

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2020**

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**
(Address of Principal Executive Offices)

81-0553291
(I.R.S. Employer
Identification No.)

70809
(ZIP Code)

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

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 |

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 Accelerated Filer Non-Accelerated Filer
Smaller Reporting Company Emerging Growth Company

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 21, 2020, there were 36,094,654 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
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Forward-Looking Statements

This Quarterly Report on Form 10-Q 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.

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 Quarterly Report on Form 10-Q, 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 “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019 and in Item 1A — “Risk Factors” in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020.

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 Quarterly Report on Form 10-Q, 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.

For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A — “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019 and Item 1A — “Risk Factors” in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020, as well as other reports and registration statements filed by us with the SEC. These factors should not be construed as exhaustive and should be read with other cautionary statements in this Quarterly Report on Form 10-Q and our other public filings. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at www.he-equipment.com.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share amounts)

| | Balances at | |
|--|--------------------------------------|----------------------|
| | September 30, 2020 (Unaudited) | December 31, 2019 |
| ASSETS | | |
| Cash | \$ 11,997 | \$ 14,247 |
| Receivables, net of allowance for doubtful accounts of \$4,963 and \$5,236, respectively | 167,595 | 192,204 |
| Inventories, net of reserves for obsolescence of \$318 and \$331, respectively | 72,871 | 85,478 |
| Prepaid expenses and other assets | 11,597 | 10,262 |
| Rental equipment, net of accumulated depreciation of \$705,944 and \$676,376, respectively | 1,078,403 | 1,217,673 |
| Property and equipment, net of accumulated depreciation and amortization of \$160,637 and \$156,782, respectively | 122,173 | 130,564 |
| Operating lease right-of-use assets, net of accumulated amortization of \$20,497 and \$11,197, respectively | 165,479 | 156,570 |
| Finance lease right-of-use assets, net of accumulated amortization of \$2,173 and \$2,051, respectively | 244 | 365 |
| Deferred financing costs, net of accumulated amortization of \$14,944 and \$14,419, respectively | 2,332 | 2,857 |
| Intangible assets, net of accumulated amortization of \$9,747 and \$6,952, respectively | 29,953 | 32,948 |
| Goodwill | 68,851 | 131,442 |
| Total assets | <u>\$ 1,731,495</u> | <u>\$ 1,974,610</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Amounts due on senior secured credit facility | \$ 17,986 | \$ 216,879 |
| Accounts payable | 69,805 | 58,853 |
| Manufacturer flooring plans payable | 11,646 | 25,201 |
| Accrued expenses payable and other liabilities | 73,764 | 78,382 |
| Dividends payable | 135 | 171 |
| Senior unsecured notes, net of unaccreted discount of \$2,334 and \$2,691 and deferred financing costs of \$1,511 and \$1,743, respectively | 946,155 | 945,566 |
| Operating lease right-of-use liabilities | 168,952 | 159,265 |
| Finance lease right-of-use liabilities | 368 | 550 |
| Deferred income taxes | 178,752 | 180,126 |
| Deferred compensation payable | 2,173 | 2,098 |
| Total liabilities | <u>1,469,736</u> | <u>1,667,091</u> |
| Commitments and Contingencies | | |
| Stockholders' equity: | | |
| 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; 40,245,706 and 39,921,838 shares issued at September 30, 2020 and December 31, 2019, respectively, and 36,096,814 and 35,848,089 shares outstanding at September 30, 2020 and December 31, 2019, respectively | 401 | 398 |
| Additional paid-in capital | 239,139 | 235,844 |
| Treasury stock at cost, 4,148,892 and 4,073,749 shares of common stock held at September 30, 2020 and December 31, 2019, respectively | (66,159) | (64,783) |
| Retained earnings | 88,378 | 136,060 |
| Total stockholders' equity | <u>261,759</u> | <u>307,519</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,731,495</u> | <u>\$ 1,974,610</u> |

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Equipment rentals | \$ 165,849 | \$ 204,132 | \$ 496,162 | \$ 572,563 |
| New equipment sales | 37,248 | 65,010 | 112,068 | 177,709 |
| Used equipment sales | 40,000 | 31,180 | 105,231 | 96,942 |
| Parts sales | 27,853 | 31,499 | 83,842 | 93,798 |
| Services revenues | 15,637 | 18,105 | 48,116 | 50,398 |
| Other | 2,673 | 3,071 | 8,099 | 8,822 |
| Total revenues | <u>289,260</u> | <u>352,997</u> | <u>853,518</u> | <u>1,000,232</u> |
| Cost of revenues: | | | | |
| Rental depreciation | 58,083 | 63,065 | 177,225 | 181,647 |
| Rental expense | 25,628 | 27,889 | 74,461 | 79,676 |
| Rental other | 16,816 | 18,620 | 47,847 | 52,742 |
| | <u>100,527</u> | <u>109,574</u> | <u>299,533</u> | <u>314,065</u> |
| New equipment sales | 33,124 | 57,475 | 99,809 | 156,638 |
| Used equipment sales | 27,872 | 21,409 | 71,592 | 63,742 |
| Parts sales | 20,925 | 23,171 | 62,180 | 68,750 |
| Services revenues | 5,198 | 5,898 | 15,911 | 16,261 |
| Other | 2,547 | 3,342 | 7,873 | 10,167 |
| Total cost of revenues | <u>190,193</u> | <u>220,869</u> | <u>556,898</u> | <u>629,623</u> |
| Gross profit | 99,067 | 132,128 | 296,620 | 370,609 |
| Selling, general and administrative expenses | 70,040 | 77,296 | 217,525 | 233,783 |
| Impairment of goodwill | — | — | 61,994 | — |
| Merger costs | 150 | 47 | 308 | 314 |
| Gain on sales of property and equipment, net | 2,102 | 718 | 9,260 | 2,339 |
| Income from operations | <u>30,979</u> | <u>55,503</u> | <u>26,053</u> | <u>138,851</u> |
| Other income (expense): | | | | |
| Interest expense | (14,887) | (17,331) | (46,489) | (51,453) |
| Other, net | 990 | 588 | 2,262 | 1,609 |
| Total other expense, net | <u>(13,897)</u> | <u>(16,743)</u> | <u>(44,227)</u> | <u>(49,844)</u> |
| Income (loss) before provision (benefit) for income taxes | 17,082 | 38,760 | (18,174) | 89,007 |
| Provision (benefit) for income taxes | 6,979 | 10,329 | (124) | 23,719 |
| Net income (loss) | <u>\$ 10,103</u> | <u>\$ 28,431</u> | <u>\$ (18,050)</u> | <u>\$ 65,288</u> |
| Net income (loss) per common share: | | | | |
| Basic | <u>\$ 0.28</u> | <u>\$ 0.79</u> | <u>\$ (0.50)</u> | <u>\$ 1.82</u> |
| Diluted | <u>\$ 0.28</u> | <u>\$ 0.79</u> | <u>\$ (0.50)</u> | <u>\$ 1.81</u> |
| Weighted average common shares outstanding: | | | | |
| Basic | <u>36,110</u> | <u>35,893</u> | <u>36,035</u> | <u>35,835</u> |
| Diluted | <u>36,249</u> | <u>36,046</u> | <u>36,035</u> | <u>36,012</u> |
| Dividends declared per common share outstanding | <u>\$ 0.275</u> | <u>\$ 0.275</u> | <u>\$ 0.825</u> | <u>\$ 0.825</u> |

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (18,050) | \$ 65,288 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 22,288 | 20,841 |
| Depreciation of rental equipment | 177,225 | 181,647 |
| Amortization of finance lease right-of-use assets | 121 | 122 |
| Amortization of intangible assets | 2,996 | 3,091 |
| Amortization of deferred financing costs | 755 | 757 |
| Accretion of note discount, net of premium amortization | 358 | 357 |
| Non-cash operating lease expense | 10,619 | 8,021 |
| Impairment of goodwill | 61,994 | — |
| Provision for losses on accounts receivable | 3,340 | 4,059 |
| Provision for inventory obsolescence | 95 | 152 |
| Change in deferred income taxes | (1,374) | 22,127 |
| Stock-based compensation expense | 3,295 | 3,060 |
| Gain from sales of property and equipment, net | (9,260) | (2,339) |
| Gain from sales of rental equipment, net | (33,102) | (32,780) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Receivables | 21,269 | (2,045) |
| Inventories | (7,712) | (39,631) |
| Prepaid expenses and other assets | (1,355) | (3,098) |
| Accounts payable | 11,549 | (16,871) |
| Manufacturer flooring plans payable | (13,555) | 2,259 |
| Accrued expenses payable and other liabilities | (14,478) | (7,492) |
| Deferred compensation payable | 75 | 82 |
| Net cash provided by operating activities | <u>217,093</u> | <u>207,607</u> |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired | — | (106,746) |
| Purchases of property and equipment | (17,283) | (31,451) |
| Purchases of rental equipment | (81,426) | (269,150) |
| Proceeds from sales of property and equipment | 12,688 | 3,085 |
| Proceeds from sales of rental equipment | 96,797 | 89,105 |
| Net cash provided by (used in) investing activities | <u>10,776</u> | <u>(315,157)</u> |
| Cash flows from financing activities: | | |
| Borrowings on senior secured credit facility | 729,810 | 1,174,120 |
| Payments on senior secured credit facility | (928,703) | (1,040,750) |
| Dividends paid | (29,668) | (29,530) |
| Purchases of treasury stock | (1,376) | (1,640) |
| Payments of deferred financing costs | — | (559) |
| Payments of finance lease obligations | (182) | (172) |
| Net cash provided by (used in) financing activities | <u>(230,119)</u> | <u>101,469</u> |
| Net decrease in cash | (2,250) | (6,081) |
| Cash, beginning of period | 14,247 | 16,677 |
| Cash, end of period | <u>\$ 11,997</u> | <u>\$ 10,596</u> |

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)
(Amounts in thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2020 | 2019 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Accrued acquisition purchase price consideration | \$ — | \$ 3,432 |
| Noncash asset purchases: | | |
| Assets transferred from new and used inventory to rental fleet | \$ 20,224 | \$ 38,240 |
| Purchases of property and equipment included in accrued expenses payable and other liabilities | \$ (42) | \$ (27) |
| 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 | \$ 18,208 | \$ 9,074 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 59,304 | \$ 63,312 |
| Income taxes paid (refunds received), net | \$ (354) | \$ 2,658 |

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and Nature of Operations

Basis of Presentation

Our condensed 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.”

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2019, from which the consolidated balance sheet amounts as of December 31, 2019 were derived.

All significant intercompany accounts and transactions have been eliminated in these condensed consolidated financial statements. Business combinations accounted for as purchases are included in the condensed 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 condensed consolidated balance sheets are presented on an unclassified basis.

Nature of Operations

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.

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 have begun 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.

We began to experience a decline in revenues in March 2020, when rental and sales volumes declined in response to shelter-in-place orders and other end-user market restrictions. Such declines continued into mid-April, when we began to see improvement in rental and sales volumes in response to an easing of the various market restrictions. These sequential improvements continued through the remainder of the second quarter, throughout the third quarter, and into the early fourth quarter. Even with these recent sequential

improvements, our total revenues for the nine month period ended September 30, 2020 were 14.7% lower than those of the same nine month period last year. 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.

We have proactively taken, and will continue to take, the necessary actions to right-size our business in this environment to strengthen cash flow, reduce operating costs, and further strengthen our balance sheet and liquidity position. These actions include headcount reductions, modified work schedules reducing hours where needed, furloughs in selected branch locations, as well as appropriate adjustments to our capital and discretionary spending plans.

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019. During the three and nine month periods ended September 30, 2020, there were no significant changes to those accounting policies.

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 condensed 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) Topic 606 and 2) Topic 842.

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.

Under Topic 606, 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.

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.

For additional information related to our revenue recognition policies pursuant to Topic 606 and Topic 842, please see Significant Accounting Policies in note 2 to our Form 10-K for the year ended December 31, 2019. In the table below, revenues as presented in our condensed consolidated statements of operations for the three and nine month periods ended September 30, 2020 and 2019 are summarized by type and by the applicable accounting standard.

| | Three Month Period Ended September 30, | | | | | |
|---|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 | | | 2019 | | |
| | Topic 842 | Topic 606 | Total | Topic 842 | Topic 606 | Total |
| Revenues: | | | | | | |
| Rental revenues | | | | | | |
| Owned equipment rentals | \$ 142,708 | \$ 168 | \$ 142,876 | \$ 177,287 | \$ 305 | \$ 177,592 |
| Re-rent revenue | 6,546 | — | 6,546 | 7,205 | — | 7,205 |
| Ancillary and other rental revenues: | | | | | | |
| Delivery and pick-up | — | 9,161 | 9,161 | — | 10,977 | 10,977 |
| Other | 7,266 | — | 7,266 | 8,358 | — | 8,358 |
| Total ancillary rental revenues | 7,266 | 9,161 | 16,427 | 8,358 | 10,977 | 19,335 |
| Total equipment rental revenues | 156,520 | 9,329 | 165,849 | 192,850 | 11,282 | 204,132 |
| New equipment sales | — | 37,248 | 37,248 | — | 65,010 | 65,010 |
| Used equipment sales | — | 40,000 | 40,000 | — | 31,180 | 31,180 |
| Parts sales | — | 27,853 | 27,853 | — | 31,499 | 31,499 |
| Service revenues | — | 15,637 | 15,637 | — | 18,105 | 18,105 |
| Other | — | 2,673 | 2,673 | — | 3,071 | 3,071 |
| Total revenues | \$ 156,520 | \$ 132,740 | \$ 289,260 | \$ 192,850 | \$ 160,147 | \$ 352,997 |

| | Nine Month Period Ended September 30, | | | | | |
|---|---------------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| | 2020 | | | 2019 | | |
| | Topic 842 | Topic 606 | Total | Topic 842 | Topic 606 | Total |
| Revenues: | | | | | | |
| Rental revenues | | | | | | |
| Owned equipment rentals | \$ 431,881 | \$ 630 | \$ 432,511 | \$ 497,709 | \$ 824 | \$ 498,533 |
| Re-rent revenue | 16,306 | — | 16,306 | 19,761 | — | 19,761 |
| Ancillary and other rental revenues: | | | | | | |
| Delivery and pick-up | — | 26,890 | 26,890 | — | 30,272 | 30,272 |
| Other | 20,455 | — | 20,455 | 23,997 | — | 23,997 |
| Total ancillary rental revenues | 20,455 | 26,890 | 47,345 | 23,997 | 30,272 | 54,269 |
| Total equipment rental revenues | 468,642 | 27,520 | 496,162 | 541,467 | 31,096 | 572,563 |
| New equipment sales | — | 112,068 | 112,068 | — | 177,709 | 177,709 |
| Used equipment sales | — | 105,231 | 105,231 | — | 96,942 | 96,942 |
| Parts sales | — | 83,842 | 83,842 | — | 93,798 | 93,798 |
| Service revenues | — | 48,116 | 48,116 | — | 50,398 | 50,398 |
| Other | — | 8,099 | 8,099 | — | 8,822 | 8,822 |
| Total revenues | \$ 468,642 | \$ 384,876 | \$ 853,518 | \$ 541,467 | \$ 458,765 | \$ 1,000,232 |

Revenues by reporting segment are presented in note 12 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 with customers as reflected above, coupled with further discussion below and the reporting segments in note 12, depict how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors. For further information related to our accounting for revenues pursuant to Topic 606 and Topic 842, see Significant Accounting Policies in note 2 to our Annual Report on Form 10-K for the year ended December 31, 2019.

Receivables and contract assets and liabilities

We manage credit risk associated with our 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 allowance 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. No single customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented in this Quarterly Report on Form 10-Q. 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.

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 three and nine month periods ended September 30, 2020 or 2019 that were included in the contract liability balance as of the beginning of such periods.

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, 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. As further described in our Annual Report on Form 10-K for the year ended December 31, 2019, we recorded in the fourth quarter of 2019 impairment charges of \$10.7 million and \$1.5 million related to our new equipment sales goodwill reporting unit and our service revenues goodwill reporting unit, respectively. As a result, and as indicated in the goodwill reporting unit carrying values rollforward below, these two reporting units had no carrying value at December 31, 2019. As further described below, as of March 31, 2020, we recorded an impairment charge of \$62.0 million related to our Equipment Rental Component 2 reporting unit. As a result, and as indicated in the goodwill reporting unit carrying values rollforward below, this reporting unit has no remaining carrying value.

The goodwill impairment test consists of one step, comparing the fair value of a reporting unit with its carrying amount. 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.

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 and 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.

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 charge is a non-cash item and does not affect our cash flows, liquidity or borrowing capacity under the senior credit facility (the "Credit Facility"), and the charge is 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 periods ended September 30, 2020 and December 31, 2019 were as follows (amounts in thousands):

| | <u>Eq. Rental Comp. 1</u> | <u>Eq. Rental Comp. 2</u> | <u>New Eq. Sales</u> | <u>Used Eq. Sales</u> | <u>Parts Sales</u> | <u>Service Revenues</u> | <u>Total</u> |
|-------------------------------|-------------------------------|-------------------------------|----------------------|-----------------------|--------------------|-----------------------------|------------------|
| 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 September 30, 2020 | <u>\$ 48,976</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 8,953</u> | <u>\$ 10,922</u> | <u>\$ —</u> | <u>\$ 68,851</u> |

- (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.
- (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.
- (4) Decrease is related to the goodwill impairment calculated as of March 31, 2020.

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 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2020, and generally requires prospective adoption. While we continue to evaluate the new guidance of ASU 2019-12, we currently do not expect the guidance 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. Our exposure related to the expected cessation of LIBOR is limited to the interest expense we incur on 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.

In March 2020, the Securities and Exchange Commission (“SEC”) adopted final rules that amend the financial disclosure requirements for subsidiary issuers and guarantors of registered debt securities in Rule 3-10 of Regulation S-X. The SEC also amended the disclosure requirements for affiliates whose securities are pledged as collateral for registered securities in Rule 3-16 of Regulation S-X. The disclosure requirements, as amended, are now relocated to newly created Rules 13-01 and 13-02 in Regulation S-X, while the amended eligibility requirements remain in Rule 3-10. The SEC amended its financial disclosure requirements for companies that conduct registered debt offerings involving subsidiaries as either issuers or guarantors and affiliates whose securities are pledged as collateral. The SEC also narrowed the circumstances that require separate financial statements of subsidiary issuers and guarantors and streamlined the alternative disclosures required in lieu of those statements. Further, the SEC replaced the requirement for separate financial statements of affiliates whose securities are pledged as collateral for registered securities with requirements similar to those adopted for subsidiary issuers and guarantors. Previously, with limited exceptions, a parent entity was required to provide detailed disclosures with regard to guarantors of registered debt offerings within the footnotes to the consolidated financial statements. Under the new regulations, disclosure exceptions have been expanded and required disclosures may be provided within Management’s Discussion and Analysis of Financial Condition and Results of Operations rather than in the notes to the consolidated financial statements. Further, summarized guarantor balance sheets and income statements are permitted, with the requirement to provide guarantor cash flow statements eliminated. Summarized guarantor financial statements only need be disclosed for the current fiscal year rather than all years presented in the financial statements as was previously required. The rule is effective for periods ending after January 4, 2021, but earlier compliance is permitted. The Company is currently evaluating the impact of the final rules.

Pronouncements Adopted in 2020

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 Acquisition

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 markets.

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.

| | \$'s in thousands |
|--|--------------------------|
| 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:

| | Fair Value (amounts in thousands) | Life (years) |
|------------------------|--|---------------------|
| 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 the goodwill recognized to be 100% 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.

Pro forma financial information

We completed the We-Rent-It acquisition on February 1, 2019. Therefore, our condensed consolidated statements of operations for the three and nine month periods ended September 30, 2020 and 2019 and included herein, includes We-Rent-It for the period of February 1, 2019 through September 30, 2020. The pro forma information below gives effect to the WRI acquisition as if it had been completed on January 1, 2018 (the WRI pro forma acquisition date).

The pro forma information below 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 acquisition. The pro forma adjustments reflected in the tables below are subject to change as additional analysis is performed. Pursuant to ASC 805, *Business Combinations*, pro forma disclosures should be repeated whenever the year or interim period of the acquisition is presented. Since the WRI acquisition was completed in the first quarter of 2019, the pro forma information below gives effect to the WRI acquisition as if the acquisition occurred on January 1, 2018 (the WRI pro forma acquisition date) for the quarterly periods ended September 30, 2018. The tables below present unaudited pro forma consolidated statements of operations information for the three and nine month periods ended September 30, 2018 as if WRI was included in our consolidated results for the entire period presented.

| | (amounts in thousands, except per share data) | | |
|---|---|------------|------------|
| | Three Month Period Ended September 30, 2018 | | |
| | H&E(1) | We-Rent-It | Total |
| Total revenues | \$ 322,141 | \$ 9,809 | \$ 331,950 |
| Pretax income | 28,971 | 2,406 | 31,377 |
| Pro forma adjustments to pretax income: | | | |
| Impact of fair value mark-ups/useful life changes on depreciation (2) | — | (1,113) | (1,113) |
| Intangible asset amortization (3) | — | (353) | (353) |
| Interest expense (4) | — | (1,416) | (1,416) |
| Elimination of historic interest expense (5) | — | 154 | 154 |
| Pro forma pretax income (loss) | 28,971 | (322) | 28,649 |
| Income tax expense (benefit) | 7,657 | (83) | 7,574 |
| Net income (loss) | \$ 21,314 | \$ (239) | \$ 21,075 |
| Net income (loss) per share – basic (6) | \$ 0.60 | \$ (0.01) | \$ 0.59 |
| Net income (loss) per share – diluted (6) | \$ 0.59 | \$ (0.01) | \$ 0.59 |

| | (amounts in thousands, except per share data) | | | |
|---|---|----------------|------------|------------|
| | Nine Month Period Ended September 30, 2018 | | | |
| | H&E(1) | Rental Inc.(7) | We-Rent-It | Total |
| Total revenues | \$ 892,987 | \$ 7,408 | \$ 27,036 | \$ 927,431 |
| Pretax income | 69,908 | 1,020 | 5,622 | 76,550 |
| Pro forma adjustments to pretax income: | | | | |
| Impact of fair value mark-ups/useful life changes on depreciation (2) | — | (749) | (3,339) | (4,088) |
| Intangible asset amortization (3) | — | (250) | (788) | (1,038) |
| Interest expense (4) | — | (480) | (4,248) | (4,728) |
| Elimination of historic interest expense (5) | — | 82 | 360 | 442 |
| Pro forma pretax income (loss) | 69,908 | (377) | (2,393) | 67,138 |
| Income tax expense (benefit) | 18,345 | (100) | (620) | 17,625 |
| Net income (loss) | \$ 51,563 | \$ (277) | \$ (1,773) | \$ 49,513 |
| Net income (loss) per share – basic (6) | \$ 1.45 | \$ (0.01) | \$ (0.05) | \$ 1.39 |
| Net income (loss) per share – diluted (6) | \$ 1.44 | \$ (0.01) | \$ (0.05) | \$ 1.38 |

- (1) Amounts presented above for “H&E” are derived from the Company’s consolidated statements of income in its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 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 acquisition.
- (3) Represents the amortization of the intangible assets acquired in the acquisition.
- (4) Interest expense was adjusted to reflect the additional debt resulting from the acquisition.
- (5) Represents the elimination of historic debt of 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 on April 1, 2018.

(4) 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 condensed 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 September 30, 2020 and December 31, 2019 are presented in the table below (amounts in thousands).

| | September 30, 2020 | |
|---|--------------------|------------|
| | Carrying Amount | Fair Value |
| Manufacturer flooring plans payable with interest computed at 3.50% (Level 3) | \$ 11,646 | \$ 10,504 |
| Senior unsecured notes due 2025 with interest computed at 5.625% (Level 2) | 946,155 | 990,375 |
| | 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 September 30, 2020 and December 31, 2019, the fair value of our senior unsecured notes due 2025 was based on quoted bond trading market prices for those notes. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures have been calculated based upon market quotes and present value calculations based on market rates.

During the three and nine month periods ended September 30, 2020 and 2019, there were no transfers of financial assets or liabilities in or out of Level 3 of the fair value hierarchy. 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 as of September 30, 2020 and December 31, 2019 is disclosed in the above table.

(5) Stockholders' Equity

The following table summarizes the quarterly activity in Stockholders' Equity for the periods ended September 30, 2020 and 2019, respectively (amounts in thousands, except share data):

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Total Stockholders' Equity |
|--|------------------|--------|----------------------------------|-------------------|----------------------|----------------------------------|
| | Shares Issued | Amount | | | | |
| Balances at December 31, 2019 | 39,921,838 | \$ 398 | \$ 235,844 | \$ (64,783) | \$ 136,060 | \$ 307,519 |
| Stock-based compensation | — | — | 1,652 | — | — | 1,652 |
| Cash dividends declared on common stock (\$0.275 per share) | — | — | — | — | (9,789) | (9,789) |
| Issuance of common stock, net of restricted stock forfeitures | 98,451 | 1 | — | — | — | 1 |
| Repurchase of 26,392 shares of restricted common stock | — | — | — | (470) | — | (470) |
| Net loss | — | — | — | — | (36,968) | (36,968) |
| Balances at March 31, 2020 | 40,020,289 | 399 | 237,496 | (65,253) | 89,303 | 261,945 |
| Stock-based compensation | — | — | 1,004 | — | — | 1,004 |
| Cash dividends declared on common stock (\$0.275 per share) | — | — | — | — | (9,896) | (9,896) |
| Restricted stock forfeitures | (6,732) | — | — | — | — | — |
| Net income | — | — | — | — | 8,815 | 8,815 |
| Balances at June 30, 2020 | 40,013,557 | 399 | 238,500 | (65,253) | 88,222 | 261,868 |
| Stock-based compensation | — | — | 639 | — | — | 639 |
| Cash dividends declared on common stock (\$0.275 per share) | — | — | — | — | (9,947) | (9,947) |
| Issuance of common stock, net of restricted stock forfeitures | 232,149 | 2 | — | — | — | 2 |
| Repurchase of 48,751 shares of restricted common stock | — | — | — | (906) | — | (906) |
| Net income | — | — | — | — | 10,103 | 10,103 |
| Balances at September 30, 2020 | 40,245,706 | \$ 401 | \$ 239,139 | \$ (66,159) | \$ 88,378 | \$ 261,759 |
| Balances at December 31, 2018 | 39,748,562 | \$ 396 | \$ 231,174 | \$ (63,099) | \$ 88,332 | \$ 256,803 |
| Stock-based compensation | — | — | 1,188 | — | — | 1,188 |
| Cash dividends declared on common stock (\$0.275 per share) | — | — | — | — | (9,793) | (9,793) |
| Issuance of common stock, net of restricted stock forfeitures | 59,510 | 1 | — | — | — | 1 |
| Repurchase of 14,272 shares of restricted common stock | — | — | — | (387) | — | (387) |
| Cumulative effect adjustment pursuant to the adoption of ASC 842 | — | — | — | — | (56) | (56) |
| Net income | — | — | — | — | 14,243 | 14,243 |
| Balances at March 31, 2019 | 39,808,072 | 397 | 232,362 | (63,486) | 92,726 | 261,999 |
| Stock-based compensation | — | — | 835 | — | — | 835 |
| Cash dividends declared on common stock (\$0.275 per share) | — | — | — | — | (9,857) | (9,857) |
| Restricted stock forfeitures | (2,666) | — | — | — | — | — |
| Net income | — | — | — | — | 22,614 | 22,614 |
| Balances at June 30, 2019 | 39,805,406 | 397 | 233,197 | (63,486) | 105,483 | 275,591 |
| Stock-based compensation | — | — | 1,037 | — | — | 1,037 |
| Cash dividends declared on common stock (\$0.275 per share) | — | — | — | — | (9,889) | (9,889) |
| Issuance of common stock, net of restricted stock forfeitures | 119,152 | 1 | — | — | — | 1 |
| Repurchase of 42,922 shares of restricted common stock | — | — | — | (1,253) | — | (1,253) |
| Net income | — | — | — | — | 28,431 | 28,431 |
| Balances at September 30, 2019 | 39,924,558 | \$ 398 | \$ 234,234 | \$ (64,739) | \$ 124,025 | \$ 293,918 |

(6) Stock-Based Compensation

We account for our stock-based compensation plans using the fair value recognition provisions of ASC 718, *Stock Compensation*. Under the provisions of ASC 718, 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). Shares available for future stock-based payment awards under our 2016 Stock-Based Incentive Compensation Plan were 1,321,546 shares as of September 30, 2020.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine month period ended September 30, 2020:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|--|---------------------|--|
| Non-vested stock at December 31, 2019 | 377,740 | \$ 29.26 |
| Granted | 364,981 | \$ 18.21 |
| Vested | (200,655) | \$ 25.74 |
| Forfeited | (11,212) | \$ 29.86 |
| Non-vested stock at September 30, 2020 | <u>530,854</u> | <u>\$ 22.98</u> |

As of September 30, 2020, we had unrecognized compensation expense of approximately \$6.1 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 2.2 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine month periods ended September 30, 2020 and 2019 (amounts in thousands):

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|----------------------|---|----------|--|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Compensation expense | \$ 639 | \$ 1,037 | \$ 3,295 | \$ 3,060 |

(7) Income (loss) per Share

Income (loss) per common share for the three and nine month periods ended September 30, 2020 and 2019 are based on the weighted average number of common shares outstanding during the periods. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive 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 was approximately 0.9% and 0.8% of total outstanding shares for the three and nine month periods ended September 30, 2020 and 2019, respectively, and, consequently, was 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 for the periods presented. The following table sets forth the computation of basic and diluted net income (loss) per common share for the three and nine month periods ended September 30, 2020 and 2019 (amounts in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Basic net income (loss) per share: | | | | |
| Net income (loss) | \$ 10,103 | \$ 28,431 | \$ (18,050) | \$ 65,288 |
| Weighted average number of common shares outstanding | 36,110 | 35,893 | 36,035 | 35,835 |
| Net income (loss) per share of common stock – basic | \$ 0.28 | \$ 0.79 | \$ (0.50) | \$ 1.82 |
| Diluted net income (loss) per share: | | | | |
| Net income (loss) | \$ 10,103 | \$ 28,431 | \$ (18,050) | \$ 65,288 |
| Weighted average number of common shares outstanding | 36,110 | 35,893 | 36,035 | 35,835 |
| Effect of dilutive securities: | | | | |
| Effect of dilutive non-vested restricted stock | 139 | 153 | — | 177 |
| Weighted average number of common shares outstanding – diluted | 36,249 | 36,046 | 36,035 | 36,012 |
| Net income (loss) per share of common stock – diluted | \$ 0.28 | \$ 0.79 | \$ (0.50) | \$ 1.81 |
| Common shares excluded from the denominator as anti-dilutive: | | | | |
| Non-vested restricted stock | 190 | 90 | 189 | 42 |

(8) 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. For further information related to significant terms of the Credit Facility, see the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

As of September 30, 2020, we were in compliance with our financial covenants under the Amended and Restated Credit Agreement. At September 30, 2020, we had \$18.0 million of borrowings outstanding under the Credit Facility and could borrow up to approximately \$724.3 million and remain in compliance with the debt covenants under the Credit Facility. At October 21, 2020, we had \$742.3 million of available borrowings under our Credit Facility, net of a \$7.7 million outstanding letter of credit.

(9) Senior Unsecured Notes

For further information related to significant terms of the Senior Unsecured Notes, see the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. As of September 30, 2020, we were in compliance with the covenants governing our notes.

The following table reconciles our Senior Unsecured Notes to our Condensed 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 through September 30, 2020 | 1,155 |
| Amortization of note premium through September 30, 2020 | (797) |
| Amortization of deferred financing costs through September 30, 2020 | 231 |
| Balance at September 30, 2020 | \$ 946,155 |

(10) Leases

We adopted Topic 842 on January 1, 2019. For a discussion of our adoption of Topic 842 and related disclosures, see note 2 and note 11 to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019.

At September 30, 2020, as disclosed in our condensed consolidated balance sheet, we had net operating lease right-of-use assets of \$165.5 million and net finance lease right-of-use assets of \$0.2 million. Our operating lease liabilities at September 30, 2020 were \$169.0 million and finance lease liabilities were \$0.4 million. The weighted average remaining lease term for operating leases was approximately 9.8 years and the weighted average remaining lease term for finance leases was approximately 1.5 years. The weighted average discount rate for operating and finance leases was approximately 6.6% and 5.9%, respectively.

(11) 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. The Company is required to recognize the effect on the consolidated financial statements in the period the law was enacted, which was the quarter ended March 31, 2020. For the nine month period ended September 30, 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 elimination of the 80% of taxable income limitation on net operating loss carryforwards that may allow corporate entities to fully utilize net operating loss carryforwards to offset taxable income in 2018, 2019 or 2020, we expect to realize a total reduction of approximately \$5.4 million of cash taxes paid in 2020. Secondly, 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 claim for the Company, which we received in June 2020. Lastly, 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 is expected to result in the deferral of approximately \$6.7 million of those payroll taxes, half of which we expect to remit by September 15, 2021 and the remaining amounts in 2022.

(12) Segment Information

We have identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and services revenues. These segments are based upon 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 reportable segments.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|-------------------|------------------------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Segment Revenues: | | | | |
| Equipment rentals | \$ 165,849 | \$ 204,132 | \$ 496,162 | \$ 572,563 |
| New equipment sales | 37,248 | 65,010 | 112,068 | 177,709 |
| Used equipment sales | 40,000 | 31,180 | 105,231 | 96,942 |
| Parts sales | 27,853 | 31,499 | 83,842 | 93,798 |
| Services revenues | 15,637 | 18,105 | 48,116 | 50,398 |
| Total segmented revenues | 286,587 | 349,926 | 845,419 | 991,410 |
| Non-segmented revenues | 2,673 | 3,071 | 8,099 | 8,822 |
| Total revenues | <u>\$ 289,260</u> | <u>\$ 352,997</u> | <u>\$ 853,518</u> | <u>\$ 1,000,232</u> |
| Segment Gross Profit: | | | | |
| Equipment rentals | \$ 65,322 | \$ 94,558 | \$ 196,629 | \$ 258,498 |
| New equipment sales | 4,124 | 7,535 | 12,259 | 21,071 |
| Used equipment sales | 12,128 | 9,771 | 33,639 | 33,200 |
| Parts sales | 6,928 | 8,328 | 21,662 | 25,048 |
| Services revenues | 10,439 | 12,207 | 32,205 | 34,137 |
| Total segmented gross profit | 98,941 | 132,399 | 296,394 | 371,954 |
| Non-segmented gross profit (loss) | 126 | (271) | 226 | (1,345) |
| Total gross profit | <u>\$ 99,067</u> | <u>\$ 132,128</u> | <u>\$ 296,620</u> | <u>\$ 370,609</u> |

| | Balances at | |
|---------------------------------|-----------------------|----------------------|
| | September 30, 2020 | December 31, 2019 |
| Segment identified assets: | | |
| Equipment sales | \$ 56,462 | \$ 67,542 |
| Equipment rentals | 1,078,403 | 1,217,673 |
| Parts and services | 16,409 | 17,936 |
| Total segment identified assets | 1,151,274 | 1,303,151 |
| Non-segment identified assets | 580,221 | 671,459 |
| Total assets | <u>\$ 1,731,495</u> | <u>\$ 1,974,610</u> |

The Company operates primarily in the United States and our sales to international customers for the three month periods ended September 30, 2020 and 2019 were 0.2% and 0.1% of total revenues, respectively, and 0.3% of total revenues for each of the nine month periods ended September 30, 2020 and 2019. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

(13) Condensed Consolidating Financial Information of Guarantor Subsidiaries

All of the indebtedness of H&E Equipment Services, Inc. is guaranteed by all of its subsidiaries; GNE Investments, Inc. and its wholly-owned subsidiary 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. The guarantor subsidiaries are all wholly-owned and 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.

The consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations.

CONDENSED CONSOLIDATING BALANCE SHEET

| | As of September 30, 2020 | | | |
|--|--------------------------|------------------------|---------------------|---------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Assets: | | | | |
| Cash | \$ 11,997 | \$ — | \$ — | \$ 11,997 |
| Receivables, net | 146,152 | 21,443 | — | 167,595 |
| Inventories, net | 69,883 | 2,988 | — | 72,871 |
| Prepaid expenses and other assets | 11,424 | 173 | — | 11,597 |
| Rental equipment, net | 943,612 | 134,791 | — | 1,078,403 |
| Property and equipment, net | 104,671 | 17,502 | — | 122,173 |
| Operating lease right-of-use assets, net | 144,687 | 20,792 | — | 165,479 |
| Finance lease right-of-use assets, net | — | 244 | — | 244 |
| Deferred financing costs, net | 2,332 | — | — | 2,332 |
| Investment in guarantor subsidiaries | 188,438 | — | (188,438) | — |
| Intangible assets, net | 29,953 | — | — | 29,953 |
| Goodwill | 57,185 | 11,666 | — | 68,851 |
| Total assets | <u>\$ 1,710,334</u> | <u>\$ 209,599</u> | <u>\$ (188,438)</u> | <u>\$ 1,731,495</u> |
| Liabilities and Stockholders' Equity: | | | | |
| Amounts due on senior secured credit facility | 17,986 | \$ — | \$ — | \$ 17,986 |
| Accounts payable | 66,458 | 3,347 | — | 69,805 |
| Manufacturer flooring plans payable | 11,646 | — | — | 11,646 |
| Accrued expenses payable and other liabilities | 77,710 | (3,946) | — | 73,764 |
| Dividends payable | 200 | (65) | — | 135 |
| Senior unsecured notes, net | 946,155 | — | — | 946,155 |
| Operating lease right-of-use liabilities | 147,495 | 21,457 | — | 168,952 |
| Finance lease right-of-use liabilities | — | 368 | — | 368 |
| Deferred income taxes | 178,752 | — | — | 178,752 |
| Deferred compensation payable | 2,173 | — | — | 2,173 |
| Total liabilities | <u>1,448,575</u> | <u>21,161</u> | <u>—</u> | <u>1,469,736</u> |
| Stockholders' equity | 261,759 | 188,438 | (188,438) | 261,759 |
| Total liabilities and stockholders' equity | <u>\$ 1,710,334</u> | <u>\$ 209,599</u> | <u>\$ (188,438)</u> | <u>\$ 1,731,495</u> |

CONDENSED CONSOLIDATING BALANCE SHEET

| | As of December 31, 2019 | | | |
|--|---------------------------|---------------------------|---------------------|---------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Assets: | | | | |
| Cash | \$ 14,247 | \$ — | \$ — | \$ 14,247 |
| Receivables, net | 164,260 | 27,944 | — | 192,204 |
| Inventories, net | 81,945 | 3,533 | — | 85,478 |
| Prepaid expenses and other assets | 10,129 | 133 | — | 10,262 |
| Rental equipment, net | 1,062,154 | 155,519 | — | 1,217,673 |
| Property and equipment, net | 111,429 | 19,135 | — | 130,564 |
| Operating lease right-of-use assets, net | 137,625 | 18,945 | — | 156,570 |
| Finance lease right-of-use assets, net | — | 365 | — | 365 |
| Deferred financing costs, net | 2,857 | — | — | 2,857 |
| Investment in guarantor subsidiaries | 235,749 | — | (235,749) | — |
| Intangible assets, net | 32,948 | — | — | 32,948 |
| Goodwill | 101,916 | 29,526 | — | 131,442 |
| Total assets | <u>\$ 1,955,259</u> | <u>\$ 255,100</u> | <u>\$ (235,749)</u> | <u>\$ 1,974,610</u> |
| Liabilities and Stockholders' Equity: | | | | |
| Amounts due under senior secured credit facility | \$ 216,879 | \$ — | \$ — | \$ 216,879 |
| Accounts payable | 56,225 | 2,628 | — | 58,853 |
| Manufacturer flooring plans payable | 25,201 | — | — | 25,201 |
| Accrued expenses payable and other liabilities | 81,646 | (3,264) | — | 78,382 |
| Dividends payable | 231 | (60) | — | 171 |
| Senior unsecured notes, net | 945,566 | — | — | 945,566 |
| Operating lease right-of-use liabilities, net | 139,768 | 19,497 | — | 159,265 |
| Finance lease right-of-use liabilities, net | — | 550 | — | 550 |
| Deferred income taxes | 180,126 | — | — | 180,126 |
| Deferred compensation payable | 2,098 | — | — | 2,098 |
| Total liabilities | <u>1,647,740</u> | <u>19,351</u> | <u>—</u> | <u>1,667,091</u> |
| Stockholders' equity | 307,519 | 235,749 | (235,749) | 307,519 |
| Total liabilities and stockholders' equity | <u>\$ 1,955,259</u> | <u>\$ 255,100</u> | <u>\$ (235,749)</u> | <u>\$ 1,974,610</u> |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

| | Three Months Ended September 30, 2020 | | | |
|--|--|-----------------------------------|--------------------|---------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | \$ 142,046 | \$ 23,803 | \$ — | \$ 165,849 |
| New equipment sales | 36,315 | 933 | — | 37,248 |
| Used equipment sales | 35,465 | 4,535 | — | 40,000 |
| Parts sales | 25,336 | 2,517 | — | 27,853 |
| Services revenues | 14,186 | 1,451 | — | 15,637 |
| Other | 2,356 | 317 | — | 2,673 |
| Total revenues | <u>255,704</u> | <u>33,556</u> | <u>—</u> | <u>289,260</u> |
| Cost of revenues: | | | | |
| Rental depreciation | 50,333 | 7,750 | — | 58,083 |
| Rental expense | 22,229 | 3,399 | — | 25,628 |
| Rental other | 14,141 | 2,675 | — | 16,816 |
| | <u>86,703</u> | <u>13,824</u> | <u>—</u> | <u>100,527</u> |
| New equipment sales | 32,362 | 762 | — | 33,124 |
| Used equipment sales | 24,952 | 2,920 | — | 27,872 |
| Parts sales | 19,164 | 1,761 | — | 20,925 |
| Services revenues | 4,752 | 446 | — | 5,198 |
| Other | 2,331 | 216 | — | 2,547 |
| Total cost of revenues | <u>170,264</u> | <u>19,929</u> | <u>—</u> | <u>190,193</u> |
| Gross profit: | | | | |
| Equipment rentals | 55,343 | 9,979 | — | 65,322 |
| New equipment sales | 3,953 | 171 | — | 4,124 |
| Used equipment sales | 10,513 | 1,615 | — | 12,128 |
| Parts sales | 6,172 | 756 | — | 6,928 |
| Services revenues | 9,434 | 1,005 | — | 10,439 |
| Other | 25 | 101 | — | 126 |
| Gross profit | <u>85,440</u> | <u>13,627</u> | <u>—</u> | <u>99,067</u> |
| Selling, general and administrative expenses | 61,059 | 8,981 | — | 70,040 |
| Merger costs | 150 | — | — | 150 |
| Equity in earnings of guarantor subsidiaries | 2,226 | — | (2,226) | — |
| Gain on sales of property and equipment, net | 1,852 | 250 | — | 2,102 |
| Income from operations | <u>28,309</u> | <u>4,896</u> | <u>(2,226)</u> | <u>30,979</u> |
| Other income (expense): | | | | |
| Interest expense | (12,174) | (2,713) | — | (14,887) |
| Other, net | 947 | 43 | — | 990 |
| Total other expense, net | <u>(11,227)</u> | <u>(2,670)</u> | <u>—</u> | <u>(13,897)</u> |
| Income before income taxes | 17,082 | 2,226 | (2,226) | 17,082 |
| Income tax expense | 6,979 | — | — | 6,979 |
| Net income | <u>\$ 10,103</u> | <u>\$ 2,226</u> | <u>\$ (2,226)</u> | <u>\$ 10,103</u> |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

| | Three Months Ended September 30, 2019 | | | |
|--|--|-----------------------------------|--------------------|---------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | \$ 176,338 | \$ 27,794 | \$ — | \$ 204,132 |
| New equipment sales | 60,584 | 4,426 | — | 65,010 |
| Used equipment sales | 25,850 | 5,330 | — | 31,180 |
| Parts sales | 27,284 | 4,215 | — | 31,499 |
| Services revenues | 15,614 | 2,491 | — | 18,105 |
| Other | 2,590 | 481 | — | 3,071 |
| Total revenues | <u>308,260</u> | <u>44,737</u> | <u>—</u> | <u>352,997</u> |
| Cost of revenues: | | | | |
| Rental depreciation | 54,757 | 8,308 | — | 63,065 |
| Rental expense | 23,947 | 3,942 | — | 27,889 |
| Rental other | 15,505 | 3,115 | — | 18,620 |
| | <u>94,209</u> | <u>15,365</u> | <u>—</u> | <u>109,574</u> |
| New equipment sales | 53,542 | 3,933 | — | 57,475 |
| Used equipment sales | 17,958 | 3,451 | — | 21,409 |
| Parts sales | 20,150 | 3,021 | — | 23,171 |
| Services revenues | 5,131 | 767 | — | 5,898 |
| Other | 2,977 | 365 | — | 3,342 |
| Total cost of revenues | <u>193,967</u> | <u>26,902</u> | <u>—</u> | <u>220,869</u> |
| Gross profit (loss): | | | | |
| Equipment rentals | 82,129 | 12,429 | — | 94,558 |
| New equipment sales | 7,042 | 493 | — | 7,535 |
| Used equipment sales | 7,892 | 1,879 | — | 9,771 |
| Parts sales | 7,134 | 1,194 | — | 8,328 |
| Services revenues | 10,483 | 1,724 | — | 12,207 |
| Other | (387) | 116 | — | (271) |
| Gross profit | <u>114,293</u> | <u>17,835</u> | <u>—</u> | <u>132,128</u> |
| Selling, general and administrative expenses | 67,372 | 9,924 | — | 77,296 |
| Merger costs | 47 | — | — | 47 |
| Equity in earnings of guarantor subsidiaries | 4,701 | — | (4,701) | — |
| Gain on sales of property and equipment, net | 686 | 32 | — | 718 |
| Income from operations | <u>52,261</u> | <u>7,943</u> | <u>(4,701)</u> | <u>55,503</u> |
| Other income (expense): | | | | |
| Interest expense | (14,013) | (3,318) | — | (17,331) |
| Other, net | 512 | 76 | — | 588 |
| Total other expense, net | <u>(13,501)</u> | <u>(3,242)</u> | <u>—</u> | <u>(16,743)</u> |
| Income before income taxes | 38,760 | 4,701 | (4,701) | 38,760 |
| Income tax expense | 10,329 | — | — | 10,329 |
| Net income | <u>\$ 28,431</u> | <u>\$ 4,701</u> | <u>\$ (4,701)</u> | <u>\$ 28,431</u> |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

| | Nine Months Ended September 30, 2020 | | | |
|--|---|-----------------------------------|--------------------|---------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | \$ 429,040 | \$ 67,122 | \$ — | \$ 496,162 |
| New equipment sales | 107,813 | 4,255 | — | 112,068 |
| Used equipment sales | 91,918 | 13,313 | — | 105,231 |
| Parts sales | 74,847 | 8,995 | — | 83,842 |
| Services revenues | 42,429 | 5,687 | — | 48,116 |
| Other | 6,944 | 1,155 | — | 8,099 |
| Total revenues | <u>752,991</u> | <u>100,527</u> | <u>—</u> | <u>853,518</u> |
| Cost of revenues: | | | | |
| Rental depreciation | 153,870 | 23,355 | — | 177,225 |
| Rental expense | 64,733 | 9,728 | — | 74,461 |
| Rental other | 40,376 | 7,471 | — | 47,847 |
| | <u>258,979</u> | <u>40,554</u> | <u>—</u> | <u>299,533</u> |
| New equipment sales | 96,184 | 3,625 | — | 99,809 |
| Used equipment sales | 63,241 | 8,351 | — | 71,592 |
| Parts sales | 55,836 | 6,344 | — | 62,180 |
| Services revenues | 14,119 | 1,792 | — | 15,911 |
| Other | 7,011 | 862 | — | 7,873 |
| Total cost of revenues | <u>495,370</u> | <u>61,528</u> | <u>—</u> | <u>556,898</u> |
| Gross profit (loss): | | | | |
| Equipment rentals | 170,061 | 26,568 | — | 196,629 |
| New equipment sales | 11,629 | 630 | — | 12,259 |
| Used equipment sales | 28,677 | 4,962 | — | 33,639 |
| Parts sales | 19,011 | 2,651 | — | 21,662 |
| Services revenues | 28,310 | 3,895 | — | 32,205 |
| Other | (67) | 293 | — | 226 |
| Gross profit | <u>257,621</u> | <u>38,999</u> | <u>—</u> | <u>296,620</u> |
| Selling, general and administrative expenses | 189,811 | 27,714 | — | 217,525 |
| Impairment of goodwill | 61,994 | — | — | 61,994 |
| Merger costs | 308 | — | — | 308 |
| Equity in earnings of guarantor subsidiaries | 3,904 | — | (3,904) | — |
| Gain on sales of property and equipment, net | 8,122 | 1,138 | — | 9,260 |
| Income from operations | <u>17,534</u> | <u>12,423</u> | <u>(3,904)</u> | <u>26,053</u> |
| Other income (expense): | | | | |
| Interest expense | (37,821) | (8,668) | — | (46,489) |
| Other, net | 2,113 | 149 | — | 2,262 |
| Total other expense, net | <u>(35,708)</u> | <u>(8,519)</u> | <u>—</u> | <u>(44,227)</u> |
| Income (loss) before income taxes | (18,174) | 3,904 | (3,904) | (18,174) |
| Income tax benefit | (124) | — | — | (124) |
| Net income (loss) | <u>\$ (18,050)</u> | <u>\$ 3,904</u> | <u>\$ (3,904)</u> | <u>\$ (18,050)</u> |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

| | Nine Months Ended September 30, 2019 | | | |
|--|---|-----------------------------------|--------------------|---------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | \$ 495,246 | \$ 77,317 | \$ — | \$ 572,563 |
| New equipment sales | 160,200 | 17,509 | — | 177,709 |
| Used equipment sales | 81,430 | 15,512 | — | 96,942 |
| Parts sales | 81,326 | 12,472 | — | 93,798 |
| Services revenues | 42,922 | 7,476 | — | 50,398 |
| Other | 7,422 | 1,400 | — | 8,822 |
| Total revenues | <u>868,546</u> | <u>131,686</u> | <u>—</u> | <u>1,000,232</u> |
| Cost of revenues: | | | | |
| Rental depreciation | 157,380 | 24,267 | — | 181,647 |
| Rental expense | 68,242 | 11,434 | — | 79,676 |
| Rental other | 44,500 | 8,242 | — | 52,742 |
| | <u>270,122</u> | <u>43,943</u> | <u>—</u> | <u>314,065</u> |
| New equipment sales | 141,181 | 15,457 | — | 156,638 |
| Used equipment sales | 53,791 | 9,951 | — | 63,742 |
| Parts sales | 59,962 | 8,788 | — | 68,750 |
| Services revenues | 13,971 | 2,290 | — | 16,261 |
| Other | 8,963 | 1,204 | — | 10,167 |
| Total cost of revenues | <u>547,990</u> | <u>81,633</u> | <u>—</u> | <u>629,623</u> |
| Gross profit (loss): | | | | |
| Equipment rentals | 225,124 | 33,374 | — | 258,498 |
| New equipment sales | 19,019 | 2,052 | — | 21,071 |
| Used equipment sales | 27,639 | 5,561 | — | 33,200 |
| Parts sales | 21,364 | 3,684 | — | 25,048 |
| Services revenues | 28,951 | 5,186 | — | 34,137 |
| Other | (1,541) | 196 | — | (1,345) |
| Gross profit | <u>320,556</u> | <u>50,053</u> | <u>—</u> | <u>370,609</u> |
| Selling, general and administrative expenses | 203,785 | 29,998 | — | 233,783 |
| Merger costs | 314 | — | — | 314 |
| Equity in earnings of guarantor subsidiaries | 10,656 | — | (10,656) | — |
| Gain on sales of property and equipment, net | 1,948 | 391 | — | 2,339 |
| Income from operations | <u>129,061</u> | <u>20,446</u> | <u>(10,656)</u> | <u>138,851</u> |
| Other income (expense): | | | | |
| Interest expense | (41,461) | (9,992) | — | (51,453) |
| Other, net | 1,407 | 202 | — | 1,609 |
| Total other expense, net | <u>(40,054)</u> | <u>(9,790)</u> | <u>—</u> | <u>(49,844)</u> |
| Income before income taxes | 89,007 | 10,656 | (10,656) | 89,007 |
| Income tax expense | 23,719 | — | — | 23,719 |
| Net income | <u>\$ 65,288</u> | <u>\$ 10,656</u> | <u>\$ (10,656)</u> | <u>\$ 65,288</u> |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

| | Nine Months Ended September 30, 2020 | | | |
|---|--------------------------------------|---------------------------|-----------------|------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ (18,050) | \$ 3,904 | \$ (3,904) | \$ (18,050) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization on property and equipment | 18,672 | 3,616 | — | 22,288 |
| Depreciation of rental equipment | 153,870 | 23,355 | — | 177,225 |
| Amortization of finance lease right-of-use assets | — | 121 | — | 121 |
| Amortization of intangible assets | 2,996 | — | — | 2,996 |
| Amortization of deferred financing costs | 755 | — | — | 755 |
| Accretion of note discount, net of premium amortization | 358 | — | — | 358 |
| Non-cash operating lease expense | 8,495 | 2,124 | — | 10,619 |
| Impairment of goodwill | 61,994 | — | — | 61,994 |
| Provision for losses on accounts receivable | 3,143 | 197 | — | 3,340 |
| Provision for inventory obsolescence | 95 | — | — | 95 |
| Change in deferred income taxes | (1,374) | — | — | (1,374) |
| Stock-based compensation expense | 3,295 | — | — | 3,295 |
| Gain from sales of property and equipment, net | (8,122) | (1,138) | — | (9,260) |
| Gain from sales of rental equipment, net | (28,175) | (4,927) | — | (33,102) |
| Equity in earnings of guarantor subsidiaries | (3,904) | — | 3,904 | — |
| Changes in operating assets and liabilities: | | | | |
| Receivables | 14,965 | 6,304 | — | 21,269 |
| Inventories | (7,115) | (597) | — | (7,712) |
| Prepaid expenses and other assets | (1,315) | (40) | — | (1,355) |
| Accounts payable | 10,830 | 719 | — | 11,549 |
| Manufacturer flooring plans payable | (13,555) | — | — | (13,555) |
| Accrued expenses payable and other liabilities | (11,785) | (2,693) | — | (14,478) |
| Deferred compensation payable | 75 | — | — | 75 |
| Net cash provided by operating activities | <u>186,148</u> | <u>30,945</u> | <u>—</u> | <u>217,093</u> |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (14,771) | (2,512) | — | (17,283) |
| Purchases of rental equipment | (71,756) | (9,670) | — | (81,426) |
| Proceeds from sales of property and equipment | 11,021 | 1,667 | — | 12,688 |
| Proceeds from sales of rental equipment | 83,685 | 13,112 | — | 96,797 |
| Investment in subsidiaries | 33,355 | — | (33,355) | — |
| Net cash provided by investing activities | <u>41,534</u> | <u>2,597</u> | <u>(33,355)</u> | <u>10,776</u> |
| Cash flows from financing activities: | | | | |
| Borrowings on senior secured credit facility | 729,810 | — | — | 729,810 |
| Payments on senior secured credit facility | (928,703) | — | — | (928,703) |
| Dividends paid | (29,663) | (5) | — | (29,668) |
| Purchases of treasury stock | (1,376) | — | — | (1,376) |
| Payments on finance lease obligations | — | (182) | — | (182) |
| Capital contributions | — | (33,355) | 33,355 | — |
| Net cash used in financing activities | <u>(229,932)</u> | <u>(33,542)</u> | <u>33,355</u> | <u>(230,119)</u> |
| Net decrease in cash | (2,250) | — | — | (2,250) |
| Cash, beginning of period | 14,247 | — | — | 14,247 |
| Cash, end of period | <u>\$ 11,997</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 11,997</u> |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

| | Nine Months Ended September 30, 2019 | | | |
|--|---|-----------------------------------|--------------------|----------------------|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income | \$ 65,288 | \$ 10,656 | \$ (10,656) | \$ 65,288 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization of property and equipment | 18,367 | 2,474 | — | 20,841 |
| Depreciation of rental equipment | 157,380 | 24,267 | — | 181,647 |
| Amortization of finance lease right-of-use assets | — | 122 | — | 122 |
| Amortization of intangible assets | 3,091 | — | — | 3,091 |
| Amortization of deferred financing costs | 757 | — | — | 757 |
| Accretion of note discount, net of premium amortization | 357 | — | — | 357 |
| Non-cash operating lease expense | 6,417 | 1,604 | — | 8,021 |
| Provision for losses on accounts receivable | 3,869 | 190 | — | 4,059 |
| Provision for inventory obsolescence | 152 | — | — | 152 |
| Change in deferred income taxes | 22,127 | — | — | 22,127 |
| Stock-based compensation expense | 3,060 | — | — | 3,060 |
| Gain from sales of property and equipment, net | (1,948) | (391) | — | (2,339) |
| Gain from sales of rental equipment, net | (27,234) | (5,546) | — | (32,780) |
| Equity in earnings of guarantor subsidiaries | (10,656) | — | 10,656 | — |
| Changes in operating assets and liabilities, net of acquisitions: | | | | |
| Receivables | (9,639) | 7,594 | — | (2,045) |
| Inventories | (40,006) | 375 | — | (39,631) |
| Prepaid expenses and other assets | (3,052) | (46) | — | (3,098) |
| Accounts payable | (15,472) | (1,399) | — | (16,871) |
| Manufacturer flooring plans payable | 2,760 | (501) | — | 2,259 |
| Accrued expenses payable and other liabilities | (7,914) | 422 | — | (7,492) |
| Deferred compensation payable | 82 | — | — | 82 |
| Net cash provided by operating activities | <u>167,786</u> | <u>39,821</u> | <u>—</u> | <u>207,607</u> |
| Cash flows from investing activities: | | | | |
| Acquisition of businesses, net of cash acquired | (106,746) | — | — | (106,746) |
| Purchases of property and equipment | (27,236) | (4,215) | — | (31,451) |
| Purchases of rental equipment | (237,436) | (31,714) | — | (269,150) |
| Proceeds from sales of property and equipment | 2,651 | 434 | — | 3,085 |
| Proceeds from sales of rental equipment | 73,966 | 15,139 | — | 89,105 |
| Investment in subsidiaries | 19,344 | — | (19,344) | — |
| Net cash used in investing activities | <u>(275,457)</u> | <u>(20,356)</u> | <u>(19,344)</u> | <u>(315,157)</u> |
| Cash flows from financing activities: | | | | |
| Borrowings on senior secured credit facility | 1,174,120 | — | — | 1,174,120 |
| Payments on senior secured credit facility | (1,040,750) | — | — | (1,040,750) |
| Dividends paid | (29,525) | (5) | — | (29,530) |
| Purchases of treasury stock | (1,640) | — | — | (1,640) |
| Payments of deferred financing costs | (559) | — | — | (559) |
| Payments of finance lease obligations | (56) | (116) | — | (172) |
| Capital contributions | — | (19,344) | 19,344 | — |
| Net cash provided by (used in) financing activities | <u>101,590</u> | <u>(19,465)</u> | <u>19,344</u> | <u>101,469</u> |
| Net decrease in cash | <u>(6,081)</u> | <u>—</u> | <u>—</u> | <u>(6,081)</u> |
| Cash, beginning of period | <u>16,677</u> | <u>—</u> | <u>—</u> | <u>16,677</u> |
| Cash, end of period | <u><u>10,596</u></u> | <u><u>—</u></u> | <u><u>—</u></u> | <u><u>10,596</u></u> |

ITEM 2. — 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 September 30, 2020, and its results of operations for the three and nine month periods ended September 30, 2020, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2019. 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 Quarterly Report on Form 10-Q). 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 our Annual Report on Form 10-K for the year ended December 31, 2019 and in Item 1A — “Risk Factors” in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020.

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 have issued 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 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 stabilize and improve for the remainder of the second quarter, throughout the third quarter and into early October. Even with these recent sequential improvements, our total revenues for the nine month period ended September 30, 2020, were 14.7% lower than those of the same nine month period last year. 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.

Overview

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 October 21, 2020, 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 59 years. H&E Equipment Services L.L.C. (“H&E LLC”) was formed in June 2002 through the business 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 LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

Prior to our initial public offering in February 2006, our business was conducted through H&E LLC. In connection with our initial public offering, we converted H&E LLC into H&E Equipment Services, Inc. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings L.L.C. (“H&E Holdings”), and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into H&E Equipment Services, Inc., which survived the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

Effective February 1, 2019, we completed the acquisition of We-Rent-It, a privately-held equipment rental company with six branch locations in Central Texas.

Critical Accounting Policies

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2019, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. There have been no significant changes to these critical accounting policies and estimates during the three and nine month periods ended September 30, 2020. Our critical accounting policies include, among others, useful lives of rental equipment and property and equipment, acquisition accounting, goodwill, long-lived assets and income taxes.

Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2019 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

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 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 reportable segments.

For additional information about our business segments, see note 12 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Revenue Sources

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals for the periods presented in this Quarterly Report on Form 10-Q account for more than half of our total revenues. For the nine month period ended September 30, 2020, approximately 58.1% of our total revenues were attributable to equipment rentals, 13.1% of our total revenues were attributable to new equipment sales, 12.3% were attributable to used equipment sales, 9.8% were attributable to parts sales, 5.6% were attributable to our services revenues and 1.1% were attributable to non-segmented other revenues.

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 and district 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 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 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 nine month period ended September 30, 2020, our total cost of revenues was approximately \$556.9 million. Our operating

expenses consist principally of selling, general and administrative expenses. For the nine month period ended September 30, 2020, our selling, general and administrative expenses were \$217.5 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 industrial lift trucks 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 servicing and maintaining our rental equipment, property taxes on our fleet and other miscellaneous costs of rental equipment.

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 costs 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 reportable segments.

Selling, General and Administrative Expenses:

Our selling, general and administrative (“SG&A”) expenses include sales and marketing expenses, payroll and related benefit costs, 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, finance leases and software. 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 due 2025 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 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 September 30, 2020 was \$1.1 billion, or approximately 62.3% of our total assets. Our rental fleet as of September 30, 2020 consisted of 40,775 units 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. As of September 30, 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 | 21,654 | 53.1% | \$ 693.8 | 38.1% | 47.3 |
| Cranes | 195 | 0.5% | 76.3 | 4.2% | 54.8 |
| Earthmoving | 4,605 | 11.3% | 415.4 | 22.8% | 25.4 |
| Material Handling(1) | 6,657 | 16.3% | 512.1 | 28.1% | 41.1 |
| Other | 7,664 | 18.8% | 122.6 | 6.8% | 26.7 |
| Total | 40,775 | 100.0% | \$ 1,820.2 | 100.0% | 40.0 |

- (1) For discussion and analysis purposes, effective beginning in the first quarter of 2020, we have changed our Industrial Lift Trucks product line category to Material Handling, which now includes both Industrial Lift Trucks and Telehandlers, which were previously grouped in the above Hi-Lift or Aerial Work Platforms category. We believe this grouping reclassification better reflects how we manage our product lines and is more consistent with industry practice.

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 \$122.6 million, or 6.3%, for the nine month period ended September 30, 2020, largely reflective of a decrease in rental fleet capital expenditures. The average age of our rental fleet equipment increased by approximately 3.7 months for the nine month period ended September 30, 2020. Our average rental rates, based on the American Rental Association's calculation methodology, for the nine month period ended September 30, 2020 were 2.2% lower than last year. See further discussion on rental rates in "Results of Operations" below.

The rental equipment mix among our four core product lines for the nine month period ended September 30, 2020 was largely consistent with that of the prior year comparable period 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 our Annual Report on Form 10-K for the year ended December 31, 2019 and in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020.

- *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 in recent years have been a meaningful driver of 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 has resulted in production outstripping the demand for oil and natural 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 first quarter decline, we believe the uncertainty regarding future oil and natural gas prices continues to impact customer capital expenditure decisions.

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 three and nine month periods ended September 30, 2020 and 2019. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

Revenues.

| | Three Months Ended September 30, | | Total Dollar Increase (Decrease) | Total Percentage Increase (Decrease) |
|------------------------------------|-------------------------------------|------------|---|---|
| | 2020 | 2019 | | |
| (in thousands, except percentages) | | | | |
| Segment Revenues: | | | | |
| Equipment rentals | | | | |
| Rentals | \$ 149,423 | \$ 184,797 | \$ (35,374) | (19.1)% |
| Rentals other | 16,426 | 19,335 | (2,909) | (15.0)% |
| Total equipment rentals | 165,849 | 204,132 | (38,283) | (18.8)% |
| New equipment sales | 37,248 | 65,010 | (27,762) | (42.7)% |
| Used equipment sales | 40,000 | 31,180 | 8,820 | 28.3% |
| Parts sales | 27,853 | 31,499 | (3,646) | (11.6)% |
| Services revenues | 15,637 | 18,105 | (2,468) | (13.6)% |
| Non-Segmented revenues | 2,673 | 3,071 | (398) | (13.0)% |
| Total revenues | \$ 289,260 | \$ 352,997 | \$ (63,737) | (18.1)% |

Total Revenues. Our total revenues were approximately \$289.3 million for the three month period ended September 30, 2020 compared to \$353.0 million for the three month period ended September 30, 2019, a decrease of \$63.7 million, or 18.1%. Revenues for all reportable segments and non-segmented other revenues are further discussed below.

Equipment Rental Revenues. Our total revenues from equipment rentals for the three month period ended September 30, 2020 decreased approximately \$38.3 million, or 18.8%, to \$165.8 million from \$204.1 million in the three month period ended September 30, 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 \$35.4 million, or 19.1%, to \$149.4 million for the three month period ended September 30, 2020 compared to \$184.8 million for the three month period ended September 30, 2019. Rental revenues from aerial work platform

equipment decreased \$11.4 million, earthmoving equipment decreased \$9.6 million, material handling equipment decreased \$7.9 million, other equipment rental revenues decreased \$4.9 million and crane rental revenues decreased \$1.6 million.

Our average rental rates, based on the American Rental Association's calculation methodology, for the three month period ended September 30, 2020 decreased 4.0% compared to the same three month period last year and decreased approximately 0.4% from the three month period ended June 30, 2020. Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended September 30, 2020 was 32.4% compared to 37.5% in the three month period ended September 30, 2019, a decrease of 5.1%. The decrease in comparative rental equipment dollar utilization was the result of the decrease in equipment rental rates as noted above, combined with a decrease in rental equipment time utilization. Rental equipment time utilization as a percentage of original equipment cost was approximately 63.8% for the three month period ended September 30, 2020 compared to 71.4% in the three month period ended September 30, 2019, a decrease of 7.6%. The decrease in rental equipment time utilization as a percentage of original equipment cost was largely due to the effects of the COVID-19 pandemic on economic activity.

Rentals Other: Our rentals other revenues consists 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 three month period ended September 30, 2020 were \$16.4 million compared to \$19.3 million for the three month period ended September 30, 2019, a decrease of \$2.9 million, or 15.0%, primarily due to the decrease in equipment rental revenues as described above.

New Equipment Sales Revenues. Our new equipment sales for the three month period ended September 30, 2020 decreased \$27.8 million, or 42.7%, to \$37.2 million from \$65.0 million for the three month period ended September 30, 2019. This decrease was largely due to a \$21.6 million decrease in new crane sales, reflecting continuing uncertainty related to oil and gas prices, a \$5.4 million decrease in material handling equipment sales and a \$4.3 million decrease in new earthmoving equipment sales, reflecting the uncertainty surrounding the COVID-19 pandemic. These decreases were partially offset by a \$4.0 million increase in new other equipment sales.

Used Equipment Sales Revenues. Our used equipment sales increased \$8.8 million, or 28.3%, to \$40.0 million for the three month period ended September 30, 2020, from \$31.2 million for the same three month 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. This increase was driven by a \$3.9 million increase in used earthmoving equipment sales, a \$1.7 million increase in used crane sales, a \$1.5 million increase in used material handling equipment sales, a \$0.9 million increase in used other equipment sales and a \$0.8 million increase in used aerial work platform equipment sales.

Parts Sales Revenues. Our parts sales revenues for the three month period ended September 30, 2020 decreased \$3.6 million, or 11.6%, to \$27.9 million from approximately \$31.5 million for the same three month period last year. The decrease in parts sales was attributable to decreases across all equipment parts sales.

Services Revenues. Our services revenues for the three month period ended September 30, 2020 decreased \$2.5 million, or 13.6%, to \$15.6 million from \$18.1 million for the same three month period last year. The decrease in service revenues was attributable to decreases across all equipment services revenues.

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 not generally allocated to reportable segments. For the three month period ended September 30, 2020, our other revenues were approximately \$2.7 million, a decrease of \$0.4 million, or 13.0%, from \$3.1 million in the same three month period in 2019.

Gross Profit.

| | Three Months Ended September 30, | | Total Dollar Increase (Decrease) | Total Percentage Increase (Decrease) |
|--|-------------------------------------|-------------------|---|---|
| | 2020 | 2019 | | |
| | (in thousands, except percentages) | | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | | | | |
| Rentals | \$ 65,712 | \$ 93,843 | \$ (28,131) | (30.0)% |
| Rentals other | (390) | 715 | (1,105) | (154.5)% |
| Total equipment rentals | 65,322 | 94,558 | (29,236) | (30.9)% |
| New equipment sales | 4,124 | 7,535 | (3,411) | (45.3)% |
| Used equipment sales | 12,128 | 9,771 | 2,357 | 24.1% |
| Parts sales | 6,928 | 8,328 | (1,400) | (16.8)% |
| Services revenues | 10,439 | 12,207 | (1,768) | (14.5)% |
| Non-Segmented revenues gross profit (loss) | 126 | (271) | 397 | 146.5% |
| Total gross profit | <u>\$ 99,067</u> | <u>\$ 132,128</u> | <u>\$ (33,061)</u> | <u>(25.0)%</u> |

Total Gross Profit. Our total gross profit was \$99.1 million for the three month period ended September 30, 2020 compared to \$132.1 million for the same three month period in 2019, a decrease of \$33.1 million, or 25.0%. Total gross profit margin for the three month period ended September 30, 2020 was approximately 34.2%, a decrease of 3.2% from the 37.4% gross profit margin for the same three month 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 three month period ended September 30, 2020 decreased approximately \$29.2 million, or 30.9%, to \$65.3 million from \$94.6 million in the same three month period in 2019. Total gross profit margin from equipment rentals for the three month periods ended September 30, 2020 and 2019 was approximately 39.4% and 46.3%, respectively, a decrease of 6.9%. See Rentals and Rentals Other below for additional information.

Rentals: Rental revenues gross profit decreased \$28.1 million, or 30.0%, to \$65.7 million for the three month period ended September 30, 2020 compared to \$93.8 million for the same three month period in 2019. The gross profit decrease was the result of a \$35.4 million decrease in equipment rental revenues for the three month period ended September 30, 2020 compared to the same period last year, which was partially offset by a \$5.0 million decrease in rental equipment depreciation expense and a \$2.3 million decrease in rental expenses. The decreases in both depreciation expense and rental expenses are primarily due to a smaller fleet size in 2020 compared to 2019. The original acquisition cost of our rental fleet at September 30, 2020 decreased \$154.5 million, or 7.8%, from September 30, 2019.

Gross profit margin on equipment rentals for the three month periods ended September 30, 2020 and 2019 was approximately 44.0% and 50.8%, respectively. Depreciation expense was 38.9% of equipment rental revenues for the three month period ended September 30, 2020 compared to 34.1% for the same period in 2019, an increase of 4.7%. As a percentage of revenues, rental expenses were 17.2% for the three month period ended September 30, 2020 compared to 15.1% for the same period last year, an increase of 2.1%. These increases in depreciation expense and rental expenses as a percentage of equipment rental revenues are largely due to the current period decline in rental revenues as compared to the same period last year.

Rentals Other: Our rentals other revenues consists 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 three month period ended September 30, 2020 was \$0.4 million compared to a gross profit of \$0.7 million for the same period in 2019, a decrease of \$1.1 million. Gross loss margin was 2.4% for the three month period ended September 30, 2020 compared to a gross profit margin of 3.7% for the same period last year, a decrease of 6.1%.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the three month period ended September 30, 2020 decreased \$3.4 million, or 45.3%, to \$4.1 million compared to \$7.5 million for the same three month period in 2019 on a total new equipment sales decrease of \$27.8 million. Gross profit margin on new equipment sales was 11.1% for the three month period ended September 30, 2020, compared to 11.6% for the same period last year, a decrease of 0.5%. The decrease in gross profit margin was primarily due to the mix of new equipment sold and lower gross margins on new aerial work platform equipment and new crane sales.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the three month period ended September 30, 2020 increased \$2.4 million, or 24.1%, to \$12.1 million from \$9.8 million in the same period in 2019 on a used equipment sales increase of \$8.8 million. Gross profit margin on used equipment sales for the three month period ended September 30, 2020 was approximately 30.3%, down 1.0% from 31.3% for the same three month period in 2019, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised 92.6% and 88.0% of our used equipment sales for the three month periods ended September 30, 2020 and 2019, respectively, were approximately 147.2% and 153.3% of net book value for the three month periods ended September 30, 2020 and 2019, respectively.

Parts Sales Gross Profit. Our parts sales gross profit for the three month period ended September 30, 2020 was approximately \$6.9 million, a decrease of \$1.4 million, or 16.8%, from gross profit of \$8.3 million for the same period last year on a parts sales decrease of \$3.6 million. Gross profit margin for the three month period ended September 30, 2020 was 24.9%, a decrease of 1.5%, compared to a gross margin of 26.4% for the three month period ended September 30, 2019. The decrease in parts sales gross margin is due to the mix of parts sold.

Services Revenues Gross Profit. For the three month period ended September 30, 2020, our services revenues gross profit decreased \$1.8 million, or 14.5%, to approximately \$10.4 million from \$12.2 million for the same three month period in 2019 on a \$2.5 million decrease in services revenues. Gross profit margin for the three month period ended September 30, 2020 was 66.8%, a decrease of 0.6% from approximately 67.4% in the same three month period in 2019, as a result of services revenues mix.

Non-Segmented Other Revenues 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 reportable segments. For the three month period ended September 30, 2020, our other revenues gross profit was approximately \$0.1 million compared to a gross loss of \$0.3 million in the same period in 2019, an increase of \$0.4 million.

Selling, General and Administrative Expenses (“SG&A”). SG&A expenses decreased \$7.3 million, or 9.4%, to \$70.0 million for the three month period ended September 30, 2020 compared to \$77.3 million for the three month period ended September 30, 2019. Employee salaries, wages, payroll taxes and related employee benefit and other employee related expenses decreased \$5.6 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. Bad debt expense decreased \$1.0 million. Legal and professional fees, promotional expenses and supplies costs decreased \$0.3 million, \$0.3 million and \$0.7 million, respectively, due to additional cost-saving measures. Non-facility rental expenses decreased \$0.5 million. Partially offsetting these decreases was a \$1.0 million increase in liability insurance costs.

Approximately \$1.3 million of the total increase in SG&A expenses was attributable to branches opened since July 1, 2019 with less than three months of comparable operations in either or both of the three month periods ended September 30, 2020 and 2019. SG&A expenses as a percentage of total revenues for the three month periods ended September 30, 2020 and 2019 were 24.2% and 21.9%, respectively.

Gain on Sales of Property & Equipment (Net). We had net gains on sales of property and equipment of \$2.1 million for the three month period ended September 30, 2020 compared to \$0.7 million for the same period last year, an increase of \$1.4 million. This increase is due to gains on the sale of property and equipment in the normal course of business.

Other Income (Expense). For the three month period ended September 30, 2020, our net other expenses decreased approximately \$2.8 million to \$13.9 million compared to \$16.8 million for the same three month period in 2019, primarily as a result of lower interest expense. Interest expense decreased \$2.4 million to \$14.9 million for the three month period ended September 30, 2020 compared to \$17.3 million for the same period last year. The decrease in interest expense was due primarily to a decrease in our average borrowings under the Credit Facility for the three month period ended September 30, 2020 compared to the same period last year.

Income Taxes. We recorded income tax expense of \$7.0 million for the three month period ended September 30, 2020 compared to income tax expense of \$10.3 million for the three month period ended September 30, 2019. Our effective income tax rate for the three month period ended September 30, 2020 was 40.9% compared to 26.7% for the same period in 2019. The increase in the effective tax rate was primarily due to unfavorable permanent differences in the current year period in relation to profit before tax.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security Act” (“CARES Act”). The income tax related provisions of the CARES Act did not have a material impact to our recorded income tax expense for the three month period ended September 30, 2020. See note 11 in this Quarterly Report on Form 10-Q 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 September 30, 2020 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Revenues.

| | Nine Months Ended September 30, | | Total Dollar Increase (Decrease) | Total Percentage Increase (Decrease) |
|------------------------------------|------------------------------------|---------------------|---|---|
| | 2020 | 2019 | | |
| (in thousands, except percentages) | | | | |
| Segment Revenues: | | | | |
| Equipment rentals | | | | |
| Rentals | \$ 448,817 | \$ 518,294 | \$ (69,477) | (13.4)% |
| Rentals other | 47,345 | 54,269 | (6,924) | (12.8)% |
| Total equipment rentals | 496,162 | 572,563 | (76,401) | (13.3)% |
| New equipment sales | 112,068 | 177,709 | (65,641) | (36.9)% |
| Used equipment sales | 105,231 | 96,942 | 8,289 | 8.6% |
| Parts sales | 83,842 | 93,798 | (9,956) | (10.6)% |
| Services revenues | 48,116 | 50,398 | (2,282) | (4.5)% |
| Non-Segmented revenues | 8,099 | 8,822 | (723) | (8.2)% |
| Total revenues | <u>\$ 853,518</u> | <u>\$ 1,000,232</u> | <u>\$ (146,714)</u> | <u>(14.7)%</u> |

Total Revenues. Our total revenues were approximately \$853.5 million for the nine month period ended September 30, 2020 compared to \$1.0 billion for the nine month period ended September 30, 2019, a decrease of \$146.7 million, or 14.7%. Revenues for all reportable segments and non-segmented other revenues are further discussed below.

Equipment Rental Revenues. Our total revenues from equipment rentals for the nine month period ended September 30, 2020 decreased \$76.4 million, or 13.3%, to \$496.2 million from \$572.6 million in the nine month period ended September 30, 2019. The decrease in equipment rental revenues was largely due to decreased demand from the impact from the COVID-19 economic downturn.

Rentals: Rental revenues decreased \$69.5 million, or 13.4%, to \$448.8 million for the nine month period ended September 30, 2020 compared to \$518.3 million for the nine month period ended September 30, 2019. Rental revenues from aerial work platform equipment decreased \$27.8 million, material handling equipment decreased \$14.7 million, earthmoving equipment decreased \$9.2 million, other rental equipment decreased \$9.4 million and crane equipment decreased \$3.7 million. These product line equipment rental revenue fluctuations do not include the impact of legacy WRI equipment rental revenues of approximately \$4.7 million for the prior year period.

Our average rental rates, based on the American Rental Association's calculation methodology, for the nine month period ended September 30, 2020 decreased 2.2% compared to last year. Our average rental rates do not include the impact of legacy WRI equipment rental revenues for February through April 2019. Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the nine month period ended September 30, 2020 was 31.7% compared to 36.4% in the nine month period ended September 30, 2019, a decrease of 4.7%. The decrease in comparative rental equipment dollar utilization was 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 62.5% for the nine month period ended September 30, 2020 compared to 70.9% in the nine month period ended September 30, 2019, a decrease of 8.4%. The decrease in rental equipment time utilization as a percentage of original equipment cost was largely due to the decrease in demand due to the economic downturn surrounding the COVID-19 pandemic.

Rentals Other: Our rentals other revenues consists 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 nine month period ended September 30, 2020 were \$47.3 million compared to \$54.3 million for the nine month period ended September 30, 2019, a decrease of \$6.9 million, or 12.8%, primarily due to the decreases in equipment rental revenues as described above.

New Equipment Sales Revenues. Our new equipment sales for the nine month period ended September 30, 2020 decreased \$65.6 million, or 36.9%, to \$112.1 million from \$177.7 million for the nine month period ended September 30, 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 \$44.6 million, material handling equipment decreased \$10.6 million and new earth moving equipment sales decreased \$7.7 million. Sales of new aerial work platform equipment sales and new other equipment sales decreased \$1.8 million and \$0.9 million, respectively.

Used Equipment Sales Revenues. Our used equipment sales increased \$8.3 million, or 8.6%, to \$105.2 million for the nine month period ended September 30, 2020, from approximately \$96.9 million for the same nine month 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 earth moving equipment and used other equipment increased \$9.9 million and \$2.5 million, respectively. Partially offsetting these increases were decreases of sales in used aerial work platform equipment of \$3.1 million and sales of used cranes and used material handling equipment decreased \$0.5 million and \$0.4 million, respectively.

Parts Sales Revenues. Our parts sales revenues for the nine month period ended September 30, 2020 decreased \$10.0 million, or 10.6%, to \$83.8 million from \$93.8 million for the same nine month period last year. The decrease in parts sales was primarily 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 nine month period ended September 30, 2020 decreased \$2.3 million, or 4.5%, to approximately \$48.1 million from \$50.4 million for the same nine month period last year, primarily due to lower services revenues related to earthmoving equipment, aerial work platform equipment and material handling equipment.

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 not generally allocated to reportable segments. Our non-segmented other revenues decreased approximately \$0.7 million for the nine months period ended September 30, 2020 to \$8.1 million from \$8.8 million for the same nine month period last year.

Gross Profit.

| | Nine Months Ended September 30, | | Total Dollar Increase (Decrease) | Total Percentage Increase (Decrease) |
|--|------------------------------------|-------------------|---|---|
| | 2020 | 2019 | | |
| | (in thousands, except percentages) | | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | | | | |
| Rentals | \$ 197,131 | \$ 256,971 | \$ (59,840) | (23.3)% |
| Rentals other | (502) | 1,527 | (2,029) | (132.9)% |
| Total equipment rentals | 196,629 | 258,498 | (61,869) | (23.9)% |
| New equipment sales | 12,259 | 21,071 | (8,812) | (41.8)% |
| Used equipment sales | 33,639 | 33,200 | 439 | 1.3% |
| Parts sales | 21,662 | 25,048 | (3,386) | (13.5)% |
| Services revenues | 32,205 | 34,137 | (1,932) | (5.7)% |
| Non-Segmented revenues gross profit (loss) | 226 | (1,345) | 1,571 | 116.8% |
| Total gross profit | <u>\$ 296,620</u> | <u>\$ 370,609</u> | <u>\$ (73,989)</u> | <u>(20.0)%</u> |

Total Gross Profit. Our total gross profit was \$296.6 million for the nine month period ended September 30, 2020 compared to \$370.6 million for the same nine month period in 2019, a decrease of \$74.0 million, or 20.0%. Total gross profit margin for the nine month period ended September 30, 2020 was approximately 34.8%, a decrease of 2.3% from the 37.1% gross profit margin for the same nine month 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 nine month period ended September 30, 2020 decreased \$61.9 million, or 23.9%, to \$196.6 million from \$258.5 million in the same nine month period in 2019. Total gross profit margin from equipment rentals for the nine month period ended September 30, 2020 was approximately 39.6% compared to 45.1% for the same period in 2019, a decrease of 5.5%. See Rentals and Rentals Other below for additional information.

Rentals: Rental revenues gross profit decreased \$59.8 million, or 23.3%, to \$197.1 million for the nine month period ended September 30, 2020 compared to \$257.0 million for the same nine month period in 2019. The gross profit decrease was the result of a \$69.5 million decrease in equipment rental revenues for the nine month period ended September 30, 2020 compared to the same period last year, which was partially offset by a \$4.4 million decrease in rental depreciation and a \$5.2 million decrease in rental expenses

Gross profit margin on equipment rentals for the nine month period ended September 30, 2020 was approximately 43.9% compared to 49.6% for the same period in 2019, a decrease of 5.7%. Depreciation expense was 39.5% of equipment rental revenues for the nine month period ended September 30, 2020 compared to 35.0% for the same period in 2019, an increase of approximately 4.5%. As a percentage of revenues, rental expenses were 16.6% for the nine month period ended September 30, 2020 compared to 15.4% for the same period last year, an increase of approximately 1.2%. These increases are primarily the result of decreases in rental revenues.

Rentals Other: Our rentals other revenues consists 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 nine month period ended September 30, 2020 was \$0.5 million compared to gross profit of \$1.5 million for the same period in 2019, a decrease of \$2.0 million. Gross loss margin was 1.1% for the nine month period ended September 30, 2020 compared to a gross profit margin of 2.8% for the same period last year, a decrease of 3.9%.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the nine month period ended September 30, 2020 decreased \$8.8 million, or 41.8%, to \$12.3 million compared to approximately \$21.1 million for the same nine month period in 2019 on a total new equipment sales decrease of \$65.6 million. Gross profit margin on new equipment sales was 10.9% for the nine month period ended September 30, 2020, compared to 11.9% for the same period last year, a decrease of 1.0%. 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 nine month period ended September 30, 2020 increased \$0.4 million, or 1.3%, to \$33.6 million from \$33.2 million in the same period in 2019 on a used equipment sales increase of \$8.3 million. Gross profit margin on used equipment sales for the nine month period ended September 30, 2020 was approximately 32.0%, down 2.2% from 34.2% for the same nine month period in 2019, primarily as a result of the mix of used equipment sold and lower used aerial work platform equipment and used crane sales gross margins. Our used equipment sales from the rental fleet, which comprised 92.0% and 91.9% of our used equipment sales for the nine month periods ended September 30, 2020 and 2019, respectively, were approximately 152.0% and 158.2% of net book value for the nine month periods ended September 30, 2020 and 2019, respectively.

Parts Sales Gross Profit. Our parts sales gross profit for the nine month period ended September 30, 2020 was \$21.7 million, a decrease of \$3.4 million, or 13.5%, from gross profit of \$25.0 million for the same period last year on a parts sales decrease of \$10.0 million. Gross profit margin for the nine month period ended September 30, 2020 was 25.8% compared to 26.7% for the same period in 2019, a decrease of 0.9%, resulting from the mix of parts sold.

Services Revenues Gross Profit. For the nine month period ended September 30, 2020, our services revenues gross profit decreased \$1.9 million, or 5.7%, to \$32.2 million from \$34.1 million for the same nine month period in 2019 on a \$2.3 million decrease in services revenues. Gross profit margin for the nine month period ended September 30, 2020 was 66.9%, a decrease of 0.8% from approximately 67.7% in the same nine month period in 2019, as a result of services revenues mix.

Non-Segmented Other Revenues Gross 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 reportable segments. For the nine month period ended September 30, 2020, our other revenues gross profit was \$0.2 million compared to a gross loss of \$1.3 million in the same period in 2019.

Selling, General and Administrative Expenses ("SG&A"). SG&A expenses decreased \$16.3 million, or 7.0%, to \$217.5 million for the nine month period ended September 30, 2020 compared to \$233.8 million for the nine month period ended September 30, 2019. Employee salaries, wages, payroll taxes and related employee benefit and other employee related expenses decreased \$17.2 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. Supplies cost decreased \$1.8 million and promotional expenses decreased \$1.1 million. Non-facility rental expenses decreased \$1.0 million. Facility costs, including fuel and utilities costs, decreased \$0.3 million and bad debt expense decreased \$0.5 million. These decreases were partially offset by a \$4.6 million increase in liability insurance costs, a \$0.8 million increase in legal and professional fees and a \$0.8 million increase in depreciation and amortization expense.

Approximately \$2.8 million of the total increase in SG&A expenses was attributable to branches opened since January 1, 2019 with less than nine months of comparable operations in either or both of the nine month periods ended September 30, 2020 and 2019. SG&A expenses as a percentage of total revenues for the nine month periods ended September 30, 2020 and 2019 were 25.5% and 23.4%, respectively.

Impairment of Goodwill. Impairment of goodwill incurred in the nine month period ended September 30, 2020 was \$62.0 million. The impairment related to one of our six reporting units, Equipment Rental Component 2, during the first quarter of 2020. There was no impairment of goodwill for the nine month period ended September 30, 2019. See note 2 to the consolidated financial statements for additional information.

Gain on Sales of Property & Equipment (Net). We had net gains on sales of property and equipment of \$9.3 million for the nine month period ended September 30, 2020 compared to approximately \$2.3 million for the same period last year, an increase of \$6.9 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 during the normal course of business in the third quarter of 2020.

Other Income (Expense). For the nine month period ended September 30, 2020, our net other expenses decreased approximately \$5.6 million to \$44.2 million compared to \$49.8 million for the same nine month period in 2019, primarily as a result of lower interest expense. Interest expense decreased approximately \$5.0 million to \$46.5 million for the nine month period ended September 30, 2020 compared to \$51.5 million for the same period last year. The decrease in interest expense was due primarily to a decrease in our average borrowings under the Credit Facility for the nine month period ended September 30, 2020 compared to the same period last year.

Income Taxes. We recorded an income tax benefit of \$0.1 million for the nine month period ended September 30, 2020 compared to an income tax expense of \$23.7 million for the nine month period ended September 30, 2019. Our effective income tax rate for the nine month period ended September 30, 2020 was 0.7% compared to 26.7% for the same period in 2019. 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 nine month period ended September 20, 2020 includes the impact of 22.8% related to nondeductible goodwill impairment.

On March 27, 2020, President Trump signed into law the CARES Act. The income tax related provisions of the CARES Act did not have a material impact to our recorded income tax benefit for the nine month period ended September 30, 2020. See note 11 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q 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 September 30, 2020 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

Liquidity and Capital Resources

Cash flow from operating activities. For the nine month period ended September 30, 2020, the net cash provided by our operating activities was approximately \$217.1 million. Our reported net loss of \$18.1 million, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, impairment of goodwill, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$221.3 million. These cash flows from operating activities were also positively impacted by a \$21.3 million decrease in receivables and an \$11.5 million increase in accounts payable. Partially offsetting these positive cash flows were a \$7.7 million increase in inventories, a \$13.6 million decrease in manufacturing flooring plans payable, a \$1.4 million increase in prepaid expenses and other assets and a \$14.5 million decrease in accrued expenses payable and other liabilities.

For the nine month period ended September 30, 2019, the net cash provided by our operating activities was approximately \$207.6 million. Our reported net income of \$65.3 million, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$274.4 million. These cash flows from operating activities were also positively impacted by a \$2.3 million increase in manufacturing flooring plans payable. Partially offsetting these positive cash flows were a \$39.6 million increase in inventories, a \$16.9 million decrease in accounts payable, a \$3.1 million increase in prepaid expenses and other assets, \$7.5 million decrease in accrued expenses payable and other liabilities and a \$2.0 increase in receivables.

Cash flow from investing activities. For the nine month period ended September 30, 2020, our net cash provided by our investing activities was approximately \$10.8 million. Purchases of rental and non-rental equipment were \$98.7 million and proceeds from the sale of rental and non-rental equipment were \$109.5 million.

For the nine month period ended September 30, 2019, our net 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 \$315.2 million. The acquisition of WRI totaled \$106.7 million (net of cash acquired). Purchases of rental and non-rental equipment were \$300.6 million and proceeds from the sale of rental and non-rental equipment were \$92.2 million.

Cash flow from financing activities. For the nine month period ended September 30, 2020, our net cash provided by our financing activities was exceeded by our cash used in our financing activities, resulting in net cash used in our financing activities of \$230.1 million. Net payments under our Credit Facility for the nine month period ended September 30, 2020 were \$198.9 million and dividends paid totaled \$29.7 million, or \$0.825 per common share. Treasury stock purchases totaled \$1.4 million and finance lease principal payments were \$0.2 million.

For the nine month period ended September 30, 2019, net cash provided by our financing activities was \$101.5 million. Net borrowings under our Credit Facility for the three month period ended September 30, 2019 were \$133.4 million, which was partially offset by dividends paid totaling \$29.5 million, or \$0.825 per common share. Payments of deferred financing costs were \$0.6 million. Treasury stock purchases totaled \$1.6 million and finance lease principal payments were \$0.2 million.

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. At September 30, 2020, we had total borrowings under the Credit Facility of \$18.0 million and we could borrow up to \$724.3 million and remain in compliance with the debt covenants under the Credit Facility. At October 21, 2020, we had \$742.3 million of available borrowings under our Credit Facility, net of a \$7.7 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.

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, 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 nine month periods ended September 30, 2020 and 2019 were approximately \$101.7 million and \$307.4 million, respectively, including \$20.2 million and \$38.2 million of non-cash transfers from new and used equipment to rental fleet inventory, respectively. Our gross property and equipment capital expenditures for the nine month periods ended September 30, 2020 and 2019 were \$17.3 million and \$31.5 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 Senior 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, 2019, March 31, 2020, June 30, 2020 and September 30, 2020, we had available borrowings of \$525.4 million, \$557.3 million, \$674.7 million, and \$724.3 million, respectively, net of \$7.7 million of outstanding letters of credit. At October 21, 2020, we had \$742.3 million of available borrowings under the Credit Facility, net of \$7.7 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 expect to maintain capital expenditure discipline for the remainder of 2020, and as a result, we do not expect our liquidity to be materially negatively impacted by the current COVID-19 pandemic.

Quarterly Dividend

On August 11, 2020, the Company announced a quarterly dividend of \$0.275 per share to stockholders of record, which was paid on September 11, 2020, totaling approximately \$9.9 million. 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.

Contractual and Commercial Commitments

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Off-Balance Sheet Arrangements

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 3. 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 the index rate plus an applicable margin of 0.50% to 1.00%, depending on the Average Availability (as defined in the Credit Facility), in the case of index rate revolving loans and 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 September 30, 2020, we had outstanding borrowings under the Credit Facility totaling \$18.0 million. A 1.0% increase in the interest rate on the Credit Facility would result in an increase of approximately \$0.2 million in interest expense on an annualized basis. At October 21, 2020, we had no borrowings outstanding, with \$742.3 million of available borrowings, net of \$7.7 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of September 30, 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 4. Controls and Procedures

Management's Quarterly Evaluation of 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 Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 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 three month period ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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.

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. As of the date of this Quarterly Report on Form 10-Q, the expected funding of the claim settlement has not yet occurred. 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 condensed consolidated balance sheet and our condensed consolidated statement of cash flows in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020.

We have a contingent liability related to a wage and hour lawsuit in the state of California. While the plaintiff's counsel has not yet made a settlement demand in the matter, the parties have agreed to a mediation hearing in March 2021 in an attempt to reach an agreed-upon settlement in the matter. The claim is not subject to any insurance recoveries on our behalf. While it appears that a loss is probable in this matter, 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.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A — "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q and other than the risk factors set forth below, there have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2019.

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

The recent outbreak of coronavirus in China is spreading 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 have issued 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 are considered an essential business pursuant to the various Executive Orders and our branch locations generally remain operational, 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 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, but is anticipated to have a material adverse impact on our business, results of operations, financial condition and liquidity.

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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On August 1, 2020, 38,274 shares of non-vested stock that were issued in 2019 vested at \$17.59 per share. Certain holders of those vested shares returned an aggregate of 13,915 shares of common stock to the Company during the quarter ended September 30, 2020 as payment for their respective withholding taxes. This resulted in an addition of 13,915 shares to treasury stock.

On August 1, 2020, 26,401 shares of non-vested stock that were issued in 2018 vested at \$17.59 per share. Certain holders of those vested shares returned an aggregate of 9,665 shares of common stock to the Company during the quarter ended September 30, 2020 as payment for their respective withholding taxes. This resulted in an addition of 9,665 shares to treasury stock.

On August 1, 2020, 33,397 shares of non-vested stock that were issued in 2017 vested at \$17.59 per share. Certain holders of those vested shares returned an aggregate of 12,301 shares of common stock to the Company during the quarter ended September 30, 2020 as payment for their respective withholding taxes. This resulted in an addition of 12,301 shares to treasury stock.

On August 14, 2020, 29,019 shares of non-vested stock that were issued in 2015 vested at \$21.33 per share. The holder of these shares returned an aggregate of 12,870 shares of common stock to the Company during the quarter ended September 30, 2020 as payment for their respective withholding taxes. This resulted in an addition of 12,870 shares to treasury stock.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 31.2 [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 32.1 [Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\).](#)
- 101.INS Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H&E EQUIPMENT SERVICES, INC.

Dated: October 28, 2020

By: /s/ Bradley W. Barber

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

Dated: October 28, 2020

By: /s/ Leslie S. Magee

Leslie S. Magee
Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Bradley W. Barber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&E Equipment Services, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly 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 quarterly 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 control 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: October 28, 2020

By: /s/ Bradley W. Barber
Bradley W. Barber
Chief Executive Officer & President
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Leslie S. Magee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&E Equipment Services, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly 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 quarterly 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 control 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: October 28, 2020

By: /s/ Leslie S. Magee

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

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of H&E Equipment Services, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley W. Barber, Chief Executive Officer and President 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: October 28, 2020

By: /s/ Bradley W. Barber

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

Dated: October 28, 2020

By: /s/ Leslie S. Magee

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