

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

H&E Equipment Services, Inc.

Form 10-Q

April 26, 2019

false 2019 Q1 HEES 0001339605 --12-31 Large Accelerated Filer false false P10Y P1Y P10Y P10Y P1Y P10Y  
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srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001339605 hees:NewEquipmentMember  
srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001339605  
hees:UsedEquipmentMember srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2019-01-01  
2019-03-31 0001339605 hees:UsedEquipmentMember srt:GuarantorSubsidiariesMember

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[illegible]

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 March 31, 2019

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

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

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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 April 22, 2019, there were 35,777,333 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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March 31, 2019

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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, 2018, 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](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	
	March 31,	December 31,
	2019	2018
	(Unaudited)	
<b>ASSETS</b>		
Cash	\$6,442	\$16,677
Receivables, net of allowance for doubtful accounts of \$4,221 and \$4,094, respectively	188,343	201,556
Inventories, net of reserves for obsolescence of \$272 and \$368, respectively	142,379	104,598
Prepaid expenses and other assets	12,646	10,508
Rental equipment, net of accumulated depreciation of \$607,306 and \$582,520, respectively	1,189,677	1,141,498
Property and equipment, net of accumulated depreciation and amortization of \$144,604 and \$142,662, respectively	118,759	115,121
Operating lease right-of-use assets, net of accumulated amortization of \$2,729 at March 31, 2019	166,293	—
Finance lease right-of-use assets, net of accumulated amortization of \$1,929 at March 31, 2019	487	—
Deferred financing costs, net of accumulated amortization of \$13,895 and \$13,717, respectively	3,347	3,000
Intangible assets, net of accumulated amortization of \$4,272 and \$3,320, respectively	34,729	28,380
Goodwill	142,490	105,843
Total assets	\$2,005,592	\$1,727,181
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$265,647	\$170,761
Accounts payable	115,494	101,840
Manufacturer flooring plans payable	26,350	23,666
Accrued expenses payable and other liabilities	61,622	73,371
Dividends payable	93	132
Senior unsecured notes, net of unaccreted discount of \$3,048 and \$3,168 and deferred financing costs of \$1,975 and \$2,052, respectively	944,977	944,780
Operating lease right-of-use liabilities	168,579	—
Finance lease right-of-use liabilities	725	—
Capital leases payable	—	726
Deferred income taxes	158,090	153,113

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Deferred compensation payable	2,016	1,989
Total liabilities	1,743,593	1,470,378
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; 39,808,072 and 39,748,562 shares issued at March 31, 2019 and December 31, 2018, respectively, and 35,778,807 and 35,733,569 shares outstanding at March 31, 2019 and December 31, 2018, respectively	397	396
Additional paid-in capital	232,362	231,174
Treasury stock at cost, 4,029,265 and 4,014,993 shares of common stock held at March 31, 2019 and December 31, 2018, respectively	(63,486 )	(63,099 )
Retained earnings	92,726	88,332
Total stockholders' equity	261,999	256,803
Total liabilities and stockholders' equity	\$2,005,592	\$1,727,181

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	
	March 31,	
	2019	2018
Revenues:		
Equipment rentals	\$ 176,129	\$ 137,038
New equipment sales	59,103	46,493
Used equipment sales	29,634	24,853
Parts sales	30,428	28,151
Services revenues	15,568	15,036
Other	2,776	8,911
Total revenues	313,638	260,482
Cost of revenues:		
Rental depreciation	57,148	46,469
Rental expense	24,768	21,272
Rental other	16,275	12,100
	98,191	79,841
New equipment sales	52,099	40,845
Used equipment sales	19,012	16,937
Parts sales	22,289	20,617
Services revenues	5,004	5,050
Other	3,343	4,607
Total cost of revenues	199,938	167,897
Gross profit	113,700	92,585
Selling, general and administrative expenses	78,647	65,880
Merger costs	119	152
Gain on sales of property and equipment, net	741	773
Income from operations	35,675	27,326
Other income (expense):		
Interest expense	(16,855 )	(14,653 )
Other, net	532	395
Total other expense, net	(16,323 )	(14,258 )
Income before provision for income taxes	19,352	13,068
Provision for income taxes	5,109	3,590
Net income	\$ 14,243	\$ 9,478
Net income per common share:		
Basic	\$0.40	\$0.27
Diluted	\$0.40	\$0.26
Weighted average common shares outstanding:		
Basic	35,787	35,592
Diluted	35,973	35,879

Dividends declared per common share outstanding   \$0.275      \$0.275

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)

	Three Months Ended	
	March 31, 2019	2018
Cash flows from operating activities:		
Net income	\$ 14,243	\$ 9,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	6,479	5,884
Depreciation of rental equipment	57,148	46,469
Amortization of finance lease right-of-use assets	41	—
Amortization of intangible assets	952	705
Amortization of deferred financing costs	254	289
Accretion of note discount, net of premium amortization	120	120
Operating right-of-use lease liabilities, net	146	—
Provision for losses on accounts receivable	1,301	817
Provision for inventory obsolescence	42	67
Change in deferred income taxes	4,977	4,456
Stock-based compensation expense	1,188	1,319
Gain from sales of property and equipment, net	(741 )	(773 )
Gain from sales of rental equipment, net	(10,621 )	(7,745 )
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	17,605	22,414
Inventories	(58,062 )	(88,674 )
Prepaid expenses and other assets	(2,117 )	(2,237 )
Accounts payable	13,539	45,384
Manufacturer flooring plans payable	2,684	6,110
Accrued expenses payable and other liabilities	(10,137 )	(15,799 )
Deferred compensation payable	27	22
Net cash provided by operating activities	39,068	28,306
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(106,746 )	(125,207 )
Purchases of property and equipment	(7,221 )	(4,505 )
Purchases of rental equipment	(48,644 )	(40,654 )
Proceeds from sales of property and equipment	931	785
Proceeds from sales of rental equipment	28,292	23,430
Net cash used in investing activities	(133,388 )	(146,151 )
Cash flows from financing activities:		
Borrowings on senior secured credit facility	447,503	294,229
Payments on senior secured credit facility	(352,617 )	(294,229 )
Dividends paid	(9,832 )	(9,804 )
Purchases of treasury stock	(387 )	—



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Payments of deferred financing costs	(525 )	(88 )
Payments of finance lease obligations	(57 )	—
Payments of capital lease obligations	—	(57 )
Net cash provided by (used in) financing activities	84,085	(9,949 )
Net decrease in cash	(10,235 )	(127,794 )
Cash, beginning of period	16,677	165,878
Cash, end of period	\$6,442	\$38,084

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Unaudited)

(Amounts in thousands)

	Three Months Ended March 31,	
	2019	2018
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$21,112	\$15,414
Purchases of property and equipment included in accrued expenses		
payable and other liabilities	\$345	\$(23 )
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	\$8,370	\$-
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$29,481	\$28,633
Income taxes paid (net of refunds received)	\$(519 )	\$(16 )

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 months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019, 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, 2018, from which the consolidated balance sheet amounts as of December 31, 2018 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.

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Historically, we have presented hauling revenues and related cost of sales associated with our equipment rental activities within Other Revenues and Other Cost of Sales. This presentation did not change upon our adoption of Topic 606 on January 1, 2018 as hauling activities are deemed a separate performance obligation under Topic 606 and SEC Regulation S-X permitted flexibility in the presentation of such revenues. However, given the presentation changes of certain ancillary fees required by Topic 842 as described in note 2 to these condensed consolidated financial statements, we believe that including equipment rental hauling revenues and related costs of sales within our Rental Revenues segment results in a more meaningful presentation and analysis of our equipment rental activities. In accordance with SEC Regulation S-X, the reclassification of equipment rental hauling revenues and related cost of sales from Other Revenues and Other Cost of Sales to Rental Revenues and Rental Other Cost of Sales is presented on a retrospective basis, meaning our condensed consolidated statements of income for the three month periods ended March 31, 2019 and 2018 include hauling revenues and related costs of sales presented within Equipment Rental Revenues and Rental Other Cost of Sales. The table below reconciles for the three month period ended March 31, 2018, our Revenues, Cost of Revenues and Gross Profit as previously reported to the current period presentation in this Quarterly Report on Form 10-Q.

\$'s in  
thousands

Three Month Period Ended March 31, 2018  
As Previously Reported   Hauling Fees   As Currently Reported

REVENUES

Equipment rentals	\$ 129,361	\$ 7,677	\$ 137,038
New equipment sales	46,493	-	46,493
Used equipment sales	24,853	-	24,853
Parts sales	28,151	-	28,151
Services revenues	15,036	-	15,036
Other	16,588	(7,677)	8,911
Total revenues	260,482	-	260,482

COST OF  
REVENUES

Rental depreciation	46,469	-	46,469
Rental expense	21,272	-	21,272
Rental other	-	12,100	12,100
	67,741	12,100	79,841
New equipment sales	40,845	-	40,845
Used equipment sales	16,937	-	16,937
Parts sales	20,617	-	20,617
	5,050	-	5,050

Services			
revenues			
Other	16,707	(12,100)	4,607
Total cost			
of revenues	167,897	-	167,897
Gross Profit	\$ 92,585	\$ -	\$ 92,585

## 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) industrial lift trucks. 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.

## (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, 2018. During the three month period ended March 31, 2019, there were no significant

changes to those accounting policies, other than those policies impacted by our adoption of the new lease accounting standard, which is further described below in “Recent Accounting Pronouncements Adopted in Fiscal 2019”.

#### 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.

#### Recent Accounting Pronouncements

##### Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *“Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”* (“ASU 2016-13”). This standard adds to U.S. GAAP 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, an entity recognizes as an allowance its estimate of expected credit losses, which is intended to result in the more timely recognition of losses. Under the CECL model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications) from the date of initial recognition of the financial instrument. Measurement of expected credit losses are to be based on relevant forecasts that affect collectability. The scope of financial assets within the CECL methodology is broad and includes trade receivables from certain revenue transactions and certain off-balance sheet credit exposures. Different components of the guidance require modified retrospective or prospective adoption. ASU 2016-13 will be effective for us as of January 1, 2020. While our review is ongoing, we believe ASU 2016-13 will only have applicability to our receivables from revenue transactions, or trade receivables, except those arising from our rental revenues as ASU 2016-13 does not apply to receivables arising from operating leases. Under Topic 606, 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 trade receivables are recorded, they become subject to the CECL model and estimates of expected credit losses on trade receivables over their contractual life will be required to be recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. We are currently evaluating whether the new guidance, while limited to our non-operating lease trade receivables, will have an impact on our consolidated financial statements or existing internal controls.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which removes Step 2 of the current goodwill impairment test, which was required if there was an indication that an impairment may exist, and the second step required calculating the potential impairment by comparing the implied fair value of the reporting unit’s goodwill with the carrying amount of the goodwill. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and then recognizing an impairment charge for the amount by which the reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of the reporting unit’s goodwill. ASU 2017-04 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019, with early adoption permitted and requires prospective adoption. Based upon our review of ASU 2017-04, we do not expect the guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other – Internal-Use Software* (Subtopic 350-40). This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update will be effective for us in the first quarter of 2020. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement - Disclosure Framework*," or ASU 2018-13. ASU 2018-13 modifies the disclosure requirements for fair value measurements. The amendments relate to disclosures regarding unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty and are to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact of ASU 2018-13 on our consolidated financial statements.

## Recently Adopted Accounting Pronouncements

### Leases

We adopted ASU No. 2016-02, *Leases* (Topic 842), on January 1, 2019. Topic 842 is an update to Topic 840, which was the lease accounting standard in effect through December 31, 2018. Topic 842 applies to us from both a lessor and a lessee perspective, as further described below.

#### Lessor Accounting

Our equipment rental business involves rental contracts with customers whereby we are the lessor in the transaction and therefore, we believe that such transactions are subject to Topic 842. We account for such rental contracts as operating leases pursuant to Topic 842, as well as pursuant to previous lease account