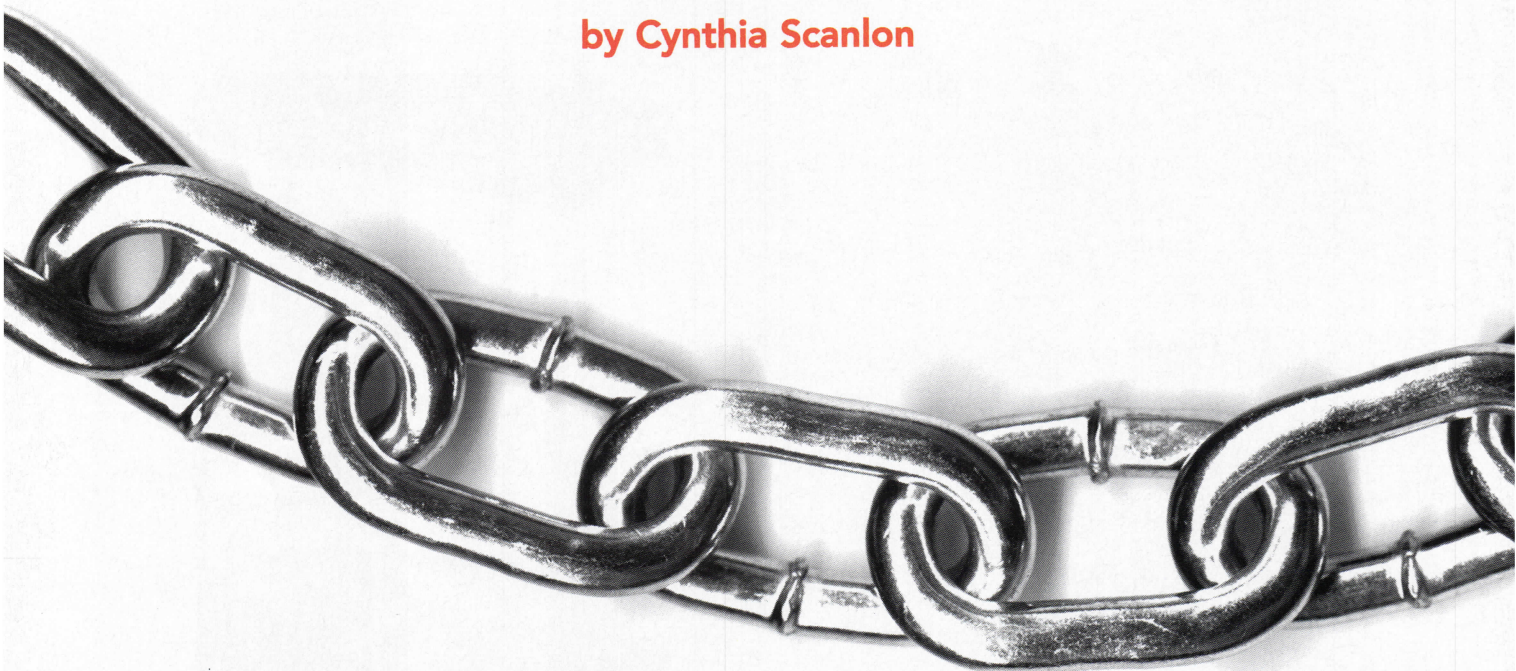


Shifting Gears

Equipment rental companies in sea of change

by Cynthia Scanlon



At one time, owning big-ticket items such as construction equipment and industrial supplies was seen as the only way to run a profitable, capital-intensive business. And the newer the equipment, the better, especially in a consumption-driven society. But that thinking has been shifting over the years. Today, many smart companies are realizing that renting is the way to success and profits. And this mindshift has been the leading driver in pushing the equipment rental industry into one of the fastest growing segments of business.

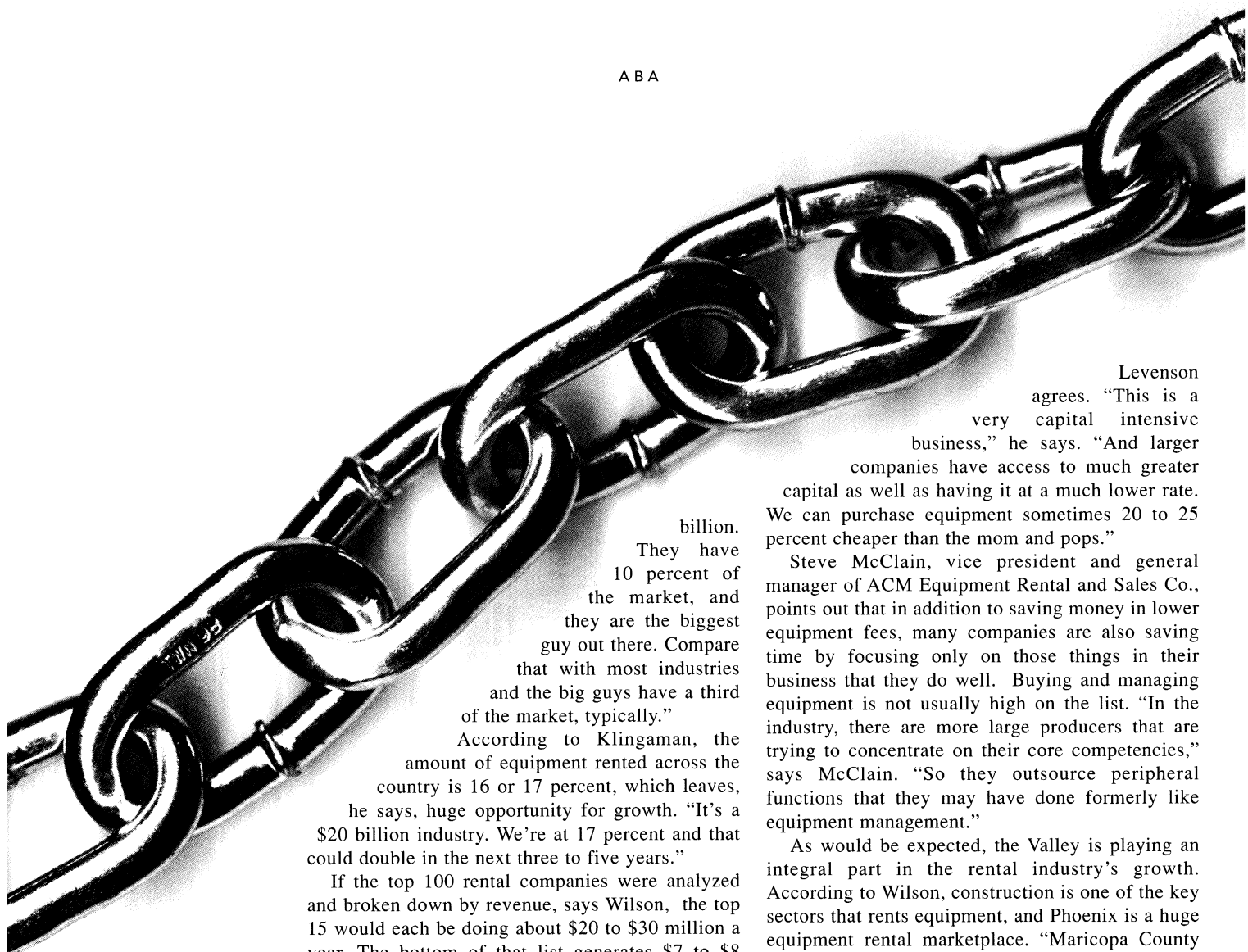
"The nation is just realizing how big a source the rental industry is," says David Klingaman, regional manager for Rental Service Corporation.

"[The industry] has changed more in the last 18 months than it has in the last 20 years."

Allen Levenson, vice president of marketing for Greenwich, Connecticut-based United Rentals, cites a Merrill Lynch study in which the average contractor reported that five percent of their fleet was rented in 1993. By 1998 that figure had jumped a full four-fold to 20 percent.

Robert Wilson, executive vice president and chief financial officer for Rental Service Corporation, estimates that 15,000 to 20,000 companies are in the equipment rental industry, which is currently generating more than \$20 billion in revenues.

"United Rentals [the largest rental company in the U.S.] has revenues of \$2



billion. They have 10 percent of the market, and they are the biggest guy out there. Compare that with most industries and the big guys have a third of the market, typically."

According to Klingaman, the amount of equipment rented across the country is 16 or 17 percent, which leaves, he says, huge opportunity for growth. "It's a \$20 billion industry. We're at 17 percent and that could double in the next three to five years."

If the top 100 rental companies were analyzed and broken down by revenue, says Wilson, the top 15 would each be doing about \$20 to \$30 million a year. The bottom of that list generates \$7 to \$8 million apiece. "If you look at that top 100 group, they still only have a 20 to 25 percent market share," he says.

This all boils down to the current state of affairs: merger-mania. Traditionally, Wilson says, the rental industry has been made up of small businesses doing between \$500,000 to \$60 million a year in revenue. "And an industry like that is ripe for consolidation," he says. "The big companies are swallowing up smaller companies and making themselves bigger."

The impetus behind all of this success and consolidation seems to be cost savings due in large part to outsourcing. "In many industries, people are finding that outsourcing makes much more sense, and rental is a form of outsourcing," says Levenson. "Companies, particularly industrial companies, that used to buy equipment would much rather put their capital into improving their operations and productivity."

Wilson agrees. "It is cheaper to rent the equipment than to own it unless you are using it more than 50 percent of the time and in many cases more than 75 or 80 percent of the time," he says.

Levenson agrees. "This is a very capital intensive business," he says. "And larger companies have access to much greater capital as well as having it at a much lower rate. We can purchase equipment sometimes 20 to 25 percent cheaper than the mom and pops."

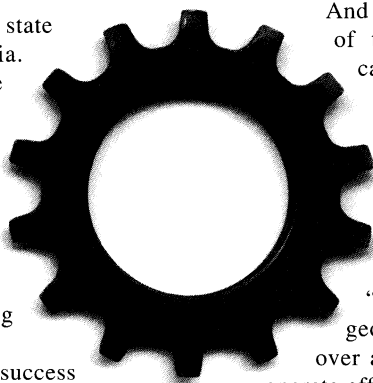
Steve McClain, vice president and general manager of ACM Equipment Rental and Sales Co., points out that in addition to saving money in lower equipment fees, many companies are also saving time by focusing only on those things in their business that they do well. Buying and managing equipment is not usually high on the list. "In the industry, there are more large producers that are trying to concentrate on their core competencies," says McClain. "So they outsource peripheral functions that they may have done formerly like equipment management."

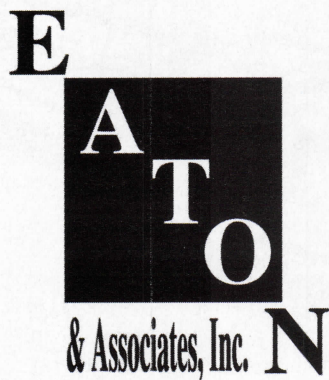
As would be expected, the Valley is playing an integral part in the rental industry's growth. According to Wilson, construction is one of the key sectors that rents equipment, and Phoenix is a huge equipment rental marketplace. "Maricopa County has more construction spending than any other county in the country with the exception of Las Vegas," he says.

And as would also be expected, many of the larger rental companies are casting a critical eye on some of Phoenix's larger and smaller rental firms, gobbling some up, making serious advances toward others. All of this is necessary, says McClain, in order for these companies to be a more potent and accessible force in the field. "It requires a high degree of geographic presence to be spread out over a wide area in order to be able to operate efficiently," he says.

To accomplish this geographic presence, big mergers have begun and will probably continue. For instance, Valley Rentals, a company doing business in the Valley for nine years, became part of Rental Service Corp. in 1998. Trench Safety Equipment was owned by Sun State Equipment. It was spun off from Sun State and run as an independent business for 12 years, with stores in Phoenix, Salt Lake, Denver, Las Vegas, and Fontana, California.

Last December, the company was purchased by





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United Rentals. "We are one of the few companies that United Rentals bought without changing the name," says Howard Nute, who is now district manager for Trench Safety Equipment, but was president of the company prior to the acquisition. "So we are Trench Safety Equipment Corp., a United Rentals Company," says Nute. "We are owned completely by United Rentals."

Perhaps one of the biggest mergers currently in the works involves a delicate, and not always friendly, merger between three huge companies that all have high stakes in the outcome. According to Wilson, Rental Service Corporation, which is headquartered in Scottsdale, and Nation's Rent, which is headquartered in Ft. Lauderdale, agreed to merge their companies together in a stock swap.

In May, the deal to make Rental Service Corporation the surviving entity, but switch the name of the stores to Nation's Rent, was slated for a shareholder vote. Had it been approved, the combined companies would have generated \$1.2 billion in annual revenue.

However, just before that vote took place, Rental Service Corporation learned that United Rentals had launched an unsolicited tender offer to buy Rental Service Corporation. United offered \$22.75 for each outstanding share of Rental Service Corporation. "Our board of directors deemed that offer to be inadequate and rejected it," says Wilson. "So United Rental has launched a proxy solicitation. They would like the shareholders to give their proxies, which is the right to vote shares, to United Rentals for the express purpose of United Rentals replacing the Rental Service Corporation board of directors. Once that board of directors is replaced, it is their intention to turn around and sell Rental Service Corporation to United Rentals."

Wilson concedes that the probability of Rental Service Corporation remaining an independent company is pretty low, "but our expressed intention is to combine with Nation's Rent and become a \$1.2 billion company," he says.

Just what this means for the future of any of the companies involved is not certain at this point. "If we [Rental Service Corporation] merge with Nation's Rent, Scottsdale will be the corporate headquarters for the new company," says Wilson. Currently, Rental Service employs approximately 115 people at its Scottsdale

headquarters. "That number will increase by 60 to 100 people over the next couple of years as we bring all the corporate functions from Ft. Lauderdale into Scottsdale," Wilson says.

But that's not the way United will see it, he says. "United has suggested that they believe there are significant savings in corporate overhead expenses, but they have not come out to say what that means," says Wilson. "Clearly there would not be the addition of new jobs here at Scottsdale, and there may be job losses."

Because of the complexities and sensitivities of such a takeover, the companies involved are reluctant to say very much. "We believe the offer we put together is a much better offer for the shareholders of RSC," says Levenson. Beyond that, he will not comment on the proceedings. Time will tell.

While it may seem that all the big mergers have or are now taking place, Nute believes that mergers will continue, but with a bit of a twist. "The main industry consolidators have run through a lot of the larger general rental yards and are beginning to look at niche rental companies such as barricade companies, shoring business, scaffolding companies, and generator rentals," he says.

However, Nute also warns the industry may see an eventual backlash where customers will once again hunger for the small and personalized service affordable by smaller shops. "This is a service business, and service businesses are based on selling relationships and people-to-people selling," he says. "So, we may see a surge of independent guys coming back into the market."

Levenson agrees. "This industry is still at the early stages of consolidation, but that doesn't mean there isn't going to be a place for smaller, independent rental companies," he says. "I don't expect competition to ever go away."

Despite all the mergers and changes in the rental industry, those companies that will remain successful know that providing solid customer service coupled with sound business practices will produce the profits and growth that lies at the heart of success.

Says McClain, "It's much too early to tell what the overall impact is going to be. But I think there is going to be an increased demand for rental equipment. And I think there will be tremendous opportunity."



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