UNITED RENTALS INC /DE
Form 10-K
January 22, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013
Commission File Number 1-14387
United Rentals, Inc.
Commission File Number 1-13663
United Rentals (North America), Inc.
(Exact Names of Registrants as Specified in Their Charters)

Delaware	06-1522496
Delaware	86-0933835
(States of Incorporation)	(I.R.S. Employer Identification Nos.)
100 First Stamford Place, Suite 700, Stamford, Connecticut	06902
(Address of Principal Executive Offices)	(Zip Code)

Registrants' Telephone Number, Including Area Code: (203) 622-3131
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value, of United Rentals, Inc.	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
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 þ No o
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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2013 there were 93,454,763 shares of United Rentals, Inc. common stock outstanding. The aggregate market value of common stock held by non-affiliates (defined as other than directors, executive officers and 10 percent beneficial owners) at June 30, 2013 was approximately $4.13 billion, calculated by using the closing price of the common stock on such date on the New York Stock Exchange of $49.91.

As of January 20, 2014, there were 93,217,882 shares of United Rentals, Inc. common stock 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.

This Form 10-K 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 (I)(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format permitted by such instruction.

Documents incorporated by reference: Portions of United Rentals, Inc.'s Proxy Statement related to the 2014 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission on or before April 30, 2014, are incorporated by reference into Part III of this annual report.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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,” “fore or “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 RSC Holdings Inc. ("RSC") or other companies that we have acquired or may acquire, in our specialty business or otherwise, could have undiscovered liabilities or involve other unexpected costs, may strain our management capabilities or may be difficult to integrate;
- a change in the pace of the recovery in our end markets; our business is cyclical and highly sensitive to North American construction and industrial activities; although we have recently experienced an upturn in rental activity, there is no certainty this trend will continue; if the pace of the recovery slows or construction activity declines, our revenues and, because many of our costs are fixed, our profitability may be adversely affected;
- our significant indebtedness (which totaled $7.2 billion at December 31, 2013) 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 at 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 our credit facilities 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;
- 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;
- 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;
- disruptions in our information technology systems;
- the costs of complying with environmental, safety and foreign law and regulations;
- 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
- other factors discussed under Item 1A-Risk Factors, and elsewhere in this annual report.

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We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made.

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PART I

United Rentals, Inc., incorporated in Delaware in 1997, is principally a holding company. We primarily conduct our operations through our wholly owned subsidiary, United Rentals (North America), Inc., and its subsidiaries. As used in this report, the term "Holdings" refers to United Rentals, Inc., the term "URNA" refers to United Rentals (North America), Inc., and the terms the "Company," "United Rentals," "we," "us," and "our" refer to United Rentals, Inc. and its subsidiaries, in each case unless otherwise indicated.

Unless otherwise indicated, the information under Items 1, 1A and 2 is as of January 1, 2014.

Item 1. Business

General

United Rentals is the largest equipment rental company in the world. Our customer service network consists of 832 rental locations in the United States and Canada as well as centralized call centers and online capabilities. We offer approximately 3,100 classes of equipment for rent to construction and industrial companies, manufacturers, utilities, municipalities, homeowners, government entities and other customers. In 2013, we generated total revenue of $5.0 billion, including $4.2 billion of equipment rental revenue.

As of December 31, 2013, our fleet of rental equipment included approximately 410,000 units. The total original equipment cost of our fleet ("OEC"), based on the initial consideration paid, was $7.7 billion at December 31, 2013, compared with $7.2 billion at December 31, 2012. The fleet includes:

- General construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earthmoving equipment and materials handling equipment. In 2013, 2012 and 2011, respectively, general construction and industrial equipment accounted for approximately 44 percent, 45 percent and 41 percent of our equipment rental revenue;
- Aerial work platforms, such as boom lifts and scissor lifts. In 2013, 2012 and 2011, respectively, aerial work platforms accounted for approximately 36 percent, 36 percent and 39 percent of our equipment rental revenue;
- General tools and light equipment, such as pressure washers, water pumps and power tools. In 2013, 2012 and 2011, respectively, general tools and light equipment accounted for approximately 9 percent, 9 percent and 8 percent of our equipment rental revenue;
- Power and HVAC (heating, ventilating and air conditioning) equipment, such as portable diesel generators, electrical distribution equipment, and temperature control equipment. In 2013, 2012 and 2011, power and HVAC equipment accounted for approximately 6 percent of our equipment rental revenue; and
- Trench safety equipment, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers and line testing equipment for underground work. In 2013, 2012 and 2011, respectively, trench safety equipment accounted for approximately 5 percent, 4 percent and 6 percent of our equipment rental revenue.

In addition to renting equipment, we sell new and used equipment as well as related parts and service, and contractor supplies.

Acquisition of RSC

On April 30, 2012, we acquired 100 percent of the outstanding common shares and voting interest of RSC Holdings Inc. ("RSC"). The results of RSC's operations have been included in our consolidated financial statements since that date. RSC, which had total revenue of $1.5 billion for 2011, was one of the largest equipment rental providers in North America, and as of December 31, 2011 had a network of 440 rental locations in 43 U.S. states and three Canadian provinces. For additional information concerning the RSC acquisition, see note 3 to our consolidated financial statements.

Strategy

For the past several years, we have executed a strategy focused on improving the profitability of our core 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 cost control.

Our strategy calls for:

- An increasing proportion of revenue derived from key accounts, a group that includes national accounts and strategic accounts, among others;

• A consistently superior standard of service to customers, often provided through a single point of contact;

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- A targeted presence in industrial and specialty rental markets; and
- Positioning ourselves as a single-source provider of total jobsite solutions through our extensive product and service resources and technology offerings.

In 2012, we adopted the American Rental Association criteria for reporting rental rates, time utilization and OEC; 2013 and 2012 operating metrics have been presented on this same basis.

For the full year 2013, compared with 2012, we achieved:

- A 4.2 percent increase in rental rates on a pro forma basis (that is, assuming United Rentals and RSC were combined for full year 2012);
- A 22.1 percent increase in the volume of OEC on rent, which reflects the impact of the RSC acquisition, increased capital expenditures on rental fleet and improved asset productivity;
- Strong time utilization on a significantly larger fleet. Time utilization was 68.2 percent and 67.5 percent for 2013 and 2012, respectively;
- 61 percent of equipment rental revenue derived from key accounts in 2013, as compared to 60 percent in 2012 on a pro forma basis. Key accounts are each managed by a single point of contact to enhance customer service;
- 42 percent of equipment rental revenue derived from national accounts in 2013 and in 2012 on a pro forma basis. National accounts, a subset of key accounts, are generally defined as customers with potential annual equipment rental spend of at least $500,000 or customers doing business in multiple locations;
- Continued investment in our higher margin trench safety, power and HVAC (also referred to as "specialty") segment with an increase of 16 specialty rental locations in 2013, comprised of 11 in the United States and 5 in Canada;
- A 1.3 percentage point improvement in selling, general and administrative expenses as a percentage of revenue. The improvement in our SG&A performance reflects, in part, the cost synergies we realized from the merger with RSC, estimated to be approximately $110 million in 2013; and
- Approximately $126 million of additional synergies recognized in cost of equipment rentals, after which the total estimated synergies were $236 million.

In 2014, we will intensify our disciplined focus on profitability and return on invested capital. In particular, our strategy calls for:

- 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 teams will use similar analyses to identify trends in equipment categories and define action plans that can generate improved returns;
- The implementation of “Lean” management techniques, including kaizen processes focused on continuous improvement, through a program we call Operation United 2. Having completed eight branch pilots in late 2013, we are now in the early stages of launching this program 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; and
- The continued expansion of our trench safety, power and HVAC footprint, as well as our tools offering, and the cross-selling of these services throughout our network. We plan to open at least 10 specialty rental branches and 3 tool hubs in 2014, to further position United Rentals as a single source provider of total jobsite solutions.

Industry Overview and Economic Outlook

United Rentals serves three principal end markets for equipment rental in North America: industrial and other non-construction; commercial (or private non-residential) construction; and residential construction, which includes remodeling. In 2013, based on an analysis of our charge account customers’ Standard Industrial Classification (“SIC”) codes:

- Industrial and other non-construction rentals represented approximately 50 percent of our rental revenue, primarily reflecting rentals to manufacturers, energy companies, chemical companies, paper mills, railroads, shipbuilders, utilities, retailers and infrastructure entities;

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- Commercial construction rentals represented approximately 46 percent of our rental revenue, primarily reflecting rentals related to the construction and remodeling of facilities for office space, lodging, healthcare and other commercial purposes; and
- Residential rentals represented approximately four percent of our rental revenue, primarily reflecting rentals of equipment for the construction and renovation of homes.

We estimate that overall North American construction activity (including industrial and other non-construction, commercial and residential) grew approximately 5 percent in 2013 year-over-year, and that North American equipment rental revenue grew approximately 7 percent year-over-year. We believe the growth in rental revenue exceeded underlying construction activity, in part, because of a continuing shift from the owning of equipment to renting ("secular penetration").

In this environment, we increased our full year rental revenue by 7.0 percent year-over-year on a pro forma basis, outpacing the recovery in the overall construction market. We believe the revenue increase reflects a combination of positive factors: the improvement in our operating environment; further secular penetration; and the benefit of our strategy, particularly our increased focus on key customers.

In 2014, based on our analyses of industry forecasts and macroeconomic indicators, we expect that the majority of our end markets will continue to recover and drive demand for equipment rental services. Specifically, we expect overall North American construction activity and equipment rental revenue to increase approximately 8 percent.

Competitive Advantages

We believe that we benefit from the following competitive advantages:

Large and Diverse Rental Fleet. Our large and diverse fleet allows us to serve large customers that require substantial quantities and/or wide varieties of equipment. We believe our ability to serve such customers should allow us to improve our performance and enhance our market leadership position.

We manage our rental fleet, which is the largest and most comprehensive in the industry, utilizing a life-cycle approach that focuses on satisfying customer demand and optimizing utilization levels. As part of this life-cycle approach, we closely monitor repair and maintenance expense and can anticipate, based on our extensive experience with a large and diverse fleet, the optimum time to dispose of an asset. Our fleet age, which is calculated on an OEC-weighted basis, was 45.2 months at December 31, 2013 compared with 47.2 months at December 31, 2012. At December 31, 2013, 92 percent of our fleet was current on its manufacturer's recommended maintenance.

Significant Purchasing Power. We purchase large amounts of equipment, contractor supplies and other items, which enables us to negotiate favorable pricing, warranty and other terms with our vendors.

National Account Program. Our National Account sales force is dedicated to establishing and expanding relationships with large companies, particularly those with a national or multi-regional presence. We offer our National Account customers the benefits of a consistent level of service across North America, a wide selection of equipment and a single point of contact for all their equipment needs. Establishing a single point of contact for our key accounts helps us to provide customer service management that is more consistent and satisfactory. During the years ended December 31, 2013 and 2012, 61 percent and 60 percent, respectively, of our equipment rental revenues, on a pro forma basis assuming United Rentals and RSC were combined for full year 2012, were derived from accounts, including National Accounts and other key accounts, that are managed by a single point of contact.

Operating Efficiencies. We benefit from the following operating efficiencies:

- Equipment Sharing Among Branches. We generally group our branches into districts of five to 10 locations that are in the same geographic area. Our districts are generally grouped into regions of five to seven districts. Each branch within a region can access equipment located elsewhere in the region. This sharing increases equipment utilization because equipment that is idle at one branch can be marketed and rented through other branches. Additionally, fleet sharing allows us to be more disciplined with our capital spend.
- Customer Care Center. We have a Customer Care Center ("CCC") with locations in Tampa, Florida and Charlotte, North Carolina that handles all 1-800-UR-RENTS telephone calls. The CCC handles many of the 1-800-UR-RENTS telephone calls without having to route them to individual branches, and allows us to provide a more uniform quality experience to customers, manage fleet sharing more effectively and free up branch employee time.
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Consolidation of Common Functions. We reduce costs through the consolidation of functions that are common to our branches, such as accounts payable, payroll, benefits and risk management, information technology and credit and collection.

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Information Technology Systems. We have a wide variety of information technology systems, some proprietary and some licensed, that supports our operations. This information technology infrastructure facilitates our ability to make rapid and informed decisions, respond quickly to changing market conditions and share rental equipment among branches. We have an in-house team of information technology specialists that supports our systems.

Strong Brand Recognition. As the largest equipment rental company in the world, we have strong brand recognition, which helps us to attract new customers and build customer loyalty.

Geographic and Customer Diversity. We have 832 rental locations in 49 states and 10 Canadian provinces and serve customers that range from Fortune 500 companies to small businesses and homeowners. We believe that our geographic and customer diversity provides us with many advantages including:

- enabling us to better serve National Account customers with multiple locations;
- helping us achieve favorable resale prices by allowing us to access used equipment resale markets across North America; and
- reducing our dependence on any particular customer.

Our operations in Canada are subject to the risks normally associated with international operations. These include (i) the need to convert currencies, which could result in a gain or loss depending on fluctuations in exchange rates and (ii) the need to comply with foreign laws and regulations, as well as U.S. laws and regulations applicable to our operations in foreign jurisdictions. For additional financial information regarding our geographic diversity, see note 4 to our consolidated financial statements.

Strong and Motivated Branch Management. Each of our full-service branches has a branch manager who is supervised by a district manager. We believe that our managers are among the most knowledgeable and experienced in the industry, and we empower them, within budgetary guidelines, to make day-to-day decisions concerning branch matters. Each regional office has a management team that monitors branch, district and regional performance with extensive systems and controls, including performance benchmarks and detailed monthly operating reviews.

Employee Training Programs. We are dedicated to providing training and development opportunities to our employees. In 2013, our employees enhanced their skills through over 315,000 hours of training, including safety training, sales and leadership training, equipment-related training from our suppliers and online courses covering a variety of relevant subjects.

Risk Management and Safety Programs. Our risk management department is staffed by experienced professionals directing the procurement of insurance, managing claims made against the Company, and developing loss prevention programs to address workplace safety, driver safety and customer safety. The department’s primary focus is on the protection of our employees and assets, as well as protecting the Company from liability for accidental loss.

Segment Information

We have two reportable segments–general rentals and trench safety, power and HVAC. Segment financial information is presented in note 4 to our consolidated financial statements. The general rentals segment includes the rental of construction, aerial and industrial equipment, general tools and light equipment, and related services and activities. The general rentals segment’s customers include construction and industrial companies, manufacturers, utilities, municipalities and homeowners. The general rentals segment comprises 12 geographic regions–Eastern Canada, Gulf South, Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Mid-Central, Midwest, Mountain West, Northeast, Pacific West, South, Southeast and Western Canada–and operates throughout the United States and Canada. The trench safety, power and HVAC segment includes the rental of specialty construction products and related services. The trench safety, power and HVAC segment is comprised of 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, and 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. The trench safety, power and HVAC segment’s customers include construction companies involved in infrastructure projects, municipalities and industrial companies. This segment operates throughout the United States and in Canada.

Products and Services

Our principal products and services are described below.

Equipment Rental. We offer for rent approximately 3,100 classes of rental equipment on an hourly, daily, weekly or monthly basis. The types of equipment that we offer include general construction and industrial equipment; aerial work

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platforms; trench safety equipment; power and HVAC equipment; and general tools and light equipment. The age of our fleet was 45.2