

HERC HOLDINGS INC  
Form 10-Q  
November 08, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

Commission File Number 001-33139

HERC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware 20-3530539

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

27500 Riverview Center Blvd.

Bonita Springs, Florida 34134

(239) 301-1000

(Address, including Zip Code, and telephone number,  
including area code, of registrant's principal executive offices)

Not Applicable

(Former name, former address and former fiscal year,  
if changed since last report)

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 every Interactive Data File required to be submitted 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 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.

Edgar Filing: HERC HOLDINGS INC - Form 10-Q

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

As of November 2, 2018, there were 28,498,142 shares of the registrant's common stock, \$0.01 par value, outstanding.

---

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES  
TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Condensed Consolidated Statement of Changes in Equity for the Nine Months Ended September 30, 2018</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>ITEM 4. Controls and Procedures</u>	<u>33</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. Legal Proceedings</u>	<u>36</u>
<u>ITEM 1A. Risk Factors</u>	<u>36</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>ITEM 5. Other Information</u>	<u>36</u>
<u>ITEM 6. Exhibits</u>	<u>37</u>
<u>SIGNATURE</u>	<u>38</u>

---

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q (this "Report") includes "forward-looking statements," as that term is defined by the federal securities laws. Forward-looking statements include statements concerning our plans, intentions, objectives, goals, strategies, forecasts, future events, future revenue or performance, capital expenditures, financing needs, business trends and other information that is not historical information. When used in this Report, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts," and future or conditional verbs, such as "will," "should," "could" or "may," as well as variations of such words or similar expressions are intended to identify forward-looking statements, although not all forward-looking statements are so designated. All forward-looking statements are based upon our current expectations and various assumptions and apply only as of the date of this Report. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs and projections will be achieved.

There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from those suggested by our forward-looking statements, including those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 in Part I under Item 1A "Risk Factors," including:

Risks related to material weaknesses in our internal control over financial reporting and the restatement of financial statements previously issued by Hertz Global Holdings, Inc. (in its form prior to the spin-off that effected the separation of the car rental business from us, "Hertz Holdings") including that: we have identified material weaknesses in our internal control over financial reporting that may adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which may adversely affect investor and lender confidence in us and, as a result, the value of our common stock and our ability to obtain future financing on acceptable terms, and we may identify additional material weaknesses; our efforts to design and implement an effective control environment may not be sufficient to remediate the material weaknesses, or to prevent future material weaknesses; such material weaknesses could result in a material misstatement of our consolidated financial statements that would not be prevented or detected; we continue to expend significant costs and devote management time and attention and other resources to matters related to our internal control over financial reporting; our material weaknesses could expose us to additional risks that could materially adversely affect our ability to execute our strategic plan and our financial position, results of operations and cash flows; any significant disruption or deficiency in the design of or implementing new information technology ("IT") systems, including the financial system migrated from Hertz Global Holdings, Inc., formerly known as Hertz Rental Car Holding Company, Inc. ("New Hertz"), could materially adversely affect our ability to accurately maintain our books and records or otherwise operate our business; and Hertz Holdings' restatement has been costly and has resulted in government investigations and other legal actions and could result in government enforcement actions and private litigation that could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows;

- Business risks could have a material adverse effect on our business, results of operations, financial condition and/or liquidity, including:

the cyclical nature of our business and its dependence on levels of capital investment and maintenance expenditures by our customers; a slowdown in economic conditions or adverse changes in the level of economic activity or other economic factors specific to our customers or their industries, in particular, contractors and industrial customers;

our business is heavily reliant upon communications networks and centralized IT systems and the concentration of our systems creates or increases risks for us, including the risk of the misuse or theft of information we possess, including as a result of cyber security breaches or otherwise, which could harm our brand, reputation or competitive position

and give rise to material liabilities;

• we may fail to maintain, upgrade and consolidate our IT networks;

• we may fail to respond adequately to changes in technology and customer demands;

• our success depends on our ability to attract and retain key management and other key personnel, and the ability of new employees to learn their new roles;

• we may have difficulty obtaining the resources that we need to operate, or our costs to do so could increase significantly;

1

---

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS (CONTINUED)

any occurrence that disrupts rental activity during our peak periods, given the seasonality of the business, especially in the construction industry;

intense competition in the industry, including from our own suppliers, that may lead to downward pricing or an inability to increase prices;

doing business in foreign countries exposes us to additional risks, including under laws and regulations that may conflict with U.S. laws and those under anticorruption, competition, economic sanctions and anti-boycott regulations;

some or all of our deferred tax assets could expire if we experience an "ownership change" as defined in the Internal Revenue Code;

changes in the legal and regulatory environment that affect our operations, including with respect to taxes, consumer rights, privacy, data security and employment matters, could disrupt our business and increase our expenses;

an impairment of our goodwill or our indefinite lived intangible assets could have a material non-cash adverse impact;

other operational risks such as: any decline in our relations with our key national account customers or the amount of equipment they rent from us; our equipment rental fleet is subject to residual value risk upon disposition, and may not sell at the prices we expect; maintenance and repair costs associated with our equipment rental fleet could materially adversely affect us; we may be unable to protect our trade secrets and other intellectual property rights; we are exposed to a variety of claims and losses arising from our operations, and our insurance may not cover all or any portion of such claims; we may face issues with our union employees; environmental, health and safety laws and regulations and the costs of complying with them, or any change to them impacting our markets, could materially adversely affect us; and strategic acquisitions could be difficult to identify and implement, and could disrupt our business or change our business profile significantly;

Risks related to the spin-off, which effected our separation from New Hertz (the "Spin-Off"), such as: the liabilities we have assumed and will share with New Hertz in connection with the Spin-Off could have a material adverse effect on our business, financial condition and results of operations; if there is a determination that any portion of the Spin-Off transaction is taxable for U.S. federal income tax purposes, including for reasons outside of our control, then we and our stockholders could incur significant tax liabilities, and we could also incur indemnification liability if we are determined to have caused the Spin-Off to become taxable; if New Hertz fails to pay its tax liabilities under the Tax Matters Agreement or to perform its obligations under the Separation and Distribution Agreement, we could incur significant tax and other liability; we have limited operating history as a stand-alone public company, and our historical financial information for periods prior to July 1, 2016, is not necessarily representative of the results that we would have achieved as a separate, publicly traded company, and may not be a reliable indicator of our future results; our ability to engage in financings, acquisitions and other strategic transactions using equity securities is limited due to the tax treatment of the Spin-Off; and the Spin-Off may be challenged by creditors as a fraudulent transfer or conveyance;

Risks related to our substantial indebtedness, such as: our substantial level of indebtedness exposes us or makes us more vulnerable to a number of risks that could materially adversely affect our financial condition, results of operations, cash flows, liquidity and ability to compete; an increase in interest rates or in our borrowing margin would increase the cost of servicing our debt and could reduce our profitability; the secured nature of our indebtedness, which is secured by substantially all of our consolidated assets, could materially adversely affect our business and

holders of our debt and equity; and any additional debt we incur could further exacerbate these risks;

Risks related to the securities market and ownership of our stock, including that: the market price of our common stock could decline as a result of the sale or distribution of a large number of our shares or the perception that a sale or distribution could occur and these factors could make it more difficult for us to raise funds through future stock offerings;

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS (CONTINUED)

provisions of our governing documents could discourage potential acquisition proposals and could deter or prevent a change in control; and the market price of our common stock may fluctuate significantly; and

- Other risks and uncertainties set forth in our Annual Report on Form 10-K for the year ended December 31, 2017 under Item 1A “Risk Factors,” in this Report and in our other filings with the SEC.

All forward-looking statements are expressly qualified in their entirety by such cautionary statements. We do not undertake any obligation to release publicly any update or revision to any of the forward-looking statements.



Table of Contents

## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

HERC HOLDINGS INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value)

	September 30, 2018	December 31, 2017
	(Unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 18.0	\$41.5
Receivables, net of allowances of \$24.9 and \$26.9, respectively	373.5	386.3
Inventory	20.2	23.7
Prepaid and other current assets	22.2	23.0
Total current assets	433.9	474.5
Rental equipment, net	2,620.8	2,374.6
Property and equipment, net	287.0	286.3
Intangible assets, net	294.5	283.9
Goodwill	91.0	91.0
Other long-term assets	43.6	39.4
Total assets	\$ 3,770.8	\$3,549.7
<b>LIABILITIES AND EQUITY</b>		
Current maturities of long-term debt and financing obligations	\$ 28.9	\$25.4
Accounts payable	233.8	152.0
Accrued liabilities	119.1	113.3
Total current liabilities	381.8	290.7
Long-term debt, net	2,229.0	2,137.1
Financing obligations, net	110.9	112.9
Deferred tax liabilities	458.4	462.8
Other long-term liabilities	36.4	35.8
Total liabilities	3,216.5	3,039.3
Commitments and contingencies (Note 9)		
Equity:		
Preferred stock, \$0.01 par value, 13.3 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 133.3 shares authorized, 31.2 and 31.1 shares issued and 28.5 and 28.3 shares outstanding	0.3	0.3
Additional paid-in capital	1,773.8	1,763.1
Accumulated deficit	(426.6	) (462.4 )
Accumulated other comprehensive loss	(101.2	) (98.6 )
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0	) (692.0 )
Total equity	554.3	510.4
Total liabilities and equity	\$ 3,770.8	\$3,549.7

The accompanying notes are an integral part of these financial statements.

4

---

Table of ContentsHERC HOLDINGS INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Equipment rental	\$449.0	\$413.1	\$1,210.6	\$1,084.5
Sales of rental equipment	50.1	27.7	175.6	128.5
Sales of new equipment, parts and supplies	14.2	13.9	36.4	40.3
Service and other revenue	2.9	2.9	10.4	9.5
Total revenues	516.2	457.6	1,433.0	1,262.8
Expenses:				
Direct operating	194.4	188.1	584.9	525.6
Depreciation of rental equipment	98.3	96.3	288.6	283.5
Cost of sales of rental equipment	51.1	28.6	168.9	134.9
Cost of sales of new equipment, parts and supplies	10.6	10.8	27.7	30.3
Selling, general and administrative	78.4	84.5	230.2	244.4
Impairment	—	—	0.1	29.3
Interest expense, net	38.6	32.4	103.0	101.8
Other income, net	(0.4 )	(1.7 )	(0.9 )	(1.5 )
Total expenses	471.0	439.0	1,402.5	1,348.3
Income (loss) before income taxes	45.2	18.6	30.5	(85.5 )
Income tax benefit (provision)	1.0	(5.8 )	5.3	31.5
Net income (loss)	\$46.2	\$12.8	\$35.8	\$(54.0 )
Weighted average shares outstanding:				
Basic	28.5	28.3	28.4	28.3
Diluted	28.9	28.6	28.9	28.3
Earnings (loss) per share:				
Basic	\$1.62	\$0.45	\$1.26	\$(1.91 )
Diluted	\$1.60	\$0.45	\$1.24	\$(1.91 )

The accompanying notes are an integral part of these financial statements.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited  
 (In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$46.2	\$12.8	\$35.8	\$(54.0)
Other comprehensive income (loss):				
Foreign currency translation adjustments	8.6	12.8	(5.6 )	21.5
Unrealized gains and losses on hedging instruments:				
Unrealized gains (losses) on hedging instruments	0.2	0.5	3.2	(0.4 )
Income tax (provision) benefit related to hedging instruments	—	(0.2 )	(0.8 )	0.2
Pension and postretirement benefit liability adjustments:				
Amortization of net losses included in net periodic pension cost	0.3	0.2	0.8	1.1
Pension and postretirement benefit liability adjustments arising during the period	—	—	—	(2.7 )
Income tax (provision) benefit related to defined benefit pension plans	(0.1 )	(0.1 )	(0.2 )	0.6
Total other comprehensive income (loss)	9.0	13.2	(2.6 )	20.3
Total comprehensive income (loss)	\$55.2	\$26.0	\$33.2	\$(33.7)

The accompanying notes are an integral part of these financial statements.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
 Unaudited  
 (In millions)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity	
Balance at:	Share	Amount					
December 31, 2017	28.3	\$ 0.3	\$ 1,763.1	\$ (462.4 )	\$ (98.6 )	\$ (692.0)	\$ 510.4
Net income	—	—	—	35.8	—	—	35.8
Other comprehensive loss	—	—	—	—	(2.6 )	—	(2.6 )
Net settlement on vesting of equity awards	0.1	—	(1.1 )	—	—	—	(1.1 )
Stock-based compensation charges	—	—	9.9	—	—	—	9.9
Employee stock purchase plan	—	—	1.4	—	—	—	1.4
Exercise of stock options	0.1	—	0.5	—	—	—	0.5
September 30, 2018	28.5	\$ 0.3	\$ 1,773.8	\$ (426.6 )	\$ (101.2 )	\$ (692.0)	\$ 554.3

The accompanying notes are an integral part of these financial statements.

Table of ContentsHERC HOLDINGS INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSUnaudited  
(In millions)

	Nine Months Ended September 30, 2018    2017	
Cash flows from operating activities:		
Net income (loss)	\$35.8	\$(54.0)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of rental equipment	288.6	283.5
Depreciation of property and equipment	38.2	34.0
Amortization of intangible assets	3.6	3.7
Amortization of deferred debt and financing obligations costs	4.7	4.7
Stock-based compensation charges	9.9	7.5
Impairment	0.1	29.3
Provision for receivables allowance	41.0	39.4
Deferred taxes	(6.4 )	(31.5 )
(Gain) loss on sale of rental equipment	(6.7 )	6.4
Income from joint ventures	(1.3 )	(1.3 )
Other	9.6	2.1
Changes in assets and liabilities:		
Receivables	(46.7 )	(98.6 )
Inventory, prepaid and other assets	(2.2 )	(6.7 )
Accounts payable	(3.5 )	(3.4 )
Accrued liabilities and other long-term liabilities	10.3	38.5
Net cash provided by operating activities	375.0	253.6
Cash flows from investing activities:		
Rental equipment expenditures	(617.5)	(356.3)
Proceeds from disposal of rental equipment	189.1	121.6
Non-rental capital expenditures	(58.5 )	(57.1 )
Proceeds from disposal of property and equipment	3.9	2.8
Net cash used in investing activities	(483.0)	(289.0)

The accompanying notes are an integral part of these financial statements.

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Unaudited

(In millions)

	Nine Months Ended September 30, 2018    2017	
Cash flows from financing activities:		
Repayments of long-term debt	(123.5)	(123.5 )
Proceeds from revolving lines of credit and securitization	650.8	405.9
Repayments on revolving lines of credit and securitization	(424.5)	(238.7 )
Principal payments under capital lease and financing obligations	(13.1 )	(11.6 )
Debt extinguishment costs	(3.7 )	(3.7 )
Payment of debt financing costs	(1.0 )	—
Proceeds from exercise of stock options and other	0.5	0.2
Proceeds from employee stock purchase plan	1.4	0.7
Net settlement on vesting of equity awards	(1.1 )	—
Net cash provided by financing activities	85.8	29.3
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(1.3 )	1.3
Net decrease in cash, cash equivalents and restricted cash during the period	(23.5 )	(4.8 )
Cash, cash equivalents and restricted cash at beginning of period	41.5	31.0
Cash, cash equivalents and restricted cash at end of period	\$18.0	\$26.2
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$90.2	\$74.9
Cash paid (refunded) for income taxes, net	\$12.0	\$(3.1 )
Supplemental disclosure of non-cash investing activity:		
Purchases of rental equipment in accounts payable	\$80.6	\$106.7
Non-rental capital expenditures in accounts payable	\$5.6	\$1.3
Supplemental disclosure of non-cash financing activity:		
Non-cash settlement of transactions with THC through equity	\$—	\$3.6

The accompanying notes are an integral part of these financial statements.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1—Background

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," "the Company" or, as the context requires, "its") is one of the leading equipment rental suppliers with approximately 275 locations at September 30, 2018, principally in North America. The Company conducts substantially all of its operations through subsidiaries, including Herc Rentals Inc. ("Herc"). Operations are conducted under the Herc Rentals brand in the United States and Canada and under the Hertz Equipment Rental brand in other international locations. With over 50 years of experience, we are a full-line equipment rental supplier offering a broad portfolio of equipment for rent. In addition to our principal business of equipment rental, we sell used equipment and contractor supplies such as construction consumables, tools, small equipment and safety supplies; provide repair, maintenance, equipment management services and safety training to certain of our customers; offer equipment re-rental services and provide on-site support to our customers; and provide ancillary services such as equipment transport, rental protection, cleaning, refueling and labor.

Our classic fleet includes aerial, earthmoving, material handling, trucks and trailers, air compressors, compaction and lighting. Our equipment rental business is supported by ProSolutions™, our industry-specific solutions-based services which includes power generation, climate control, remediation and restoration, and studio and production equipment, and our ProContractor professional grade tools.

On June 30, 2016, the Company, in its previous form as the holding company of both the existing equipment rental operations as well as the former vehicle rental operations (in its form prior to the Spin-Off, "Hertz Holdings"), completed a spin-off (the "Spin-Off") of its global vehicle rental business through a dividend to stockholders of all of the issued and outstanding common stock of Hertz Rental Car Holding Company, Inc., which was re-named Hertz Global Holdings, Inc. ("New Hertz") in connection with the Spin-Off. New Hertz is an independent public company that trades on the New York Stock Exchange under the symbol "HTZ" and continues to operate its global vehicle rental business through its operating subsidiaries including The Hertz Corporation ("THC"). The Company changed its name to Herc Holdings Inc. on June 30, 2016, and trades on the New York Stock Exchange under the symbol "HRI."

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The Company prepares its condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, however, these condensed consolidated financial statements do not include all of the disclosures required for complete annual financial statements and, accordingly, certain information, footnotes and disclosures normally included in annual financial statements, prepared in accordance with U.S. GAAP, have been condensed or omitted in accordance with Securities and Exchange Commission ("SEC") rules and regulations. The Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, the condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 28, 2018.



The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the condensed consolidated financial statements include allowance for accounts receivable, depreciation of rental equipment, the recoverability of long-lived assets, useful lives and impairment of long-lived tangible and intangible assets including goodwill and trade name, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies, accounting for income taxes, among others.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Herc Holdings and its wholly owned subsidiaries. In the event that the Company is a primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity are included in the Company's condensed consolidated financial statements. The Company accounts for its investments in joint ventures using the equity method when it has significant influence but not control and is not the primary beneficiary. All significant intercompany transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that replaced existing revenue recognition guidance in U.S. GAAP. The new guidance requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company did not record any amount to the opening balance of retained earnings as of January 1, 2018 as the cumulative impact of adopting the guidance was not material. The comparative financial statement information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the guidance had no material impact on the Company's consolidated balance sheet as of January 1, 2018. The Company's accounting for equipment rental revenue is primarily outside the scope of this new revenue guidance and will be evaluated under the new lease guidance which is described further under the subheading "Leases" below.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued guidance to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the nine months ended September 30, 2017 by reclassifying \$3.7 million of debt extinguishment costs from cash used in operating activities to cash used in financing activities.

Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued guidance requiring an entity to recognize upon transfer the income tax consequences of an intra-entity transfer of an asset other than inventory, eliminating the current recognition exception. Two common examples of assets included in the scope of this standard are intellectual property and property, plant and equipment. The Company adopted this guidance on January 1, 2018 in accordance with the effective date. Adoption of this guidance did not have a significant impact on the Company's financial position, results of operations or cash flows.

Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued guidance requiring restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the nine months ended September 30, 2017 accordingly.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs

In March 2017, the FASB issued guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The guidance requires the reporting of the service cost component of the net periodic benefit costs in the same income statement line item as other components of net periodic costs arising from services rendered by an employee during the period, and that non-service-cost components be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The guidance also allows

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

for the capitalization of the service cost components, when applicable. The Company adopted this guidance on January 1, 2018 in accordance with the effective date. Adoption of this guidance resulted in an immaterial reclassification of costs from "Direct operating" and "Selling, general and administrative" expense into "Other income, net" in the Company's statement of operations.

Compensation - Stock Compensation

In May 2017, the FASB issued guidance pursuant to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the updated guidance, a modification is defined as a change in the terms or conditions of a share-based payment award, and an entity should account for the effects of a modification unless all of the following are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation techniques that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The guidance requires prospective application to an award modified on or after the adoption date. The Company adopted the new guidance on January 1, 2018 in accordance with the effective date and will apply the guidance to any future changes to the terms or conditions of its share-based payment awards.

Not Yet Adopted

Leases

In February 2016, the FASB issued guidance that replaces the existing lease guidance. The new guidance establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also expands the requirements for lessees to record leases embedded in other arrangements and the required quantitative and qualitative disclosures surrounding leases. Accounting guidance for lessors is largely unchanged. This guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods using a modified retrospective transition approach.

The Company expects to adopt this guidance on its effective date of January 1, 2019 and is currently in the process of assessing the potential impact this guidance may have on its financial position, results of operations and cash flows, including which of its existing lease arrangements will be impacted by the new guidance and whether other arrangements not currently classified as leases may become subject to the guidance. The Company plans to take advantage of the transition package of practical expedients permitted within the new standard which, among other things, allows the historical lease classification to be carried forward. Additionally, the Company is implementing a lease management system to assist in the accounting and is evaluating additional changes to its processes and internal controls to ensure the new reporting and disclosure requirements are met upon adoption. Upon adoption, the Company

currently expects to recognize additional lease liabilities totaling between \$165.0 million and \$185.0 million, with corresponding ROU assets. The liabilities will be calculated as the present value of the remaining minimum rental payments for existing operating leases. This estimate could change due to factors including future lease versus buy decisions and acquisitions and dispositions of assets under lease arrangements.

Additionally, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenues will be accounted for under the current lease accounting standard, Accounting Standards Codification ("ASC") Topic 840, Leases, ("Topic 840") until the adoption of the new lease accounting standard ("Topic 842"). While the Company's review of the equipment rental revenue under Topic 842 is ongoing, the Company has preliminarily concluded that no significant changes are expected to the accounting for most of its equipment rental revenues upon adoption of Topic 842.

#### Income Statement - Reporting Comprehensive Income

In February 2018, the FASB issued guidance that allows reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") that would otherwise be

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

stranded in accumulated other comprehensive income. This guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company is in the process of assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

## Note 3—Revenue Recognition

The Company is principally engaged in the business of renting equipment. Ancillary to the Company's principal equipment rental business, the Company also sells used rental equipment, new equipment and parts and supplies and offers certain services to support its customers. The Company's business is primarily focused in North America with revenue from the United States representing approximately 89.6% and 88.7% of total revenue for the three and nine months ended September 30, 2018, respectively, compared to 88.6% and 88.2% for the same periods in 2017.

The Company's rental transactions are principally accounted for under Topic 840. The Company's sale of rental and new equipment, parts and supplies along with certain services provided to customers are accounted for under ASC Topic 606, Revenue from Contracts with Customers ("Topic 606"). Prior to the adoption of Topic 606, the Company accounted for these non-rental transactions under ASC Topic 605, Revenue Recognition ("Topic 605").

The following tables summarize the applicable accounting guidance for the Company's revenues for the three and nine months ended September 30, 2018 and 2017, respectively (in millions):

	Three Months Ended September 30,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Equipment rental	\$404.8	\$—	\$404.8	\$375.3	\$—	\$375.3
Other rental revenue:						
Delivery and pick-up	—	25.5	25.5	—	21.4	21.4
Other	18.7	—	18.7	16.4	—	16.4
Total other rental revenues	18.7	25.5	44.2	16.4	21.4	37.8
Total equipment rentals	423.5	25.5	449.0	391.7	21.4	413.1
Sales of rental equipment	—	50.1	50.1	—	27.7	27.7
Sales of new equipment, parts and supplies	—	14.2	14.2	—	13.9	13.9
Service and other revenues	—	2.9	2.9	—	2.9	2.9
Total revenues	\$423.5	\$92.7	\$516.2	\$391.7	\$65.9	\$457.6
	Nine Months Ended September 30,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Equipment rental	\$1,101.6	\$—	\$1,101.6	\$993.9	\$—	\$993.9
Other rental revenue:						
Delivery and pick-up	—	63.9	63.9	—	54.3	54.3
Other	45.1	—	45.1	36.3	—	36.3
Total other rental revenues	45.1	63.9	109.0	36.3	54.3	90.6
Total equipment rentals	1,146.7	63.9	1,210.6	1,030.2	54.3	1,084.5
Sales of rental equipment	—	175.6	175.6	—	128.5	128.5

Edgar Filing: HERC HOLDINGS INC - Form 10-Q

Sales of new equipment, parts and supplies	—	36.4	36.4	—	40.3	40.3	
Service and other revenues	—	10.4	10.4	—	9.5	9.5	
Total revenues		\$1,146.7	\$286.3	\$1,433.0	\$1,030.2	\$232.6	\$1,262.8

13

---

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

## Topic 840 revenues

## Equipment Rental Revenue

Equipment rental revenue includes revenue generated from renting equipment to customers and is recognized on a straight-line basis over the length of the rental contract. The Company offers a broad portfolio of equipment for rent on a daily, weekly or monthly basis with most rental agreements cancelable upon the return of the equipment. Virtually all customer contracts can be canceled with no penalty by the customer by returning the equipment within one day, therefore, the Company does not allocate the transaction price between the different contract elements. Also included in equipment rental revenue is re-rent revenue in which the Company will rent specific pieces of equipment from vendors and then re-rent that equipment to its customers. Provisions for discounts, rebates to customers and other adjustments are provided for in the period the related revenue is recorded.

## Other

Other equipment rental revenue is primarily comprised of fees for the Company's rental protection program and environmental charges. Fees paid for the rental protection program allow customers to limit the risk of financial loss in the event the Company's equipment is damaged or lost. Fees for the rental protection program and environmental recovery fees are recognized on a straight-line basis over the length of the rental contract.

## Topic 606 revenues

## Delivery and pick-up

Delivery and pick-up revenue associated with renting equipment is recognized when the services are performed.

## Sales of Rental Equipment, New Equipment, Parts and Supplies

The Company sells its used rental equipment, new equipment, parts and supplies. Revenues recorded for each category are as follows (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Sales of rental equipment	\$50.1	\$27.7	\$175.6	\$128.5
Sales of new equipment	5.1	7.4	15.5	20.8
Sales of parts and supplies	9.1	6.5	20.9	19.5
Total	\$64.3	\$41.6	\$212.0	\$168.8

The Company recognizes revenue from the sale of rental equipment, new equipment, parts and supplies when control of the asset transfers to the customer, which is typically when the asset is picked up by or delivered to the customer and when significant risks and rewards of ownership have passed to the customer. Sales and other tax amounts collected from customers and remitted to government authorities are accounted for on a net basis and, therefore, excluded from revenue.

The Company routinely sells its used rental equipment in order to manage repair and maintenance costs, as well as the composition, age and size of its fleet. The Company disposes of used equipment through a variety of channels including retail sales to customers and other third parties, sales to wholesalers, brokered sales and auctions.

The Company also sells new equipment, parts and supplies. The types of new equipment that the Company sells vary by location and include a variety of ProContractor tools and supplies, small equipment (such as work lighting, generators, pumps, compaction equipment and power trowels), safety supplies and expendables.



Under Topic 606, the accounts receivable balance, prior to allowances for doubtful accounts, for the sale of rental equipment, new equipment, parts and supplies, was approximately \$19.6 million as of September 30, 2018.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Service and other revenues

Service and other revenues primarily include revenue earned from equipment management and similar services for rental customers which includes providing customer support functions such as dedicated in-plant operations, plant management services, training, and repair and maintenance services particularly to industrial customers who request such services.

The Company recognizes revenue for service and other revenues as the services are provided. Service and other revenues are typically invoiced together with a customer's rental amounts and, therefore, it is not practical for the Company to separate the accounts receivable amount related to services and other revenues that are accounted for under Topic 606; however, such amount is not considered material.

Receivables and contract assets and liabilities

Most of the Company's equipment rental revenue is accounted for under Topic 840. The customers that are responsible for the remaining revenue that is accounted for under Topic 606 are generally the same customers that rent the Company's equipment. Concentration of credit risk with respect to the Company's accounts receivable is limited because a large number of geographically diverse customers makes up its customer base. No single customer makes up more than 3% of the Company's equipment rental revenue or accounts receivable balance for the last three years. The Company manages credit risk associated with its accounts receivable at the customer level through credit approvals, credit limits and other monitoring procedures. The Company maintains allowances for doubtful accounts that reflect the Company's estimate of the amount of receivables that the Company will be unable to collect based on its historical write-off experience.

The Company does not have contract assets or material contract liabilities associated with customer contracts. The Company's contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. The Company did not recognize material revenue during the three and nine months ended September 30, 2018 that was included in the contract liability balance as of the beginning of such period.

Performance obligations

Most of the Company's revenue recognized under Topic 606 is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, the Company does not generally recognize a significant amount of revenue from performance obligations satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the three and nine months ended September 30, 2018 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2018.

Contract estimates and judgments

The Company's revenues accounted for under Topic 606 generally do not require significant estimates or judgments, primarily for the following reasons:

- The transaction price is generally fixed and stated on the Company's contracts;
- As noted above, the Company's contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation;
- The Company's revenues do not include material amounts of variable consideration; and

Most of the Company's revenue is recognized as of a point-in-time and the timing of the satisfaction of the applicable performance obligations is readily determinable. As noted above, the revenue recognized under Topic 606 is generally recognized at the time of delivery to, or pick-up by, the customer.

The Company monitors and reviews its estimated standalone selling prices on a regular basis.

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

## Note 4—Rental Equipment

Rental equipment consists of the following (in millions):

	September 30, 2018	December 31, 2017
Rental equipment	\$ 4,012.9	\$3,757.2
Less: Accumulated depreciation (1,392.1 )	(1,392.1 )	(1,382.6 )
Rental equipment, net	\$ 2,620.8	\$2,374.6

## Note 5—Debt

The Company's debt consists of the following (in millions):

	Weighted Average Effective Interest Rate at September 30, 2018	Weighted Average Stated Interest Rate at September 30, 2018	Fixed or Floating Interest Rate	Maturity	September 30, 2018	December 31, 2017
Senior Secured Second Priority Notes						
2022 Notes	7.88%	7.50%	Fixed	2022	\$ 427.0	\$ 488.0
2024 Notes	8.06%	7.75%	Fixed	2024	437.5	500.0
Other Debt						
ABL Credit Facility	N/A	3.90%	Floating	2021	1,177.8	1,130.0
AR Facility	N/A	2.87%	Floating	2020	175.0	—
Capital leases	4.15%	N/A	Fixed	2018-2022	42.5	53.7
Other borrowings	N/A	4.79%	Floating	2018	6.3	2.6
Unamortized Debt Issuance Costs <sup>(a)</sup>					(11.0 )	(14.5 )
Total debt					2,255.1	2,159.8
Less: Current maturities of long-term debt					(26.1 )	(22.7 )
Long-term debt, net					\$ 2,229.0	\$ 2,137.1

Unamortized debt issuance costs totaling \$11.4 million and \$13.3 million related to the ABL Credit Facility and, as (a) of September 30, 2018, the AR Facility (as each is defined below) are included in "Other long-term assets" in the condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017, respectively.

The effective interest rates for the fixed rate 2022 Notes and 2024 Notes (as defined below) include the stated interest on the notes and the amortization of any debt issuance costs.

## Senior Secured Second Priority Notes

In June 2016, Herc issued \$610.0 million aggregate principal amount of 7.50% senior secured second priority notes due 2022 (the "2022 Notes") and \$625.0 million aggregate principal amount of 7.75% senior secured second priority notes due 2024 (the "2024 Notes" and, together with the 2022 Notes, the "Notes"). In March and October 2017, Herc drew down on its ABL Credit Facility (as defined below) and cumulatively redeemed \$122.0 million in aggregate principal amount of the 2022 Notes and \$125.0 million in aggregate principal amount of the 2024 Notes.

On July 12, 2018, for the redemption period from June 1, 2018 to May 31, 2019, Herc drew down on its ABL Credit Facility (as defined below) and redeemed \$61.0 million in aggregate principal amount of the 2022 Notes and \$62.5 million in aggregate principal amount of the 2024 Notes and recorded a \$5.4 million loss on the early extinguishment of debt, comprised of a 3% cash premium totaling \$3.7 million and a non-cash charge of \$1.7 million for the write-off of unamortized debt issuance costs. The loss on early extinguishment of debt is included in "Interest expense, net" in the Company's condensed consolidated statement of operations.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

ABL Credit Facility

The Company's asset-based revolving credit agreement, executed by its Herc subsidiary, provides for senior secured revolving loans up to a maximum aggregate principal amount of \$1,750 million (subject to availability under a borrowing base), including revolving loans in an aggregate principal amount of \$350 million available to Canadian borrowers and U.S. borrowers (the "ABL Credit Facility"). Up to \$250 million of the revolving loan facility is available for the issuance of letters of credit, subject to certain conditions including issuing lender participation. Extensions of credit under the ABL Credit Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible rental equipment, eligible service vehicles, eligible spare parts and merchandise, eligible accounts receivable, and eligible unbilled accounts subject to certain reserves and other adjustments. Subject to the satisfaction of certain conditions and limitations, the ABL Credit Facility allows for the addition of incremental revolving and/or term loan commitments. In addition, the ABL Credit Facility permits Herc to increase the amount of commitments under the ABL Credit Facility with the consent of each lender providing an additional commitment, subject to satisfaction of certain conditions.

Accounts Receivable Securitization Facility

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of \$175 million that matures on September 16, 2020. In connection with the AR Facility, Herc and one of its wholly-owned subsidiaries sell their accounts receivables on an ongoing basis to Herc Receivables U.S. LLC, a wholly-owned special-purpose entity (the "SPE"). The SPE's sole business consists of the purchase by the SPE of accounts receivable from Herc and the Herc subsidiary seller and borrowing by the SPE against the eligible accounts receivable from the lenders under the facility. The borrowings are secured by liens on the accounts receivable and other assets of the SPE. Collections on the accounts receivable are used to service the borrowings. The SPE is a separate legal entity which is consolidated in the Company's financial statements. The SPE assets are owned by the SPE and are not available to settle the obligations of the Company or any of its other subsidiaries. Herc is the servicer of the accounts receivable under the AR Facility. At September 30, 2018, \$175.0 million was outstanding under the AR Facility, representing net cash proceeds received from the lenders.

The agreements governing the AR Facility contain restrictions and covenants which include limitations applicable to Herc, the Herc subsidiary seller and the SPE on the creation of certain liens, and restrictions and covenants which include limitations applicable to the SPE on the making of certain restricted payments, and limitations applicable to Herc and the SPE with respect to certain corporate acts such as mergers, consolidations and the sale of substantially all assets, with certain exceptions. The Company was in compliance with all such covenants as of September 30, 2018.

The financing agreement with the lenders provides for customary events of default (subject to customary exceptions, thresholds and grace periods) including, without limitation, failure to perform covenants, ineffectiveness of transaction documents, invalidity of security interests or failure to cooperate in the administrative agent's assumption of control of accounts, material inaccuracy of representations or warranties, failure of certain ratios related to the accounts receivables, specified cross default and cross acceleration to other material indebtedness, certain bankruptcy events, certain ERISA events, material judgments, material adverse effect and change in control.

All of the obligations of the Herc subsidiary seller and the servicer and certain indemnification obligations of the SPE under the agreements governing the AR Facility are guaranteed by Herc pursuant to a performance guarantee.

#### Other Borrowings

The Company's subsidiary in China has uncommitted credit agreements with a bank for up to the aggregate principal amount of \$10.0 million. Interest accrues on the loans drawn under these facilities at a rate of 110% of the prevailing base lending rates published by People's Bank of China and is payable quarterly. As of September 30, 2018, the Company had short-term borrowings under these facilities totaling \$6.3 million.

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

## Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company under the ABL Credit Facility and AR Facility as of September 30, 2018 (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 546.7	\$ 546.7
AR Facility	—	—
Total	\$ 546.7	\$ 546.7

In addition, as of September 30, 2018, the Company's subsidiary in China had uncommitted credit facilities of which \$3.7 million was available for borrowing.

## Letters of Credit

As of September 30, 2018, \$25.5 million of standby letters of credit were issued and outstanding, none of which have been drawn upon. The ABL Credit Facility had \$224.5 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

## Note 6—Financing Obligations

In October 2017, Herc consummated a sale-leaseback transaction pursuant to which it sold 42 of its properties located in the U.S. for gross proceeds of approximately \$119.5 million, and entered into a master lease agreement pursuant to which it has continued operations at those properties as a tenant. The triple net lease agreement has an initial term of 20 years, subject to extension, at Herc's option, for up to five additional periods of five years each. The sale of the properties did not qualify for sale-leaseback accounting due to continuing involvement with the properties. Therefore, the book value of the buildings and land remains on the Company's condensed consolidated balance sheet.

The Company's financing obligations consist of the following (in millions):

	Weighted Average Effective Interest Rate at September 30, 2018	Maturity	September 30, 2018	December 31, 2017
Financing obligations	4.62%	2037	\$ 116.2	\$ 118.2
Unamortized financing issuance costs			(2.5 )	(2.6 )
Total financing obligations			113.7	115.6
Less: Current maturities of financing obligations			(2.8 )	(2.7 )
Financing obligations, net			\$ 110.9	\$ 112.9

## Note 7—Income Taxes

Income tax benefit was \$1.0 million and \$5.3 million for the three and nine months ended September 30, 2018, respectively, which were primarily driven by the level of pre-tax income, which was offset by discrete items related to



the revision of the estimated one-time transition tax on earnings of certain foreign subsidiaries, non-deductible expenses, foreign taxes and valuation allowances recorded on losses generated by certain foreign loss jurisdictions. The effective tax rate for the 2018 fiscal year is expected to be approximately 2.0%.

#### Tax Cuts and Jobs Act

The 2017 Tax Act was enacted in December 2017 which reduced the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

new taxes on certain foreign sourced earnings. The Company is following the provisions of Staff Accounting Bulletin No. 118 ("SAB 118"), which was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. As of December 31, 2017, the Company determined a reasonable estimate of (i) the effects on existing deferred tax balances and (ii) the one-time transition tax. The Company recognized a provisional income tax benefit of \$207.1 million in the year ended December 31, 2017 associated with these items that it reasonably estimated. During the three months ended September 30, 2018, the Company reduced its estimate of the one-time transition tax by \$24.5 million, resulting in a net \$14.8 million benefit after consideration of the Company's net operating loss carryforwards. The Company is continuing to collect and analyze detailed information about the earnings and profits of its non-U.S. subsidiaries, the amounts which could be repatriated, the foreign taxes which may be incurred on repatriation, and the associated impact of these items under the 2017 Tax Act. The Company may record further adjustments to refine those estimates during the fourth quarter of 2018, as additional analysis is completed.

The 2017 Tax Act subjects U.S. shareholders to a tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. Entities can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the tax impact and has not yet made the accounting policy election.

## Note 8—Accumulated Other Comprehensive Income (Loss)

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) for the nine months ended September 30, 2018 are presented in the table below (in millions).

	Pension and Other Post-Employment Benefits	Unrealized Gains on Hedging Instruments	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017	\$ (13.5 )	\$ 1.3	\$ (86.4 )	\$ (98.6 )
Other comprehensive income (loss) before reclassification	—	2.4	(5.6 )	(3.2 )
Amounts reclassified from accumulated other comprehensive loss	0.6	—	—	0.6
Net current period other comprehensive income (loss)	0.6	2.4	(5.6 )	(2.6 )
Balance at September 30, 2018	\$ (12.9 )	\$ 3.7	\$ (92.0 )	\$ (101.2 )

Amounts reclassified from accumulated other comprehensive income (loss) to net loss were as follows (in millions):

		Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Pension and other postretirement benefit plans	Statement of Operations Caption	2018	2017	2018	2017
Amortization of actuarial losses	Selling, general and administrative	\$0.3	\$0.2	\$0.8	\$1.1
Tax benefit	Income tax benefit	(0.1 )	—	(0.2 )	(0.4 )

Total reclassifications for the period	\$0.2	\$0.2	\$0.6	\$0.7
--	-------	-------	-------	-------

Note 9—Commitments and Contingencies

Legal Proceedings

From time to time the Company is a party to various legal proceedings. Summarized below are the most significant legal proceedings to which the Company is a party.

In re Hertz Global Holdings, Inc. Securities Litigation - In November 2013, a putative shareholder class action, Pedro Ramirez, Jr. v. Hertz Global Holdings, Inc., et al., was commenced in the U.S. District Court for the District of New Jersey naming Hertz Holdings and certain of its officers as defendants and alleging violations of the federal securities

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

laws. The complaint alleged that Hertz Holdings made material misrepresentations and/or omission of material fact in its public disclosures during the period from February 25, 2013 through November 4, 2013, in violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder. The complaint sought unspecified monetary damages on behalf of the purported class and an award of costs and expenses, including counsel fees and expert fees. In June 2014, Hertz Holdings moved to dismiss the amended complaint. In October 2014, the court granted Hertz Holdings' motion to dismiss without prejudice, allowing the plaintiff to amend the complaint a second time. In November 2014, plaintiff filed a second amended complaint which shortened the putative class period and made allegations that were not substantively very different than the allegations in the prior complaint. In early 2015, Hertz Holdings moved to dismiss the second amended complaint. In July 2015, the court granted Hertz Holdings' motion to dismiss without prejudice, allowing plaintiff to file a third amended complaint. In August 2015, plaintiff filed a third amended complaint which included additional allegations, named additional then-current and former officers as defendants and expanded the putative class period to extend from February 14, 2013 to July 16, 2015. In November 2015, Hertz Holdings moved to dismiss the third amended complaint. The plaintiff then sought leave to add a new plaintiff because of challenges to the standing of the first plaintiff. The court granted plaintiff leave to file a fourth amended complaint to add the new plaintiff, and the new complaint was filed on March 1, 2016. Hertz Holdings and the individual defendants moved to dismiss the fourth amended complaint with prejudice on March 24, 2016. In April 2017, the court granted Hertz Holdings' and the individual defendants' motions to dismiss and dismissed the action with prejudice. In May 2017, plaintiff filed a notice of appeal and, in June 2018, oral argument was conducted before the U.S. Court of Appeals for the Third Circuit. In September 2018, the court affirmed the dismissal of the action with prejudice.

Governmental Investigations - In June 2014, Hertz Holdings was advised by the staff of the New York Regional Office of the SEC that it is investigating the events disclosed in certain of Hertz Holdings' filings with the SEC. In addition, starting in June 2016, Hertz Holdings and New Hertz have had communications with the United States Attorney's Office for the District of New Jersey regarding the same or similar events. New Hertz is responsible for managing these matters. The investigations and communications generally involve the restatements included in Hertz Holdings' 2014 Form 10-K and related accounting for prior periods. The Company has and intends to continue to cooperate with all governmental requests related to the foregoing. New Hertz is engaged in discussions with the enforcement staff of the New York office of the SEC ("Staff") to resolve certain matters under investigation. Any proposed settlement that might result from discussions with Staff would be subject to additional reviews and approvals, including acceptance and authorization by the SEC. The Company cannot predict the ultimate timing or the final terms of a possible settlement, including any settlement amount. Given the uncertainties associated with the matters under discussion and the immateriality to the Company of the Company's share of the minimum amount of probable loss based on current circumstances, the Company has not accrued a loss contingency at this time. However, it is possible that an adverse outcome with respect to the restatement investigations could result in losses that could be material to the Company's consolidated financial condition, results of operations or cash flows in any particular reporting period.

In addition, the Company is subject to a number of claims and proceedings that generally arise in the ordinary conduct of its business. These matters include, but are not limited to, claims arising from the operation of rented equipment and workers' compensation claims. The Company does not believe that the liabilities arising from such ordinary course claims and proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has established reserves for matters where the Company believes the losses are probable and can be reasonably estimated. For matters where a reserve has not been established, including certain of those described above, the ultimate outcome or resolution cannot be predicted at this time, or the amount of ultimate loss, if any, cannot be reasonably estimated. Litigation is subject to many uncertainties and there can be no assurance as to the outcome of the individual litigated matters. It is possible that certain of the actions, claims, inquiries or proceedings, including those discussed above, could be decided unfavorably to the Company or any of its subsidiaries involved. Accordingly, it is possible that an adverse outcome from such a proceeding could exceed the amount accrued in an amount that could be material to the Company's consolidated financial condition, results of operations or cash flows in any particular reporting period.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Off-Balance Sheet Commitments

Indemnification Obligations

In the ordinary course of business, the Company executes contracts involving indemnification obligations customary in the relevant industry and indemnifications specific to a transaction such as the sale of a business or assets or a financial transaction. These indemnification obligations might include claims relating to the following: accuracy of representations; compliance with covenants and agreements by the Company or third parties; environmental matters; intellectual property rights; governmental regulations; employment-related matters; customer, supplier and other commercial contractual relationships; condition of assets; and financial or other matters. Performance under these indemnification obligations would generally be triggered by a breach of terms of the contract or by a third party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnification obligations and has accrued for expected losses that are probable and estimable. The types of indemnification obligations for which payments are possible include the following:

The Spin-Off

In connection with the Spin-Off, pursuant to the separation and distribution agreement (as discussed in Note 14, "Arrangements with New Hertz"), the Company has assumed the liability for, and control of, all pending and threatened legal matters related to its equipment rental business and related assets, as well as assumed or retained liabilities, and will indemnify New Hertz for any liability arising out of or resulting from such assumed legal matters. The separation and distribution agreement also provides for certain liabilities to be shared by the parties. The Company is responsible for a portion of these shared liabilities (typically 15%), as set forth in that agreement. New Hertz is responsible for managing the settlement or other disposition of such shared liabilities. Pursuant to the tax matters agreement, the Company has agreed to indemnify New Hertz for any resulting taxes and related losses if the Company takes or fails to take any action (or permits any of its affiliates to take or fail to take any action) that causes the Spin-Off and related transactions to be taxable, or if there is an acquisition of the equity securities or assets of the Company or of any member of the Company's group that causes the Spin-Off and related transactions to be taxable.

Environmental

The Company has indemnified various parties for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages. The amount of any such expenses or related natural resource damages for which the Company may be held responsible could be substantial. The probable expenses that the Company expects to incur for such matters have been accrued, and those expenses are reflected in the Company's consolidated financial statements. As of September 30, 2018 and December 31, 2017, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in the Company's consolidated balance sheets in "Accrued liabilities" were \$0.1 million. The accrual generally represents the estimated cost to study potential environmental issues at sites deemed to require investigation or clean-up activities, and the estimated cost to implement remediation actions, including on-going maintenance, as required. Cost estimates are developed by site. Initial cost estimates are based on historical experience at similar sites and are refined over time on the basis of in-depth studies of the sites. For many sites, the remediation costs and other damages for which the Company ultimately may be responsible cannot be reasonably estimated

because of uncertainties with respect to factors such as the Company's connection to the site, the materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation).

Note 10—Financial Instruments

The Company established risk management policies and procedures, which seek to reduce the Company's risk exposure to fluctuations in foreign currency exchange rates and interest rates. However, there can be no assurance that these policies and procedures will be successful. Although the instruments utilized involve varying degrees of credit, market and interest risk, the counterparties to the agreements are expected to perform fully under the terms of the agreements. The Company monitors counterparty credit risk, including lenders, on a regular basis, but cannot be certain that all risks will be discerned or that its risk

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

management policies and procedures will always be effective. Additionally, in the event of default under the Company's master derivative agreements, the non-defaulting party has the option to set-off any amounts owed with regard to open derivative positions.

## Foreign Currency Exchange Rate Risk

The Company's objective in managing exposure to foreign currency fluctuations is to limit the exposure of certain cash flows and earnings to foreign currency exchange rate changes through the use of various derivative contracts. The Company experiences foreign currency risks in its global operations as a result of various factors, including intercompany local currency denominated loans, rental operations in various currencies and purchasing fleet in various currencies.

## Interest Rate Swap Arrangement

In March 2017, the Company entered into a three-year LIBOR-based interest rate swap arrangement on a portion of its outstanding ABL Credit Facility. The aggregate amount of the swap is equal to a portion of the U.S. dollar principal amount of the ABL Credit Facility and the payment dates of the swap coincide with the interest payment dates of the ABL Credit Facility. The swap contract provides for the Company to pay a fixed interest rate and receive a floating rate. The variable interest rate resets monthly. The swap has been accounted for as cash flow hedge of a portion of the ABL Credit Facility.

The following table summarizes the outstanding interest rate swap arrangement as of September 30, 2018 (dollars in millions):

	Aggregate Notional Amount	Receive Rate	Receive		Pay Rate
			Rate as of September 30, 2018	%	
ABL Credit Facility	\$ 350.0	1 month LIBOR + 1.75%	4.0	%	3.5%

The following table summarizes the estimated fair value of the Company's financial instruments (in millions):

	Fair Value of Financial Instruments			
	Other Long-Term Assets		Accrued Liabilities	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Derivatives Designated as Hedging Instruments				
Interest rate swap	\$ 5.3	\$ 2.1	\$ —	\$ —

The following table summarizes the gains and losses on derivative instruments for the periods indicated. Gains and losses recognized on foreign currency forward contracts and the effective portion of interest rate swaps are included in the condensed consolidated statements of operations together with the corresponding offsetting gains and losses on the underlying hedged transactions. All gains and losses recognized are included in "Selling, general and administrative" in the condensed consolidated statements of operations (in millions).



	Gain (Loss) Recognized	
	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018
Derivatives Not Designated as Hedging Instruments		
Foreign currency forward contracts	\$-(0.4)	\$0.2 \$(4.0)

Note 11—Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value of accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximates the carrying values because of the short-term nature of these instruments.

Table of Contents

## HERC HOLDINGS INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

## Cash Equivalents

Cash equivalents, when held, primarily consist of money market accounts which are classified as Level 1 assets which the Company measures at fair value on a recurring basis. The Company determines the fair value of cash equivalents using a market approach based on quoted prices in active markets. The Company had no cash equivalents at September 30, 2018 or December 31, 2017.

## Financial Instruments

The fair value of the Company's financial instruments as of September 30, 2018 and December 31, 2017 is shown in Note 10, "Financial Instruments." The Company's financial instruments are classified as Level 2 assets and liabilities and are priced using quoted market prices for similar assets or liabilities in active markets.

## Debt Obligations

The fair values of the Company's ABL Credit Facility, AR Facility, capital leases and other borrowings approximated their book values as of September 30, 2018 and December 31, 2017. The fair value of the Company's Notes are estimated based on quoted market rates as well as borrowing rates currently available to the Company for loans with similar terms and average maturities (Level 2 inputs) (in millions).

	September 30, 2018	December 31, 2017		
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
Notes	\$864.5	\$ 921.9	\$988.0	\$ 1,074.6

## Note 12—Earnings (Loss) Per Share

Basic earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding plus the effect of all potentially dilutive common stock equivalents, except when the effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings (loss) per share (in millions, except per share data).

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Basic and diluted earnings (loss) per share:				
Numerator:				

Edgar Filing: HERC HOLDINGS INC - Form 10-Q

Net income (loss), basic and diluted	\$46.2	\$12.8	\$35.8	\$(54.0)
Denominator:				
Basic weighted average common shares	28.5	28.3	28.4	28.3
Stock options, RSUs and PSUs	0.4	0.3	0.5	—
Weighted average shares used to calculate diluted income (loss) per share	28.9	28.6	28.9	28.3
Earnings (loss) per share:				
Basic	\$1.62	\$0.45	\$1.26	\$(1.91)
Diluted	\$1.60	\$0.45	\$1.24	\$(1.91)
Antidilutive stock options, RSUs and PSUs	0.2	0.4	0.2	0.7

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Note 13—Related Party Transactions

Agreements with Carl C. Icahn

The Company is subject to the Nomination and Standstill Agreement, dated September 15, 2014 (the "Nomination and Standstill Agreement"), with Carl C. Icahn, High River Limited Partnership, Hopper Investments LLC, Barberry Corp., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Enterprises G.P. Inc., Icahn Enterprises Holdings L.P., IPH GP LLC, Icahn Capital LP, Icahn Onshore LP, Icahn Offshore LP, Beckton Corp., Vincent J. Intrieri, Samuel Merksamer and Daniel A. Ninivaggi (collectively, the "Original Icahn Group"). In connection with their appointments or nomination, as applicable, to the Company's board of directors (the "Board"), each of Courtney Mather, Louis J. Pastor, Stephen A. Mongillo and Nicholas F. Graziano (collectively, the "Icahn Designees," and, together with the Original Icahn Group, the "Icahn Group") executed a Joinder Agreement agreeing to become bound as a party to the terms and conditions of the Nomination and Standstill Agreement (such Joinder Agreements, together with the Nomination and Standstill Agreement, are collectively referred to herein as the "Icahn Agreements").

Pursuant to the Icahn Agreements, Messrs. Mather, Pastor and Mongillo were appointed to the Company's Board effective June 30, 2016 and Mr. Graziano was elected to the Board at the Company's 2018 annual meeting of stockholders in place of Mr. Mongillo. Pursuant to the Icahn Agreements, so long as an Icahn Designee is a member of the Board, the Board will not be expanded beyond its current size of 11 members without approval from the Icahn Designees then on the Board. In addition, pursuant to the Icahn Agreements, subject to certain restrictions and requirements, the Icahn Group will have certain replacement rights in the event an Icahn Designee resigns or is otherwise unable to serve as a director (other than as a result of not being nominated by the Company for an annual meeting).

In addition, until the date that no Icahn Designee is a member of the Board (or otherwise deemed to be on the Board pursuant to the terms of the Icahn Agreements) (the "Board Representation Period"), the Icahn Group agrees to vote all of its shares of the Company's common stock in favor of the election of all of the Company's director nominees at each annual or special meeting of the Company's stockholders, and, subject to limited exceptions, the Icahn Group further agrees to (i) adhere to certain standstill obligations, including the obligation to not solicit proxies or consents or influence others with respect to the same, and (ii) not acquire or otherwise beneficially own more than 20% of the Company's outstanding voting securities. Under the Icahn Agreements, if the Icahn Group ceases to hold a "net long position," as defined in the Nomination and Standstill Agreement, in at least 1,900,000 shares of the Company's common stock, the Icahn Group will cause one Icahn Designee to resign from the Board; if the Icahn Group's holdings are further reduced to specified levels, additional Icahn Designees are required to resign.

In addition, pursuant to the Icahn Agreements, the Company entered into a registration rights agreement, effective June 30, 2016 (the "Registration Rights Agreement"), with High River Limited Partnership, Icahn Partners LP and Icahn Partners Master Fund LP, on behalf of any person who is a member of the "Icahn group" (as such term is defined therein) who owns applicable securities at the relevant time and is or has become a party to the Registration Rights Agreement. The Registration Rights Agreement provides for customary demand and piggyback registration rights and obligations.

Note 14—Arrangements with New Hertz

In connection with the Spin-Off, the Company entered into a separation and distribution agreement (the "Separation Agreement") with New Hertz. In connection therewith, the Company also entered into various other ancillary agreements with New Hertz to effect the Spin-Off and provide a framework for its relationship with New Hertz. The following summarizes some of the most significant agreements and relationships that Herc Holdings continues to have with New Hertz.

#### Separation and Distribution Agreement

The Separation Agreement sets forth the Company's agreements with New Hertz regarding the principal actions taken in connection with the Spin-Off. It also sets forth other agreements that govern aspects of the Company's relationship with New Hertz following the Spin-Off including (i) the manner in which legal matters and claims are allocated and certain liabilities are shared between the Company and New Hertz; (ii) other matters including transfers of assets and liabilities, treatment or termination of intercompany arrangements and releases of certain claims between the parties and their affiliates; (iii) mutual indemnification clauses; and (iv) allocation of Spin-Off expenses between the parties.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Transition Services Agreement

The Company entered into a transition services agreement ("TSA"), pursuant to which New Hertz or its affiliates provided, during the three and nine months ended September 30, 2018, specified services, primarily consisting of IT support, to the Company on a transitional basis to help ensure an orderly transition following the Spin-Off. Effective upon the migration of the Company's financial systems from the New Hertz system to a stand-alone system in July 2018, the Company receives no further services from New Hertz under the TSA. During the three and nine months ended September 30, 2018, the Company incurred expenses of \$0.6 million and \$6.3 million, respectively, under the TSA which are included in "Direct operating" and "Selling, general and administrative" expenses in the Company's condensed consolidated statements of operations, compared to \$4.2 million and \$14.3 million for the same periods in 2017.

Tax Matters Agreement

The Company entered into a tax matters agreement (the "Tax Matters Agreement") with New Hertz that governs the parties' rights, responsibilities and obligations after the Spin-Off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax matters regarding income taxes, other taxes and related tax returns.

Employee Matters Agreement

The Company and New Hertz entered into an employee matters agreement to allocate liabilities and responsibilities relating to employment matters, employee compensation, benefit plans and programs and other related matters for current and former employees of the vehicle rental business and the equipment rental business.

Intellectual Property Agreement

The Company and New Hertz entered into an intellectual property agreement (the "Intellectual Property Agreement") that provides for ownership, licensing and other arrangements regarding the trademarks and related intellectual property that New Hertz and the Company use in conducting their businesses. The Intellectual Property Agreement allocates ownership between New Hertz and the Company of all trademarks, domain names and certain copyrights that Hertz Holdings or its subsidiaries owned immediately prior to the Spin-Off.

Real Estate Arrangements

The Company and New Hertz entered into certain real estate lease agreements pursuant to which the Company leased certain office space from New Hertz through June 30, 2018 and New Hertz leased certain rental facilities space from the Company through April 30, 2018. Rent payments were negotiated based on comparable fair market rental rates.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes included in Part I, Item 1 of this Quarterly Report, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts in our unaudited condensed consolidated financial statements and the accompanying notes including allowance for accounts receivable, depreciation of rental equipment, the recoverability of long-lived assets, useful lives and impairment of long-lived tangible and intangible assets including goodwill and trade name, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies, accounting for income taxes and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and our knowledge of actions that we may undertake in the future in determining the estimates that will affect our condensed consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

OVERVIEW OF OUR BUSINESS AND OPERATING ENVIRONMENT

We are engaged principally in the business of renting equipment. Ancillary to our principal business of equipment rental, we also sell used rental equipment, sell new equipment and consumables and offer certain services and support to our customers. Our profitability is dependent upon a number of factors including the volume, mix and pricing of rental transactions and the utilization of equipment. Significant changes in the purchase price or residual values of equipment or interest rates can have a significant effect on our profitability depending on our ability to adjust pricing for these changes. Our business requires significant expenditures for equipment, and consequently we require substantial liquidity to finance such expenditures. See "Liquidity and Capital Resources" below.

Our revenues primarily are derived from rental and related charges and consist of:

- Equipment rental (includes all revenue associated with the rental of equipment including ancillary revenue from delivery, rental protection programs and fueling charges);
- Sales of rental equipment and sales of new equipment, parts and supplies;
- and
- Service and other revenue (primarily relating to training and labor provided to customers).

Our expenses primarily consist of:

- Direct operating expenses (primarily wages and related benefits, facility costs and other costs relating to the operation and rental of rental equipment, such as delivery, maintenance and fuel costs);
- Cost of sales of rental equipment, new equipment, parts and supplies;
- Depreciation expense relating to rental equipment;
- Selling, general and administrative expenses; and
- Interest expense.

### Seasonality

Our business is seasonal, with demand for our rental equipment tending to be lower in the winter months, particularly in the northern United States and Canada. Our equipment rental business, especially in the construction industry, has historically experienced decreased levels of business from December until late spring and heightened activity during our third and fourth quarters until December. We have the ability to manage certain costs to meet market demand, such as fleet capacity, the most significant portion of our cost structure. For instance, to accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. A number of our other major operating costs vary directly with revenues or



## HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

transaction volumes; however, certain operating expenses, including rent, insurance and administrative overhead, remain fixed and cannot be adjusted for seasonal demand, typically resulting in higher profitability in periods when our revenues are higher, and lower profitability in periods when our revenues are lower. To reduce the impact of seasonality, we are focused on expanding our customer base through specialty products that serve different industries with less seasonality and different business cycles.

## RESULTS OF OPERATIONS

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Equipment rental	\$449.0	\$413.1	\$ 35.9	8.7 %	\$1,210.6	\$1,084.5	\$126.1	11.6 %
Sales of rental equipment	50.1	27.7	22.4	80.9	175.6	128.5	47.1	36.7
Sales of new equipment, parts and supplies	14.2	13.9	0.3	2.2	36.4	40.3	(3.9 )	(9.7 )
Service and other revenue	2.9	2.9	—	—	10.4	9.5	0.9	9.5
Total revenues	516.2	457.6	58.6	12.8	1,433.0	1,262.8	170.2	13.5
Direct operating	194.4	188.1	6.3	3.3	584.9	525.6	59.3	11.3
Depreciation of rental equipment	98.3	96.3	2.0	2.1	288.6	283.5	5.1	1.8
Cost of sales of rental equipment	51.1	28.6	22.5	78.7	168.9	134.9	34.0	25.2
Cost of sales of new equipment, parts and supplies	10.6	10.8	(0.2 )	(1.9 )	27.7	30.3	(2.6 )	(8.6 )
Selling, general and administrative	78.4	84.5	(6.1 )	(7.2 )	230.2	244.4	(14.2 )	(5.8 )
Impairment	—	—	—	—	0.1	29.3	(29.2 )	(99.7 )
Interest expense, net	38.6	32.4	6.2	19.1	103.0	101.8	1.2	1.2
Other income, net	(0.4 )	(1.7 )	1.3	(76.5 )	(0.9 )	(1.5 )	0.6	(40.0 )
Income (loss) before income taxes	45.2	18.6	26.6	(143.0)	30.5	(85.5 )	116.0	135.7
Income tax benefit (provision)	1.0	(5.8 )	6.8	(117.2)	5.3	31.5	(26.2 )	(83.2 )
Net income (loss)	\$46.2	\$12.8	\$ 33.4	260.9 %	\$35.8	\$(54.0 )	\$89.8	166.3 %

## Three Months Ended September 30, 2018 Compared with Three Months Ended September 30, 2017

Equipment rental revenue increased \$35.9 million, or 8.7%, during the third quarter of 2018 when compared to the third quarter of 2017. The increase was attributable to a higher level of equipment on rent resulting from higher demand from existing customers as well as diversifying and growing our customer base, including through increases in our ProSolutions<sup>TM</sup> and ProContractor product offerings. Additionally, pricing increased by 3.2% during the third quarter of 2018 as compared to the third quarter of 2017.

Sales of rental equipment increased \$22.4 million, or 80.9%, during the third quarter of 2018 when compared to the third quarter of 2017 as we increased the volume of sales to improve the equipment mix and reduce fleet age. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 102.0% in the third quarter of 2018 compared to 103.2% in the third quarter of 2017. The loss on sale of rental equipment in the third quarter of 2018 was primarily due to a higher proportion of sales through the lower-margin auction channel.

Edgar Filing: HERC HOLDINGS INC - Form 10-Q

Sales of new equipment, parts and supplies increased \$0.3 million, or 2.2%, during the third quarter of 2018 when compared to the third quarter of 2017. The cost of sales of new equipment, parts and supplies as a percentage of the related revenue was 74.6% for the third quarter of 2018 compared to 77.7% for the third quarter of 2017. The decrease was due to the mix of the new equipment sold.

Direct operating expenses increased \$6.3 million, or 3.3%, in the third quarter of 2018 when compared to the third quarter of 2017 primarily due to the following:

Fleet and related expenses decreased \$0.2 million primarily as a result of a decrease in maintenance expense of \$2.5

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

million due to an overall reduction in fleet age and efficiencies gained by reducing the number brands of equipment in our fleet. Additionally, delivery and freight expense decreased by \$1.4 million primarily due to better management of transportation costs through the roll-out of a third party logistics program. These decreases were partially offset by higher fuel expense of \$2.7 million driven by higher gas prices and sales volume.

Personnel-related expenses increased \$6.3 million as a result of an increase in salary and salary related expenses primarily associated with continued investment in branch management to drive operational improvements and investments in branch operating personnel to support revenue growth.

Other direct operating costs increased \$0.2 million primarily due to increased depreciation and amortization of \$0.7 million primarily related to an increase in service vehicles.

Depreciation of rental equipment increased \$2.0 million, or 2.1%, in the third quarter of 2018 when compared with the same period in 2017. The increase was due to a larger fleet size in the third quarter of 2018 as compared to the same period in 2017. The increase was partially offset by additional depreciation recognized in third quarter of 2017, based on the reduction in residual values and the planned holding period of certain classes of assets, that did not recur during the third quarter of 2018.

Selling, general and administrative expenses decreased \$6.1 million, or 7.2%, in the third quarter of 2018 when compared to the third quarter of 2017. The decline was primarily due to a decrease in Spin-Off related costs of \$8.6 million partially offset by a \$2.8 million increase for additional sales personnel and related commissions and incentives to drive revenue growth.

Interest expense, net increased \$6.2 million, or 19.1%, in the third quarter of 2018 when compared to the third quarter of 2017 due to a \$5.4 million loss on the early extinguishment of a portion of the Notes, increased interest expense on the ABL Credit Facility of \$3.9 million based on higher average outstanding borrowings and a higher average interest rate during the third quarter of 2018 compared to the same period in 2017 and an increase of \$1.4 million related to interest on our financing obligations that were established in the fourth quarter of 2017. Offsetting this increase was a decrease in interest expense of \$4.7 million on the Notes in the third quarter of 2018 due to lower average outstanding borrowings due to the redemptions made in July 2018 and October 2017.

Income tax benefit was \$1.0 million for the third quarter of 2018 compared to income tax provision of \$5.8 million for the same period in 2017. The income tax benefit in 2018 was primarily driven by the level of pre-tax income, which was offset by discrete items due to a revision in the one-time estimated transition tax on earnings of certain foreign subsidiaries resulting in a \$14.8 million net benefit. Income tax expense in the comparable period of 2017 was primarily driven by the level of pre-tax income and certain nondeductible charges within the quarter.

Nine Months Ended September 30, 2018 Compared with Nine Months Ended September 30, 2017

Equipment rental revenue increased \$126.1 million or 11.6%, during the nine months ended September 30, 2018 when compared with the prior-year period. The increase was attributable to a higher level of rental equipment on rent resulting from higher demand from existing customers as well as diversifying and growing our customer base, including through increases in our ProSolutions™ and ProContractor product offerings. Additionally, pricing increased by 3.0% during the nine months ended September 30, 2018 when compared with the prior-year period.

Sales of rental equipment increased \$47.1 million, or 36.7%, during the nine months ended September 30, 2018 when compared with the prior-year period as we increased the volume of sales to improve the equipment mix and reduce fleet age. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 96.2% during the nine months ended September 30, 2018 compared to 105.0% in the prior-year period. The improvement in margin was due to improved pricing based on a strong market for used rental equipment.

Sales of new equipment, parts and supplies decreased \$3.9 million, or 9.7%, during the nine months ended September 30, 2018 when compared with the prior-year period driven by our overall reduction of new equipment sales programs. The cost of sales of new equipment, parts and supplies as a percentage of the related revenue was 76.1% during the nine months ended September 30, 2018 compared to 75.2% in the prior-year period. The increase was due to the mix of the new equipment sold.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

Direct operating expenses increased \$59.3 million, or 11.3%, during the nine months ended September 30, 2018 when compared with the prior-year period primarily due to the following:

Fleet and related expenses increased \$31.5 million primarily as a result of higher maintenance expense of \$7.5 million related to the higher level of equipment on rent and from our ongoing effort to reduce our fleet unavailable for rent. Delivery and freight expense increased \$6.3 million mainly due to an increase in deliveries associated with higher rental volume, partially offset by better management of transportation costs through the roll-out of a third party logistics program during the third quarter of 2018. Fuel expense increased by \$5.0 million driven by higher gas prices and sales volume. Equipment re-rent expense increased \$4.4 million to supplement our fleet to accommodate additional customer demand.

Personnel-related expenses increased \$22.0 million as a result of an increase in salary and salary related expenses primarily associated with continued investment in branch management to drive operational improvements and investments in branch operating personnel to support revenue growth.

Other direct operating costs increased \$5.8 million primarily due to increased depreciation and amortization of \$4.1 million primarily related to an increase in service vehicles and an increase in facilities expense of \$2.8 million.

Depreciation of rental equipment increased \$5.1 million, or 1.8%, during the nine months ended September 30, 2018 when compared with the prior-year period. The increase was due to a larger fleet size during the nine months ended September 30, 2018 when compared with the prior-year period. The increase was partially offset by additional depreciation recognized during the nine months ended September 30, 2017, based on the reduction in residual values and the planned holding period of certain classes of assets, that did not recur during the same period in 2018.

Selling, general and administrative expenses decreased \$14.2 million, or 5.8%, during the nine months ended September 30, 2018 when compared with the prior-year period. The decrease was primarily due to a decrease in Spin-Off related costs and professional fees of \$22.4 million partially offset by a \$9.2 million increase for additional sales personnel and related commissions and incentives to drive revenue growth.

Impairment charges of \$29.3 million were recorded during the nine months of 2017. The impairments related to the write-off of intangible assets previously capitalized as part of the development of new financial and point of sale systems of \$26.2 million and the impairment of certain rental equipment of \$3.1 million that was deemed held for sale at September 30, 2017.

Interest expense, net increased \$1.2 million, or 1.2%, during the nine months ended September 30, 2018 when compared with the prior-year period due to increased interest expense on the ABL Credit Facility of \$8.2 million based on higher average outstanding borrowings and a higher average interest rate during the nine months ended September 30, 2018 compared to the same period in 2017 and an increase of \$4.0 million related to interest on our financing obligations that were established in the fourth quarter of 2017. Offsetting this increase was a decrease in interest expense of \$11.2 million on the Notes during the nine months ended September 30, 2018 due to lower average outstanding borrowings due to the redemptions made in July 2018 and October 2017.

Income tax benefit was \$5.3 million during the nine months ended September 30, 2018 compared to \$31.5 million in the prior-year period. The income tax benefit in 2018 was primarily driven by the level of pre-tax income, which was

offset by discrete items due to a revision in the one-time estimated transition tax on earnings of certain foreign subsidiaries resulting in a \$14.8 million net benefit. Income tax benefit in the comparable period of 2017 was primarily driven by the pre-tax loss and certain nondeductible charges within the period.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs include the payment of operating expenses, purchases of rental equipment to be used in our operations and servicing of debt. Our primary sources of funding are operating cash flows, cash received from the disposal of equipment and borrowings under our debt arrangements. As of September 30, 2018, we had approximately \$2.3 billion of total nominal indebtedness outstanding. We are highly leveraged and a substantial portion of our liquidity needs arise from debt service on our indebtedness and from the funding of our costs of operations and capital expenditures.

## HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

Our liquidity as of September 30, 2018 consisted of cash and cash equivalents and unused commitments under our ABL Credit Facility. See "Borrowing Capacity and Availability" below. Our practice is to maintain sufficient liquidity through cash from operations, our ABL Credit Facility and our AR Facility to mitigate the impacts of any adverse financial market conditions on our operations. We believe that cash generated from operations and cash received from the disposal of equipment, together with amounts available under the ABL Credit Facility and the AR Facility, will be adequate to permit us to meet our obligations over the next twelve months.

## Cash Flows

Significant factors driving our liquidity position include cash flows generated from operating activities and capital expenditures. Historically, we have generated and expect to continue to generate positive cash flow from operations. Our ability to fund our capital needs will be affected by our ongoing ability to generate cash from operations and access to capital markets.

The following table summarizes the change in cash and cash equivalents for the periods shown (in millions):

	Nine Months Ended September 30,		
	2018	2017	\$ Change
Cash provided by (used in):			
Operating activities	\$375.0	\$253.6	\$121.4
Investing activities	(483.0 )	(289.0 )	(194.0 )
Financing activities	85.8	29.3	56.5
Effect of exchange rate changes	(1.3 )	1.3	(2.6 )
Net change in cash and cash equivalents	\$(23.5 )	\$(4.8 )	\$(18.7 )

## Operating Activities

During the nine months ended September 30, 2018, we generated \$121.4 million more cash from operating activities compared with the same period in 2017. The increase was related to net income in the nine months ended September 30, 2018 as compared to a loss in the same period of 2017, primarily resulting from higher revenues and lower professional fees and other Spin-Off related costs and the timing of collections of accounts receivable based on increased collection efforts, during the nine months ended September 30, 2018 as compared to the same period in 2017.

## Investing Activities

Cash used in investing activities increased \$194.0 million for the nine months ended September 30, 2018 as compared to the same period in 2017. Our primary use of cash in investing activities is for the acquisition of rental equipment and non-rental capital expenditures. We rotate our equipment and manage our fleet of rental equipment in line with customer demand and continue to invest in our information technology, service vehicles and facilities. Changes in our net capital expenditures are described in more detail in the "Capital Expenditures" section below.

## Financing Activities

Cash provided by financing activities increased \$56.5 million for the nine months ended September 30, 2018 as compared to the same period in 2017. Cash flows from financing activities during the nine months ended September 30, 2018 primarily represents our changes in debt, which included the net proceeds of \$226.3 million on our revolving lines of credit and securitization, partially offset by the redemption of \$123.5 million of our Notes.



## HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

## Capital Expenditures

Our capital expenditures relate largely to purchases of rental equipment, with the remaining portion representing purchases of property, equipment and information technology. The table below sets forth the capital expenditures related to our rental equipment and related disposals for the periods noted (in millions).

	Nine Months Ended September 30,	
	2018	2017
Rental equipment expenditures	\$617.5	\$356.3
Disposals of rental equipment	(189.1 )	(121.6 )
Net rental equipment expenditures	\$428.4	\$234.7

Net capital expenditures for rental equipment increased \$193.7 million during the nine months ended September 30, 2018 compared to the same period in 2017. During 2018, we purchased more rental equipment to increase the amount of equipment available for rent based on higher demand from our customers, with increased purchases in our ProSolutions™ and ProContractor equipment. We also sold more rental equipment to improve the equipment mix and reduce fleet age.

In 2018, we expect our net rental equipment capital expenditures to be in the range of \$525.0 million to \$540.0 million.

## Borrowing Capacity and Availability

Our ABL Credit Facility and AR Facility (together, the "Facilities") provide our borrowing capacity and availability. Creditors under the Facilities have a claim on specific pools of assets as collateral as identified in each credit agreement. Our ability to borrow under the Facilities is a function of, among other things, the value of the assets in the relevant collateral pool. We refer to the amount of debt we can borrow given a certain pool of assets as the "Borrowing Base."

The accounts receivable and other assets of the SPE are encumbered in favor of the lenders under our AR Facility. The SPE assets are owned by the SPE and are not available to settle the obligations of the Company or any of its other subsidiaries. Substantially all of the remaining assets of Herc and certain of its U.S. and Canadian subsidiaries are encumbered in favor of our lenders under our ABL Credit Facility and the Notes. None of such assets are available to satisfy the claims of our general creditors. See Note 9, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 "Financial Statements" included in our Annual Report on Form 10-K for the period ended December 31, 2017, and Note 5, "Debt" included in Part I, Item 1 "Financial Statements" of this Report for more information.

With respect to the Facilities, we refer to "Remaining Capacity" as the maximum principal amount of debt permitted to be outstanding under the Facilities (i.e., the amount of debt we could borrow assuming we possessed sufficient assets as collateral) less the principal amount of debt then-outstanding under the Facility. We refer to "Availability Under Borrowing Base Limitation" as the lower of Remaining Capacity or the Borrowing Base less the principal amount of debt then-outstanding under the Facility (i.e., the amount of debt we could borrow given the collateral we possess at such time).

Edgar Filing: HERC HOLDINGS INC - Form 10-Q

As of September 30, 2018, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 546.7	\$ 546.7
AR Facility	—	—
Total	\$ 546.7	\$ 546.7

In addition, as of September 30, 2018, the Company's subsidiary in China had uncommitted credit facilities of which \$3.7 million was available for borrowing.

As of September 30, 2018, \$25.5 million of stand by letters of credit were issued and outstanding under the ABL Credit Facility, none of which have been drawn upon. The ABL Credit Facility had \$224.5 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

Covenants

Our ABL Credit Facility, AR Facility and our Notes contain a number of covenants that, among other things, limit or restrict our ability to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay certain indebtedness, make certain restricted payments (including paying dividends, redeeming stock or making other distributions), create liens, make investments, make acquisitions, engage in mergers, fundamentally change the nature of our business, make capital expenditures, or engage in certain transactions with certain affiliates.

Under the terms of our ABL Credit Facility, AR Facility and our Notes, we are not subject to ongoing financial maintenance covenants; however, under the ABL Credit Facility, failure to maintain certain levels of liquidity will subject us to a contractually specified fixed charge coverage ratio of not less than 1:1 for the four quarters most recently ended. We are in compliance with our covenants as of September 30, 2018.

At September 30, 2018, Herc Holdings' balance sheet was substantially identical to that of Herc, the borrower, with the exception of the components of shareholders equity. For the three and nine months ended September 30, 2018 and 2017, the statements of operations of Herc Holdings and Herc were identical.

Additional information on the terms of our Notes and ABL Credit Facility is included in Note 9, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 "Financial Statements" included in our Annual Report on Form 10-K for the period ended December 31, 2017. Additional information on the terms of our AR Facility is included in Note 5, "Debt" included in Part I, Item 1 "Financial Statements" of this Report. For a discussion of the risks associated with our significant indebtedness, see Part I, Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the period ended December 31, 2017.

Dividends

Our payment of dividends on our common stock will be determined by our board of directors in its sole discretion and will depend on our business conditions, financial condition, earnings, liquidity and capital requirements, contractual restrictions and other factors. The amounts available to pay cash dividends are restricted by our debt agreements. As of the date of this Report, we have no plans to pay dividends on our common stock.

CONTRACTUAL OBLIGATIONS

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of \$175 million that matures on September 16, 2020. At September 30, 2018, \$175.0 million was outstanding under the AR Facility, representing net cash proceeds received from the lenders. See Note 5, "Debt" included in Part I, Item 1 "Financial Statements" of this Report for more information.

As of September 30, 2018, there have been no other material changes outside the ordinary course of business to our known contractual obligations as set forth in the Contractual Obligations table included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the period ended December 31, 2017.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of September 30, 2018, there have been no material changes to our indemnification obligations as disclosed in Note 16, "Commitments and Contingencies" in our Annual Report on Form 10-K for the period ended December 31, 2017. For further information, see the updated discussion on indemnification obligations included in Note 9, "Commitments and Contingencies" in Part I, Item 1 "Financial Statements" of this Report.

The information concerning the ongoing securities litigation, governmental investigations and other contingencies, including environmental contingencies and the amount currently held in reserve for environmental matters, contained in Note 9, "Commitments and Contingencies" in Part I, Item 1 "Financial Statements" of this Report.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" in Part I, Item 1 "Financial Statements" of this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks, including the effects of changes in interest rates (including credit spreads), foreign currency exchange rates and fluctuations in fuel prices. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage our exposure to counterparty nonperformance on such instruments.

As of September 30, 2018, there has been no material change in the information reported under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the period ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our senior management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined under Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2018, due to the identification of material weaknesses in our internal control over financial reporting previously identified and reported in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") which, as described below, continue to exist, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act, and the rules promulgated thereunder, 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 its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Previously Reported Material Weaknesses in Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). As reported in our 2017 Form 10-K, we did not maintain effective internal control over financial reporting as of December 31, 2017 as a result of material weaknesses in the Risk Assessment and Control Activities areas. A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Refer to Item 9A in our 2017 Form 10-K for a description of our material

weaknesses and remediation efforts undertaken by management.

#### Remediation of Previously Reported Material Weakness

We have remediated the material weakness associated with ineffective design and maintenance of controls to monitor certain IT systems that the Company outsourced to New Hertz under the TSA (the “TSA Controls”). Effective July 28, 2018, the Company’s financial systems (“financial systems”) were migrated from the New Hertz system to Company-maintained stand-alone systems that are governed by the Company's controls in our environment to address the associated risk. The Company receives no further services from New Hertz under the TSA and, therefore, the TSA Controls are no longer required to be maintained as part of our internal control over financial reporting.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 4. CONTROLS AND PROCEDURES (continued)

Remediation Efforts and Status of Remaining Previously Reported Material Weaknesses

Our remaining material weaknesses were not remediated at September 30, 2018; however, during the nine months ended September 30, 2018, we have undertaken steps toward remediation of the remaining material weaknesses identified in our internal control over financial reporting. Our Board of Directors and management take internal control over financial reporting and the integrity of the Company's financial statements seriously and believe that the steps described below are essential to implementing strong and effective internal control over financial reporting and a strong internal control environment.

Our management continues to strengthen our internal control over financial reporting and to remediate the remaining material weaknesses identified in the 2017 Form 10-K, including assessing the additional remediation steps needed and implementing measures to remediate the underlying causes that gave rise to the remaining material weaknesses. The following steps are among the measures taken by the Company in addition to continuing the remediation efforts described in Item 9A in our 2017 Form 10-K. As indicated below, a number of these initiatives directly relate to strengthening our controls and addressing specific control deficiencies which contributed to the remaining material weaknesses. Because of these efforts, as of the date of this filing, the Company believes it has made progress toward remediating the underlying causes of the remaining material weaknesses. Specifically, the Company has undertaken the following steps during the nine months ended September 30, 2018, to remediate the deficiencies underlying the remaining material weaknesses:

We developed and have implemented the revised control activities and procedures associated with user access and privileged access to our IT systems, including our financial applications and data, with appropriate segregation of duties. We have provided, and will continue to provide, ongoing training to IT system control owners regarding risks, controls and maintaining adequate control evidence. In addition, we have hired and will continue to hire additional resources to administer IT general controls and IT systems. During the nine months ended September 30, 2018, the Company commenced testing of the redesigned controls directly related to the identified material weakness. We believe additional time is needed to demonstrate sustainability as it relates to the operating effectiveness of the revised controls.

We developed and have implemented redesigned controls over the occurrence of equipment rental revenue. In addition, we have delivered supplemental training to appropriate field personnel to strengthen the understanding of the Company's policies and revised controls implemented regarding rental of equipment. During the nine months ended September 30, 2018, the Company commenced testing of the redesigned controls directly related to the identified material weakness. We believe additional time is needed to demonstrate sustainability as it relates to the operating effectiveness of the revised controls.

We developed and have implemented enhanced policies and procedures relating to account reconciliations and analysis, including enhancing our documentation to reflect the control attributes that are performed. During the nine months ended September 30, 2018, the Company commenced testing of the redesigned controls directly related to the identified material weakness. We believe additional time is needed to demonstrate sustainability as it relates to the operating effectiveness of the revised controls.

We developed and have implemented a revised control over the estimate of earned but unbilled revenue. During the nine months ended September 30, 2018, the Company commenced testing of the redesigned control directly related to the identified material weakness. We believe additional time is needed to demonstrate sustainability as it relates to the operating effectiveness of the revised control.

We developed and are implementing enhanced policies, procedures and controls to allow for more timely and increased oversight by our management of the tax provision process and related controls. In addition, we identified and are implementing technology improvements designed to enhance the functionality of our tax provision software to automate tasks and control workflow.

The Company continues to hire additional personnel with the requisite skillsets in certain areas important to financial reporting and internal controls. During the nine month period ended September 30, 2018, the Company hired a Chief Financial Officer, a Director of Sarbanes-Oxley Compliance and a Director of IT Governance, Risk & Compliance who enhance the Company's internal expertise and strengthen the leadership of the Company. These new finance team members will supplement and support the Company's substantial efforts to design, operate and oversee effective internal controls over financial reporting. Also, we have supplemented and enhanced resources related to training and development for our organization.



Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 4. CONTROLS AND PROCEDURES (continued)

The Audit Committee of the Board of Directors is monitoring management's ongoing remediation efforts. With the Audit Committee's oversight, management has dedicated significant resources and efforts to improve our internal control environment to remedy the identified material weaknesses. As we continue to evaluate and implement improvements to our internal control over financial reporting, our management may decide to take additional measures to address our control deficiencies or to modify the remediation efforts undertaken. Because the reliability of the internal control process requires repeatable execution, our remaining material weaknesses cannot be considered fully remediated until all remedial processes and procedures (including additional remediation efforts identified by our senior management as necessary) have been implemented, each applicable control has operated for a sufficient period of time, and management has concluded, through testing, that the controls are operating effectively. Until all identified remaining material weaknesses are remediated, we will not be able to assert that our internal controls are effective. Further, management may identify other material weaknesses in our internal control over financial reporting during this process.

Changes in Internal Control over Financial Reporting

Our remediation efforts were ongoing during the quarter ended September 30, 2018. During the quarter ended September 30, 2018, we completed the migration of our financial systems and terminated the corresponding TSA with New Hertz. The migration of our financial systems was a material change in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of certain pending legal proceedings see Note 9, "Commitments and Contingencies" to the notes to our condensed consolidated financial statements in Part I, Item 1 "Financial Statements" of this Report.

ITEM 1A. RISK FACTORS

There have been no material changes to the Company's risk factors from those previously disclosed under Part I, Item 1A, "Risk Factors" in our 2017 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Program

In March 2014, the Board approved a \$1 billion share repurchase program (the "share repurchase program"). There were no share repurchases in the nine months ended September 30, 2018. As of September 30, 2018, the approximate dollar value that remains available for purchases under the 2014 share repurchase program is \$395.9 million. The program does not obligate us to make any repurchases at any specific time or in any specific situation. Share repurchases may be commenced or suspended at any time or from time to time, subject to legal and contractual requirements, without prior notice. For more information on the share repurchase program, see Note 19, "Equity and Earnings (Loss) Per Share" to our consolidated financial statements in Part II, Item 8 "Financial Statements and Supplementary Data" in our 2017 Form 10-K.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1.1	<u>Amended and Restated Certificate of Incorporation of Herc Holdings (Incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on March 30, 2007).</u>
3.1.2	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, effective as of May 14, 2014 (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 14, 2014).</u>
3.1.3	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, dated June 30, 2016 (reflecting the registrant’s name change to “Herc Holdings Inc.”) (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).</u>
3.1.4	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, dated June 30, 2016 (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).</u>
3.2	<u>Amended and Restated By-Laws of Herc Holdings Inc., effective May 17, 2018 (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Herc Holdings Inc. (File No. 001-33139), as filed on May 23, 2018).</u>
10.1	<u>Receivables Financing Agreement, dated as of September 17, 2018, among Herc Receivables U.S. LLC, Herc Rentals Inc., the Lenders and Managing Agents from time to time party thereto and Credit Agricole Corporate and Investment Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on September 21, 2018).</u>
10.2	<u>Purchase and Contribution Agreement, dated as of September 17, 2018, among Herc Rentals Inc., as a Seller and Collection Agent, Cinelease, Inc. as a Seller, and Herc Receivables U.S. LLC, as Purchaser (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on September 21, 2018).</u>
31.1*	<u>Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>18 U.S.C. Section 1350 Certifications of Principal Executive Officer and the Principal Financial Officer</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

---

\*Filed herewith

\*\*Furnished herewith

Table of Contents

HERC HOLDINGS INC. AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2018 HERC HOLDINGS INC.  
(Registrant)

By: /s/ MARK IRION

Mark Irion

Senior Vice President and Chief Financial Officer