

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

H&E Equipment Services, Inc.  
Form 10-Q  
October 27, 2016

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, 2016

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	81-0553291
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
7500 Pecue Lane,	70809
Baton Rouge, Louisiana	(ZIP Code)
(Address of Principal Executive Offices)	

(225) 298 5200

(Registrant's Telephone Number, Including Area Code)

None

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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, 2016, there were 35,557,785 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

September 30, 2016

<u>PART I. FINANCIAL INFORMATION</u>	Page 4
<u>Item 1. Financial Statements:</u>	4
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 (Unaudited) and December 31, 2015</u>	4
<u>Condensed Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2016 and 2015</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	37
<u>PART II. OTHER INFORMATION</u>	38
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 3. Defaults upon Senior Securities</u>	38
<u>Item 4. Mine Safety Disclosures</u>	38
<u>Item 5. Other Information</u>	38
<u>Item 6. Exhibits</u>	38
<u>Signatures</u>	39

## 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” or 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.

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. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- 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;
- the impact of conditions in the global credit and commodity markets and their effect on construction spending and the economy in general;
- 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;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and
- other factors discussed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

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, 2015, as well as other reports and registration statements filed by us with the SEC. 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](http://www.he-equipment.com).



## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

	Balances at September 30,	December 31,
	2016 (Unaudited)	2015
<b>ASSETS</b>		
Cash	\$7,034	\$7,159
Receivables, net of allowance for doubtful accounts of \$4,027 and \$4,729, respectively	138,833	147,328
Inventories, net of reserves for obsolescence of \$902 and \$934, respectively	73,998	96,818
Prepaid expenses and other assets	8,894	10,054
Rental equipment, net of accumulated depreciation of \$424,551 and \$390,317, respectively	922,486	893,393
Property and equipment, net of accumulated depreciation and amortization of \$116,658 and \$107,170, respectively	107,216	110,785
Deferred financing costs, net of accumulated amortization of \$11,957 and \$11,347, respectively	2,167	2,777
Goodwill	31,197	31,197
Total assets	\$1,291,825	\$1,299,511
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Amounts due on senior secured credit facility	\$209,762	\$184,857
Accounts payable	48,227	66,777
Manufacturer flooring plans payable	38,226	62,433
Accrued expenses payable and other liabilities	51,502	55,551
Dividends payable	56	32
Senior unsecured notes, net of unaccreted discount of \$2,391 and \$2,694, respectively	627,609	627,306
Capital leases payable	1,756	1,907
Deferred income taxes	173,449	155,886
Deferred compensation payable	1,826	2,174
Total liabilities	1,152,413	1,156,923
<b>Commitments and Contingencies</b>		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued	—	—

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Common stock, \$0.01 par value, 175,000,000 shares authorized; 39,500,053 and

39,333,571 shares issued at September 30, 2016 and December 31, 2015, respectively, and 35,558,750 and 35,428,868 shares outstanding at September 30, 2016 and December 31, 2015, respectively

	394	392
Additional paid-in capital	222,817	220,879
Treasury stock at cost, 3,941,303 and 3,904,703 shares of common stock		
held at September 30, 2016 and December 31, 2015, respectively	(60,951 )	(60,405 )
Retained deficit	(22,848 )	(18,278 )
Total stockholders' equity	139,412	142,588
Total liabilities and stockholders' equity	\$1,291,825	\$1,299,511

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

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Equipment rentals	\$ 118,535	\$ 118,055	\$ 330,023	\$ 328,072
New equipment sales	44,764	66,552	151,836	175,465
Used equipment sales	20,630	29,111	71,973	83,113
Parts sales	27,335	28,968	81,958	84,400
Services revenues	16,076	16,727	49,322	47,452
Other	17,346	17,440	48,679	48,121
Total revenues	244,686	276,853	733,791	766,623
<b>Cost of revenues:</b>				
Rental depreciation	41,528	40,963	120,700	121,121
Rental expense	18,378	19,210	53,162	52,522
New equipment sales	40,147	60,000	135,152	156,068
Used equipment sales	14,364	20,262	49,751	56,761
Parts sales	19,708	21,098	59,184	61,224
Services revenues	5,445	5,582	16,736	16,017
Other	16,991	16,901	48,129	47,329
Total cost of revenues	156,561	184,016	482,814	511,042
Gross profit	88,125	92,837	250,977	255,581
Selling, general and administrative expenses	55,962	54,704	172,385	162,584
Gain on sales of property and equipment, net	927	339	2,301	1,769
Income from operations	33,090	38,472	80,893	94,766
<b>Other income (expense):</b>				
Interest expense	(13,469 )	(13,481 )	(40,229 )	(40,675 )
Other, net	386	501	1,505	1,083
Total other expense, net	(13,083 )	(12,980 )	(38,724 )	(39,592 )
Income before provision for income taxes	20,007	25,492	42,169	55,174
Provision for income taxes	8,342	10,720	17,427	22,836
Net income	\$ 11,665	\$ 14,772	\$ 24,742	\$ 32,338
<b>Net income per common share:</b>				
Basic	\$0.33	\$0.42	\$0.70	\$0.92
Diluted	\$0.33	\$0.42	\$0.70	\$0.92
<b>Weighted average common shares outstanding:</b>				
Basic	35,424	35,308	35,373	35,258
Diluted	35,504	35,350	35,461	35,317
Dividends declared per common share outstanding	\$0.275	\$0.275	\$0.825	\$0.775

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

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Nine Months Ended	
	September 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 24,742	\$ 32,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	20,321	17,895
Depreciation of rental equipment	120,700	121,121
Amortization of deferred financing costs	789	774
Accretion of note discount, net of premium amortization	124	126
Provision for losses on accounts receivable	2,723	2,446
Provision for inventory obsolescence	82	201
Change in deferred income taxes	17,193	22,514
Stock-based compensation expense	2,308	2,036
Gain from sales of property and equipment, net	(2,301 )	(1,769 )
Gain from sales of rental equipment, net	(21,450 )	(24,962 )

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Changes in operating  
assets and liabilities:

Receivables	5,772	15,282
Inventories	(15,220 )	(18,673 )
Prepaid expenses and other assets	1,160	(3,702 )
Accounts payable	(18,549 )	599
Manufacturer flooring plans payable	(24,207 )	(33,696 )
Accrued expenses payable and other liabilities	(4,436 )	(11,484 )
Deferred compensation payable	(348 )	51
Net cash provided by operating activities	109,403	