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BEYOND TRANSACTIONS

Rental Solutions

Sector and M&A Report

Winter 2020

Considerable M&A activity in the Rental Industry

There has been considerable M&A activity in the Rental industry with multiples up to 10x EBITDA. The strongly growing market combined with the complexity, engineering and customisation of solutions are driving margins. These factors also drive valuation multiples, next to the recurring nature of the business.

Key observations from our research:

- **The European Rental Association (ERA) valued the industry at € 25,7 bln in 2017, the global market being valued at $ 90 bln and expected to grow with 4-5% per year.** The biggest market in Europe (although not the strongest grower) is the UK. France and Germany are the two other largest markets in Europe and also among the strongest growing ones. Besides, The Netherlands are among the fastest growing countries with a 4,4% growth rate.
- **The use of rental solutions is still strongest in the (construction) equipment market.** Although we do see rental solutions spreading over other markets as well, like office equipment, plus industrial and consumer markets.
- **Key drivers of growth in the Rental industry are:**
  - This market is growing ahead of the general economy;
  - Increased regulations around safety asking for the latest up to date solutions;
  - Increased penetration of rental instead of buying as a result of better use of capital and focus on Total Cost of Ownership decision making;
  - Increased recognition of the role of rental in ensuring sustainable solutions;
  - Long-term trend towards 'sharing economy'
- **Valuations are typically around 7-8x EBITDA:** Valuation multiples are typically 7-8x EBITDA range with players who are focused on more and/or relatively rare complex solutions receiving the highest multiples. In addition, the more recurring the business the higher the multiple. Listed companies being valued on an average of 10x EBITDA.
- **Managing the quality of the (asset) rental fleet is key: maintenance, replacement capex and expansion capex.**

Bart Jonkman
Managing Partner, Capitalmind

"The Rental solutions sector is becoming more and more of interest to strategic buyers as well as Private Equity. This is mainly related to the continuously increased penetration of rental instead of buying, the increased possibilities on improving utilization rates and better use of capital, resulting in further improvement of margins. The higher the complexity of the solution provided and the more recurring the business, the higher the multiple"

Sources: S&P Capital IQ, ERA market report 2018, 2019 IPAF summit, KHL

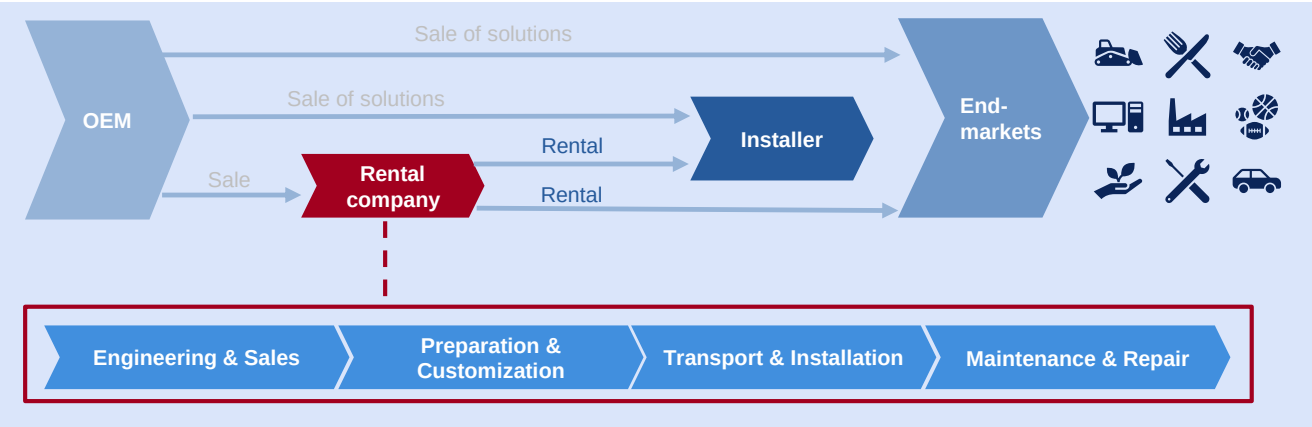
Growing penetration grade of rental over sale

The global Rental Equipment market is valued at approximately $90 bln and is expected to keep growing at a CAGR of 4-5%.

- A main driver for growth is the increased penetration of rental solutions instead of buying.
- The main reasons for end-markets to choose a rental solution are:
  - Focus on core business
  - Flexibility & direct availability of equipment
  - Temporary needs (seasonal, over-capacity, incidents etc)
  - Opex over Capex decision making
  - Access to high quality solutions, up to date with the newest technologies
  - Outsourced service & repair (unburdening of customer)
  - Ensuring compliance
- Another important trend in the market is the use of technology, like track & trace and remote monitoring, which increases efficiency and transparency and helps rental companies increase their utilisation rates and therefore margins.

High level of complexity drives margins and customer lock-in

The Rental company takes care of the full value chain steps, including engineering of the rental solution, preparation, transport and service. The higher the level of complexity, engineering and customisation, the higher the margins realised and also the higher the level of recurring business due to a natural customer lock-in



Consolidation in the market driven by the large generalists buying specialised niche businesses

Consolidation in the rental industry has been a key trend the past 15 years. US-based United Rentals for example, now being the largest rental business globally, has realised over 200 acquisitions. In Europe the French-based Loxam and Kiloutou, Dutch company Boels Rental and Nordic based Cramo and Ramirent are the main consolidators.

- Buyers are mainly focused on knowledgeable, specialised rental companies that have a high level of engineering and customisation and provide their services based on periodically recurring contracts, resulting in high margins and recurring revenues.
- A strong international scalable market position and strong growth potential are important criteria as well.
- Buyers are mainly targeting specialised rental companies focused on a niche segment. The market is still highly fragmented. In Europe the top 50 players represent 50% of the market, the top 10 close to 25%.

Source:S&P Capital IQ, ERA Market Report 2018, Reports and Data HVAC reporting, KHL

Rental transactions incl. EBITDA multiples

The average multiple of recent European/US transactions in the rental market is 7.0x. The transactions, as presented below, are all related to the rental industry environment and are transactions where the EV/EBITDA multiple is known.

Date	Target	Target sub-sector	Country	Acquiror	Country	EV/EBITDA *
May/19	IFCO Systems B.V.	RPC & Pallet Pooling	NL	Triton Fund	GB	10.1x
Jul/18	Bakercorp International Holdings	Containment fleet rental	US	United Rentals, Inc.	US	9.0x
Jul/18	VSM Entreprenad AB	Construction equipment leasing and rental	SE	Bellman Group AB (publ)	SE	4.0x
Nov/17	Prolift Access Limited	Powered access platform rental	GB	Speedy Hire Plc	GB	4.8x
Oct/17	Neff Corporation	Equipment rental	US	United Rentals, Inc.	US	6.9x
Apr/17	NES Rentals Holdings, Inc.	Aerial equipment rental	US	United Rentals, Inc.	US	6.7x
Feb/17	Lavendon Group plc	Powered access equipment rental	GB	Loxam SAS	FR	7.0x
Apr/16	Portgrade Limited	Laundry & Linen Hire services	GB	Johnson Service Group PLC	GB	6.5x
Feb/16	Joe Johnson Equipment Inc.	Infrastructure maintenance equipment rental	CA	Sirit Inc.	CA	7.8x
				Average		**7.0x**

*LTM latest

Specific Rental Characteristics

Managing the quality of the rental fleet and therefore the potential of the rental solutions is obviously key in any rental company. Although rental companies are typically characterised by a relatively higher level of capex, it is important to have a detailed understanding of the split between (i) maintenance, (ii) replacement capex and (iii) expansion capex. Maintaining the fleet well on the one hand and making the right choices between for example a (thorough) overhaul of an asset instead of purchasing a new asset on the other hand, will optimize the rental fleet by making use of the hidden asset reserves. All this will not only improve the utilisation of the assets and ultimately the profitability (significantly), but also result in higher valuation multiples paid by buyers.

Recent Capitalmind Rental transaction: Sale and MBO of Coolworld to Belgium listed GIMV PE (2019)

Coolworld Heatworld Rentals

Sale to and MBO by

Gimv

HVAC equipment rental

Coolworld Rentals is a cooling and heating equipment rental company. Listed on Euronext Brussels since 1997, Gimv PE manages around 1.6 bln invested in about 50 portfolio companies.

Capitalmind approached the most likely buyers across the globe, obtaining 20+ international bids; competitive process between corporate and PE financial buyers

Coolworld Heatworld Rentals

Coolworld operates from multiple European locations in diverse market segments, including food, retail, pharma, chemicals, logistics, and data centres, where advanced climate technologies are becoming increasingly important. Solutions are provided via four product groups: (1) cold storage rooms and freezers, (2) process cooling, (3) climate control and (4) heating. Furthermore, the company offers 'special projects', engineering unique and ad-hoc solutions.

Source:S&P Capital IQ, ERA market report 2018

Selection of our recent Business Services / Rental deals

Coolworld Heatworld Rentals
Sale to and MBO by
Gimv

HVAC equipment rental

Châteauform'
completed a fundraising underwritten by
naxicap PARTNERS

Rental of corporate seminar locations

infraserv höchst
Clariant, Celanese, sanofi aventis
15 M&A and capital raising deals involving
KFW IPEX-Bank, HSH NORDBANK, AkzoNobel, DAL, EBARA, BILFINGER BERGER, COMMERZBANK, 3i

Site services

alpha
acquired
EURO PART

Spare parts distribution

ADF
acquired
polymont engineering operating maintenance
from
d.a.c.p

Industrial maintenance

Sale and MBO of
the rent company
by
bbcapital INVESTMENTS
to
WATERLAND PRIVATE EQUITY INVESTMENTS

Laptop rental

Schutter Group EST. 1847
sold to
BUREAU VERITAS

TIC, logistics

Siparex
sold its minority stake in
SYLPA Groupe
through a MBO supported by
epf PARTNERS

Electrical installation

pneutec
sold to
AALBERTS INDUSTRIES

Industrial automation

was sold to
kiwa Partner for progress

Testing, Inspection and Certification

Contact us

Capitalmind has a highly experienced Business Services / Rental team

If you would like to discuss this report in more detail or opportunities for your business, please contact us:

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- 200+ closed transactions in the last 5 years - 500+ since 1999
- Worldwide access to strategic/financial players and likely buyers
- Team of 60 experienced professionals in Europe
- European Headquartered advisory firm with offices in the Benelux, France, Germany & the Nordics
- We have received numerous awards

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