AP CAPITAL RESEARCH

M&A Deal of The Week
Herc & H&E

WRITTEN BY
Mihir Modi
Max Hanson
Max Brown
Riccardo di Silvio

EDITED BY
Samuel Thompson

DATE
6th of March, 2025.

Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- On February 18, 2025, Herc Holdings Inc. (NYSE: HRI), a leading equipment rental supplier in North America, announced a definitive agreement to acquire H&E Equipment Services, Inc. (NASDAQ: HEES) in a transaction valued at approximately $3.83 billion, excluding debt. This strategic move positions Herc as the third-largest equipment rental company in North America, enhancing its market presence and service capabilities.
- The deal, structured as a cash and stock transaction, is valued at $104.89 per H&E share based on the 10-day Volume Weighted Average Price, owning 14.1% of the combined company. This synergy will be a unique opportunity to provide industry-leading growth and increased shareholder value, and the deal is expected to close in mid-2025
- The acquisition will provide Herc an increased presence, adding a network of 160 branches across 30 states, comprising 64000 units of machinery and 2900 employees. H&E's focus on niche machinery like aerial work platforms, earthmoving equipment, and material handling complements Herc's broader products, allowing it to target a wider market.
- The deal anticipates approximately $300 million in annual EBITDA synergies by the end of the third year post closing, produced by cost efficiencies and revenue enhancements
- Guggenheim Securities, LLC served as the lead financial advisor to Herc Holdings Inc., with Crédit Agricole Securities (USA) Inc. acting as co-financial advisor, while Simpson Thacher & Bartlett LLP provided legal counsel and Joele Frank, Wilkinson Brimmer Katcher assisted with strategic communications. On the H&E Equipment Services side, BofA Securities acted as the financial advisor, with Milbank LLP serving as legal counsel. Crédit Agricole Corporate and Investment Bank was the lead financing bank for the transaction. These advisors played a crucial role in structuring and executing the merger, ensuring strategic alignment and regulatory compliance.

Key Figures

- **Deal Value:** $5.3 billion
- **Herc EV/EBITDA:** 8.5x
- **Herc EV:** $7.5 B
- **Herc P/E:** 19.2x
- **Herc D/E :** 1.7x
- **Herc P/S:** 1.4x
- **Herc Market Cap:** $5.9 B

- **Deal Premium: 14.1%**
- **H&E CEO:** Bradley Barber
- **H&E Employees:** 2900
- **H&E EV/EBITDA:** 8.5x
- **H&E EV:** $5.3 B
- **H&E P/E:** 19.2x
- **H&E Market Cap:** $3.8 B

WRITTEN BY
Mihir Modi

Company Information

M&A DEAL OF THE WEEK

Herc (NYSE:HRI)

- Founded in 1965, Herc Holdings (originally the equipment-rental division of Hertz) is one of North America's largest equipment rental companies. It provides a wide portfolio of heavy machinery and industrial equipment to diverse end markets, including the construction, industrial, and government sectors.
- Herc offers equipment rental, fleet management, and specialty solutions covering aerial, material handling, earthmoving, and more. The company also provides value-added services like maintenance, repairs, and logistical support.
- With 450+ locations across the United States and Canada, Herc maintains a strong regional footprint and has selectively expanded to capture international opportunities.
- Herc has emphasized digital transformation and improved customer experience by integrating online rental platforms and fleet-tracking solutions.
- In its latest reported quarter (Q4 2024), Herc's revenue reached $951 million, reflecting a 14.4% year-over-year increase. Adjusted EBITDA reached $438 million, while adjusted earnings per share (EPS) inched up to $3.58.

H&E (NASDAQ: HEES)

- Founded in 1961, H&E Equipment Services is a full-service equipment company specializing in rentals, sales, and support of heavy construction and industrial equipment.
- The company's offerings include earthmoving, material handling, and aerial equipment, alongside parts and service programs. H&E also provides new and used equipment sales, serving a broad range of clients from small contractors to large industrial operators.
- Operating across over 160 locations in the United States, H&E is known for its integrated approach, combining rental solutions with service and maintenance expertise.
- They have expanded their branch network by 17% year-over-year by focusing on branch expansion and adding more locations through acquisitions, which suggests a commitment to enhancing operational efficiency and customer service.
- H&E's Q4 2024 revenue totalled $384.1 million, down 0.4% year-over-year. Adjusted EBITDA decreased by 5.6% to $174.9 million, while diluted earnings per share (EPS) moved to $3.94.

WRITTEN BY
Max Hanson

Deal Rationale and Risk

M&A DEAL OF THE WEEK

Rationale - Scale & Market Expansion

Strategic Fit

The acquisition supports Herc's strategy to accelerate growth and strengthen its position in the equipment rental industry by expanding its operational scale, market presence and service capabilities. Integrating H&E's branch network and fleet will enable Herc to reach more customers and capitalise on growing industry demand.

Financial Rationale

The deal is expected to generate significant financial benefits, including cost savings and increased revenue streams. Greater operational efficiency from integrating H&E's business will support margin expansion and enhance profitability. Additionally, the transaction is projected to boost earnings, creating long-term value for shareholders.

Risk Mitigation and Business Resilience

Expanding Herc's operations through this acquisition enhances business resilience by reducing concentration risk and increasing long-term stability. With a broader geographic presence, Herc becomes less dependent on specific regions, mitigating exposure to localised economic downturns. A more diverse customer base reduces reliance on cyclical industries, making revenue streams more stable

Risk - Integration & Competive Pressure

Integration Challenges

While the acquisition presents significant strategic and financial opportunities, Herc faces several integration challenges that could impact the success of the deal. Operational and IT system alignment must be executed seamlessly to prevent service disruptions. Additionally, merging corporate cultures will be essential to retaining key talent and maintaining internal efficiency. Herc expects $300 million in projected synergies, but realising these savings will depend on effective cost integration and execution.

Competetive Pressures & Customer Retention

Beyond integration risks, customer retention and competitive pressures pose additional challenges. Competitors such as United Rentals and Sunbelt Rentals may respond with aggressive pricing strategies or expand service offerings to defend their market share. Herc must leverage its expanded fleet and branch network to strengthen customer loyalty and remain competitive. Addressing these challenges proactively will be crucial for Herc to maximise the full benefits of the acquisition

WRITTEN BY
Max Brown

Industry Analysis

M&A DEAL OF THE WEEK

The Equipment Rental Market

The North American construction equipment rental industry is experiencing steady growth, driven by robust infrastructure development, urbanization, and shifting customer preferences. In 2022, the market was valued at approximately $43 billion, with projections suggesting it will reach nearly $60 billion by 2029, growing at a CAGR of 4% – 5%. Federal infrastructure programs like the Infrastructure Investment and Jobs Act are key demand drivers, alongside the rising costs of new equipment, which encourages rental over ownership.

The market is dominated by key players such as United Rentals (16% market share), Sunbelt Rentals (12%), and Herc Rentals (5%). H&E Equipment Services holds about 2%, with the remainder fragmented among regional and local firms. This fragmented structure keeps competition robust, with larger companies leveraging economies of scale, and smaller players competing on customer service and niche offerings.

Key Trends

1. Growing Rental Penetration:
   Rental penetration has surpassed 50%, reflecting a structural shift as companies prefer asset-light models.
2. Digitalization:
   Companies are investing in digital platforms and telematics, offering customers real-time equipment tracking and streamlined rental processes.
3. Sustainability:
   Rising demand for eco-friendly equipment, including electric and hybrid models, is reshaping fleet compositions, driven by environmental regulations and customer preferences.

Emerging Trends and Insights

Digital Transformation and Automation

Companies are increasingly adopting advanced technologies such as artificial intelligence (AI) and telematics to enhance operational efficiency. These tools enable real-time equipment tracking, predictive maintenance, and improved inventory management, leading to optimized fleet utilization and reduced downtime. The integration of AI-driven analytics assists in forecasting demand and streamlining operations, positioning companies to better meet customer needs.

Expansion into Emerging Markets

Emerging markets, particularly in the Asia-Pacific region, present significant growth opportunities due to rapid urbanization and infrastructure development. Companies are exploring these regions to tap into the increasing demand for construction equipment, aiming to establish a foothold in these burgeoning markets. This expansion is facilitated by offering tailored solutions that meet the specific needs of diverse construction environments.

WRITTEN BY
Riccardo di Silvio

Final Thoughts

M&A DEAL OF THE WEEK

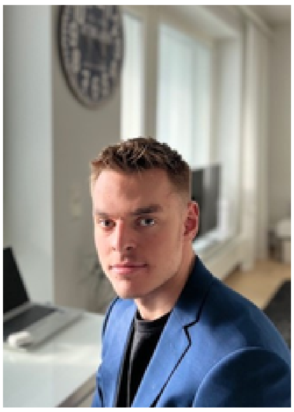
Max Hanson
With this deal, Herc is expanding its equipment rental footprint by acquiring H&E, adding to its large rental fleet and customer base to strengthen its competitiveness. However, H&E has significant capital expenditures, and with the deal valued at $5.3 billion, the financial strain could limit Herc's flexibility for future investments or debt reduction. However, cost synergies and revenue synergies contribute to Herc becoming more competitive.

Riccardo di Silvio
Herc's strategic decision to acquire H&E is a bold move aimed at strengthening its position in the equipment rental industry. This acquisition is expected to elevate Herc to the third-largest rental company in North America, enhancing its market presence and operational capabilities. However, the integration process and realization of projected benefits will be critical to its success.

Max Brown
The acquisition of H&E marks a strategic step for Herc, reinforcing its market position and expanding operational capabilities. While it presents growth opportunities, the success of the deal depends on seamless integration and effective execution.

Mihir Modi
It is clear that Herc's merger will strenthen their company with a wider customer base and higher revenue level from diversifying their products. However, the effectiveness of this merger will depend on factors such as the integration of these two companies while maintaining their reputation of high-quality service. There is also an opportunity cost of not focusing on forward-moving markets such as AI to incorporate automation and fleet tracking to improve efficiency as a cheaper alternative to.





MIHIR MODI
Analyst
mihirmodi05@outlook.com

RICCARDO DI SILVIO
Analyst
riccardo.disilvio@icloud.com

MAX BROWN
Analyst
max.brown225@gmail.com

MAX HANSON
Head of M&A
maxcharleshanson@gmail.com

SAMUEL THOMPSON
APCR Director
Sjbt2015@gmail.com

Disclaimer

M&A DEAL OF THE WEEK