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CREDIT OPINION
30 June 2022

Update

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RATINGS

Boels Topholding B.V.

Domicile	Netherlands
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Juvereya Shoab, CFA +33.1.5330.3395
Analyst
juvereya.shoab@moodys.com

Gregoire Dao +33.1.5330.1020
Associate Analyst
gregoire.dao@moodys.com

Jeanine Arnold +33.1.5330.1062
Associate Managing Director
jeanine.arnold@moodys.com

Boels Topholding B.V.

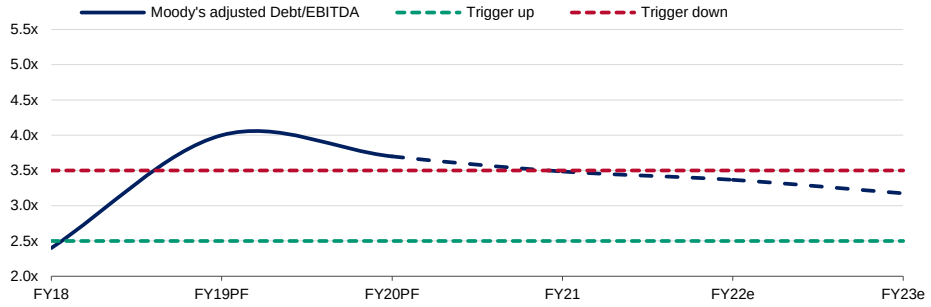
Update following upgrade to Ba3

Summary

Boels Topholding B.V.'s (Boels) Ba3 corporate family rating (CFR) reflects (1) its number two market position in the European equipment rental market; (2) good geographical diversification across 18 countries; (3) track record of strong operating performance both during and after the pandemic; (4) good mix of exposure to end-markets and customers, which favour a high proportion of smaller tool rentals (42% of total) that can lead to greater earnings resilience in a downturn; (5) flexibility to reduce capital spending and ease cash flow pressures in periods of economic downturn; and (6) a conservative financial policy of maintaining reported net leverage below 3.0x.

Conversely, the rating is constrained by (1) Boels' exposure to cyclical and seasonal construction and civil engineering end-markets, which can result in revenue volatility; (2) the heightened macroeconomic uncertainty that can soften demand; (3) the capital-intensive nature of the business to maintain and expand the fleet of equipment and its impact on cash flow; (4) the risk associated with further debt-funded acquisitions that could delay deleveraging in the highly fragmented European equipment rental industry; and (5) our expectation that Moody's-adjusted FCF/debt will remain around 2-3% in the next 2 years.

Exhibit 1
We expect Boels to deleverage towards 3.0x in the next 12 to 18 months
Moody's-adjusted Debt/EBITDA



This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Credit strengths

» Strong market position in Europe, supported by high barriers to entry

» Positive industry growth trends, driven by increased rental penetration

» Good geographical diversification

» Boels' focus on small accounts and DIY customers, which is complementary to Cramo's greater focus on large accounts, creating an opportunity for sharing best practices and cross-selling across the combined network

» Counter-cyclical free cash flow generation because of the flexibility to temporarily reduce capex in period of economic downturns

Credit challenges

» Exposure to cyclical and seasonal end-markets, which increases the risk of revenue volatility

» Capital-intensive nature of the business, which hurts cash flow

» Moody's-adjusted FCF/debt below 5% on average in the next 2 years

» Material debt-financed acquisitions, which could delay deleveraging

Rating outlook

The stable outlook reflects our expectation that Moody's-adjusted leverage will trend towards 3.0x in the next 12-18 months. It also includes our expectation of continued growth and increased rental penetration in the company's countries of operation. We expect that the company will not execute any major debt-funded acquisitions or shareholder distributions in the short-term as per the company's stated financial policy.

Factors that could lead to an upgrade

Positive pressure on the rating could occur if: (i) Moody's-adjusted leverage declines below 2.5x on a sustainable basis; (ii) liquidity is consistently good, with positive FCF/debt approaching 10% and (iii) its business profile continues to improve such as increasing market share, earnings and diversification of end-market exposure.

Factors that could lead to a downgrade

Negative pressure on the rating could occur if: (i) the company's operational performance deteriorates; (ii) Moody's-adjusted leverage increases above 3.5x on a sustained basis or (iii) FCF is consistently negative such that liquidity deteriorates.

Key indicators

Boels Topholding B.V.

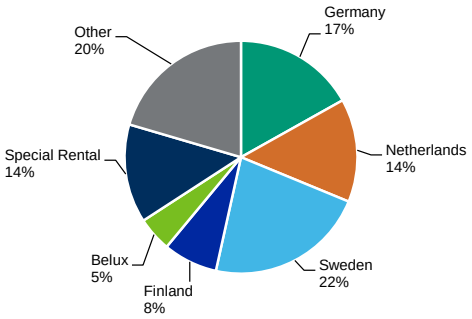
	FY2018	FY2019PF	FY2020PF	FY2021	FY2022e	FY2023e	FY2024e
Revenue (USD Billion)	$0.6	$1.4	$1.3	$1.5	$1.6	$1.7	$1.7
Pretax Income % of Sales	11.0%	6.6%	2.1%	4.6%	5.1%	4.8%	5.4%
Debt / EBITDA	2.4x	4.0x	3.7x	3.4x	3.3x	3.1x	2.9x
FFO / Debt	36.4%	19.3%	20.4%	26.6%	25.1%	26.7%	28.3%
EBITDA / Interest	19.0x	7.1x	6.5x	6.5x	7.7x	7.4x	7.8x

All ratios are based on "Adjusted" financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. 2018 data represents Boels on a standalone basis. 2019 is pro forma for the Cramo acquisition and 2020 is pro forma the transaction.
Source: Moody's Financial Metrics™

Profile

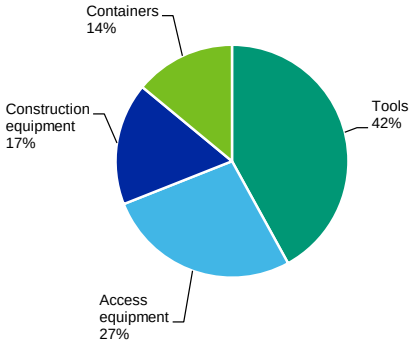
Headquartered in Netherlands, Boels Topholding B.V. (Boels) is a leading European provider of rental equipment. Pro forma the Cramo acquisition, Boels materially improved its scale. In 2021, the company generated €1.3 billion of revenue and €473 million of Moody's adjusted EBITDA as of 31 December 2021. Boels was founded in 1977 by Pierre Boels Sr. His son Pierre Boels Jr. is its Chief Executive Officer since 1996 and owns 100% of the company.

Exhibit 3
Revenue by geography
As of December 2021



Source: Company information

Exhibit 4
Revenue by product category
As of December 2021



Source: Company information

Detailed credit considerations

Boels' top line growth is supported by positive industry fundamentals but heightened macroeconomic risks can soften demand

Boels' performance was more resilient during the pandemic compared to its peers, with revenue falling by only 5% and EBITDA increasing by 3% (like-for-like, including Cramo) in 2020 because Boels benefited from its diversified geographical exposure to countries less severely affected by lockdowns, as well as a large proportion of revenues generated from tools, which have been more resilient than larger equipment. The company demonstrated strong operating performance and track record after the pandemic, which resulted in leverage reducing to 3.4x in 2021 from 3.9x in 2020 and we expect this will continue to improve towards 3.0x by 2023 with an improvement in earnings.

The company's continued strong performance is forecast to be driven by improving market conditions in Boels' countries of operation, a recovery in end markets supported by easing of restrictions and government infrastructure spending and continued demand for its equipment as rental penetration continues to grow although weaker macroeconomic environment can soften demand. High inflation, rising energy and transportation costs and persistent supply chain issues can also hurt margins, but we expect this to be temporary in nature.

We expect Boels will continue growing its top line by mid-single-digit percentage in the next two years, supported by the continued growth in its European markets. This is broadly in line with the European Rental Association forecasts of 6% market growth in the Boels' core geographies.

Cramo's acquisition improved the company's size and diversification

After the Cramo acquisition, Boels became the number two equipment rental company in Europe behind Loxam. Boels also has leading market position in several countries including the Benelux, Germany and Nordic countries. Across Europe, the equipment rental market is highly fragmented and competition is high, although the largest companies, including Loxam, Boels and Kiloutou, have a competitive advantage vis-à-vis potential new entrants because of their network density to address large customer accounts, ability to make large investments, and established and trusted brand.

With the acquisition of Cramo, Boels significantly improved its geographical diversification, bringing revenue generated in the Netherlands to 22% in 2021 from around 47% in 2018. Over time, we expect Boels to further increase its geographical diversification through greenfield growth and bolt-on acquisitions across Europe.

Boels' focus on small accounts and DIY customers is complementary to Cramo's greater exposure to large accounts, creating an opportunity for sharing best practices and cross-selling across the combined network. The key challenges are maintaining the same quality standards, customer satisfaction across a larger network, uncertainties around the ability to cross-sell new services in different geographies and some IT integration outside of the Nordics.

Large product offering and dense network attract a diverse customer base

Like the other leading rental equipment companies, Kiloutou (B2 stable) and Loxam, Boels offers a broad array of equipment (790,000 pieces of equipment in 2021 with a gross book value of around €2.2 billion) and benefits from a dense branch network of more than 725 branches. Because of the local nature of the equipment rental business, with proximity to a construction site being one of the main selection factors for customers, the fleet and dense coverage represent significant barriers to entry, as well as knowledge of the local market.

As a result of the broad product offering and dense network, Boels has a portfolio of more than 260,000 clients across 18 countries. Customer concentration is relatively low, with the top 10 customers accounting for less than 10% of revenue. We positively view the around 50% concentration of tools and light equipment in rental revenue because this is the key product range for craftsmen and households, which are less likely to reduce activities amid recessionary pressure. Boels has 2,900 shops in shops, mainly in Germany and Benelux. DIY rental is a niche market with higher-than-average margins and lower cyclicality than those of the construction rental business.

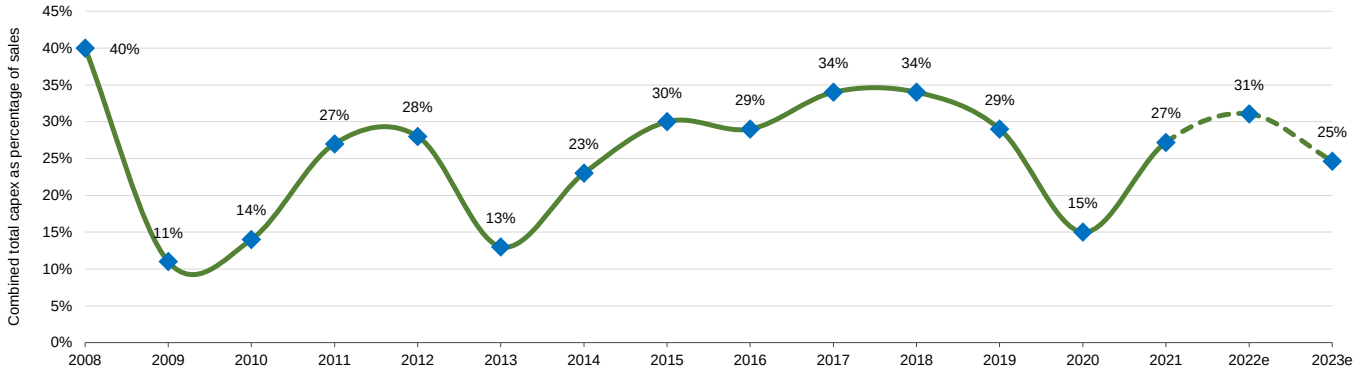
Exposure to cyclical and seasonal end-markets (construction and civil engineering) creates revenue volatility

There are risks associated with volatility in Boels' end-markets, which in turn creates important fluctuations in the equipment rental industry. The acquisition of Cramo increased Boels' exposure to the construction end-market to 42% of total sales from 24% previously, increasing the group's revenue cyclicality. The construction market faced significant pressure in 2009 and 2013-15. Boels performed better than its peers in downturns because of its focus on the less-cyclical maintenance and industrial business. On the other hand, Cramo reported significant drops in sales. For instance, Boels' revenue dropped by only 1% in 2009, while Cramo's revenue dropped by 27% in the same period. However, the drop in sales would be lower in a future similar downturn because the company has reduced its exposure to the newly built segment since 2009. We also expect Boels to gradually reduce its exposure to the construction sector because of its strategy to introduce its less-cyclical product offerings in Cramo's markets.

Exhibit 5

The combined company has proved its flexibility in decreasing capital spending

Combined total capital spending as a percentage of total group sales



Source: Company information and Moody's forecasts

Moderate leverage for a cyclical industry that is expected to reduce towards 3.0x by 2023

The company reduced its debt burden through the partial repayment of the TLA using cash on hand. As a result, Boels' Moody's-adjusted leverage declined to 3.4x as of December 2021. The company continued to demonstrate a more conservative financial policy as it reiterated its reported net leverage target of below 3.0x.

We expect the company will continue to reduce leverage towards 3.0x by 2023, which takes into consideration our assumption that revenue will increase by mid-single digit percentage per annum resulting in adjusted EBITDA of around €495-520 million for 2023 and 2024.

Following the reduction in capital spending in 2020 (equivalent to €188 million), Boels restarted its capital spending plan in 2021 c.€350m (reported) while managing to generate a positive Moody's-adjusted FCF at around €35m. We expect capital spending (reported) to increase to €350-420 million in 2023 and 2024 as it ramps up fleet investments to support topline growth. We expect the company to generate negative FCF/debt of 4% in 2022 but FCF should be positive at around 2%-3% of debt over the next two year even under our assumption of higher interest rates for the unhedged portion of debt.

Over the longer term, deleveraging could halt or slow if the company fails to keep its growth capital spending under control or if it were to grow through debt-financed bolt-on acquisitions. Given the highly fragmented nature of the equipment rental sector, Boels' deleveraging will be constrained by its external growth strategy as it continues to participate in sector consolidation through bolt-on acquisitions.

ESG considerations

Corporate governance is a key rating consideration for Boels. The company is owned by Pierre Boels Jr. who is also the CEO, which we believe could be a key-man risk.

The debt-funded acquisition of Cramo signals a more aggressive financial policy than that in the past. However, the company is committed to delever to below 3.0x net debt/EBITDA (as defined by the company) in the medium to long term and is not planning to pay dividends until leverage has reduced to this level.

Liquidity analysis

We consider Boels' liquidity to be adequate and supported by a cash balance of €62 million and an undrawn RCF of €179 million as of 31 December 2021. We expect the company will generate negative FCF/debt of 4% in 2022 as it ramps up its fleet investment. From 2023 onwards, we expect Boels to generate FCF/debt of around 2%-3% even under our assumption of higher interest rates for the unhedged portion of debt. Boels has partially hedged the interest rate exposure of around 60% of its debt which we view as prudent.

As part of the documentation, the Senior Facility Agreement contains a maintenance finance covenant based on net leverage set at 6.5x. At closing, net leverage will be 3.5x, and we expect Boels to maintain ample headroom under this covenant.

Structural considerations

The PDR is Ba3-PD, in line with the CFR, reflecting Moody's assumption of a 50% family recovery rate as is customary for bank debt structures with loose financial covenants. The RCF and TLB are pari passu and rated Ba3, in line with the CFR.

Rating methodology and scorecard factors

The principal methodology used in these ratings was the Equipment and Transportation Rental Industry rating methodology, published in February 2022. The forward view scorecard-indicated outcome is one notch lower than the current scorecard indicated outcome due to weakening profits on the back of higher interest rates but leverage and interest coverage will remain strong. Also, factors such as exposure to volatile end markets and worsening macroeconomic conditions are not fully captured in the scorecard.

Exhibit 6

Rating factors

Boels Topholding B.V.

Equipment and Transportation Rental Industry Scorecard	Current LTM 3/31/2022		Moody's 12-18 Month Forward View	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$1.6	Ba	$1.6	Ba
Factor 2 : Business Profile (20%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability (10%)				
a) Pretax Income % of Sales	5.4%	B	4.8% - 5%	Caa
Factor 4 : Leverage and Coverage (45%)				
a) Debt / EBITDA	3.3x	B	3.1x - 3.2x	B
b) FFO / Debt	28.3%	Ba	26% - 26.7%	Ba
c) EBITDA / Interest	7.1x	Baa	7.4x - 7.5x	Baa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba3
b) Actual Rating Assigned				Ba3

All ratios are based on "Adjusted" financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. This represents Moody's forward view; not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestures.
LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 7

Category	Moody's Rating
BOELS TOPHOLDING B.V.	
Outlook	Stable
Corporate Family Rating	Ba3
Sr Sec Bank Credit Facility -Dom Curr	Ba3/LGD4

Source: Moody's Investors Service

Appendix

Exhibit 8

Moody's-adjusted Debt/EBITDA reconciliation

	FY21		FY21 (EURm)
EBITDA - reported	**422.2**	Revolving Credit Facility	0.0
IFRS 16	51.2	Term Loan B - Carrying Amt	1,413.0
Moody's-adjusted EBITDA	**473.4**	**Reported Debt**	**1,413.0**
		Pensions	1.0
		Finance leases	7.8
		IFRS 16	183.0
		Moody's-adjusted Debt	**1,604.8**
		Moody's-adjusted Debt / EBITDA	**3.4x**

Source: Moody's Financial Metrics™

Exhibit 9

Peer Comparison

	Boels Topholding B.V.			Herc Holdings Inc.			H&E Equipment Services Inc.			Kapla Holding S.A.S			RENTA Group Oy		
	Ba3 Stable			Ba3 Positive			B1 Stable			B2 Stable			B2 Stable		
	FYE PF	FYE PF	FYE	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	FYE	FYE	FYE	LTM
(in USD millions)	Dec-19	Dec-20	Dec-21	Dec-20	Dec-21	Mar-22	Dec-20	Dec-21	Mar-22	Dec-19	Dec-20	Dec-21	Dec-19	Dec-20	Sep-21
Revenue	1,414	1,339	1,516	1,781	2,073	2,187	1,007	1,063	1,095	811	711	938	238	274	328
EBITDA	474	487	521	700	915	968	392	423	447	329	286	354	94	104	119
Debt	1,954	1,948	1,765	2,067	2,481	2,735	1,405	1,416	1,419	1,456	1,601	1,502	283	293	330
Pretax Income % of Sales	5.5%	2.1%	4.6%	5.3%	13.9%	14.4%	4.0%	7.7%	9.3%	2.5%	-0.9%	6.9%	-0.3%	1.1%	8.6%
Debt / EBITDA	4.1x	3.7x	3.4x	3.0x	2.7x	2.8x	3.6x	3.4x	3.2x	4.4x	5.6x	4.2x	3.0x	2.8x	2.8x
FFO / Debt	20.0%	20.4%	26.6%	32.2%	34.1%	32.7%	21.1%	22.5%	24.2%	16.8%	12.8%	18.1%	25.3%	27.6%	28.4%
EBITDA / Interest	7.1x	6.5x	6.5x	6.8x	9.2x	9.5x	5.5x	6.7x	7.1x	6.7x	5.1x	7.1x	4.3x	5.5x	6.1x

Source: Moody's Financial Metrics™

Exhibit 10

Selected Moody's-adjusted financial forecasts

EURm	Dec-22e	Dec-23e	Dec-24e
INCOME STATEMENT			
Net sales/Revenue	1,352	1,420	1,491
EBIT	133	139	151
EBITDA	496	520	549
Interest Expense	64	70	70
CASH FLOW			
Funds from Operations (FFO)	408	429	455
Cash Flow from Operations (CFO)	399	424	447
Capital Expenditures (CAPEX)	(463)	(393)	(393)
Retained Cash Flow (RCF)	408	429	454
Free Cash Flow (FCF)	(64)	31	54
FFO / Debt	25.1%	26.7%	28.3%
FCF / Debt	-3.9%	1.9%	3.4%
PROFITABILITY			
% Change in Sales (YoY)	3.7%	5.0%	5.0%
EBIT Margin %	9.8%	9.8%	10.1%
EBITDA Margin %	36.7%	36.6%	36.8%
Pretax Income % of Sales	5.1%	4.8%	5.4%
INTEREST COVERAGE			
EBIT / Interest Expense	2.1x	2.0x	2.1x
EBITDA / Interest Expense	7.7x	7.4x	7.8x
DEBT & LEVERAGE			
Total Debt (Gross)	1,625	1,605	1,605
Debt / EBITDA	3.3x	3.1x	2.9x

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Source: Moody's Financial Metrics™

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