McGrath RentCorp (MGRC)

Updated February 25th, 2025 by Nathan Parsh

Key Metrics

Current Price:	$125	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$3.1 B
Fair Value Price:	$109	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	04/16/25
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Dividend Payment Date:**	04/30/25
Dividend Yield:	1.6%	**5 Year Price Target**	$139	**Years Of Dividend Growth:**	33
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 September 26th, 2024, it was announced that the previously agreement for McGrath RentCorp to be purchased by WillScot Mobile Mini (WSC) was terminated.

On February 19th, 2025, the company announced that it was raising its quarterly dividend 2.1% to $0.485, extending the company dividend growth streak to 33 consecutive years.

That same day, McGrath RentCorp announced fourth quarter and full year results for the period ending December 31st, 2024. For the quarter, revenue improved 10% to $243.7 million, which missed estimates by $3.2 million. Earnings-per-share totaled $1.58, which compared to $1.30 in the prior year and was $0.09 more than anticipated. For the year, revenue grew 9.5% to $910.9 million while earnings-per-share of $9.44 compared to $4.57 in 2023. However, this included $180 million merger termination fee from WillScot Mobile Mini. Excluding this, earnings-per-share totaled $5.93 for 2024.

For the quarter, rental revenues grew 1% to $124.2 million while sales were up 37% to $80.3 million. Rental revenues for Mobile Modular, the company's largest division, improved 8% to $82.1 million due to higher delivery and pickup activities along with higher site related services. TRS-RenTelco rental revenues fell 9% to $25.4 million due once again to weaker demand from end markets that lowered demand for equipment rentals. Portable Storage revenue declined 15% to $16.7 million due to lower delivery and return delivery activities.

We estimate that the company will earn $6.07 per share in 2025.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$1.59	$1.60	$2.12	$3.24	$3.93	$4.16	$3.66	$4.70	$4.57	$5.93	***$6.07***	***$7.75***
DPS	$1.00	$1.02	$1.04	$1.28	$1.50	$1.64	$1.73	$1.80	$1.85	$1.89	***$1.94***	***$2.19***
Shares[1]	24	24	24	24	25	24	24	24	25	25	***25***	***25***

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. The company's earnings grew at 15.7% annually over the last decade, but this slows to 7.8% when looking at the last five years. We are now expecting earnings-per-share to grow at a rate of 5% per year through 2030, up from 4% previously.

Despite McGrath RentCorp's variance in earnings-per-share over the last 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

[1] Share count in millions

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cyclical. Shares offer an annualized yield 1.6% presently, slightly higher than the average yield of the S&P 500. Given the size of recent raises, we project dividend growth of just 2.5% per year for the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.6	18.4	6.1	17.0	16.0	20.1	21.9	21.0	26.2	18.9	***20.6***	***18.0***
Avg. Yld.	3.4%	3.5%	1.9%	2.5%	2.0%	2.5%	2.2%	1.8%	1.5%	1.7%	***1.6%***	***1.6%***

Shares of McGrath RentCorp have increased $11, or 9.6%, since our October 25th, 2024 update. Based off earnings expectations for 2024, McGrath RentCorp's stock currently has a price-to-earnings ratio of 20.6. We have a valuation target of 18 times earnings, in-line with the long-term average for the stock. Valuation could reduce annual returns by 2.7% over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	63%	64%	49%	40%	38%	39%	47%	38%	41%	32%	***32%***	***28%***

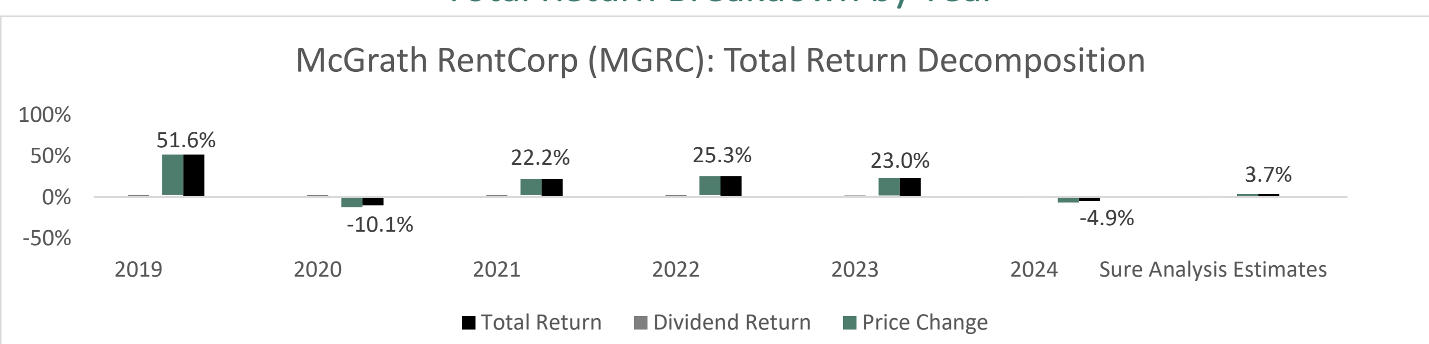
McGrath RentCorp showed in the last recession that its earnings are at risk during a downturn. The company's rental business would most likely see earnings decline in the next recession as customers might not be willing to add additional classroom or office space, and would make do with current facilities. 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 several raises have been below this range. Lower-than-average increases could mean that management believes earnings will grow at a lower 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 return 3.7% annually through 2030, up from our previous estimate of 0.3%. Our projected return stems from a 5% earnings growth rate and 1.6% starting yield that are offset by a low single-digit headwind from multiple compression. The termination of the agreement with WillScot Mobile Mini has removed some of the uncertainty with the stock, but the valuation is still above our target P/E. We have raised our price target $34 to $139 and now rate shares of McGrath RentCorp as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	405	424	462	498	570	573	535	636	832	911
Gross Profit	177	184	206	233	266	264	247	290	394	435
Gross Margin	43.7%	43.4%	44.7%	46.8%	46.7%	46.1%	46.3%	45.7%	47.3%	47.8%
SG&A Exp.	100	105	112	116	125	123	123	143	208	200
D&A Exp.	84	81	78	82	89	95	107	111	109	107
Operating Profit	77	79	95	117	141	141	124	147	190	244
Operating Margin	19.0%	18.7%	20.5%	23.6%	24.8%	24.6%	23.2%	23.2%	22.8%	26.8%
Net Profit	40	38	154	79	97	102	90	115	175	232
Net Margin	10.0%	9.0%	33.3%	15.9%	17.0%	17.8%	16.8%	18.1%	21.0%	25.4%
Free Cash Flow	4	51	13	4	8	80	79	(11)	(178)	143
Income Tax	26	29	(70)	25	32	30	31	31	38	82

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,153	1,128	1,148	1,217	1,310	1,276	1,596	1,708	2,217	2,278
Cash & Equivalents	1	1	3	2	2	1	1	1	1	1
Accounts Receivable	95	97	106	121	128	123	159	170	227	219
Goodwill & Int. Ass.	37	36	36	35	36	35	179	142	388	378
Total Liabilities	773	734	624	646	676	593	864	904	1,283	1,154
Long-Term Debt	381	326	303	299	293	223	426	414	763	590
Shareholder's Equity	380	394	524	572	634	683	732	804	934	1,123
LTD/E Ratio	1.00	0.83	0.58	0.52	0.46	0.33	0.58	0.51	0.82	0.53

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.6%	3.4%	13.5%	6.7%	7.7%	7.9%	6.2%	7.0%	8.9%	10.3%
Return on Equity	10.1%	9.9%	33.5%	14.5%	16.1%	15.5%	12.7%	15.0%	20.1%	22.5%
ROIC	5.4%	5.2%	19.9%	9.4%	10.8%	11.1%	8.7%	9.7%	12.0%	13.6%
Shares Out.	24	24	24	24	25	24	24	24	25	25
Revenue/Share	15.89	17.69	19.04	20.31	23.16	23.34	21.81	25.93	33.91	37.08
FCF/Share	0.15	2.13	0.54	0.16	0.33	3.28	3.22	(0.44)	(7.27)	5.82

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