

HERC HOLDINGS INC
Form 10-Q
November 08, 2018
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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.

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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.

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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;

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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.

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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)	
ASSETS		
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
LIABILITIES AND EQUITY		
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.

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HERC HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In millions, except per share data)

	Three Months		Nine Months	
	Ended		Ended September	
	September 30,	30,	September 30,	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		