

Mossberg's Investor Digest

Best Idea Profile:

Essex Rental Corp (NASDAQ:ESSX)

DESCRIPTION:

Headquartered in Buffalo Grove, Illinois; Essex Rental Corporation is one of North America's largest providers of cranes including lattice-boom crawler cranes, truck cranes and rough terrain cranes, tower cranes, and other lifting equipment. The Company's high capacity cranes lift an average of 230 rated tons and are used in heavy construction projects. The Company also provides product support including installation, maintenance, repair and parts for equipment used by construction industry customers. With a fleet of over 1,000 cranes and other construction equipment and support services, Essex services many different industry verticals includes power generation, petrochemical, refineries, water treatment and offshore oil fabrication. Essex currently has a network of seventeen main service centers along with other smaller service locations and several remote storage yards.

KEY INVESTMENT CONSIDERATIONS:

Key Acquisition – Essex acquired the assets of Coast Crane Company in 2010. Essex paid approximately \$80 million for Coast's assets and assumed \$12 million of its debt. The acquisition price reflected a significant discount to the replacement value of Coast's assets. In addition, the acquisition broadened Essex's footprint with operations in a number of Western US states and overseas markets and added \$85 million in revenues.

Diversified End Markets – Essex has diversified its customer base that makes the company a less cyclical play than it has been historically. The Company currently receives revenues from 6 key markets including: Industrial Marine (22%), Power (11%), Petrochemicals (5%), Levee (16%), Sewer and Water (12%), General Building (5%), and Transportation (28%).

Late Cycle Recovery Play – Larger comparable rental companies, United Rentals and RSC Holdings have seen 100% and 160% recoveries, respectively, in operating profit during 2011. Relative to these companies, Essex's equipment tends to be more specialized and has greater use in infrastructure projects, which tend to occur later in a cyclical recovery. Management believes utilization rates have bottomed during 2011. As these rates, ESSX's profit should see a similar recovery.

Significant Insider Ownership – Over 30% of the Company's common stock is owned by Essex management and the board of directors.

Underlying Asset Base – Essex has a unique base of hard assets. A third party appraiser determined the Company's Rental fleet had an orderly liquidation value of over \$350 million and has a replacement value of nearly \$600 million.

Business Synergies – Essex combines three businesses; equipment rental, equipment sales and parts and service for a diversified approach which provides multiple points of customer contact and sales synergies.

Seasoned Management – Ron Schad has been President and CEO of Essex Crane since 2000. He previously spent 15 years with Manitowak Crane group and held the position of Executive Vice President and General Manager of the Crane Group and was responsible for managing over \$350 million in sales.

VALUATION:

Essex has a solid management team, a diversified customer base and some improving fundamentals. The Company has bought other company assets at the bottom of the recent recession making Essex a unique value play. The Company currently trades at 85% of its liquidation value and at less than half of its equipment replacement value. Recent industry consolidation, such as United Rental's recent acquisition of RSC, could also drive multiple expansion.

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Investment Data (as of 2/26/12)

Recent Price	\$3.60
52-Week Range	\$1.86 - \$7.65
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	24.4MM
Average Trading Volume (3 mos)	63K
Market Capitalization	\$88MM
Cash	\$13MM
Long Term Debt	\$222MM
Enterprise Value (EV)	\$297MM
Book Value	\$3.58
TTM Revenue	\$83MM
P/ Revenue	1x
TTM EPS	\$(0.80)
P/ EPS	NA
TTM EBITDA	\$7.8MM
EV/ EBITDA	38x

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