2020 ANNUAL RENTAL REPORT EXCERPT

Companion to the Cost of Doing Business Report

(Based on 2019 Operations)

AEDNET.ORG
The Annual Rental Report - Companion to the 2020 Cost of Doing Business Report presents a detailed analysis of rental practices from the equipment distribution industry. Based on confidential surveys completed by 91 AED distributors in mid-2020, this report includes a compilation and analysis of rental financial and operations data segmented by sales volume by type, line of business, regions (based on climate), and a special grouping of “High Profit” dealers.

This year’s Annual Rental Report provides a specialized focus on common rental practices within the industry. The survey is published by the Associated Equipment Distributors (AED), an international trade association representing companies involved in the distribution, rental and support of equipment used in construction, mining, forestry, power generation, agriculture and industrial applications.

The Annual Rental Report results were compiled, tabulated, and analyzed by Industry Insights Inc. (www.industryinsights.com), an independent professional research and consulting firm that specializes in conducting financial surveys, compensation studies, market assessments, customer satisfaction research, educational programs and other forms of customized research.

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DISCLAIMER
The information contained in this report is believed to be largely representative of the profile characteristics, opinions, and sentiments of responding equipment distributors. All reasonable efforts were taken by Industry Insights, Inc. to ensure data comparability within the limitations of basic reporting procedures. However, the findings are based on those who chose to participate, and the sample was not adjusted to reflect any pre-determined profile expectations. Industry Insights and AED make no representations or warranties with respect to the results of this study and shall not be liable for any information inaccuracies, or errors or omissions in contents, regardless of the cause of such inaccuracy, error, or omission. In no event shall Industry Insights nor AED be liable for any consequential damages.
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Dealer Rental Strategy
Dealer Rental Business Models
Rent-to-Sell Business Model
Rent-to-Rent Business Model
Dealer Rental Operations

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All Dealers, High Profit Dealers, and by Total Rent-to-Sell & Machine Sales Revenue
All Dealers, High Profit Dealers, and by Total Rent-to-Rent Revenue
Line of Business and Region

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Survey Methodology
Survey Questionnaire
ABOUT THIS REPORT

As an exciting service to its members, the Associated Equipment Dealers is very pleased to provide the Annual Rental Report – Companion to the 2020 Cost of Doing Business Report. This unique research effort is intended to provide you with insights into common rental practices as it relates to dealer rental strategies, business models, and rental operations. Of course, the information is only as complete as the survey forms submitted. The value of the report increases as the completeness of the data increases. This study is designed to serve as an easy-to-understand performance management tool with which member firms can evaluate their own company’s rental practices and policies. The overriding goal of this report is to provide information that will enable AED members to better manage their businesses.

The AED employed the services of Industry Insights, Inc., a survey research firm headquartered in Columbus, Ohio, to collect and process the survey results to assure strict confidentiality of responses. Confidential survey forms (refer to the Appendix for a sample) were sent to AED members in early 2020. A total of 91 survey forms were received for processing.

A valuable feature of the Annual Rental Report is that all firms participating receive an in-depth confidential Company Performance Report (CPR). Each company’s own results are computed in a manner consistent with those appearing in the overall report, then displayed alongside the appropriate industry comparatives.

In addition to receiving access to the Company Performance Report, participants also receive access an interactive “Searchable Results” program. The Searchable Results application provides more specific information than any single report could reasonably provide. Using the program, users are able to create their own data cuts to create benchmarks that most closely match their organizations. For example, a dealer could create a data cut based on a specific revenue size range and region, whereas the report only provides single-level cuts (e.g., revenue size range or region). The Searchable Results program and other interactive data comparison tools are housed in the participants’ online portal.

We are proud to present the enclosed insights into the dealer rental practices for the equipment distribution industry and hope you will find this to be a useful guide. Thank you to all of the individuals who submitted data for this study.
DEALER RENTAL BUSINESS MODELS

RENT-TO-SELL BUSINESS MODEL

Percent of Dealers with an Established Rent-to-Sell Business Model

Primary Objective for the Rent-to-Sell Business Model (All Dealers)

Rent-to-Sell & Machine Sales Distribution (% of Total RtS & Machine Sales Revenue)

3 For the purpose of the report business model refers to an intentional design feature in a Dealer’s organizational structure to support rentals
Executive Summary

Rent-to-Sell Revenue Margins vs. Margins on New Equipment Sales (All Dealers)

Total Rent-to-Sell & Machine Sales Gross Margin

Rent-to-Sell Inventory Utilization Rate

The inventory utilization rate is the total line of business rental revenue as a percentage of the average equipment cost.
Executive Summary

Change in Time Utilization (%) During 2019

Percent of Dealers that Utilize Third Party Services to Benchmark Rental Rates

Software Solutions Utilized by Dealers to Manage Rentals

A parenthesis and number (e.g., "(2)") indicates the frequency at which the item was listed
### RENTAL PRACTICES

#### Dealer Rental Strategy

<table>
<thead>
<tr>
<th>Does the Dealership have an intentional rental strategy established?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If a rental strategy exists, is it an integral component of overall dealer strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If a rental strategy exists, is it growth oriented?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

#### Dealer Rental Business Models

<table>
<thead>
<tr>
<th>Which of the following are established business models within your organization?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discrete Rent-to-Sell model</td>
</tr>
</tbody>
</table>

| None |

<table>
<thead>
<tr>
<th>If both Rent-to-Sell and Rent-to-Rent operations exist, are they comingled in the same business model?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

#### Rent-to-Sell Business Model

<table>
<thead>
<tr>
<th>What is the primary objective for the Rent-to-Sell business model?</th>
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<tbody>
<tr>
<td>Conversion of the rental asset to sale</td>
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</table>

| Other |

<table>
<thead>
<tr>
<th>How do targeted margins on Rent-to-Sell Revenue compare to margins on outright sales of new equipment?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than margins on outright sale of new equipment</td>
</tr>
</tbody>
</table>

| Greater than margins on outright sale of new equipment |

<table>
<thead>
<tr>
<th>Who does Rent-to-Sell operations report to in the Dealer management team?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Manager</td>
</tr>
</tbody>
</table>

| Rental Manager | Product Support Manager |

| Other |
### Detailed Financial Information

<table>
<thead>
<tr>
<th>Rent-to-Sell &amp; Machine Sales Revenue</th>
<th>All Dealers</th>
<th>High Profit Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under $25 Million</td>
<td>$25 to $50 Million</td>
</tr>
</tbody>
</table>

What is the targeted time for Rent-to-Sell fleet to be held?

- 1 to 3 months
- 4 to 6 months
- 7 to 9 months
- 10 to 12 months
- More than 12 months

Rent-to-Rent Business Model

What is the primary objective for the Rent-to-Rent business model?

- Optimize return on investment over the lifecycle of the asset
- Optimize annual profitability of rental income
- Other

How do targeted margins on Rent-to-Rent Revenue compare to margins on outright sales of new equipment?

- Less than margins on outright sale of new equipment
- Equal to margins on outright sale of new equipment
- Greater than margins on outright sale of new equipment

Who does Rent-to-Rent operations report to in the Dealer management team?

- Sales Manager
- Used Equipment Manager
- Rental Manager
- Product Support Manager
- Other

What is the targeted time for Rent-to-Rent fleet to be held?

- 1 year or less
- 1 to 3 years
- 4 or more years
### Detailed Financial Information

#### Rent-to-Rent Revenue

<table>
<thead>
<tr>
<th>Rent-to-Rent Revenue</th>
<th>All Dealers</th>
<th>High Profit Dealers</th>
<th>Under $2.5 Million</th>
<th>$2.5 to $10 Million</th>
<th>Over $10 Million</th>
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#### RENTAL PRACTICES

**Dealer Rental Strategy**

Does the Dealership have an intentional rental strategy established?

- Yes
- No

If a rental strategy exists, is it an integral component of overall dealer strategy?

- Yes
- No

If a rental strategy exists, is it growth oriented?

- Yes
- No

**Dealer Rental Business Models**

Which of the following are established business models within your organization?

- Discrete Rent-to-Sell model
- Discrete Rent-to-Rent model
- Both Rent-to-Sell model and Rent-to-Rent model
- None

If both Rent-to-Sell and Rent-to-Rent operations exist, are they comingled in the same business model?

- Yes
- No

**Rent-to-Sell Business Model**

What is the primary objective for the Rent-to-Sell business model?

- Conversion of the rental asset to sale
- Short-term rental profitability
- Other

How do targeted margins on Rent-to-Sell Revenue compare to margins on outright sales of new equipment?

- Less than margins on outright sale of new equipment
- Equal to margins on outright sale of new equipment
- Greater than margins on outright sale of new equipment

Who does Rent-to-Sell operations report to in the Dealer management team?

- Sales Manager
- Used Equipment Manager
- Rental Manager
- Product Support Manager
- Other

* Indicates a multiple choice answer.
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## Detailed Financial Information

### Line of Business

<table>
<thead>
<tr>
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<th>Equip. 100 HP or Less</th>
<th>Equip. Over 100 HP</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Short Season</td>
</tr>
</tbody>
</table>

### Net Revenue Analysis

- **Sales**
  - Typical Net Revenue Volume
  - Revenue Growth

### Revenue Mix (as a % of Total Net Revenue)

- Total RTS & Machine Sales Revenue
- Total Rent-to-Rent Revenue
- Total Parts Revenue
- Total Service Revenue
- Total Net Revenue

### Rent-to-Sell & Machine Sales (% of RTS and Machine Sales Revenue)

- **Net Revenue**
  - New Equipment
  - Used Equipment
  - Rent-to-Sell Rental Revenue
  - Sale of Rent-to-Sell Equipment
  - Freight
  - Miscellaneous
  - Total RTS & Machine Sales Revenue

- **Cost of Sales**
  - New Equipment
  - Used Equipment
  - Cost of Rental Equipment Sold
  - Repairs and Maintenance (rent-to-sell)
  - Rent-to-Sell Machine Depreciation
  - Freight
  - Unreimbursed Warranty (credit to service)
  - Miscellaneous
  - Total RTS & Machine Sales Cost of Sales

### Margin Analysis

- Total RTS & Machine Sales Gross Margin
<table>
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</tr>
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<td></td>
<td></td>
<td></td>
<td>Moderate Season</td>
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<td></td>
<td></td>
<td></td>
<td>Long Season</td>
</tr>
<tr>
<td>Rent-to-Rent (% of Total Rent-to-Rent Revenue)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
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<tr>
<td>Sale of Rent-to-Rent Equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight Invoiced to Customers</td>
<td></td>
<td></td>
<td></td>
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<td>Miscellaneous</td>
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<td></td>
<td></td>
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SURVEY METHODOLOGY

In March 2020 Industry Insights, Inc. distributed strictly confidential questionnaires to AED members. The primary intent of this survey was to collect detailed information from equipment distributors by specific sales volume size, line of business, and other data aggregations of importance.

Once the questionnaires were received by Industry Insights, a confidential company identification code was assigned to each company. The data was then coded, entered into a proprietary system and edited by Industry Insights’ analysts for accuracy and consistency.

The statistical information contained in this report is believed to be representative of the companies responding to the survey. All reasonable efforts were taken by Industry Insights, Inc. to assure data comparability within the limitations of accounting reporting procedures. However, the data used in this report are not necessarily based on audited financial statements and the statistical validity of any given number varies depending upon sample sizes and the amount of consistency among responses for that particular ratio. Industry Insights and AED, therefore, make no representations or warranties with respect to the results of this study and shall not be liable to clients or anyone else for any information inaccuracies, or errors or omissions in contents, regardless of the cause of such inaccuracy, error or omission. In no event shall Industry Insights and/or AED be liable for any consequential damages.
EQUIPMENT DISTRIBUTOR
RENTAL OPERATIONS
BENCHMARKING PRACTICES
EXCERPT

Companion to the
Rental Report
EXECUTIVE SUMMARY

Rentals are an increasingly important source of revenue, market share and profitability for distributors. However, current tools to assist distributors in improving the performance management of their business rental lines are sparse. AED’s answer to that void is its Rental Report.

AED’s Rental Report was generated from a foundation of objective data provided by several distributors regarding their rental strategies, business models and operations. That information was organized into the following survey of AED members. The results are presented in the report and throughout this document.

The report and this document are, at their core, benchmarking tools. AED members are encouraged to use this information to assess their distributorships’ competitiveness and incorporate the data into their 2021 planning processes. Comments or questions about the report or this document? Contact your AED Regional Manager.


WHAT IS INSIDE OF EQUIPMENT DISTRIBUTORS RENTAL OPERATIONS BENCHMARKING PRACTICES

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Figure 2 demonstrates gross margins for new equipment, rent-to-sell, and rent-to-rent for 2019. Most notable are the increasing margins from new to rent-to-sell to rent-to-rent. Rentals are more profitable than new equipment sales. That is likely due to margin compression on new equipment occurring in the sector and the distinct business models that rentals have that enable more significant margins — albeit with greater risk. The benchmarking opportunities this data presents are clear for a distributor: are pricing strategies aligned with market realities, and do the distributor’s rental practices enable the level of profitability demonstrated in figure 2?

Figure 3 provides a view into the revenue mix offered by type of rental, rent-to-sell or rent-to-rent, for the eight-year period ending in 2019. The insight provided by this view is that rent-to-rent, as a revenue source, has gained momentum and is accelerating at a faster pace than rent-to-sell. As discussed in a later section, the two rental revenue sources have significantly different business models. The benchmarking opportunity here is for the distributor to properly weigh its emphasis on types of rentals to meet customer expectations and their geographic competitive landscape demands.

Figure 2. Rental revenue mix (composite of all distributor revenue segments), as a percentage of total revenue, for the eight-year period ending December 2019, with linear trend lines. Source: AED 2020 Cost of Doing Business.

Figure 3. New equipment, rent-to-sell, and rent-to-rent gross margins (composite of all distributor revenue segments) for 2019. Source: AED Rental Report.
PURCHASE THE AED RENTAL REPORT BUNDLE AT bit.ly/aedrentalreport

Gain exclusive access to information containing proprietary benchmarking data on the heavy equipment rental business.