
Investments	(1,083)	(1,072)
Goodwill and intangible assets	(1,404)	(2,354)
	<u>(259,564)</u>	<u>(291,080)</u>
<b>Net deferred tax liabilities</b>	<u>\$ (171,010)</u>	<u>\$ (180,126)</u>

The reconciliation between income taxes computed using the statutory federal income tax rate of 21% to the actual income tax expense (benefit) is below for the years ended December 31 (amounts in thousands):

	2020	2019	2018
Computed tax at statutory rates	\$ (8,691)	\$ 24,331	\$ 21,979
Permanent items – other	1,275	1,065	1,021
Permanent items – excess of tax deductible goodwill	(1,473)	—	—
Permanent items – impairment of goodwill	2,168	—	—
State income tax, net of federal tax effect	(8,394)	6,944	5,246
Change in valuation allowance	6,396	(609)	(123)
Change in uncertain tax positions	—	—	(83)
Other – change in deferred state rate	—	(3,081)	—
	<u>\$ (8,719)</u>	<u>\$ 28,650</u>	<u>\$ 28,040</u>

At December 31, 2020, we had available federal net operating loss carry forwards of approximately \$307.7 million, which do not expire. We also had \$0.4 million in general business credit carry forwards at December 31, 2020 that expire in varying amounts from 2026 to 2039, and state income tax credits of \$6.7 million that expire in varying amounts beginning in 2022.

Management has concluded that it is more likely than not that the federal deferred tax assets are fully realizable through future reversals of existing taxable temporary differences and future taxable income. Therefore, a valuation allowance is not required to reduce those deferred tax assets as of December 31, 2020. However, as of December 31, 2020, a valuation allowance of \$6.4 million was recorded for certain state tax credits that are expected to expire prior to utilization.

There is no unrecognized tax benefit for the years ended December 31, 2020 and 2019.

Our U.S. federal tax returns for 2017 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2013 and subsequent years.

## **(13) Commitments and Contingencies**

### **Legal Matters**

From time to time, we are involved in various claims and legal actions arising in the ordinary course of our business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these various matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. As further discussed in Note 2 to these consolidated financial statements, we are exposed to various claims relating to our business, including those for which we retain portions of the losses through the application of deductibles and self-insured retentions, or self-insurance. Losses that exceed our deductibles and self-insured retentions are insured through various commercial lines of insurance policies.

On July 29, 2020, our excess insurance carrier agreed in principle to settle a contingent liability for \$6.0 million related to a Company automobile liability claim, subject to Probate Court approval and the execution of a settlement agreement by the claimant and our excess insurance carrier. Our loss exposure related to this claim is limited to our insurance policy deductible per claim, which is immaterial to our consolidated statement of operations. Pursuant to ASC 450, Contingencies, and other relevant guidance, when the contingency become both probable and estimable, our consolidated balance sheets should reflect a liability for the total amount of estimated claim and an asset for the portion of the claim recoverable through insurance. The gross-up presentation requirement for this claim, net of our insurance policy deductible per claim, is reflected in our consolidated balance sheet and our consolidated statement of cash flows in this Annual Report on Form 10-K for the year ended December 31, 2020. A settlement agreement was executed by all parties in the first quarter of 2021 and the settlement amount was subsequently funded.

We have a contingent liability related to two wage and hour lawsuits in the state of California, *Coleman v. H&E Equipment Services, Inc.* and *Mizar Et Al v. H&E Equipment Services, Inc.*, filed September 4, 2020 and September 28, 2020, respectively, and currently docketed in the U.S. District Court for the Northern District Court of California and in the California Superior Court, County of Alameda, respectively. While the plaintiff's counsel in the *Coleman* case has not yet made a settlement demand in the matter, the parties have agreed to a mediation hearing in June 2021 in an attempt to reach an agreed-upon settlement in the matter. The claims are not subject to any insurance recoveries on our behalf. While it appears that a loss is probable in these matters, we cannot reasonably estimate the ultimate loss, or a range of ultimate losses, at this time. However, we do not currently expect that the ultimate loss in this matter will be material to our consolidated financial statements.

We are also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these various matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

### **Letters of Credit**

The Company had outstanding letters of credit issued under its Credit Facility totaling \$8.7 million and \$7.7 million as of December 31, 2020 and 2019, respectively. The letters of credit expire in May 2021 and are expected to be renewed for similar one-year terms.



#### **(14) Employee Retirement Benefit Plans**

We offer substantially all of our non-union employees' participation in a qualified 401(k)/profit-sharing plan in which we match employee contributions up to predetermined limits for qualified employees as defined by the plan. For the years ended December 31, 2020, 2019 and 2018, we contributed to the plan, net of employee forfeitures, \$3.7 million, \$5.5 million and \$2.5 million, respectively.

We contribute to the Pension Trust Fund Operating Engineers Annuity Plan (EIN: 94-6090764, Plan No. 002), a multi-employer pension plan ("the Plan"), under the terms of a Collective Bargaining Agreement ("CBA") that expires on October 31, 2022, and covers our union-represented employees and requires contribution amounts as set forth within the CBA. The Company contributed approximately \$0.4 million in each of the years ended December 31, 2020, 2019 and 2018. These contributions represent less than five percent of the Plan's total contributions in 2019. As of the date that our 2020 consolidated financial statements were issued, the Plan's Form 5500 was not available for the Plan year ended December 31, 2020.

The risks of participating in a multi-employer pension plan is different from the risks associated with single-employer plans in the following respects.

- a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the Plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c) If we choose to stop participating in the Plan, we may be required to pay the Plan an amount based on the unfunded status of the plan, referred to as withdrawal liability.

The Plan has a yellow zone status as of December 31, 2019, the most recent date for which a status determination has been made. The Pension Protection Act of 2006 ranks the funded status of multi-employer pension plans depending upon a plan's current and projected funding. A plan is in the Red Zone (Critical) if it has a current funded percentage less than 65 percent. A plan is in the Yellow Zone (Endangered) if it has a current funded percentage of less than 80 percent or projects a credit balance deficit within seven years. A plan is in the Green Zone (Healthy) if it has a current funded percentage greater than 80 percent and does not have a projected credit balance deficit within seven years. The zone status is based on the Plan's year-end and is based on information that we received from the Plan and is certified by the Plan's actuary. A funding improvement plan has been implemented by the Plan's trustees. The Company currently has no intention of withdrawing from the Plan.

#### **(15) Deferred Compensation Plans**

In 2001, we assumed, in a business combination, nonqualified employee deferred compensation plans under which certain employees had previously elected to defer a portion of their annual compensation. Upon assumption of the plans, the plans were amended to not allow further participant compensation deferrals. Compensation previously deferred under the plans is payable upon the termination, disability or death of the participants. At December 31, 2020, we have no remaining obligation under the deferred compensation plan. The aggregate deferred compensation payable at December 31, 2019 was approximately \$2.1 million, inclusive of accrued interest of \$1.6 million.

#### **(16) Related Party Transactions**

Mr. John M. Engquist, who has served as the Company's Executive Chairman of the Board for the years ended December 31, 2020 and 2019 and the Company's Chief Executive Officer for the year ended December 31, 2018, has a 48.0% ownership interest in Perkins-McKenzie Insurance Agency, Inc. ("Perkins-McKenzie"), an insurance brokerage firm. Perkins-McKenzie brokers a substantial portion of our commercial liability insurance. As the broker, Perkins-McKenzie receives from our insurance provider as a commission a portion of the premiums we pay to the insurance provider. Commissions paid to Perkins-McKenzie on our behalf as insurance broker totaled approximately \$1.0 million, \$0.9 million and \$0.8 million for the years ended December 31, 2020, 2019 and 2018, respectively.

We purchase products and services from, and sell products and services to, B-C Equipment Sales, Inc., in which Mr. Engquist has a 50% ownership interest. In each of the years ended December 31, 2020, 2019 and 2018, our purchases totaled \$0.1 million, \$0.3 million and \$0.1 million, respectively, and our sales to B-C Equipment Sales, Inc. totaled approximately \$0.2 million, \$0.1 million and \$0.1 million, respectively.

**(17) Summarized Quarterly Financial Data (Unaudited)**

The following is a summary of our unaudited quarterly financial results of operations for the years ended December 31, 2020 and 2019 (amounts in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2020:</b>				
Total revenues	\$ 285,922	\$ 278,336	\$ 289,260	\$ 315,602
Income (loss) from operations <sup>(1)</sup>	(31,911)	26,985	30,979	35,771
Income (loss) before provision (benefit) for income taxes <sup>(1)(2)</sup>	(47,311)	12,055	17,082	(23,212)
Net income (loss) <sup>(1)(2)</sup>	(36,968)	8,815	10,103	(14,617)
Basic net income (loss) per common share <sup>(3)</sup>	\$ (1.03)	\$ 0.24	\$ 0.28	\$ (0.40)
Diluted net income (loss) per common share <sup>(3)</sup>	\$ (1.03)	\$ 0.24	\$ 0.28	\$ (0.40)
<b>2019:</b>				
Total revenues	\$ 313,638	\$ 333,597	\$ 352,997	\$ 348,133
Income from operations <sup>(4)</sup>	35,675	47,673	55,503	41,310
Income before provision for income taxes <sup>(4)</sup>	19,352	30,895	38,760	26,854
Net income <sup>(4)</sup>	14,243	22,614	28,431	21,923
Basic net income per common share <sup>(3)</sup>	\$ 0.40	\$ 0.63	\$ 0.79	\$ 0.61
Diluted net income per common share <sup>(3)</sup>	\$ 0.40	\$ 0.63	\$ 0.79	\$ 0.61

- (1) During the quarter ended March 31, 2020, we recorded non-cash goodwill impairment charge totaling approximately \$62.0 million, or \$47.8 million after-tax, related to the impairment of goodwill. See note 2 to the consolidated financial statements for additional information.
- (2) During the quarter ended December 31, 2020, we recorded a \$44.6 million loss on the early extinguishment of our Old Notes, or \$31.3 million after-tax. See note 9 to the consolidated financial statements for additional information.
- (3) Because of the method used in calculating per share data, the summation of quarterly per share data may not necessarily total to the per share data computed for the entire year due to rounding.
- (4) During the quarter ended December 31, 2019, we recorded non-cash goodwill impairment charge totaling approximately \$12.2 million, or \$9.9 million after-tax, related to the impairment of goodwill. See note 2 to the consolidated financial statements for additional information.

**(18) Segment Information**

We have identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service revenues. These segments are based upon revenue streams and how management of the Company allocates resources and assesses performance. Non-segmented revenues and non-segmented costs relate to equipment support activities including transportation, hauling, parts freight and damage-waiver charges and are not allocated to the other reportable segments. There were no sales between segments for any of the periods presented. Selling, general, and administrative expenses as well as all other income and expense items below gross profit are not generally allocated to our reportable segments.

We do not compile discrete financial information by our segments other than the information presented below. The following table presents information about our reportable segments (amounts in thousands):

	Years Ended December 31,		
	2020	2019	2018
<b>Segment Revenues:</b>			
Equipment rentals	\$ 662,993	\$ 766,354	\$ 627,181
New equipment sales	167,130	239,091	262,948
Used equipment sales	153,152	139,349	125,125
Parts sales	110,594	123,855	120,454
Services revenues	64,253	67,941	63,488
Total segmented revenues	<u>1,158,122</u>	<u>1,336,590</u>	<u>1,199,196</u>
Non-Segmented revenues	10,998	11,775	39,765
Total revenues	<u>\$ 1,169,120</u>	<u>\$ 1,348,365</u>	<u>\$ 1,238,961</u>
<b>Segment Gross Profit:</b>			
Equipment rentals	\$ 263,932	\$ 346,882	\$ 273,759
New equipment sales	18,064	27,719	30,891
Used equipment sales	48,562	47,328	39,073
Parts sales	28,439	32,892	32,191
Services revenues	43,077	45,995	42,160
Total gross profit from segmented revenues	<u>402,074</u>	<u>500,816</u>	<u>418,074</u>
Non-Segmented gross profit (loss)	545	(1,646)	20,460
Total gross profit	<u>\$ 402,619</u>	<u>\$ 499,170</u>	<u>\$ 438,534</u>

	December 31,	
	2020	2019
<b>Segment identified assets:</b>		
Equipment sales	\$ 58,414	\$ 67,542
Equipment rentals	1,028,745	1,217,673
Parts and service	14,074	17,936
Total segment identified assets	<u>1,101,233</u>	<u>1,303,151</u>
Non-Segmented identified assets	879,251	671,459
Total assets	<u>\$ 1,980,484</u>	<u>\$ 1,974,610</u>

The Company operates primarily in the United States and our sales to international customers for the years ended December 31, 2020, 2019 and 2018 were 0.2%, 0.2% and 0.1%, respectively, of total revenues for the periods presented. No one customer accounted for more than 10% of our revenues on an overall or segmented basis for any of the periods presented.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of December 31, 2020, our current disclosure controls and procedures were effective.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

**Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the fourth quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Management’s Report on Internal Control Over Financial Reporting

The management of H&E Equipment Services, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Any evaluation or projection of effectiveness to future periods is also subject to risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020, based on the framework in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, management concluded that, as of December 31, 2020, our internal control over financial reporting was effective based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2020, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Date: February 17, 2021

/s/ Bradley W. Barber

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Bradley W. Barber  
Chief Executive Officer and Director

/s/ Leslie S. Magee

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Leslie S. Magee  
Chief Financial Officer and Secretary

## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
H&E Equipment Services, Inc.  
Baton Rouge, Louisiana

### Opinion on Internal Control over Financial Reporting

We have audited H&E Equipment Services, Inc. (the “Company’s”) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and schedule, and our report dated February 17, 2021, expressed an unqualified opinion thereon.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BDO USA, LLP

Dallas, Texas

February 17, 2021

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference from the Company's definitive proxy statement for use in connection with the 2021 Annual Meeting of Stockholders (the "Proxy Statement") to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2020.

We have adopted a code of conduct that applies to our Chief Executive Officer and Chief Financial Officer. This code of conduct is available on the Company's internet website at [www.he-equipment.com](http://www.he-equipment.com). The information on our website is not a part of or incorporated by reference into this Annual Report on Form 10-K. If the Company makes any amendments to this code other than technical, administrative or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to the Company's Chief Executive Officer or Chief Financial Officer, the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies by posting such information on the Company's internet website at [www.he-equipment.com](http://www.he-equipment.com).

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) Financial Statements

The Company's consolidated financial statements listed below have been filed as part of this report:

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm—Internal Control over Financial Reporting</a>	78
<a href="#">Report of Independent Registered Public Accounting Firm—Consolidated Financial Statements</a>	40
<a href="#">Consolidated Balance Sheets as of December 31, 2020 and 2019</a>	42
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018</a>	43
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018</a>	44
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018</a>	45
<a href="#">Notes to Consolidated Financial Statements</a>	47

(2) Financial Statement Schedule for the years ended December 31, 2020, 2019 and 2018:

<a href="#">Schedule II—Valuation and Qualifying Accounts</a>	83
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All other schedules are omitted because they are not applicable or not required, or the information appears in the Company's consolidated financial statements or notes thereto.

(3) Exhibits: The exhibits to this report are listed in the exhibit index below.

(b) Description of exhibits



## Exhibit Index

- 2.1 [Agreement and Plan of Merger, dated February 2, 2006, among the Company, H&E LLC and Holdings \(incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed February 3, 2006\).](#)
- 2.2 [Agreement and Plan of Merger, dated as of May 15, 2007, by and among H&E Equipment Services, Inc., HE-JWB Acquisition, Inc., J.W. Burress, Incorporated, the Burress Shareholders \(as defined therein\), and Richard S. Dudley, as Burress Shareholders Representative \(as defined therein\) \(incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed on May 17, 2007\).](#)
- 2.3 [Amendment No. 1 to Agreement and Plan of Merger, dated as of August 31, 2007, by and among H&E Equipment Services, Inc., HE-JWB Acquisition, Inc., J.W. Burress, Incorporated, the Burress Shareholders \(as defined therein\), and Richard S. Dudley, as Burress Shareholders Representative \(as defined therein\) \(incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed on September 4, 2007\).](#)
- 2.4 [Acquisition Agreement, dated as of January 4, 2005, among H&E Equipment Services, L.L.C., Eagle Merger Corp., Eagle High Reach Equipment, LLC, Eagle High Reach Equipment, Inc., SBN Eagle LLC, SummitBridge National Investments, LLC and the shareholders of Eagle High Reach Equipment, Inc. \(incorporated by reference to Exhibit 2.1 to Form 8-K of H&E Equipment Services L.L.C. \(File Nos. 333-99587 and 333-99589\), filed January 5, 2006\).](#)
- 3.1 [Amended and Restated Certificate of Incorporation of H&E Equipment Services, Inc. \(incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. \(File No. 333-128996\), filed January 20, 2006\).](#)
- 3.2 [Amended and Restated Bylaws of the Company, dated as of August 29, 2019 \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of H&E Equipment Services Inc. \(File No. 000-51759\), filed on September 4, 2019\).](#)
- 3.3 [Amended and Restated Articles of Organization of Gulf Wide Industries, L.L.C. \(incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.4 [Amended Articles of Organization of Gulf Wide Industries, L.L.C., Changing Its Name To H&E Equipment Services L.L.C. \(incorporated by reference to Exhibit 3.3 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.5 [Amended and Restated Operating Agreement of H&E Equipment Services L.L.C. \(incorporated by reference to Exhibit 3.8 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.6 [Certificate of Incorporation of H&E Finance Corp. \(incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.7 [Certificate of Incorporation of Great Northern Equipment, Inc. \(incorporated by reference to Exhibit 3.5 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.8 [Articles of Incorporation of Williams Bros. Construction, Inc. \(incorporated by reference to Exhibit 3.6 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.9 [Articles of Amendment to Articles of Incorporation of Williams Bros. Construction, Inc. Changing its Name to GNE Investments, Inc. \(incorporated by reference to Exhibit 3.7 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.10 [Bylaws of H&E Finance Corp. \(incorporated by reference to Exhibit 3.9 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.11 [Bylaws of Great Northern Equipment, Inc. \(incorporated by reference to Exhibit 3.10 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.12 [Bylaws of Williams Bros. Construction, Inc. \(incorporated by reference to Exhibit 3.11 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. \(File No. 333-99589\), filed September 13, 2002\).](#)
- 3.13 [Articles of Incorporation of H&E California Holding, Inc., as amended \(incorporated by reference to Exhibit 3.13 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. \(File No. 333-185334\), filed December 7, 2012\).](#)

- 3.14 [Bylaws of H&E California Holding, Inc., as amended \(incorporated by reference to Exhibit 3.14 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. \(File No. 333-185334\), filed December 7, 2012\).](#)
- 3.15 [Certificate of Formation of H&E Equipment Services \(California\), LLC, as amended \(incorporated by reference to Exhibit 3.15 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. \(File No. 333-185334\), filed December 7, 2012\).](#)
- 3.16 [Bylaws of H&E Equipment Services \(California\), LLC \(incorporated by reference to Exhibit 3.16 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. \(File No. 333-185334\), filed December 7, 2012\).](#)
- 3.17 [Amended and Restated Articles of Incorporation of H&E Equipment Services \(Mid-Atlantic\), Inc. \(incorporated by reference to Exhibit 3.17 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. \(File No. 333-185334\), filed December 7, 2012\).](#)
- 3.18 [Bylaws of H&E Equipment Services \(Mid-Atlantic\), Inc. \(incorporated by reference to Exhibit 3.18 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. \(File No. 333-185334\), filed December 7, 2012\).](#)
- 4.1 [Amended and Restated Security Holders Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto \(incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed February 3, 2006\).](#)
- 4.2 [Amended and Restated Investor Rights Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto \(incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed February 3, 2006\).](#)
- 4.3 [Amended and Restated Registration Rights Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto \(incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed February 3, 2006\).](#)
- 4.4 [Form of H&E Equipment Services, Inc. common stock certificate \(incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. \(File No. 333-128996\), filed January 5, 2006\).](#)
- 4.5 [Indenture, dated December 14, 2020, by and among H&E Equipment Services, Inc., the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A, as Trustee, relating to the 3.8750% Senior Notes due 2028 \(incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed December 16, 2020\).](#)
- 4.6 [Description of H&E Equipment Services, Inc.'s Common Stock.\\*](#)
- 10.1 [Fifth Amended and Restated Credit Agreement, dated December 22, 2017, by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services \(California\), LLC and H&E Equipment Services \(Mid-Atlantic\), Inc. \(collectively, the "Borrowers"\), Wells Fargo Capital Finance, LLC, as administrative agent for each member of the Lender Group and the Bank Product Providers, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent party thereto \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed December 27, 2017\).](#)
- 10.2 [First Amendment to the Fifth Amended and Restated Credit Agreement, dated February 1, 2019, by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services \(California\), LLC and H&E Equipment Services \(Mid-Atlantic\), Inc. \(collectively, the "Borrowers"\), Wells Fargo Capital Finance, LLC, as administrative agent for each member of the Lender Group and the Bank Product Providers, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent party thereto \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. \(File No. 000-51759\), filed February 4, 2019\).](#)
- 10.3 [H&E Equipment Services, Inc. 2016 Stock-Based Incentive Compensation Plan \(incorporated by reference to Appendix A to the Definitive Proxy Statement of H&E Equipment Services, Inc. \(File No. 000-51759\), filed April 1, 2016\).†](#)
- 10.4 [Form of Restricted Stock Award Agreement for Officers of H&E Equipment Services, Inc. \(incorporated by reference from Exhibit 10.1 to Form 10-Q of H&E Equipment Services, Inc. \(File No. 000-51759\), filed November 3, 2011\). †](#)
- 10.5 [Restrictive Covenant Agreement, dated August 14, 2015, by and between the Company and Bradley W. Barber \(incorporated by reference to Exhibit 10.1 to Form 10-Q of H&E Equipment Services, Inc. \(File No. 000-51759\), filed October 29, 2015\). †](#)

10.6	<a href="#">Restrictive Covenant Agreement, dated October 12, 2015, by and between the Company and Leslie S. Magee (incorporated by reference to Exhibit 10.12 to Form 10-K of H&amp;E Equipment Services, Inc. (File No. 000-51579), filed on February 25, 2016),†</a>
18.1	<a href="#">BDO Seidman, LLP Preferability Letter (incorporated by reference to Exhibit 18.1 to Form 10-K of H&amp;E Equipment Services, Inc. (File No. 000-51759), filed March 7, 2008).</a>
21.1	<a href="#">Subsidiaries of the registrant.*</a>
23.1	<a href="#">Consent of BDO USA, LLP.*</a>
31.1	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
31.2	<a href="#">Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
32.1	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</a>
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith  
\*\* Furnished herewith  
† Management contract or compensatory plan or arrangement

**Item 16. Form 10-K Summary**

None.

**SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018  
(Amounts in thousands)**

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
<b>Year Ended December 31, 2020</b>				
Allowance for doubtful accounts receivable	\$ 5,236	\$ 4,018	\$ (4,513)	\$ 4,741
Allowance for inventory obsolescence	331	127	(108)	350
	<u>\$ 5,567</u>	<u>\$ 4,145</u>	<u>\$ (4,621)</u>	<u>\$ 5,091</u>
<b>Year Ended December 31, 2019</b>				
Allowance for doubtful accounts receivable	\$ 4,094	\$ 5,793	\$ (4,651)	\$ 5,236
Allowance for inventory obsolescence	368	152	(189)	331
	<u>\$ 4,462</u>	<u>\$ 5,945</u>	<u>\$ (4,840)</u>	<u>\$ 5,567</u>
<b>Year Ended December 31, 2018</b>				
Allowance for doubtful accounts receivable	\$ 3,774	\$ 2,741	\$ (2,421)	\$ 4,094
Allowance for inventory obsolescence	947	122	(701)	368
	<u>\$ 4,721</u>	<u>\$ 2,863</u>	<u>\$ (3,122)</u>	<u>\$ 4,462</u>

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 17, 2021.

H&E EQUIPMENT SERVICES, INC.

By: /s/ Bradley W. Barber  
Bradley W. Barber  
Its: Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
By: <u>/s/ Bradley W. Barber</u> Bradley W. Barber	Chief Executive Officer and Director (Principal Executive Officer)	February 17, 2021
By: <u>/s/ Leslie S. Magee</u> Leslie S. Magee	Chief Financial Officer (Principal Financial and Accounting Officer)	February 17, 2021
By: <u>/s/ John M. Engquist</u> John M. Engquist	Executive Chairman of the Board	February 17, 2021
By: <u>/s/ Paul N. Arnold</u> Paul N. Arnold	Director	February 17, 2021
By: <u>/s/ Gary W. Bagley</u> Gary W. Bagley	Director	February 17, 2021
By: <u>/s/ Bruce C. Bruckmann</u> Bruce C. Bruckmann	Director	February 17, 2021
By: <u>/s/ Patrick L. Edsell</u> Patrick L. Edsell	Director	February 17, 2021
By: <u>/s/ Thomas J. Galligan III</u> Thomas J. Galligan III	Director	February 17, 2021
By: <u>/s/ Lawrence C. Karlson</u> Lawrence C. Karlson	Director	February 17, 2021
By: <u>/s/ John T. Sawyer</u> John T. Sawyer	Director	February 17, 2021
By: <u>/s/ Mary Pat Thompson</u> Mary Pat Thompson	Director	February 17, 2021

## Description of H&E Equipment Services, Inc.'s Common Stock

The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation (the "certificate of incorporation") and our Amended and Restated Bylaws (the "bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.8 is a part. We encourage you to read our certificate of incorporation, our bylaws and the applicable provisions of Delaware General Corporation Law for additional information.

### General

We are authorized to issue up to 175,000,000 shares of common stock, par value \$0.01 per share, and 25,000,000 shares of preferred stock, par value \$0.01 per share.

### Voting

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors.

### Dividends

Subject to preferences that may be granted to any outstanding shares of preferred stock, holders of our common stock are entitled to receive ratably those dividends as may be declared by our board of directors out of funds legally available therefore, as well as any other distributions made to our stockholders.

### Rights Upon Liquidation

In the event of our liquidation, dissolution, or winding up, holders of our common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities and distribute the liquidation preference to holders of our outstanding shares of preferred stock.

### Preemptive or Conversion Rights

Holders of our common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to our common stock.

### Preferred Stock

Our board of directors has the authority, without further action by our stockholders, to issue our preferred stock in one or more series and to fix the rights, preferences, privileges, and restrictions thereof. These rights, preferences, and privileges include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms, and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of our common stock. The issuance of our preferred stock could adversely affect the voting power of our holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of our preferred stock could have the effect of delaying, deferring, or preventing a change in our control.

### Registration Rights

In connection with certain transactions involving us and our predecessors (the "Prior Transactions"), a predecessor company ("H&E Holdings") entered into a registration rights agreement with affiliates of Bruckmann, Rosser, Sherrill & Co., Inc. ("BRS"), certain members of management and certain other entities. In connection with our initial public offering in February 2006, the parties amended and restated the registration rights agreement to provide that the registration rights agreement thereafter applies to our common stock held by the parties.

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In connection with the Prior Transactions, H&E Holdings entered into an investor rights agreement with affiliates of BRS, Credit Suisse First Boston Corporation and other members of H&E Holdings (the "Investors"). In connection with our initial public offering in February 2006, the parties amended and restated the investor rights agreement to, among other things, provide that the investor rights agreement thereafter applies to our common stock held by the parties. Pursuant to the terms of the restated investor rights agreement, subject to certain conditions, Investors holding 33% or more of the equity interests issued to the Investors on the date of the investor rights agreement (or successor securities) have the right on any two occasions to require us to register all or part of such equity interests under the Securities Act of 1933, as amended (the "Securities Act"), at our expense. In addition, the Investors are entitled to request the inclusion of any equity interests subject to the investor rights agreement in any registration statement at our expense whenever we propose to register any of our equity interests under the Securities Act. In connection with all such registrations, we agreed to indemnify the Investors against certain liabilities, including liabilities under the Securities Act.

### **Anti-takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws**

Certain provisions of our certificate of incorporation and bylaws could have anti-takeover effects. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our corporate policies formulated by our board of directors. In addition, these provisions also are intended to ensure that our board of directors will have sufficient time to act in what our board of directors believes to be in the best interests of us and our stockholders. These provisions also are designed to reduce our vulnerability to an unsolicited proposal for our takeover that does not contemplate the acquisition of all of our outstanding shares or an unsolicited proposal for the restructuring or sale of all or part of us. The provisions are also intended to discourage certain tactics that may be used in proxy fights. However, these provisions could delay or frustrate the removal of incumbent directors or the assumption of control of us by the holder of a large block of common stock, and could also discourage or make more difficult a merger, tender offer, or proxy contest, even if such event would be favorable to the interest of our stockholders.

*Written Consent of Stockholders.* Our certificate of incorporation and bylaws provide that any action required or permitted to be taken by our stockholders must be taken at a duly called meeting of stockholders and not by written consent. Elimination of actions by written consent of stockholders may lengthen the amount of time required to take stockholder actions because actions by written consent are not subject to the minimum notice requirement of a stockholder's meeting. The elimination of actions by written consent of the stockholders may deter hostile takeover attempts. Without the availability of actions by written consent of the stockholders, a holder controlling a majority of our capital stock would not be able to amend our bylaws without holding a stockholders meeting. To hold such a meeting, the holder would have to obtain the consent of a majority of the board of directors, the chairman of the board or the chief executive officer to call a stockholders' meeting and satisfy the applicable notice provisions set forth in our bylaws.

*Amendment of the Bylaws.* Under Delaware law, the power to adopt, amend or repeal a corporation's bylaws is conferred upon the stockholders. A corporation may, however, in its certificate of incorporation also confer upon the board of directors the power to adopt, amend or repeal its bylaws. Our certificate of incorporation and bylaws grant our board the power to alter, amend and repeal our bylaws, or adopt new bylaws, on the affirmative vote of a majority of the directors then in office. Our stockholders may alter, amend or repeal our bylaws, or adopt new bylaws, but only at a regular or special meeting of stockholders by an affirmative vote of not less than 66<sup>2</sup>/<sub>3</sub>% in voting power of all outstanding shares of our capital stock entitled to vote generally at an election of directors, voting together as a single class.

*Amendment of Certificate of Incorporation.* The provisions of our certificate of incorporation that could have anti-takeover effects as described above are subject to amendment, alteration, repeal, or rescission either by (i) our board of directors without the assent or vote of our stockholders or (ii) the affirmative vote of not less than 66<sup>2</sup>/<sub>3</sub>% in voting power of all outstanding shares of our capital stock entitled to vote generally at an election of directors, voting together as a single class, depending on the subject provision. This requirement makes it more difficult for stockholders to make changes to the provisions in our certificate of incorporation which could have anti-takeover effects by allowing the holders of a minority of the voting securities to prevent the holders of a majority of voting securities from amending these provisions.

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*Special Meetings of Stockholders.* Our bylaws preclude our stockholders from calling special meetings of stockholders or requiring the board of directors or any officer to call such a meeting or from proposing business at such a meeting. Our bylaws provide that only a majority of our board of directors, the chairman of the board, the chief executive officer or the president can call a special meeting of stockholders. Because our stockholders do not have the right to call a special meeting, a stockholder cannot force stockholder consideration of a proposal over the opposition of the board of directors by calling a special meeting of stockholders prior to the time a majority of the board of directors, the chairman of the board, the chief executive officer or the president believes the matter should be considered or until the next annual meeting provided that the requestor met the notice requirements. The restriction on the ability of stockholders to call a special meeting means that a proposal to replace board members also can be delayed until the next annual meeting.

*Undesignated Preferred Stock.* The authority that our board of directors possess to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of us through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Our board of directors may be able to issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock.

*Other Limitations on Stockholder Actions.* Advance notice is required for stockholders to nominate directors or to submit proposals for consideration at meetings of stockholders. This provision may have the effect of precluding the conduct of certain business at a meeting if the proper notice is not provided and may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our Company. In addition, the ability of our stockholders to remove directors without cause is precluded. Also, the certificate of incorporation does not permit cumulative voting in the election of directors. Instead, any election of directors will be decided by a plurality of the votes cast (in person or by proxy) by holders of our common stock.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for shares of our common stock is Computershare Trust Company, N.A.

#### **Listing**

Our common stock is listed on The Nasdaq Global Select Market under the symbol "HEES."

## Table of Subsidiaries of Registrant

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
H&E Finance Corp.	DE
GNE Investments, Inc.	WA
Great Northern Equipment, Inc.	MT
H&E California Holding, Inc.	CA
H&E Equipment Services (California), LLC	DE
H&E Equipment Services (Mid-Atlantic), Inc.	VA



Consent of Independent Registered Public Accounting Firm

H&E Equipment Services, Inc.  
Baton Rouge, Louisiana

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-212802) of H&E Equipment Services, Inc. and subsidiaries of our reports dated February 17, 2021, relating to the consolidated financial statements and financial statement schedule and the effectiveness of H&E Equipment Services, Inc.'s internal control over financial reporting, which appears in this Form 10-K.

BDO USA, LLP  
Dallas, Texas

February 17, 2021

**Certification of Chief Executive Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bradley W. Barber, certify that:

1. I have reviewed this annual report on Form 10-K of H&E Equipment Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 17, 2021

By: /s/ Bradley W. Barber

Bradley W. Barber  
Chief Executive Officer & Director  
(Principal Executive Officer)

**Certification of Chief Financial Officer Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Leslie S. Magee, certify that:

1. I have reviewed this annual report on Form 10-K of H&E Equipment Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 17, 2021

By: /s/ Leslie S. Magee

Leslie S. Magee  
Chief Financial Officer & Secretary  
(Principal Financial Officer)

**Certifications of the Chief Executive Officer and  
Chief Financial Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of H&E Equipment Services, Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley W. Barber, Chief Executive Officer and Director of the Company, and Leslie S. Magee, Chief Financial Officer and Secretary of the Company, each certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 17, 2021

By: /s/ Bradley W. Barber

Bradley W. Barber  
Chief Executive Officer & Director  
(Principal Executive Officer)

Dated: February 17, 2021

By: /s/ Leslie S. Magee

Leslie S. Magee  
Chief Financial Officer & Secretary  
(Principal Financial Officer)