McGrath RentCorp (MGRC)

Updated February 26th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$125	**5 Year CAGR Estimate:**	-0.2%	**Market Cap:**	$3.1 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	04/15/24
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Dividend Payment Date:**	04/30/24
Dividend Yield:	1.5%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	32
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Sell

McGrath RentCorp is a leading business-to-business rental and sales company that provides portable buildings for use as classrooms, office space and places to test electronic equipment. The company's products can also be used as secure storage for both hazardous and non-hazardous materials, restrooms, health care and child care facilities. Many of McGrath's portable buildings are used to meet a variety of demands and can be moved easily from location to location. The company completed the divestiture of its Adler Tanks during the first quarter of 2023.

On January 29th, 2024, it was announced that WillScot Mobile Mini (WSC) had agreed to purchase McGrath RentCorp for $3.8 billion in cash and stock. It should be noted that the FTC has asked for additional information regarding the transaction, but the deal is expected to close in the second quarter of 2024.

On February 21st, 2024, McGrath RentCorp announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue surged 21.2% to $221.6 million, which was $7.2 million more than expected. Earnings-per-share of $1.30 compared unfavorably to $1.62 in the previous year and was $0.06 below estimates. For the year, revenue improved 30.8% to $831.8 million while earnings-per-share of $4.56 compared to $4.21 in 2022.

For the quarter, rental revenues grew 19% to $123.6 million. Rental revenues for Mobile Modular, the company's largest division, were up 37% to $75.9 million, mostly due to an acquisition completed during the prior quarter. Service revenues grew 50% due to higher delivery and pick up activities as well as an increase in site related services. TRS-RenTelco rental revenues decreased 11% to $27.9 million, due to weaker demand from semiconductor related end markets. Portable Storage revenue increased 13% to $19.8 million while service revenue doubled due to higher used equipment sales.

Because of the pending transaction to acquire the company, McGrath RentCorp has not provided guidance for the year. We estimate that the company could earn $5.42 in 2024 were the acquisition to fall through.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.73	$1.59	$1.60	$2.12	$3.24	$3.93	$4.16	$3.66	$4.70	$4.56	***$5.42***	***$6.28***
DPS	$0.98	$1.00	$1.02	$1.04	$1.28	$1.50	$1.64	$1.73	$1.80	$1.85	***$1.90***	***$2.20***
Shares[1]	26	24	24	24	24	25	24	24	24	25	***25***	***24***

McGrath RentCorp has experienced volatility in its earnings-per-share over the past decade. Earnings-per-share dropped almost 19% in 2009 and it was not until 2011 that earnings recovered above 2008's total. We would expect earnings-per-share to grow at a rate of 3% per year through 2029 if McGrath RentCorp were to be a standalone company.

On February 21st, 2024, McGrath RentCorp announced that it was raising its quarterly dividend 2.2% to $0.475, extending the company's dividend growth streak to 32 years. Shares offer an annualized yield 1.5% presently, slightly higher than the average yield of the S&P 500. Despite McGrath RentCorp's variance in earnings-per-share over the last

[1] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

decade, the company has been able to raise its dividend each year for more than three decades. This is an impressive feat for a company in an industry that can be very cyclical.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.5	18.6	18.4	6.1	17.0	16.0	20.1	21.9	21.0	26.2	***23.1***	***18.0***
Avg. Yld.	2.8%	3.4%	3.5%	1.9%	2.5%	2.0%	2.5%	2.2%	1.8%	1.5%	***1.5%***	***1.9%***

Shares of McGrath RentCorp have increased $23, or 22.5%, since our October 29th, 2024 update. Based off earnings expectations for 2024, McGrath RentCorp's stock currently has a price-to-earnings ratio of 23.1. We have a valuation target of 18 times earnings, in-line with the long-term average for the stock. If shares were to revert to this multiple by 2029, then valuation be a 4.8% headwind to annual results over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	57%	63%	64%	49%	40%	38%	39%	47%	38%	41%	***35%***	***35%***

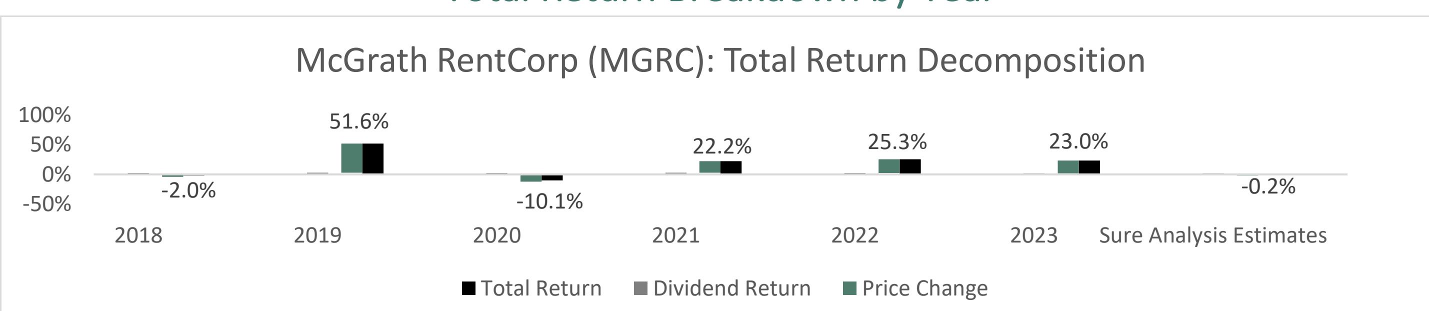
McGrath RentCorp showed in the last recession that its earnings are at risk during a downturn. The company's rental business would most likely see earnings decline in the next recession as customers might not be willing to add additional classroom or office space, and would make do with current facilities. Even when the economy strengthened, McGrath RentCorp had difficulty growing earnings until very recently. One area McGrath RentCorp has succeeded in is lowering its debt over the past decade. The amount of debt as a percentage of assets has gone down almost every year since 2008. McGrath RentCorp's payout ratio is in a healthy range and the company has increased its dividend by at least 9% for the three years prior to 2020, though the last two raises have been below this range. Higher-than-average increases could mean that management believes earnings will grow at a higher than usual rate.

McGrath RentCorp's key competitive advantage is that company's rental portfolio is diverse. The company's products are used for office space, school classrooms, and telecommunications purposes. While still sensitive to the state of the economy, this product diversity does give McGrath RentCorp some cushion against weakness in any one area of its business.

Final Thoughts & Recommendation

After fourth quarter results, McGrath RentCorp is projected to suffer a loss of 0.2% per year through 2029, down from our previous estimate of a 1.9% return. Our projected return stems from a 3% earnings growth rate and 1.5% starting yield that are more than offset by a mid-single-digit headwind from multiple compression. However, these estimates are largely hypothetical as we assume that the acquisition of the company by WillScot Mobile Mini will go through. We rate shares of McGrath RentCorp as a sell as the current price is very near to the acquisition price of $123.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	408	405	424	462	498	570	573	535	636	832
Gross Profit	182	177	184	206	233	266	264	247	290	394
Gross Margin	44.6%	43.7%	43.4%	44.7%	46.8%	46.7%	46.1%	46.3%	45.7%	47.3%
SG&A Exp.	97	100	105	112	116	125	123	123	143	208
D&A Exp.	81	84	81	78	82	89	95	107	111	109
Operating Profit	85	77	79	95	117	141	141	124	147	190
Operating Margin	20.9%	19.0%	18.7%	20.5%	23.6%	24.8%	24.6%	23.2%	23.2%	22.8%
Net Profit	46	40	38	154	79	97	102	90	115	175
Net Margin	11.2%	10.0%	9.0%	33.3%	15.9%	17.0%	17.8%	16.8%	18.1%	21.0%
Free Cash Flow	(42)	4	51	13	4	8	80	79	(11)	(178)
Income Tax	31	26	29	(70)	25	32	30	31	31	38

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,116	1,153	1,128	1,148	1,217	1,310	1,276	1,596	1,708	2,217
Cash & Equivalents	1	1	1	3	2	2	1	1	1	1
Accounts Receivable	101	95	97	106	121	128	123	159	170	227
Goodwill & Int. Ass.	38	37	36	36	35	36	35	179	142	388
Total Liabilities	692	773	734	624	646	676	593	864	904	1,283
Long-Term Debt	322	381	326	303	299	293	223	426	414	763
Shareholder's Equity	425	380	394	524	572	634	683	732	804	934
LTD/E Ratio	0.76	1.00	0.83	0.58	0.52	0.46	0.33	0.58	0.51	0.82

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.3%	3.6%	3.4%	13.5%	6.7%	7.7%	7.9%	6.2%	7.0%	8.9%
Return on Equity	11.1%	10.1%	9.9%	33.5%	14.5%	16.1%	15.5%	12.7%	15.0%	20.1%
ROIC	6.4%	5.4%	5.2%	19.9%	9.4%	10.8%	11.1%	8.7%	9.7%	12.0%
Shares Out.	26	24	24	24	24	25	24	24	24	25
Revenue/Share	15.59	15.89	17.69	19.04	20.31	23.16	23.34	21.81	25.93	33.91
FCF/Share	(1.60)	0.15	2.13	0.54	0.16	0.33	3.28	3.22	(0.44)	(7.27)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.