Hit by COVID-19, United Rentals Drops 16.2 Percent in Second Quarter Rental Revenue

July 29, 2020

United Rentals posted $1.642 billion in rental revenue in the second quarter of 2020 compared to $1.960 billion in the same quarter a year ago, a 16.2-percent decrease. Total revenue for the second quarter was $1.939 billion, compared to $2.290 billion, a 15.3-decline. Fleet productivity decreased 13.6 percent year over year, reflecting the impact of COVID-19 on volumes. Trends improved through the quarter with OEC-on-rent at the end of June almost 14 percent above its April trough.

Net income was $212 million with a net income margin of 10.9 percent. Adjust EBITDA was $899 million, with adjust EBITDA margin of 46.4 percent, helped by aggressive cost management. The company reported $817 million of net cash from operating activities; free cash flow was $817 million, including gross rental capital spending of $145 million. Total liquidity on June 30, 2020 was $3.823 billion.

The general rental segment had a 17.8-percent year-over-year decrease in rental revenue to $1.255 billion for the quarter. Rental gross margin decreased by 540 basis points to 33.4 percent, with 440 basis points of the margin decline because of depreciation expense, which was largely flat year over year, but increased as a percentage of revenue. The remaining 100 basis point decline in rental gross margin was primarily because of the impact of COVID-19 on revenues, mitigated by actions the company has taken to manage costs, such as the reduction of overtime and temporary labor, and the leveraging of its current capacity to reduce the need for third-party delivery and repair services.

In the specialty rentals segment, or Trench, Power and Fluid Solutions, rental revenue decreased 10.6 percent year-over-year to $387 million for the quarter, including an organic decrease of 11.7 percent. Rental gross margin increased by 80 basis points to 46.8 percent, primarily due to decreases in certain operating costs, including delivery, repairs and labor, partially offset by increases in depreciation expense and certain operating costs as a percentage of revenue. The company has reduced overtime and temporary labor and has leveraged its current capacity to reduce the need for third-party delivery and repair services. Depreciation expense was largely flat year over year but increased as a percentage of revenue.

“We’re pleased with our second quarter results, which reflect both the flexibility and resiliency of our business model,” said United Rentals CEO Matthew Flannery. “Our employees did an outstanding job of executing our cost initiatives, while helping our customers operate safely in the midst of the pandemic. I’m inspired by our team’s commitment to our company and the communities we serve. We saw a steady recovery in volume beginning in mid-April, which gave us good momentum into the start of our busy season. While visibility is still limited, near-term indicators suggest that the second half of 2020 may track to seasonal patterns in the majority of our markets. Based on this, we have reintroduced guidance. Should things change, our continued focus on cost and capital discipline, along with our strong balance sheet and robust cash generation, will allow us to respond swiftly.”

United Rentals reinstituted guidance with the new outlook being for revenue in the range between $8.05 billion to $8.45 billion, compared to 2019 actual total revenue $9.351 billion.

On January 28, 2020, the company's Board of Directors authorized a new $500 million share repurchase program. Through March 18, 2020, when the program was paused because of the pandemic, the company repurchased $257 million of common stock. At this time, the company is unable to estimate when, or if, the program will be restarted, and expects to provide an update at a future date.

In regard to the pandemic, United’s response plan continues to focus on the five work-streams it highlighted last quarter, including employee safety and well-being, supporting customers, aggressively managing both capital expenditures and costs, and maximizing liquidity. While the company’s operational and financial results in the second quarter were significantly impacted by the economic conditions arising from the pandemic, including the effect of shelter-in-place orders and other market restrictions, the response plan helped mitigate the impact.

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