

UNITED RENTALS INC /DE
Form 10-Q
October 18, 2017
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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
^x 1934

For the quarterly period ended September 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^o 1934

For the transition period from _____ to _____

Commission File Number 1-14387

Commission File Number 1-13663

United Rentals, Inc.
United Rentals (North America), Inc.
(Exact Names of Registrants as Specified in Their Charters)

Delaware	06-1522496
Delaware	86-0933835
(States of Incorporation)	(I.R.S. Employer Identification Nos.)

100 First Stamford Place, Suite 700
Stamford, Connecticut 06902

(Address of Principal Executive Offices) (Zip Code)

Registrants' Telephone Number, Including Area Code: (203) 622-3131

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 October 16, 2017, there were 84,574,589 shares of United Rentals, Inc. common stock, \$0.01 par value, outstanding. There is no market for the common stock of United Rentals (North America), Inc., all outstanding shares of which are owned by United Rentals, Inc.

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This combined Form 10-Q is separately filed by (i) United Rentals, Inc. and (ii) United Rentals (North America), Inc. (which is a wholly owned subsidiary of United Rentals, Inc.). United Rentals (North America), Inc. meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this report with the reduced disclosure format permitted by such instruction.

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UNITED RENTALS (NORTH AMERICA), INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of forward-looking terminology such as “believe,” “expect,” “may,” “will,” “should,” “seek,” “on-track,” “plan,” “project,” “forecast,” “anticipate,” or the negative thereof or comparable terminology, or by discussions of strategy or outlook. You are cautioned that our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control, and, consequently, our actual results may differ materially from those projected.

Factors that could cause actual results to differ materially from those projected include, but are not limited to, the following:

- the possibility that companies that we have acquired or may acquire, in our specialty business or otherwise, including NES Rentals Holdings II, Inc. (“NES ”) and Neff Corporation (“Neff”), could have undiscovered liabilities or involve other unexpected costs, may strain our management capabilities or may be difficult to integrate;
- the cyclical nature of our business, which is highly sensitive to North American construction and industrial activities; if construction or industrial activity decline, our revenues and, because many of our costs are fixed, our profitability may be adversely affected;
- our significant indebtedness (which totaled \$8.4 billion at September 30, 2017) requires us to use a substantial portion of our cash flow for debt service and can constrain our flexibility in responding to unanticipated or adverse business conditions;
- inability to refinance our indebtedness on terms that are favorable to us, or at all;
- incurrence of additional debt, which could exacerbate the risks associated with our current level of indebtedness;
- noncompliance with financial or other covenants in our debt agreements, which could result in our lenders terminating the agreements and requiring us to repay outstanding borrowings;
- restrictive covenants and amount of borrowings permitted in our debt instruments, which can limit our financial and operational flexibility;
- overcapacity of fleet in the equipment rental industry;
- inability to benefit from government spending, including spending associated with infrastructure projects;
- fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated;
- rates we charge and time utilization we achieve being less than anticipated;
- inability to manage credit risk adequately or to collect on contracts with a large number of customers;
 - inability to access the capital that our businesses or growth plans may require;
- incurrence of impairment charges;
- trends in oil and natural gas could adversely affect the demand for our services and products;
- the fact that our holding company structure requires us to depend in part on distributions from subsidiaries and such distributions could be limited by contractual or legal restrictions;
- increases in our loss reserves to address business operations or other claims and any claims that exceed our established levels of reserves;
- incurrence of additional expenses (including indemnification obligations) and other costs in connection with litigation, regulatory and investigatory matters;
- the outcome or other potential consequences of regulatory matters and commercial litigation;
- shortfalls in our insurance coverage;
- our charter provisions as well as provisions of certain debt agreements and our significant indebtedness may have the effect of making more difficult or otherwise discouraging, delaying or deterring a takeover or other change of control of us;

turnover in our management team and inability to attract and retain key personnel;
costs we incur being more than anticipated, and the inability to realize expected savings in the amounts or time frames planned;
dependence on key suppliers to obtain equipment and other supplies for our business on acceptable terms;
inability to sell our new or used fleet in the amounts, or at the prices, we expect;
competition from existing and new competitors;
risks related to security breaches, cybersecurity attacks and other significant disruptions in our information technology systems;
the costs of complying with environmental, safety and foreign law and regulations, as well as other risks associated with non-U.S. operations, including currency exchange risk;

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labor disputes, work stoppages or other labor difficulties, which may impact our productivity, and potential enactment of new legislation or other changes in law affecting our labor relations or operations generally; and increases in our maintenance and replacement costs and/or decreases in the residual value of our equipment.

For a more complete description of these and other possible risks and uncertainties, please refer to our Annual Report on Form 10-K for the year ended December 31, 2016, as well as to our subsequent filings with the SEC. Our forward-looking statements contained herein speak only as of the date hereof, and we make no commitment to update or publicly release any revisions to forward-looking statements in order to reflect new information or subsequent events, circumstances or changes in expectations.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED RENTALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents	\$ 324	\$ 312
Accounts receivable, net of allowance for doubtful accounts of \$57 at September 30, 2017 and \$54 at December 31, 2016	1,151	920
Inventory	82	68
Prepaid expenses and other assets	82	61
Total current assets	1,639	1,361
Rental equipment, net	7,391	6,189
Property and equipment, net	451	430
Goodwill	3,493	3,260
Other intangible assets, net	759	742
Other long-term assets	11	6
Total assets	\$ 13,744	\$ 11,988
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt and current maturities of long-term debt	\$ 694	\$ 597
Accounts payable	612	243
Accrued expenses and other liabilities	467	344
Total current liabilities	1,773	1,184
Long-term debt	7,677	7,193
Deferred taxes	2,012	1,896
Other long-term liabilities	71	67
Total liabilities	11,533	10,340
Common stock—\$0.01 par value, 500,000,000 shares authorized, 112,334,897 and 84,571,724 shares issued and outstanding, respectively, at September 30, 2017 and 111,985,215 and 84,222,042 shares issued and outstanding, respectively, at December 31, 2016	1	1
Additional paid-in capital	2,322	2,288
Retained earnings	2,108	1,654
Treasury stock at cost—27,763,173 shares at September 30, 2017 and December 31, 2016	(2,077)	(2,077)
Accumulated other comprehensive loss	(143)	(218)
Total stockholders' equity	2,211	1,648
Total liabilities and stockholders' equity	\$ 13,744	\$ 11,988
See accompanying notes.		

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UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Revenues:				
Equipment rentals	\$ 1,536	\$ 1,322	\$4,069	\$3,643
Sales of rental equipment	139	112	378	361
Sales of new equipment	40	30	126	96
Contractor supplies sales	21	19	60	60
Service and other revenues	30	25	86	79
Total revenues	1,766	1,508	4,719	4,239
Cost of revenues:				
Cost of equipment rentals, excluding depreciation	557	486	1,556	1,391
Depreciation of rental equipment	290	250	804	735
Cost of rental equipment sales	84	68	225	215
Cost of new equipment sales	34	25	108	79
Cost of contractor supplies sales	14	13	42	41
Cost of service and other revenues	14	10	42	32
Total cost of revenues	993	852	2,777	2,493
Gross profit	773	656	1,942	1,746
Selling, general and administrative expenses	237	179	648	533
Merger related costs	16	—	32	—
Restructuring charge	9	4	28	8
Non-rental depreciation and amortization	63	61	189	192
Operating income	448	412	1,045	1,013
Interest expense, net	131	110	338	349
Other income, net	(5)	(1)	(5)	(3)
Income before provision for income taxes	322	303	712	667
Provision for income taxes	123	116	263	254
Net income	\$ 199	\$ 187	\$449	\$413
Basic earnings per share	\$ 2.36	\$ 2.18	\$5.31	\$4.68
Diluted earnings per share	\$ 2.33	\$ 2.16	\$5.26	\$4.66
See accompanying notes.				

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UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income	\$ 199	\$ 187	\$ 449	\$ 413
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	41	(9)	75	51
Fixed price diesel swaps	1	—	—	3
Other comprehensive income (loss)	42	(9)	75	54
Comprehensive income (1)	\$ 241	\$ 178	\$ 524	\$ 467

(1) There were no material reclassifications from accumulated other comprehensive loss reflected in other comprehensive income (loss) during 2017 or 2016. There is no tax impact related to the foreign currency translation adjustments, as the earnings are considered permanently reinvested. There were no material taxes associated with other comprehensive income (loss) during 2017 or 2016.

See accompanying notes.

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UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(In millions)

	Common Stock		Treasury Stock		Accumulated Other Comprehensive (Loss) Income (2)	
	Number of Shares (1)	Amount Paid-in Capital	Retained Earnings	Number of Shares	Amount	
Balance at December 31, 2016	84	\$ 1	\$ 2,288	\$ 1,654	28	\$(2,077) \$ (218)
Net income			449			
Foreign currency translation adjustments						75
Cumulative effect of a change in accounting for share-based payments (note 1)			5			
Stock compensation expense, net	1		64			
Exercise of common stock options			1			
Shares repurchased and retired			(26)			
Other			(5)			
Balance at September 30, 2017	85	\$ 1	\$ 2,322	\$ 2,108	28	\$(2,077) \$ (143)

(1)Common stock outstanding decreased by approximately 8 million net shares during the year ended December 31, 2016.

(2)The Accumulated Other Comprehensive Loss balance primarily reflects foreign currency translation adjustments.

See accompanying notes.

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UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Nine Months Ended September 30, 2017 2016	
Cash Flows From Operating Activities:		
Net income	\$449	\$413
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	993	927
Amortization of deferred financing costs and original issue discounts	6	7
Gain on sales of rental equipment	(153)	(146)
Gain on sales of non-rental equipment	(4)	(3)
Stock compensation expense, net	64	33
Merger related costs	32	—
Restructuring charge	28	8
Loss on repurchase/redemption of debt securities and amendment of ABL facility	43	36
Excess tax benefits from share-based payment arrangements	—	(53)
Increase in deferred taxes	97	90
Changes in operating assets and liabilities, net of amounts acquired:		
(Increase) decrease in accounts receivable	(172)	7
Increase in inventory	(9)	(3)
(Increase) decrease in prepaid expenses and other assets	(1)	75
Increase in accounts payable	350	137
Increase in accrued expenses and other liabilities	43	102
Net cash provided by operating activities	1,766	1,630
Cash Flows From Investing Activities:		
Purchases of rental equipment	(1,485)	(1,145)
Purchases of non-rental equipment	(87)	(65)
Proceeds from sales of rental equipment	378	361
Proceeds from sales of non-rental equipment	10	12
Purchases of other companies, net of cash acquired	(1,063)	(28)
Purchases of investments	(5)	—
Net cash used in investing activities	(2,252)	(865)
Cash Flows From Financing Activities:		
Proceeds from debt	8,702	5,812
Payments of debt	(8,156)	(6,021)
Proceeds from the exercise of common stock options	1	—
Common stock repurchased	(26)	(488)
Payments of financing costs	(44)	(12)
Excess tax benefits from share-based payment arrangements	—	53
Net cash provided by (used in) financing activities	477	(656)
Effect of foreign exchange rates	21	9
Net increase in cash and cash equivalents	12	118
Cash and cash equivalents at beginning of period	312	179
Cash and cash equivalents at end of period	\$324	\$297
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	\$114	\$14

Cash paid for interest	305	294
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See accompanying notes.

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data, unless otherwise indicated)

1. Organization, Description of Business and Basis of Presentation

United Rentals, Inc. ("Holdings," "URI" or the "Company") is principally a holding company and conducts its operations primarily through its wholly owned subsidiary, United Rentals (North America), Inc. ("URNA"), and subsidiaries of URNA. Holdings' primary asset is its sole ownership of all issued and outstanding shares of common stock of URNA. URNA's various credit agreements and debt instruments place restrictions on its ability to transfer funds to its shareholder.

We rent equipment to a diverse customer base that includes construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities in the United States and Canada. In addition to renting equipment, we sell new and used rental equipment, as well as related contractor supplies, parts and service.

We have prepared the accompanying unaudited condensed consolidated financial statements in accordance with the accounting policies described in our annual report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the 2016 Form 10-K.

In our opinion, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of financial condition, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

New Accounting Pronouncements

Leases. In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance ("Topic 842") to increase transparency and comparability among organizations by requiring i) recognition of lease assets and lease liabilities on the balance sheet and ii) disclosure of key information about leasing arrangements. Some changes to the lessor accounting guidance were made to align both of the following: i) the lessor accounting guidance with certain changes made to the lessee accounting guidance and ii) key aspects of the lessor accounting model with revenue recognition guidance. Topic 842 will be effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required for adoption for all leases that exist at or commence after the date of initial application with an option to use certain practical expedients. We expect to adopt this guidance when effective.

As discussed below, most of our equipment rental revenues, which accounted for 86 percent of total revenues for the nine months ended September 30, 2017, will be accounted for under the current lease accounting standard ("Topic 840") until the adoption of Topic 842. While our review of the equipment rental revenue accounting under Topic 842 is ongoing, we have tentatively concluded that no significant changes are expected to the accounting for most of our equipment rental revenues upon adoption of Topic 842.

Under Topic 842, our operating leases, which include both real estate and non-rental equipment, will result in lease assets and lease liabilities being recognized on the balance sheet. We lease a significant portion of our branch locations, and also lease other premises used for purposes such as district and regional offices and service centers. We expect that the quantification of the amount of the lease assets and lease liabilities that we will recognize on our balance sheet will take a significant amount of time given the size of our lease portfolio. While our review of the lessee accounting requirements of Topic 842 is ongoing, we believe that the impact on our balance sheet, while not currently estimable, will be significant.

Revenue from Contracts with Customers. In May 2014, and in subsequent updates, the FASB issued guidance ("Topic 606") to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2017, and

early adoption (for fiscal years and interim periods beginning after December 15, 2016) is permitted. We expect to adopt this guidance when effective.

Upon adoption of Topic 606, we will recognize revenue in accordance with two different accounting standards: 1) Topic 606 and 2) Topic 840. As discussed above, we expect to adopt Topic 842, an update to Topic 840, when it becomes effective, on January 1, 2019. While our review of our revenue accounting is ongoing, we expect that most of our equipment rental revenues, which accounted for 86 percent of total revenues for the nine months ended September 30, 2017, will be accounted for under

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Topic 840 until the adoption of Topic 842, and that our non-equipment rental revenues will be accounted for under Topic 606. While our review of our non-equipment rental revenue accounting is ongoing, we do not believe that Topic 606 will have a significant impact on our financial statements.

We are also evaluating the disclosure requirements of Topic 606, as well as its impact on our internal controls over financial reporting.

Statement of Cash Flows. In August 2016, the FASB issued guidance to reduce the diversity in the presentation of certain cash receipts and cash payments presented and classified in the statement of cash flows. The guidance addresses the following specific cash flow issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transitions and (8) separately identifiable cash flows and application of predominance principle. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires retrospective adoption. We expect to adopt this guidance when effective, and do not expect the guidance to have a significant impact on our financial statements.

Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued guidance that will require companies to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectibility. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2019 and early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Different components of the guidance require modified retrospective or prospective adoption. We are currently assessing whether we will early adopt, and the impact on our financial statements is not currently estimable.

Intra-Entity Transfers of Assets Other Than Inventory. In October 2016, the FASB issued guidance that will require companies to recognize the income tax effects of intra-entity sales and transfers of assets other than inventory in the period in which the transfer occurs. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires modified retrospective adoption. We expect to adopt this guidance when effective, and do not expect the guidance to have a significant impact on our financial statements.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued guidance intended to simplify the subsequent accounting for goodwill acquired in a business combination. Prior guidance required utilizing a two-step process to review goodwill for impairment. A second step 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 (as if purchase accounting were performed on the testing date) with the carrying amount of the goodwill. The new guidance eliminates the second step from the goodwill impairment test. 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 recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value (although the loss should not exceed the total amount of goodwill allocated to the reporting unit). The guidance requires prospective adoption and will be effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption of this guidance is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We expect to adopt this guidance when effective, and do not expect it to have a significant impact on our financial statements.

Clarifying the Definition of a Business. In January 2017, the FASB issued guidance to clarify the definition of a business with the objective of assisting entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is intended to make determining when a

set of assets and activities is a business more consistent and cost-efficient. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2017 and early adoption is permitted for transactions that occurred before the issuance date or effective date of the guidance if the transactions were not reported in financial statements that have been issued or made available for issuance. We expect to adopt this guidance when effective. The impact of this guidance will depend on the nature of our activities after adoption, and fewer transactions may be treated as acquisitions (or disposals) of businesses after adoption.

Stock Compensation: Scope of Modification Accounting. In May 2017, the FASB issued guidance to provide clarity and reduce both the (1) diversity in practice and (2) cost and complexity when changing the terms or conditions of share-based

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payment awards. Under the updated guidance, a modification is defined as a change in the terms or conditions of a share-based payment award, and an entity should account for the effects of a modification unless all of the following are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation techniques that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

This guidance requires prospective adoption and will be effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. The majority of our modifications relate to the acceleration of vesting conditions and we would continue to be required to account for the effects of such modifications under the updated guidance. We expect to adopt this guidance when effective, and do not expect that this guidance will have a significant impact on our financial statements.

Derivatives and Hedging. In August 2017, the FASB issued guidance with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The guidance is additionally intended to simplify hedge accounting, and no longer requires separate measurement and reporting of hedge ineffectiveness. For cash flow and net investment hedges existing at the date of adoption, entities must apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings. The amended presentation and disclosure guidance is required prospectively. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. We are currently assessing whether we will early adopt. Given our currently limited use of derivative instruments (see note 6 to our condensed consolidated financial statements), the guidance is not expected to have a significant impact on our financial statements.

Guidance Adopted in 2017

Improvements to Employee Share-Based Payment Accounting. In the first quarter of 2017, we adopted guidance that simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We prospectively adopted the amendments in this guidance that relate to the classification of excess tax benefits from share-based payment arrangements on the statement of cash flows. The excess tax benefits from share-based payment arrangements result from stock-based compensation windfall deductions in excess of the amounts reported for financial reporting purposes. In the nine months ended September 30, 2017, we recognized \$8 of such excess tax benefits, and, pursuant to the adopted guidance, net income increased by \$8, or \$0.10 per diluted share, reflecting the tax reduction associated with the excess tax benefits. Prior periods have not been adjusted to reflect the new guidance related to the classification of the excess tax benefits, as we have elected to prospectively adopt such guidance. Accordingly, our statement of cash flows for the nine months ended September 30, 2016 reflects \$53 of such excess tax benefits within net cash used in financing activities. All of the excess tax benefits for the nine months ended September 30, 2016 pertain to share based payments that vested prior to 2016, and, accordingly, would not have impacted net income under the new guidance.

Other significant components of the adopted guidance include:

- The guidance requires that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. We have historically classified such payments as financing activities, so no retrospective change was required to our 2016 statement of cash flows.

Certain aspects of the guidance require a cumulative change to retained earnings upon adoption. Upon adopting this guidance, we elected to record forfeitures of share-based payments as they occur. Making such an election requires a

cumulative change to retained earnings upon adoption. However, we historically adjusted estimated forfeitures to reflect actual forfeitures annually, as a result of which no change to retained earnings was required. In 2016, we utilized all of the prior federal excess tax benefits from share-based payments that vested through 2016, and, accordingly, no change to retained earnings was required associated with federal excess tax benefits from share-based payments. A \$5 change to retained earnings was required associated with state excess tax benefits from share-based payments that were not previously recognized because the related tax deduction had not reduced taxes payable.

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(Dollars in millions, except per share data, unless otherwise indicated)

2. Acquisitions

NES Acquisition

In April 2017, we completed the acquisition of NES Rentals Holdings II, Inc. (“NES”). NES was a provider of rental equipment with 73 branches located throughout the eastern half of the U.S., and had approximately 1,100 employees and approximately \$900 of rental assets at original equipment cost as of December 31, 2016. NES had annual revenues of approximately \$369. The acquisition is expected to:

- Increase our density in strategically important markets, including the East Coast, Gulf States and the Midwest;
- Strengthen our relationships with local and strategic accounts in the construction and industrial sectors, which we expect will enhance cross-selling opportunities and drive revenue synergies; and
- Create meaningful opportunities for cost synergies in areas such as corporate overhead, operational efficiencies and purchasing.

The aggregate consideration paid to holders of NES common stock and options was approximately \$960. The acquisition and related fees and expenses were funded through available cash, drawings on our senior secured asset-based revolving credit facility (“ABL facility”) and new debt issuances. See note 8 to the condensed consolidated financial statements for additional detail on the debt issuances.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. The opening balance sheet values assigned to these assets and liabilities are based on preliminary valuations and are subject to change as we obtain additional information during the acquisition measurement period.

Accounts receivable, net of allowance for doubtful accounts (1)	\$49
Inventory	4
Rental equipment	571
Property and equipment	48
Intangibles (2)	139
Other assets	7
Total identifiable assets acquired	818
Short-term debt and current maturities of long-term debt (3)	(3)
Current liabilities	(28)
Deferred taxes	(14)
Long-term debt (3)	(11)
Other long-term liabilities	(5)
Total liabilities assumed	(61)
Net identifiable assets acquired	757
Goodwill (4)	203
Net assets acquired	\$960

(1) The fair value of accounts receivables acquired was \$49, and the gross contractual amount was \$53. We estimated that \$4 would be uncollectible.

(2) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	Fair value	Life (years)
Customer relationships	\$ 138	10
Non-compete agreements	1	1
Total	\$ 139	

(3) The acquired debt reflects capital lease obligations.

(4) All of the goodwill was assigned to our general rentals segment. The level of goodwill that resulted from the acquisition is primarily reflective of NES's going-concern value, the value of NES's assembled workforce, new customer

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(Dollars in millions, except per share data, unless otherwise indicated)

relationships expected to arise from the acquisition, and operational synergies that we expect to achieve that would not be available to other market participants. \$1 of goodwill is expected to be deductible for income tax purposes. The three and nine months ended September 30, 2017 include NES acquisition-related costs of \$1 and \$17, respectively, which are included in “Merger related costs” in our condensed consolidated statements of income. The merger related costs are comprised of financial and legal advisory fees. In addition to the acquisition-related costs reflected in our condensed consolidated statements of income, the debt issuance costs and the original issue premiums associated with the issuance of debt to fund the acquisition are reflected, net of amortization subsequent to the acquisition date, in long-term debt in our condensed consolidated balance sheets. See note 8 to the condensed consolidated financial statements for additional detail on the debt issuances.

Since the acquisition date, significant amounts of fleet have been moved between URI locations and the acquired NES locations, and it is not practicable to reasonably estimate the amounts of revenue and earnings of NES since the acquisition date. The impact of the NES acquisition on our equipment rentals revenue is primarily reflected in the increases in the volume of OEC on rent of 18.2 percent and 14.5 percent for the three and nine months ended September 30, 2017, respectively.

The pro forma information below gives effect to the NES acquisition as if it had been completed on January 1, 2016 (“the pro forma acquisition date”). The pro forma information is not necessarily indicative of our results of operations had the acquisition been completed on the above date, nor is it necessarily indicative of our future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisition, and also does not reflect additional revenue opportunities following the acquisition. The pro forma information includes adjustments to record the assets and liabilities of NES at their respective fair values based on available information and to give effect to the financing for the acquisition and related transactions. The pro forma adjustments reflected in the table below are subject to change as additional analysis is performed. The opening balance sheet values assigned to the assets acquired and liabilities assumed are based on preliminary valuations and are subject to change as we obtain additional information during the acquisition measurement period. Increases or decreases in the estimated fair values of the net assets acquired may impact our statements of income in future periods. We expect that the values assigned to the assets acquired and liabilities assumed will be finalized in 2017. The table below presents unaudited pro forma consolidated income statement information as if NES had been included in our consolidated results for the entire periods reflected:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
United Rentals historic revenues	\$ 1,766	\$ 1,508	\$4,719	\$4,239
NES historic revenues	—	95	81	266
Pro forma revenues	1,766	1,603	4,800	4,505
United Rentals historic pretax income	322	303	712	667
NES historic pretax income (loss)	—	6	(12)	11
Combined pretax income	322	309	700	678
Pro forma adjustments to combined pretax income:				
Impact of fair value mark-ups/useful life changes on depreciation (1)	—	(9)	(9)	(28)
Impact of the fair value mark-up of acquired NES fleet on cost of rental equipment sales (2)	—	(1)	(1)	(1)
Gain on sale of equity interest (3)	—	—	—	(7)
Interest expense (4)	—	(9)	(9)	(28)

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Elimination of historic NES interest (5)	—	9	12	28
Elimination of merger related costs (6)	1	—	17	—
Restructuring charges (7)	9	(9) 27	(27)
Pro forma pretax income	\$ 332	\$ 290	\$737	\$615

(1) Depreciation of rental equipment and non-rental depreciation were adjusted for the fair value mark-ups of equipment acquired in the NES acquisition. The useful lives assigned to such equipment did not change significantly from the lives historically used by NES.

(2) Cost of rental equipment sales was adjusted for the fair value mark-ups of rental equipment acquired in the NES acquisition.

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(Dollars in millions, except per share data, unless otherwise indicated)

(3) In 2016, NES sold its equity interest in a successor company and recognized a gain of \$7. This gain was eliminated as the equity interest that was sold is not a component of the combined company.

(4) To partially fund the NES acquisition, URNA issued an aggregate of \$500 principal amount of debt, as discussed in note 8 to the condensed consolidated financial statements. Drawings on the ABL facility were also used to partially fund the purchase price. Interest expense was adjusted to reflect these changes in our debt portfolio.

(5) NES historic interest on debt that is not part of the combined entity was eliminated.

(6) Merger related costs comprised of financial and legal advisory fees associated with the NES acquisition were eliminated as they were assumed to have been recognized prior to the pro forma acquisition date. The merger related costs reflected in our condensed consolidated statements of income also include costs associated with the acquisition of Neff Corporation (“Neff”) discussed below.

(7) We expect to recognize restructuring charges primarily comprised of severance costs and branch closure charges associated with the acquisition over a period of approximately one year following the acquisition date, which, for the pro forma presentation, was January 1, 2016. As such, the restructuring charges recognized in 2017 were moved to 2016. The restructuring charges reflected in our condensed consolidated statements of income also include non-NES restructuring charges, as discussed in note 4 to the condensed consolidated financial statements. We do not expect to recognize significant additional restructuring charges associated with the acquisition. The 2016 restructuring charges above reflect the total charges recorded as of September 30, 2017 recognized on a straight-line basis from the pro forma acquisition date through September 30, 2016.

Neff Acquisition

In August 2017, we entered into a definitive merger agreement with Neff, pursuant to which we agreed to acquire Neff in an all cash transaction. The merger closed on October 2, 2017. The aggregate consideration paid to complete the acquisition was approximately \$1.3 billion. The merger and related fees and expenses were funded through available cash, drawings on current debt facilities and new debt issuances. See note 8 to the condensed consolidated financial statements for additional detail on the debt issuances. Neff was a provider of earthmoving, material handling, aerial and other equipment, and had 69 branches located in 14 states, with a concentration in southern geographies. Neff had approximately 1,100 employees and approximately \$860 of rental assets at original equipment cost as of September 30, 2017. Neff had annual revenues of approximately \$413.

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in millions, except per share data, unless otherwise indicated)

3. Segment Information

Our reportable segments are i) general rentals and ii) trench, power and pump. The general rentals segment includes the rental of i) general construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earthmoving equipment and material handling equipment, ii) aerial work platforms, such as boom lifts and scissor lifts and iii) general tools and light equipment, such as pressure washers, water pumps and power tools. The general rentals segment reflects the aggregation of ten geographic regions—Gulf South, Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Mid-Central, Midwest, Northeast, Pacific West, South, Southeast and Western Canada—and operates throughout the United States and Canada. We periodically review the size and geographic scope of our regions, and have occasionally reorganized the regions to create a more balanced and effective structure.

The trench, power and pump segment includes the rental of specialty construction products such as i) trench safety equipment, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment for underground work, ii) power and HVAC equipment, such as portable diesel generators, electrical distribution equipment, and temperature control equipment and iii) pumps primarily used by municipalities, industrial plants, and mining, construction, and agribusiness customers. The trench, power and pump segment is comprised of the following regions, each of which primarily rents the corresponding equipment type described above: (i) the Trench Safety region, (ii) the Power and HVAC region, and (iii) the Pump Solutions region. The trench, power and pump segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates throughout the United States and in Canada.

These segments align our external segment reporting with how management evaluates and allocates resources. We evaluate segment performance based on segment equipment rentals gross profit.

The following tables set forth financial information by segment.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Dollars in millions, except per share data, unless otherwise indicated)

	General rentals	Trench, power and pump	Total
Three Months Ended September 30, 2017			
Equipment rentals	\$ 1,237	\$ 299	\$ 1,536
Sales of rental equipment	130	9	139
Sales of new equipment	34	6	40
Contractor supplies sales	17	4	21
Service and other revenues	26	4	30
Total revenue	1,444	322	1,766
Depreciation and amortization expense	306	47	353
Equipment rentals gross profit	525	164	689
Three Months Ended September 30, 2016			
Equipment rentals	\$ 1,097	\$ 225	\$ 1,322
Sales of rental equipment	103	9	112
Sales of new equipment	27	3	30
Contractor supplies sales	16	3	19
Service and other revenues	23	2	25
Total revenue	1,266	242	1,508
Depreciation and amortization expense	266	45	311
Equipment rentals gross profit	469	117	586
Nine Months Ended September 30, 2017			
Equipment rentals	\$ 3,357	\$ 712	\$ 4,069
Sales of rental equipment	348	30	378
Sales of new equipment	112	14	126
Contractor supplies sales	49	11	60
Service and other revenues	76	10	86
Total revenue	3,942	777	4,719
Depreciation and amortization expense	855	138	993
Equipment rentals gross profit	1,350	359	1,709
Capital expenditures	1,404	168	1,572
Nine Months Ended September 30, 2016			
Equipment rentals	\$ 3,067	\$ 576	\$ 3,643
Sales of rental equipment	334	27	361
Sales of new equipment	84	12	96
Contractor supplies sales	49	11	60
Service and other revenues	71	8	79
Total revenue	3,605	634	4,239
Depreciation and amortization expense	791	136	927
Equipment rentals gross profit	1,243	274	1,517
Capital expenditures	1,086	124	1,210

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(Dollars in millions, except per share data, unless otherwise indicated)

	September 30, 2017	December 31, 2016
Total reportable segment assets		
General rentals	\$ 12,118	\$ 10,496
Trench, power and pump	1,626	1,492
Total assets	\$ 13,744	\$ 11,988

Equipment rentals gross profit is the primary measure management reviews to make operating decisions and assess segment performance. The following is a reconciliation of equipment rentals gross profit to income before provision for income taxes:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Total equipment rentals gross profit	\$ 689	\$ 586	\$1,709	\$1,517
Gross profit from other lines of business	84	70	233	229
Selling, general and administrative expenses	(237)	(179)	(648)	(533)
Merger related costs	(16)	—	(32)	—
Restructuring charge	(9)	(4)	(28)	(8)
Non-rental depreciation and amortization	(63)	(61)	(189)	(192)
Interest expense, net	(131)	(110)	(338)	(349)
Other income, net	5	1	5	3
Income before provision for income taxes	\$ 322	\$ 303	\$712	\$667

4. Restructuring Charges**Restructuring Charges**

Restructuring charges primarily include severance costs associated with headcount reductions, as well as branch closure charges which principally relate to continuing lease obligations at vacant facilities. We incur severance costs and branch closure charges in the ordinary course of our business. We only include such costs that are part of a restructuring program as restructuring charges. Since the first such restructuring program was initiated in 2008, we have completed three restructuring programs and have incurred total restructuring charges of \$262.

Closed Restructuring Programs

We have three closed restructuring programs. The first was initiated in 2008 in recognition of a challenging economic environment and was completed in 2011. The second was initiated following the April 30, 2012 acquisition of RSC Holdings Inc. ("RSC"), and was completed in 2013. The third was initiated in the fourth quarter of 2015 in response to challenges in our operating environment. In particular, during 2015, we experienced volume and pricing pressure in our general rental business and our Pump Solutions region associated with upstream oil and gas customers.

Additionally, our Lean initiatives did not fully generate the anticipated cost savings due to lower than expected growth. In 2016, we achieved the anticipated run rate savings from the Lean initiatives, and this restructuring program was completed in 2016.

NES/Neff/Project XL Restructuring Program

In the second quarter of 2017, we initiated a restructuring program following the closing of the NES acquisition discussed in note 2 to the condensed consolidated financial statements. The restructuring program also includes actions undertaken associated with Project XL, which is a set of eight specific work streams focused on driving profitable growth through revenue opportunities and generating incremental profitability through cost savings across

our business. Additionally, following the closing of the Neff acquisition that is discussed in note 2 to the condensed consolidated financial statements on October 2, 2017, the restructuring program will include actions that we expect to undertake associated with the Neff acquisition. We expect

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to complete the restructuring program in the first half of 2018. The total costs expected to be incurred in connection with the program are not currently estimable, as we are still identifying the actions that will be undertaken. The table below provides certain information concerning restructuring activity during the nine months ended September 30, 2017:

	Reserve Balance at December 31, 2016	Charged to Costs and Expenses (1)	Payments and Other	Reserve Balance at September 30, 2017
Closed Restructuring Programs				
Branch closure charges	\$ 16	\$ 1	\$ (3)	\$ 14
Severance and other	1	—	(1)	—
Total	\$ 17	\$ 1	\$ (4)	\$ 14
NES/Neff/Project XL Restructuring Program				
Branch closure charges	\$ —	\$ 7	\$ (1)	\$ 6
Severance and other	—	20	(16)	4
Total	\$ —	\$ 27	\$ (17)	\$ 10
Total				
Branch closure charges	\$ 16	\$ 8	\$ (4)	\$ 20
Severance and other	1	20	(17)	4
Total	\$ 17	\$ 28	\$ (21)	\$ 24

(1) Reflected in our condensed consolidated statements of income as “Restructuring charge.” These charges are not allocated to our reportable segments.

5. Goodwill and Other Intangible Assets

The following table presents the changes in the carrying amount of goodwill for the nine months ended September 30, 2017:

	General rentals	Trench, power and pump	Total
Balance at January 1, 2017 (1)	\$ 2,797	\$ 463	\$3,260
Goodwill related to acquisitions (2)	212	2	214
Foreign currency translation	14	5	19
Balance at September 30, 2017 (1)	3,023	470	3,493

(1) The total carrying amount of goodwill for all periods in the table above is reflected net of \$1.557 billion of accumulated impairment charges, which were primarily recorded in our general rentals segment.

(2) For additional detail on the April 2017 acquisition of NES, which accounted for most of the goodwill related to acquisitions, see note 2 to our condensed consolidated financial statements.

Other intangible assets were comprised of the following at September 30, 2017 and December 31, 2016:

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September 30, 2017

	Weighted-Average Remaining Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Amount
Non-compete agreements	27 months	\$67	\$ 60	\$ 7
Customer relationships	9 years	\$1,590		