Rental Service Business Area

Thomas Bennett

Capital Markets Day
Feb. 19-20, 2001
Equipment Rental
and Atlas Copco

- Rental industry
  - Drivers
  - History and development
- Why Atlas Copco chose equipment rental industry
- Creating Rental Service Business Area
  - Prime acquisition
  - RSC acquisition
  - Creating RSBA
  - Merger
- Economic situation and outlook
Rental Industry Drivers

Outsourcing Trend

Increased need for customer focus
Rental improves asset utilization
Economic Uncertainty

Industry Growth

Rental avoids large capital outlays
Additional capacity for specific job
Peak period requirements

Need for increased flexibility and availability
Rental reduces storage and maintenance costs
U.S. Equipment Industry
First Generation 1960s - 1980s

- Product was manufactured
- Manufacturer had a distribution body, dealer or representatives
- Sacred ground per contract in local markets
  - Life was easy
    - Preferred Lines of Equipment
    - Best Territories
    - Name Recognition Within The Marketplace
- Well-trained sales force (after-market support) locked in clientele
U.S. Equipment Industry
Second Generation

- Consolidation became normal
  - Rental companies
  - Equipment manufacturers
  - Equipment dealers

- Changing market conditions!
  - Scrambling to figure out what was going on

- Our segments of the U.S. economy were strong

- We experienced competitive pressure on all fronts due to consolidation
Key Consolidation Drivers

- Ability to serve national accounts
- Increased availability of equipment
- Enhanced purchasing power
- More extensive product range
- Improved fleet utilization
- Geographic diversification
- Ability to leverage overhead costs
## Largest Rental Companies in North America

<table>
<thead>
<tr>
<th>Company</th>
<th>2000 Rank</th>
<th>1995 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Rentals</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Atlas Copco</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Hertz</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>NationsRent</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>NES</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Prime Service</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>BET Plant Services</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>U.S. Rental</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>American Equipment Rental</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Lehman Brothers, Rental Equipment Register
Fragmented Rental Industry

- It’s estimated, by various sources, that the major rental companies today represent about 25% of industry sales.
- The balance of the industry is made up by smaller independents, operating in local or niche markets.

Source: Atlas Copco estimate
U.S. Contractor Fleet
Percentage of Fleet Rented

Source: Lehman Brothers Estimates
U.S. Equipment Industry
Third Generation Companies

- Some of us are already there!

- The future is now!
  - Return of capital employed focus

- Industry standards have changed

- Manufacturer’s loyalties to previous dealer arrangements have lessened.
  - They are pursuing industry growth trends
  - Rental - Rental - Rental!

- Everyone is looking at us to see the industry of tomorrow!
Equipment Rental and Atlas Copco

- Rental industry
  - Drivers
  - History and development

- Why Atlas Copco chose equipment rental industry

- Creating Rental Service Business Area
  - Prime acquisition
  - RSC acquisition
  - Rental Service Business Area
  - Merger

- Economic situation and outlook
Group Strategy – Growth

Use of products

- Service and parts
- Accessories
- Consumables
- Equipment rental
Rental Industry Revenues in the U.S.  
A Fast Growing Market

$ billions

18.4% CAGR

Source: Deutsche Banc. Alex Brown
Why did Atlas Copco Enter the Rental Service Business?

- To improve growth capabilities for the Group from 5% to 8% per year over a business cycle
Equipment Rental
and Atlas Copco

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  ▸ Drivers
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› Economic situation and outlook
Atlas Copco Acquires Prime
July 1997

- 14 States
- 122 Locations
Acquisition of Prime Added Value

- Improved customer satisfaction and loyalty
- Broad-based distribution network
- Recognized national account supplier
- Recognized service provider in the industry
- Fleet mobility
- Strong relationship with top manufacturers
- Enhanced buying power
- Strong used equipment sales
Atlas Copco Rentals Inc.
October 1998 Merger

- Atlas Copco Rentals, Inc.

PRIME Energy Systems

- Why?
Atlas Copco Rentals Inc.
October 1998 Merger

- Increased rental locations
  - Business segments and geographical presence
- Shared services such as Administration, IS/IT, Purchasing and Marketing
- Better utilization rate for shared products
- Cost savings of combined lease space
PRIME Structure
1998

Prime Service, Inc.

Prime Administration
Rental Service Corporation
August 1999

- 30 States
- 2 Provinces
- 282 Locations
Why Rental Service Corporation?

- Perfect fit to Atlas Copco’s business; culture, business and customer attitude
- Complementary (to Prime) in geographical and territory coverage
- Access to proven management team with record of success
- Synergies
  - Synergies with Prime Service
  - Synergies with other Atlas Copco divisions
  - Provide greater access to, and lower cost of capital
Rental Service Business Area

February 2001

- 42 States
- 5 Provinces
- Mexico
- Puerto Rico
- > 575 stores
Today We are the Second Largest

Source: Rental Equipment Register, Corporate Web pages
## Industry Consolidators
### Increase in Store Locations, 1997-2000

<table>
<thead>
<tr>
<th>Company</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>%Change</th>
<th>2000</th>
<th>%Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Rentals</td>
<td>86</td>
<td>404</td>
<td>702</td>
<td>173%</td>
<td>740</td>
<td>5%</td>
</tr>
<tr>
<td>Atlas Copco</td>
<td>162</td>
<td>181</td>
<td>480</td>
<td>265%</td>
<td>589</td>
<td>39%</td>
</tr>
<tr>
<td>Hertz</td>
<td>144</td>
<td>230</td>
<td>288</td>
<td>25%</td>
<td>300</td>
<td>4%</td>
</tr>
<tr>
<td>NationsRent</td>
<td>0</td>
<td>134</td>
<td>187</td>
<td>40%</td>
<td>200</td>
<td>7%</td>
</tr>
<tr>
<td>NES</td>
<td>77</td>
<td>128</td>
<td>181</td>
<td>41%</td>
<td>184</td>
<td>2%</td>
</tr>
<tr>
<td>Ashtead/Sunbelt</td>
<td>43</td>
<td>66</td>
<td>146</td>
<td>121%</td>
<td>147</td>
<td>1%</td>
</tr>
<tr>
<td>Neff</td>
<td>67</td>
<td>83</td>
<td>84</td>
<td>1%</td>
<td>85</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Atlas Copco, Rental Equipment Register, Company information
Vision

- To gain unquestioned status as the “most preferred supplier of products and services” to our customers!
  - Tangible differentiation from competition
  - Best in Class
  - Dominate all of our major service areas
  - Improve operating efficiencies
Bluechip Customer Base
Tenured Relationships

Shell
Dow
OxyChem
GM
BASF
AMOCO
Georgia-Pacific
Chevron
ExxonMobil
ROHM and HAAS
Brown & Root, Inc.
DuPont
International Paper
The H.B. Zachry Company
Mission

- To achieve above-industry growth while focusing on customer care
  - same store = greenfields
- To meet Atlas Copco Group’s financial goals, thereby being accretive to the Group and improve accretion year over year
- To achieve maximum synergies subject to the items above
Strategy

- Growth from mixture of greenfields, same store and acquisitions, with emphasis on greenfields
- Benefits and synergies from merger to support growth and contribute to increased profitability
- Continuous improvement
- Stability - Profitability - Growth
Merger

- Proactive
- Great for customers
- Great for employees
- Accelerates efficiencies and synergies
Merger - Customer Benefits

- “Bigger is better and stronger”
  - surety of supply
  - nationwide footprint
- Brand identity
  - First in Mind, First in Choice
- Customer focused marketing
- Customer focused organization
  - Increased geographic coverage
  - Increased availability of supply
  - Simpler - easy to understand
  - One legal entity - one invoice
Estimated Stand-Alone Market Share
(subjectively based)

United (22)
RSC (19)
Prime (5+Mexico)
Nations (9)
NES (0)
NEFF (0)
Sunbelt (2)
Hertz (0)

Tie multicolored stripe
4-way tie in Florida
Estimated Consolidated Market Share
(subjectively based)

United (19)
Atlas (23+Mex.)
Nations (9)
NES (0)
NEFF (0)
Sunbelt (1)
Hertz (0)
Tie multicolored stripe
Synergies

- One legal entity and one common management
  - Fleet management / fleet sharing
    - Parts and merchandising
  - Purchasing
  - Standardization of rental rates
  - Store consolidation
  - One administrative support - ISP integration

- Common platforms and systems

- One brand per market segment
Employee Benefits

- Over 7,000 employees on the same team!
- Streamline management structure
  - Common management in duplicate market areas
- Maximize quality of work force
- Common benefits at lowest costs
Organizational Structure

Rental Service Business Area

- United States Operations
  - Industrial
  - West
  - East

- International Operations

ISP
Rental Service Business Area Characteristics

- Here to Stay
- First in Mind - First in Choice
  - We do not want to be the biggest, but aim to be the first choice of our customers
  - To be First Choice, we have to offer the best value
Marketing

Key Strategic Elements

- Segmentation
- Focus
- Differentiation
- Coverage
- Positioning
Marketing Mix

- National Ads & PR
- Strategic Accounts
- Equipment Decals
- Sales Force Automation
- Promotional items
- Signage, Yellow Pages & National 800 #
- Direct mail programs
- E-Facts & E-commerce
- On-Line Marketing Support
Marketing Focus

- Organized by customer and market segments
- Territory management
- Focused sales organization
- Key account management
  - standard national accounts approach
  - standard industrial account approach
- Unified advertising program
- e-Commerce
  - Brand is key to website awareness
ONE-STOP SHOPPING
Customer Focus and Service
One-Stop Shop

- Vast product availability
- National presence
- Just-in-time delivery
- 24-hour service
- Comprehensive maintenance program
- Professional, experienced sales force who will
  - Sell, rent, trade, service, and add value!
e-Commerce

- Customer focused web site
- Functionality
- Interactivity
- Connectivity
- Best in class
Market Segments
Rental Service Business Area

- 35% Industrial
- 15% Residential Construction
- 50% Construction (non-residential and non-building)
Positioning

- Market Leader by Market Segment
  - Customer focused
  - Segment specialist
- Technology Leader
  - Fleet management - Total Control
  - Integrated Rental Management
  - E-commerce
  - Sales force automation
- Coverage
2001 Strategic Growth
Above Industry Average

2001 Focus Growth Areas

- United States
  - California coast
  - Indiana, Michigan, Ohio & Northeast

- International
  - British Columbia, Quebec & Mexico
  - Puerto Rico
  - Brazil
  - South America
Internal Score Card

Store Count

Number of stores

<table>
<thead>
<tr>
<th>Jan-98</th>
<th>Apr-98</th>
<th>Jul-98</th>
<th>Oct-98</th>
<th>Jan-99</th>
<th>Apr-99</th>
<th>Jul-99</th>
<th>Oct-99</th>
<th>Jan-00</th>
<th>Apr-00</th>
<th>Jul-00</th>
<th>Oct-00</th>
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<tr>
<td>300</td>
<td>350</td>
<td>400</td>
<td>450</td>
<td>500</td>
<td>550</td>
<td>600</td>
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Economic Conditions/Outlook

- Market Conditions
  - Higher awareness of outsourcing
  - Cost of money environment
  - Tenth year of economic expansion
  - Predicted slower growth creates caution
  - Demand for products and services continues
Total Construction Activity by Cycle
Based on constant 1992 prices

Cyclical Trough (T) = 100

Years from Cyclical Trough

Source: McGraw-Hill Construction Information Group
U.S. Construction Outlook

Source: McGraw-Hill Construction Information Group
Construction Put in Place
Estimated for the United States

$ Millions (current)

Source: Building Permits, Construction Put in Place, Clark Reports and trade sources. Estimates and forecasts by FMI.
Contractor Rental Trends

% Renting Equipment, by Type

Source: Construction Equipment/New Holland Construction Annual Report & Forecast Study
2000 Construction Market Rental Potential $17.5B
U.S. Forecast Analysis
Industrial Market

Source: Industrial Information Resources
2000 Industrial Rental Potential $4.4B

- >$1B
- $500M-1B
- $250M-500M
- $100M-250M
- <$100M
Rental Growth vs. Construction Activity

Source: Rental Equipment Register, Bureau of Census, Dept. of Commerce
What Has Changed?

- Manufacturers capacities and efficiencies expanded over a ten year growth cycle!
- Supply of equipment grew faster than customer demand
- Today we experience flooded supply in certain types of equipment
Supply of Equipment Grew Faster Than Customer Demand

- **Skidsteers sold**
  - Source: EMI Data

- **Straight Booms sold**
  - Source: EMI Data
Market and Business Conditions
What Has Changed?

- Financial community involvement
  - Wall Street mentality, short term earnings focus
  - Greater access to capital

- New Equipment
  - More equipment leased
  - Split/rents
  - Vendor financing program

- Higher availability of supply

- Price compression
Rental Industry

- Needs to:
  - Raise rates
  - Strengthen balance sheet
  - Improve margins
  - Financial survivability in downturn
Economic Summary

- Economy still strong and at an all-time high level
- Fed is lowering interest rates to maintain economic growth
- Much opportunity ahead
- Strong drivers in place toward rental
  - Outsourcing
The face of interaction
Cautionary Statement

“Some statements herein are forward-looking and the actual outcome could be materially different. In addition to the factors explicitly commented upon, the actual outcome could be materially effected by other factors like for example, the effect of economic conditions, exchange-rate and interest-rate movements, political risks, impact of competing products and their pricing, product development, commercialization and technological difficulties, supply disturbances, and the major customer credit losses.”