

# H&E EQUIPMENT SERVICES®

## THIRD QUARTER 2016 EARNINGS CONFERENCE

October 27, 2016



**NASDAQ: HEES**

*JOHN ENGQUIST - Chief Executive Officer  
BRAD BARBER - President, Chief Operating Officer  
LESLIE MAGEE - Chief Financial Officer  
KEVIN INDA - Vice President of Investor Relations*

### **FORWARD-LOOKING INFORMATION**

This presentation 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. Statements containing the words "may", "could", "would", "should", "believe", "expect", "anticipate", "plan", "estimate", "target", "project", "intend", "foresee" and similar expressions constitute forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following: (1) general economic conditions and construction and industrial activity in the markets where we operate in North America; (2) our ability to forecast trends in our business accurately, and the impact of economic downturns and economic uncertainty in the markets we serve; (3) the impact of conditions in the global credit and commodity markets and their effect on construction spending and the economy in general; (4) relationships with equipment suppliers; (5) increased maintenance and repair costs as we age our fleet and decreases in our equipment's residual value; (6) our indebtedness; (7) risks associated with the expansion of our business; (8) our possible inability to integrate any businesses we acquire; (9) competitive pressures; (10) compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and (11) other factors discussed in our public filings, including the risk factors included in the Company's most recent Annual Report on Form 10-K. Investors, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we are under no obligation to publicly update or revise any forward-looking statements after the date of this presentation.

### **NON-GAAP FINANCIAL MEASURES**

This presentation contains certain Non-GAAP measures (EBITDA, Adjusted EBITDA and Free Cash Flow). Please refer to Appendix A of this presentation for a description of these measures and a discussion of our use of these measures. These Non-GAAP measures, as calculated by the Company, are not necessarily comparable to similarly titled measures reported by other companies. Additionally, these Non-GAAP measures are not a measurement of financial or operating performance or liquidity under GAAP and should not be considered an alternative to the Company's other financial information determined under GAAP. See Appendix A for a reconciliation of these Non-GAAP measures.

- ▶ **Third Quarter Overview**
  - Q3 2016 Summary
  - Regional Update
  - Oil & Gas Update
  - Current Market Conditions
- ▶ **Third Quarter 2016 Financial Overview**
  - Q3 2016 Results
  - 2016 Fleet and Free Cash Flow Update
  - Capital Structure Update
- ▶ **Conclusion**
- ▶ **Q&A Session**





**John Engquist**  
Chief Executive Officer

### Third Quarter Summary

- ▶ Historic flooding in Louisiana a temporary headwind.
- ▶ Maintained industry leading utilization.
- ▶ Distribution business remains soft as a result of ongoing weakness in oil patch.
- ▶ Non-residential construction market remains healthy.

### Revenue/ Gross Margin

- ▶ Revenue was \$244.7 million vs. \$276.9 million in Q3 2015.
- ▶ Combined new and used equipment sales down \$30.3 million vs. Q3 2015.
- ▶ Gross margin was 36.0% vs. 33.5% a year ago.

### Income from Operations/ EBITDA

- ▶ Income from operations was \$33.1 million (13.5% margin) vs. Q3 2015 income from operations of \$38.5 million (13.9% margin).
- ▶ EBITDA was \$81.9 million (33.5% margin) vs. Q3 2015 EBITDA of \$86.2 million (31.1% margin).

### Net Income

- ▶ Net income was \$11.7 million vs. net income of \$14.8 million in Q3 2015.
- ▶ Net income per share was \$0.33 vs. \$0.42 a year ago.

### Fleet Utilization

- ▶ Time utilization (based on OEC) was 72.1% vs. 73.7% in Q3 2015.
- ▶ Time utilization (based on units) was 68.0% vs. 70.2% in Q3 2015.

### Rental Business Highlights

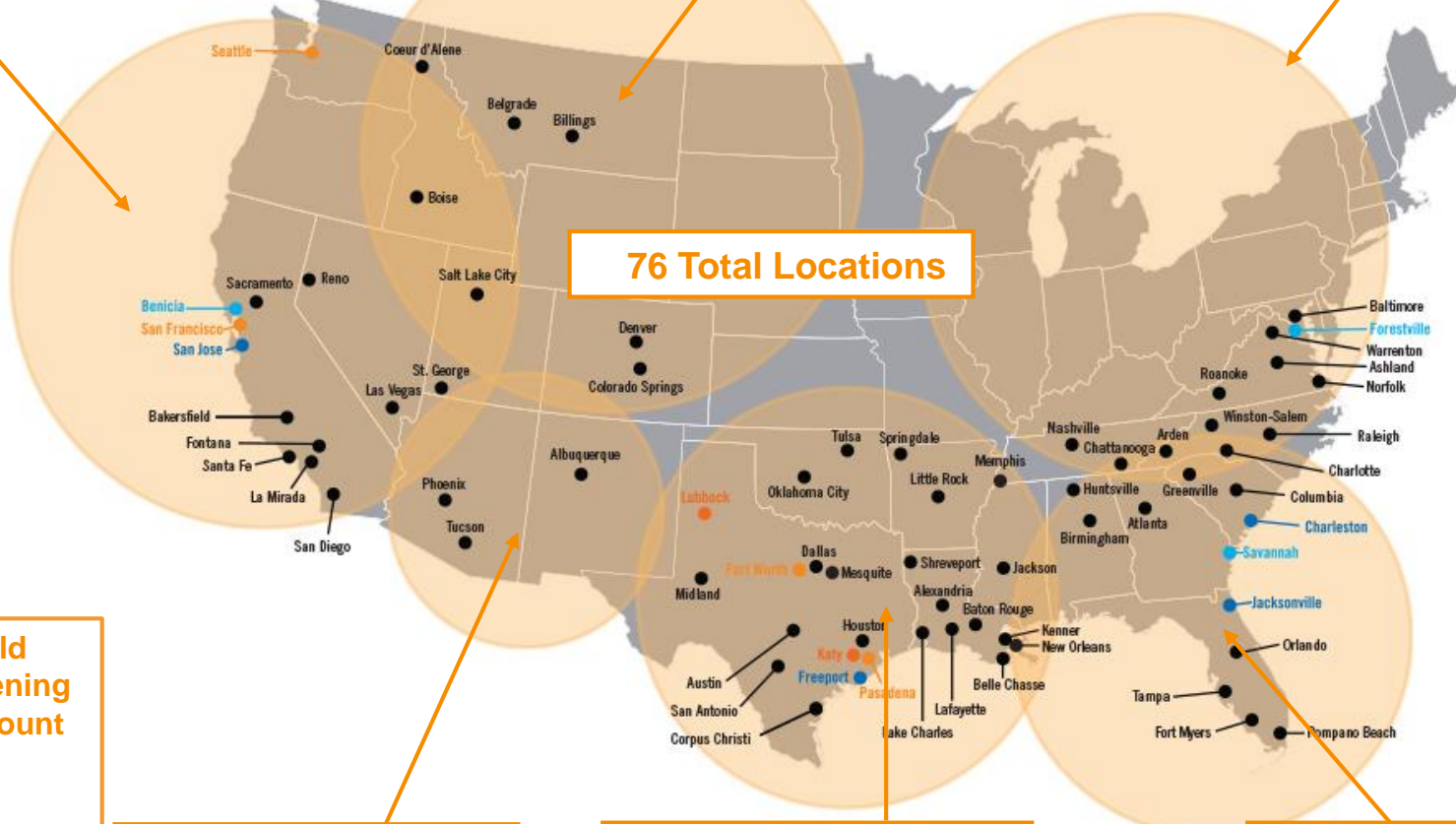
- ▶ Rental revenue was \$118.5 million compared to \$118.1 million in Q3 2015.
- ▶ Rental gross margins were 49.5% vs. 49.0% in Q3 2015.
- ▶ Rental rates decreased 0.7% over Q3 2015; rates increased 1.0% sequentially.
- ▶ Dollar utilization was 35.4% vs. 36.4% in Q3 2015.



**West Coast**  
 11% Revenue - 13% Gross Profit  
 13 Branches

**Intermountain**  
 13% Revenue - 14% Gross Profit  
 7 Branches

**Mid-Atlantic**  
 14% Revenue - 14% Gross Profit  
 12 Branches



**Greenfield Official Opening Year and Count**  
 2013 = 4  
 2014 = 2  
 2015 = 4  
 2016 = 3

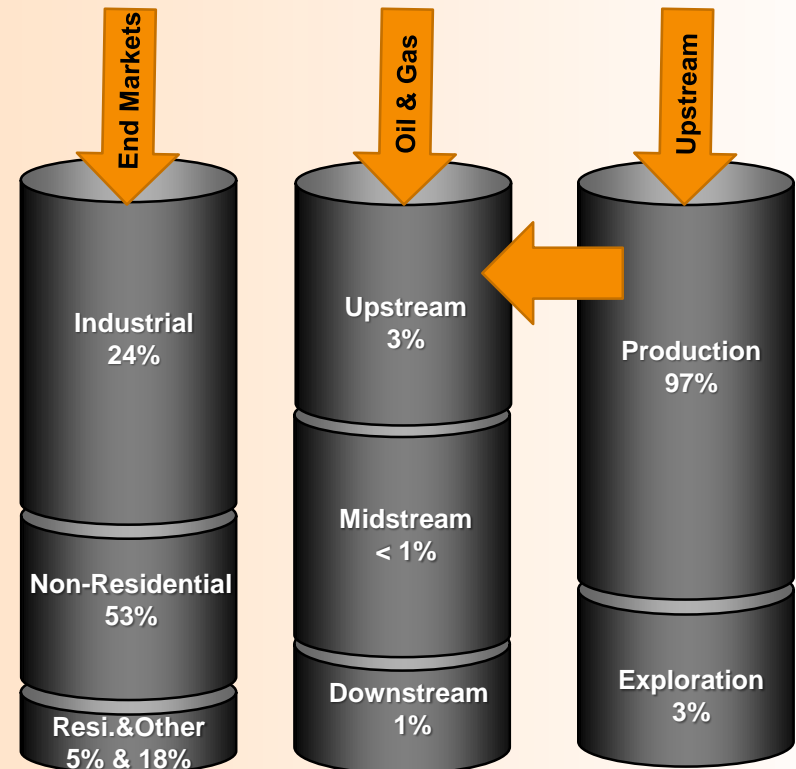
**Southwest**  
 5% Revenue - 5% Gross Profit  
 3 Branches

**Gulf Coast**  
 49% Revenue - 44% Gross Profit  
 29 Branches

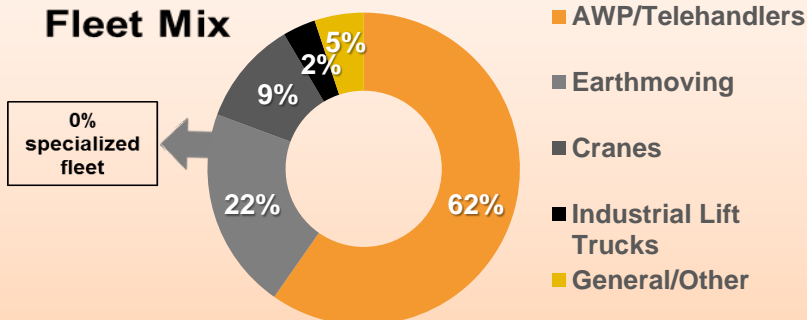
**Southeast**  
 8% Revenue - 10% Gross Profit  
 12 Branches

- ▶ Total revenue exposure to oil & gas was ~5% in Q3 16.
- ▶ Ongoing weakness in O&G markets continues to have a significant impact on new crane demand; visibility remains limited.
- ▶ Majority of our O&G exposure is in Gulf Coast region at 80% of total ~5% exposure.
- ▶ Texas alone is more than half of Gulf Coast O&G exposure.
- ▶ ~90% of total revenue in Texas is tied to non-residential construction activity; time utilization in four Texas stores with heavy oil and gas markets averaged 70.0% during 3Q on a combined basis, up 140 basis points from 2Q.
- ▶ Fleet is 100% transferrable between end markets. No fleet type is specialized for application in O&G industry.

### Oil & Gas Accounts for ~5% of Total Revenue in Q3 2016



### Fleet Mix

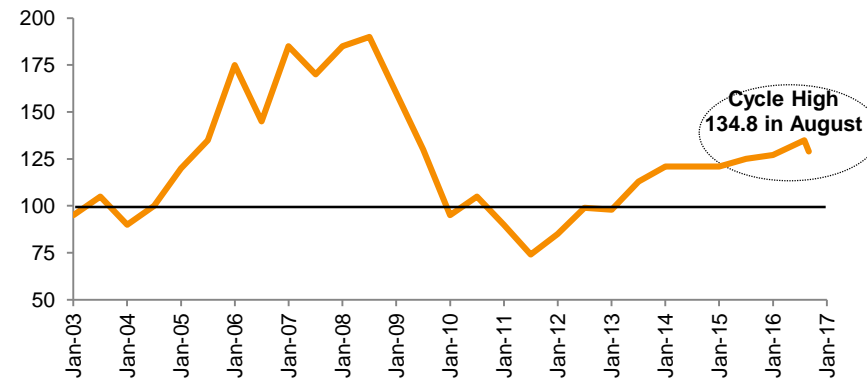


Projected Construction growth	2015	2016	2017
Dodge Data & Analytics	11.0%	1.0%	5.0%
IHS-Global Insight	7.0%	5.0%	5.0%

- ▶ **Non-residential construction activity remains healthy.**
- ▶ **Key industry indicators remain positive:**
  - ▶ **September DMI up 5.1% from a year ago.**
  - ▶ **ABI in South region at 53.4 in September.**
  - ▶ **Non-residential construction starts and construction put in place continue to suggest an extended cycle.**
  - ▶ **Construction employment holding at high levels.**
- ▶ **Fixing America's Surface Transportation (FAST) Act provides ~\$230 billion for highway improvements.**
- ▶ **Customer sentiment remains positive.**

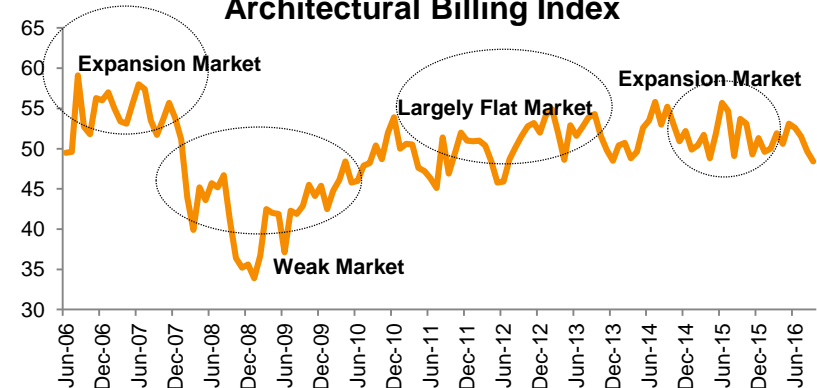
Source: Dodge Data & Analytics, American Institute of Architects, Bureau of Labor Statistics

### Dodge Momentum Index (DMI)



Source: Dodge Data & Analytics

### Architectural Billing Index



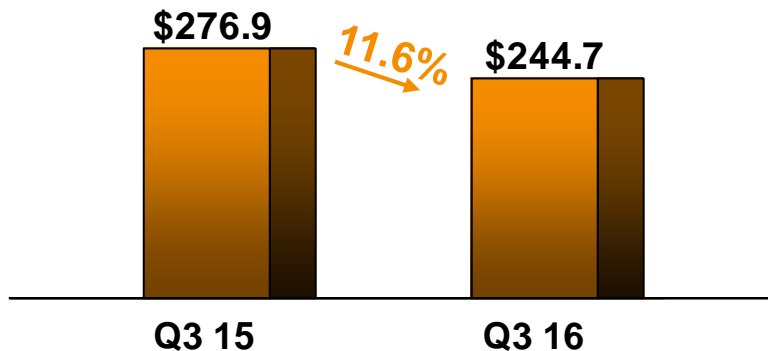
Source: American Institute of Architects



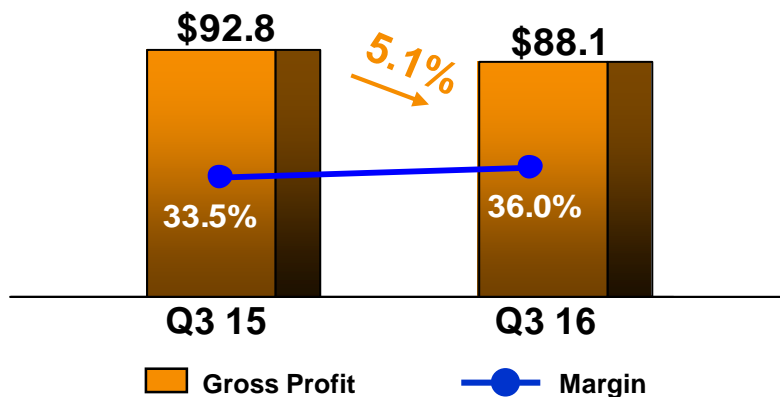


**Leslie Magee**  
Chief Financial Officer

### Revenues (\$MM)



### Gross Profit (\$MM)

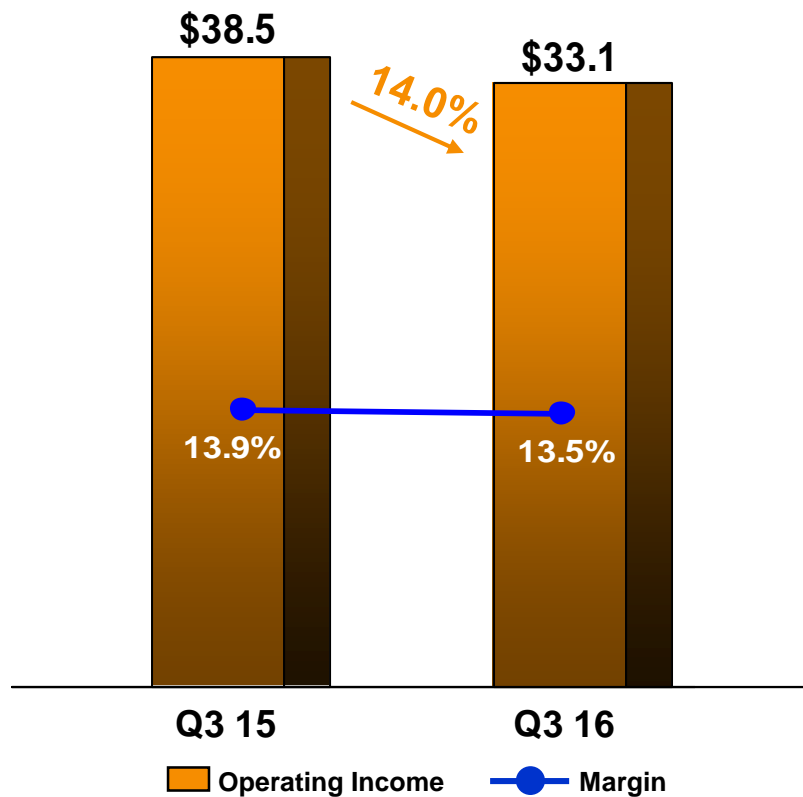


### Key Takeaways

- ▶ Revenues decreased 11.6%, or \$32.2 million.
- ▶ Rental revenue was comparable at \$118.5 million vs. \$118.1 million a year ago.
  - Average rates down 0.7% from a year ago but up 1.0% sequentially.
  - Utilization remained solid at 72.1% vs. 73.7% a year ago (on an OEC basis); AWP utilization was strong at 73.6% vs 73.4% a year ago.
- ▶ New equipment sales decreased 32.7%, or \$21.8 million.
  - New crane sales decreased 48.4%, or \$17.6 million.
- ▶ Gross profit decreased 5.1%.
  - Gross margin was 36.0% vs. 33.5%.
    - Margins by segments Q3 16 vs. Q3 15:
      - Rentals 49.5% vs. 49.0%
      - New 10.3% vs. 9.8%
      - Used 30.4% vs. 30.4%
      - Fleet only 33.7% vs 34.4%
      - Parts 27.9% vs. 27.2%
      - Service 66.1% vs. 66.6%



### Income From Operations (\$MM)

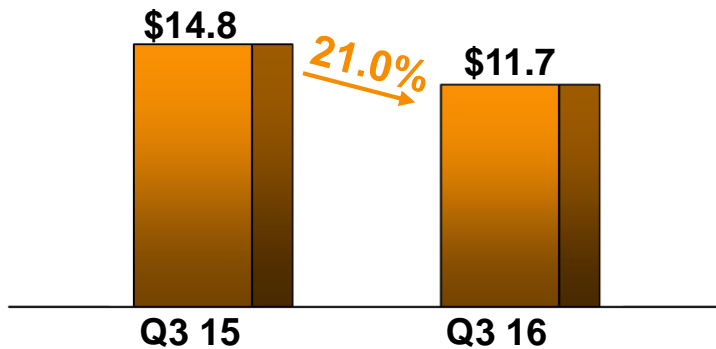


### Key Takeaways

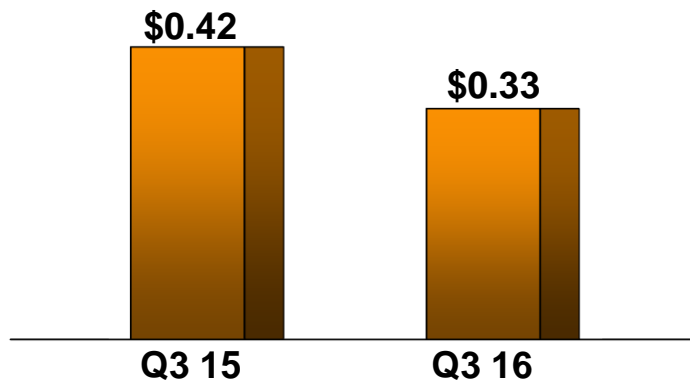
- ▶ **Income from operations was \$33.1 million compared to \$38.5 million a year ago.**
  - 13.5% margin in Q3 16 vs 13.9% in Q3 15.
  - Revenues decreased 11.6%.
  - Gross profit decreased 5.1%.
  - SG&A as a percentage of revenues was 22.9% compared to 19.8% a year ago primarily due to new branches.
    - See slide 14 – SG&A.



### Net Income (\$MM)



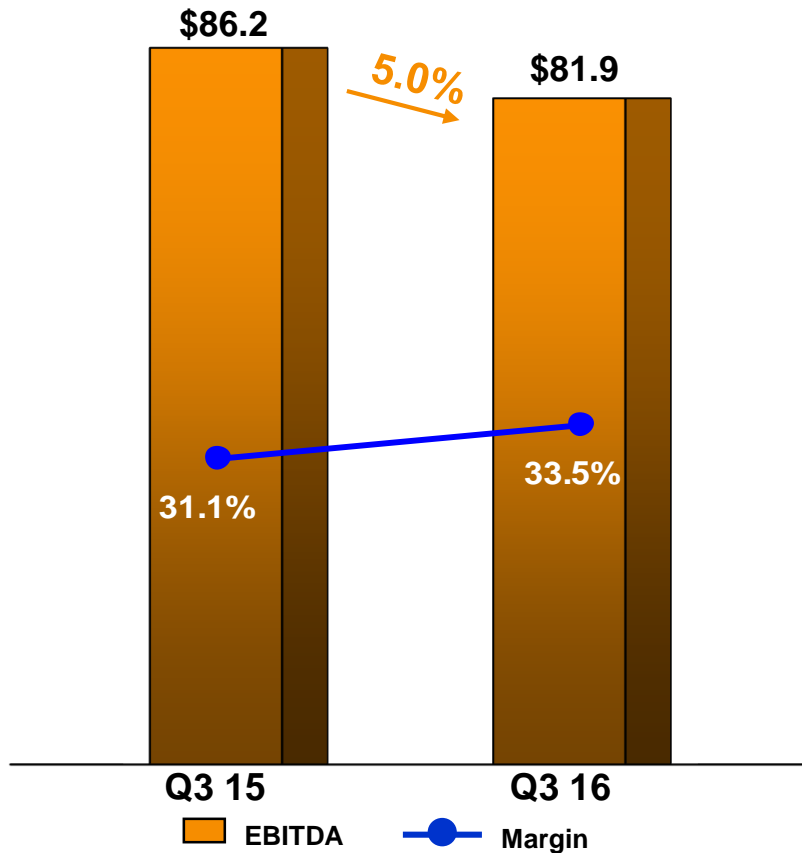
### Net Income Per Share



### Key Takeaways

- ▶ Net income of \$11.7 million compared to net income of \$14.8 million in Q3 15.
  - Effective tax rate was 41.7% vs. 42.1% a year ago.
- ▶ Diluted net income per share was \$0.33 vs. diluted net income per share of \$0.42 a year ago.

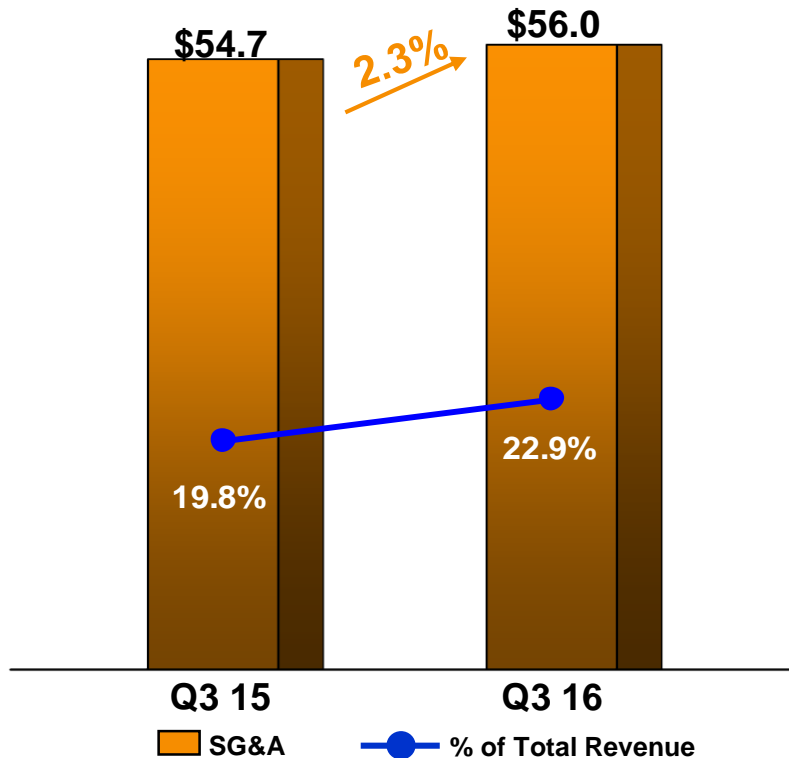
### EBITDA (\$MM)



### Key Takeaways

- ▶ **EBITDA decreased 5.0% on an 11.6% decrease in revenue.**
  - Results were \$81.9 million compared to \$86.2 million a year ago.
- ▶ **Margin was 33.5% compared to 31.1% a year ago.**

### SG&A (\$MM)



### Key Takeaways

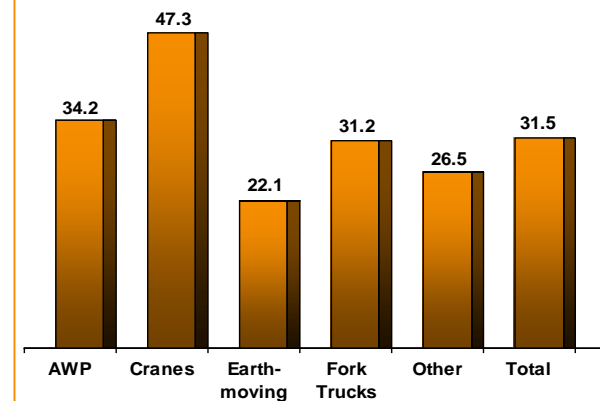
- ▶ **\$1.3 million, or 2.3% increase.**
  - SG&A as a percentage of revenue was 22.9% compared to 19.8% in Q3 15.
  - Branch expansions contributed \$1.2 million of the increase in SG&A in Q3 16.



## Rental Cap-Ex Summary (\$MM)

	2012	2013	2014	2015	Nine Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016
Gross Rental CapEx <sup>1</sup>	\$ 296.4	\$ 303.3	\$ 412.7	\$ 230.2	\$ 186.7	\$ 190.6
Sale of Rental Equipment	\$ (90.5)	\$ (114.6)	\$ (101.4)	\$ (99.5)	\$ (68.2)	\$ (62.3)
Net Rental CapEx	\$ 205.9	\$ 188.7	\$ 311.3	\$ 130.7	\$ 118.5	\$ 128.3

## Fleet Age by Equipment Type



## Free Cash Flow Summary (\$MM)

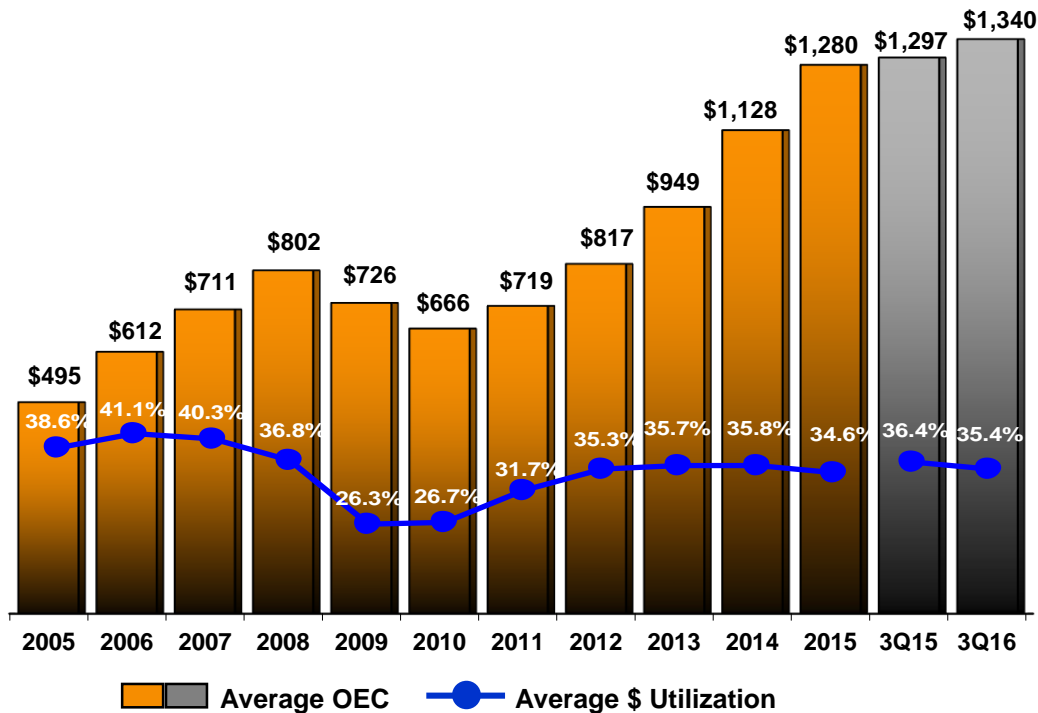
	2012	2013	2014	2015	Nine Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016
Free Cash Flow <sup>2</sup>	\$ (172.0)	\$ (40.9)	\$ (138.3)	\$ 104.9	\$ 32.4	\$ 5.0

Note: Fleet statistics as of September 30, 2016.

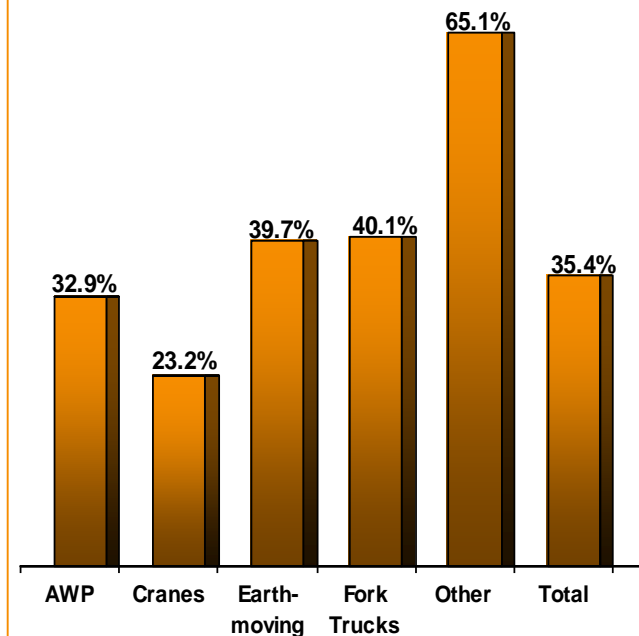
1 Gross rental cap-ex includes amounts transferred from new and used inventory considered non-cash asset purchases for purposes of the Consolidated Statement of Cash Flow.

2 We define Free Cash Flow as net cash provided by operating activities less (1) purchases of rental equipment and property and equipment plus (2) proceeds from sales of rental equipment and property and equipment. Please refer to Appendix A for a further description and reconciliation of net cash provided by operating activities to this Non-GAAP measure.

### Rental Fleet Statistics<sup>1</sup> (\$MM)



### \$ Utilization by Equipment Type<sup>1</sup>



Note: Fleet statistics as of September 30, 2016.

<sup>1</sup> Represents rental revenues annualized divided by the average original equipment cost.

## Capital Structure (\$MM)

**9/30/16**

<b>Cash</b>	<b>\$ 7.0</b>
<b>Debt:</b>	
<b>Sr. Sec'd Credit Facility (ABL)</b>	<b>209.8</b>
<b>Senior Unsecured Notes<sup>1</sup></b>	<b>630.0</b>
<b>Capital Leases Payable</b>	<b>1.8</b>
<b>Total Debt</b>	<b>\$ 841.6</b>
<b>Shareholders' Equity</b>	<b>\$ 139.4</b>
<b>Total Book Capitalization</b>	<b>\$ 981.0</b>

## Credit Statistics

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	LTM 09/30/16
<b>Adj. EBITDA<sup>2</sup>/ Total Interest Exp.</b>	2.8x	4.9x	5.8x	5.0x	6.0x	5.9x	5.7x
<b>Total Net Debt<sup>3</sup>/ Adj. EBITDA<sup>2</sup></b>	2.8x	1.7x	3.3x	2.8x	2.8x	2.6x	2.7x
<b>Total Debt/ Total Capitalization</b>	50.0%	50.4%	93.4%	88.6%	87.0%	85.1%	85.8%

<sup>1</sup> Senior Unsecured Notes exclude \$7.6 million of unaccreted note discount and \$5.3 million of unamortized premium.

<sup>2</sup> Excludes the impact of the \$10.2 million loss from early extinguishment of debt incurred in the third quarter of 2012. See Appendix A for a reconciliation of Non-GAAP measures.

<sup>3</sup> Net debt is defined as total debt less cash on hand.





**John Engquist**  
Chief Executive Officer

- ▶ **Historic Louisiana flooding in August temporarily delayed construction projects.**
- ▶ **Non-residential construction cycle remains healthy; trends should continue into 2017.**
- ▶ **Activity in Gulf Coast region remains solid with strong pipeline of industrial projects, followed by ongoing maintenance opportunities.**
- ▶ **Rental business and industry trends are positive.**
  - **Rental rates down only 0.4% YTD.**
  - **Solid margins at 49.5%.**
- ▶ **Paid ninth consecutive quarterly cash dividend on September 9, 2016.**





EBITDA, Adjusted EBITDA and Free Cash Flow are non-GAAP measures as defined under the rules of the SEC. We define EBITDA as net income (loss) before interest expense, income taxes, depreciation and amortization. We define Adjusted EBITDA for the year ended December 31, 2012 as EBITDA adjusted for the \$10.2 million loss from early extinguishment of debt incurred in the third quarter ended September 30, 2012. We define Adjusted EBITDA for the year ended December 31, 2009 as EBITDA adjusted for the \$9.0 million goodwill impairment charge recorded in the fourth quarter ended December 31, 2009. We define Free Cash Flow as net cash provided by operating activities, less purchases of rental equipment and property and equipment plus proceeds from sales of rental equipment and property and equipment.

We use EBITDA and Adjusted EBITDA in our business operations to, among other things, evaluate the performance of our business, develop budgets and measure our performance against those budgets. We also believe that analysts and investors use EBITDA and Adjusted EBITDA as supplemental measures to evaluate a company's overall operating performance. However, EBITDA and Adjusted EBITDA have material limitations as analytical tools and you should not consider them in isolation, or as substitutes for analysis of our results as reported under GAAP. We consider them useful tools to assist us in evaluating performance because they eliminate items related to capital structure, taxes and non-cash charges. The items that we have eliminated in determining EBITDA for the periods presented are interest expense, income taxes, depreciation of fixed assets (which includes rental equipment and property and equipment) and amortization of intangible assets and, in the case of Adjusted EBITDA, any goodwill and intangible asset impairment charges and the other items described above applicable to the particular period. However, some of these eliminated items are significant to our business. For example, (i) interest expense is a necessary element of our costs and ability to generate revenue because we incur a significant amount of interest expense related to our outstanding indebtedness; (ii) payment of income taxes is a necessary element of our costs; and (iii) depreciation is a necessary element of our costs and ability to generate revenue because rental equipment is the single largest component of our total assets and we recognize a significant amount of depreciation expense over the estimated useful life of this equipment. Any measure that eliminates components of our capital structure and costs associated with carrying significant amounts of fixed assets on our consolidated balance sheet has material limitations as a performance measure. In light of the foregoing limitations, we do not rely solely on EBITDA and Adjusted EBITDA as performance measures and also consider our GAAP results. EBITDA and Adjusted EBITDA are not measurements of our financial performance under GAAP and should not be considered alternatives to net income, operating income or any other measures derived in accordance with GAAP.

The company uses Free Cash Flow in our business operations to, among other things, evaluate the cash flow available to meet future debt service obligations and working capital requirements. However, this measure should not be considered as an alternative to cash flows from operating activities or any other measures derived in accordance with GAAP as indicators of operating performance or liquidity. Additionally, our definition of Free Cash Flow is limited, in that it does not represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other contractual obligations. Therefore, we believe it is important to view Free Cash Flow as a measure that provides supplemental information to our entire statement of cash flows. Further, the method used by our management to calculate Free Cash Flow may differ from the methods other companies use to calculate their Free Cash Flow.

Because EBITDA, Adjusted EBITDA and Free Cash Flow may not be calculated in the same manner by all companies, these measures may not be comparable to other similarly titled measures by other companies.

For a reconciliation of historical non-GAAP financial measures to the nearest comparable GAAP measures, see the Non-GAAP reconciliations included further in this presentation.



(\$ in thousands)

	2009	2010	2011	2012	2013	2014	2015	Q3 15	Q3 16
Net income (loss)	\$ (11,943)	\$ (25,460)	\$ 8,926	\$ 28,836	\$ 44,140	\$ 55,139	\$ 44,305	\$ 14,772	\$ 11,665
Interest expense	31,339	29,076	28,727	35,541	51,404	52,353	54,030	13,481	13,469
Provision (benefit) for income taxes	(6,178)	(14,920)	3,215	15,612	21,007	37,545	31,371	10,720	8,342
Depreciation	98,702	91,707	99,036	116,447	138,903	166,514	186,457	47,204	48,385
Amortization of intangibles	591	559	362	66	—	—	—	—	—
<b>EBITDA</b>	<b>\$ 112,511</b>	<b>\$ 80,962</b>	<b>\$ 140,266</b>	<b>\$ 196,502</b>	<b>\$ 255,454</b>	<b>\$ 311,551</b>	<b>\$ 316,163</b>	<b>\$ 86,177</b>	<b>\$ 81,861</b>
Impairment of goodwill, loss on early extinguishment of debt <sup>1</sup>	8,972	—	—	10,180	—	—	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 121,483</b>	<b>\$ 80,962</b>	<b>\$ 140,266</b>	<b>\$ 206,682</b>	<b>\$ 255,454</b>	<b>\$ 311,551</b>	<b>\$ 316,163</b>	<b>\$ 86,177</b>	<b>\$ 81,861</b>

<sup>1</sup> Adjustments relate to non-cash asset impairment charge in the fourth quarter ended December 31, 2009 and loss from early extinguishment of debt incurred in the third quarter ended September 30, 2012.

(\$ in thousands)

	2011	2012	2013	2014	2015	Nine Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016
Net cash provided by operating activities	\$ 60,385	\$ 41,023	\$ 138,652	\$ 158,318	\$ 206,620	\$ 121,097	\$ 109,403
Purchases of property and equipment	(18,433)	(37,361)	(29,479)	(33,235)	(26,797)	(22,317)	(16,753)
Purchases of rental equipment <sup>1</sup>	(127,235)	(268,229)	(267,465)	(368,491)	(178,772)	(137,184)	(152,644)
Proceeds from sale of property and equipment	1,382	2,058	2,759	3,657	4,289	2,582	2,689
Proceeds from sale of rental equipment	63,358	90,542	114,595	101,426	99,521	68,187	62,259
<b>Free cash flow</b>	<b>\$ (20,543)</b>	<b>\$ (171,967)</b>	<b>\$ (40,938)</b>	<b>\$ (138,325)</b>	<b>\$ 104,861</b>	<b>\$ 32,365</b>	<b>\$ 4,954</b>

1 Purchases of rental equipment as reflected in the Consolidated Statement of Cash Flows exclude non-cash assets transferred from new and used inventory to rental. Transfers from new and used inventory to rental are included below and also shown in the supplemental schedule of non-cash investing and financing activities of the Consolidated Statement of Cash Flows. In addition, the amounts as detailed below are included in gross rental cap-ex on slide 15.

2011	2012	2013	2014	2015	Nine Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2016
\$28.4	\$28.2	\$35.9	\$44.2	\$51.4	\$49.5	\$38.0