United Rentals' Rental Revenue Jumps 15.4% in Q3

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United Rentals posted equipment rental revenue of $2,147 million in the third quarter ended Sept. 30, compared to $1,861 million for the same period last year, a 15.4-percent increase. Total revenue for the quarter was $2,488 million compared to $2,116 million a year ago, a 17.6-percent hike. Sales of rental equipment posted the highest increase, from $140 million to $198 million, a 41.4-percent year-over-year leap.

The company reported third quarter net income of $391 million, or $5.08 per diluted share, compared to $333 million, or $4.01 per diluted share in the third quarter of 2018, a 17.4-percent net income boost. Adjusted EPS for the quarter increased 25.7 percent year over year to $5.96.

Adjusted EBITDA increased 14 percent year over year to $1,207 billion, while adjusted EBITDA margin decreased 150 basis points to 48.5 percent. On a pro forma basis, year-over-year, net income increased 42.7 percent, adjusted EBITDA increased 4.4 percent and adjusted EBITDA margin decreased 40 basis points.

"In the third quarter, we delivered solid revenue growth driven primarily by strength across our core construction markets, partially offset by slower industrial growth," said Matthew Flannery, United Rentals CEO. "Operating costs were higher than expected as we repaired and repositioned fleet. Our updated guidance reflects these dynamics, as well as our expectation for higher free-cash-flow generation.

"Looking ahead, our customers remain upbeat about their business prospects well into next year. At the same time, we know that lingering economic uncertainty could impact construction and industrial activity. As we complete our planning for 2020, we're focused on delivering returns in any operating environment, while balancing growth, margins and free cash flow."

Rental revenue jumped 15.4 percent as reported and 4.2 percent on a pro forma basis. The as-reported increase is primarily as a result of the impact of the BakerCorp and BlueLine acquisitions. The pro forma increase is primarily because of growth in the company's construction end markets.

Third quarter fleet productivity decreased 1.3 percent year over year, primarily because of the impact of the BakerCorp and BlueLine acquisitions. On a pro forma basis, fleet productivity increased 1.7 percent, reflecting improvements in rental rates and fleet mix, partially offset by lower time utilization.

Third quarter rental revenue for the general rentals segment increased 13.7 percent year over year on an actual basis and 1.6 percent on a pro forma basis. Rental gross margin decreased by 270 basis points to 40.9 percent, primarily because of the impact of acquisitions and increased operating costs. Depreciation of rental equipment increased 19.6 percent, largely because of the acquisition of BlueLine. Operating costs were impacted by repair and repositioning initiatives that resulted in increased repairs and maintenance and delivery expenses, which increased 27 percent and 19.6 percent, respectively.

For the company's specialty segment, Trench, Power and Fluid Solutions, increased by 21.1 percent year over year, including an organic increase of 10.3 percent. Rental gross margin dropped by 360 basis points to 48.7 percent, primarily because of the impact of acquisitions, and, to a lesser extent, higher than anticipated operating costs, including repairs and maintenance.

For the first nine months of the year, rental revenue was $5,902 million, compared to $4,951 million for the first nine months of 2018, a 19.2-percent jump. Total revenue for the nine-month period was $6,895 million, compared to $5,741 million for the same period a year ago, a 20.1-percent leap.

United Rentals updated its full-year outlook. It narrowed the range of its total revenue outlook with its previous outlook being from $9.15 billion to $9.45 billion, and the updated outlook between $9.25 billion to $9.35 billion.

The adjusted EBITDA range narrowed from the previous expectation of $4.35 billion to $4.5 billion, and the current outlook of between $4.35 billion to $4.4 billion. It revised its net rental capital expenditures after gross purchases. The previous outlook was $1.3 billion to $1.4 billion after gross purchases of $2.05 billion to $2.15 billion. The current outlook is $1.25 billion to $1.35 billion, after gross purchases of $2.05 billion to $2.15 billion. For net cash provided by operating activities, the prior outlook was for $2.85 billion to $3.1 billion and the current outlook is for $2.9 billion to $3.05 billion.

No. 1 on the *RER* 100, United Rentals is based in Stamford, Conn.