

UNITED RENTALS INC /DE  
Form 10-Q  
July 18, 2018  
Table of Contents

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  
<sup>x</sup> 1934

For the quarterly period ended June 30, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
<sup>o</sup> 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	06902
Stamford, Connecticut	
(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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

Edgar Filing: UNITED RENTALS INC /DE - Form 10-Q

As of July 16, 2018, there were 82,748,285 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.

---

Table of Contents

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.

---

Table of Contents

UNITED RENTALS, INC.  
 UNITED RENTALS (NORTH AMERICA), INC.  
 FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018  
 INDEX

	Page
<b>PART I <u>FINANCIAL INFORMATION</u></b>	
Item 1 <u>Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>United Rentals, Inc. Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017</u>	<u>6</u>
<u>United Rentals, Inc. Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2018 and 2017 (unaudited)</u>	<u>7</u>
<u>United Rentals, Inc. Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2018 and 2017 (unaudited)</u>	<u>8</u>
<u>United Rentals, Inc. Condensed Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2018 (unaudited)</u>	<u>9</u>
<u>United Rentals, Inc. Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017 (unaudited)</u>	<u>10</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>11</u>
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
Item 4 <u>Controls and Procedures</u>	<u>50</u>
<b>PART II <u>OTHER INFORMATION</u></b>	
Item 1 <u>Legal Proceedings</u>	<u>51</u>
Item 1A <u>Risk Factors</u>	<u>51</u>
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
Item 6 <u>Exhibits</u>	<u>52</u>
<u>Signatures</u>	<u>53</u>

Table of Contents

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, including NES Rentals Holdings II, Inc. (“NES”), Neff Corporation (“Neff”) and BakerCorp International Holdings, Inc. (“BakerCorp”), 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 \$9.0 billion at June 30, 2018) 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;

Table of Contents

- 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; increases in our maintenance and replacement costs and/or decreases in the residual value of our equipment; and the effect of changes in tax law, such as the effect of the Tax Cuts and Jobs Act that was enacted on December 22, 2017.

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, 2017, 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.

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

UNITED RENTALS, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In millions, except share data)

	June 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 117	\$ 352
Accounts receivable, net of allowance for doubtful accounts of \$65 at June 30, 2018 and \$68 at December 31, 2017	1,203	1,233
Inventory	94	75
Prepaid expenses and other assets	92	112
Total current assets	1,506	1,772
Rental equipment, net	8,213	7,824
Property and equipment, net	480	467
Goodwill	4,096	4,082
Other intangible assets, net	798	875
Other long-term assets	15	10
Total assets	\$ 15,108	\$ 15,030
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Short-term debt and current maturities of long-term debt	\$ 900	\$ 723
Accounts payable	859	409
Accrued expenses and other liabilities	470	536
Total current liabilities	2,229	1,668
Long-term debt	8,086	8,717
Deferred taxes	1,509	1,419
Other long-term liabilities	120	120
Total liabilities	11,944	11,924
Common stock—\$0.01 par value, 500,000,000 shares authorized, 112,863,784 and 82,895,244 shares issued and outstanding, respectively, at June 30, 2018 and 112,394,395 and 84,463,662 shares issued and outstanding, respectively, at December 31, 2017	1	1
Additional paid-in capital	2,351	2,356
Retained earnings	3,458	3,005
Treasury stock at cost—29,968,540 and 27,930,733 shares at June 30, 2018 and December 31, 2017, respectively	(2,450)	(2,105)
Accumulated other comprehensive loss	(196)	(151)
Total stockholders' equity	3,164	3,106
Total liabilities and stockholders' equity	\$ 15,108	\$ 15,030
See accompanying notes.		



Table of Contents

## UNITED RENTALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues:				
Equipment rentals	\$ 1,631	\$ 1,367	\$3,090	\$2,533
Sales of rental equipment	157	133	338	239
Sales of new equipment	44	47	86	86
Contractor supplies sales	24	21	42	39
Service and other revenues	35	29	69	56
Total revenues	1,891	1,597	3,625	2,953
Cost of revenues:				
Cost of equipment rentals, excluding depreciation	620	525	1,212	999
Depreciation of rental equipment	323	266	645	514
Cost of rental equipment sales	92	81	199	141
Cost of new equipment sales	38	40	75	74
Cost of contractor supplies sales	16	15	28	28
Cost of service and other revenues	20	15	38	28
Total cost of revenues	1,109	942	2,197	1,784
Gross profit	782	655	1,428	1,169
Selling, general and administrative expenses	239	218	471	411
Merger related costs	2	14	3	16
Restructuring charge	4	19	6	19
Non-rental depreciation and amortization	67	64	138	126
Operating income	470	340	810	597
Interest expense, net	112	113	221	207
Other income, net	(1	) (2	) (2	) —
Income before provision for income taxes	359	229	591	390
Provision for income taxes	89	88	138	140
Net income	\$ 270	\$ 141	\$453	\$250
Basic earnings per share	\$ 3.22	\$ 1.67	\$5.40	\$2.95
Diluted earnings per share	\$ 3.20	\$ 1.65	\$5.34	\$2.92
See accompanying notes.				

Table of Contents

## UNITED RENTALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net income	\$ 270	\$ 141	\$453	\$250
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(21 )	25	(46 )	34
Fixed price diesel swaps	1	—	1	(1 )
Other comprehensive (loss) income	(20 )	25	(45 )	33
Comprehensive income (1)	\$ 250	\$ 166	\$408	\$283

(1)There were no material reclassifications from accumulated other comprehensive loss reflected in other comprehensive income (loss) during 2018 or 2017. 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 2018 or 2017.

See accompanying notes.

Table of Contents

UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(In millions)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss (2)
	Number of Shares (1)	Amount			Number of Shares Amount	
Balance at December 31, 2017	84	\$ 1	\$ 2,356	\$ 3,005	28 \$(2,105)	\$ (151 )
Net income				453		
Foreign currency translation adjustments						(46 )
Fixed price diesel swaps						1
Stock compensation expense, net	1		43			
Exercise of common stock options			2			
Shares repurchased and retired			(50 )			
Repurchase of common stock	(2 )				2 (345 )	
Balance at June 30, 2018	83	\$ 1	\$ 2,351	\$ 3,458	30 \$(2,450)	\$ (196 )

(1)Common stock outstanding increased by less than 1 million net shares during the year ended December 31, 2017.

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

See accompanying notes.

Table of Contents

## UNITED RENTALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Six Months Ended June 30,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$453	\$250
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	783	640
Amortization of deferred financing costs and original issue discounts	6	4
Gain on sales of rental equipment	(139 )	(98 )
Gain on sales of non-rental equipment	(3 )	(3 )
Gain on insurance proceeds from damaged equipment	(14 )	(8 )
Stock compensation expense, net	43	40
Merger related costs	3	16
Restructuring charge	6	19
Loss on repurchase/redemption of debt securities and amendment of ABL facility	—	12
Increase in deferred taxes	93	40
Changes in operating assets and liabilities, net of amounts acquired:		
Decrease (increase) in accounts receivable	29	(16 )
Increase in inventory	(19 )	(5 )
Decrease (increase) in prepaid expenses and other assets	25	(7 )
Increase in accounts payable	451	429
(Decrease) increase in accrued expenses and other liabilities	(68 )	16
Net cash provided by operating activities	1,649	1,329
Cash Flows From Investing Activities:		
Purchases of rental equipment	(1,226)	(913 )
Purchases of non-rental equipment	(80 )	(55 )
Proceeds from sales of rental equipment	338	239
Proceeds from sales of non-rental equipment	8	6
Insurance proceeds from damaged equipment	14	8
Purchases of other companies, net of cash acquired	(58 )	(965 )
Purchases of investments	(1 )	(4 )
Net cash used in investing activities	(1,005)	(1,684)
Cash Flows From Financing Activities:		
Proceeds from debt	4,330	3,943
Payments of debt	(4,806)	(3,543)
Proceeds from the exercise of common stock options	2	1
Common stock repurchased	(395 )	(24 )
Payments of financing costs	(1 )	(7 )
Net cash (used in) provided by financing activities	(870 )	370
Effect of foreign exchange rates	(9 )	11
Net (decrease) increase in cash and cash equivalents	(235 )	26
Cash and cash equivalents at beginning of period	352	312
Cash and cash equivalents at end of period	\$117	\$338
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	\$39	\$59

Cash paid for interest

213 177

See accompanying notes.

10

---

Table of Contents

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, 2017 (the “2017 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 2017 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 (1) recognition of lease assets and lease liabilities on the balance sheet and (2) disclosure of key information about leasing arrangements. Some changes to the lessor accounting guidance were made to align both of the following: (1) the lessor accounting guidance with certain changes made to the lessee accounting guidance and (2) 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 use the package of practical expedients that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We additionally expect to use the practical expedient that allows us to treat the lease and non-lease components of our leases as a single component for our real estate leases. We expect to adopt this guidance when effective.

As discussed in note 2 to our condensed consolidated financial statements, most of our equipment rental revenues, which accounted for 85 percent of total revenues for the six months ended June 30, 2018, will be accounted for under the current lease accounting standard (“Topic 840”) until the adoption of Topic 842. 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.

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

Table of Contents

early adopt, and the impact on our financial statements is not currently estimable as it will depend on market conditions and our forecast expectations upon, and following, adoption.

**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 are currently assessing whether we will early adopt. The guidance is not expected to 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, the guidance is not expected to have a significant impact on our financial statements.

**Guidance Adopted in 2018**

**Revenue from Contracts with Customers.** See note 2 to our condensed consolidated financial statements for a discussion of our revenue recognition accounting following our adoption in the first quarter of 2018 of FASB guidance addressing the principles for recognizing revenue.

**Statement of Cash Flows.** In 2018, we retrospectively adopted guidance that was issued 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 adoption of this guidance did not have a significant impact on our financial statements for the three and six months ended June 30, 2018 or 2017.

**Intra-Entity Transfers of Assets Other Than Inventory.** In 2018, we adopted guidance that requires 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 adoption of this guidance did not have a significant impact on our financial statements.

**Clarifying the Definition of a Business.** In 2018, we adopted guidance that was issued 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 future impact of this guidance will depend on the nature of our future activities, and fewer transactions may be treated as acquisitions (or disposals) of



businesses after adoption.

**Stock Compensation: Scope of Modification Accounting.** In 2018, we prospectively adopted guidance that was issued 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 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:

12

---

## Table of Contents

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.

The majority of our modifications relate to the acceleration of vesting conditions. The accounting for such modifications did not change under the adopted guidance, which did not have a significant impact on our financial statements.

### Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (the "Tax Act") was enacted in December 2017. The Act reduced the U.S. federal corporate tax rate from 35 percent to 21 percent, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2017, we were able to determine a reasonable estimate of (1) the effects on our existing deferred tax balances and (2) the one-time transition tax. We recognized a provisional income tax benefit of \$689 in the year ended December 31, 2017 associated with these items that we reasonably estimated. As of June 30, 2018, we have not changed the provisional estimates recognized in 2017. The Tax Act subjects U.S. shareholders to a tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. Entities can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, we are still evaluating the tax impact and have not yet made the accounting policy election. As of June 30, 2018, we were able to reasonably estimate provisional adjustments, based on current year operations only, related to GILTI that we have recognized in our financial statements. In all cases as it relates to the Tax Act, we will continue to refine our calculations as additional analysis is completed and as we gain a more thorough understanding of the tax law.

All amounts recognized associated with the Tax Act as of June 30, 2018 are provisional. Given the complexity of the Tax Act, we are still evaluating the tax impact and obtaining the information required to complete the accounting. The date we expect to complete the accounting is not currently determinable while we continue to obtain the information required to complete the accounting. Given the provisional amounts recognized in 2017, and the fact that we have not changed our provisional estimates, the impact of measurement period adjustments was not material during the three and six months ended June 30, 2018.

### 2. Revenue Recognition

Adoption of Accounting Standards Codification ("ASC") Topic 606, "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. Topic 606 is an update to Topic 605, which was the revenue recognition standard in effect through December 31, 2017. Topic 606 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. We adopted Topic 606 on January 1, 2018, using the modified retrospective method. The adoption of Topic 606 did not result in any significant changes to our historic revenue accounting under Topic 605. Results for 2018 are presented under Topic 606, while results for 2017 continue to reflect our historic accounting under Topic 605. Because there were no significant changes to our revenue recognition accounting upon adoption of Topic 606, no changes to our historic financial statements were required, and no cumulative change to retained earnings was required.

We applied the Topic 606 practical expedient that allows entities to not restate contracts that begin and are completed within the same annual reporting period. No other practical expedients associated with the adoption of Topic 606 were

applied. The only change to our revenue accounting upon adoption of Topic 606 pertains to sales of certain rental equipment. Prior to the adoption of Topic 606, certain sales of rental equipment were deferred until certain contingent future events occurred. Under Topic 606, we are no longer required to defer the revenue. The adoption of Topic 606 results in earlier recognition (primarily in the first quarter) of certain sales of rental equipment, but it does not impact total annual revenue because the contingencies that previously resulted in deferral under Topic 605 are always resolved within the same calendar year. During the three months ended June 30, 2017, we recognized \$133 of sales of rental equipment under Topic 605. Under Topic 606, sales of rental equipment during the three months ended June 30, 2017 would have been \$12 less because such sales would have been recognized prior to the three months ended June 30, 2017. During the six months ended June 30, 2017, we

Table of Contents

recognized \$239 of sales of rental equipment under Topic 605. Under Topic 606, we would have recognized an additional \$12 of sales of rental equipment during the six months ended June 30, 2017.

As discussed below, following the adoption of Topic 606, we recognize revenue in accordance with two different accounting standards: 1) Topic 606 and 2) Topic 840 (which addresses lease accounting. As discussed below, we expect to adopt an update to this standard on January 1, 2019). Under Topic 606, revenue from contracts with customers is measured based on the consideration specified in the contract with the customer, and excludes any sales incentives and amounts collected on behalf of third parties. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer, and is the unit of account under Topic 606. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for such products or services. As reflected below, most of our revenue is accounted for under Topic 840. Our contracts with customers generally do not include multiple performance obligations. For contracts with multiple Topic 606 performance obligations, we allocate revenue to each performance obligation using our best estimate of the standalone selling price for each performance obligation.

## Nature of goods and services

In the following table, revenue is summarized by type and by the applicable accounting standard.

	Three Months Ended June 30,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Owned equipment rentals	\$1,406	\$—	\$1,406	\$1,179	\$—	\$1,179
Re-rent revenue	29	—	29	25	—	25
Ancillary and other rental revenues:						
Delivery and pick-up	—	112	112	—	96	96
Other	64	20	84	54	13	67
Total ancillary and other rental revenues	64	132	196	54	109	163
Total equipment rentals	1,499	132	1,631	1,258	109	1,367
Sales of rental equipment	—	157	157	—	133	133
Sales of new equipment	—	44	44	—	47	47
Contractor supplies sales	—	24	24	—	21	21
Service and other revenues	—	35	35	—	29	29
Total revenues	\$1,499	\$392	\$1,891	\$1,258	\$339	\$1,597
	Six Months Ended June 30,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Owned equipment rentals	\$2,671	\$—	\$2,671	\$2,188	\$—	\$2,188
Re-rent revenue	54	—	54	46	—	46
Ancillary and other rental revenues:						
Delivery and pick-up	—	204	204	—	172	172
Other	120	41	161	99	28	127
Total ancillary and other rental revenues	120	245	365	99	200	299
Total equipment rentals	2,845	245	3,090	2,333	200	2,533
Sales of rental equipment	—	338	338	—	239	239
Sales of new equipment	—	86	86	—	86	86
Contractor supplies sales	—	42	42	—	39	39

Edgar Filing: UNITED RENTALS INC /DE - Form 10-Q

Service and other revenues	—	69	69	—	56	56
Total revenues	\$2,845	\$ 780	\$3,625	\$2,333	\$ 620	\$2,953

14

---

## Table of Contents

Revenues by reportable segment and geographical market are presented in notes 4 and 10 of the condensed consolidated financial statements, respectively, using the revenue captions reflected in our condensed consolidated statements of operations. The majority of our revenue is recognized in our general rentals segment and in the U.S. (for the six months ended June 30, 2018, 83 percent and 92 percent of total revenues, respectively), and, accordingly, we do not believe that presenting the revenue types above by reportable segment or geographical market would provide information that is material to investors. We believe that the disaggregation of our revenue from contracts to customers as reflected above, coupled with the further discussion below and the reportable segment and geographical market disclosures in notes 4 and 10, depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

### Lease revenues (Topic 840)

The accounting for the types of revenue that are accounted for under Topic 840 is discussed below. As discussed in note 1 to the condensed consolidated financial statements, we expect to adopt Topic 842, which is an update to Topic 840, on January 1, 2019. We have tentatively concluded that no significant changes are expected to our revenue accounting upon adoption of Topic 842.

**Owned equipment rentals:** Owned equipment rentals represent revenues from renting equipment that we own. We account for such rentals as operating leases.

We recognize revenues from renting equipment on a straight-line basis. Our rental contract periods are hourly, daily, weekly or monthly. By way of example, if a customer were to rent a piece of equipment and the daily, weekly and monthly rental rates for that particular piece were (in actual dollars) \$100, \$300 and \$900, respectively, we would recognize revenue of \$32.14 per day. The daily rate for recognition purposes is calculated by dividing the monthly rate of \$900 by the monthly term of 28 days. This daily rate assumes that the equipment will be on rent for the full 28 days, as we are unsure of when the customer will return the equipment and therefore unsure of which rental contract period will apply.

As part of this straight-line methodology, when the equipment is returned, we recognize as incremental revenue the excess, if any, between the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the equipment was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, we will have customers return equipment and be contractually required to pay us more than the cumulative amount of revenue recognized to date under the straight-line methodology. For instance, continuing the above example, if the customer rented the above piece of equipment on December 29 and returned it at the close of business on January 1, we would recognize incremental revenue on January 1 of \$171.44 (in actual dollars, representing the difference between the amount the customer is contractually required to pay, or \$300 at the weekly rate, and the cumulative amount recognized to date on a straight-line basis, or \$128.56, which represents four days at \$32.14 per day).

We record amounts billed to customers in excess of recognizable revenue as deferred revenue on our balance sheet. We had deferred revenue (associated with both Topic 840 and Topic 606/605) of \$52 and \$46 as of June 30, 2018 and December 31, 2017, respectively.

**Re-rent revenue:** Re-rent revenue reflects revenues from equipment that we rent from vendors and then rent to our customers. We account for such rentals as subleases. The accounting for re-rent revenue is the same as the accounting for owned equipment rentals described above.

“Other” equipment rental revenue is primarily comprised of 1) Rental Protection Plan (or “RPP”) revenue associated with the damage waiver customers can purchase when they rent our equipment to protect against potential loss or damage, 2) environmental charges associated with the rental of equipment, and 3) charges for rented equipment that is damaged by our customers.

### Revenues from contracts with customers (Topic 606)

The accounting for the types of revenue that are accounted for under Topic 606 is discussed below. Substantially all of our revenues under Topic 606 are recognized at a point-in-time rather than over time.

**Delivery and pick-up:** Delivery and pick-up revenue associated with renting equipment is recognized when the service is performed.

“Other” equipment rental revenue is primarily comprised of revenues associated with the consumption of fuel by our customers which are recognized when the equipment is returned by the customer (and consumption, if any, can be measured).

Sales of rental equipment, new equipment and contractor supplies are recognized at the time of delivery to, or pick-up by, the customer and when collectibility is reasonably assured.

## Table of Contents

Service and other revenues primarily represent revenues earned from providing repair and maintenance services on our customers' fleet (including parts sales). Service revenue is recognized as the services are performed.

### Receivables and contract assets and liabilities

As reflected above, most of our equipment rental revenue is accounted for under Topic 840 (such revenue represented 78 percent of our total revenues for the six months ended June 30, 2018). The customers that are responsible for the remaining revenue that is accounted for under Topic 606 are generally the same customers that rent our equipment. We manage credit risk associated with our accounts receivables at the customer level. Because the same customers generate the revenues that are accounted for under both Topic 606 and Topic 840, the discussions below on credit risk and our allowances for doubtful accounts address our total revenues from Topic 606 (Topic 605 for 2017) and Topic 840.

Concentration of credit risk with respect to our receivables is limited because a large number of geographically diverse customers makes up our customer base. Our largest customer accounted for less than one percent of total revenues for the six months ended June 30, 2018, and for each of the last three full years. Our customer with the largest receivable balance represented approximately one percent of total receivables at June 30, 2018 and December 31, 2017. We manage credit risk through credit approvals, credit limits and other monitoring procedures. We maintain allowances for doubtful accounts. These allowances reflect our estimate of the amount of our receivables that we will be unable to collect based on historical write-off experience. Our estimate could require change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowances. Trade receivables that have contractual maturities of one year or less are written-off when they are determined to be uncollectible based on the criteria necessary to qualify as a deduction for federal tax purposes. Write-offs of such receivables require management approval based on specified dollar thresholds. During the six months ended June 30, 2018 and 2017, we recognized expenses of \$12 and \$15, respectively, primarily within selling, general and administrative expenses in our condensed consolidated statements of income, associated with our allowances for doubtful accounts.

We do not have material contract assets, or impairment losses associated therewith, or material contract liabilities, associated with contracts with customers. Our contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. We did not recognize material revenue during the three or six months ended June 30, 2018 or 2017 that was included in the contract liability balance as of the beginning of such periods.

### Performance obligations

Most of our Topic 606 revenue is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, we do not generally recognize a significant amount of revenue from performance obligations satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the three and six months ended June 30, 2018 and 2017 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of June 30, 2018.

### Payment terms

Our Topic 606 revenues do not include material amounts of variable consideration. Our payment terms vary by the type and location of our customer and the products or services offered. The time between invoicing and when payment is due is not significant. Our contracts do not generally include a significant financing component. For certain products or services and customer types, we require payment before the products or services are delivered to the customer. Our contracts with customers do not generally result in significant obligations associated with returns, refunds or warranties. See above for a discussion of how we manage credit risk.

Sales tax amounts collected from customers are recorded on a net basis.

### Contract costs



We do not recognize any assets associated with the incremental costs of obtaining a contract with a customer (for example, a sales commission) that we expect to recover. Most of our revenue is recognized at a point-in-time or over a period of one year or less, and we use the practical expedient that allows us to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less.

Contract estimates and judgments

16

---

Table of Contents

Our revenues accounted for under Topic 606 generally do not require significant estimates or judgments, primarily for the following reasons:

- The transaction price is generally fixed and stated on our contracts;
  - As noted above, our contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation;
  - Our revenues do not include material amounts of variable consideration; and
- Most of our revenue is recognized as of a point-in-time and the timing of the satisfaction of the applicable performance obligations is readily determinable. As noted above, our Topic 606 revenue is generally recognized at the time of delivery to, or pick-up by, the customer.
- We monitor and review our estimated standalone selling prices on a regular basis.

### 3. 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:

- Increased our density in strategically important markets, including the East Coast, Gulf States and the Midwest;
- Strengthened our relationships with local and strategic accounts in the construction and industrial sectors, which enhances cross-selling opportunities and drives revenue synergies; and
- Created 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.

The following table summarizes the fair values of the assets acquired and liabilities assumed.

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	(33 )
Deferred taxes	(15 )
Long-term debt (3)	(11 )
Other long-term liabilities	(5 )
Total liabilities assumed	(67 )
Net identifiable assets acquired	751
Goodwill (4)	209
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.

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

(2) The following table reflects the 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 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 six months ended June 30, 2018 and 2017 include NES acquisition-related costs which are included in "Merger related costs" in our condensed consolidated statements of income. 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.

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 increase in the volume of OEC on rent of 20.6 percent for the six months ended June 30, 2018 (such increase also includes the impact of the acquisition of Neff Corporation ("Neff") discussed below).

Neff Acquisition

In October 2017, we completed the acquisition of Neff. 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. The acquisition augmented our earthmoving capabilities and efficiencies of scale in key market areas, particularly fast-growing southern geographies, and created opportunities for revenue synergies through the cross-selling of our broader fleet.

The aggregate consideration paid to holders of Neff common stock and options was approximately \$1.316 billion (including \$7 of stock consideration associated with Neff stock options and restricted stock units which were converted into United Rentals stock options). The acquisition and related fees and expenses were funded through new debt issuances.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. We do not expect material changes to the assigned values.

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Accounts receivable, net of allowance for doubtful accounts (1)	\$72
Inventory	5
Rental equipment	550
Property and equipment	45
Intangibles (customer relationships) (2)	153
Other assets	5
Total identifiable assets acquired	830
Current liabilities	(61 )
Deferred taxes	(35 )
Other long-term liabilities	(3 )
Total liabilities assumed	(99 )
Net identifiable assets acquired	731
Goodwill (3)	585
Net assets acquired	\$1,316

(1) The fair value of accounts receivables acquired was \$72, and the gross contractual amount was \$74. We estimated that \$2 would be uncollectible.

(2) The customer relationships are being amortized over a 10 year life.

(3) All of the goodwill was assigned to our general rentals segment. The level of goodwill that resulted from the acquisition is primarily reflective of Neff's going-concern value, the value of Neff's assembled workforce, new customer relationships expected to arise from the acquisition, and operational synergies that we expect to achieve that would not be available to other market participants. \$320 of goodwill is expected to be deductible for income tax purposes.

The three and six months ended June 30, 2018 include Neff acquisition-related costs which are included in "Merger related costs" in our condensed consolidated statements of income. In addition to the acquisition-related costs reflected in our 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.

Since the acquisition date, significant amounts of fleet have been moved between URI locations and the acquired Neff locations, and it is not practicable to reasonably estimate the amounts of revenue and earnings of Neff since the acquisition date. The impact of the Neff acquisition on our equipment rentals revenue is primarily reflected in the increases in the volume of OEC on rent of 15.9 percent and 20.6 percent for the three and six months ended June 30, 2018, respectively. Such increase for the six months ended June 30, 2018 also includes the impact of the acquisition of NES discussed above (NES was not a significant driver of the increase for the three months ended June 30, 2018 because the OEC from the NES acquisition was included in our results for both the three months ended June 30, 2018 and 2017).

## Pro forma financial information

The pro forma information below gives effect to the NES and Neff acquisitions as if they had been completed on January 1, 2017 ("the pro forma acquisition date"). The pro forma information is not necessarily indicative of our results of operations had the acquisitions 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 acquisitions, and also does not reflect additional revenue opportunities following the acquisitions. The pro forma information includes adjustments to record the assets and liabilities of NES and Neff at their respective fair values based on available information and to give effect to the financing for the acquisitions and related transactions. The pro forma adjustments reflected in the table below are subject to change as additional analysis is performed. The

acquisition measurement period for NES has ended and the values assigned to the NES assets acquired and liabilities assumed are final. The opening balance sheet values assigned to the Neff 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 do not expect material changes to the assigned values. The table below presents unaudited pro forma consolidated income statement information as if NES and Neff

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

had been included in our consolidated results for the entire periods reflected:

	Three Months Ended			Six Months Ended				
	June 30, 2017			June 30, 2017				
	United Rentals	NES	Neff	Total	United Rentals	NES	Neff	Total
Historic/pro forma revenues	\$ 1,597	\$ —	\$ —	\$ 1,702	\$ 2,953	\$ 81	\$ 201	\$ 3,235
Historic/combined pretax income (loss)	229	—	15	244	390	(12 )	22	400
Pro forma adjustments to pretax income (loss):								
Impact of fair value mark-ups/useful life changes on depreciation (1)		—	(2 )	(2 )		(9 )	(5 )	(14 )
Impact of the fair value mark-up of acquired fleet on cost of rental equipment sales (2)		—	(1 )	(1 )		(1 )	(1 )	(2 )
Intangible asset amortization (3)		—	(7 )	(7 )		(6 )	(14 )	(20 )
Interest expense (4)		—	(17 )	(17 )		(9 )	(34 )	(43 )
Elimination of historic interest (5)		—	12	12		12	23	35
Elimination of merger related costs (6)		14	—	14		16	—	16
Restructuring charges (7)		9	(2 )	7		(9 )	(16 )	(25 )
Pro forma pretax income				\$ 250				\$ 347

(1) Depreciation of rental equipment and non-rental depreciation were adjusted for the fair value mark-ups, and the changes in useful lives and salvage values, of the equipment acquired in the NES and Neff acquisitions.

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

(3) The intangible assets acquired in the NES and Neff acquisitions were amortized.

(4) As discussed above, we issued debt to partially fund the NES and Neff acquisitions. Interest expense was adjusted to reflect these changes in our debt portfolio.

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

(6) Merger related costs primarily comprised of financial and legal advisory fees associated with the NES and Neff acquisitions were eliminated as they were assumed to have been recognized prior to the pro forma acquisition date.

(7) We expect to recognize restructuring charges primarily comprised of severance costs and branch closure charges associated with the acquisitions over a period of approximately one year following the acquisition dates, which, for the pro forma presentation, was January 1, 2017. The adjustments above reflect the timing of the actual restructuring charges following the acquisitions (the pro forma restructuring charges above for the three and six months ended June 30, 2017 reflect the actual restructuring charges recognized during the three and six months following the acquisitions).

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

4. 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 11 geographic regions—Carolinas, 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.

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.

Table of Contents

UNITED RENTALS, INC.

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 June 30, 2018			
Equipment rentals	\$ 1,332	\$ 299	\$ 1,631
Sales of rental equipment	145	12	157
Sales of new equipment	38	6	44
Contractor supplies sales	19	5	24
Service and other revenues	32	3	35
Total revenue	1,566	325	1,891
Depreciation and amortization expense	334	56	390
Equipment rentals gross profit	543	145	688
Three Months Ended June 30, 2017			
Equipment rentals	\$ 1,143	\$ 224	\$ 1,367
Sales of rental equipment	122	11	133
Sales of new equipment	43	4	47
Contractor supplies sales	18	3	21
Service and other revenues	26	3	29
Total revenue	1,352	245	1,597
Depreciation and amortization expense	285	45	330
Equipment rentals gross profit	465	111	576
Six Months Ended June 30, 2018			
Equipment rentals	\$ 2,533	\$ 557	\$ 3,090
Sales of rental equipment	316	22	338
Sales of new equipment	75	11	86
Contractor supplies sales	33	9	42
Service and other revenues	62	7	69
Total revenue	3,019	606	3,625
Depreciation and amortization expense	671	112	783
Equipment rentals gross profit	969	264	1,233
Capital expenditures	1,153	153	1,306
Six Months Ended June 30, 2017			
Equipment rentals	\$ 2,120	\$ 413	\$ 2,533
Sales of rental equipment	218	21	239
Sales of new equipment	78	8	86
Contractor supplies sales	32	7	39
Service and other revenues	50	6	56
Total revenue	2,498	455	2,953
Depreciation and amortization expense	549	91	640
Equipment rentals gross profit	825	195	1,020
Capital expenditures	863	105	968



Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	June 30, December 31,	
	2018	2017
Total reportable segment assets		
General rentals	\$ 13,370	\$ 13,351
Trench, power and pump	1,738	1,679
Total assets	\$ 15,108	\$ 15,030

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		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Total equipment rentals gross profit	\$ 688	\$ 576	\$ 1,233	\$ 1,020
Gross profit from other lines of business	94	79	195	149
Selling, general and administrative expenses	(239 )	(218 )	(471 )	(411 )
Merger related costs	(2 )	(14 )	(3 )	(16 )
Restructuring charge	(4 )	(19 )	(6 )	(19 )
Non-rental depreciation and amortization	(67 )	(64 )	(138 )	(126 )
Interest expense, net	(112 )	(113 )	(221 )	(207 )
Other income, net	1	2	2	—
Income before provision for income taxes	\$ 359	\$ 229	\$ 591	\$ 390

**5. 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 \$290.

**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 3 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, and the Neff acquisition that is discussed in note 3 to the condensed consolidated financial statements. We expect to complete the restructuring program in the second half of 2018, and do not expect to incur significant additional expenses in connection with the program.

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

The table below provides certain information concerning restructuring activity during the six months ended June 30, 2018:

	Reserve Balance at December 31, 2017	Charged to Costs and Expenses (1)	Payments and Other	Reserve Balance at June 30, 2018
Closed Restructuring Programs				
Branch closure charges	\$ 13	\$ —	\$ (3 )	\$ 10
Severance and other	—	—	—	—
Total	\$ 13	\$ —	\$ (3 )	\$ 10
NES/Neff/Project XL Restructuring Program				
Branch closure charges	\$ 8	\$ 1	\$ (3 )	\$ 6
Severance and other	12	5	(11 )	6
Total	\$ 20	\$ 6	\$ (14 )	\$ 12
Total				
Branch closure charges	\$ 21	\$ 1	\$ (6 )	\$ 16
Severance and other	12	5	(11 )	6
Total	\$ 33	\$ 6	\$ (17 )	\$ 22

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

## 6. Fair Value Measurements

As of June 30, 2018 and December 31, 2017, the amounts of our assets and liabilities that were accounted for at fair value were immaterial.

Fair value measurements are categorized in one of the following three levels based on the lowest level input that is significant to the fair value measurement in its entirety:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2- Observable inputs other than quoted prices in active markets for identical assets or liabilities include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3- Inputs to the valuation methodology are unobservable (i.e., supported by little or no market activity) and significant to the fair value measure.

## Fair Value of Financial Instruments

The carrying amounts reported in our condensed consolidated balance sheets for accounts receivable, accounts payable and accrued expenses and other liabilities approximate fair value due to the immediate to short-term maturity

of these financial instruments. The fair values of our ABL facility, accounts receivable securitization facility and capital leases approximated their book values as of June 30, 2018 and December 31, 2017. The estimated fair values of our financial instruments, all of which are

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

categorized in Level 1 of the fair value hierarchy, as of June 30, 2018 and December 31, 2017 have been calculated based upon available market information, and were as follows:

	June 30, 2018	December 31, 2017
	Carrying Fair Amount	Carrying Fair Amount
Senior notes	\$7,010	\$7,008
	\$6,907	\$7,340

## 7. Debt

Debt, net of unamortized original issue discounts or premiums, and unamortized debt issuance costs, consists of the following:

	June 30, 2018	December 31, 2017
Accounts Receivable Securitization Facility expiring 2018 (1)	\$869	\$ 695
\$3.0 billion ABL Facility expiring 2021 (2)	1,033	1,670
4 <sup>5</sup> / <sub>8</sub> percent Senior Secured Notes due 2023	993	992
5 <sup>3</sup> / <sub>4</sub> percent Senior Notes due 2024	841	841
5 <sup>1</sup> / <sub>2</sub> percent Senior Notes due 2025	794	793
4 <sup>5</sup> / <sub>8</sub> percent Senior Notes due 2025	740	740
5 <sup>7</sup> / <sub>8</sub> percent Senior Notes due 2026	998	998
5 <sup>1</sup> / <sub>2</sub> percent Senior Notes due 2027	991	990
4 <sup>7</sup> / <sub>8</sub> percent Senior Notes due 2028 (3)	1,649	1,648
4 <sup>7</sup> / <sub>8</sub> percent Senior Notes due 2028 (3)	4	6
Capital leases	74	67
Total debt	8,986	9,440
Less short-term portion (4)	(900 )	(723 )
Total long-term debt	\$8,086	\$ 8,717

In June 2018, the accounts receivable securitization facility was amended, primarily to increase the facility size and to extend the maturity date which may be further extended on a 364-day basis by mutual agreement with the purchasers under the facility. The size of the facility, which expires on June 29, 2019, was increased to \$875. At June 30, 2018, \$5 was available under our accounts receivable securitization facility. The interest rate applicable to the accounts receivable securitization facility was 2.9 percent at June 30, 2018. During the six months ended June 30, 2018, the monthly average principal amount outstanding under the accounts receivable securitization facility was \$749, and the weighted-average interest rate thereon was 2.7 percent. The maximum month-end principal amount outstanding under the accounts receivable securitization facility during the six months ended June 30, 2018 was \$870. Borrowings under the accounts receivable securitization facility are permitted only to the extent that the face amount of the receivables in the collateral pool, net of applicable reserves and other deductions, exceeds the outstanding loans. As of June 30, 2018, there were \$879 of receivables, net of applicable reserves and other deductions, in the collateral pool.

(2) At June 30, 2018, \$1.923 billion was available under our ABL facility, net of \$37 of letters of credit. The interest rate applicable to the ABL facility was 3.5 percent at June 30, 2018. During the six months ended June 30, 2018, the monthly average principal amount outstanding under the ABL facility was \$1.184 billion, and the

weighted-average interest rate thereon was 3.2 percent. The maximum month-end principal amount outstanding under the ABL facility during the six months ended June 30, 2018 was \$1.373 billion.

- URNA separately issued 4 <sup>7</sup>/<sub>8</sub> percent Senior Notes in August 2017 and in September 2017. Following the
- (3) issuances, we consummated an exchange offer pursuant to which most of the 4 <sup>7</sup>/<sub>8</sub> percent Senior Notes issued in September 2017 were exchanged for additional notes fungible with the 4 <sup>7</sup>/<sub>8</sub> percent Senior Notes issued in August 2017.
- (4) As of June 30, 2018, our short-term debt primarily reflects \$869 of borrowings under our accounts receivable securitization facility.

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## Loan Covenants and Compliance

As of June 30, 2018, we were in compliance with the covenants and other provisions of the ABL facility, the accounts receivable securitization facility and the senior notes. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

The only financial maintenance covenant that currently exists under the ABL facility is the fixed charge coverage ratio. Subject to certain limited exceptions specified in the ABL facility, the fixed charge coverage ratio covenant under the ABL facility will only apply in the future if specified availability under the ABL facility falls below 10 percent of the maximum revolver amount under the ABL facility. When certain conditions are met, cash and cash equivalents and borrowing base collateral in excess of the ABL facility size may be included when calculating specified availability under the ABL facility. As of June 30, 2018, specified availability under the ABL facility exceeded the required threshold and, as a result, this financial maintenance covenant was inapplicable. Under our accounts receivable securitization facility, we are required, among other things, to maintain certain financial tests relating to: (i) the default ratio, (ii) the delinquency ratio, (iii) the dilution ratio and (iv) days sales outstanding. The accounts receivable securitization facility also requires us to comply with the fixed charge coverage ratio under the ABL facility, to the extent the ratio is applicable under the ABL facility.

## 8. Legal and Regulatory Matters

We are subject to a number of claims and proceedings that generally arise in the ordinary course of our business. These matters include, but are not limited to, general liability claims (including personal injury, property and auto claims), indemnification and guarantee obligations, employee injuries and employment-related claims, self-insurance obligations, contract and real estate matters, and other general business litigation. Based on advice of counsel and available information, including current status or stage of proceeding, and taking into account accruals for matters where we have established them, we currently believe that any liabilities ultimately resulting from such claims and proceedings will not, individually or in the aggregate, have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

## 9. Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares plus the effect of dilutive potential common shares outstanding during the period. Net income and earnings per share for 2018 reflect lower effective tax rates due to the enactment of the Tax Act in December 2017, as discussed further below (see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations-Other costs/(income)"). The following table sets forth the computation of basic and diluted earnings per share (shares in thousands):

	Three Months Ended		Six Months Ended	
	June 30,	2017	June 30,	2017
	2018		2018	2017
Numerator:				
Net income available to common stockholders	\$ 270	\$ 141	453	250
Denominator:				
Denominator for basic earnings per share—weighted-average common shares	83,456	84,635	83,854	84,546
Effect of dilutive securities:				
Employee stock options	370	394	393	403
Restricted stock units	373	379	476	452

Edgar Filing: UNITED RENTALS INC /DE - Form 10-Q

Denominator for diluted earnings per share—adjusted weighted-average common shares	84,199	85,408	84,723	85,401
Basic earnings per share	\$ 3.22	\$ 1.67	\$5.40	\$ 2.95
Diluted earnings per share	\$ 3.20	\$ 1.65	\$5.34	\$ 2.92

26

---



Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## 10. Condensed Consolidating Financial Information of Guarantor Subsidiaries

URNA is 100 percent owned by Holdings (“Parent”) and has certain outstanding indebtedness that is guaranteed by both Parent and, with the exception of its U.S. special purpose vehicle which holds receivable assets relating to the Company’s accounts receivable securitization facility (the “SPV”), all of URNA’s U.S. subsidiaries (the “guarantor subsidiaries”). Other than the guarantee by certain Canadian subsidiaries of URNA’s indebtedness under the ABL facility, none of URNA’s indebtedness is guaranteed by URNA’s foreign subsidiaries or the SPV (together, the “non-guarantor subsidiaries”). The receivable assets owned by the SPV have been sold or contributed by URNA to the SPV and are not available to satisfy the obligations of URNA or Parent’s other subsidiaries. The guarantor subsidiaries are all 100 percent-owned and the guarantees are made on a joint and several basis. The guarantees are not full and unconditional because a guarantor subsidiary can be automatically released and relieved of its obligations under certain circumstances, including sale of the guarantor subsidiary, the sale of all or substantially all of the guarantor subsidiary’s assets, the requirements for legal defeasance or covenant defeasance under the applicable indenture being met, designating the guarantor subsidiary as an unrestricted subsidiary for purposes of the applicable covenants or, other than with respect to the guarantees of the 5 3/4 percent Senior Notes due 2024, the notes being rated investment grade by both Standard & Poor’s Ratings Services and Moody’s Investors Service, Inc., or, in certain circumstances, another rating agency selected by URNA. The guarantees are also subject to subordination provisions (to the same extent that the obligations of the issuer under the relevant notes are subordinated to other debt of the issuer) and to a standard limitation which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws. Based on our understanding of Rule 3-10 of Regulation S-X (“Rule 3-10”), we believe that the guarantees of the guarantor subsidiaries comply with the conditions set forth in Rule 3-10 and therefore continue to utilize Rule 3-10 to present condensed consolidating financial information for Holdings, URNA, the guarantor subsidiaries and the non-guarantor subsidiaries. Separate consolidated financial statements of the guarantor subsidiaries have not been presented because management believes that such information would not be material to investors. However, condensed consolidating financial information is presented.

URNA covenants in the ABL facility, accounts receivable securitization facility and the other agreements governing our debt impose operating and financial restrictions on URNA, Parent and the guarantor subsidiaries, including limitations on the ability to make share repurchases and dividend payments. As of June 30, 2018, the amount available for distribution under the most restrictive of these covenants was \$804. The Company’s total available capacity for making share repurchases and dividend payments includes the intercompany receivable balance of Parent. As of June 30, 2018, our total available capacity for making share repurchases and dividend payments, which includes URNA’s capacity to make restricted payments and the intercompany receivable balance of Parent, was \$2.001 billion. The condensed consolidating financial information of Parent and its subsidiaries is as follows:

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING BALANCE SHEET

June 30, 2018

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	SPV	Eliminations	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$—	\$44	\$ —	\$73	\$—	\$ —	\$ 117
Accounts receivable, net	—	—	—	109	1,094	—	1,203
Intercompany receivable (payable)	1,197	(1,083 )	(98 )	(16 )	—	—	—
Inventory	—	85	—	9	—	—	94
Prepaid expenses and other assets	—	89	—	3	—	—	92
Total current assets	1,197	(865 )	(98 )	178	1,094	—	1,506
Rental equipment, net	—	7,642	—	571	—	—	8,213
Property and equipment, net	45	354	41	40	—	—	480
Investments in subsidiaries	1,939	1,053	908	—	—	(3,900 )	—
Goodwill	—	3,842	—	254	—	—	4,096
Other intangible assets, net	—	758	—	40	—	—	798
Other long-term assets	6	9	—	—	—	—	15
Total assets	\$3,187	\$12,793	\$ 851	\$1,083	\$1,094	\$(3,900 )	\$15,108
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>							
Short-term debt and current maturities of long-term debt	\$1	\$28	\$ —	\$2	\$869	\$ —	\$900
Accounts payable	—	787	—	72	—	—	859
Accrued expenses and other liabilities	—	429	13	27	1	—	470
Total current liabilities	1	1,244	13	101	870	—	2,229
Long-term debt	—	8,074	9	3	—	—	8,086
Deferred taxes	22	1,416	—	71	—	—	1,509
Other long-term liabilities	—	120	—	—	—	—	120
Total liabilities	23	10,854	22	175	870	—	11,944
Total stockholders' equity (deficit)	3,164	1,939	829	908	224	(3,900 )	3,164
Total liabilities and stockholders' equity (deficit)	\$3,187	\$12,793	\$ 851	\$1,083	\$1,094	\$(3,900 )	\$15,108

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2017

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	SPV	Eliminations	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$—	\$23	\$—	\$329	\$—	\$—	\$352
Accounts receivable, net	—	56	—	119	1,058	—	1,233
Intercompany receivable (payable)	887	(677)	(198)	(124)	—	112	—
Inventory	—	68	—	7	—	—	75
Prepaid expenses and other assets	4	219	111	2	—	(224)	112
Total current assets	891	(311)	(87)	333	1,058	(112)	1,772
Rental equipment, net	—	7,264	—	560	—	—	7,824
Property and equipment, net	41	352	32	42	—	—	467
Investments in subsidiaries	2,194	1,148	1,087	—	—	(4,429)	—
Goodwill	—	3,815	—	267	—	—	4,082
Other intangible assets, net	—	827	—	48	—	—	875
Other long-term assets	3	7	—	—	—	—	10
Total assets	\$3,129	\$13,102	\$ 1,032	\$1,250	\$1,058	\$(4,541)	\$15,030
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>							
Short-term debt and current maturities of long-term debt	\$1	\$25	\$—	\$2	\$695	\$—	\$723
Accounts payable	—	366	—	43	—	—	409
Accrued expenses and other liabilities	—	477	17	41	1	—	536
Total current liabilities	1	868	17	86	696	—	1,668
Long-term debt	1	8,596	117	3	—	—	8,717
Deferred taxes	21	1,324	—	74	—	—	1,419
Other long-term liabilities	—	120	—	—	—	—	120
Total liabilities	23	10,908	134	163	696	—	11,924
Total stockholders' equity (deficit)	3,106	2,194	898	1,087	362	(4,541)	3,106
Total liabilities and stockholders' equity (deficit)	\$3,129	\$13,102	\$ 1,032	\$1,250	\$1,058	\$(4,541)	\$15,030

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2018

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign SPV	Eliminations	Total
Revenues:						
Equipment rentals	\$—	\$1,507	\$ —	\$ 124	\$ —	\$1,631
Sales of rental equipment	—	143	—	14	—	157
Sales of new equipment	—	40	—	4	—	44
Contractor supplies sales	—	21	—	3	—	24
Service and other revenues	—	29	—	6	—	35
Total revenues	—	1,740	—	151	—	1,891
Cost of revenues:						
Cost of equipment rentals, excluding depreciation	—	561	—	59	—	620
Depreciation of rental equipment	—	298	—	25	—	323
Cost of rental equipment sales	—	85	—	7	—	92
Cost of new equipment sales	—	34	—	4	—	38
Cost of contractor supplies sales	—	14	—	2	—	16
Cost of service and other revenues	—	16	—	4	—	20
Total cost of revenues	—	1,008	—	101	—	1,109
Gross profit	—	732	—	50	—	782
Selling, general and administrative expenses	(35 )	242	—	23	9	239
Merger related costs	—	2	—	—	—	2
Restructuring charge	—	4	—	—	—	4
Non-rental depreciation and amortization	4	58	—	5	—	67
Operating income (loss)	31	426	—	22	(9 )	470
Interest (income) expense, net	(8 )	115	—	—	5	112
Other (income) expense, net	(156 )	172	—	13	(30 )	(1 )
Income before provision for income taxes	195	139	—	9	16	359
Provision for income taxes	43	40	—	2	4	89
Income before equity in net earnings (loss) of subsidiaries	152	99	—	7	12	270
Equity in net earnings (loss) of subsidiaries	118	19	7	—	—	(144 )
Net income (loss)	270	118	7	7	12	(144 )
Other comprehensive (loss) income	(20 )	(20 )	(21 )	(90 )	—	131
Comprehensive income (loss)	\$250	\$98	\$ (14 )	\$ (83 )	\$ 12	\$ (13 )



Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Three Months Ended June 30, 2017

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	SPV	Eliminations	Total
Revenues:							
Equipment rentals	\$—	\$1,262	\$—	\$105	\$—	\$—	\$1,367
Sales of rental equipment	—	121	—	12	—	—	133
Sales of new equipment	—	42	—	5	—	—	47
Contractor supplies sales	—	19	—	2	—	—	21
Service and other revenues	—	24	—	5	—	—	29
Total revenues	—	1,468	—	129	—	—	1,597
Cost of revenues:							
Cost of equipment rentals, excluding depreciation	—	472	—	53	—	—	525
Depreciation of rental equipment	—	245	—	21	—	—	266
Cost of rental equipment sales	—	75	—	6	—	—	81
Cost of new equipment sales	—	35	—	5	—	—	40
Cost of contractor supplies sales	—	13	—	2	—	—	15
Cost of service and other revenues	—	14	—	1	—	—	15
Total cost of revenues	—	854	—	88	—	—	942
Gross profit	—	614	—	41	—	—	655
Selling, general and administrative expenses	19	171	—	21	7	—	218
Merger related costs	—	14	—	—	—	—	14
Restructuring charge	—	19	—	—	—	—	19
Non-rental depreciation and amortization	4	56	—	4	—	—	64
Operating (loss) income	(23 )	354	—	16	(7 )	—	340
Interest (income) expense, net	(3 )	115	—	(1 )	3	(1 )	113
Other (income) expense, net	(131 )	141	—	11	(23 )	—	(2 )
Income before provision for income taxes	111	98	—	6	13	1	229
Provision for income taxes	42	39	—	2	5	—	88
Income before equity in net earnings (loss) of subsidiaries	69	59	—	4	8	1	141
Equity in net earnings (loss) of subsidiaries	72	13	4	—	—	(89 )	—
Net income (loss)	141	72	4	4	8	(88 )	141
Other comprehensive income (loss)	25	25	26	21	—	(72 )	25
Comprehensive income (loss)	\$166	\$97	\$30	\$25	\$8	\$(160)	\$166

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2018

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign	SPV	Eliminations	Total
Revenues:							
Equipment rentals	\$—	\$2,853	\$—	\$237	\$—	\$—	\$3,090
Sales of rental equipment	—	307	—	31	—	—	338
Sales of new equipment	—	77	—	9	—	—	86
Contractor supplies sales	—	36	—	6	—	—	42
Service and other revenues	—	60	—	9	—	—	69
Total revenues	—	3,333	—	292	—	—	3,625
Cost of revenues:							
Cost of equipment rentals, excluding depreciation	—	1,096	—	116	—	—	1,212
Depreciation of rental equipment	—	595	—	50	—	—	645
Cost of rental equipment sales	—	183	—	16	—	—	199
Cost of new equipment sales	—	67	—	8	—	—	75
Cost of contractor supplies sales	—	24	—	4	—	—	28
Cost of service and other revenues	—	33	—	5	—	—	38
Total cost of revenues	—	1,998	—	199	—	—	2,197
Gross profit	—	1,335	—	93	—	—	1,428
Selling, general and administrative expenses	5	407	—	42	17	—	471
Merger related costs	—	3	—	—	—	—	3
Restructuring charge	—	6	—	—	—	—	6
Non-rental depreciation and amortization	8	120	—	10	—	—	138
Operating (loss) income	(13 )	799	—	41	(17 )	—	810
Interest (income) expense, net	(15 )	227	1	(1 )	10	(1 )	221
Other (income) expense, net	(297 )	333	—	24	(62 )	—	(2 )
Income (loss) before provision for income taxes	299	239	(1 )	18	35	1	591
Provision for income taxes	60	64	—	5	9	—	138
Income (loss) before equity in net earnings (loss) of subsidiaries	239	175	(1 )	13	26	1	453
Equity in net earnings (loss) of subsidiaries	214	39	13	—	—	(266 )	—
Net income (loss)	453	214	12	13	26	(265 )	453
Other comprehensive (loss) income	(45 )	(45 )	(46 )	(113 )	—	204	(45 )
Comprehensive income (loss)	\$408	\$169	\$ (34 )	\$(100 )	\$26	\$ (61 )	\$408





Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Six Months Ended June 30, 2017

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign SPV	Eliminations	Total
Revenues:						
Equipment rentals	\$—	\$2,332	\$—	\$201	\$—	\$2,533
Sales of rental equipment	—	216	—	23	—	239
Sales of new equipment	—	77	—	9	—	86
Contractor supplies sales	—	35	—	4	—	39
Service and other revenues	—	48	—	8	—	56
Total revenues	—	2,708	—	245	—	2,953
Cost of revenues:						
Cost of equipment rentals, excluding depreciation	—	895	—	104	—	999
Depreciation of rental equipment	—	472	—	42	—	514
Cost of rental equipment sales	—	129	—	12	—	141
Cost of new equipment sales	—	66	—	8	—	74
Cost of contractor supplies sales	—	25	—	3	—	28
Cost of service and other revenues	—	25	—	3	—	28
Total cost of revenues	—	1,612	—	172	—	1,784
Gross profit	—	1,096	—	73	—	1,169
Selling, general and administrative expenses	42	316	—	38	15	411
Merger related costs	—	16	—	—	—	16
Restructuring charge	—	19	—	—	—	19
Non-rental depreciation and amortization	8	108	—	10	—	126
Operating (loss) income	(50 )	637	—	25	(15 )	597
Interest (income) expense, net	(5 )	208	1	—	5	(2 )
Other (income) expense, net	(243 )	265	—	23	(45 )	—
Income (loss) before provision for income taxes	198	164	(1 )	2	25	2
Provision for income taxes	63	67	—	—	10	—
Income (loss) before equity in net earnings (loss) of subsidiaries	135	97	(1 )	2	15	2
Equity in net earnings (loss) of subsidiaries	115	18	2	—	—	(135 )
Net income (loss)	250	115	1	2	15	(133 )
Other comprehensive income (loss)	33	33	34	28	—	(95 )
Comprehensive income (loss)	\$283	\$148	\$35	\$30	\$15	\$(228 )

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING CASH FLOW INFORMATION

For the Six Months Ended June 30, 2018

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign SPV	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 12	\$ 1,714	\$ (1 )	\$(66 )	\$(10 )	\$ —\$1,649
Net cash used in investing activities	(12 )	(920 )	—	(73 )	—	(1,005 )
Net cash (used in) provided by financing activities	—	(773 )	1	(108 )	10	(870 )
Effect of foreign exchange rates	—	—	—	(9 )	—	(9 )
Net increase (decrease) in cash and cash equivalents	—	21	—	(256 )	—	(235 )
Cash and cash equivalents at beginning of period	—	23	—	329	—	352
Cash and cash equivalents at end of period	\$ —	\$ 44	\$ —	\$ 73	\$ —	\$ —\$117

## CONDENSED CONSOLIDATING CASH FLOW INFORMATION

For the Six Months Ended June 30, 2017

	Parent	URNA	Guarantor Subsidiaries	Non-Guarantor Subsidiaries Foreign SPV	Eliminations	Total
Net cash provided by (used in) operating activities	\$ 10	\$ 1,297	\$ (1 )	\$ 78	\$(55 )	\$ —\$1,329
Net cash used in investing activities	(10 )	(1,624 )	—	(50 )	—	(1,684 )
Net cash provided by (used in) financing activities	—	315	1	(1 )	55	370
Effect of foreign exchange rates	—	—	—	11	—	11
Net (decrease) increase in cash and cash equivalents	—	(12 )	—	38	—	26
Cash and cash equivalents at beginning of period	—	21	—	291	—	312
Cash and cash equivalents at end of period	\$ —	\$ 9	\$ —	\$ 329	\$ —	\$ —\$338

Table of Contents

UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

11. Subsequent Event

BakerCorp Acquisition

In June 2018, we entered into a definitive merger agreement with BakerCorp International Holdings, Inc. (“BakerCorp”), pursuant to which we have agreed to acquire BakerCorp in an all cash transaction for approximately \$715. The merger and related fees and expenses will be funded through available cash and drawings on current debt facilities. BakerCorp is a provider of rental equipment with approximately 950 employees serving customers in North America and Europe. BakerCorp’s operations are primarily concentrated in the United States and Canada, where it has 46 locations, with another 11 locations in France, Germany, the United Kingdom and the Netherlands. BakerCorp has annual revenues of approximately \$295. We expect the merger to close early in the third quarter of 2018.

Termination of Master Exchange Agreement

On July 17, 2018, URNA terminated the Master Exchange Agreement, dated as of January 1, 2009, by and among United Rentals Exchange, LLC, IPX1031 LLC, a Delaware limited liability company, URNA, and United Rentals Northwest, Inc., an Oregon corporation, as amended by Amendment No. 1, dated as of January 1, 2012 (the “Master Exchange Agreement”). A description of the Master Exchange Agreement is set forth in Item 1.01 of URI and URNA’s Form 8-K filed on January 7, 2009. The Master Exchange Agreement was terminated because, as a result of the Tax Act, we are no longer able to defer gains on the sale of property sold after 2017 under the like-kind exchange asset management program under the Master Exchange Agreement.

Table of Contents

Item Management’s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, 2. except per share data, unless otherwise indicated)

Executive Overview

We are the largest equipment rental company in the world, with an integrated network of 1,008 rental locations in the United States and Canada. Although the equipment rental industry is highly fragmented and diverse, we believe that we are well positioned to take advantage of this environment because, as a larger company, we have more extensive resources and certain competitive advantages. These include a fleet of rental equipment with a total original equipment cost (“OEC”) of \$12.0 billion, and a national branch network that operates in 49 U.S. states and every Canadian province, and serves 99 of the largest 100 metropolitan areas in the United States. In addition, our size gives us greater purchasing power, the ability to provide customers with a broader range of equipment and services, the ability to provide customers with equipment that is more consistently well-maintained and therefore more productive and reliable, and the ability to enhance the earning potential of our assets by transferring equipment among branches to satisfy customer needs.

We offer approximately 3,400 classes of equipment for rent to a diverse customer base that includes construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities. Our revenues are derived from the following sources: equipment rentals, sales of rental equipment, sales of new equipment, contractor supplies sales and service and other revenues. Equipment rentals represented 85 percent of total revenues for the six months ended June 30, 2018.

For the past several years, we have executed a strategy focused on improving the profitability of our core equipment rental business through revenue growth, margin expansion and operational efficiencies. In particular, we have focused on customer segmentation, customer service differentiation, rate management, fleet management and operational efficiency.

In 2018, we expect to continue our disciplined focus on increasing our profitability and return on invested capital. In particular, our strategy calls for:

- A consistently superior standard of service to customers, often provided through a single point of contact; The further optimization of our customer mix and fleet mix, with a dual objective: to enhance our performance in serving our current customer base, and to focus on the accounts and customer types that are best suited to our strategy for profitable growth. We believe these efforts will lead to even better service of our target accounts, primarily large construction and industrial customers, as well as select local contractors. Our fleet team's analyses are aligned with these objectives to identify trends in equipment categories and define action plans that can generate improved returns;
- A continued focus on “Lean” management techniques, including kaizen processes focused on continuous improvement. We continue to implement Lean kaizen processes across our branch network, with the objectives of: reducing the cycle time associated with renting our equipment to customers; improving invoice accuracy and service quality; reducing the elapsed time for equipment pickup and delivery; and improving the effectiveness and efficiency of our repair and maintenance operations. We achieved the anticipated run rate savings from the Lean initiatives, including those included in the Project XL work streams discussed below, in 2017 and 2016, and expect to continue to generate savings from these initiatives;

- The implementation of 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;
- The continued expansion of our trench, power and pump footprint, as well as our tools offering, and the cross-selling of these services throughout our network, as exhibited by our pending acquisition of BakerCorp discussed in note 11 to the condensed consolidated financial statements. We believe that the expansion of our trench, power and pump business, as well as our tools offering, will further position United Rentals as a single source provider of total jobsite solutions through our extensive product and service resources and technology offerings; and

- The pursuit of strategic acquisitions to continue to expand our core equipment rental business, as exhibited by our recently completed acquisitions of NES and Neff. Strategic acquisitions allow us to invest our capital to expand our business, further driving our ability to accomplish our strategic goals.

For the six months ended June 30, 2018, equipment rental revenue increased 22.0 percent as compared to the same period in 2017, primarily reflecting a 20.6 percent increase in the volume of OEC on rent, which includes the impact

of the NES and Neff acquisitions discussed in note 3 to the condensed consolidated financial statements, and a 2.4 percent rental rate increase. Rental rate changes are calculated based on the year-over-year variance in average contract rates, weighted by the prior period revenue mix. On a pro forma basis including the standalone, pre-acquisition results of NES and Neff, equipment rental revenue increased 10.7 percent year-over-year, primarily reflecting a 7.0 percent increase in the volume of OEC on rent and a 2.8 percent rental rate increase. We believe that the increases in the volume of OEC on rent and rental rates reflect improving

Table of Contents

demand in many of our core markets. In particular, we saw improvement in our trench, power and pump segment. The volume of OEC on rent increased 37.1 percent in our trench, power and pump segment, primarily due to continued strength in our Trench Safety and Power and HVAC regions, and improved performance in our Pump Solutions region. The improvement in the Pump Solutions region reflects growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years. Additionally, due in part to the upstream oil and gas volatility, we have sought to diversify our revenue mix to achieve a reduced portion of business tied to oil and gas. We have diversified outside of oil and gas, and have grown our revenue from most of our non oil and gas customers (for example, industrial, construction and mining customers).

## Financial Overview

Since January 1, 2017, we have taken the following actions to improve our financial flexibility and liquidity, and to position us to invest the necessary capital in our business:

• Redeemed all of our 7 <sup>5</sup>/<sub>8</sub> percent Senior Notes and 6 <sup>1</sup>/<sub>8</sub> percent Senior Notes;

• Issued \$750 principal amount of 4 <sup>5</sup>/<sub>8</sub> percent Senior Notes due 2025;

• Issued \$250 principal amount of 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes due 2026, as an add-on to our existing 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes due 2026;

• Issued \$250 principal amount of 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes due 2027, as an add-on to our existing 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes due 2027;

• Issued \$1.675 billion principal amount of 4 <sup>7</sup>/<sub>8</sub> percent Senior Notes due 2028, comprised of separate issuances of \$925 in August 2017 and \$750 in September 2017. Following the issuances, we consummated an exchange offer pursuant to which most of the 4 <sup>7</sup>/<sub>8</sub> percent Senior Notes issued in September 2017 were exchanged for additional notes fungible with the 4 <sup>7</sup>/<sub>8</sub> percent Senior Notes issued in August 2017;

• Amended and extended our ABL facility, including an increase in the facility size from \$2.5 billion to \$3.0 billion; and

• Amended and extended our accounts receivable securitization facility, including an increase in the facility size from \$625 to \$875.

As of June 30, 2018, we had available liquidity of \$2.045 billion, including cash and cash equivalents of \$117.

Net income. Net income and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 are presented below. Net income and diluted earnings per share for 2018 reflect lower effective tax rates due to the enactment of the Tax Cuts and Jobs Act (the "Tax Act") in December 2017, as discussed further below (see "Results of Operations-Other costs/(income)"). The Tax Act reduced the U.S. federal statutory tax rate from 35 percent to 21 percent, which contributed an estimated \$0.58 and \$0.95 to diluted earnings per share for the three and six months ended June 30, 2018, respectively.

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net income	\$ 270	\$ 141	\$453	\$250
Diluted earnings per share	\$ 3.20	\$ 1.65	\$5.34	\$2.92

Net income and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 include the after-tax impacts of the items below. The tax rates applied to the items below reflect the statutory rates in the applicable entities. The reduction in the tax rates for 2018 reflects the enactment of the Tax Act.

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Tax rate applied to items below	25.3%	38.5%	25.3%	38.5 %
	Contribution to net income (after-tax)	Impact on diluted earnings per share	Contribution to net income (after-tax)	Impact on diluted earnings per share
Merger related costs (1)	\$(2)	\$ (0.02 )	\$(9)	\$ (0.09 )
Merger related intangible asset amortization (2)	(30)	(0.37 )	(24)	(0.30 )
Impact on depreciation related to acquired fleet and property and equipment (3)	(7 )	(0.08 )	2	0.03
Impact of the fair value mark-up of acquired fleet (4)	(12)	(0.15 )	(11)	(0.13 )
Restructuring charge (5)	(2 )	(0.03 )	(12)	(0.14 )
Loss on repurchase/redemption of debt securities and amendment of ABL facility	—	—	(8 )	(0.09 )

This reflects transaction costs associated with the NES and Neff acquisitions discussed in note 3 to our condensed consolidated financial statements and the BakerCorp acquisition discussed in note 11 to our condensed consolidated financial statements. The BakerCorp acquisition is expected to close early in the third quarter of 2018.

Merger related costs only include costs associated with major acquisitions that significantly impact our operations. For additional information, see "Results of Operations-Other costs/(income)-merger related costs" below.

(2) This reflects the amortization of the intangible assets acquired in the RSC, National Pump, NES and Neff acquisitions.

(3) This reflects the impact of extending the useful lives of equipment acquired in the RSC, NES and Neff acquisitions, net of the impact of additional depreciation associated with the fair value mark-up of such equipment.

(4) This reflects additional costs recorded in cost of rental equipment sales associated with the fair value mark-up of rental equipment acquired in the RSC, NES and Neff acquisitions that was subsequently sold.

(5) This primarily reflects severance and branch closure charges associated with our restructuring programs. For additional information, see note 5 to our condensed consolidated financial statements.

EBITDA GAAP Reconciliations. EBITDA represents the sum of net income, provision for income taxes, interest expense, net, depreciation of rental equipment and non-rental depreciation and amortization. Adjusted EBITDA represents EBITDA plus the sum of the merger related costs, restructuring charge, stock compensation expense, net and the impact of the fair value mark-up of the acquired fleet. These items are excluded from adjusted EBITDA internally when evaluating our operating performance and for strategic planning and forecasting purposes, and allow investors to make a more meaningful comparison between our core business operating results over different periods of time, as well as with those of other similar companies. The EBITDA and adjusted EBITDA margins represent EBITDA or adjusted EBITDA divided by total revenue. Management believes that EBITDA and adjusted EBITDA, when viewed with the Company's results under GAAP and the accompanying reconciliations, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions.

Additionally, management believes that EBITDA and adjusted EBITDA help investors gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced. However, EBITDA and adjusted EBITDA are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income or cash flow from operating activities as indicators of operating performance or liquidity.

The table below provides a reconciliation between net income and EBITDA and adjusted EBITDA:





Table of Contents

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net income	\$ 270	\$ 141	\$453	\$250
Provision for income taxes	89	88	138	140
Interest expense, net	112	113	221	207
Depreciation of rental equipment	323	266	645	514
Non-rental depreciation and amortization	67	64	138	126
EBITDA	\$ 861	\$ 672	\$1,595	\$1,237
Merger related costs (1)	2	14	3	16
Restructuring charge (2)	4	19	6	19
Stock compensation expense, net (3)	24	24	43	40
Impact of the fair value mark-up of acquired fleet (4)	16	18	40	26
Adjusted EBITDA	\$ 907	\$ 747	\$1,687	\$1,338

The table below provides a reconciliation between net cash provided by operating activities and EBITDA and adjusted EBITDA:

	Six Months Ended June 30, 2018		2017	
Net cash provided by operating activities	\$1,649	\$1,329		
Adjustments for items included in net cash provided by operating activities but excluded from the calculation of EBITDA:				
Amortization of deferred financing costs and original issue discounts	(6 )	(4 )		
Gain on sales of rental equipment	139	98		
Gain on sales of non-rental equipment	3	3		
Gain on insurance proceeds from damaged equipment	14	8		
Merger related costs (1)	(3 )	(16 )		
Restructuring charge (2)	(6 )	(19 )		
Stock compensation expense, net (3)	(43 )	(40 )		
Loss on repurchase/redemption of debt securities and amendment of ABL facility	—	(12 )		
Changes in assets and liabilities	(404 )	(346 )		
Cash paid for interest	213	177		
Cash paid for income taxes, net	39	59		
EBITDA	\$1,595	\$1,237		
Add back:				
Merger related costs (1)	3	16		
Restructuring charge (2)	6	19		
Stock compensation expense, net (3)	43	40		
Impact of the fair value mark-up of acquired fleet (4)	40	26		
Adjusted EBITDA	\$1,687	\$1,338		

This reflects transaction costs associated with the NES and Neff acquisitions discussed in note 3 to our condensed consolidated financial statements and the BakerCorp acquisition discussed in note 11 to our condensed (1) consolidated financial statements. The BakerCorp acquisition is expected to close early in the third quarter of 2018. Merger related costs only include costs associated with major acquisitions that significantly impact our operations. For additional information, see "Results of Operations-Other costs/(income)-merger related costs" below.

(2) This primarily reflects severance and branch closure charges associated with our restructuring programs. For additional information, see note 5 to our condensed consolidated financial statements.

39

---

Table of Contents

(3) Represents non-cash, share-based payments associated with the granting of equity instruments.

(4) This reflects additional costs recorded in cost of rental equipment sales associated with the fair value mark-up of rental equipment acquired in the RSC, NES and Neff acquisitions that was subsequently sold.

For the three months ended June 30, 2018, EBITDA increased \$189, or 28.1 percent, and adjusted EBITDA increased \$160, or 21.4 percent. For the three months ended June 30, 2018, EBITDA margin increased 340 basis points to 45.5 percent, and adjusted EBITDA margin increased 120 basis points to 48.0 percent. As discussed in note 3 to our condensed consolidated financial statements, we completed the acquisition of Neff in October 2017, and EBITDA and adjusted EBITDA for 2018 include the impact of Neff. The increase in the EBITDA margin primarily reflects i) reduced merger related costs and restructuring charges, ii) a decrease in selling, general and administrative ("SG&A") expense as a percentage of revenue primarily due to a reduction in salaries, stock compensation and bonuses as a percentage of revenue and decreased bad debt expense primarily due to improved accounts receivable aging and iii) increased margins from sales of rental equipment. The increase in the adjusted EBITDA margin primarily reflects a decrease in SG&A expense as a percentage of revenue primarily due to a reduction in salaries and bonuses as a percentage of revenue and decreased bad debt expense primarily due to improved accounts receivable aging. For the six months ended June 30, 2018, EBITDA increased \$358, or 28.9 percent, and adjusted EBITDA increased \$349, or 26.1 percent. For the six months ended June 30, 2018, EBITDA margin increased 210 basis points to 44.0 percent, and adjusted EBITDA margin increased 120 basis points to 46.5 percent. As discussed in note 3 to our condensed consolidated financial statements, we completed the acquisitions of NES in April 2017 and Neff in October 2017, and EBITDA and adjusted EBITDA for 2018 include the impact of NES and Neff. The increase in the EBITDA margin primarily reflects i) reduced merger related costs and restructuring charges and ii) a decrease in SG&A expense as a percentage of revenue primarily due to a reduction in salaries, stock compensation and bonuses as a percentage of revenue and decreased bad debt expense primarily due to improved accounts receivable aging. The increase in the adjusted EBITDA margin primarily reflects a decrease in SG&A expense as a percentage of revenue primarily due to a reduction in salaries and bonuses as a percentage of revenue and decreased bad debt expense primarily due to improved accounts receivable aging.

### Results of Operations

As discussed in note 4 to our condensed consolidated financial statements, our reportable segments are general rentals and trench, power and pump. The general rentals segment includes the rental of construction, aerial, industrial and homeowner equipment and related services and activities. The general rentals segment's customers include construction and industrial companies, manufacturers, utilities, municipalities, homeowners and government entities. The general rentals segment operates throughout the United States and Canada. The trench, power and pump segment is comprised of i) the Trench Safety region, which rents 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) the Power and HVAC region, which rents power and HVAC equipment such as portable diesel generators, electrical distribution equipment, and temperature control equipment including heating and cooling equipment, and iii) the Pump Solutions region, which rents pumps primarily used by municipalities, industrial plants, and mining, construction, and agribusiness customers. The trench, power and pump segment's customers include construction companies involved in infrastructure projects, municipalities and industrial companies. The trench, power and pump segment operates throughout the United States and in Canada.

As discussed in note 4 to our condensed consolidated financial statements, we aggregate our 11 geographic regions—Carolinas, 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—into our general rentals reporting segment. Historically, there have been variances in the levels of equipment rentals gross margins achieved by these regions. For the five year period ended June 30, 2018, one of our general rentals' regions had an equipment rentals gross margin that varied by between 10 percent and 12 percent from the equipment rentals gross margins of the aggregated general rentals' regions over the same period. The rental industry is cyclical, and there historically have been regions with equipment rentals gross margins that varied by greater than 10 percent from the equipment rentals gross margins of the aggregated general rentals' regions, though the specific regions with margin

variances of over 10 percent have fluctuated. We expect margin convergence going forward given the cyclical nature of the rental industry, and monitor the margin variances and confirm the expectation of future convergence on a quarterly basis.

We similarly monitor the margin variances for the regions in the trench, power and pump segment. When monitoring for margin convergence, we include projected future results. We monitor the trench, power and pump segment margin variances and confirm the expectation of future convergence on a quarterly basis.

Table of Contents

We believe that the regions that are aggregated into our segments have similar economic characteristics, as each region is capital intensive, offers similar products to similar customers, uses similar methods to distribute its products, and is subject to similar competitive risks. The aggregation of our regions also reflects the management structure that we use for making operating decisions and assessing performance. Although we believe aggregating these regions into our reporting segments for segment reporting purposes is appropriate, to the extent that there are significant margin variances that do not converge, we may be required to disaggregate the regions into separate reporting segments. Any such disaggregation would have no impact on our consolidated results of operations.

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. Our revenues, operating results, and financial condition fluctuate from quarter to quarter reflecting the seasonal rental patterns of our customers, with rental activity tending to be lower in the winter.

Revenues by segment were as follows:

	General rentals	Trench, power and pump	Total
Three Months Ended June 30, 2018			
Equipment rentals	\$ 1,332	\$ 299	\$ 1,631
Sales of rental equipment	145	12	157
Sales of new equipment	38	6	44
Contractor supplies sales	19	5	24
Service and other revenues	32	3	35
Total revenue	\$ 1,566	\$ 325	\$ 1,891
Three Months Ended June 30, 2017			
Equipment rentals	\$ 1,143	\$ 224	\$ 1,367
Sales of rental equipment	122	11	133
Sales of new equipment	43	4	47
Contractor supplies sales	18	3	21
Service and other revenues	26	3	29
Total revenue	\$ 1,352	\$ 245	\$ 1,597
Six Months Ended June 30, 2018			
Equipment rentals	\$ 2,533	\$ 557	\$ 3,090
Sales of rental equipment	316	22	338
Sales of new equipment	75	11	86
Contractor supplies sales	33	9	42
Service and other revenues	62	7	69
Total revenue	\$ 3,019	\$ 606	\$ 3,625
Six Months Ended June 30, 2017			
Equipment rentals	\$ 2,120	\$ 413	\$ 2,533
Sales of rental equipment	218	21	239
Sales of new equipment	78	8	86
Contractor supplies sales	32	7	39
Service and other revenues	50	6	56
Total revenue	\$ 2,498	\$ 455	\$ 2,953

Equipment rentals. For the three months ended June 30, 2018, equipment rentals of \$1.631 billion increased \$264, or 19.3 percent, as compared to the same period in 2017, primarily reflecting a 15.9 percent increase in the volume of OEC on rent, which includes the impact of the Neff acquisition discussed in note 3 to our condensed consolidated financial statements, and a 2.8 percent rental rate increase. On a pro forma basis including the standalone, pre-acquisition results of Neff, equipment rental revenue increased 11.4 percent year-over-year, primarily reflecting a 7.1 percent increase in the volume of OEC on rent and a 2.8 percent rental rate increase. We believe that the increases

in the volume of OEC on rent and rental rates reflect improving

41

---

Table of Contents

demand in many of our core markets. Equipment rentals represented 86 percent of total revenues for the three months ended June 30, 2018.

For the six months ended June 30, 2018, equipment rentals of \$3.09 billion increased \$557, or 22.0 percent, as compared to the same period in 2017, primarily reflecting a 20.6 percent increase in the volume of OEC on rent, which includes the impact of the NES and Neff acquisitions discussed in note 3 to our condensed consolidated financial statements, and a 2.4 percent rental rate increase. On a pro forma basis including the standalone, pre-acquisition results of NES and Neff, equipment rental revenue increased 10.7 percent year-over-year, primarily reflecting a 7.0 percent increase in the volume of OEC on rent and a 2.8 percent rental rate increase. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets. Equipment rentals represented 85 percent of total revenues for the six months ended June 30, 2018.

For the three months ended June 30, 2018, general rentals equipment rentals increased \$189, or 16.5 percent, as compared to the same period in 2017, primarily reflecting a 14.4 percent increase in the volume of OEC on rent, which includes the impact of the Neff acquisition, and increased rental rates. On a pro forma basis including the standalone, pre-acquisition results of Neff, equipment rental revenue increased 7.4 percent and the volume of OEC on rent increased 5.3 percent. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets. For the three months ended June 30, 2018, equipment rentals represented 85 percent of total revenues for the general rentals segment.

For the six months ended June 30, 2018, general rentals equipment rentals increased \$413, or 19.5 percent, as compared to the same period in 2017, primarily reflecting a 19.3 percent increase in the volume of OEC on rent, which includes the impact of the NES and Neff acquisitions, and increased rental rates. On a pro forma basis including the standalone, pre-acquisition results of NES and Neff, equipment rental revenue increased 6.5 percent and the volume of OEC on rent increased 5.1 percent. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets. For the six months ended June 30, 2018, equipment rentals represented 84 percent of total revenues for the general rentals segment.

For the three months ended June 30, 2018, trench, power and pump equipment rentals increased \$75, or 33.5 percent, as compared to the same period in 2017, primarily reflecting a 35.4 percent increase in the volume of OEC on rent. Trench, power and pump average OEC for the three months ended June 30, 2018 increased 28.8 percent as compared to the same period in 2017. The increase in the volume of OEC on rent significantly exceeded the increase in average OEC primarily due to improved performance in our Pump Solutions and Power and HVAC regions. The improvement in the Pump Solutions region reflects growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years. Additionally, due in part to the upstream oil and gas volatility, we have sought to diversify our revenue mix to achieve a reduced portion of business tied to oil and gas. We have diversified outside of oil and gas, and have grown our revenue from most of our non oil and gas customers (for example, industrial, construction and mining customers). The Power and HVAC region experienced growth in revenue from oil and gas, and non-residential construction, customers. For the three months ended June 30, 2018, equipment rentals represented 92 percent of total revenues for the trench, power and pump segment.

For the six months ended June 30, 2018, trench, power and pump equipment rentals increased \$144, or 34.9 percent, as compared to the same period in 2017, primarily reflecting a 37.1 percent increase in the volume of OEC on rent. Trench, power and pump average OEC for the six months ended June 30, 2018 increased 28.1 percent as compared to the same period in 2017. The increase in the volume of OEC on rent significantly exceeded the increase in average OEC primarily due to improved performance in our Pump Solutions and Power and HVAC regions. The improvement in the Pump Solutions region reflects growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years. Additionally, due in part to the upstream oil and gas volatility, we have sought to diversify our revenue mix to achieve a reduced portion of business tied to oil and gas. We have

diversified outside of oil and gas, and have grown our revenue from most of our non oil and gas customers (for example, industrial, construction and mining customers). The Power and HVAC region experienced growth in revenue from oil and gas, and non-residential construction, customers. For the six months ended June 30, 2018, equipment rentals represented 92 percent of total revenues for the trench, power and pump segment. Sales of rental equipment. For the six months ended June 30, 2018, sales of rental equipment represented approximately 9 percent of our total revenues. Our general rentals segment accounted for most of these sales. For the three and six months ended June 30, 2018, sales of rental equipment increased 18.0 percent and 41.4 percent, respectively, from the same periods in 2017. As discussed in note 2 to the condensed consolidated financial statements, in 2018, we adopted accounting guidance that clarified the principles for recognizing revenue. Under the new guidance, we no longer defer recognition associated with certain sales of rental equipment that were previously deferred until certain contingent future events occurred. This change in accounting resulted in earlier recognition of some revenue that in 2017 was recognized later in the year, which contributed to



Table of Contents

the year-over-year revenue increase for the six months ended June 30, 2018 (see note 2 for additional detail). The change in accounting accelerated some revenue, but does not impact total annual revenue because the contingencies that previously resulted in deferral are always resolved within the same calendar year. Excluding the impact of the accounting change, sales of rental equipment increased primarily due to increased volume, driven by a significantly larger fleet size, in a strong used equipment market. Average OEC for the three and six months ended June 30, 2018 increased 16.2 percent and 21.6 percent year-over-year, respectively. The increase in average OEC for three months ended June 30, 2018 includes the impact of the Neff acquisition and the increase for the six months ended June 30, 2018 includes the impact of the NES and Neff acquisitions.

Sales of new equipment. For the six months ended June 30, 2018, sales of new equipment represented approximately 2 percent of our total revenues. Our general rentals segment accounted for most of these sales. For the three and six months ended June 30, 2018, sales of new equipment did not change significantly from the same periods in 2017.

Contractor supplies sales. Contractor supplies sales represent our revenues associated with selling a variety of supplies, including construction consumables, tools, small equipment and safety supplies. For the six months ended June 30, 2018, contractor supplies sales represented approximately 1 percent of our total revenues. Our general rentals segment accounted for most of these sales. Contractor supplies sales for the three and six months ended June 30, 2018 did not change significantly from the same periods in 2017.

Service and other revenues. Service and other revenues primarily represent our revenues earned from providing repair and maintenance services on our customers' fleet (including parts sales). For the six months ended June 30, 2018, service and other revenues represented approximately 2 percent of our total revenues. Our general rentals segment accounted for most of these sales. For the three and six months ended June 30, 2018, service and other revenues increased 20.7 percent and 23.2 percent, respectively, from the same periods in 2017, primarily reflecting the impact of the NES acquisition discussed in note 3 to the condensed consolidated financial statements and an increased emphasis on this line of business.

#### Segment Equipment Rentals Gross Profit

Segment equipment rentals gross profit and gross margin were as follows:

	General rentals	Trench, power and pump	Total
Three Months Ended June 30, 2018			
Equipment Rentals Gross Profit	\$ 543	\$ 145	\$ 688
Equipment Rentals Gross Margin	40.8 %	48.5 %	42.2 %
Three Months Ended June 30, 2017			
Equipment Rentals Gross Profit	\$ 465	\$ 111	\$ 576
Equipment Rentals Gross Margin	40.7 %	49.6 %	42.1 %
Six Months Ended June 30, 2018			
Equipment Rentals Gross Profit	\$ 969	\$ 264	\$ 1,233
Equipment Rentals Gross Margin	38.3 %	47.4 %	39.9 %
Six Months Ended June 30, 2017			
Equipment Rentals Gross Profit	\$ 825	\$ 195	\$ 1,020
Equipment Rentals Gross Margin	38.9 %	47.2 %	40.3 %

General rentals. For the three months ended June 30, 2018, equipment rentals gross profit increased by \$78 and equipment rentals gross margin increased by 10 basis points from 2017. The gross profit increase includes the impact of the Neff acquisition. The gross margin increase primarily reflects increased rental rates partially offset by a 30 basis point decrease in time utilization. For the three months ended June 30, 2018 and 2017, time utilization was 70.0 percent and 70.3 percent, respectively. The decrease in time utilization primarily reflected the impact of the Neff acquisition, and time utilization was flat year-over-year on a pro forma basis including the standalone, pre-acquisition results of Neff. The volume of OEC on rent increased 14.4 percent, including the impact of the Neff acquisition. On a pro forma basis including the standalone, pre-acquisition results of Neff, the volume of OEC on rent increased 5.3

percent. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets.

For the six months ended June 30, 2018, equipment rentals gross profit increased by \$144 and equipment rentals gross margin decreased by 60 basis points from 2017. The gross margin decrease primarily reflects a 90 basis point decrease in time utilization and increased depreciation of rental equipment, partially offset by increased rental rates. For the six months ended

Table of Contents

June 30, 2018 and 2017, time utilization was 68.0 percent and 68.9 percent, respectively. The decrease in time utilization primarily reflected the impact of the NES and Neff acquisitions. The volume of OEC on rent increased 19.3 percent, including the impact of the NES and Neff acquisitions. On a pro forma basis including the standalone, pre-acquisition results of NES and Neff, the volume of OEC on rent increased 5.1 percent and time utilization decreased 20 basis points. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets. While the volume of OEC on rent increased 19.3 percent and equipment rentals increased 19.5 percent, depreciation of rental equipment increased 23.7 percent due primarily to the NES and Neff acquisitions.

Trench, power and pump. For the three months ended June 30, 2018, equipment rentals gross profit increased by \$34 and equipment rentals gross margin decreased by 110 basis points from 2017. The increase in equipment rentals gross profit primarily reflects increased equipment rentals revenue on a larger fleet. Year-over-year, trench, power and pump equipment rentals increased 33.5 percent, average OEC increased 28.8 percent and the volume of OEC on rent increased 35.4 percent. The increase in the volume of OEC on rent significantly exceeded the increase in average OEC primarily due to improved performance in our Pump Solutions and Power and HVAC regions. The improvement in the Pump Solutions region reflects growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years. Additionally, due in part to the upstream oil and gas volatility, we have sought to diversify our revenue mix to achieve a reduced portion of business tied to oil and gas. We have diversified outside of oil and gas, and have grown our revenue from most of our non oil and gas customers (for example, industrial, construction and mining customers). The Power and HVAC region experienced growth in revenue from oil and gas, and non-residential construction, customers. The decrease in equipment rentals gross margin primarily reflected increased depreciation of rental equipment as a percentage of revenue. As compared to the equipment rentals revenue increase of 33.5 percent, depreciation of rental equipment increased 41.3 percent.

For the six months ended June 30, 2018, equipment rentals gross profit increased by \$69 and equipment rentals gross margin increased by 20 basis points from 2017. The increase in equipment rentals gross profit primarily reflects increased equipment rentals revenue on a larger fleet. Year-over-year, trench, power and pump equipment rentals increased 34.9 percent, average OEC increased 28.1 percent and the volume of OEC on rent increased 37.1 percent. The increase in the volume of OEC on rent significantly exceeded the increase in average OEC primarily due to improved performance in our Pump Solutions and Power and HVAC regions. The improvement in the Pump Solutions region reflects growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years. Additionally, due in part to the upstream oil and gas volatility, we have sought to diversify our revenue mix to achieve a reduced portion of business tied to oil and gas. We have diversified outside of oil and gas, and have grown our revenue from most of our non oil and gas customers (for example, industrial, construction and mining customers). The Power and HVAC region experienced growth in revenue from oil and gas, and non-residential construction, customers.

Gross Margin. Gross margins by revenue classification were as follows:

	Three Months Ended			Six Months Ended June		
	June 30,	2017	Change	2018	2017	Change
Total gross margin	41.4%	41.0%	40 bps	39.4%	39.6%	(20) bps
Equipment rentals	42.2%	42.1%	10 bps	39.9%	40.3%	(40) bps
Sales of rental equipment	41.4%	39.1%	230 bps	41.1%	41.0%	10 bps
Sales of new equipment	13.6%	14.9%	(130) bps	12.8%	14.0%	(120) bps
Contractor supplies sales	33.3%	28.6%	470 bps	33.3%	28.2%	510 bps
Service and other revenues	42.9%	48.3%	(540) bps	44.9%	50.0%	(510) bps

For the three months ended June 30, 2018, total gross margin increased 40 basis points from the same period in 2017 primarily due to increased gross margins from equipment rentals and sales of rental equipment. Equipment rentals gross margin increased 10 basis points, primarily reflecting a 2.8 percent rental rate increase partially offset by a 20 basis point decrease in time utilization. For the three months ended June 30, 2018 and 2017, time utilization was 69.2

percent and 69.4 percent, respectively. The decrease in time utilization primarily reflected the impact of the Neff acquisition. The volume of OEC on rent increased 15.9 percent, including the impact of the Neff acquisition. On a pro forma basis including the standalone, pre-acquisition results of Neff, year-over-year, the volume of OEC on rent increased 7.1 percent, rental rates increased 2.8 percent and time utilization was flat. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets. Gross margin from sales of rental equipment increased 230 basis points, primarily reflecting improved pricing and changes in the mix of equipment sold. The gross margin fluctuations from sales of new equipment, contractor supplies sales and service and other revenues generally reflect normal variability, and such margins did not have a significant impact on total gross margin (gross profit for these revenue types represented 4 percent of total gross profit for the three months ended June 30, 2018).

Table of Contents

For the six months ended June 30, 2018, total gross margin decreased 20 basis points from the same period in 2017 primarily due to decreased gross margins from equipment rentals. Equipment rentals gross margin decreased 40 basis points, primarily reflecting a 60 basis point decrease in time utilization and increased depreciation of rental equipment, partially offset by a 2.4 percent rental rate increase. For the six months ended June 30, 2018 and 2017, time utilization was 67.2 percent and 67.8 percent, respectively. The decrease in time utilization primarily reflected the impact of the NES and Neff acquisitions. The volume of OEC on rent increased 20.6 percent, including the impact of the NES and Neff acquisitions. On a pro forma basis including the standalone, pre-acquisition results of NES and Neff, the volume of OEC on rent increased 7.0 percent, time utilization decreased 10 basis points and rental rates increased 2.8 percent. We believe that the increases in the volume of OEC on rent and rental rates reflect improving demand in many of our core markets. While the volume of OEC on rent increased 20.6 percent and equipment rentals increased 22.0 percent, depreciation of rental equipment increased 25.5 percent due primarily to the NES and Neff acquisitions. The gross margin fluctuations from sales of new equipment, contractor supplies sales and service and other revenues generally reflect normal variability, and such margins did not have a significant impact on total gross margin (gross profit for these revenue types represented 4 percent of total gross profit for the six months ended June 30, 2018).

## Other costs/(income)

The table below includes the other costs/(income) in our condensed consolidated statements of income, as well as key associated metrics, for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended			Six Months Ended June		
	June 30,	2017	Change	2018	2017	Change
Selling, general and administrative ("SG&A") expense	\$239	\$218	9.6%	\$471	\$411	14.6%
SG&A expense as a percentage of revenue	12.6%	13.7%	(110) bps	13.0%	13.9%	(90) bps
Merger related costs	2	14	(85.7)%	3	16	(81.3)%
Restructuring charge	4	19	(78.9)%	6	19	(68.4)%
Non-rental depreciation and amortization	67	64	4.7%	138	126	9.5%
Interest expense, net	112	113	(0.9)%	221	207	6.8%
Other income, net	(1)	(2)	(50.0)%	(2)	—	—%
Provision for income taxes	89	88	1.1%	138	140	(1.4)%
Effective tax rate	24.8%	38.4%	(1,360) bps	23.4%	35.9%	(1,250) bps

SG&A expense primarily includes sales force compensation, information technology costs, third party professional fees, management salaries, bad debt expense and clerical and administrative overhead. The decreases in SG&A expense as a percentage of revenue for the three and six months ended June 30, 2018 primarily reflect i) a reduction in salaries, stock compensation and bonuses as a percentage of revenue and ii) decreased bad debt expense primarily due to improved accounts receivable aging.

The merger related costs reflect transaction costs associated with the NES and Neff acquisitions discussed in note 3 to our condensed consolidated financial statements and the BakerCorp acquisition discussed in note 11 to our condensed consolidated financial statements. The BakerCorp acquisition is expected to close early in the third quarter of 2018.

We have made a number of acquisitions in the past and may continue to make acquisitions in the future. Merger related costs only include costs associated with major acquisitions that significantly impact our operations. The historic acquisitions that have included merger related costs are RSC, which had annual revenues of approximately \$1.5 billion prior to the acquisition, and National Pump, which had annual revenues of over \$200 prior to the acquisition. As discussed in notes 3 and 11 to our condensed consolidated financial statements, NES had annual revenues of approximately \$369, Neff had annual revenues of approximately \$413 and BakerCorp had annual revenues of approximately \$295.

The restructuring charges primarily reflect severance and branch closure charges associated with our restructuring programs. In the second quarter of 2017, we initiated a restructuring program following the closing of the NES acquisition discussed in note 3 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, and the Neff

45

---

Table of Contents

acquisition that is discussed in note 3 to the condensed consolidated financial statements. For additional information, see note 5 to the condensed consolidated financial statements.

Non-rental depreciation and amortization includes i) the amortization of other intangible assets and ii) depreciation expense associated with equipment that is not offered for rent (such as computers and office equipment) and amortization expense associated with leasehold improvements. Our other intangible assets consist of customer relationships and non-compete agreements.

Interest expense, net for the three and six months ended June 30, 2018 did not change significantly year-over-year as the impact of higher average debt was offset by a lower average cost of debt. The year-over-year increases in average debt include the impact of the debt issued to finance the NES and Neff acquisitions discussed in note 3 to the condensed consolidated financial statements. Interest expense, net for the three and six months ended June 30, 2017 included a debt redemption loss of \$12.

The Tax Act that was enacted in December 2017 decreased the U.S. federal statutory income tax rate from 35 percent to 21 percent. The differences between the 2018 and 2017 effective tax rates and the federal statutory rates primarily reflect the geographical mix of income between foreign and domestic operations, the impact of state and local taxes, and certain nondeductible charges. The six months ended June 30, 2018 and 2017 additionally include tax reductions of \$12 and \$8, respectively, associated with excess tax benefits from share-based payment arrangements. See note 1 to the condensed consolidated financial statements for further discussion of the Tax Act.

Balance sheet. Accounts payable increased by \$450, or 110.0 percent, from December 31, 2017 to June 30, 2018 primarily due to a seasonal increase in capital expenditures. Accrued expenses and other liabilities decreased by \$66, or 12.3 percent, from December 31, 2017 to June 30, 2018 primarily due to payments for 2017 bonus compensation made during the six months ended June 30, 2018.

**Liquidity and Capital Resources**

We manage our liquidity using internal cash management practices, which are subject to (i) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services, (ii) the terms and other requirements of the agreements to which we are a party and (iii) the statutes, regulations and practices of each of the local jurisdictions in which we operate. See "Financial Overview" above for a summary of recent capital structure actions taken to improve our financial flexibility and liquidity.

Since 2012, we have repurchased a total of \$2.450 billion of Holdings' common stock under four completed share repurchase programs, including the \$1 billion share repurchase program our Board authorized in July 2015, which was completed in June 2018. In April 2018, our Board authorized a new \$1.25 billion share repurchase program.

Following the completion of the \$1 billion share repurchase program discussed above, the \$1.25 billion program commenced in July 2018. We intend to complete the program by the end of 2019.

Our principal existing sources of cash are cash generated from operations and from the sale of rental equipment, and borrowings available under our ABL facility and accounts receivable securitization facility. As of June 30, 2018, we had cash and cash equivalents of \$117. Cash equivalents at June 30, 2018 consist of direct obligations of financial institutions rated A or better. We believe that our existing sources of cash will be sufficient to support our existing operations over the next 12 months. The table below presents financial information associated with our principal sources of cash as of and for the six months ended June 30, 2018:

Table of Contents

## ABL facility:

Borrowing capacity, net of letters of credit	\$1,923	
Outstanding debt, net of debt issuance costs	1,033	
Interest rate at June 30, 2018	3.5	%
Average month-end principal amount of debt outstanding	1,184	
Weighted-average interest rate on average debt outstanding	3.2	%
Maximum month-end principal amount of debt outstanding	1,373	
Accounts receivable securitization facility:		
Borrowing capacity	5	
Outstanding debt, net of debt issuance costs	869	
Interest rate at June 30, 2018	2.9	%
Average month-end principal amount of debt outstanding	749	
Weighted-average interest rate on average debt outstanding	2.7	%
Maximum month-end principal amount of debt outstanding	870	

We expect that our principal needs for cash relating to our operations over the next 12 months will be to fund (i) operating activities and working capital, (ii) the purchase of rental equipment and inventory items offered for sale, (iii) payments due under operating leases, (iv) debt service, (v) share repurchases and (vi) acquisitions. We plan to fund such cash requirements from our existing sources of cash. In addition, we may seek additional financing through the securitization of some of our real estate, the use of additional operating leases or other financing sources as market conditions permit.

To access the capital markets, we rely on credit rating agencies to assign ratings to our securities as an indicator of credit quality. Lower credit ratings generally result in higher borrowing costs and reduced access to debt capital markets. Credit ratings also affect the costs of derivative transactions, including interest rate and foreign currency derivative transactions. As a result, negative changes in our credit ratings could adversely impact our costs of funding. Our credit ratings as of July 16, 2018 were as follows:

	Corporate Rating	Outlook
Moody's	Ba2	Stable
Standard & Poor's	BBB	Stable

A security rating is not a recommendation to buy, sell or hold securities. There is no assurance that any rating will remain in effect for a given period of time or that any rating will not be revised or withdrawn by a rating agency in the future.

**Loan Covenants and Compliance.** As of June 30, 2018, we were in compliance with the covenants and other provisions of the ABL facility, the accounts receivable securitization facility and the senior notes. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

The only financial maintenance covenant that currently exists under the ABL facility is the fixed charge coverage ratio. Subject to certain limited exceptions specified in the ABL facility, the fixed charge coverage ratio covenant under the ABL facility will only apply in the future if specified availability under the ABL facility falls below 10 percent of the maximum revolver amount under the ABL facility. When certain conditions are met, cash and cash equivalents and borrowing base collateral in excess of the ABL facility size may be included when calculating specified availability under the ABL facility. As of June 30, 2018, specified availability under the ABL facility exceeded the required threshold and, as a result, this financial maintenance covenant was inapplicable. Under our accounts receivable securitization facility, we are required, among other things, to maintain certain financial tests relating to: (i) the default ratio, (ii) the delinquency ratio, (iii) the dilution ratio and (iv) days sales outstanding. The accounts receivable securitization facility also requires us to comply with the fixed charge coverage ratio under the ABL facility, to the extent the ratio is applicable under the ABL facility.

URNA's payment capacity is restricted under the covenants in the ABL facility and the indentures governing its outstanding indebtedness. Although this restricted capacity limits our ability to move operating cash flows to Holdings, because of certain intercompany arrangements, we do not expect any material adverse impact on Holdings'



ability to meet its cash obligations.

Sources and Uses of Cash. During the six months ended June 30, 2018, we (i) generated cash from operating activities of \$1.649 billion and (ii) generated cash from the sale of rental and non-rental equipment of \$346. We used cash during this period principally to (i) purchase rental and non-rental equipment of \$1.306 billion, (ii) make debt payments, net of proceeds, of \$476, (iii) purchase other companies for \$58 and (iv) purchase shares of our common stock for \$395. During the six months ended June 30, 2017, we (i) generated cash from operating activities of \$1.329 billion, (ii) generated cash from the sale of rental and

Table of Contents

non-rental equipment of \$245 and (iii) received cash from debt proceeds, net of payments, of \$400. We used cash during this period principally to (i) purchase rental and non-rental equipment of \$968, (ii) purchase other companies for \$965 and (iii) purchase shares of our common stock for \$24.

Free Cash Flow GAAP Reconciliation. We define “free cash flow” as net cash provided by operating activities less purchases of, and plus proceeds from, equipment. The equipment purchases and proceeds are included in cash flows from investing activities. Management believes that free cash flow provides useful additional information concerning cash flow available to meet future debt service obligations and working capital requirements. However, free cash flow is not a measure of financial performance or liquidity under GAAP. Accordingly, free cash flow should not be considered an alternative to net income or cash flow from operating activities as an indicator of operating performance or liquidity. The table below provides a reconciliation between net cash provided by operating activities and free cash flow.

	Six Months Ended June 30,	
	2018	2017
Net cash provided by operating activities	\$1,649	\$1,329
Purchases of rental equipment	(1,226 )	(913 )
Purchases of non-rental equipment	(80 )	(55 )
Proceeds from sales of rental equipment	338	239
Proceeds from sales of non-rental equipment	8	6
Insurance proceeds from damaged equipment	14	8
Free cash flow	\$703	\$614

Free cash flow for the six months ended June 30, 2018 was \$703, an increase of \$89 as compared to \$614 for the six months ended June 30, 2017. Free cash flow increased primarily due to increased cash provided by operating activities and increased proceeds from sales of rental equipment, partially offset by increased purchases of rental and non-rental equipment. Net rental capital expenditures (defined as purchases of rental equipment less the proceeds from sales of rental equipment) increased \$214, or 32 percent, year-over-year.

Relationship between Holdings and URNA. Holdings is principally a holding company and primarily conducts its operations through its wholly owned subsidiary, URNA, and subsidiaries of URNA. Holdings licenses its tradename and other intangibles and provides certain services to URNA in connection with its operations. These services principally include: (i) senior management services; (ii) finance and tax-related services and support; (iii) information technology systems and support; (iv) acquisition-related services; (v) legal services; and (vi) human resource support. In addition, Holdings leases certain equipment and real property that are made available for use by URNA and its subsidiaries.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk primarily consists of (i) interest rate risk associated with our variable and fixed rate debt and (ii) foreign currency exchange rate risk associated with our Canadian operations.

**Interest Rate Risk.** As of June 30, 2018, we had an aggregate of \$1.9 billion of indebtedness that bears interest at variable rates, comprised of borrowings under the ABL facility and the accounts receivable securitization facility. The amount of variable rate indebtedness outstanding under the ABL facility and accounts receivable securitization facility may fluctuate significantly. See "Liquidity and Capital Resources" above for the amounts outstanding, and the interest rates thereon, as of June 30, 2018 under the ABL facility and the accounts receivable securitization facility. As of June 30, 2018, based upon the amount of our variable rate debt outstanding, our annual after-tax earnings would decrease by approximately \$14 for each one percentage point increase in the interest rates applicable to our variable rate debt.

At June 30, 2018, we had an aggregate of \$7.1 billion of indebtedness that bears interest at fixed rates. A one percentage point decrease in market interest rates as of June 30, 2018 would increase the fair value of our fixed rate indebtedness by approximately six percent. For additional information concerning the fair value of our fixed rate debt, see note 6 (see "Fair Value of Financial Instruments") to our condensed consolidated financial statements.

**Currency Exchange Risk.** The functional currency for our Canadian operations is the Canadian dollar. As a result, our future earnings could be affected by fluctuations in the exchange rate between the U.S. and Canadian dollars. Based upon the level of our Canadian operations during 2017 relative to the Company as a whole, a 10 percent change in this exchange rate would cause our annual after-tax earnings to change by approximately \$6. We do not engage in purchasing forward exchange contracts for speculative purposes.

Table of Contents

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of June 30, 2018. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The information set forth under note 8 to our unaudited condensed consolidated financial statements of this quarterly report on Form 10-Q is incorporated by reference in answer to this item. Such information is limited to certain recent developments.

## Item 1A. Risk Factors

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our 2017 Form 10-K, which risk factors are incorporated herein by reference. You should carefully consider these risk factors in conjunction with the other information contained in this report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information about purchases of Holdings' common stock by Holdings during the second quarter of 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Amount of Shares That May Yet Be Purchased Under the Program (2)
April 1, 2018 to April 30, 2018	326,005	(1)\$ 169.18	325,114	—
May 1, 2018 to May 31, 2018	363,650	(1)\$ 151.90	362,046	—
June 1, 2018 to June 30, 2018	357,704	(1)\$ 162.73	356,268	—
Total	1,047,359	\$ 160.98	1,043,428	\$1,250,000,000

In April 2018, May 2018 and June 2018, 891, 1,604 and 1,436 shares, respectively, were withheld by Holdings to (1) satisfy tax withholding obligations upon the vesting of restricted stock unit awards. These shares were not acquired pursuant to any repurchase plan or program.

On July 21, 2015, our Board authorized a \$1 billion share repurchase program which commenced in November 2015. The purchases above were made pursuant to this program, which was completed in June 2018. On (2) April 17, 2018, our Board authorized a new \$1.25 billion share repurchase program, which commenced in July 2018 upon completion of the \$1 billion share repurchase program. The dollar amount above that may yet be purchased pertains to the \$1.25 billion program, which we intend to complete by the end of 2019.

Table of Contents

Item 6. Exhibits

- 2 Agreement and Plan of Merger, dated as of June 30, 2018, by and among United Rentals, Inc., UR Merger Sub IV Corporation and BakerCorp International Holdings, Inc. (incorporated by reference to Exhibit 2.1 of the United Rentals, Inc. and United Rentals (North America), Inc. Current Report on Form 8-K filed on July 2, 2018)
- 3(a) Fourth Restated Certificate of Incorporation of United Rentals, Inc., dated June 1, 2017 (incorporated by reference to Exhibit 3.2 of the United Rentals, Inc. and United Rentals (North America), Inc. Current Report on Form 8-K filed on June 2, 2017)
- 3(b) Amended and Restated By-Laws of United Rentals, Inc., amended as of May 4, 2017 (incorporated by reference to Exhibit 3.4 of the United Rentals, Inc. and United Rentals (North America), Inc. Current Report on Form 8-K filed on May 4, 2017)
- 3(c) Restated Certificate of Incorporation of United Rentals (North America), Inc., dated April 30, 2012 (incorporated by reference to Exhibit 3(c) of the United Rentals, Inc. and United Rentals (North America), Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2013)
- 3(d) By-laws of United Rentals (North America), Inc. dated May 8, 2013 (incorporated by reference to Exhibit 3(d) of the United Rentals, Inc. and United Rentals (North America), Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2013)
- 10 Amendment No. 8 to Third Amended and Restated Receivables Purchase Agreement and Amendment No. 5 to Third Amended and Restated Purchase and Contribution Agreement, dated as of June 29, 2018, by and among United Rentals (North America), Inc., United Rentals Receivables LLC II, United Rentals, Inc., Liberty Street Funding LLC, Gotham Funding Corporation, Fairway Finance Company, LLC, The Bank of Nova Scotia, PNC Bank, National Association, SunTrust Bank, MUFG Bank, Ltd. (formerly known as the Bank of Tokyo-Mitsubishi UFJ, Ltd.), Bank of Montreal and The Toronto-Dominion Bank (incorporated by reference to Exhibit 10.1 of the United Rentals, Inc. and United Rentals (North America), Inc. Current Report on Form 8-K filed on June 29, 2018)
- 12\* Computation of Ratio of Earnings to Fixed Charges
- 31(a)\* Rule 13a-14(a) Certification by Chief Executive Officer
- 31(b)\* Rule 13a-14(a) Certification by Chief Financial Officer
- 32(a)\*\* Section 1350 Certification by Chief Executive Officer
- 32(b)\*\* Section 1350 Certification by Chief Financial Officer
- 101 The following materials from the Quarterly Report on Form 10-Q for United Rentals, Inc. and United Rentals (North America), Inc., for the quarter ended June 30, 2018 filed on July 18, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statement of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Condensed Consolidated Financial Statements.

\* Filed herewith.

\*\*Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of Regulation S-K under the Exchange Act.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED RENTALS, INC.

Dated: July 18, 2018 By: /S/ JESSICA T. GRAZIANO  
Jessica T. Graziano  
Senior Vice President, Controller and Principal Accounting Officer

UNITED RENTALS (NORTH AMERICA), INC.

Dated: July 18, 2018 By: /S/ JESSICA T. GRAZIANO  
Jessica T. Graziano  
Senior Vice President, Controller and Principal Accounting Officer