

UNITED RENTALS INC /DE  
Form 10-Q  
April 19, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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<sup>x</sup> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

<sup>o</sup> TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-14387

Commission File Number 1-13663

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

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

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|  |            |
|--|------------|
| 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  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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As of April 17, 2017, there were 84,513,378 shares of United Rentals, Inc. common stock, \$0.01 par value, outstanding. There is no market for the common stock of United Rentals (North America), Inc., all outstanding shares of which are owned by United Rentals, Inc.

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the possibility that companies that we have acquired or may acquire, in our specialty business or otherwise, including NES Rentals Holdings II, Inc. (“NES ”), 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 \$7.3 billion at March 31, 2017) requires us to use a substantial portion of our cash flow for debt service and can constrain our flexibility in responding to unanticipated or adverse business conditions;
- inability to refinance our indebtedness on terms that are favorable to us, or at all;
- incurrence of additional debt, which could exacerbate the risks associated with our current level of indebtedness;
- noncompliance with financial or other covenants in our debt agreements, which could result in our lenders terminating the agreements and requiring us to repay outstanding borrowings;
- restrictive covenants and amount of borrowings permitted in our debt instruments, which can limit our financial and operational flexibility;
- overcapacity of fleet in the equipment rental industry;
- inability to benefit from government spending, including spending associated with infrastructure projects;
- fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated;
- rates we charge and time utilization we achieve being less than anticipated;
- inability to manage credit risk adequately or to collect on contracts with a large number of customers;
  - inability to access the capital that our businesses or growth plans may require;
- incurrence of impairment charges;
- trends in oil and natural gas could adversely affect the demand for our services and products;
- the fact that our holding company structure requires us to depend in part on distributions from subsidiaries and such distributions could be limited by contractual or legal restrictions;
- increases in our loss reserves to address business operations or other claims and any claims that exceed our established levels of reserves;
- incurrence of additional expenses (including indemnification obligations) and other costs in connection with litigation, regulatory and investigatory matters;
- the outcome or other potential consequences of regulatory matters and commercial litigation;
- shortfalls in our insurance coverage;
- our charter provisions as well as provisions of certain debt agreements and our significant indebtedness may have the effect of making more difficult or otherwise discouraging, delaying or deterring a takeover or other change of control of us;

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

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

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

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | March 31,<br>2017<br>(unaudited) | December 31,<br>2016 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Cash and cash equivalents  | \$ 337                           | \$ 312               |
| Accounts receivable, net of allowance for doubtful accounts of \$55 at March 31, 2017 and \$54 at December 31, 2016  | 854                              | 920                  |
| Inventory  | 75                               | 68                   |
| Prepaid expenses and other assets  | 54                               | 61                   |
| Total current assets   | 1,320                            | 1,361                |
| Rental equipment, net  | 6,107                            | 6,189                |
| Property and equipment, net  | 426                              | 430                  |
| Goodwill   | 3,262                            | 3,260                |
| Other intangible assets, net   | 701                              | 742                  |
| Other long-term assets   | 6                                | 6                    |
| Total assets   | \$ 11,822                        | \$ 11,988            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                  |                      |
| Short-term debt and current maturities of long-term debt   | \$ 577                           | \$ 597               |
| Accounts payable   | 382                              | 243                  |
| Accrued expenses and other liabilities   | 358                              | 344                  |
| Total current liabilities  | 1,317                            | 1,184                |
| Long-term debt   | 6,772                            | 7,193                |
| Deferred taxes   | 1,911                            | 1,896                |
| Other long-term liabilities  | 69                               | 67                   |
| Total liabilities  | 10,069                           | 10,340               |
| Common stock—\$0.01 par value, 500,000,000 shares authorized, 112,270,415 and 84,507,242 shares issued and outstanding, respectively, at March 31, 2017 and 111,985,215 and 84,222,042 shares issued and outstanding, respectively, at December 31, 2016 | 1                                | 1                    |
| Additional paid-in capital   | 2,276                            | 2,288                |
| Retained earnings  | 1,763                            | 1,654                |
| Treasury stock at cost—27,763,173 shares at March 31, 2017 and December 31, 2016   | (2,077 )                         | (2,077 )             |
| Accumulated other comprehensive loss   | (210 )                           | (218 )               |
| Total stockholders' equity   | 1,753                            | 1,648                |
| Total liabilities and stockholders' equity   | \$ 11,822                        | \$ 11,988            |
| See accompanying notes.  |                                  |                      |



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UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share amounts)

|   | Three Months Ended |          |
|---|--------------------|----------|
|   | March 31,          |          |
|   | 2017               | 2016     |
| Revenues:   |                    |          |
| Equipment rentals                                 | \$ 1,166           | \$ 1,117 |
| Sales of rental equipment                         | 106                | 115      |
| Sales of new equipment                            | 39                 | 30       |
| Contractor supplies sales                         | 18                 | 19       |
| Service and other revenues                        | 27                 | 29       |
| Total revenues                                    | 1,356              | 1,310    |
| Cost of revenues:                                 |                    |          |
| Cost of equipment rentals, excluding depreciation | 474                | 449      |
| Depreciation of rental equipment                  | 248                | 243      |
| Cost of rental equipment sales                    | 60                 | 68       |
| Cost of new equipment sales                       | 34                 | 25       |
| Cost of contractor supplies sales                 | 13                 | 13       |
| Cost of service and other revenues                | 13                 | 12       |
| Total cost of revenues                            | 842                | 810      |
| Gross profit                                      | 514                | 500      |
| Selling, general and administrative expenses      | 193                | 177      |
| Merger related costs                              | 2                  | —        |
| Restructuring charge                              | —                  | 2        |
| Non-rental depreciation and amortization          | 62                 | 67       |
| Operating income                                  | 257                | 254      |
| Interest expense, net                             | 94                 | 107      |
| Other expense, net                                | 2                  | —        |
| Income before provision for income taxes          | 161                | 147      |
| Provision for income taxes                        | 52                 | 55       |
| Net income  | \$ 109             | \$ 92    |
| Basic earnings per share                          | \$ 1.29            | \$ 1.01  |
| Diluted earnings per share                        | \$ 1.27            | \$ 1.01  |
| See accompanying notes.                           |                    |          |

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UNITED RENTALS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
 (In millions)

|  | Three Months Ended |        |
|--|--------------------|--------|
|  | March 31,          |        |
|  | 2017               | 2016   |
| Net income                                     | \$ 109             | \$ 92  |
| Other comprehensive income (loss), net of tax: |                    |        |
| Foreign currency translation adjustments       | 9                  | 62     |
| Fixed price diesel swaps                       | (1 )               | 1      |
| Other comprehensive income                     | 8                  | 63     |
| Comprehensive income (1)                       | \$ 117             | \$ 155 |

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

See accompanying notes.

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UNITED RENTALS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

(In millions)

|  | Common<br>Stock            |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock   |           | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income<br>(2) |
|--|----------------------------|--------|----------------------------------|----------------------|---------------------|-----------|---|
|  | Number of<br>Shares<br>(1) | Amount |                                  |                      | Number of<br>Shares | Amount    |   |
| Balance at December 31, 2016             | 84                         | \$ 1   | \$ 2,288                         | \$ 1,654             | 28                  | \$(2,077) | \$ (218 )   |
| Net income                               |                            |        |                                  | 109                  |                     |           |   |
| Foreign currency translation adjustments |                            |        |                                  |                      |                     |           | 9   |
| Fixed price diesel swaps                 |                            |        |                                  |                      |                     |           | (1 )  |
| Stock compensation expense, net          | 1                          |        | 16                               |                      |                     |           |   |
| Exercise of common stock options         |                            |        | 1                                |                      |                     |           |   |
| Shares repurchased and retired           |                            |        | (23 )                            |                      |                     |           |   |
| Other                                    |                            |        | (6 )                             |                      |                     |           |   |
| Balance at March 31, 2017                | 85                         | \$ 1   | \$ 2,276                         | \$ 1,763             | 28                  | \$(2,077) | \$ (210 )   |

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

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

See accompanying notes.

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## UNITED RENTALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

|   | Three<br>Months<br>Ended<br>March 31,<br>2017 2016 |         |
|---|--|---------|
| Cash Flows From Operating Activities:   |  |         |
| Net income  | \$109  | \$92    |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |         |
| Depreciation and amortization   | 310  | 310     |
| Amortization of deferred financing costs and original issue discounts             | 2  | 2       |
| Gain on sales of rental equipment   | (46 )  | (47 )   |
| Gain on sales of non-rental equipment   | (1 )   | (1 )    |
| Stock compensation expense, net   | 16   | 9       |
| Merger related costs  | 2  | —       |
| Restructuring charge  | —  | 2       |
| Excess tax benefits from share-based payment arrangements                         | —  | (27 )   |
| Increase in deferred taxes  | 10   | 25      |
| Changes in operating assets and liabilities, net of amounts acquired:             |  |         |
| Decrease in accounts receivable   | 65   | 103     |
| Increase in inventory   | (6 )   | (4 )    |
| Decrease in prepaid expenses and other assets                                     | 9  | 64      |
| Increase in accounts payable  | 139  | 56      |
| Increase in accrued expenses and other liabilities                                | 14   | 20      |
| Net cash provided by operating activities   | 623  | 604     |
| Cash Flows From Investing Activities:   |  |         |
| Purchases of rental equipment   | (219 )   | (100 )  |
| Purchases of non-rental equipment   | (22 )  | (23 )   |
| Proceeds from sales of rental equipment   | 106  | 115     |
| Proceeds from sales of non-rental equipment                                       | 2  | 4       |
| Purchases of other companies, net of cash acquired                                | —  | (13 )   |
| Purchases of investments  | (1 )   | —       |
| Net cash used in investing activities   | (134 )   | (17 )   |
| Cash Flows From Financing Activities:   |  |         |
| Proceeds from debt  | 1,502  | 914     |
| Payments of debt  | (1,939)  | (1,337) |
| Proceeds from the exercise of common stock options                                | 1  | —       |
| Common stock repurchased  | (23 )  | (164 )  |
| Payments of financing costs   | (7 )   | —       |
| Excess tax benefits from share-based payment arrangements                         | —  | 27      |
| Net cash used in financing activities   | (466 )   | (560 )  |
| Effect of foreign exchange rates  | 2  | 13      |
| Net increase in cash and cash equivalents   | 25   | 40      |
| Cash and cash equivalents at beginning of period                                  | 312  | 179     |
| Cash and cash equivalents at end of period  | \$337  | \$219   |
| Supplemental disclosure of cash flow information:                                 |  |         |
| Cash paid (received) for income taxes, net  | \$1  | \$(53 ) |

|                        |    |    |
|------------------------|----|----|
| Cash paid for interest | 90 | 69 |
|------------------------|----|----|

See accompanying notes.

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization, Description of Business and Basis of Presentation

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

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

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

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

New Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, and in subsequent updates, the Financial Accounting Standards Board (“FASB”) issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption (for fiscal years and interim periods beginning after December 15, 2016) is permitted. We expect to adopt this guidance when effective.

Owned equipment rental revenue is a component of our rental revenue that accounted for 87 percent and 74 percent of our equipment rental revenue and total revenue, respectively, during the three months ended March 31, 2017. We believe the accounting for owned equipment rental revenue is outside of the scope of the revenue guidance and will be evaluated under the new lease guidance described in more detail in the “Leases” disclosure below.

Additionally, we have reviewed the accounting for sales of rental equipment, sales of new equipment and contractor supplies sales, which collectively accounted for 12 percent of our total revenues during the three months ended March 31, 2017. While our review of these revenue items is ongoing, we do not expect the adoption of this guidance to have a significant impact on our financial statements associated with these items. The impact on our financial statements associated with our other revenue components is not currently estimable. We are also evaluating the impact of the new revenue standard on our internal controls over financial reporting.

Leases. In March 2016, the FASB issued guidance (“Topic 842”) to increase transparency and comparability among organizations by requiring i) recognition of lease assets and lease liabilities on the balance sheet and ii) disclosure of key information about leasing arrangements. Some changes to the lessor accounting guidance were made to align both of the following: i) the lessor accounting guidance with certain changes made to the lessee accounting guidance and ii) key aspects of the lessor accounting model with revenue recognition guidance. Topic 842 will be effective for fiscal years and interim periods beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required for adoption for all leases that exist at or commence after the date of initial application with an option to use certain practical expedients. We expect to adopt this guidance when effective, and the impact on our financial statements is not currently estimable.

Statement of Cash Flows. In August 2016, the FASB issued guidance to reduce the diversity in the presentation of certain cash receipts and cash payments presented and classified in the statement of cash flows. The guidance addresses the following specific cash flow issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing,

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(3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transitions and (8) separately identifiable cash flows and application of predominance principle. The guidance will be effective for fiscal years and interim periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires retrospective adoption. We expect to adopt this guidance when effective, and do not expect the guidance to have a significant impact on our financial statements.

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

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

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

**Guidance Adopted in 2017**

**Improvements to Employee Share-Based Payment Accounting.** In the first quarter of 2017, we adopted guidance that simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We prospectively adopted the amendments in this guidance that relate to the classification of excess tax benefits from share-based payment arrangements on the statement of cash flows. The excess tax benefits from share-based payment arrangements result from stock-based compensation windfall deductions in excess of the amounts reported for financial reporting purposes. In the three months ended March 31, 2017, we recognized \$8 of such excess tax benefits, and, pursuant to the adopted guidance, net income increased by \$8, or \$0.09 per basic and diluted share, reflecting the tax reduction associated with the excess tax benefits. Prior periods have not been adjusted to reflect the new guidance related to the classification of the excess tax benefits, as we have elected to prospectively adopt such guidance. Accordingly, our statement of cash flows for the three months ended March 31, 2016 reflects \$27 of such excess tax benefits within net cash used in financing activities. All of the excess tax benefits for the three months ended



March 31, 2016 pertain to share based payments that vested prior to 2016, and, accordingly, would not have impacted net income under the new guidance.

Other significant components of the adopted guidance include:

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Certain aspects of the guidance require a cumulative change to retained earnings upon adoption, though we did not recognize any such change. In 2016, we utilized all of the prior excess tax benefits from share-based payments that vested through 2016, and, accordingly, no change to retained earnings was required.

- Additionally, upon adopting this guidance, we elected to record forfeitures of share-based payments as they occur. Making such an election requires a cumulative change to retained earnings upon adoption. However, we historically adjusted estimated forfeitures to reflect actual forfeitures annually, as a result of which no change to retained earnings was required.

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

NES Acquisition

On January 25, 2017, we entered into a definitive merger agreement with NES Rentals Holdings II, Inc. (“NES”), pursuant to which we agreed to acquire NES in an all cash transaction. The merger closed on April 3, 2017. The aggregate merger consideration paid to holders of NES common stock and options was approximately \$965. The merger and related fees and expenses were funded through available cash, drawings on current debt facilities and new debt issuances. See note 6 to the condensed consolidated financial statements for additional detail on the debt issuances. 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. We expect to initiate a restructuring program in connection with the acquisition, and are identifying the actions that we expect to undertake under the program.

2. 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 nine geographic regions—Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Midwest, Northeast, Pacific West, South-Central, 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.

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

|                                       | General rentals | Trench, power and pump | Total   |
|---------------------------------------|-----------------|------------------------|---------|
| Three Months Ended March 31, 2017     |                 |                        |         |
| Equipment rentals                     | \$ 977          | \$ 189                 | \$1,166 |
| Sales of rental equipment             | 96              | 10                     | 106     |
| Sales of new equipment                | 35              | 4                      | 39      |
| Contractor supplies sales             | 14              | 4                      | 18      |
| Service and other revenues            | 24              | 3                      | 27      |
| Total revenue                         | 1,146           | 210                    | 1,356   |
| Depreciation and amortization expense | 264             | 46                     | 310     |
| Equipment rentals gross profit        | 360             | 84                     | 444     |
| Capital expenditures                  | 211             | 30                     | 241     |
| Three Months Ended March 31, 2016     |                 |                        |         |
| Equipment rentals                     | \$ 955          | \$ 162                 | \$1,117 |
| Sales of rental equipment             | 106             | 9                      | 115     |
| Sales of new equipment                | 26              | 4                      | 30      |
| Contractor supplies sales             | 16              | 3                      | 19      |
| Service and other revenues            | 26              | 3                      | 29      |
| Total revenue                         | 1,129           | 181                    | 1,310   |
| Depreciation and amortization expense | 266             | 44                     | 310     |
| Equipment rentals gross profit        | 357             | 68                     | 425     |
| Capital expenditures                  | 104             | 19                     | 123     |
|                                       | March 31, 2017  | December 31, 2016      |         |
| Total reportable segment assets       |                 |                        |         |
| General rentals                       | \$ 10,348       | \$ 10,496              |         |
| Trench, power and pump                | 1,474           | 1,492                  |         |
| Total assets                          | \$ 11,822       | \$ 11,988              |         |

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

|  | Three Months Ended |        |
|--|--------------------|--------|
|  | March 31,          |        |
|  | 2017               | 2016   |
| Total equipment rentals gross profit         | \$ 444             | \$ 425 |
| Gross profit from other lines of business    | 70                 | 75     |
| Selling, general and administrative expenses | (193 )             | (177 ) |
| Merger related costs                         | (2 )               | —      |
| Restructuring charge                         | —                  | (2 )   |
| Non-rental depreciation and amortization     | (62 )              | (67 )  |
| Interest expense, net                        | (94 )              | (107 ) |
| Other expense, net                           | (2 )               | —      |
| Income before provision for income taxes     | \$ 161             | \$ 147 |

3. Restructuring Charges

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

**Restructuring Charges**

Restructuring charges 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, under which we have incurred total restructuring charges of \$234.

**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.

The table below provides certain information concerning restructuring activity during the three months ended March 31, 2017:

|                        | Reserve<br>Balance<br>at<br>December<br>31, 2016 | Charged to<br>Costs and<br>Expenses | Payments<br>and Other | Reserve<br>Balance<br>at<br>March<br>31, 2017 |
|------------------------|--|-------------------------------------|-----------------------|---|
| Branch closure charges | \$ 16  | \$                                  | —\$ —                 | \$ 16   |
| Severance costs        | 1  | —                                   | (1 )                  | —   |
| Total                  | \$ 17  | \$                                  | —\$ (1 )              | \$ 16   |

As discussed in note 1 to our condensed consolidated financial statements, we expect to initiate a restructuring program in connection with the NES acquisition that closed on April 3, 2017, and are identifying the actions that we expect to undertake under the program.

**4. Derivatives**

We recognize all derivative instruments as either assets or liabilities at fair value, and recognize changes in the fair value of the derivative instruments based on the designation of the derivative. We are exposed to certain risks relating to our ongoing business operations. During the three months ended March 31, 2017 and 2016, the only risk we managed using derivative instruments was diesel price risk. At March 31, 2017, we had outstanding fixed price swap contracts on diesel purchases which were entered into to mitigate the price risk associated with forecasted purchases of diesel.

**Fixed Price Diesel Swaps**

The fixed price swap contracts on diesel purchases that were outstanding at March 31, 2017 were designated and qualify as cash flow hedges and the effective portion of the gain or loss on these contracts is reported as a component of accumulated other comprehensive income and is reclassified into earnings in the period during which the hedged transaction affects earnings (i.e., when the hedged gallons of diesel are used). The remaining gain or loss on the fixed price swap contracts in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), is recognized in our condensed consolidated statements of income during the current

period. As of March 31, 2017, we had outstanding fixed price swap contracts covering 6.0 million gallons of diesel which will be purchased throughout 2017 and 2018.

Financial Statement Presentation

As of March 31, 2017 and December 31, 2016, immaterial amounts (\$1 or less) were reflected in prepaid expenses and other assets, accrued expenses and other liabilities, and accumulated other comprehensive income in our condensed consolidated balance sheets associated with the outstanding fixed price swap contracts that were designated and qualify as cash flow hedges.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

The effect of our derivative instruments on our condensed consolidated statements of income for the three months ended March 31, 2017 and 2016 was as follows:

|  | Location of income (expense) recognized on derivative/hedged item | Three Months Ended March 31, 2017                   | Three Months Ended March 31, 2016                   |
|--|---|---|---|
|  |   | Amount of income (expense) recognized on derivative | Amount of income (expense) recognized on derivative |
| Derivatives designated as hedging instruments: |   |   |   |
| Fixed price diesel swaps                       | Other income (expense), net (1)                                   | \$ *  | \$ *  |
|  | Cost of equipment rentals, excluding depreciation (2), (3)        | *   | \$ ( 5 ) ( 2 ) \$ ( 5 )                             |

\* Amounts are insignificant (less than \$1).

(1) Represents the ineffective portion of the fixed price diesel swaps.

(2) Amounts recognized on derivative represent the effective portion of the fixed price diesel swaps.

Amounts recognized on hedged item reflect the use of 1.9 million and 2.6 million gallons and of diesel covered by the fixed price swaps during the three months ended March 31, 2017 and 2016, respectively.

(3) These amounts are reflected, net of cash received from, or paid to, the counterparties to the fixed price swaps, in operating cash flows in our condensed consolidated statement of cash flows.

## 5. Fair Value Measurements

We account for certain assets and liabilities at fair value. We categorize each of our fair value measurements 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:

a) quoted prices for similar assets or liabilities in active markets;

b) quoted prices for identical or similar assets or liabilities in inactive markets;

c) inputs other than quoted prices that are observable for the asset or liability;

d) 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.

Assets and Liabilities Measured at Fair Value

As of March 31, 2017 and December 31, 2016, our only assets and liabilities measured at fair value were our fixed price diesel swaps contracts, which are Level 2 derivatives measured at fair value on a recurring basis. As of March 31, 2017 and December 31, 2016, immaterial amounts (\$1 or less) were reflected in prepaid expenses and other assets, and accrued expenses and other liabilities in our condensed consolidated balance sheets, reflecting the fair values of the fixed price diesel swaps contracts. As discussed in note 4 to the condensed consolidated financial statements, we entered into the fixed price swap contracts on diesel purchases to mitigate the price risk associated with forecasted purchases of diesel. Fair value is determined



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based on observable market data. As of March 31, 2017, we have fixed price swap contracts that mature throughout 2017 and 2018 covering 6.0 million gallons of diesel which we will buy at the average contract price of \$2.56 per gallon, while the average forward price for the hedged gallons was \$2.60 per gallon as of March 31, 2017.

## 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 senior secured asset-based revolving credit facility (“ABL facility”), accounts receivable securitization facility and capital leases approximated their book values as of March 31, 2017 and December 31, 2016. The estimated fair values of our financial instruments, all of which are categorized in Level 1 of the fair value hierarchy, as of March 31, 2017 and December 31, 2016 have been calculated based upon available market information, and were as follows:

|              | March 31,<br>2017  | December 31,<br>2016 |
|--------------|--------------------|----------------------|
|              | Carrying<br>Amount | Fair<br>Value        |
| Senior notes | \$6,016            | \$6,246              |
|              | \$5,506            | \$5,715              |

## 6. Debt

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

|   | March 31,<br>2017 | December 31,<br>2016 |
|---|-------------------|----------------------|
| Accounts Receivable Securitization Facility expiring 2017 (1)       | \$ 550            | \$ 568               |
| \$2.5 billion ABL Facility expiring 2021 (2)                        | 720               | 1,645                |
| 7 <sup>5</sup> / <sub>8</sub> percent Senior Notes due 2022         | 470               | 469                  |
| 6 <sup>1</sup> / <sub>8</sub> percent Senior Notes due 2023         | 936               | 936                  |
| 4 <sup>5</sup> / <sub>8</sub> percent Senior Secured Notes due 2023 | 991               | 991                  |
| 5 <sup>3</sup> / <sub>4</sub> percent Senior Notes due 2024         | 840               | 839                  |
| 5 <sup>1</sup> / <sub>2</sub> percent Senior Notes due 2025         | 792               | 792                  |
| 5 <sup>7</sup> / <sub>8</sub> percent Senior Notes due 2026 (3)     | 998               | 740                  |
| 5 <sup>1</sup> / <sub>2</sub> percent Senior Notes due 2027 (4)     | 989               | 739                  |
| Capital leases  | 63                | 71                   |
| Total debt (5)  | 7,349             | 7,790                |
| Less short-term portion (6)   | (577 )            | (597 )               |
| Total long-term debt  | \$ 6,772          | \$ 7,193             |

(1) At March 31, 2017, \$18 was available under our accounts receivable securitization facility. The interest rate applicable to the accounts receivable securitization facility was 1.7 percent at March 31, 2017. During the three months ended March 31, 2017, the monthly average amount outstanding under the accounts receivable securitization facility was \$518, and the weighted-average interest rate thereon was 1.6 percent. The maximum month-end amount outstanding under the accounts receivable securitization facility during the three months ended March 31, 2017 was \$551. 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 March 31, 2017, there were \$569 of receivables, net of applicable reserves and other deductions, in the collateral pool.

(2) At March 31, 2017, \$1.7 billion was available under our ABL facility, net of \$36 of letters of credit. The interest rate applicable to the ABL facility was 2.5 percent at March 31, 2017. During the three months ended March 31, 2017, the monthly average amount outstanding under the ABL facility was \$1.0 billion, and the weighted-average interest rate thereon was 2.3 percent. The maximum month-end amount outstanding under the ABL facility during the three months ended March 31, 2017 was \$1.5 billion. As discussed below, pending the payment of the purchase price for the NES

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

acquisition discussed in note 1 to the condensed consolidated financial statements, the net proceeds from debt issued in February 2017 were used to reduce borrowings under the ABL facility. Following the closing of the NES acquisition on April 3, 2017, we used borrowings under the ABL facility to partially fund the NES acquisition.

In February 2017, URNA issued \$250 principal amount of 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes as an add-on to our existing 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes. The net proceeds from the issuance were \$258 (including the original issue premium and after deducting offering expenses). Pending the payment of the purchase price for the NES acquisition, the net proceeds from the issuance were used to reduce borrowings under the ABL facility. The acquisition closed on April 3, 2017. Upon closing of the NES acquisition, we used available cash and borrowings under the ABL facility (3) to finance the NES acquisition. After the February 2017 issuance, the aggregate principal amount of outstanding 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes was \$1.0 billion. The newly issued notes have identical terms, and are fungible, with the 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes outstanding at December 31, 2016. The carrying value of the 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes includes the \$11 unamortized portion of the original issue premium recognized in conjunction with the February 2017 issuance, which is being amortized through the maturity date in 2026. The effective interest rate on the 5 <sup>7</sup>/<sub>8</sub> percent Senior Notes is 5.7 percent.

In February 2017, URNA issued \$250 principal amount of 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes due 2027 (the "2027 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes") as an add-on to our existing 2027 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes. The net proceeds from the issuance were \$250 (including the original issue premium and after deducting offering expenses). Pending the payment of the purchase price for the NES acquisition, the net proceeds from the issuance were used to reduce borrowings under the ABL facility. Upon closing of the NES acquisition, we used available cash and borrowings (4) under the ABL facility to finance the NES acquisition. After the February 2017 issuance, the aggregate principal amount of outstanding 2027 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes was \$1.0 billion. The newly issued notes have identical terms, and are fungible, with the 2027 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes outstanding at December 31, 2016. The carrying value of the 2027 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes includes the \$3 unamortized portion of the original issue premium recognized in conjunction with the February 2017 issuance, which is being amortized through the maturity date in 2027. The effective interest rate on the 2027 5 <sup>1</sup>/<sub>2</sub> percent Senior Notes is 5.5 percent.

As discussed above, we completed the NES acquisition on April 3, 2017. The aggregate consideration paid to holders of NES common stock and options was approximately \$965. Total debt as of March 31, 2017 reflects \$500 (5) principal amount of debt issued in connection with the acquisition, as discussed above. Upon closing, we paid the consideration due to holders of NES common stock and options using available cash and drawings on the ABL facility. After payment of such consideration, total outstanding debt was approximately \$8.0 billion.

(6) As of March 31, 2017, our short-term debt primarily reflects \$550 of borrowings under our accounts receivable securitization facility.

**Loan Covenants and Compliance**

As of March 31, 2017, 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 March 31, 2017, 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.

#### 7. 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,

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

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.

## 8. 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. The following table sets forth the computation of basic and diluted earnings per share (shares in thousands):

|  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2017                            | 2016    |
| Numerator:   |                                 |         |
| Net income available to common stockholders  | \$ 109                          | \$ 92   |
| Denominator:   |                                 |         |
| Denominator for basic earnings per share—weighted-average common shares            | 84,456                          | 90,510  |
| Effect of dilutive securities:   |                                 |         |
| Employee stock options   | 414                             | 263     |
| Restricted stock units   | 507                             | 170     |
| Denominator for diluted earnings per share—adjusted weighted-average common shares | 85,377                          | 90,943  |
| Basic earnings per share   | \$ 1.29                         | \$ 1.01 |
| Diluted earnings per share   | \$ 1.27                         | \$ 1.01 |

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

9. 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 or designating the guarantor subsidiary as an unrestricted subsidiary for purposes of the applicable covenants. 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 March 31, 2017, the amount available for distribution under the most restrictive of these covenants was \$415. The Company’s total available capacity for making share repurchases and dividend payments includes the intercompany receivable balance of Parent. As of March 31, 2017, 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 \$810. The condensed consolidating financial information of Parent and its subsidiaries is as follows:

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING BALANCE SHEET

March 31, 2017

|  | Parent  | URNA     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>Foreign | SPV   | Eliminations | Total    |
|--|---------|----------|---------------------------|--|-------|--------------|----------|
| <b>ASSETS</b>  |         |          |                           |  |       |              |          |
| Cash and cash equivalents                                | \$—     | \$14     | \$—                       | \$323                                    | \$—   | \$—          | \$337    |
| Accounts receivable, net                                 | —       | 38       | —                         | 87                                       | 729   | —            | 854      |
| Intercompany receivable (payable)                        | 395     | (188)    | (196)                     | (117)                                    | —     | 106          | —        |
| Inventory  | —       | 68       | —                         | 7  | —     | —            | 75       |
| Prepaid expenses and other assets                        | 6       | 42       | —                         | 6  | —     | —            | 54       |
| Total current assets                                     | 401     | (26)     | (196)                     | 306                                      | 729   | 106          | 1,320    |
| Rental equipment, net                                    | —       | 5,631    | —                         | 476                                      | —     | —            | 6,107    |
| Property and equipment, net                              | 38      | 319      | 30                        | 39                                       | —     | —            | 426      |
| Investments in subsidiaries                              | 1,342   | 978      | 983                       | —  | —     | (3,303)      | —        |
| Goodwill   | —       | 3,013    | —                         | 249                                      | —     | —            | 3,262    |
| Other intangible assets, net                             | —       | 648      | —                         | 53                                       | —     | —            | 701      |
| Other long-term assets                                   | —       | 6        | —                         | —  | —     | —            | 6        |
| Total assets   | \$1,781 | \$10,569 | \$ 817                    | \$1,123                                  | \$729 | \$(3,197)    | \$11,822 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>    |         |          |                           |  |       |              |          |
| Short-term debt and current maturities of long-term debt | \$1     | \$24     | \$—                       | \$2                                      | \$550 | \$—          | \$577    |
| Accounts payable   | —       | 344      | —                         | 38                                       | —     | —            | 382      |
| Accrued expenses and other liabilities                   | —       | 321      | 11                        | 25                                       | 1     | —            | 358      |
| Total current liabilities                                | 1       | 689      | 11                        | 65                                       | 551   | —            | 1,317    |
| Long-term debt   | 2       | 6,655    | 111                       | 4  | —     | —            | 6,772    |
| Deferred taxes   | 25      | 1,815    | —                         | 71                                       | —     | —            | 1,911    |
| Other long-term liabilities                              | —       | 68       | 1                         | —  | —     | —            | 69       |
| Total liabilities  | 28      | 9,227    | 123                       | 140                                      | 551   | —            | 10,069   |
| Total stockholders' equity (deficit)                     | 1,753   | 1,342    | 694                       | 983                                      | 178   | (3,197)      | 1,753    |
| Total liabilities and stockholders' equity (deficit)     | \$1,781 | \$10,569 | \$ 817                    | \$1,123                                  | \$729 | \$(3,197)    | \$11,822 |

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2016

|  | Parent  | URNA     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>Foreign | SPV   | Eliminations | Total    |
|--|---------|----------|---------------------------|--|-------|--------------|----------|
| <b>ASSETS</b>  |         |          |                           |  |       |              |          |
| Cash and cash equivalents                                | \$—     | \$21     | \$ —                      | \$291                                    | \$—   | \$ —         | \$312    |
| Accounts receivable, net                                 | —       | 38       | —                         | 96                                       | 786   | —            | 920      |
| Intercompany receivable (payable)                        | 336     | (137)    | (188)                     | (115)                                    | —     | 104          | —        |
| Inventory  | —       | 61       | —                         | 7  | —     | —            | 68       |
| Prepaid expenses and other assets                        | 5       | 51       | —                         | 5  | —     | —            | 61       |
| Total current assets                                     | 341     | 34       | (188)                     | 284                                      | 786   | 104          | 1,361    |
| Rental equipment, net                                    | —       | 5,709    | —                         | 480                                      | —     | —            | 6,189    |
| Property and equipment, net                              | 38      | 326      | 26                        | 40                                       | —     | —            | 430      |
| Investments in subsidiaries                              | 1,292   | 1,013    | 978                       | —  | —     | (3,283)      | —        |
| Goodwill   | —       | 3,013    | —                         | 247                                      | —     | —            | 3,260    |
| Other intangible assets, net                             | —       | 686      | —                         | 56                                       | —     | —            | 742      |
| Other long-term assets                                   | —       | 6        | —                         | —  | —     | —            | 6        |
| Total assets   | \$1,671 | \$10,787 | \$ 816                    | \$1,107                                  | \$786 | \$(3,179)    | \$11,988 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>    |         |          |                           |  |       |              |          |
| Short-term debt and current maturities of long-term debt | \$1     | \$25     | \$ —                      | \$3                                      | \$568 | \$ —         | \$597    |
| Accounts payable   | —       | 217      | —                         | 26                                       | —     | —            | 243      |
| Accrued expenses and other liabilities                   | —       | 305      | 13                        | 25                                       | 1     | —            | 344      |
| Total current liabilities                                | 1       | 547      | 13                        | 54                                       | 569   | —            | 1,184    |
| Long-term debt   | 2       | 7,076    | 111                       | 4  | —     | —            | 7,193    |
| Deferred taxes   | 20      | 1,805    | —                         | 71                                       | —     | —            | 1,896    |
| Other long-term liabilities                              | —       | 67       | —                         | —  | —     | —            | 67       |
| Total liabilities  | 23      | 9,495    | 124                       | 129                                      | 569   | —            | 10,340   |
| Total stockholders' equity (deficit)                     | 1,648   | 1,292    | 692                       | 978                                      | 217   | (3,179)      | 1,648    |
| Total liabilities and stockholders' equity (deficit)     | \$1,671 | \$10,787 | \$ 816                    | \$1,107                                  | \$786 | \$(3,179)    | \$11,988 |





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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2017

|  | Parent | URNA    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>Foreign SPV | Eliminations | Total    |       |
|--|--------|---------|---------------------------|--|--------------|----------|-------|
| Revenues:  |        |         |                           |  |              |          |       |
| Equipment rentals  | \$—    | \$1,070 | \$—                       | \$ 96  | \$—          | \$1,166  |       |
| Sales of rental equipment  | —      | 95      | —                         | 11   | —            | 106      |       |
| Sales of new equipment   | —      | 35      | —                         | 4  | —            | 39       |       |
| Contractor supplies sales  | —      | 16      | —                         | 2  | —            | 18       |       |
| Service and other revenues   | —      | 24      | —                         | 3  | —            | 27       |       |
| Total revenues   | —      | 1,240   | —                         | 116  | —            | 1,356    |       |
| Cost of revenues:  |        |         |                           |  |              |          |       |
| Cost of equipment rentals, excluding depreciation                  | —      | 423     | —                         | 51   | —            | 474      |       |
| Depreciation of rental equipment                                   | —      | 227     | —                         | 21   | —            | 248      |       |
| Cost of rental equipment sales                                     | —      | 54      | —                         | 6  | —            | 60       |       |
| Cost of new equipment sales  | —      | 31      | —                         | 3  | —            | 34       |       |
| Cost of contractor supplies sales                                  | —      | 12      | —                         | 1  | —            | 13       |       |
| Cost of service and other revenues                                 | —      | 11      | —                         | 2  | —            | 13       |       |
| Total cost of revenues   | —      | 758     | —                         | 84   | —            | 842      |       |
| Gross profit   | —      | 482     | —                         | 32   | —            | 514      |       |
| Selling, general and administrative expenses                       | 23     | 145     | —                         | 17   | 8            | 193      |       |
| Merger related costs   | —      | 2       | —                         | —  | —            | 2        |       |
| Non-rental depreciation and amortization                           | 4      | 52      | —                         | 6  | —            | 62       |       |
| Operating (loss) income  | (27 )  | 283     | —                         | 9  | (8 )         | 257      |       |
| Interest (income) expense, net                                     | (2 )   | 93      | 1                         | 1  | 2            | (1 )     | 94    |
| Other (income) expense, net  | (112 ) | 124     | —                         | 12   | (22 )        | —        | 2     |
| Income (loss) before provision (benefit) for income taxes          | 87     | 66      | (1 )                      | (4 )   | 12           | 1        | 161   |
| Provision (benefit) for income taxes                               | 21     | 28      | —                         | (2 )   | 5            | —        | 52    |
| Income (loss) before equity in net earnings (loss) of subsidiaries | 66     | 38      | (1 )                      | (2 )   | 7            | 1        | 109   |
| Equity in net earnings (loss) of subsidiaries                      | 43     | 5       | (2 )                      | —  | —            | (46 )    | —     |
| Net income (loss)  | 109    | 43      | (3 )                      | (2 )   | 7            | (45 )    | 109   |
| Other comprehensive income (loss)                                  | 8      | 8       | 8                         | 7  | —            | (23 )    | 8     |
| Comprehensive income (loss)  | \$117  | \$51    | \$ 5                      | \$ 5   | \$ 7         | \$ (68 ) | \$117 |



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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2016

|  | Parent | URNA    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>Foreign SPV | Eliminations | Total     |         |
|--|--------|---------|---------------------------|--|--------------|-----------|---------|
| Revenues:  |        |         |                           |  |              |           |         |
| Equipment rentals  | \$—    | \$1,024 | \$—                       | \$ 93  | \$—          | \$—       | \$1,117 |
| Sales of rental equipment  | —      | 104     | —                         | 11   | —            | —         | 115     |
| Sales of new equipment   | —      | 27      | —                         | 3  | —            | —         | 30      |
| Contractor supplies sales  | —      | 17      | —                         | 2  | —            | —         | 19      |
| Service and other revenues   | —      | 25      | —                         | 4  | —            | —         | 29      |
| Total revenues   | —      | 1,197   | —                         | 113  | —            | —         | 1,310   |
| Cost of revenues:  |        |         |                           |  |              |           |         |
| Cost of equipment rentals, excluding depreciation                  | —      | 404     | —                         | 45   | —            | —         | 449     |
| Depreciation of rental equipment                                   | —      | 221     | —                         | 22   | —            | —         | 243     |
| Cost of rental equipment sales                                     | —      | 62      | —                         | 6  | —            | —         | 68      |
| Cost of new equipment sales  | —      | 23      | —                         | 2  | —            | —         | 25      |
| Cost of contractor supplies sales                                  | —      | 12      | —                         | 1  | —            | —         | 13      |
| Cost of service and other revenues                                 | —      | 9       | —                         | 3  | —            | —         | 12      |
| Total cost of revenues   | —      | 731     | —                         | 79   | —            | —         | 810     |
| Gross profit   | —      | 466     | —                         | 34   | —            | —         | 500     |
| Selling, general and administrative expenses                       | 6      | 144     | —                         | 19   | 8            | —         | 177     |
| Restructuring charge   | —      | 2       | —                         | —  | —            | —         | 2       |
| Non-rental depreciation and amortization                           | 4      | 57      | —                         | 6  | —            | —         | 67      |
| Operating (loss) income  | (10 )  | 263     | —                         | 9  | (8 )         | —         | 254     |
| Interest (income) expense, net                                     | (2 )   | 106     | 1                         | 1  | 2            | (1 )      | 107     |
| Other (income) expense, net  | (106 ) | 122     | —                         | 9  | (25 )        | —         | —       |
| Income (loss) before provision for income taxes                    | 98     | 35      | (1 )                      | (1 )   | 15           | 1         | 147     |
| Provision (benefit) for income taxes                               | 37     | 13      | —                         | (1 )   | 6            | —         | 55      |
| Income (loss) before equity in net earnings (loss) of subsidiaries | 61     | 22      | (1 )                      | —  | 9            | 1         | 92      |
| Equity in net earnings (loss) of subsidiaries                      | 31     | 9       | —                         | —  | —            | (40 )     | —       |
| Net income (loss)  | 92     | 31      | (1 )                      | —  | 9            | (39 )     | 92      |
| Other comprehensive income (loss)                                  | 63     | 63      | 62                        | 50   | —            | (175 )    | 63      |
| Comprehensive income (loss)  | \$155  | \$94    | \$ 61                     | \$ 50  | \$ 9         | \$ (214 ) | \$155   |

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UNITED RENTALS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

## CONDENSED CONSOLIDATING CASH FLOW INFORMATION

For the Three Months Ended March 31, 2017

|  | Parent | URNA   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries |       | Eliminations | Total  |
|--|--------|--------|---------------------------|-------------------------------|-------|--------------|--------|
|  |        |        |                           | Foreign                       | SPV   |              |        |
| Net cash provided by (used in) operating activities  | \$ 4   | \$ 516 | \$ (1 )                   | \$ 39                         | \$ 65 | \$           | —\$623 |
| Net cash used in investing activities                | (4 )   | (121 ) | —                         | (9 )                          | —     | —            | (134 ) |
| Net cash (used in) provided by financing activities  | —      | (402 ) | 1                         | —                             | (65 ) | —            | (466 ) |
| Effect of foreign exchange rates                     | —      | —      | —                         | 2                             | —     | —            | 2      |
| Net (decrease) increase in cash and cash equivalents | —      | (7 )   | —                         | 32                            | —     | —            | 25     |
| Cash and cash equivalents at beginning of period     | —      | 21     | —                         | 291                           | —     | —            | 312    |
| Cash and cash equivalents at end of period           | \$ —   | \$ 14  | \$ —                      | \$ 323                        | \$ —  | \$           | —\$337 |

## CONDENSED CONSOLIDATING CASH FLOW INFORMATION

For the Three Months Ended March 31, 2016

|  | Parent | URNA   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries |       | Eliminations | Total  |
|--|--------|--------|---------------------------|-------------------------------|-------|--------------|--------|
|  |        |        |                           | Foreign                       | SPV   |              |        |
| Net cash provided by operating activities            | \$     | —\$469 | \$                        | —\$41                         | \$94  | \$           | —\$604 |
| Net cash used in investing activities                | —      | (17 )  | —                         | —                             | —     | —            | (17 )  |
| Net cash used in financing activities                | —      | (466 ) | —                         | —                             | (94 ) | —            | (560 ) |
| Effect of foreign exchange rates                     | —      | —      | —                         | 13                            | —     | —            | 13     |
| Net (decrease) increase in cash and cash equivalents | —      | (14 )  | —                         | 54                            | —     | —            | 40     |
| Cash and cash equivalents at beginning of period     | —      | 18     | —                         | 161                           | —     | —            | 179    |
| Cash and cash equivalents at end of period           | \$     | —\$4   | \$                        | —\$215                        | \$—   | \$           | —\$219 |

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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 895 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 \$8.9 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 3,200 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 86 percent of total revenues for the three months ended March 31, 2017.

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 2017, 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;

The implementation of "Lean" management techniques, including kaizen processes focused on continuous improvement. We have trained over 3,100 employees, over 70 percent of our district managers and over 60 percent of our branch managers on the Lean kaizen process. We continue to implement 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. We achieved the anticipated run rate savings from the Lean initiatives in 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; and

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. 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.

For the three months ended March 31, 2017, equipment rental revenue increased 4.4 percent as compared to the same period in 2016, primarily reflecting a 7.0 percent increase in the volume of OEC on rent partially offset by a 1.4 percent rental rate decrease. Rental rate changes are calculated based on the year-over-year variance in average contract rates, weighted by the prior period revenue mix. The decreased rental rates reflected continued pressure from Canada and the impact of recent industry fleet expansion. Although we experienced rate pressures during the three months ended March 31, 2017, we also saw improving demand in many of our core markets, as evidenced by the 7.0

percent increase in the volume of OEC on rent. In particular, we saw improvement in our trench, power and pump segment. The volume of OEC on rent increased 22.3 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 primarily reflected i) growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years, and ii) improvement in the Pump Solutions region's revenue mix largely due to having a smaller portion of revenue attributable to

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upstream oil and gas customers, which, as noted above, have experienced significant volatility in recent years, and a larger portion of revenue attributable to downstream oil and gas, construction, municipality and mining customers.

## Financial Overview

Since January 1, 2016, 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 8 1/4 percent Senior Notes and 7 3/8 percent Senior Notes;

• Redeemed \$850 principal amount of our 7 5/8 percent Senior Notes due 2022;

• Issued \$1.0 billion principal amount of 5 7/8 percent Senior Notes due 2026;

• Issued \$1.0 billion principal amount of 5 1/2 percent Senior Notes due 2027;

• Amended and extended our ABL facility; and

• Amended and extended our accounts receivable securitization facility.

As of March 31, 2017, we had available liquidity of \$2.09 billion, including cash and cash equivalents of \$337. As discussed in note 6 to the condensed consolidated financial statements, we used available cash and drawings on the ABL facility to finance the NES acquisition upon its closing on April 3, 2017.

Net income. Net income and diluted earnings per share for the three months ended March 31, 2017 and 2016 were as follows:

|                            | Three<br>Months<br>Ended<br>March 31, |        |
|----------------------------|---------------------------------------|--------|
|                            | 2017                                  | 2016   |
| Net income                 | \$109                                 | \$92   |
| Diluted earnings per share | \$1.27                                | \$1.01 |

Net income and diluted earnings per share for the three months ended March 31, 2017 and 2016 include the after-tax impacts of the items below. The tax rates applied to the items below reflect the statutory rates in the applicable entity.

| Tax rate applied to items below                            | Three Months Ended March 31,           |                                      |  |                                      |
|--|--|--------------------------------------|--|--------------------------------------|
|  | 2017                                   |                                      | 2016                                   |                                      |
|  | 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)                                   | 38.5%                                  |                                      | 38.9%                                  |                                      |
| Merger related intangible asset amortization (2)           | \$(1)                                  | \$ (0.02 )                           | \$ —                                   | \$ —                                 |
| Impact of the fair value mark-up of acquired RSC fleet (3) | (24 )                                  | (0.28 )                              | (27 )                                  | (0.30 )                              |
| Restructuring charge (4)                                   | (5 )                                   | (0.06 )                              | (6 )                                   | (0.06 )                              |
| Asset impairment charge (5)                                | —                                      | —                                    | (1 )                                   | (0.01 )                              |
|  | —                                      | —                                    | (2 )                                   | (0.02 )                              |

- (1) This reflects transaction costs associated with the NES acquisition discussed in note 1 to our condensed consolidated financial statements. 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 and National Pump acquisitions.
- (3) 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 acquisition and subsequently sold.
- (4) This reflects severance and branch closure charges associated with our restructuring programs, all of which were closed as of March 31, 2017. For additional information, see note 3 to our condensed consolidated financial



statements.

(5) This charge reflects write-offs of fixed assets in connection with our restructuring programs.

In addition to the matters above, our performance for the three months ended March 31, 2017 reflects an effective tax rate of 32.3 percent. For additional information, see "Results of Operations-Other costs/(income)-effective tax rate" below.

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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 RSC 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:

|  | Three<br>Months<br>Ended<br>March 31,<br>2017 2016 |        |
|--|--|--------|
| Net income   | \$ 109   | \$ 92  |
| Provision for income taxes                                 | 52   | 55     |
| Interest expense, net                                      | 94   | 107    |
| Depreciation of rental equipment                           | 248  | 243    |
| Non-rental depreciation and amortization                   | 62   | 67     |
| EBITDA   | \$ 565   | \$ 564 |
| Merger related costs (1)                                   | 2  | —      |
| Restructuring charge (2)                                   | —  | 2      |
| Stock compensation expense, net (3)                        | 16   | 9      |
| Impact of the fair value mark-up of acquired RSC fleet (4) | 8  | 9      |
| Adjusted EBITDA  | \$ 591   | \$ 584 |

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

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|  | Three<br>Months<br>Ended<br>March 31, |        |
|--|---------------------------------------|--------|
|  | 2017                                  | 2016   |
| Net cash provided by operating activities  | \$623                                 | \$604  |
| 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  | (2 )                                  | (2 )   |
| Gain on sales of rental equipment  | 46                                    | 47     |
| Gain on sales of non-rental equipment  | 1                                     | 1      |
| Merger related costs (1)   | (2 )                                  | —      |
| Restructuring charge (2)   | —                                     | (2 )   |
| Stock compensation expense, net (3)  | (16 )                                 | (9 )   |
| Excess tax benefits from share-based payment arrangements  | —                                     | 27     |
| Changes in assets and liabilities  | (176 )                                | (118 ) |
| Cash paid for interest   | 90                                    | 69     |
| Cash paid (received) for income taxes, net   | 1                                     | (53 )  |
| EBITDA   | \$565                                 | \$564  |
| Add back:  |                                       |        |
| Merger related costs (1)   | 2                                     | —      |
| Restructuring charge (2)   | —                                     | 2      |
| Stock compensation expense, net (3)  | 16                                    | 9      |
| Impact of the fair value mark-up of acquired RSC fleet (4)   | 8                                     | 9      |
| Adjusted EBITDA  | \$591                                 | \$584  |

(1) This reflects transaction costs associated with the NES acquisition discussed in note 1 to our condensed consolidated financial statements. 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 severance and branch closure charges associated with our restructuring programs, all of which were closed as of March 31, 2017. For additional information, see note 3 to our condensed consolidated financial statements.

(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 acquisition and subsequently sold.

For the three months ended March 31, 2017, EBITDA increased \$1, or 0.2 percent, and adjusted EBITDA increased \$7, or 1.2 percent. For the three months ended March 31, 2016, EBITDA margin decreased 140 basis points to 41.7 percent, and adjusted EBITDA margin decreased 100 basis points to 43.6 percent. The decrease in the EBITDA margin primarily reflects a slight decrease in the margins, excluding depreciation, from equipment rentals and increased stock compensation expense primarily due to increases in our stock price and in the volume of stock awards. The decrease in the adjusted EBITDA margin primarily reflects a slight decrease in the margins, excluding depreciation, from equipment rentals. The decrease in the margins, excluding depreciation, from equipment rentals primarily reflects a 1.4 percent rental rate decrease and increased delivery costs. While equipment rental revenue increased 4.4 percent and the volume of OEC on rent increased 7.0 percent for the three months ended March 31, 2017, delivery costs increased 15.3 percent primarily due to the increased volume of OEC on rent and increased transfers of equipment among locations in response to, and in anticipation of, customer demand.

## Results of Operations

As discussed in note 2 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,

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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 2 to our condensed consolidated financial statements, we aggregate our nine geographic regions—Industrial (which serves the geographic Gulf region and has a strong industrial presence), Mid-Atlantic, Midwest, Northeast, Pacific West, South-Central, 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 March 31, 2017, 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. The Pump Solutions region is primarily comprised of locations acquired in the April 2014 National Pump acquisition. As such, there isn't a long history of the Pump Solutions region's rental margins included 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. 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<br>rentals | Trench,<br>power and pump | Total    |
|-----------------------------------|--------------------|---------------------------|----------|
| Three Months Ended March 31, 2017 |                    |                           |          |
| Equipment rentals                 | \$ 977             | \$ 189                    | \$ 1,166 |
| Sales of rental equipment         | 96                 | 10                        | 106      |
| Sales of new equipment            | 35                 | 4                         | 39       |
| Contractor supplies sales         | 14                 | 4                         | 18       |
| Service and other revenues        | 24                 | 3                         | 27       |
| Total revenue                     | \$ 1,146           | \$ 210                    | \$ 1,356 |
| Three Months Ended March 31, 2016 |                    |                           |          |
| Equipment rentals                 | \$ 955             | \$ 162                    | \$ 1,117 |
| Sales of rental equipment         | 106                | 9                         | 115      |
| Sales of new equipment            | 26                 | 4                         | 30       |
| Contractor supplies sales         | 16                 | 3                         | 19       |

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|                            |          |        |          |
|----------------------------|----------|--------|----------|
| Service and other revenues | 26       | 3      | 29       |
| Total revenue              | \$ 1,129 | \$ 181 | \$ 1,310 |

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Equipment rentals. For the three months ended March 31, 2017, equipment rentals of \$1.166 billion increased \$49, or 4.4 percent, as compared to the same period in 2016, primarily reflecting a 7.0 percent increase in the volume of OEC on rent partially offset by a 1.4 percent rental rate decrease. The decreased rental rates reflected continued pressure from Canada and the impact of recent industry fleet expansion. Although we experienced rate pressures during the three months ended March 31, 2017, we also saw improving demand in many of our core markets, as evidenced by the increase in the volume of OEC on rent. Equipment rentals represented 86 percent of total revenues for the three months ended March 31, 2017.

For the three months ended March 31, 2017, general rentals equipment rentals increased \$22, or 2.3 percent, as compared to the same period in 2016, primarily reflecting a 6.0 percent increase in the volume of OEC on rent partially offset by decreased rental rates. The decreased rental rates reflected continued pressure from Canada and the impact of recent industry fleet expansion. Although we experienced rate pressures during the three months ended March 31, 2017, we also saw improving demand in many of our core markets, as evidenced by the increase in the volume of OEC on rent. For the three months ended March 31, 2017, equipment rentals represented 85 percent of total revenues for the general rentals segment.

For the three months ended March 31, 2017, trench, power and pump equipment rentals increased \$27, or 16.7 percent, as compared to the same period in 2016, primarily reflecting a 22.3 percent increase in the volume of OEC on rent. Trench, power and pump average OEC for the three months ended March 31, 2017 increased 6.3 percent as compared to the same period in 2016. 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 region. The improvement in the Pump Solutions region primarily reflects i) growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years, and ii) improvement in the Pump Solutions region's revenue mix largely due to having a smaller portion of revenue attributable to upstream oil and gas customers, which, as noted above, have experienced significant volatility in recent years, and a larger portion of revenue attributable to downstream oil and gas, construction, municipality and mining customers. For the three months ended March 31, 2017, equipment rentals represented 90 percent of total revenues for the trench, power and pump segment.

Sales of rental equipment. For the three months ended March 31, 2017, sales of rental equipment represented approximately 8 percent of our total revenues. Our general rentals segment accounted for substantially all of these sales. For the three months ended March 31, 2017, sales of rental equipment did not change significantly from the same period in 2016.

Sales of new equipment. For the three months ended March 31, 2017, sales of new equipment represented approximately 3 percent of our total revenues. Our general rentals segment accounted for substantially all of these sales. For the three months ended March 31, 2017, sales of new equipment increased 30.0 percent from the same period in 2016, primarily reflecting increased volume.

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 three months ended March 31, 2017, contractor supplies sales represented approximately 1 percent of our total revenues. Our general rentals segment accounted for substantially all of these sales. Contractor supplies sales for the three months ended March 31, 2017 did not change significantly from the same period in 2016.

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 three months ended March 31, 2017, service and other revenues represented approximately 2 percent of our total revenues. Our general rentals segment accounted for substantially all of these sales. For the three months ended March 31, 2017, service and other revenues did not change significantly from the same period in 2016.

Segment Equipment Rentals Gross Profit

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

|  | General | Trench,   | Total |
|--|---------|-----------|-------|
|  | rentals | power and |       |

|                                   | pump   |        |        |
|-----------------------------------|--------|--------|--------|
| Three Months Ended March 31, 2017 |        |        |        |
| Equipment Rentals Gross Profit    | \$ 360 | \$ 84  | \$ 444 |
| Equipment Rentals Gross Margin    | 36.8 % | 44.4 % | 38.1 % |
| Three Months Ended March 31, 2016 |        |        |        |
| Equipment Rentals Gross Profit    | \$ 357 | \$ 68  | \$ 425 |
| Equipment Rentals Gross Margin    | 37.4 % | 42.0 % | 38.0 % |



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General rentals. For the three months ended March 31, 2017, equipment rentals gross profit increased by \$3 and equipment rentals gross margin decreased by 60 basis points from 2016. The gross margin decrease primarily reflects decreased rental rates and increased delivery costs partially offset by a 150 basis point increase in time utilization. The decreased rental rates reflected continued pressure from Canada and the impact of recent industry fleet expansion. Although we experienced rate pressures during the three months ended March 31, 2017, we also saw improving demand in many of our core markets, as evidenced by the 6.0 percent increase in the volume of OEC on rent. While the volume of OEC on rent increased 6.0 percent, delivery costs increased 16.5 percent due primarily to the increased volume of OEC on rent and increased transfers of equipment among locations in response to, and in anticipation of, customer demand. Time utilization is calculated by dividing the amount of time an asset is on rent by the amount of time the asset has been owned during the year. For the three months ended March 31, 2017 and 2016, time utilization was 67.2 percent and 65.7 percent, respectively.

Trench, power and pump. For the three months ended March 31, 2017, equipment rentals gross profit increased by \$16 and equipment rentals gross margin increased by 240 basis points from 2016. 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 16.7 percent, average OEC increased 6.3 percent and the volume of OEC on rent increased 22.3 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 region. The improvement in the Pump Solutions region primarily reflects i) growth in revenue from upstream oil and gas customers, which have experienced significant volatility in recent years, and ii) improvement in the Pump Solutions region's revenue mix largely due to having a smaller portion of revenue attributable to upstream oil and gas customers, which, as noted above, have experienced significant volatility in recent years, and a larger portion of revenue attributable to downstream oil and gas, construction, municipality and mining customers. The increase in equipment rentals gross margin reflects decreased compensation, depreciation and property costs as a percentage of revenue. As compared to the equipment rentals revenue increase of 16.7 percent, compensation costs increased 9.9 percent due primarily to increased headcount associated with higher rental volume, depreciation of rental equipment increased 10.7 percent and property costs increased 1.6 percent. Capitalizing on the demand for the higher margin equipment rented by our trench, power and pump segment has been a key component of our strategy in recent years.

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

|                            | Three Months Ended |       |           |
|----------------------------|--------------------|-------|-----------|
|                            | March 31,          |       |           |
|                            | 2017               | 2016  | Change    |
| Total gross margin         | 37.9%              | 38.2% | (30) bps  |
| Equipment rentals          | 38.1%              | 38.0% | 10 bps    |
| Sales of rental equipment  | 43.4%              | 40.9% | 250 bps   |
| Sales of new equipment     | 12.8%              | 16.7% | (390) bps |
| Contractor supplies sales  | 27.8%              | 31.6% | (380) bps |
| Service and other revenues | 51.9%              | 58.6% | (670) bps |

For the three months ended March 31, 2017, total gross margin decreased 30 basis points as compared to the same period in 2016. Equipment rentals gross margin increased 10 basis points, primarily reflecting a 190 basis point increase in time utilization offset by a 1.4 percent rental rate decrease. For the three months ended March 31, 2017 and 2016, time utilization was 66.0 percent and 64.1 percent, respectively. The decreased rental rates reflected continued pressure from Canada and the impact of recent industry fleet expansion. Although we experienced rate pressures during the three months ended March 31, 2017, we also saw improving demand in many of our core markets, as evidenced by a 7.0 percent increase in the volume of OEC on rent. Gross margin from sales of rental equipment increased 250 basis points primarily due to increased pricing. Gross margin from sales of new equipment decreased 390 basis points. Sales of new equipment increased 30.0 percent, primarily reflecting increased volume, and some of the increased volume was achieved at lower margins. Gross margin from contractor supplies sales decreased 380 basis

points, primarily due to higher than normal margins in 2016. The 2017 margin is consistent with our historic margins. Gross margin from service and other revenues decreased 670 basis points. In 2017, we reviewed the cost structure associated with this line of revenue and increased the allocation of labor to it to better match the labor costs to the generated revenue. Such labor costs were formerly included in cost of equipment rentals. We expect that the gross margin from service and other revenues for 2017 will continue to be less than the historic margins due to the new labor allocation methodology.

Other costs/(income)

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The table below includes the other costs/(income) in our condensed consolidated statements of income, as well as key associated metrics, for the three months ended March 31, 2017 and 2016:

|  | Three Months Ended |       |           |
|--|--------------------|-------|-----------|
|  | March 31,          |       |           |
|  | 2017               | 2016  | Change    |
| Selling, general and administrative ("SG&A") expense | \$193              | \$177 | 9.0%      |
| SG&A expense as a percentage of revenue              | 14.2%              | 13.5% | 70 bps    |
| Merger related costs                                 | 2                  | —     | —%        |
| Restructuring charge                                 | —                  | 2     | (100.0)%  |
| Non-rental depreciation and amortization             | 62                 | 67    | (7.5)%    |
| Interest expense, net                                | 94                 | 107   | (12.1)%   |
| Other expense, net                                   | 2                  | —     | —%        |
| Provision for income taxes                           | 52                 | 55    | (5.5)%    |
| Effective tax rate                                   | 32.3%              | 37.4% | (510) 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 increases in SG&A expense and SG&A expense as a percentage of revenue for the three months ended March 31, 2017 primarily reflect increased stock compensation costs largely due to increases in our stock price and in the volume of stock awards. The merger related costs reflect transaction costs associated with the NES acquisition discussed in note 1 to our condensed consolidated financial statements. 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 note 1 to our condensed consolidated financial statements, NES has annual revenues of approximately \$369.

The restructuring charges reflect severance and branch closure charges associated with our restructuring programs, all of which were closed as of March 31, 2017. For additional information, see note 3 to our 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, non-compete agreements and trade names and associated trademarks.

Interest expense, net for the three months ended March 31, 2017 decreased primarily due to lower average debt and a lower average cost of debt.

The difference between the 2017 effective tax rate and the U.S. federal statutory income tax rate of 35 percent primarily reflects (i) a tax reduction of \$8 associated with excess tax benefits from share-based payment arrangements, as discussed in note 1 to our condensed consolidated financial statements, (ii) the geographical mix of income between foreign and domestic operations and (iii) the impact of state and local taxes, and certain nondeductible charges. The difference between the 2016 effective tax rate and the U.S. federal statutory income tax rate of 35 percent primarily relates to the geographical mix of income between foreign and domestic operations, as well as the impact of state and local taxes, and certain nondeductible charges.

Balance sheet. Accounts payable increased by \$139, or 57.2 percent, from December 31, 2016 to March 31, 2017 primarily due to a seasonal increase in capital expenditures and increased business activity prior to our revenues seasonally increasing in the second quarter.

#### 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.

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Since 2012, we have repurchased a total of \$1.450 billion of Holdings' common stock under three completed share repurchase programs. Additionally, in July 2015, our Board authorized a new \$1 billion share repurchase program which commenced in November 2015. As of April 17, 2017, we have repurchased \$627 of Holdings' common stock under the \$1 billion share repurchase program. In October 2016, we paused repurchases under the program as we evaluated a number of potential acquisition opportunities. As discussed in note 1 to the condensed consolidated financial statements, on January 25, 2017, we entered into a definitive merger agreement to acquire NES in an all cash transaction. We intend to complete the share repurchase program; however, we will re-evaluate the decision to do so as we integrate NES and assess other potential uses of capital.

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 March 31, 2017, we had cash and cash equivalents of \$337. Cash equivalents at March 31, 2017 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 three months ended March 31, 2017:

## ABL facility:

|  |         |   |
|--|---------|---|
| Borrowing capacity, net of letters of credit (1)           | \$1,736 |   |
| Outstanding debt, net of debt issuance costs (1)           | 720     |   |
| Interest rate at March 31, 2017                            | 2.5     | % |
| Average month-end debt outstanding (1)                     | 1,041   |   |
| Weighted-average interest rate on average debt outstanding | 2.3     | % |
| Maximum month-end debt outstanding (1)                     | 1,539   |   |
| Accounts receivable securitization facility:               |         |   |
| Borrowing capacity   | 18      |   |
| Outstanding debt, net of debt issuance costs               | 550     |   |
| Interest rate at March 31, 2017                            | 1.7     | % |
| Average month-end debt outstanding                         | 518     |   |
| Weighted-average interest rate on average debt outstanding | 1.6     | % |
| Maximum month-end debt outstanding                         | 551     |   |

(1) The average and maximum month-end debt outstanding under the ABL facility exceeded the amount outstanding as of March 31, 2017 primarily due to the pay down of borrowings under the ABL facility using the net proceeds from debt issued in February 2017. Following the closing of the NES acquisition on April 3, 2017, we used borrowings under the ABL facility to partially fund the NES acquisition. For additional detail, see note 6 to the condensed consolidated financial statements.

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 April 17, 2017 were as follows:

|                   | Corporate Rating | Outlook  |
|-------------------|------------------|----------|
| Moody's           | Ba3              | Positive |
| Standard & Poor's | BB-              | 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 March 31, 2017, 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

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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 March 31, 2017, 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 three months ended March 31, 2017, we (i) generated cash from operating activities of \$623 and (ii) generated cash from the sale of rental and non-rental equipment of \$108. We used cash during this period principally to (i) purchase rental and non-rental equipment of \$241, (ii) make debt payments, net of proceeds, of \$437 and (iii) purchase shares of our common stock for \$23. During the three months ended March 31, 2016, we (i) generated cash from operating activities of \$631 excluding the excess tax benefits from share-based payment arrangements and (ii) generated cash from the sale of rental and non-rental equipment of \$119. We used cash during this period principally to (i) purchase rental and non-rental equipment of \$123, (ii) make debt payments, net of proceeds, of \$423 and (iii) purchase shares of our common stock for \$164.

Free Cash Flow GAAP Reconciliation. We define "free cash flow" as (i) net cash provided by operating activities less (ii) purchases of rental and non-rental equipment plus (iii) proceeds from sales of rental and non-rental equipment and excess tax benefits from share-based payment arrangements. 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.

|   | Three<br>Months<br>Ended<br>March 31, |        |
|---|---------------------------------------|--------|
|   | 2017                                  | 2016   |
| Net cash provided by operating activities                     | \$623                                 | \$604  |
| Purchases of rental equipment                                 | (219 )                                | (100 ) |
| Purchases of non-rental equipment                             | (22 )                                 | (23 )  |
| Proceeds from sales of rental equipment                       | 106                                   | 115    |
| Proceeds from sales of non-rental equipment                   | 2                                     | 4      |
| Excess tax benefits from share-based payment arrangements (1) | —                                     | 27     |
| Free cash flow  | \$490                                 | \$627  |

(1)As discussed in note 1 to our condensed consolidated financial statements, we adopted accounting guidance in the first quarter of 2017 that changed the cash flow presentation of excess tax benefits from share-based payment arrangements. In the table above, the excess tax benefits from share-based payment arrangements for 2017 are presented as a component of net cash provided by operating activities, while, for 2016, they are presented as a

separate line item. Because we historically included the excess tax benefits from share-based payment arrangements in the free cash flow calculation, the adoption of this guidance did not change the calculation of free cash flow.

Free cash flow for the three months ended March 31, 2017 was \$490, a decrease of \$137 as compared to \$627 for the three months ended March 31, 2016. Free cash flow decreased primarily due to increased purchases of rental equipment.

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:



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(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.

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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 March 31, 2017, we had an aggregate of \$1.3 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 March 31, 2017 under the ABL facility and the accounts receivable securitization facility. As of March 31, 2017, based upon the amount of our variable rate debt outstanding, our annual after-tax earnings would decrease by approximately \$8 for each one percentage point increase in the interest rates applicable to our variable rate debt.

At March 31, 2017, we had an aggregate of \$6.1 billion of indebtedness that bears interest at fixed rates. A one percentage point decrease in market interest rates as of March 31, 2017 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 5 (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 2016 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 \$5. We do not engage in purchasing forward exchange contracts for speculative purposes.

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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 March 31, 2017. 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 March 31, 2017.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The information set forth under note 7 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 2016 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 first quarter of 2017:

| Period                                | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Announced Plans or Programs (2) | Maximum Dollar Amount of Shares That May Yet Be Purchased Under the Program (2) |
|---------------------------------------|----------------------------------|------------------------------|---|---|
| January 1, 2017 to January 31, 2017   | 71,134                           | (1)\$ 109.84                 | —   | —   |
| February 1, 2017 to February 28, 2017 | 1,394                            | (1)\$ 127.66                 | —   | —   |
| March 1, 2017 to March 31, 2017       | 115,091                          | (1)\$ 125.31                 | —   | —   |
| Total                                 | 187,619                          | \$ 119.46                    | —   | \$372,997,032   |

(1) Reflects shares withheld by Holdings to 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. In October 2016, we paused repurchases under the program as we evaluated a number of potential acquisition opportunities. As discussed in note 1 to the condensed consolidated financial statements, on January 25, 2017, we entered into a definitive merger agreement to acquire NES in an all cash transaction. We intend to complete the share repurchase program; however, we will re-evaluate the decision to do so as we integrate NES and assess other potential uses of capital.

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Item 6. Exhibits

|         |  |
|---------|--|
| 2(a)    | Agreement and Plan of Merger, dated as of January 25, 2017, by and among United Rentals (North America), Inc., UR Merger Sub II Corporation, NES Rentals Holdings II, Inc. and Diamond Castle Holdings, LLC, solely in its capacity as the Stockholder Representative (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 January 25, 2017)   |
| 3(a)    | Restated Certificate of Incorporation of United Rentals, Inc., dated March 16, 2009 (incorporated by reference to Exhibit 3.1 of the United Rentals, Inc. and United Rentals (North America), Inc. Current Report on Form 8-K filed on March 17, 2009)   |
| 3(b)    | By-laws of United Rentals, Inc., amended as of September 8, 2016 (incorporated by reference to Exhibit 3.1 of the United Rentals, Inc. and United Rentals (North America), Inc. Current Report on Form 8-K filed on September 14, 2016)  |
| 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 September 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 September 30, 2013)  |
| 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 March 31, 2017 filed on April 19, 2017, 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.



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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: April 19, 2017 By: /S/ JESSICA T. GRAZIANO  
Jessica T. Graziano  
Senior Vice President, Controller and Principal Accounting Officer

UNITED RENTALS (NORTH AMERICA), INC.

Dated: April 19, 2017 By: /S/ JESSICA T. GRAZIANO  
Jessica T. Graziano  
Senior Vice President, Controller and Principal Accounting Officer