







**We equip our customers and communities to build a brighter future.**

## OUR VISION

We aspire to be the supplier, employer and investment of choice in our industry.

## OUR VALUES

- We do what's right.
- We're in this together.
- We take responsibility.
- We achieve results.
- We prove ourselves every day.

## OUR MISSION

To ensure that end users of our equipment and services achieve optimal performance safely, efficiently and effectively.

## 2019 KEY FACTS

- Traded on the New York Stock Exchange under "HRI" since July 1, 2016.
- One of the leading North American equipment rental companies.
- Estimated 3% market share in a highly fragmented market.
- ~\$2 billion in total revenues.
- ~\$3.82 billion in fleet (OEC)\*.
- ~5,100 employees.
- ~275 company operated locations, principally in North America.

\*Original equipment cost (OEC) based on American Rental Association guidelines. OEC as of December 31, 2019.



# A MESSAGE TO OUR SHAREHOLDERS

Herc Holdings Inc. Shareholders:

2019 marked another solid year of achievement by our team. We continued to successfully implement strategic initiatives to drive organic growth, improve the quality of earnings and increase capital efficiency.



**LARRY SILBER**  
PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

## OUR STRATEGY IS DRIVING RESULTS

The strategy we put in place in 2016 has provided the framework for our growth and continues to provide the roadmap for our future activities.

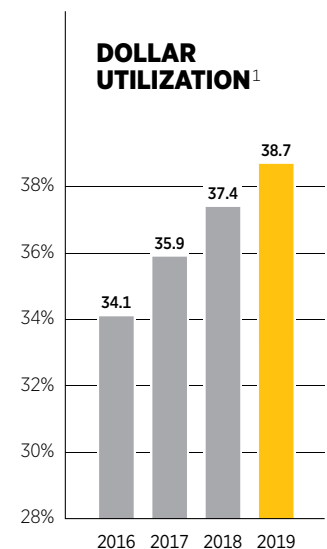
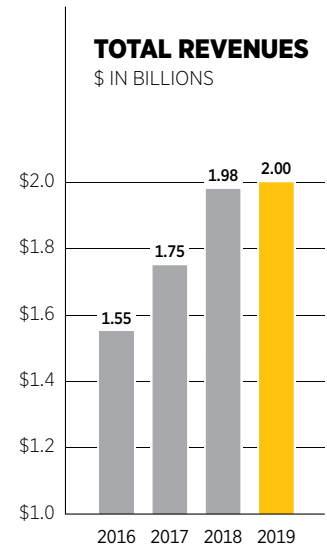
Equipment rental revenue grew 2.6% compared to 2018 to approximately \$1.7 billion, with a focus in 2019 on organic growth against a limited amount of fleet growth.

Over the last four years, total revenues increased at a compound annual growth rate of 8.0% to nearly \$2.0 billion in 2019. We have outperformed growth in the North American equipment rental industry over this time period—as measured by the American Rental Association—by 250 basis points.

Pricing remained solid in 2019, with improvement of 4.0% year-over-year, and contributed to the increase in our dollar utilization, a key metric that measures the revenue efficiency of our fleet. Our dollar utilization has steadily increased since our spin-off, increasing 460 basis points over the last four years to reach 38.7% in 2019.

Our reported net income improved to \$47.5 million in 2019—but the trend line is clouded by the impact of various tax benefits and refinancing charges over the last four years.

Adjusted EBITDA increased 8.2% compared to 2018 and reached \$741.0 million in 2019, reflecting our success in controlling direct operating expenses and selling, general and administrative costs.



1. Based on American Rental Association guidelines.



# STRATEGY + CULTURE = RESULTS

We have established a long-term strategy comprising five "pillars." Each pillar includes the primary initiatives that are critical to our long-term success.



Our strategic initiatives focus on building a strong culture, expanding and diversifying our revenue opportunities with a wider range of fleet, markets and customers; improving operational effectiveness; enhancing our customers' experience; and maintaining financial discipline.

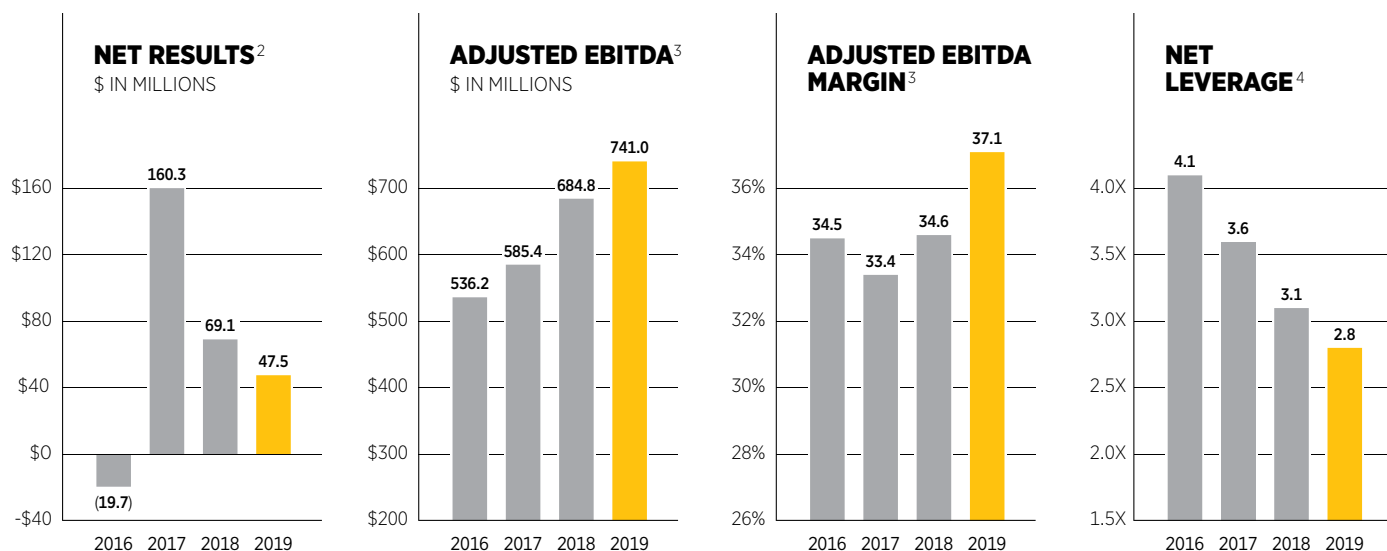
At the same time, we believe that a strong workplace culture is critical to executing strategy. The cornerstone of our culture includes Herc Rentals' Vision, Mission and Values, with the recognition that our team members represent the most critical component in driving our strategy.

Because safety is our number one priority, we are committed to developing a robust safety culture and maintaining workplaces that are safe, healthy, and injury-free. We also believe

that our overall obligation is to continuously advance operating practices and encourage behaviors that safeguard human health, protect property and reduce our impact on the environment.

We continue to seek feedback from our team members on the progress we are making in building a winning workplace culture. Our 2019 employee survey showed improvement in several key measures that indicate Herc Rentals is making progress as an attractive place to work.

At the same time, we still have many opportunities to improve our workplace culture. We don't aim for an average workplace culture; we aim to build a superb Team Herc culture and a company that team members regard as a great place to work and build a career.



## FOCUSING ON GROWTH

Our growth strategy focuses on diversifying our fleet, customer base and markets. We continue to expand our specialty rental fleet through our ProSolutions® and Herc Rentals ProContractor™ gear, which combined now account for approximately 22% of our total fleet as of the end of 2019.

Our growth strategy also includes expanding our presence in high-growth urban areas, targeting the top 25 metropolitan markets in North America. We added seven new greenfield locations in 2019, including in Boston, the New York City-New Jersey market, Orlando, Dallas, Raleigh, NC, and Hawaii. We currently have approximately 275 locations, primarily in North America, in 39 states and six Canadian provinces. We plan to continue our greenfield expansion in 2020 with a target of six to ten new locations.

We have also increased our commitment to serving customers in high-growth market segments with dedicated sales teams focused on deep understanding of industry dynamics, customers' needs, and the critical rental equipment required to support their operations. Our newly formed Herc Plus organization spearheads our customer relationships in these key markets, with our entire branch network supporting their wide-ranging operations at the local level.

## IMPROVING OPERATING EFFICIENCY

We have achieved significant improvement in adjusted EBITDA, the metric our industry uses to measure profitability. Adjusted EBITDA increased to \$741.0 million in 2019, growing from 2016 to 2019 at a compound annual growth rate of 11.4%.

We achieved record improvement in flow-through in 2019 through ongoing gains in operational efficiency, including reductions in direct operating expenses and selling, general and administrative expenses.

In addition, our "self-help" initiatives decreased logistics and transportation costs, professional service fees and other administrative expenses. Those reductions contributed to a substantial year-over-year improvement in adjusted EBITDA margin by 250 basis points to 37.1%.

2. 2019 net income included \$53.6 million of debt extinguishment costs related to the refinancing of the Company's Notes and ABL Credit facility. 2018 net income also included a net tax benefit of \$20.8 million and 2017 included a \$207.1 million net tax benefit related to the Tax Cuts and Jobs Act of 2017.

3. Adjusted EBITDA is a non-GAAP financial measure. See page 94 of the Company's Form 10-K for a reconciliation to the comparable GAAP financial measure.

4. See page 95 of the Company's Form 10-K for a calculation of the Company's net leverage ratio.



**FLEET MIX BY OEC<sup>5</sup>**



- AERIAL 25%
- PROSOLUTIONS® & PROCONTRACTOR 22%
- MATERIAL HANDLING 17%
- EARTHMOVING 14%
- TRUCKS & TRAILERS 14%
- OTHER 8%

TOTAL \$3.82 BILLION AT OEC

**2019 RENTAL REVENUE BY CUSTOMER<sup>6,7</sup>**



- CONTRACTORS 33%
- INDUSTRIAL 29%
- INFRASTRUCTURE & GOVERNMENT 18%
- OTHER 20%

**2019 NORTH AMERICA CUSTOMER MIX<sup>6</sup>**



- LOCAL 58%
- NATIONAL 42%

Our strategic initiatives to improve operating effectiveness fall under the concept we refer to as the "Herc Way." At its core, the Herc Way refers to the various processes and activities that allow us to say "Yes" every time a customer calls on us for the gear they need.

Fundamentally, the Herc Way is the playbook that ensures we consistently apply our extraordinary operational knowhow across every Herc Rentals branch or location.

**MAINTAINING DISCIPLINED CAPITAL MANAGEMENT**

Our disciplined capital management and improvement in working capital also strongly contributed to solid 2019 results. We generated \$172.0 million in free cash flow in 2019, the first time in three years that we generated positive free cash flow during a fiscal year.

Over the last four years, we have invested \$1.61 billion in net fleet capital expenditures, while enhancing the fleet mix with specialty equipment that delivers higher dollar utilization. Four years ago, our specialty fleet comprised of what we now refer to as ProSolutions and Herc Rentals ProContractor equipment represented approximately 15% of total fleet at original equipment cost (OEC). Our specialty fleet now represents \$837 million, or about 22%, of our total OEC. Over the next few years, we plan to increase that percentage to between 25% to 30% of total OEC.

Strong operating cash flow and disciplined capital management enabled us to reduce our net leverage to 2.8x, a substantial improvement compared to 4.1x net leverage at the end of 2016. Our net leverage target remains 2.5x to 3.5x.

In July 2019, we completed the issuance of \$1.2 billion of 5.50% senior notes due in 2027. We used those proceeds to redeem our 7.50% and 7.75% senior secured second priority notes due in 2022 and 2024 and to pay down our asset-based credit facility (ABL) by over \$200 million.

We also completed the refinancing of our ABL credit facility to extend the maturity date to 2024, while reducing our costs. Completing these transactions extended our maturities, increased our liquidity and reduced our future costs. Together, the new notes and ABL credit facility will save us approximately \$21 million annually going forward.

**ENHANCING CUSTOMER EXPERIENCES**

In a critical step to enable transformative technologies to improve and ease the way our customers do business with us, we successfully implemented a major upgrade of our hardware and operating systems in 2019 through an extensive initiative we fittingly called "Project Foundation."

This multi-phase project was successfully implemented by our Information Technology and Operations teams, as well as support from many other team members across our company.

The successful completion of this major project now allows us to move forward on additional efficiency initiatives as well as technology enhancements that will improve our customers' experience with us.

**DEVELOPING PEOPLE AND CULTURE**

After making significant progress on our original four strategic initiatives, we focused on developing our people and culture in 2019, including expanded and enhanced training and safety programs.

The safety of our team members, customers and communities is our highest priority, and a fundamental element in our mission, values and goals.

Safety initiatives continued to focus on "The Perfect Day" — which means no Occupational

5. Original equipment cost (OEC) based on American Rental Association guidelines. OEC as of December 31, 2019.  
 6. North American rental revenues.  
 7. Refer to page 5 of the Company's Form 10-K for description of industries related to each customer classification.

# OUR PURPOSE

**We equip our customers and communities to build a brighter future.**



A company's Purpose is often described as its reason for being in business.

More than that, a company's Purpose should unite the effort of all team members in pursuit of something even more important than being the best company in its industry.

Our Purpose acknowledges the fact that we collectively work toward a greater good. We work toward something lasting and meaningful as we create our history and leave a legacy.

We think of our Purpose as what we do—every day and over time—to make a difference in the larger world around us.

We are more than 5,100 team members committed to providing our customers professional grade products and services to get their jobs done safely, efficiently and effectively.

We possess a local presence and far-reaching scale that serves small contractors, large businesses, commercial clients and government

agencies with equal proficiency.

We perform our work with a sense of duty that treats every rental as vital to progress, customer success and the well-being of our communities.

And we bring the expertise of more than 50 years as an industry leader to every rental.

The work we perform together as part of Team Herc translates into:

- Improved quality of life;

- Better infrastructure, facilities and buildings;
- Industrial productivity; and
- Economic growth.

We help communities recover faster from natural disasters. We support vital services such as schools, utilities, hospitals and healthcare facilities.

Our customers and communities depend on us to support their ongoing progress. We help create a better future—a brighter future.



# CLASSIC GEAR, ALL THOSE PROS, AND MORE

We rent gear that supports the full spectrum of construction trades, infrastructure development, manufacturing operations, industrial processes and maintenance and repair applications.



We have multiple product and service offerings that enable our customers to perform their work safely, efficiently and effectively. Our offerings begin with our core Classic products—the type of industrial and construction gear we rented when we started our business more than 50 years ago. In 2015, as part of executing our strategy to expand and diversify our revenue opportunities through a wider range of fleet, markets and customers, we established

our ProSolutions® business and our Herc Rentals ProContractor™ line of gear.

- ProSolutions comprises our expert-based services for critical-to-urgent customer applications, including specialty gear for pumping, power generation, climate control, remediation and restoration.
- ProContractor comprises professional grade tools and gear for the construction and

maintenance trades, such as air and electric tools, and floor-care, plumbing, concrete and masonry, and lawn and landscaping equipment.

We also are the largest U.S. provider of entertainment rental equipment to the motion picture and live event industries through our Herc Entertainment Services.

In addition, our Cinelease business is the leading U.S. rental source for film, television and production

lighting, equipment and related accessories.

You'll also see the "Pro" concept used for some of our other "professional grade gear and services, including ProTrucks, ProResources (specialized logistics for industrial and ProContractor gear), and ProControl (our telematics and customer account-management platform).

The point is, we're good at what we do. Or, said another way, we're pros.



Safety and Health Administration recordable incidents, no "at-fault" motor vehicle violations and no Department of Transportation violations. In 2019, all our branches achieved at least 85% Perfect Days.

In addition, our branches improved our U.S. Total Recordable Incident Rate to just 0.84, an admirable level given most companies strive for a rate of 1.00 or less.

Each year, we continue to add new elements to expand our safety awareness and training programs and we will continue to do so as we strive to achieve 100% Perfect Days throughout our entire network of locations.

To support the capabilities of our team members and the ongoing advancement of our Team Herc culture, we are expanding learning and development opportunities that are available to all team members across all job roles and stages of career progression.

We have more than 3,000 online, on-demand Herc University courses to support Herc team members' professional development and technical proficiency as well as more than a dozen instructor-led courses to enhance sales, managerial, leadership and role-specific skills.

We are also pleased with the creation of two employee resource groups in 2019: our Veteran Resource Group and Women in Action. Both organizations are composed of volunteers involved in creating pertinent programming and mentoring programs to support the respective employee communities of interest.

In July 2019, we signed a Statement of Support for the Guard and Reserve, reflecting our commitment to Team Herc's reservists and guardsmen through flexible schedules, leaves of absence, and time off to be with families around their deployment.

Our veteran-focused recruiting program and support for veterans has enabled us to again earn the designation as a "Military Friendly" employer for 2020—the fifth consecutive year we have received this honor.

In 2019, we also received the "Above and Beyond Award" from the U.S. Department of Defense's Employer Support of the Guard and Reserve program in recognition of our support for Team Herc's citizen soldiers.

Our Women in Action group, also formed in 2019, was established to help empower, support and develop women on Team Herc by facilitating the exchange of knowledge and experience through learning opportunities and networking events.

The Women in Action group reflects our overall commitment to diversity and inclusion as part of a culture that enables people of all backgrounds to achieve their personal and professional aspirations as part of Team Herc.

We remain committed to building an organization that advances opportunities for women in our company and in our industry; to advocating on behalf of diversity and inclusion across Team Herc; and to creating a safe, respectful and equitable work environment everywhere we operate.

## CORPORATE LEADERSHIP

In November 2019, Wade Sheek became Senior Vice President, Chief Legal Officer and Secretary. Wade has more than 18 years of experience in the legal profession, most recently serving as General Counsel and Secretary for Republic Airways Holdings Inc.

In December 2019, Aaron Birnbaum was named Senior Vice President and Chief Operating Officer. Aaron is a 30-year veteran of Herc Rentals, having served in various roles in operations and in mergers and acquisitions when the company was a division of Hertz. Most recently, Aaron was Senior Vice President responsible for the West, Northwest, North Central and Canada regions, as well as Herc Entertainment Services and Cinelease. Aaron brings extensive experience as a leader in our company and industry, with expertise as a foremost equipment-rental operator and deep knowledge of our markets and customers' needs.





## POSITIONED FOR ONGOING SUCCESS

Finally, as the time this is written, we are in the midst of a global pandemic that has severely affected lives, social interactions, business and commerce, and financial markets around the world. While we remain optimistic about the eventual containment and suppression of COVID-19, it has resulted in significant near-term economic disruption and uncertainty about long-term impacts.

We remain well positioned to achieve ongoing success. We have a strong balance sheet – including approximately \$1.1 billion in liquidity – a winning business strategy, and a seasoned leadership team that has experience in managing equipment rental operations during uncertain economic and market conditions.

We are delivering steadily improving operating results and in many key operational and financial areas we have outperformed the equipment rental industry and our peers.

While we still have much more progress to achieve, I firmly believe that the fundamental strengths of our company will be equal to the challenges we may encounter.

And although we regard the current disruption as temporary, it reminds us that we must always prove ourselves worthy of our investors' confidence by consistently delivering operating and financial improvement. And that is exactly what we will remain focused on in 2020 and beyond.

I deeply believe in the bright future of Herc Rentals and the fundamental achievability of our long-term vision to be the supplier, employer and investment of choice in the equipment rental industry.

In the near term, as we all keep our health and safety at the forefront during these difficult days, our amazing team members will continue to help our customers and communities at a time when they especially need us.

I thank all Herc Rentals team members for their contributions to the strong results we achieved in 2019, and their ongoing dedication and commitment amid the near-term challenges of COVID-19.

And I thank our shareholders for your continued confidence in Team Herc.

Sincerely,

A handwritten signature in black ink that reads "Larry Silber". The signature is written in a cursive, flowing style.

### LARRY SILBER

PRESIDENT AND CHIEF EXECUTIVE OFFICER  
HERC HOLDINGS INC.

March 18, 2020



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

**FORM 10-K**

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

For the fiscal year ended December 31, 2019

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**

(State or other jurisdiction of  
incorporation or organization)

**20-3530539**

(I.R.S. Employer  
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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	HRI	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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, smaller reporting company, or 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.

Large accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>		

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 Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the stock on the New York Stock Exchange on such date, was \$865.3 million.

As of February 21, 2020, there were 28,860,155 shares of the registrant's common stock outstanding.

**Documents incorporated by reference:**

Certain portions, as expressly described in this report, of the Registrant's Proxy Statement for its 2020 annual meeting of stockholders, to be filed within 120 days of December 31, 2019 (the "Proxy Statement"), are incorporated by reference into Part III.

# HERC HOLDINGS INC. AND SUBSIDIARIES

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This Annual Report on Form 10-K for the year ended December 31, 2019 (this "Report") includes "forward-looking statements," as that term is defined by the federal securities laws. Forward-looking statements include statements concerning our business plans and strategy, projected profitability, performance or cash flows, future capital expenditures, anticipated financing needs, business trends and other information that is not historical information. Forward looking statements are generally identified by 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. 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 our 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 Part I, Item 1A "Risk Factors" in this Report and in our other filings with the Securities and Exchange Commission. All forward-looking statements are expressly qualified in their entirety by such cautionary statements. We undertake no obligation to update or revise forward-looking statements that have been made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.*

# HERC HOLDINGS INC. AND SUBSIDIARIES

## PART I

### ITEM I. BUSINESS

#### Our Company

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," or the "Company") is one of the leading equipment rental suppliers with approximately 275 locations, principally in North America. We conduct substantially all of our 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 and 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<sup>R</sup>, 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.

#### Corporate History

On June 30, 2016, we, in our 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 our 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"). New Hertz continues to operate its global vehicle rental business through its operating subsidiaries including The Hertz Corporation ("THC"). We changed our name to Herc Holdings Inc. on June 30, 2016, and trade on the New York Stock Exchange under the symbol "HRI."

Herc was incorporated in Delaware in 1965. Since its incorporation and until the Spin-Off, Herc was a wholly-owned subsidiary of Hertz Holdings or one of its subsidiaries operating its equipment rental business. Since the Spin-Off, Herc has been a wholly-owned subsidiary of Herc Holdings. Herc Holdings was incorporated in Delaware in 2005 under a previous name.

#### Our Industry

The equipment rental industry serves a diverse group of customers from individuals and small local contractors to large national accounts providing a wide variety of rental equipment including mid-size and heavy equipment, specialty equipment and contractor tools. The equipment rental industry is highly fragmented with few national competitors and many regional and local operators. The growth and financial health of the North American equipment rental industry is driven by a number of factors including economic trends, non-residential construction activity, capital investment in the industrial sector, repair maintenance and overhaul spending, government spending and demand for construction and other rental equipment generally, including for remediation and re-building efforts related to natural disasters. We believe that companies have increasingly turned to the equipment rental market to manage their capital needs, which allows our customers to operate their businesses without incurring the significant acquisition cost and maintenance expense associated with owning their own equipment fleet. We believe the trend from equipment ownership to rental in the North American construction industry will continue in the near term.

#### Our Competitive Strengths

Our competitive strengths include the following:

***A Market Leader in North America with Significant Scale and Broad Footprint***—We believe we are one of the largest equipment rental companies in the North American equipment rental industry, with an estimated 3% market share by revenue and approximately 275 locations in 39 states in the United States and six provinces in Canada. Our scale compared to most of our competitors provides us with a number of significant competitive advantages including:

- the ability to provide premium brands and a comprehensive line of equipment and services, allowing us to be a single-source solution for our customers;



**ITEM I. BUSINESS (Continued)**

- the ability to track utilization and facilitate the seamless transfer of our fleet across multiple locations to adjust to local customer demand;
- a geographic footprint that allows us to maintain proximity and local expertise to serve our customers in local markets as well as serve national accounts with geographically dispersed equipment rental needs;
- favorable purchasing power or volume discount pricing opportunities on material and equipment;
- operational cost efficiencies across our organization, including with respect to purchasing, information technology, back-office support and marketing;
- a national sales force with significant expertise across our equipment fleet; and
- industry-specific expertise to assist our customers with customized solutions.

Since the North American equipment rental industry is highly fragmented, with very few national competitors, we believe that the majority of our competitors do not enjoy these same advantages.

***Diverse Customer Markets and Expansion into Specialty Rental Markets***—We provide equipment rental services to customers in a wide variety of large markets, including contractors in commercial and residential construction, specialty and remediation and environmental sectors; industrial, including energy, chemical processing and manufacturing; infrastructure, such as highway and bridges, railroads and sewer and waste disposal; and other industries such as facilities management and entertainment production and services. We believe that diversification of our customer base reduces our exposure to any particular market.

***Large, Diverse and High-Quality Equipment Fleet***—Our equipment fleet represents a significant investment and reflects our commitment to providing an array of rental equipment to our customers in a variety of industries. We offer a wide range of equipment from leading, globally-known original equipment manufacturers who we believe provide reliable equipment. We also offer a wide range of professional grade tools that target professional contractors. Our extensive and high-quality rental fleet enables us to serve a diverse customer base that requires large quantities and/or varied types of equipment for rent. Our increasing portfolio of specialty equipment further expands our capabilities and customer reach.

In recent years, we have diversified our portfolio into a variety of niche markets that experience business cycles that may vary in intensity and duration from that of the general economy. We believe this diversification also positions us to take advantage of any increase in demand for more specialized rental solutions.

***Established National Accounts Program***—Our national account program provides us with longer rental terms for much of our equipment, with many of our larger customers renting equipment from us for use in large, complex projects. These arrangements provide a number of additional benefits, including recurring revenue, attractive credit profiles, improved fleet utilization and enhanced presence in new markets. National accounts represented 42% of equipment rental revenue for the year ended December 31, 2019. Through our national customer relationship program, our sales teams serve as a single point of contact for those customers' equipment rental needs. This enables us to be a full end-to-end solutions provider.

***Superior Customer Service***—We have a well-established reputation for superior customer service, which has been a competitive differentiator for us throughout our history. Senior management remains focused on enhancing our customer service focused culture. We provide a suite of comprehensive services to support our customers and to maintain and service the equipment we rent. We spend significant time and resources training our personnel to effectively address the needs of our customers. We believe that these initiatives help support our pricing strategy and foster customer loyalty.

***Range of Value-Added Services***—We offer a suite of customer-focused services. These services include equipment transport, fleet management and telematics, power solutions, on-site services and customized advice, re-rental options, and parts and supplies sales. This combination of services is designed to offer comprehensive value-added solutions to our customers that complement and enhance the rental equipment we offer.

**ITEM I. BUSINESS (Continued)**

***Experienced Senior Leadership Team***—We have an experienced senior leadership team committed to maintaining operational excellence with an average of approximately 20 years of experience in the equipment rental and heavy equipment industries. Our senior leadership team has extensive knowledge of all aspects of these industries, particularly in North America. Our team is dedicated to providing our customers a quality rental experience and is committed to further improving our performance capabilities.

**Our Strategy**

Our long-term strategy is focused on five priorities: developing our people and culture; expanding and diversifying our revenues; improving our operating effectiveness; enhancing the customer experience; and disciplined capital management.

***Develop Our People and Culture***—We aspire to be the employer of choice in our industry, and we recognize that our people and culture are essential to our long-term, profitable growth. We are focused on attracting, developing and retaining diverse talent while continuously enhancing the overall employee experience. We have launched leadership development programs to improve our overall bench strength and employee engagement. We will continue to expand the learning and development opportunities available to our employees while creating compelling career paths which will contribute to our ability to attract and retain talent. We have implemented an employee survey process which enables us to better understand the needs and expectations of our employees. We are committed to identifying programs which will support and enhance the wellbeing of our employees while recognizing them for their contributions to our success. Our commitment to developing our people and culture is directly aligned with and strengthens our ability to become the supplier and investment of choice in our industry.

***Expand and Diversify Revenues***—We seek to achieve ongoing growth via our strategy to expand and diversify our revenues through customer- and market-focused initiatives. We have expanded and diversified our equipment rental fleet with a broader mix of equipment that increases the range of customers and markets we serve. We are growing our ProSolutions<sup>R</sup> business which offers specialized equipment and services, including technical expertise and customized solutions, for customers and projects, as well as our ProContractor business, which focuses on professional grade tools and equipment that meet their needs. We will continue to offer a comprehensive equipment rental fleet to maintain our market leadership.

We are expanding our footprint in North America, with a focus on increasing the number of branches in major urban markets, and to continue to reconfigure existing locations with fleet and expertise tailored to local markets. Our footprint expansion includes locations dedicated to our ProSolutions<sup>R</sup> and ProContractor business to better support our growing specialty equipment and services operations. We will continue to pursue initiatives that allow us to drive more volume through existing branches.

We are also increasing our focus on generating revenue from ancillary services as part of our total solutions offering.

***Improve Operating Effectiveness***—We are focused on generating continuous improvement across our operations, with an emphasis on building a strong safety culture, supplier management, fleet availability and improving margins. We continue to emphasize our commitment to building a safety culture across our business, including ongoing training and institutionalized programs, to embed safety awareness and behaviors into our daily operations. We have reduced the number of suppliers in each equipment category of our equipment rental fleet. This provides us with improved buying power as we negotiate our fleet purchases and lends efficiencies to our services and repair processes. Further, we are concentrating our capital expenditures on premium brands from top-tier suppliers, which we expect will reduce life cycle costs and deliver better end-of-service resale values. We have developed and rolled out the "Herc Way" operating model and other systems and procedures for developing and monitoring our branch network in order to foster a high operational standard throughout our locations. We will maintain our focus on optimizing our Herc Way operating model, which is designed to ensure a consistently efficient approach to managing, servicing and repairing our fleet.

We are continuing to build a highly professional and technology-enabled sales force and to optimize our sales territories to support our revenue growth objectives. We will continue to improve the effectiveness of our sales team with focused training, strong customer relationship management capabilities, and ongoing technology enhancements.

***Enhance the Customer Experience***—We seek to differentiate our business by delivering a superior customer experience through the variety and quality of the equipment we offer, the ease of doing business with us and the added value we offer through services and technologies that improve customers' productivity and efficiency. Our focused investment in top-tier brands is intended to meet our customers' preferences and expectations for reliable, safe, efficient and effective gear. We are committed to delivering technology enhancements that enable us to drive improvements in customers' efficiency and productivity. In developing these

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**ITEM I. BUSINESS (Continued)**

technologies, we are focused on meeting customer expectations related to convenience and on-demand access to data and information. Additionally, we provide training programs to our customers that focus on product use and safety.

**Disciplined Capital Management**—We manage our equipment rental fleet using a life cycle approach designed to optimize the timing of fleet purchasing, repair and maintenance and disposal, while at the same time satisfying our customers' needs. Through continued use and development of our disciplined approach to efficient fleet management, we seek to maximize our utilization and return on investment.

**Our Products and Services**

Our principal products and services are described below.

**Equipment Rental**—We offer for rent, on an hourly, daily, weekly or monthly basis, equipment from a variety of leading, globally known original equipment manufacturers, with which we maintain strong relationships. The equipment is typically new at the time of acquisition and is not subject to any repurchase program. As of December 31, 2019, the average age of our equipment fleet was 45 months.

As of December 31, 2019, our rental fleet consisted of equipment with a total original equipment cost, based on the guidelines of the American Rental Association, of \$3.82 billion. The following table provides a breakdown of the composition of our equipment rental fleet based on original equipment cost:

<b>Equipment Type</b>	<b>% of Original Equipment Cost</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Aerial - Booms	17.7%	18.3%
Aerial - Scissors and Other	7.5%	7.6%
<b>Total Aerial</b>	<b>25.2%</b>	<b>25.9%</b>
Material Handling - Telehandlers	13.4%	13.5%
Material Handling - Industrial	4.0%	4.2%
<b>Total Material Handling</b>	<b>17.4%</b>	<b>17.7%</b>
Earthmoving - Compact	8.2%	8.5%
Earthmoving - Heavy	5.6%	5.7%
<b>Total Earthmoving</b>	<b>13.8%</b>	<b>14.2%</b>
<b>ProSolutions<sup>R</sup></b>	<b>15.6%</b>	<b>14.5%</b>
<b>Trucks and Trailers</b>	<b>13.8%</b>	<b>13.0%</b>
<b>ProContractor</b>	<b>6.3%</b>	<b>6.3%</b>
<b>Air Compressors</b>	<b>2.4%</b>	<b>2.6%</b>
<b>Lighting</b>	<b>1.7%</b>	<b>1.7%</b>
<b>Compaction</b>	<b>1.4%</b>	<b>1.5%</b>
<b>Other</b>	<b>2.4%</b>	<b>2.6%</b>

**Sales of Used Rental Equipment**—We routinely sell our used rental equipment to manage repair and maintenance costs, as well as the composition, age and size of our fleet. We dispose of our used equipment through a variety of channels, including retail sales to customers and other third parties, sales to wholesalers, brokered sales and auctions.

**Sales of New Equipment, Parts and Supplies**—We also sell new equipment. The types of new equipment that we sell vary by location and include a variety of ProContractor tools and supplies, small equipment (such as work lighting, generators, pumps, and compaction equipment and power trowels), safety supplies and expendables.



## ITEM I. BUSINESS (Continued)

### Our Customers

We have a wide range of customers across diverse markets with a large base of local small to mid-size customers as well as customers seeking specialty solutions or equipment. The principal markets we serve, based on our customers' Standard Industrial Classification ("SIC") codes, are as follows:

- **Contractors** - We serve various types of contractors in non-residential and residential construction, specialty trade, restoration, remediation and environment and facility maintenance. Contractor business represented approximately 33% of our equipment rental revenue for the year ended December 31, 2019.
- **Industrial** - We serve industrial customers across a broad range of industries, including refineries and petrochemical operations, industrial manufacturing including automotive and aerospace, power, metals and mining, agriculture, pulp, paper and wood and food and beverage. We believe that key drivers of growth within the industrial market include increased levels of spending on industrial capital and maintenance, repairs and overhaul. Industrial customers represented approximately 29% of our equipment rental revenue for the year ended December 31, 2019.
- **Infrastructure and Government** - We serve our infrastructure customers across a wide range of projects such as highways and bridges, sewer and waste, railroads and other transportation, utilities as well as all governmental spending. Infrastructure and government represented approximately 18% of our equipment rental revenue for the year ended December 31, 2019.
- **Other Customers** - In addition, we serve a variety of other customers across a diverse range of industries, including commercial facilities, hospitality, healthcare, recreation, entertainment production and special event management. These customers collectively represented approximately 20% of our equipment rental revenue for the year ended December 31, 2019.

We operate in mid-size and large urban markets serving a wide range of industries, which enables us to reduce exposure to any single customer or market, with no single customer making up more than 3% of our equipment rental revenue for the years ended December 31, 2019, 2018 or 2017. Our footprint and broad customer base also assist in reducing the seasonality of our revenues and the impact from any one market's cycle.

### Sales and Marketing

We market and sell our services through a variety of complementary programs. Through a dedicated sales team, we provide our customers with support services, market and application expertise, and sales offerings. For example, we have sales teams committed to servicing various categories of our customer base, including clients in the construction, industrial, government and entertainment industries. Our product experts oversee general rentals and specialty products, providing application support and program management services to our clients. Through our national accounts program, our dedicated sales team provides our large customers with support across a number of diverse geographic, functional and equipment sectors. We also provide client support via our sales coordinators, reservation centers and customer care centers to help customers with their comprehensive needs.

We advertise our broad range of offerings through industry catalogs, participation and sponsorship of industry events, trade shows, and via the Internet. Additionally, through our website and mobile apps, our customers can arrange for the rental of equipment, browse and purchase used equipment, review our service offerings and manage their fleet and overall account with us.

### Competition

Competition in the equipment rental industry is intense, often taking the form of aggressive price competition. Other competitive factors include customer loyalty, changes in market penetration, the introduction of new equipment, services and technology by competitors, changes in marketing, product diversity and quality and the ability to supply equipment and services to customers in a timely, predictable manner.

Our competitors in the equipment rental industry range from other large national companies to regional and local businesses and include equipment vendors and dealers who both sell and rent equipment directly to customers. The equipment rental industry is highly fragmented, with many companies operating on a regional or local scale and offering a limited number of products. The

**ITEM I. BUSINESS (Continued)**

number of our competitors operating on a national scale is comparatively much smaller, although they often have significant breadth in their rental equipment categories. We believe, based on market and industry data, that we are one of the leading participants in the North American equipment rental industry, with the remainder comprised of a small number of multi-location regional operators and a large number of relatively small, independent businesses serving discrete local markets and specialty rental segments. In North America, the other leading national-scale industry participants are United Rentals, Inc., Ashtead Group plc's Sunbelt Rentals brand and H&E Equipment Services, Inc. Aggreko is a global competitor in the power generation rental markets in which we also participate.

**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 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. See Item 1A "Risk Factors—Risks Related to Our Business."

**Intellectual Property**

We own intellectual property, including trademarks, copyrights and trade secrets, that plays an important role in maintaining our competitive position. While no single copyright or trade secret is, in our opinion, of such value to us that our business would be materially affected by the expiration or termination thereof, taken in the aggregate, these intellectual property rights provide meaningful protection for our business. However, we view the name and primary mark "Herc Rentals" and "Herc" as material to our business as a whole. We own a number of secondary trade names and trademarks applicable to certain aspects of our business that we also view as important.

**Employees**

We have approximately 5,100 employees, with approximately 5,000 persons in our North American operations and 100 persons in our other operations. International employees are covered by a variety of union contracts and governmental regulations affecting, among other things, compensation, job retention rights and pensions. As of December 31, 2019, labor contracts covering approximately 420 employees in the United States and 150 employees in Canada were in effect under approximately 20 active contracts with local unions, affiliated primarily with the International Brotherhood of Teamsters and the International Union of Operating Engineers. We have experienced no material work stoppage as a result of labor problems during the last ten years, and we believe our labor relations to be good. Nonetheless, we may be unable to negotiate new labor contracts on terms advantageous to us, or without labor interruption. See Item 1A "Risk Factors—Risks Related to Our Business."

In addition to the employees referred to above, we employ a number of temporary workers, and engage outside services, as is customary in the industry, principally for the non-revenue movement of rental equipment between rental locations and the movement of rental equipment to and from customers' job sites.

**Environmental, Health, and Safety Matters and Governmental Regulation**

**Environmental, Health, and Safety**—Our operations are subject to numerous national, state, local and international laws and regulations governing environmental protection and occupational health and safety matters. These laws govern such issues as wastewater, storm water, solid and hazardous wastes and materials, air quality and matters of workplace safety. Under these laws and regulations, we may be liable for, among other things, the cost of investigating and remediating contamination at our sites as well as sites to which we send hazardous wastes for disposal or treatment regardless of fault, as well as fines and penalties for non-compliance. Our operations generally do not raise significant environmental, health, or safety risks, but we use hazardous

**ITEM I. BUSINESS (Continued)**

materials to clean and maintain equipment, dispose of solid and hazardous waste and wastewater from equipment washing, and store and dispense petroleum products from storage tanks at certain of our locations.

Based on the conditions currently known to us, we do not believe that any pending or likely remediation and compliance costs will have a material adverse effect on our business. We cannot be certain, however, as to the potential financial impact on our business if new adverse conditions are discovered, or compliance requirements become more stringent. See Item 1A "Risk Factors—Risks Related to Our Business."

**Governmental Regulation**—Our operations also expose us to a number of other national, state, local and international laws and regulations, in addition to legal, regulatory and contractual requirements we face as a government contractor. These laws and regulations address multiple aspects of our operations, such as taxes, consumer rights, privacy, data security and employment matters, and also may impact other areas of our business. There are often different requirements in different jurisdictions. Changes in government regulation of our business has the potential to materially alter our business practices or our profitability. Depending on the jurisdiction, those changes may come about through the issuance of new laws and regulations or changes in the interpretation of existing laws and regulations by a court, regulatory body or governmental official. Sometimes those changes may have both a retroactive and prospective effect. This is particularly true when a change is made through reinterpretation of laws or regulations that have been in effect for some time. Moreover, changes in regulation that may seem neutral on their face may have either more or less impact on us than on our competitors, depending on the circumstances. See Item 1A "Risk Factors—Risks Related to Our Business."

**Available Company Information**

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission ("SEC"). You may also access, free of charge, our reports filed with the SEC (for example, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) through our Internet website (<http://ir.hercrentals.com>). Reports filed with or furnished to the SEC will be available through our Internet website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our committee charters, Corporate Governance Guidelines and Code of Ethics are also available on our website. The information found on our website is not part of this or any other report filed with or furnished to the SEC. The SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information about issuers that file electronically with the SEC, including Herc Holdings.



## ITEM 1A. RISK FACTORS

*Investing in or maintaining your investment in Herc Holdings common stock involves a high degree of risk. You should carefully consider each of the risks and uncertainties set forth below as well as the other information contained in this Report before deciding to invest in our common stock. We have grouped our Risk Factors under captions that we believe describe various categories of potential risk. For the reader's convenience, we have not duplicated risk factors that could be considered to be included in more than one category. Any of the following risks and uncertainties could materially and adversely affect our business, financial condition, results of operations, liquidity and/or cash flows and the impact could be compounded if multiple risks were to occur. However, the following risks and uncertainties are not the only risks and uncertainties facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial also may materially and adversely affect our business, financial condition, results of operations, liquidity and/or cash flows. In the event that any of these risks have such a material adverse effect, the market price of our common stock could decline and you could lose all or part of your investment.*

### **Risks Related to Our Business**

***Our business is cyclical and depends on the 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, could have a material adverse effect on our business, financial condition, results of operations and cash flows.***

Our rental equipment is used by our customers in a wide variety of industries, including contractors in residential and commercial construction and restoration, remediation and environment; general industrial, including refineries and petrochemical operations, manufacturing, power, metals and mining and agriculture; infrastructure; and other customers, including commercial and retail services, facility maintenance, recreation and entertainment production. Many of these industries are cyclical in nature. The demand for our rental equipment is directly affected by the level of economic activity in these industries, which means that when these industries experience a decline in activity, there is likely a corresponding decline in the demand for our rental equipment. This could materially adversely affect our results of operations.

A substantial portion of our revenues are derived from the rental of equipment to various types of contractors, including in the non-residential construction market, and to industrial customers. A decline in construction or industrial activity could lead to a decrease in the demand for our rental equipment and intensified price competition from other equipment rental industry participants. Similarly, declines in oil or gas prices, or even the perception of longer-term lower oil and natural gas prices, could lead to a significant slowdown in business activity, capital investments and maintenance expenditures of industrial customers in the upstream oil and gas markets and related service providers, which could negatively affect our rentals to participants in this industry, and could extend to other markets that we serve. Worsening of economic conditions or not achieving anticipated levels of economic expansion, either generally or in our customers' specific industries, could have an adverse effect on demand for our products and services within those industries and extend to other markets that we serve, and could therefore materially adversely affect our business, financial condition and results of operations.

The following factors, among others, may cause weakness in our markets, either temporarily or long-term:

- a decrease in the expected levels of rental versus ownership of equipment;
- government regulations and policies, including government initiatives for infrastructure improvements or expansions, or the policies of governments regarding exploration for, and production and development of, oil and natural gas reserves;
- a prolonged or recurring shutdown of the U.S. government;
- an increase in the cost of construction materials;
- the level of supply and demand and relative prices or anticipated prices for oil and natural gas;
- an overcapacity of fleet in the equipment rental industry;
- a lack of availability of credit;
- an increase in interest rates; and
- terrorism or hostilities involving the United States or Canada.

**ITEM IA. RISK FACTORS (continued)**

Additionally, some of our customers may delay capital investment and maintenance even when favorable conditions exist in their industries or markets.

If we were to experience a significant decrease in orders or an increase in order delays or cancellations that can result from the aforementioned economic conditions or other factors beyond our control, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Our industry is highly competitive, and competitive pressures or not timely identifying and responding to customer needs, expectations or trends could lead to a decrease in our market share or in the prices that we can charge.***

The equipment rental industry is highly fragmented and competitive. Our competitors include small, independent businesses with one or two rental locations, regional competitors that operate in one or more states, public companies or divisions of public companies, and equipment vendors and dealers who both sell and rent equipment directly to customers. We may in the future encounter increased competition from our existing competitors or from new competitors. Competitive pressures could adversely affect our revenues and operating results by, among other things, decreasing our rental volumes, depressing the prices that we can charge or increasing our costs to retain employees. In addition, the success of our business depends, in part, on our ability to identify and respond promptly to evolving trends in consumer preferences, expectations and needs while also managing appropriate equipment in our branches and maintaining an excellent customer experience. It is difficult to successfully predict the equipment and services our customers will demand. We also need to offer more localized assortments of our equipment to address local requirements and needs. If we do not successfully identify and provide the appropriate equipment to meet our customers' needs and expectations, we may lose market share.

***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 as a result of cybersecurity breaches or otherwise, which could harm our brand, reputation or competitive position and give rise to material liabilities.***

We rely heavily on communication networks and IT systems, including the Internet, to process rental and sales transactions, manage our pricing, manage our equipment fleet, manage our financing arrangements, pay suppliers and other third parties, account for our activities and otherwise conduct our business. Our major IT systems and accounting functions are centralized in a few locations. Any disruption, termination or substandard provision of these services, whether as the result of computer or telecommunications issues (including operational failures, ransomware or other computer malware), localized conditions (such as a power outage, fire or explosion) or events or circumstances of broader geographic impact (such as an earthquake, storm, flood, other natural disaster, epidemic, strike, act of war, civil unrest or terrorist act), could materially adversely affect our business by disrupting normal operations. Our systems are also subject to cyber attacks (such as business e-mail compromise or other social engineering attacks) which, if successful, could material adversely affect our ability to operate our business and negatively impact our reputation.

We regularly possess, store and handle non-public information about individuals and businesses, including both credit and debit card information and other sensitive and confidential personal information. In addition, our customers regularly transmit confidential information to us via the Internet and through other electronic means. Our facilities and systems and those of our third-party service providers may contain defects in design or manufacture or other problems that could compromise information security, and are also subject to the risk of human error. Unauthorized parties also may attempt to gain access to our systems or facilities, or those of third parties with whom we do business, and these attacks are increasing in their frequency, sophistication and intensity. Many of the techniques used to obtain unauthorized access, including viruses, worms and other malicious software programs, are difficult to anticipate until launched against a target and we may be unable to implement adequate preventative measures.

A compromise of our security systems resulting in unauthorized access to certain personal information about our customers, distributors or employees could adversely affect our corporate reputation as well as our operations, and could result in litigation against us or the imposition of penalties. Security breaches can create system disruptions, shutdowns or unauthorized disclosure of confidential information, which could result in financial damage or loss. Most states have enacted laws requiring companies to notify individuals and often state authorities of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which would harm our reputation and brand, and may cause our customers and employees to lose confidence in the effectiveness of our data security measures. As a result, a security breach could cause the loss of customers and could also require that we invest significant additional resources related to our information security systems.

**ITEM IA. RISK FACTORS (continued)**

In addition, we outsource a portion of our IT services. Therefore, we are also susceptible to disruptions, failures and breaches of the systems maintained by our outsourced providers, which we do not control. Any disruption, failure, breach or poor performance of any of these systems could lead to lower revenues, increased costs or other material adverse effects on our business and results of operations.

***Failure to maintain and upgrade our IT systems could materially adversely affect us.***

As a result of our reliance on IT systems in the conduct of our business, we devote significant time and expense in maintaining and upgrading our systems. These types of activities subject us to additional costs and inherent risks associated with replacing and changing these systems, including impairment of our ability to manage our business, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, demands on management time, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. We rely on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. Further, the software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner.

In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology, maintenance or adequate support of outdated or other existing systems could disrupt or reduce the efficiency of our business operations and could have an adverse effect on our operations if not anticipated and appropriately mitigated. Our competitive position may be adversely affected if we are unable to maintain systems that allow us to manage our business in a competitive manner. Additionally, any systems failures could impede our ability to timely collect and report financial results in accordance with applicable laws and regulations.

***We may fail to respond adequately to changes in technology and customer demands.***

In recent years, our industry has been characterized by rapid changes in technology and customer demands. For example, industry participants have taken advantage of new technologies to improve fleet efficiency, decrease customer wait times and improve customer satisfaction. Our ability to continually improve our current processes and customer-facing tools in response to changes in technology or in customer expectations is essential in maintaining our competitive position and maintaining current levels of customer satisfaction. We may experience technical or other difficulties that could delay or prevent the development or implementation of new technologies. The effects of these risks may, individually or in the aggregate, materially adversely affect our results of operations, liquidity and cash flows.

***We face intense competition, including from our own suppliers, that may lead to downward pricing or an inability to increase prices.***

The markets in which we operate are highly competitive. Competitive factors in our industry include price competition, the importance of customer loyalty, changes in market penetration, the introduction of new equipment, services and technology by competitors, changes in marketing, product diversity and quality and the ability to supply equipment and services to customers in a timely, predictable manner. Because we do not have multi-year contractual arrangements with many of our customers, these competitive factors could cause our customers to cease renting our equipment and shift suppliers quickly.

The equipment rental market is highly fragmented, and we believe that price is one of the primary competitive factors. The Internet has enabled cost-conscious customers to more easily compare rates available from rental companies. If we try to increase our pricing, our competitors, some of whom may have greater resources and better access to capital or lower fixed operating costs, may seek to compete aggressively on the basis of pricing. In addition, our competitors may reduce prices in order to attempt to gain a competitive advantage, capture market share or compensate for declines in rental activity. To the extent we do not match or remain within a reasonable competitive margin of our competitors' pricing, our revenues and results of operations could be materially adversely affected. If competitive pressures lead us to match any of our competitors' downward pricing and we are not able to reduce our operating costs, then our margins, results of operations and cash flows could be materially adversely impacted.

**ITEM IA. RISK FACTORS (continued)**

We face competition from traditional rental companies as well as our own suppliers. We purchase our rental equipment from leading, globally-known original equipment manufacturers. Under our supplier arrangements, the suppliers may appoint additional distributors, elect to sell or rent directly to our customers or unilaterally terminate their arrangements with us at any time without cause. Any such actions could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows due to a reduction of, or an inability to increase, our revenues.

***Our success depends on our ability to attract and retain key management, sales and trades talent, while supporting the onboarding and career development of our team members.***

Our ability to successfully execute on our business plan depends upon the contributions of our senior management team as well as other key talent including our dedicated sales force and trades talent such as drivers and mechanics. In recent years we have experienced increasing competition for available talent in the North American workforce as reflected by the low unemployment rate and shortages of available industry trades talent. As a result, we could experience inefficiencies or a lack of business continuity due to employee turnover, new employees' lack of historical knowledge and lack of familiarity with the business processes, operating requirements, policies and procedures, and key information technologies and related infrastructure used in our day-to-day operations and financial reporting. Historically we have noted a ramp-up period before new members of our sales organization typically achieve a level of sales comparable to those we have employed for a longer period of time. We may also experience additional costs as new employees learn their roles and gain necessary experience, in addition to the cost of hiring new individuals. It is important to our success that newly hired team members quickly adapt to and excel in their new roles. If they are unable to do so, our business and financial results could be materially adversely affected. Further, if we cannot meet our needs for IT staff, we may not be able to fulfill our technology initiatives while continuing to provide maintenance on existing systems.

If we were to lose the services of members of our senior management team or other key talent, whether due to death, disability, resignation or termination of employment, our ability to successfully implement our business strategy, financial plans, marketing and other objectives could be significantly impaired. In addition, if we are unable to attract and retain qualified key talent, we may not be able to effectively and efficiently manage our business and execute our business plan.

***Due to seasonality, especially in the construction industry, any occurrence that disrupts rental activity during our peak periods could materially adversely affect our results of operations, liquidity and cash flows.***

Significant components of our expenses are fixed in the short-term, including real estate taxes, rent, insurance, utilities, maintenance and other facility-related expenses, the costs of operating our IT systems and certain staffing costs. Seasonal changes in our revenues do not alter those fixed expenses, typically resulting in higher profitability in periods when our revenues are higher, and lower profitability in periods when our revenues are lower. Our business, especially in the construction industry, has historically experienced lower levels of business from December until late spring, particularly in the northern United States and Canada, and heightened activity during our third and fourth quarter until December. Any occurrence that disrupts rental activity during this period of heightened activity, including adverse weather conditions such as prolonged periods of cold, rain, blizzards, floods, fires, hurricanes or other severe weather patterns, could have a disproportionately adverse effect on our business, results of operations, liquidity and cash flows.

***Some or all of our deferred tax assets could expire if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code (the "Code").***

An "ownership change" could limit our ability to utilize tax attributes, including net operating losses, capital loss carryovers, excess foreign tax carryforwards, and credit carryforwards, to offset future taxable income. As of December 31, 2019, we had unutilized U.S. federal net operating loss carryforwards of approximately \$509.1 million (which begin to expire in 2031). Our ability to use such tax attributes to offset future taxable income and tax liabilities may be significantly limited if we experience an "ownership change" as defined in Section 382(g) of the Code. In general, an ownership change will occur if and when the percentage of Herc Holdings' ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percentage points over the lowest percentage of stock owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally should be subject to an annual limitation on its pre-ownership change tax loss carryforward which accumulates each year to the extent that there is any unused limitation from a prior year. The limitation on our ability to utilize tax losses and credit carryforwards arising from an ownership change under Section 382 depends on the value of our equity at the time of any ownership change. If we were to experience an "ownership change," it is possible that a significant portion of our tax loss carryforwards could expire before we would be able to use them to offset future



**ITEM IA. RISK FACTORS (continued)**

taxable income. Many states have adopted the federal Section 382 rules and therefore have similar limitations with respect to state tax attributes.

***Doing business in foreign countries exposes us to a number of additional risks, including complying with foreign and local laws and regulations that may conflict with U.S. laws and those under anticorruption, competition, economic sanctions and anti-boycott regulations, that may materially adversely affect our business, financial condition, results of operations, liquidity and cash flows.***

We currently operate in several foreign countries, including Canada and China. Operating in different countries exposes us to varying risks, which include: (i) multiple, and sometimes conflicting, foreign regulatory requirements and laws that are subject to change, including laws relating to taxes, insurance rates, insurance products, consumer privacy, data security, employment matters, cost and fee recovery, and the protection of our trademarks and other intellectual property; (ii) the effect of foreign currency translation risk; (iii) varying tax regimes, including consequences from changes in applicable tax laws; (iv) local ownership or investment requirements, as well as difficulties in obtaining financing in foreign countries for local operations; and (v) political and economic instability, natural calamities, disease and epidemics, war and terrorism. The failure to comply with international laws could have an adverse effect on us that is disproportionate to the relative size of our foreign operations.

Our international operations are also subject to U.S. and foreign anti-corruption laws and regulations, such as the Foreign Corrupt Practices Act ("FCPA"), economic sanction programs administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and the anti-boycott regulations administered by the U.S. Department of Commerce's Office of Antiboycott Compliance. As a result of doing business in foreign countries, we are exposed to a heightened risk of violating these and other laws. As part of our business, we regularly deal with foreign officials for regulatory purposes and may deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, the provisions of the U.K. Bribery Act of 2010 extend beyond bribery of foreign public officials and are more onerous than the FCPA in a number of other respects. Some of the international locations in which we operate lack a developed legal system and have relatively higher levels of corruption. Economic sanctions programs restrict our business dealings with certain sanctioned countries and other sanctioned individuals and entities. Violations of anti-corruption laws, competition laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment (or other loss of business) from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have established policies and procedures designed to assist our compliance with applicable laws and regulations; however, there can be no assurance that they will effectively prevent us from violating these laws and regulations in every transaction in which we may engage. A violation of legal requirements could materially and adversely affect our reputation, business, financial condition, results of operations and cash flows.

In addition, we are subject to limitations on our ability to repatriate funds to the United States from our operations outside of the United States. These limitations arise from regulations in certain countries that limit our ability to remove funds from or transfer funds to foreign subsidiaries, as well as from tax liabilities that would be incurred in connection with such transfers.

The effects of the foregoing risks may, individually or in the aggregate, materially adversely affect our results of operations, liquidity and cash flows.

***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, increase our expenses or otherwise have a material adverse effect on our results of operations.***

We primarily conduct business in the United States and Canada. We also have other international operations. Our operations expose us to a number of national, state, local and foreign laws and regulations, in addition to legal, regulatory and contractual requirements we face as a government contractor. These laws and regulations address multiple aspects of our operations, including taxes, worker safety, transportation, consumer rights, privacy, data security and employment matters and also may impact other areas of our business. There are often different requirements in different jurisdictions. Changes in government regulation of our businesses have the potential to materially alter our business practices or our profitability. Depending on the jurisdiction, those changes may come about through the issuance of new laws and regulations or changes in the interpretation of existing laws and regulations by a court, regulatory body or governmental official. Sometimes those changes may have both a retroactive and prospective effect; this is particularly true when a change is made through reinterpretation of laws or regulations that have been in effect for some time. Moreover, changes in regulation that may seem neutral on their face may have either more or less impact

**ITEM IA. RISK FACTORS (continued)**

on us than on our competitors, depending on the circumstances. Changes in any legal or regulatory requirements applicable to us, or any material failure by us to comply with them, could negatively impact our reputation, reduce our business, require significant management time and attention and generally otherwise adversely affect our financial position, results of operations or cash flows. Similarly, changes in laws and regulations applicable to our customers or impacting the economy generally may also impact our financial condition and results of operations.

***An impairment of our goodwill or our indefinite-lived intangible assets could have a material adverse non-cash impact on our financial condition and results of operations.***

We review our goodwill and indefinite-lived intangible assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Our goodwill and indefinite-lived intangible assets comprised approximately 9.5% of our total assets as of December 31, 2019. If economic deterioration occurs, we may be required to record charges for goodwill or indefinite-lived intangible asset impairments in the future, which could have a material adverse non-cash impact on our financial condition and results of operations.

**Other Operational Risks**

***Any decline in our relationships with our key national account customers or the amount of equipment they rent from us could materially adversely affect our business, financial position, results of operations and cash flows.***

Our business depends on our ability to maintain positive relations with our key national account customers, which collectively accounted for 42% of our rental revenue in 2019. We cannot assure you that all of these relationships will continue at current levels or on current terms. Our contracts with our customers generally do not obligate them to rent equipment from us. Revenue from customers that have accounted for significant revenue in past periods, individually or as a group, may not continue in future periods or, if continued, may not reach or exceed historical levels in any period. Further, if our key customers fail to remain competitive in their respective markets or encounter financial or operational problems, our business, financial position, results of operations and cash flows may be materially adversely affected.

***Our rental fleet is subject to residual value risk upon disposition and may not sell at the prices we expect.***

The market value of our equipment at the time of its disposition could be less than its estimated residual value or its depreciated value at such time. A number of factors could affect the value received upon disposition of our equipment, including:

- the market price for similar new equipment;
- the age of the equipment, wear and tear on the equipment relative to its age and the performance of preventive maintenance;
- the time of year that it is sold;
- the supply of used equipment relative to the demand for used equipment, including as a result of changes in economic conditions or conditions in the markets that we serve;
- inventory levels at original equipment manufacturers; and
- the existence and capacities of different sales outlets.

A sale of equipment below its net book value could adversely affect our results of operations, liquidity and cash flows. Accordingly, decisions to reduce the size of our rental fleet in the event of an economic downturn or to respond to changes in rental demand are subject to the risk of loss based on the residual value of rental equipment.

***We incur maintenance and repair costs associated with our rental fleet that could have a material adverse effect on our financial condition, results of operations, liquidity and cash flows in the event these costs are greater than anticipated.***

As our rental equipment ages, the cost of maintaining such equipment, if not replaced within a certain period of time, and the risk of fleet equipment being out of service, generally increase. As of December 31, 2019, the average age of our rental equipment fleet was approximately 45 months. Determining the optimal age at disposition for our rental equipment is subjective and requires considerable estimates by management. We have made estimates regarding the relationship between the age of our rental equipment, the maintenance and repair costs, the availability of our fleet and the market value of used equipment. It is possible that we may allow the average age of our rental equipment fleet to increase, which would increase our costs for maintenance and repair and

**ITEM IA. RISK FACTORS (continued)**

likely would negatively impact the market value of such equipment at the time of its disposition. If maintenance and repair costs are higher than estimated or in-service times or market values of used equipment are lower than estimated, our financial condition, results of operations, liquidity and cash flows could be materially adversely affected.

***We may be unable to protect our trade secrets and other intellectual property rights, and our business could be harmed as a result.***

We rely on trade secrets to protect our know-how and other proprietary information, including pricing, purchasing, promotional strategies, customer lists and/or supplier lists. However, trade secrets are difficult to protect. Our employees, consultants, contractors or advisors may unintentionally or willfully disclose our information to competitors. In addition, any confidentiality agreements executed to protect these assets may not be enforceable or provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. The effects of these risks may materially adversely affect our business, results of operations, liquidity and cash flows.

***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 are exposed to a variety of claims arising from our operations, including claims by third parties for injury or property damage arising from the operation of our equipment or acts or omissions of our personnel and workers' compensation claims. We are currently a defendant in numerous actions and have received numerous claims on which actions have not yet been commenced for liability and property damage arising from the operation of equipment rented from us. We also are exposed to risk of loss from damage to our equipment and resulting business interruption. Our responsibility for such claims and losses is increased when we waive the provisions in certain of our rental contracts that hold a renter responsible for damage or loss under an optional loss or damage waiver that we offer. While we attempt to mitigate our exposure to large liability losses arising from such claims by maintaining general liability, workers' compensation and vehicle liability insurance coverage, our coverage may not be adequate to protect us against these exposures and we self-insure against losses associated with exposures not covered by these insurance policies.

Moreover, in the event that insurance coverage does apply, we will bear a portion of the associated losses through the application of deductibles and self-insured retention in the insurance policies. For a company our size, such deductibles or self-insured retention could be substantial. There is also no assurance that insurance policies of these types will be available for purchase or renewal on commercially reasonable terms, or at all, or that the premiums and deductibles under such policies will not substantially increase, including as a result of market conditions in the insurance industry.

If we were to incur one or more liabilities that are significant, individually or in the aggregate, where we are not fully insured, that we self-insure against or that our insurers dispute, it could have a material adverse effect on our financial condition. Even with adequate insurance coverage, we still may experience a significant interruption to our operations as a result of third-party claims or other losses arising from our operations.

***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 our financial position, results of operations and cash flows.***

Our operations are subject to numerous national, state, provincial and local laws and regulations governing environmental protection and occupational health and safety matters. These laws govern such issues as wastewater, storm water, solid and hazardous wastes and materials, air quality and matters of workplace safety. Under these laws and regulations, regardless of fault we may be liable for, among other things, the cost of investigating and remediating contamination at our sites as well as sites to which we have sent hazardous wastes for disposal or treatment, and also fines and penalties for non-compliance. We use hazardous materials to clean and maintain equipment, dispose of solid and hazardous waste and wastewater from equipment washing, and store and dispense petroleum products from storage tanks at certain of our locations. We cannot predict the potential financial impact on our business if new adverse environmental, health, or safety conditions are discovered, or environmental, health, and safety requirements become more stringent. If we are required to incur environmental, health, or safety compliance or remediation costs that are not currently anticipated by us, our financial position, results of operations and cash flows could be materially adversely affected, depending on the magnitude of the cost.

**ITEM IA. RISK FACTORS (continued)**

In addition, the U.S. Congress and other legislative and regulatory authorities in the United States and internationally have considered, and likely will continue to consider, numerous measures related to climate change, greenhouse gas emissions and other laws and regulations affecting our end markets, such as oil, gas and other natural resource extraction. Should such laws and regulations become effective, demand for our services could be affected, our fleet and/or other costs could increase and our business could be materially adversely affected.

***Part of our strategy includes pursuing strategic transactions, which could be difficult to identify and implement, and could disrupt our business or change our business profile significantly.***

We may opportunistically consider the acquisition of other companies or service lines of other businesses that either complement or expand our existing business, or we may consider the divestiture of some of our businesses. Any acquisitions or divestitures we may seek to consummate will be subject to the negotiation of definitive agreements, satisfactory financing arrangements and applicable governmental approvals and consents, including under applicable antitrust laws, such as the Hart-Scott-Rodino Act. We cannot assure you that we will be able to identify suitable transactions and, even if we are able to identify such transactions, that we will be able to consummate any such acquisitions or divestitures on acceptable terms. Any future acquisitions or divestitures we pursue may involve a number of risks, including some or all of the following:

- the diversion of management's attention from our core business;
- the disruption of our ongoing business;
- inaccurate assessment of undisclosed liabilities;
- potential known and unknown liabilities of the acquired or divested businesses and lack of adequate protections or potential related indemnities;
- the inability to integrate our acquisitions without substantial costs, delays or other problems;
- the loss of key customers or employees of the acquired or divested business;
- increasing demands on our operational systems;
- the integration of information systems and internal control over financial reporting; and
- possible adverse effects on our reported results of operations or financial position, particularly during the first several reporting periods after an acquisition or divestiture is completed.

Any acquired entities or assets may not enhance our results of operations. Even if we are able to integrate future acquired businesses with our operations successfully, we cannot assure you that we will realize the cost savings, synergies or revenue enhancements that we may anticipate from such integration or that we will realize such benefits within the expected time frame. Any acquisition also may cause us to assume liabilities, record goodwill and other intangible assets that will be subject to impairment testing and potential impairment charges, incur potential restructuring charges and increase working capital and capital expenditure requirements, which may reduce our return on invested capital.

If we were to undertake a substantial acquisition, the acquisition likely would need to be financed in part through additional financing from banks, through public offerings or private placements of debt or equity securities or with other arrangements. We cannot assure you that the necessary acquisition financing would be available to us on acceptable terms if and when required, given our substantial indebtedness and restrictions in the terms of our indebtedness that may limit the additional indebtedness that we may incur or the acquisitions that we may pursue, which may make it difficult or impossible for us to obtain financing for acquisitions. If we were to undertake an acquisition by issuing equity securities or equity-linked securities, the acquisition may have a dilutive effect on the interests of the holders of our common stock.

A significant divestiture would, in the short term, result in loss of revenues and possibly earnings, and could require the amendment or refinancing of our outstanding indebtedness or a portion thereof. Further, to the extent that we agree to accept payment of all or a portion of the sale price over time, we will bear the risk that the portion of the price that is not paid at closing may be uncollectible. In addition, in connection with any divestiture, we may agree to retain obligations related to the business or assets sold and we may agree to indemnify the purchaser for outstanding liabilities or with respect to the representations, warranties or covenants included in the definitive agreement between the parties. These retained obligations and indemnification obligations could result in significant costs and expenses.



**ITEM IA. RISK FACTORS (continued)**

***Any material weaknesses in our internal control over financial reporting 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.***

In accordance with the Sarbanes-Oxley Act of 2002 and SEC rules, management is responsible for evaluating and reporting on the effectiveness of our internal control over financial reporting. We previously identified material weaknesses in our internal control over financial reporting, which were disclosed in our Annual Reports on Form 10-K for the years ended December 31, 2017 and 2016 and have since been remediated. We incurred significant time and expense, including consulting, audit, legal and other professional fees, to remediate those material weaknesses, and there can be no assurance that our efforts to design and implement an effective control environment will be sufficient to prevent future material weaknesses from occurring. The failure to maintain required controls could result in material misstatements in our consolidated financial statements. Any such material misstatement could result in a restatement of our consolidated financial statements, which could lead to, among other things, delays in filing required financial disclosures; loss of investor and lender confidence in the accuracy and completeness of our financial reports; events of default under the agreements governing our asset-based revolving credit facility or our accounts receivable securitization facility (collectively, the “credit facilities”) or the indenture governing our senior notes (or significant payments to amend such agreements); investigations or enforcement actions by the New York Stock Exchange, the SEC or other federal or state government agencies or regulatory authorities; sanctions, fines or penalties; legal, accounting and other expenses; a decline in the prices of our securities; and liabilities arising from stockholder litigation. Any of these potential issues, or resulting negative publicity, may have a material adverse effect on our ability to attract and retain customers, employees and vendors. We also may lose assets if we do not maintain adequate internal controls. The foregoing circumstances could have a material adverse effect on our reputation, business, financial condition, results of operations, liquidity or cash flows.

***We may face issues with our union employees.***

Labor contracts covering the terms of employment of approximately 420 employees in the U.S. and 150 employees in Canada were in effect as of December 31, 2019 under approximately 20 active contracts with local unions, affiliated primarily with the International Brotherhood of Teamsters and the International Union of Operating Engineers. These contracts are renegotiated periodically. Failure to negotiate a new labor agreement when required could result in a work stoppage. Although we believe that our labor relations have generally been good, it is possible that we could become subject to additional work rules imposed by agreements with labor unions, or that work stoppages or other labor disturbances could occur in the future. In addition, our non-union workforce has been subject to unionization efforts in the past, and we could be subject to future unionization, which could lead to increases in our operating costs and/or constraints on our operating flexibility.

**Risks Related to the Spin-Off and Our Separation from New Hertz**

***We and New Hertz have assumed and will share responsibility for certain liabilities in connection with the Spin-Off, any of which could have a material adverse effect on our business, financial condition and results of operations.***

Pursuant to the separation and distribution agreement entered into in connection with the Spin-Off, we assumed, among other things, liabilities associated with our equipment rental business and related assets, whether such liabilities arose prior to or subsequent to the Spin-Off, and have agreed to indemnify New Hertz for any losses arising from such liabilities, as well as any other liabilities we assumed pursuant to the separation and distribution agreement. We also will be responsible for a portion (typically 15%) of certain shared liabilities not otherwise specifically allocated to us or New Hertz under the separation and distribution agreement. Although we will be responsible for a portion of these shared liabilities, New Hertz has the authority to manage the defense and resolution of them. The amount of such liabilities could be greater than anticipated and have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, New Hertz has assumed, among other things, liabilities associated with its vehicle rental business and related assets, whether such liabilities arose prior to or subsequent to the Spin-Off, and has agreed to indemnify us for any losses arising from such liabilities, as well as any other liabilities it assumed pursuant to the separation and distribution agreement. New Hertz also will be responsible for a portion (typically 85%) of certain shared liabilities not otherwise specifically allocated to New Hertz or us under the separation and distribution agreement. We rely on New Hertz to manage the defense and resolution of these shared liabilities. If New Hertz fails to satisfy its performance and payment obligations under the separation and distribution agreement, including its indemnification obligations, such failure could have a material adverse effect on our business, financial condition, results of operations and cash flows.

## ITEM IA. RISK FACTORS (continued)

***If there is a determination that any portion of the Spin-Off transaction is taxable for U.S. federal income tax purposes, then we and our stockholders could incur significant U.S. federal income tax liabilities.***

Hertz Holdings received a favorable private letter ruling from the Internal Revenue Service (the "IRS") to the effect that, subject to the accuracy of and compliance with certain representations, assumptions and covenants, (i) the Spin-Off qualified as a tax-free transaction under Sections 355 and 368(a)(1)(D) of the Code, and (ii) the internal spin-off transactions (collectively with the Spin-Off, the "Spin-Offs") qualified as tax free under Section 355 of the Code. A private letter ruling from the IRS generally is binding on the IRS. However, the IRS ruling does not rule that the Spin-Offs satisfied every requirement for a tax-free spin-off, and Hertz Holdings relied solely on opinions of its tax advisors to determine that such additional requirements were satisfied. The ruling and the opinions relied on certain facts, assumptions, representations and undertakings from Hertz Holdings and New Hertz regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, Herc Holdings, its affiliates and its stockholders may not be able to rely on the ruling or the opinions of tax advisors and could be subject to significant tax liabilities. Notwithstanding the private letter ruling and opinions of tax advisors, the IRS could determine on audit that the Spin-Offs and related transactions are taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinions that are not covered by the private letter ruling, or for other reasons, including as a result of certain significant changes in the stock ownership of Herc Holdings or New Hertz after the Spin-Off. If the Spin-Offs or related transactions are determined to be taxable for U.S. federal income tax purposes, we and, in certain cases, our stockholders could incur significant U.S. federal income tax liabilities, including taxation on the value of the New Hertz common stock in the Spin-Off.

***If we take or fail to take actions that cause the Spin-Offs to fail to qualify as tax-free transactions, we could be required to indemnify New Hertz for any resulting taxes and related losses.***

Under the tax matters agreement with New Hertz, if either Herc Holdings or New Hertz 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-Offs to be taxable, or if there is an acquisition of the equity securities or assets of either party (or equity securities or assets of any member of that party's group) that causes the Spin-Offs to be taxable, that party will be required to indemnify the other party for any resulting taxes and related losses.

If any of the Spin-Offs were taxable to any of the applicable companies, such companies would recognize gain equal to the excess, if any, of the fair market value of the stock distributed over the tax basis in that stock, and Herc Holdings and its affiliates would have to pay tax on that gain. The amount of tax would be substantial, and the party causing the Spin-Off to be taxable may not have sufficient financial resources to operate its business after paying any resulting taxes and related losses.

***We could incur significant tax or other liability if New Hertz fails to pay the tax liabilities attributable to it under the tax matters agreement or to perform its obligations under the separation and distribution agreement.***

Under U.S. federal income tax laws, Herc Holdings and New Hertz (or certain of its subsidiaries) are jointly and severally liable for Hertz Holdings' federal income taxes attributable to certain periods prior to or including the 2016 taxable year of Hertz Holdings. Although the tax matters agreement allocates responsibility for tax liabilities between us and New Hertz, if New Hertz fails to pay the taxes for which it is responsible under the tax matters agreement, we may be liable for these unpaid liabilities. Certain other jurisdictions may have similar rules. Similarly, the separation and distribution agreement identifies obligations to be borne by New Hertz and liabilities that are shared between us and New Hertz. If New Hertz fails to perform its obligations or pay its share of the shared liabilities, we could incur significant liability which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**ITEM IA. RISK FACTORS (continued)**

***Herc Holdings has 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.***

Due to the accounting treatment of the Spin-Off, which considers Herc Holdings to be the spinnee or divested entity, our historical financial information included in this Report for periods prior to July 1, 2016 is derived from the consolidated financial statements and accounting records of Hertz Holdings. Accordingly, the historical financial information included herein for such periods does not necessarily reflect the financial position, results of operations, and cash flows that we would have achieved as a separate, publicly traded company during those periods or those that we will achieve in the future, primarily as a result of the following factors:

- Prior to the Spin-Off, our equipment rental business was operated by Hertz Holdings as part of its broader corporate organization, rather than as an independent company. Hertz Holdings or one of its affiliates performed various corporate functions for us, including accounting, corporate affairs, external reporting, human resources, IT, legal services, risk management, tax administration, treasury, and certain governance functions (including internal audit and compliance with the Sarbanes-Oxley Act of 2002). As a result, our historical financial results for periods prior to July 1, 2016 reflect allocations of corporate expenses for these and similar functions. These allocations may be less than the comparable expenses we would have incurred (or may incur in the future) had we operated as a separate public company during such periods.
- Prior to the Spin-Off, our equipment rental business was integrated with the vehicle rental business of Hertz Holdings, which is now operated by New Hertz following the Spin-Off. As a result, our historical financial results for periods prior to July 1, 2016 reflect these shared economies of scale in costs, employees, systems, vendor relationships and customer relationships.
- Prior to the Spin-Off, our working capital requirements and capital for our general corporate purposes, including capital expenditures and acquisitions, generally were historically satisfied as part of the enterprise-wide cash management policies of Hertz Holdings. The cost of capital for our business may be higher than Hertz Holdings' cost of capital prior to the Spin-Off.

The adjustments and allocations we have made in preparing our historical combined financial statements may not fully reflect our operations during periods prior to the Spin-Off as if we had in fact operated as a stand-alone entity.

***The Spin-Off may be challenged by creditors as a fraudulent transfer or conveyance.***

If, under relevant federal and state fraudulent transfer and conveyance statutes, in a bankruptcy or reorganization case or a lawsuit by or on behalf of unpaid creditors of New Hertz, a court were to find that (i) the Spin-Off and related transactions were undertaken with the intent of hindering, delaying or defrauding current or future creditors of New Hertz, or (ii) at the time that Hertz Holdings undertook the Spin-Off and related transactions, New Hertz was insolvent, or was rendered insolvent, by reason of the completion of the Spin-Off and related transactions, then the court could rescind the Spin-Off or, under certain circumstances, require Herc Holdings to fund liabilities of New Hertz for the benefit of creditors.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied in the relevant legal proceeding. Generally, however, New Hertz would be considered insolvent if, at the time that Hertz Holdings undertook the Spin-Off and related transactions, either:

- the sum of New Hertz's debts, including contingent liabilities, was greater than its assets, at a fair valuation; or
- the fair saleable value of New Hertz's assets was less than the amount required to pay the probable liability on its total existing debts and liabilities, including contingent liabilities, as they become absolute and matured.

We cannot give you any assurance as to what standards a court would use to determine whether New Hertz was solvent at the relevant time, or whether, whatever standard is used, the Spin-Off would be rescinded or other liabilities would be imposed on us on another of the grounds described above. We believe that no basis exists to challenge the Spin-Off as a fraudulent transfer or conveyance under the foregoing standards. However, in reaching such conclusion we have relied upon the advice of Hertz Holdings' management and its third-party advisors whose analysis was based on certain projections and other assumptions. We cannot assure you, however, that a court would reach the same conclusion.

**ITEM IA. RISK FACTORS (continued)****Risks Related to Our Substantial Indebtedness**

***Our substantial level of indebtedness exposes 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.***

As of December 31, 2019, we had total outstanding debt of approximately \$2.1 billion, including our outstanding senior notes and the amounts drawn under our credit facilities. This substantial indebtedness requires us to dedicate a significant portion of our cash flows from operations and investing activities to make payments on our debt, which reduces the amount available for working capital, capital expenditures or other general corporate purposes and which decreases our profitability and cash flow. We cannot assure you that we will maintain financing activities and cash flows sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. In addition, our indebtedness could materially adversely affect us. For example, it could: (i) make it more difficult for us to satisfy our obligations to the holders of our outstanding debt securities and to the lenders under our credit facilities, resulting in possible defaults on, and acceleration of, such indebtedness; (ii) be difficult to refinance or borrow additional funds in the future; (iii) increase our vulnerability to, and limit our flexibility to plan for, or react to, general adverse economic and industry conditions, (iv) place us at a competitive disadvantage to our competitors that have proportionately less debt or comparable debt at more favorable interest rates or on better terms; and (v) limit our ability to react to competitive pressures, or make it difficult for us to carry out capital spending that is necessary or important to our growth strategy and our efforts to improve operating margins. There is also a risk that one or more of the financial institutions providing commitments under our revolving credit facilities could fail to fund an extension of credit under any such facility, due to insolvency or otherwise, leaving us with less liquidity than expected. Our ability to manage these risks will depend, among other things, on financial market conditions as well as our financial and operating performance, which, in turn, is subject to a wide range of risks, including those described above under “—Risks Related to Our Business.”

If our capital resources (including borrowings under our financing arrangements and access to other refinancing indebtedness) and operating cash flows are not sufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced, among other things, to do one or more of the following: (i) sell certain of our assets; (ii) reduce the size of our rental fleet; (iii) reduce or delay capital expenditures; (iv) obtain additional equity capital; (v) forgo business opportunities, including acquisitions and joint ventures; or (vi) restructure or refinance all or a portion of our debt before maturity. We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. If we cannot refinance or otherwise pay our obligations as they mature and fund our liquidity needs, our business, financial condition, results of operations, cash flows, liquidity, ability to obtain financing and ability to compete could be materially adversely affected.

***Substantially all of our consolidated assets secure certain of our indebtedness, which could materially adversely affect our business and holders of our debt and equity.***

Substantially all of our consolidated assets, including our rental fleet, are subject to security interests under our revolving credit facility. As a result, the lenders under those financing arrangements have a secured claim on such assets in the event of our bankruptcy, insolvency, liquidation or reorganization, and we may not have sufficient funds to pay in full, or at all, all of our creditors or make any amount available to holders of our equity. The same is true with respect to structurally senior obligations. In general, all liabilities and other obligations of a subsidiary must be satisfied before the assets of such subsidiary can be made available to the unsecured or junior creditors (or equity holders) of the parent entity.

Because substantially all of our assets are encumbered under our revolving credit facility, our ability to incur additional secured indebtedness or to sell or dispose of assets to raise capital may be impaired, which could have a material adverse effect on our financial flexibility and liquidity and force us to attempt to incur additional unsecured indebtedness, which may not be available to us.



**ITEM IA. RISK FACTORS (continued)**

*An increase in interest rates or in our borrowing margin would increase the cost of servicing our debt and could reduce our profitability.*

A significant portion of our indebtedness bears interest at floating rates, which increases our vulnerability to general adverse economic and industry conditions (such as economic cycles and credit-related disruptions), including interest rate fluctuations. To the extent we have not hedged against rising interest rates, an increase in the applicable benchmark interest rates would increase our cost of servicing our debt and could reduce our profitability and materially adversely affect our results of operations.

In addition, we may in the future seek to refinance our indebtedness. If interest rates or our borrowing margins increase between the time an existing financing arrangement was consummated and the time such financing arrangement is refinanced, the cost of servicing our debt would increase and our results of operations and liquidity could be materially adversely affected.

*Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks described above.*

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the agreements and instruments governing our financing arrangements contain restrictions on our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness that could be incurred in compliance with these restrictions could be substantial. Further, these restrictions also do not prevent us from incurring obligations that do not constitute indebtedness. If new debt or other obligations are added to our current debt and liability levels without a corresponding refinancing or redemption of our existing indebtedness and obligations, the risks related to our substantial indebtedness could increase.

**Risks Related to the Securities Markets and Ownership of Our Common Stock**

*The market price of our common stock could decline as a result of the sale or distribution of a large number of shares of our common stock in the market or the perception that a sale or distribution could occur. These factors also could make it more difficult for us to raise funds through future offerings of our common stock.*

We are unable to predict whether significant amounts of our common stock will be sold in the open market or the potential negative effects that these sales could have on the price of our common stock. Certain shareholders, most notably affiliates of Carl Icahn and Mario Gabelli, have accumulated significant amounts of our common stock. Sales or distributions of substantial amounts of our common stock in the public market, or the perception that such sales or distributions will occur, could adversely affect the market price of our common stock and make it difficult for us to raise funds through securities offerings in the future. As of December 31, 2019, there were 28.8 million shares of our common stock outstanding, which are freely transferable without restriction or further registration under the Securities Act of 1933, as amended (the “Securities Act”), unless held or acquired by our “affiliates” as that term is defined in Rule 144 under the Securities Act. In addition, all shares of our common stock acquired upon exercise of stock options and other equity-based awards granted under our stock incentive plan also will be freely tradable under the Securities Act unless acquired by our affiliates, as will shares acquired by our employees under our employee stock purchase plan. Approximately 2.6 million shares of common stock have been issued or are reserved for issuance under our stock incentive plan and our employee stock purchase plan.

We also may issue additional common stock for a number of reasons, including to finance our operations and business strategy (including acquisitions), to adjust our ratio of debt to equity, or to provide incentives pursuant to certain executive compensation arrangements. Such future issuances of equity securities, or the expectation that they will occur, could cause the market price for our common stock to decline.

**ITEM IA. RISK FACTORS (continued)**

*Provisions of our Certificate of Incorporation and our By-Laws could discourage potential acquisition proposals and could deter or prevent a change in control.*

Our Certificate of Incorporation and By-Laws contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids and to encourage prospective acquirers to negotiate with our Board of Directors rather than to attempt a hostile takeover. These provisions include:

- granting to our Board of Directors sole power to set the number of directors and to fill any vacancy on the Board of Directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- the ability of our Board of Directors to designate and issue one or more series of preferred stock without stockholder approval, the terms of which may be determined at the sole discretion of our Board of Directors;
- prohibiting our stockholders from acting by written consent;
- prohibiting our stockholders from calling special meetings of stockholders;
- the absence of cumulative voting; and
- advance notice requirements for stockholder proposals and nominations for election to the Board of Directors at stockholder meetings.

We believe that these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is in our best interests and that of our stockholders. Any or all of the foregoing provisions could limit the price that some investors might be willing to pay for shares of our common stock.

*The market price of our common stock may fluctuate significantly.*

The market price of Herc Holdings common stock could fluctuate significantly due to a number of factors, including:

- our quarterly or annual earnings, or those of other companies in our industry;
- actual or anticipated fluctuations in our financial position, results of operations, liquidity or cash flows;
- the effectiveness of our internal control over financial reporting;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- announcements by us or our competitors of significant acquisitions, dispositions, innovations or new programs and services;
- comments by institutional investors or media reports regarding our Company, business or industry;
- changes in earnings or other financial estimates and recommendations by securities analysts following our stock, research and reports that industry or securities analysts may publish about us or the rental industry or the failure of securities analysts to cover our common stock;
- changes in our ability to meet analyst estimates;
- purchases or sales of large blocks of our stock by institutional investors;
- the operating and stock price performance of other comparable companies;
- general economic conditions and fluctuations in the overall market and the markets served by our customers, including construction and industrial markets;
- anticipated spending by government entities or agencies on infrastructure improvement or expansion projections, or the lack of, delay in or reduction in spending on such projects; and
- the trading volume of our common stock.

In addition, the realization of any of the risks described in these “Risk Factors” could have a material and adverse impact on the market price of our common stock in the future and cause the value of your investment to decline. The securities of many companies and the stock market in general have experienced extreme price and volume volatility that has often been unrelated to the operating performance of particular companies. These fluctuations may adversely affect the trading price of our common stock, regardless

## HERC HOLDINGS INC. AND SUBSIDIARIES

### ITEM IA. RISK FACTORS (continued)

of our actual performance. In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted securities class action litigation against the company. If we were to be involved in a class action lawsuit, it could divert the attention of senior management, and, if adversely determined, have a material adverse effect on our business, results of operations and financial condition.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

As of February 21, 2020, we had approximately 275 locations primarily in the United States and Canada, with locations also in China. We also operate regional headquarters, sales offices and service facilities in the foregoing countries in support of our equipment rental operations. Our principal executive offices are located in Bonita Springs, Florida.

As of December 31, 2019, we owned approximately 8% of the locations from which we operate our equipment rental business, with the remainder leased. Those leases are typically triple net leases, where Herc is responsible for the ongoing expenses of the property, including real estate taxes, insurance, and maintenance, in addition to paying rent and utilities.

Our rental locations generally are located in industrial or commercial zones. A growing number of locations have highway or major thoroughfare visibility. The typical location includes a customer reception area, an equipment service area and storage facilities for equipment. Most branches have stand-alone maintenance and fueling facilities and showrooms.

### ITEM 3. LEGAL PROCEEDINGS

*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 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 in the U.S. Court of Appeals for the Third Circuit and, in September 2018, the court affirmed the dismissal of the action with prejudice. On February 5, 2019, plaintiff filed a motion to set aside the judgment against it, and for leave to file a fifth amended complaint. The proposed amended complaint would add allegations related to the settlement with the SEC that, among other things, ordered New Hertz to cease and desist from violating certain of the federal securities laws and imposed a civil penalty of \$16.0 million. On February 26, 2019, New Hertz filed an opposition to plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On March 8, 2019, plaintiff filed a reply in support of that motion. On September 30, 2019, the court denied plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On October 30, 2019, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit.

In addition, we are subject to a number of claims and proceedings that generally arise in the ordinary conduct of our business. These matters include, but are not limited to, claims arising from the operation of rented equipment and workers' compensation

## HERC HOLDINGS INC. AND SUBSIDIARIES

### ITEM 3. LEGAL PROCEEDINGS (Continued)

claims. We do not believe that the liabilities arising from such ordinary course claims and proceedings will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

For additional information regarding legal proceedings, see Note 16, "Commitments and Contingencies" of our consolidated financial statements included in Part II, Item 8 of this Report.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### Executive Officers of the Registrant

The name, age, position and a description of the business experience of each of our executive officers is provided below. There is no family relationship among the executive officers or between any executive officer and a director.

Name	Age	Position
Lawrence H. Silber . . . . .	63	President and Chief Executive Officer, Director
Mark Irion . . . . .	53	Senior Vice President and Chief Financial Officer
Christian J. Cunningham . . . . .	58	Senior Vice President and Chief Human Resources Officer
Aaron Birnbaum . . . . .	54	Senior Vice President and Chief Operating Officer
Tamir Peres . . . . .	50	Senior Vice President and Chief Information Officer
S.Wade Sheek . . . . .	43	Senior Vice President, Chief Legal Officer and Secretary

*Lawrence H. Silber.* Mr. Silber joined the Company in May 2015. Prior to that, Mr. Silber most recently served as an executive advisor at Court Square Capital Partners, LLP, a private equity firm primarily investing in the business services, healthcare, general industrial and technology and telecommunications sectors, from April 2014 to May 2015. Mr. Silber led Hayward Industries, one of the world's largest swimming pool equipment manufacturers, as chief operating officer from 2008 to 2012, overseeing a successful transition through the recession and returning the company to solid profitability. From 1978 to 2008, Mr. Silber worked for Ingersoll-Rand plc, a publicly traded manufacturer of industrial products and components, in a number of roles of increasing responsibility. He led major Ingersoll-Rand business groups, including Utility Equipment, Rental and Remarketing and the Equipment and Services businesses. Earlier in his career, he led sales, marketing and operations functions in Ingersoll-Rand's Power Tool Division and Construction and Mining Group. Mr. Silber served on the board of directors of SMTC Corporation, a mid-size provider of end-to-end electronics manufacturing services, from 2012 to 2015 (and from May 2013 through January 2014 served as its interim president and CEO).

*Mark Irion.* Mr. Irion joined the Company in June 2018. Prior to that, Mr. Irion most recently served as the chief financial officer of Neff Corporation, a publicly traded equipment rental company, for 19 years until its sale in October 2017. Prior to his role with Neff, he was chief financial officer for Markvision Holdings, Inc., a computer component distribution company, from 1994 to 1998 and, before that, he was an audit senior for Deloitte & Touche LLP in the U.S. and New Zealand.

*Christian J. Cunningham.* Mr. Cunningham joined the Company in September 2014 from DFC Global Corporation where he served as vice president, corporate HR and HR services since June 2013 with global responsibility for all human resource matters for corporate staff. Previously, Mr. Cunningham held the position of vice president, HR, compensation and benefits at Sunoco Inc. and Sunoco Logistics from 2010 to 2013. Prior to Sunoco, Mr. Cunningham served at ARAMARK as vice president, global compensation and strategy from 2008 to 2010; at Scholastic Inc. as vice president, compensation, benefits and HRIS from 2006 to 2007; and at Pep Boys as assistant vice president, human resources from 2005 to 2006. Previously, Mr. Cunningham held director and regional managerial positions in roles with increasing levels of responsibility at Pep Boys from 1995 to 2005 and Tire Service Corporation, Inc. from 1985 to 1995.

*Aaron Birnbaum.* Mr. Birnbaum served the Company and its predecessor business for more than 30 years. Prior to his current role, Mr. Birnbaum has served as the Company's Senior Vice President from 2017 to 2019 and served as a Regional Vice President from 2012 to 2017. As Senior Vice President, Mr. Birnbaum oversaw the Company's Western, Northwest, North Central and Canada regions as well as its Herc Entertainment Services® and Cinelease® specialty equipment rental units. Mr. Birnbaum also has held leadership responsibilities related to the Company's strategic planning, operational execution and M&A activities.

*Tamir Peres.* Mr. Peres joined the Company in September 2017 from Sunoco Logistics, a publicly-traded, midstream energy company, where he served as vice president and chief information officer since 2012, leading the Sunoco Logistics Information Technology group. From 2005 to 2012, Mr. Peres held the position of director of corporate information technology at Sunoco, Inc., where he was responsible for all strategic and tactical aspects of technology across the Refining and Supply, Retail Marketing, Chemicals, Logistics and Coke business units. He was previously director of Worldwide Financial Systems for Kulicke & Soffa Industries, Inc., a global manufacturer and supplier of semiconductor equipment, and before that he worked for Ernst & Young, including as a Senior Auditor in its Assurance Services area.

*S. Wade Sheek.* Mr. Sheek joined the Company in November 2019 from Republic Airways Holdings Inc., a regional airline, where he served as general counsel and secretary from 2018 to 2019 and oversaw the legal, contracting, communications and government relations functions. From 2013 to 2018, he served as deputy general counsel and corporate secretary at Allegion plc, a multinational manufacturing company, and had responsibility for SEC matters, corporate governance, M&A and strategic initiatives. Prior to that, Mr. Sheek held roles with increasing responsibility with The Home Depot, Inc., UnitedHealth Group Incorporated and Ingersoll-Rand plc.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Common Stock and Registered Holders

Our common stock trades on the New York Stock Exchange ("NYSE") under the symbol "HRI". On February 21, 2020, there were 1,266 registered holders of our common stock. The number of beneficial owners is substantially greater than the number of record holders because a large portion of our common stock is held of record in "street name."

#### Share Repurchase Program

In March 2014, Hertz Holdings announced a \$1.0 billion share repurchase program (the "Share Repurchase Program"), which replaced an earlier program. The Share Repurchase Program permits us, as the successor to Hertz Holdings, to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. We are not obligated to make any repurchases at any specific time or in any specific amount. The timing and extent to which we repurchase shares will depend upon, among other things, market conditions, share price, liquidity targets, contractual restrictions and other factors. Share repurchases may be commenced or suspended at any time or from time to time, subject to legal and contractual requirements, without prior notice. There were no share repurchases during the year ended December 31, 2019. As of December 31, 2019, the approximate dollar value that remains available for share purchases under the Share Repurchase Program is \$395.9 million.

#### Dividends

We paid no cash dividends on our common stock in 2019, and we do not expect to pay dividends on our common stock for the foreseeable future. The agreements governing our indebtedness restrict our ability to pay dividends. See Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Dividends," in this Report.

#### Recent Performance

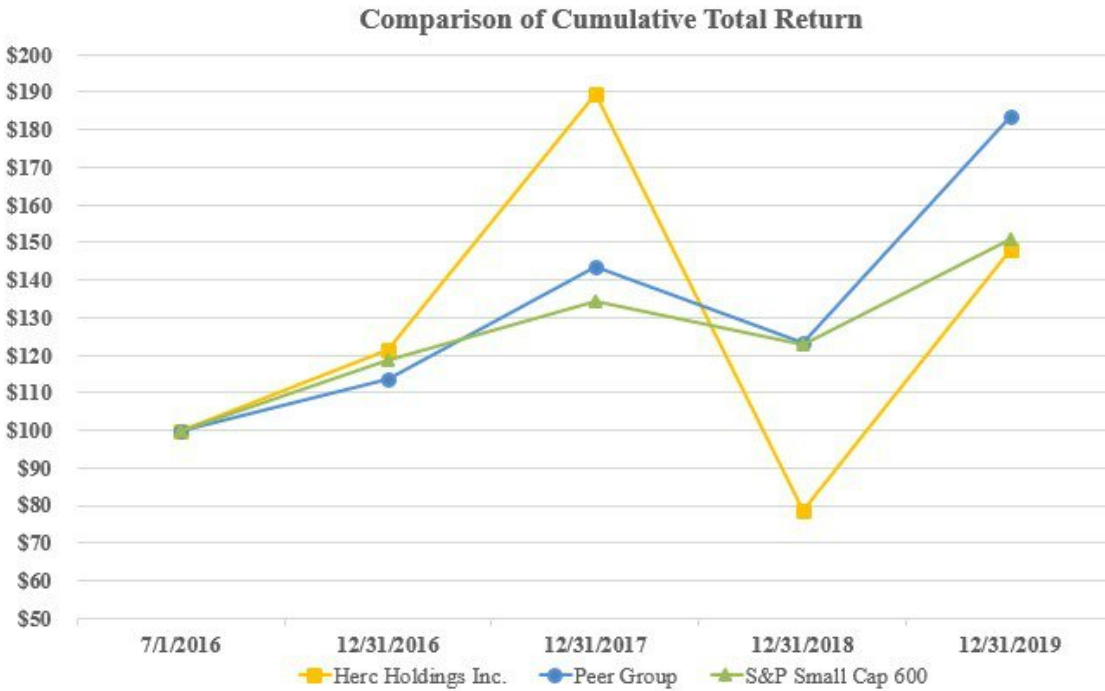
The following graph compares the cumulative total stockholder return on Herc Holdings common stock from July 1, 2016, the first day of trading for our stock on the NYSE, through December 31, 2019, with the cumulative total returns of the Standard & Poor's Small Cap 600 Index and an industry peer group. The industry peer group is comprised of publicly traded companies participating in the equipment rental industry and other relevant companies of comparable size in the broader industry in which we compete. Our industry peer group is comprised of Aggreko plc, Applied Industrial Tech Inc., Ashstead Group plc, Beacon Roofing Supply, Inc., Fastenal Company, GATX Corp., H&E Equipment Services, KAR Auction Services Inc., McGrath RentCorp, Mobile Mini, Inc., NOW Inc., Pool Corp., Ritchie Bros. Auctioneers Incorporated, Triton International Ltd., Watsco Inc. and United Rentals, Inc.



## HERC HOLDINGS INC. AND SUBSIDIARIES

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

The graph assumes that \$100 was invested on July 1, 2016 over the indicated time periods and assumes reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends and, therefore, the cumulative total return calculation for Herc Holdings is based solely upon stock price appreciation. The stock price performance shown on the graph is not necessarily indicative of future price performance.



**HERC HOLDINGS INC. AND SUBSIDIARIES**

**ITEM 6. SELECTED FINANCIAL DATA**

The following tables present selected consolidated financial information and are not necessarily indicative of results of future operations. Additionally, the historical financial information presented below for periods prior to the Spin-Off is not necessarily indicative of what our financial position or results of operations actually would have been had we operated as a separate, independent company for such periods. The information presented should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in this Report in Item 8, "Financial Statements and Supplementary Data," to fully understand factors that may affect the comparability of the information presented below. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements.

<b>(In millions, except per share data)</b>	<b>Years ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Statement of Operations Data</b>					
Total revenues.....	\$ 1,999.0	\$ 1,976.7	\$ 1,754.5	\$ 1,554.8	\$ 1,678.2
Total expenses <sup>(a)</sup> .....	1,935.4	1,907.9	1,818.9	1,559.7	1,521.3
Income (loss) before income taxes.....	63.6	68.8	(64.4)	(4.9)	156.9
Income tax benefit (provision) <sup>(b)</sup> .....	(16.1)	0.3	224.7	(14.8)	(45.6)
Net income (loss).....	<u>\$ 47.5</u>	<u>\$ 69.1</u>	<u>\$ 160.3</u>	<u>\$ (19.7)</u>	<u>\$ 111.3</u>
Earnings (loss) per share:					
Basic.....	\$ 1.66	\$ 2.43	\$ 5.66	\$ (0.70)	\$ 3.69
Diluted.....	\$ 1.63	\$ 2.39	\$ 5.60	\$ (0.70)	\$ 3.69

<b>(In millions)</b>	<b>As of December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Balance Sheet Data</b>					
Cash and cash equivalents <sup>(c)</sup> .....	\$ 33.0	\$ 27.8	\$ 41.5	\$ 24.0	\$ 24.7
Total assets.....	3,817.0	3,610.2	3,549.7	3,466.0	3,397.0
Total debt <sup>(d)</sup> .....	2,078.5	2,156.8	2,159.8	2,194.3	136.7
Total equity <sup>(e)</sup> .....	644.3	572.7	510.4	317.7	2,302.0

- (a) Total expenses were impacted by long-lived asset impairments in 2019 and 2017 of \$5.1 million and \$29.7 million, respectively, losses on extinguishment of debt in 2019, 2018 and 2017 of \$53.6 million, \$5.4 million and \$11.4 million, respectively, and the gain on the sale of our operations in France and Spain in 2015 of \$50.9 million.
- (b) Income tax benefit in 2018 and 2017 includes \$20.8 million and \$207.1 million, respectively, net benefit resulting from the Tax Cuts and Jobs Act of 2017.
- (c) Includes the correction of an error which increased the amount by \$12.4 million and \$9.0 million as of December 31, 2016 and 2015, respectively. See Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017.
- (d) Includes net loans payable to affiliates as of December 31, 2015 of \$73.2 million.
- (e) Total equity as of December 31, 2016 was impacted by \$2.0 billion of distributions and transfers to THC related to the Spin-Off.

**ITEM 7. 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 consolidated financial statements and accompanying notes included in Item 8 of this Report, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our 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 consolidated financial statements and the accompanying notes including receivables allowances, 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 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 are primarily 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.

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

**2019 Overview**

In 2019, we continued our focus on quality of earnings through the execution of company-wide initiatives to increase our operating margins and profitability. Results of these initiatives include:

- Equipment rental revenue grew 2.6% during 2019 as compared to 2018 on an increase of rental fleet at original equipment cost of 1.2% reflecting management's disciplined approach to adding fleet, while disposing of older equipment and focusing on improved utilization. Management also implemented strategic programs to reduce lower margin re-rent revenue by 18.5%.
- Pricing increased by 4.0% during 2019 as compared to 2018 reflecting management's continued focus on the accounts and customer types that are best suited to our strategy for profitable growth.
- Direct operating costs and selling, general and administrative costs declined by 1.8% and 5.3%, respectively, during 2019 as compared to 2018 as there were strategic reductions in re-rent expense, delivery and freight expenses as well as reductions in consulting and professional fees.

We also took a number of actions related to our capital structure that have improved our financial flexibility and liquidity, including:

- Issued \$1.2 billion aggregate principal amount of 5.50% senior notes due 2027 (the "2027 Notes").
- Redeemed \$427.0 million of our 7.50% senior secured second priority notes due 2022 (the "2022 Notes").
- Redeemed \$437.5 million of our 7.75% senior secured second priority notes due 2024 (the "2024 Notes").
- Entered into a new asset-based revolving credit facility (the "New ABL Credit Facility"), which replaced the existing asset-based credit facility (the "Old ABL Credit Facility") and extended the maturity to 2024.

**RESULTS OF OPERATIONS**

<b>(\$ in millions)</b>	<b>Year Ended December 31,</b>		<b>2019 vs. 2018</b>	
	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
Equipment rental . . . . .	\$ 1,701.8	\$ 1,658.3	\$ 43.5	2.6 %
Sales of rental equipment . . . . .	242.8	256.2	(13.4)	(5.2)
Sales of new equipment, parts and supplies . . . . .	44.0	49.3	(5.3)	(10.8)
Service and other revenue . . . . .	10.4	12.9	(2.5)	(19.4)
Total revenues . . . . .	1,999.0	1,976.7	22.3	1.1
Direct operating . . . . .	771.1	785.2	(14.1)	(1.8)
Depreciation of rental equipment . . . . .	409.1	387.5	21.6	5.6
Cost of sales of rental equipment . . . . .	243.2	244.3	(1.1)	(0.5)
Cost of sales of new equipment, parts and supplies . . . . .	33.3	37.7	(4.4)	(11.7)
Selling, general and administrative . . . . .	294.8	311.3	(16.5)	(5.3)
Restructuring . . . . .	7.7	5.0	2.7	54.0
Impairment . . . . .	5.1	0.1	5.0	NM
Interest expense, net . . . . .	173.5	137.0	36.5	26.6
Other income, net . . . . .	(2.4)	(0.2)	(2.2)	NM
Income (loss) before income taxes . . . . .	63.6	68.8	(5.2)	(7.6)
Income tax (provision) benefit . . . . .	(16.1)	0.3	(16.4)	NM
Net income (loss) . . . . .	\$ 47.5	\$ 69.1	\$ (21.6)	(31.3)%

NM - Not Meaningful

**Year Ended December 31, 2019 Compared with Year Ended December 31, 2018**

Equipment rental revenue increased \$43.5 million, or 2.6%, during the year ended December 31, 2019 when compared with 2018. The increase was attributable to pricing increases of 4.0% during 2019 when compared to 2018 and increases in delivery and freight revenue. The increase was partially offset by a strategic reduction in re-rent revenue and lower volume.

## HERC HOLDINGS INC. AND SUBSIDIARIES

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Sales of rental equipment decreased \$13.4 million, or 5.2%, during the year ended December 31, 2019 when compared with 2018. The volume of sales during the 2019 declined in response to improvements over the past year in the mix and age of equipment as part of our long-term capital expenditure plans. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 100.2% during the year ended December 31, 2019 compared to 95.4% in 2018. The reduction in margin on sale of rental equipment in 2019 was primarily due to a higher proportion of sales through the lower-margin auction channel.

Direct operating expenses decreased \$14.1 million, or 1.8%, during the year ended December 31, 2019 when compared with 2018 primarily due to the following:

- Fleet and related expenses decreased \$32.1 million primarily due to the decline in re-rent expense of \$11.8 million mainly due to the decrease in re-rent revenue. Maintenance expenses decreased \$6.6 million due to a reduction in fleet age and increased maintenance efficiency and delivery and freight expense decreased \$7.7 million due to an increase in internal delivery personnel and better management of transportation costs.
- Personnel-related expenses increased \$2.2 million primarily due to an increase in wages of \$9.5 million related to personnel and related costs including overtime. The increase was partially offset by a decrease in benefits of \$4.9 million due to improved claims experience.
- Other direct operating costs increased \$15.8 million primarily due to increased field facilities expenses of \$10.3 million primarily related to new branches that were opened during 2018 and 2019 and increases due to recurring lease renewals on existing locations.

Depreciation of rental equipment increased \$21.6 million, or 5.6%, during the year ended December 31, 2019 when compared with 2018. The increase was primarily due to depreciation recognized on rental equipment with higher cost due to capital expenditures and the sale of older equipment with lower depreciation.

Selling, general and administrative expenses decreased \$16.5 million, or 5.3%, during the year ended December 31, 2019 when compared with 2018. The decline was primarily due to a decrease in Spin-Off related costs of \$13.9 million and professional fees of \$13.2 million, partially offset by a \$5.6 million increase for increased sales compensation and related commissions and incentives to drive revenue growth and an increase of \$4.2 million in advertising and travel expenses.

Restructuring expense was \$7.7 million during the year ended December 31, 2019 as a result of our plan of restructuring in Canada which included right-of-use assets and related leasehold improvement impairment of \$5.5 million and severance expense of \$2.2 million. Restructuring expense during the year ended December 31, 2018 of \$5.0 million also related to a plan of restructuring in Canada which related to facility closing costs and severance expenses.

Impairment charges of \$5.1 million were recorded during the year ended December 31, 2019 and primarily related to certain assets of our other international operations outside of North America that were deemed held for sale at December 31, 2019.

Interest expense, net increased \$36.5 million, or 26.6%, during the year ended December 31, 2019 when compared with the same period in 2018. The increase was primarily due to a loss on extinguishment of debt of \$53.6 million related to the extinguishment of the 2022 Notes, 2024 Notes and the refinancing of the ABL Credit Facility in July 2019 as compared to a loss on extinguishment of debt of \$5.4 million in 2018 related to the partial redemption of the 2022 Notes and 2024 Notes. This increase was partially offset by a decrease in interest expense due to a reduction in interest rates related to the debt transactions described in Note 10, "Debt".

Income tax expense was \$16.1 million during the year ended December 31, 2019 compared to a \$0.3 million benefit in the prior-year period. The increase in income tax expense in 2019 was primarily driven by the elimination of a benefit of \$20.8 million in 2018 as a result of the Tax Cuts and Jobs Act of 2017.

### ***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

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

borrowings under our debt arrangements. As of December 31, 2019, we had approximately \$2.1 billion of total nominal indebtedness outstanding. 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.

Our liquidity as of December 31, 2019 consisted of cash and cash equivalents and unused commitments under our New ABL Credit Facility. See "Borrowing Capacity and Availability" below. Our practice is to maintain sufficient liquidity through cash from operations, our New 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 New 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):

	Years Ended December 31,		2019 vs. 2018
	2019	2018	\$ Change
Cash provided by (used in):			
Operating activities . . . . .	\$ 635.6	\$ 559.1	\$ 76.5
Investing activities . . . . .	(463.6)	(567.0)	103.4
Financing activities . . . . .	(167.1)	(4.2)	(162.9)
Effect of exchange rate changes . . . . .	0.3	(1.6)	1.9
Net change in cash and cash equivalents . . . . .	\$ 5.2	\$ (13.7)	\$ 18.9

**Year Ended December 31, 2019 Compared with Year Ended December 31, 2018**

***Operating Activities***

During the year ended December 31, 2019, we generated \$76.5 million more cash from operating activities compared with 2018. The increase was related to improved operating results primarily resulting from higher revenues, lower professional fees, lower maintenance and delivery costs and improved collection of receivables and other working capital improvements during the year ended December 31, 2019 as compared to 2018.

***Investing Activities***

Cash used in investing activities decreased \$103.4 million for the year ended December 31, 2019 as compared to 2018. 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 used in financing activities was \$167.1 million for the year ended December 31, 2019 as compared to \$4.2 million for 2018. Cash flows used in financing activities during the year ended December 31, 2019 primarily represents our changes in debt, which included the proceeds of \$1.2 billion upon issuance of our 2027 Notes, offset by the redemption of \$864.5 million of our 2022 Notes and 2024 Notes collectively. We also had net outflows of \$434.8 million on our revolving lines of credit and securitization which included the refinancing of the Old ABL Credit Facility.



## HERC HOLDINGS INC. AND SUBSIDIARIES

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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).

	Years Ended December 31,	
	2019	2018
Rental equipment expenditures . . . . .	\$ 638.4	\$ 771.4
Disposals of rental equipment . . . . .	(224.2)	(272.3)
Net rental equipment expenditures . . . . .	<u>\$ 414.2</u>	<u>\$ 499.1</u>

Net capital expenditures for rental equipment decreased \$84.9 million during the year ended December 31, 2019 compared to 2018. During 2019, we reduced rental equipment expenditures to improve utilization and also reduced the volume of rental equipment sales based on the improvements seen in the mix and age of equipment and timing related to the strength of the used equipment rental market.

In 2020, we expect our net rental equipment capital expenditures to be in the range of \$410.0 million to \$450.0 million.

#### Borrowing Capacity and Availability

In July 2019, we issued \$1.2 billion aggregate principal amount of 2027 Notes. The funds were used to redeem the remaining 2022 Notes and 2024 Notes and repay a portion of the indebtedness outstanding under the then existing Old ABL Credit Facility. Additionally, we entered into the New ABL Credit Facility, which refinances in full and replaces the Old ABL Credit Facility. See Note 10, "Debt" included in Part II, Item 8 "Financial Statements" of this Report for more information.

Our New ABL Credit Facility and accounts receivable securitization facility (the "AR Facility" and 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."

In connection with the AR Facility, we sell accounts receivable on an ongoing basis to a wholly-owned special-purpose entity (the "SPE"). 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 our obligations. Substantially all of our remaining assets are encumbered in favor of our lenders under our New ABL Credit Facility. None of such assets are available to satisfy the claims of our general creditors. See Note 10, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 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 Facilities. 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 Facilities (i.e., the amount of debt we could borrow given the collateral we possess at such time).

## HERC HOLDINGS INC. AND SUBSIDIARIES

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

As of December 31, 2019, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
New ABL Credit Facility .....	\$ 1,079.4	\$ 1,079.4
AR Facility .....	—	—
Total .....	<u>\$ 1,079.4</u>	<u>\$ 1,079.4</u>

At December 31, 2019, the Company's borrowing base was capped at \$175.0 million by the aggregate commitments under the AR Facility. Subsequent to December 31, 2019, the borrowing base under the AR Facility declined to \$169.4 million.

In addition, as of December 31, 2019, our subsidiary in China had uncommitted credit facilities, of which \$4.8 million was available for borrowing.

As of December 31, 2019, \$20.6 million of standby letters of credit were issued and outstanding under the New ABL Credit Facility, none of which had been drawn upon. The New ABL Credit Facility had \$229.4 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

#### Covenants

Our New ABL Credit Facility, our AR Facility and our 2027 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 New ABL Credit Facility, our AR Facility and our Notes, we are not subject to ongoing financial maintenance covenants; however, under the New 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. As of December 31, 2019, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

For further information on the terms of our 2027 Notes, New ABL Credit Facility and AR Facility see Note 10, "Debt" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Report. For a discussion of the risks associated with our significant indebtedness, see Part I, Item 1A "Risk Factors" contained in this Report.

#### 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.

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

**CONTRACTUAL OBLIGATIONS**

The following table details the contractual cash obligations for debt and related interest payable, finance and operating leases, and other purchase obligations as of December 31, 2019 (in millions):

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>2020</b>	<b>2021-2022</b>	<b>2023-2024</b>	<b>After 2024</b>
Debt principal, including current maturities . . . . .	\$ 2,030.2	\$ 5.2	\$ —	\$ 825.0	\$ 1,200.0
Interest on debt <sup>(a)</sup> . . . . .	613.5	91.2	182.4	172.1	167.8
Financing obligations <sup>(b)</sup> . . . . .	158.2	9.4	18.8	18.8	111.2
Finance lease obligations <sup>(c)</sup> . . . . .	60.7	23.2	14.0	12.5	11.0
Operating lease obligations <sup>(d)</sup> . . . . .	251.4	37.3	66.8	51.1	96.2
Purchase obligations <sup>(e)</sup> . . . . .	15.6	7.5	7.2	0.9	—
<b>Total</b> . . . . .	<b>\$ 3,129.6</b>	<b>\$ 173.8</b>	<b>\$ 289.2</b>	<b>\$ 1,080.4</b>	<b>\$ 1,586.2</b>

- (a) Estimated interest payments have been calculated based on the applicable interest rates as of December 31, 2019.
- (b) Includes obligations under financing agreements primarily for the lease of 44 properties. See Note 11, "Financing Obligations" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.
- (c) Includes obligations under lease agreements primarily for service vehicles. See Note 8, "Leases " to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.
- (d) Includes obligations under lease agreements for real estate and computer equipment. Such obligations are reflected to the extent of their minimum non-cancelable terms. See Note 8, "Leases " to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.
- (e) Purchase obligations represent agreements to purchase goods or services that are legally binding on us and that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Only the minimum non-cancelable portion of purchase agreements and related cancellation penalties are included as obligations. In the case of contracts that state minimum quantities of goods or services, amounts reflect only the stipulated minimums; all other contracts reflect estimated amounts.

The table excludes our pension and other postretirement benefit obligations. See Note 12, "Employee Retirement Benefits" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

**OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

As of December 31, 2019 and 2018, the following guarantees (including indemnification commitments) were issued and outstanding.

**Indemnification Obligations**

In the ordinary course of business, we execute contracts involving indemnification obligations customary in the relevant industry and indemnifications related to a specific transaction such as the sale of a business. These indemnification obligations might include claims relating to the following: environmental matters; condition of property; intellectual property rights; governmental regulations and employment-related matters; customer, supplier and other commercial contractual relationships; 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. We regularly evaluate the probability of having to incur costs associated with these indemnification obligations and accrue for expected losses that are probable and estimable. Also see Note 20, "Arrangements with New Hertz" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report. For discussion of the risks associated with indemnification obligations in the context of divestitures see "Other Operational Risks" in Part I, Item 1A "Risk Factors" contained in this Report.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

***Contingencies, Environmental Matters and Guarantee***

The information concerning the ongoing securities litigation and governmental investigation contained in Part I, Item 3 "Legal Proceedings" of this Report and the information concerning other contingencies, including environmental contingencies and the amount currently held in reserve for environmental matters and our guarantee is contained in Note 16, "Commitments and Contingencies" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report is incorporated herein by reference. The additional information concerning environmental matters included in Part I, Item 1 "Business—Environmental, Health and Safety Matters and Governmental Regulation" of this Report is also incorporated herein by reference.

***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts in our consolidated financial statements and accompanying notes.

Certain of our accounting policies, as discussed below, involve a higher degree of judgment and complexity in their application and, therefore, represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. For additional discussion of our critical accounting policies, as well as our significant accounting policies, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

***Revenue Recognition***

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. Also included in equipment rental revenue are fees for equipment delivery and pick-up and fees for our rental protection program, which allows customers to limit risk of financial loss in the event our equipment is damaged or lost. Delivery and pick-up fees are recognized as revenue when the services are performed and fees related to our rental protection program are recognized over the length of the contract term.

We recognize 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.

Service and other revenue is recognized as the services are performed.

***Rental Equipment***

Our principal assets are rental equipment, which represented 65.2% and 69.4% of our total assets as of December 31, 2019 and 2018, respectively. Rental equipment consists of equipment utilized in our equipment rental operations. When rental equipment is acquired, we use historical experience, industry residual value guidebooks and the monitoring of market conditions to set depreciation rates. Generally, we estimate the period that we will hold the asset, primarily based on historical measures of the amount of equipment usage and the targeted age of equipment at the time of disposal. We also estimate the residual value of the applicable rental equipment at the expected time of disposal. The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded over the estimated holding period. Depreciation rates are reviewed regularly based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used equipment sales also can be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment and incentives offered by manufacturers. As a result of this ongoing assessment, we make periodic adjustments to depreciation rates of rental equipment in response to changing market conditions.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

***Defined Benefit Pension Obligations***

The Herc Holdings Retirement Plan (the "Plan") participates in certain U.S. defined benefit plans covering substantially all U.S. employees, as well as certain non-U.S. defined benefit plans covering eligible non-U.S. employees. For each of these plans, we record our portion of the expense and the related obligations. Additionally, pursuant to various collective bargaining agreements, certain union-represented employees participate in multiemployer pension plans.

Employee pension costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. While we believe that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect our pension costs and obligations. The various employee-related actuarial assumptions (e.g., retirement rates, mortality rates and salary growth) used in determining pension costs and plan liabilities are reviewed periodically by management, assisted by the enrolled actuary, and updated as warranted. The discount rate used to value the pension liabilities and related expenses and the expected rate of return on plan assets are the two most significant assumptions impacting pension expense. The discount rate used is a market-based rate as of the valuation date. For the expected return on assets assumption, we use a forward-looking rate that is based on the expected return for each asset class (including the value added by active investment management), weighted by the target asset allocation. The past annualized long-term performance of the Plan's assets has generally been in line with the long-term rate of return assumption.

See Note 12, "Employee Retirement Benefits" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

***Goodwill and Indefinite-Lived Intangible Assets***

On an annual basis and at interim periods when circumstances require, we test the recoverability of our goodwill. Goodwill impairment is deemed to exist if the carrying value of goodwill of a reporting unit exceeds its fair value. A reporting unit is an operating segment or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. We have assessed the guidance and performed our analysis using our one reporting unit, worldwide equipment rental.

Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350 ("Topic 350"), *Intangibles-Goodwill and Other*, an entity may first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. Various factors are considered in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting unit, our stock price and the excess amount between our reporting unit's fair value and carrying value as indicated on our most recent quantitative assessment.

When assessing the fair value of our reporting units using a quantitative approach, we estimate the fair value using a combination of an income approach on the present value of estimated future cash flows and a market approach based on published earnings multiples of comparable entities with similar operations and economic characteristics as well as acquisition multiples paid in recent transactions. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the weighted average cost of capital, or "WACC," methodology. The WACC methodology considers market and industry data as well as company specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. The cash flows represent management's most recent planning assumptions. These assumptions are based on a combination of industry outlooks, views on general economic conditions and our expected pricing plans. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. If the carrying value of the reporting unit is greater than its fair value, we recognize an impairment charge for the amount equal to that excess. A significant decline in the projected cash flows or a change in the WACC used to determine fair value could result in a future goodwill impairment charge.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Indefinite-lived intangible assets, primarily trademarks, are not amortized but are evaluated annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

In connection with our impairment analysis for goodwill and indefinite-lived intangible assets conducted as of October 1, 2019, we assessed qualitative factors as described above to determine if it is more likely than not that goodwill and indefinite-lived assets may be impaired and concluded that there was no impairment related to such assets.

See Note 6, "Goodwill and Intangible Assets" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

***Finite-Lived Intangible and Long-Lived Assets***

Intangible assets include technology, customer relationships, trade names and other intangibles. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three to ten years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

***Income Taxes***

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and net bases of assets and liabilities and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets by the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates will result in changes to deferred taxes and any related valuation allowances. We have recorded a deferred tax asset for unutilized net operating loss carryforwards in various tax jurisdictions.

The Company has determined not to assert that earnings from foreign operations are permanently reinvested. Therefore, the Company recognizes deferred taxes on foreign earnings as appropriate. The Company has asserted that future earnings associated with the potential stock sale or liquidation of foreign subsidiaries is permanently reinvested. Accordingly, the Company has not recorded any deferred tax liabilities associated with these book-to-tax differences. We regularly review our cash positions and our determination of permanent reinvestment of foreign earnings. If we determine that all or a portion of such foreign earnings are repatriated, we may be subject to additional foreign withholding taxes and U.S. state income taxes. Many foreign jurisdictions impose taxes on distributions to other jurisdictions. Due to the variations and complexities of these laws, we believe it would be impractical to calculate and accrue these taxes beyond the normal earnings and profits standard for U.S. tax purposes.

In accordance with ASC Topic 740, *Income Taxes* ("Topic 740"), the Company recognizes, in its consolidated financial statements, the impact of the Company's tax positions that are more likely than not to be sustained upon examination. The Company will determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority with full knowledge of all relevant information. Upon determination that a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements. The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, accruals for tax contingencies are established based on the probable outcomes of such matters. Our ongoing assessments of the probable outcomes of the



**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

examinations and related tax accruals require judgment and could increase or decrease our effective tax rate as well as impact our operating results.

See Note 14, "Income Taxes" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

***Stock Based Compensation***

All stock-based compensation award disclosures are measured in terms of common stock of Herc Holdings. The cost of employee services received in exchange for an award of equity instruments is based on the grant date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award, referred to as the vesting period. In addition to the service vesting condition, the performance stock units had an additional vesting condition, which called for the number of units that will be awarded based on achievement of a certain level of adjusted EBITDA, return on invested capital, or other performance measures as defined in the applicable award agreements, over the applicable measurement period.

We estimated the fair value of options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield and risk-free interest rate. These factors combined with the stock price on the date of grant result in a fixed expense which is recorded on a straight-line basis over the vesting period. The assumed volatility was calculated based on a blend of peer group volatility and implied volatility as we do not have sufficient stock price data to calculate historical volatility. The assumed dividend yield is zero. The risk-free interest rate is the implied zero-coupon yield for U.S. Treasury securities having a maturity approximately equal to the expected term of the options, as of the grant dates.

See Note 13, "Stock-Based Compensation" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

**RECENT ACCOUNTING PRONOUNCEMENTS**

For a discussion of recent accounting pronouncements, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***RISK MANAGEMENT***

For a discussion of additional risks arising from our operations, see Part I, Item 1A "Risk Factors" included in this Report.

**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.

**Interest Rate Risk**

We have assessed our exposure to changes in interest rates by analyzing the sensitivity to our earnings assuming various changes in market interest rates. Assuming a hypothetical increase of one percentage point in interest rates on our New ABL Credit Facility, AR Facility and cash and cash equivalents as of December 31, 2019, our pre-tax earnings would decrease by an estimated \$8.0 million over a 12-month period.

From time to time, we may enter into interest rate swap agreements to manage interest rate risk on our mix of fixed and floating rate debt. Consistent with the terms of certain agreements governing our debt obligations, we may decide to hedge a portion of the floating rate interest exposure under the New ABL Credit Facility to provide protection in respect of such exposure.

**Foreign Currency Risk**

We have foreign currency exposure to exchange rate fluctuations, primarily with respect to the Canadian dollar and Chinese yuan.

We manage our foreign currency risk primarily by incurring, to the extent practicable, operating and financing expenses in the local currency in the countries in which we operate, including making fleet and equipment purchases and borrowing locally.

We also manage exposure to fluctuations in currency risk on cross currency intercompany loans we make to certain of our subsidiaries by entering into foreign currency forward contracts, when appropriate, which are intended to offset the impact of foreign currency movements on the underlying intercompany loan obligations.

We do not hedge our operating results against currency movement as they are primarily translational in nature. Using foreign currency forward rates as of December 31, 2019, each hypothetical one percentage point change in foreign currency movements would not have a significant impact on our revenue or earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Herc Holdings Inc.:

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Herc Holdings Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2019 appearing under Item 8 (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 due to the adoption of Topic 842, using a modified retrospective transition method.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

## HERC HOLDINGS INC. AND SUBSIDIARIES

statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### *Critical Audit Matters*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Income Taxes*

As described in Notes 2 and 14 to the consolidated financial statements, the Company recorded an income tax provision of \$16.1 million for the year ended December 31, 2019. Additionally, the Company reported a net deferred tax liability balance of \$459.3 million as of December 31, 2019. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As disclosed by management, they also recorded a deferred tax asset for unutilized net operating loss carryforwards in various tax jurisdictions. Management records valuation allowances to reduce its deferred tax assets by the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates will result in changes to deferred taxes and any related valuation allowances. Management recognizes the impact of the Company's uncertain tax positions that are more likely than not to be sustained upon examination. Management will determine whether it is more likely than not that a tax position will be sustained upon examination. Upon determination that a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements.

The principal considerations for our determination that performing procedures relating to income taxes is a critical audit matter are there was significant judgment by management in determining the income tax provision and in evaluating the Company's tax positions, including analyzing uncertain tax positions and assessing the realizability of deferred tax assets, which in turn led to significant auditor judgment, subjectivity, and effort in performing audit procedures and evaluating audit evidence relating to income taxes.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the income tax provision, the identification of uncertain tax positions and assessment of related liability changes, if material, and assessing the realizability of deferred tax assets, including assessing the related positive and negative evidence. These procedures also included, among others (i) testing the completeness and accuracy of the income tax provision, including the rate reconciliation, return to provision adjustments, and permanent and temporary differences, (ii) testing the completeness of management's assessment of both the identification of uncertain tax positions and the possible outcomes of each uncertain tax position, and (iii) evaluating management's assessment of the realizability of deferred tax assets on a jurisdictional basis, including an assessment of the positive and negative evidence regarding realization.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida  
February 27, 2020

We have served as the Company's auditor since 2013.

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(In millions, except par value)

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 33.0	\$ 27.8
Receivables, net of allowances of \$18.8 and \$21.5, respectively . . . . .	306.7	332.4
Other current assets . . . . .	28.9	40.2
Assets held for sale . . . . .	31.1	—
Total current assets . . . . .	<u>399.7</u>	<u>400.4</u>
Rental equipment, net . . . . .	2,490.0	2,504.7
Property and equipment, net . . . . .	311.8	282.5
Right-of-use lease assets . . . . .	207.3	—
Intangible assets, net . . . . .	291.5	293.5
Goodwill . . . . .	93.6	91.0
Other long-term assets . . . . .	23.1	38.1
Total assets . . . . .	<u>\$ 3,817.0</u>	<u>\$ 3,610.2</u>
<b>LIABILITIES AND EQUITY</b>		
Current maturities of long-term debt and financing obligations . . . . .	\$ 30.4	\$ 29.9
Current maturities of operating lease liabilities . . . . .	30.5	—
Accounts payable . . . . .	126.5	147.0
Accrued liabilities . . . . .	135.7	122.3
Total current liabilities . . . . .	<u>323.1</u>	<u>299.2</u>
Long-term debt, net . . . . .	2,051.5	2,129.9
Financing obligations, net . . . . .	117.6	116.3
Operating lease liabilities . . . . .	182.2	—
Deferred tax liabilities . . . . .	459.3	448.3
Other long-term liabilities . . . . .	39.0	43.8
Total liabilities . . . . .	<u>3,172.7</u>	<u>3,037.5</u>
Commitments and contingencies (Note 16)		
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, 31.5 and 31.2 shares issued and 28.8 and 28.5 shares outstanding . . . . .	0.3	0.3
Additional paid-in capital . . . . .	1,796.9	1,777.9
Accumulated deficit . . . . .	(351.2)	(391.1)
Accumulated other comprehensive loss . . . . .	(109.7)	(122.4)
Treasury stock, at cost, 2.7 shares and 2.7 shares . . . . .	(692.0)	(692.0)
Total equity . . . . .	<u>644.3</u>	<u>572.7</u>
Total liabilities and equity . . . . .	<u>\$ 3,817.0</u>	<u>\$ 3,610.2</u>

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

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except per share data)

	Years Ended December 31,		
	2019	2018	2017
Revenues:			
Equipment rental . . . . .	\$ 1,701.8	\$ 1,658.3	\$ 1,499.0
Sales of rental equipment . . . . .	242.8	256.2	190.8
Sales of new equipment, parts and supplies . . . . .	44.0	49.3	52.3
Service and other revenue . . . . .	10.4	12.9	12.4
Total revenues. . . . .	<u>1,999.0</u>	<u>1,976.7</u>	<u>1,754.5</u>
Expenses:			
Direct operating. . . . .	771.1	785.2	718.9
Depreciation of rental equipment . . . . .	409.1	387.5	378.9
Cost of sales of rental equipment . . . . .	243.2	244.3	192.0
Cost of sales of new equipment, parts and supplies . . . . .	33.3	37.7	39.5
Selling, general and administrative. . . . .	294.8	311.3	319.1
Restructuring. . . . .	7.7	5.0	2.0
Impairment . . . . .	5.1	0.1	29.7
Interest expense, net . . . . .	173.5	137.0	140.0
Other income, net . . . . .	(2.4)	(0.2)	(1.2)
Total expenses . . . . .	<u>1,935.4</u>	<u>1,907.9</u>	<u>1,818.9</u>
Income (loss) before income taxes . . . . .	63.6	68.8	(64.4)
Income tax (provision) benefit . . . . .	(16.1)	0.3	224.7
Net income. . . . .	<u>\$ 47.5</u>	<u>\$ 69.1</u>	<u>\$ 160.3</u>
Weighted average shares outstanding:			
Basic . . . . .	28.7	28.4	28.3
Diluted. . . . .	29.1	28.9	28.6
Earnings per share:			
Basic . . . . .	\$ 1.66	\$ 2.43	\$ 5.66
Diluted. . . . .	\$ 1.63	\$ 2.39	\$ 5.60

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



**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(In millions)

	Years Ended December 31,		
	2019	2018	2017
Net income .....	\$ 47.5	\$ 69.1	\$ 160.3
Other comprehensive income (loss):			
Foreign currency translation adjustments .....	11.5	(20.0)	17.7
Unrealized gains and (losses) on hedging instruments:			
Unrealized gains (losses) on hedging instruments .....	(3.6)	1.5	2.1
Income tax benefit (provision) related to hedging instruments .....	2.1	(0.4)	(0.8)
Pension and postretirement benefit liability adjustments:			
Amortization of net losses and settlement losses included in net periodic pension cost .....	1.9	1.9	2.3
Pension and postretirement benefit liability adjustments arising during the period .....	3.3	(5.6)	—
Income tax benefit (provision) related to pension and postretirement plans .....	(2.5)	1.0	(1.2)
Total other comprehensive income (loss) .....	12.7	(21.6)	20.1
Total comprehensive income .....	\$ 60.2	\$ 47.5	\$ 180.4

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

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In millions)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Shares	Amount					
Balance at:							
December 31, 2016	28.3	\$ 0.3	\$ 1,753.3	\$ (625.2)	\$ (118.7)	\$ (692.0)	\$ 317.7
Net income	—	—	—	160.3	—	—	160.3
Other comprehensive income	—	—	—	—	20.1	—	20.1
Cumulative effect of a change in accounting for stock-based payments	—	—	—	2.5	—	—	2.5
Net settlement on vesting of equity awards	—	—	(0.1)	—	—	—	(0.1)
Stock-based compensation charges	—	—	10.1	—	—	—	10.1
Employee stock purchase plan	—	—	1.1	—	—	—	1.1
Exercise of stock options	—	—	0.7	—	—	—	0.7
Net transfers with THC	—	—	(2.0)	—	—	—	(2.0)
December 31, 2017	28.3	0.3	1,763.1	(462.4)	(98.6)	(692.0)	510.4
Net income	—	—	—	69.1	—	—	69.1
Cumulative effect of accounting change (Note 14)	—	—	—	2.2	(2.2)	—	—
Other comprehensive loss	—	—	—	—	(21.6)	—	(21.6)
Net settlement on vesting of equity awards	0.1	—	(1.1)	—	—	—	(1.1)
Stock-based compensation charges	—	—	13.4	—	—	—	13.4
Employee stock purchase plan	—	—	2.0	—	—	—	2.0
Exercise of stock options	0.1	—	0.5	—	—	—	0.5
December 31, 2018	28.5	0.3	1,777.9	(391.1)	(122.4)	(692.0)	572.7
Net income	—	—	—	47.5	—	—	47.5
Adoption of new accounting pronouncement (Note 2)	—	—	—	(7.6)	—	—	(7.6)
Other comprehensive income	—	—	—	—	12.7	—	12.7
Net settlement on vesting of restricted stock	0.3	—	(3.7)	—	—	—	(3.7)
Stock-based compensation charges	—	—	19.5	—	—	—	19.5
Employee stock purchase plan	—	—	2.4	—	—	—	2.4
Exercise of stock options	—	—	0.8	—	—	—	0.8
December 31, 2019	28.8	\$ 0.3	\$ 1,796.9	\$ (351.2)	\$ (109.7)	\$ (692.0)	\$ 644.3

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

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 47.5	\$ 69.1	\$ 160.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of rental equipment	409.1	387.5	378.9
Depreciation of property and equipment	54.0	51.9	46.8
Amortization of intangible assets	7.0	5.4	4.7
Amortization of deferred debt and financing obligations costs	5.2	6.3	6.4
Loss on extinguishment of debt	53.6	5.4	11.4
Stock-based compensation charges	19.5	13.4	10.1
Restructuring	5.5	—	—
Impairment	5.1	0.1	29.7
Provision for receivables allowance	48.2	57.8	52.4
Deferred taxes	10.7	(10.5)	(228.4)
Loss (gain) on sale of rental equipment	0.4	(11.9)	1.2
Income from joint ventures	(0.3)	(1.6)	(1.9)
Other	(1.5)	2.1	1.8
Changes in assets and liabilities:			
Receivables	(38.3)	(29.9)	(131.6)
Other assets	4.1	1.8	(2.1)
Accounts payable	(12.9)	(1.7)	(10.0)
Accrued liabilities and other long-term liabilities	18.7	13.9	19.4
Net cash provided by operating activities	<u>635.6</u>	<u>559.1</u>	<u>349.1</u>
Cash flows from investing activities:			
Rental equipment expenditures	(638.4)	(771.4)	(501.4)
Proceeds from disposal of rental equipment	224.2	272.3	160.1
Non-rental capital expenditures	(56.9)	(77.6)	(74.6)
Proceeds from disposal of property and equipment	7.7	9.7	5.9
Other investing activities	(0.2)	—	—
Net cash used in investing activities	<u>(463.6)</u>	<u>(567.0)</u>	<u>(410.0)</u>

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

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
(In millions)

	Years Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Proceeds from issuance of long-term debt . . . . .	1,200.0	—	—
Repayments of long-term debt . . . . .	(864.5)	(123.5)	(247.0)
Proceeds from revolving lines of credit and securitization . . . . .	1,230.0	737.5	561.9
Repayments on revolving lines of credit and securitization . . . . .	(1,664.8)	(604.0)	(339.2)
Proceeds from financing obligations . . . . .	4.7	6.4	119.5
Principal payments under finance lease and financing obligations . . . . .	(17.2)	(17.0)	(16.7)
Debt redemption premium payment . . . . .	(41.5)	(3.7)	(7.4)
Payment of financing obligation and debt financing costs . . . . .	(13.3)	(1.3)	(2.7)
Proceeds from exercise of stock options . . . . .	0.8	0.5	0.7
Proceeds from employee stock purchase plan . . . . .	2.4	2.0	1.1
Net settlement on vesting of equity awards . . . . .	(3.7)	(1.1)	(0.1)
Net cash provided by (used in) financing activities . . . . .	<u>(167.1)</u>	<u>(4.2)</u>	<u>70.1</u>
Effect of foreign exchange rate changes on cash and cash equivalents . . . . .	0.3	(1.6)	1.3
Net increase (decrease) in cash and cash equivalents during the period . . . . .	<u>5.2</u>	<u>(13.7)</u>	<u>10.5</u>
Cash and cash equivalents at beginning of period . . . . .	27.8	41.5	31.0
	<u>\$ 33.0</u>	<u>\$ 27.8</u>	<u>\$ 41.5</u>

**Supplemental disclosures of cash flow information:**

Cash paid for interest . . . . .	\$ 130.6	\$ 129.3	\$ 131.7
Cash paid (refunded) for income taxes, net . . . . .	\$ 7.9	\$ 13.4	\$ (5.5)

**Supplemental disclosures of non-cash investing activity:**

Purchases of rental equipment in accounts payable . . . . .	\$ —	\$ —	\$ 22.8
Disposals of rental equipment in accounts receivable . . . . .	\$ —	\$ —	\$ 12.6
Non-rental capital expenditures in accounts payable . . . . .	\$ 2.8	\$ —	\$ —
Disposals of property and equipment in accounts receivable . . . . .	\$ 2.4	\$ —	\$ —
Note receivable on disposal of joint venture . . . . .	\$ 19.0	\$ —	\$ —

**Supplemental disclosures of non-cash financing activity:**

Non-cash settlement of transactions with THC through equity . . . . .	\$ —	\$ —	\$ 2.0
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**Supplemental disclosures of non-cash investing and financing activity:**

Equipment acquired through finance leases . . . . .	\$ 39.1	\$ 2.6	\$ 0.4
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The accompanying notes are an integral part of these financial statements.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1—Background**

Herc Holdings Inc. ("Herc Holdings" or the "Company") is one of the leading equipment rental suppliers with approximately 275 locations as of December 31, 2019, 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, the Company is a full-line equipment rental supplier offering a broad portfolio of equipment for rent. In addition to its principal business of equipment rental, the Company sells used equipment and contractor supplies such as construction consumables, tools, small equipment and safety supplies; provides repair, maintenance, equipment management services and safety training to certain of its customers; offers equipment re-rental services and provides on-site support to its customers; and provides ancillary services such as equipment transport, rental protection, cleaning, refueling and labor.

The Company's classic fleet includes aerial, earthmoving, material handling, trucks and trailers, air compressors, compaction and lighting. The Company's equipment rental business is supported by ProSolutions<sup>R</sup>, its industry-specific solutions-based services, which includes power generation, climate control, remediation and restoration, and studio and production equipment, and its 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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 consolidated financial statements include receivables allowances, 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 and accounting for income taxes.

***Principles of Consolidation***

The 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 consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

***Reclassifications***

Certain amounts in prior years have been reclassified to conform with the presentation in the current year.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity of three months or less.

***Concentration of Credit Risk***

The Company's cash and cash equivalents are held in checking accounts, various investment grade institutional money market accounts or bank term deposits. Deposits held at banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate such risks by spreading the risk across multiple counterparties and monitoring the risk profiles of these counterparties. In addition, the Company has credit risk from financial instruments used in hedging activities. The Company limits its exposure relating to financial instruments by diversifying the financial instruments among various counterparties, which consist of major financial institutions.

No single customer accounted for more than 3% of the Company's equipment rental revenue during the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019 and 2018, no single customer accounted for more than 5% of accounts receivable.

***Receivables***

Receivables are stated net of allowances and represent credit extended to customers and manufacturers that satisfy defined credit criteria. The estimate of the allowance for doubtful accounts is based on the Company's historical experience and its judgment as to the likelihood of ultimate collection. Actual receivables are written-off against the allowance for doubtful accounts when the Company determines the balance will not be collected. Estimates for future credit memos are based on historical experience and are reflected as reductions to revenue, while the provision for bad debt is reflected as a component of "Selling, general and administrative expenses" in the Company's consolidated statements of operations.

***Rental Equipment***

Rental equipment is stated at cost, net of related discounts, with holding periods ranging from one year to 15 years. Generally, when rental equipment is acquired, the Company estimates the period that it will hold the asset, primarily based on historical measures of the amount of rental activity (e.g. equipment usage) and the targeted age of equipment at the time of disposal. The Company also estimates the residual value of the applicable rental equipment at the expected time of disposal. The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded over the estimated holding period. Depreciation rates are reviewed on a quarterly basis based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used equipment sales can also be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment and incentives offered by manufacturers of new equipment. These key factors are considered when estimating future residual values and assessing depreciation rates. As a result of this ongoing assessment, the Company makes periodic adjustments to depreciation rates of rental equipment in response to changed market conditions.

***Property and Equipment***

Property and equipment are stated at cost and are depreciated utilizing the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the estimated useful lives of the related assets or leases, whichever is shorter.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Useful lives are as follows:

Buildings . . . . .	8 to 33 years
Service vehicles . . . . .	3 to 15 years
Machinery and equipment . . . . .	1 to 15 years
Computer equipment . . . . .	3 to 5 years
Furniture and fixtures . . . . .	2 to 10 years
Leasehold improvements . . . . .	The lesser of the asset life or expected lease term including lease extension options.

The Company follows the practice of charging routine maintenance and repairs, including the cost of minor replacements, to maintenance expense. Costs of major replacements are capitalized and depreciated.

***Leases***

Leases are classified as either finance or operating at inception of the lease, with classification affecting the pattern of expense recognition in the income statement. Operating leases result in the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. ROU assets represent the Company's right to use the leased asset for the lease term and lease liabilities represent the obligation to make lease payments. The liability is calculated as the present value of the remaining minimum lease payments for existing operating leases using either the rate implicit in the lease or, if none exists, the Company's incremental borrowing rate. The Company's capital leases are accounted for as finance leases; no significant changes have been made for the accounting of such leases upon the adoption of ASC Topic 842, *Leases*, ("Topic 842") on January 1, 2019.

In certain instances, the Company may sell property and enter into an arrangement to lease the property back from the landlord. In these instances, the Company performs a sale-leaseback analysis to determine if the assets can be removed from the balance sheet. If certain criteria are met, the Company recognizes the transaction as a sale, removes the assets from its balance sheet and reflects the future lease payments as rent expense. If the criteria for sale is not met, such as available repurchase options or continuing involvement with the property, the Company is considered the owner for accounting purposes. In these instances, the Company is precluded from derecognizing the assets from its balance sheet and will continue to depreciate the assets over the expected lease term. In conjunction with these arrangements, the Company records a financing obligation equal to the cash proceeds or fair market value of the assets received from the landlord. Lease payments for these properties are recognized as interest expense and a reduction of the financing obligation using the effective interest method. At the end of the lease term, including exercise of any renewal options, the net remaining financing obligation over the net carrying value of the fixed asset will be recognized as a non-cash gain on sale of the property.

***Public Liability and Property Damage***

The obligation for public liability and property damage on self-insured U.S. and international equipment represents an estimate for both reported accident claims not yet paid, and claims incurred but not yet reported. The related liabilities are recorded on a non-discounted basis. Reserve requirements are based on actuarial evaluations of historical accident claim experience and trends, as well as future projections of ultimate losses, expenses, premiums and administrative costs. The adequacy of the liability is regularly monitored based on evolving accident claim history and insurance-related state legislation changes. If the Company's estimates change or if actual results differ from these assumptions, the amount of the recorded liability is adjusted to reflect these results.

***Reserves for Claims***

The Company is exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure include: (i) workers compensation claims; (ii) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (iii) automobile liability claims; and (iv) employee health insurance claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. The Company's methodology for developing self-insurance reserves is based on management estimates and independent third party actuarial estimates. The estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in the Company's claim history or receipt of additional information relevant to assessing the claims and the amount of the recorded liability is adjusted



**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to reflect these changes. The long-term portion of our self-insurance reserves is included in "Other long-term liabilities" in the consolidated balance sheet.

***Defined Benefit Pension Plans and Other Employee Benefits***

The Company's employee pension costs and obligations are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation, as well as independent studies of trends performed by actuaries. However, actual results may differ substantially from the estimates that were based on the critical assumptions. The Company uses a December 31 measurement date for all of the plans.

Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect its recognized expense in such future periods. While management believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the Company's pension costs and obligations.

The Company maintains reserves for employee medical claims, up to its insurance stop-loss limit, and workers' compensation claims. These are regularly evaluated and revised, as needed, based on a variety of information, including historical experience, actuarial estimates and current employee statistics.

***Foreign Currency Translation and Transactions***

Assets and liabilities of international subsidiaries whose functional currency is the local currency are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average exchange rates throughout the year. The related translation adjustments are reflected in "Accumulated other comprehensive income (loss)" in the equity section of the Company's consolidated balance sheets. Foreign currency gains and losses resulting from transactions are included in earnings.

***Financial Instruments***

The Company is exposed to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. The Company manages exposure to these market risks through ongoing processes to monitor the impact of market changes and, when deemed appropriate, through the use of financial instruments. Financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. The Company accounts for all derivatives in accordance with U.S. GAAP, which requires that they be recorded on the balance sheet as either assets or liabilities measured at their fair value. For financial instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. The effective portion of changes in fair value of financial instruments designated as cash flow hedging instruments is recorded as a component of other comprehensive income (loss). Amounts included in accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of financial instruments designated as cash flow hedges is recognized currently in earnings within the same line item as the hedged item, based upon the nature of the hedged item. For financial instruments that are not part of a qualified hedging relationship, the changes in their fair value are recognized currently in earnings.

***Goodwill and Indefinite-Lived Intangible Assets***

On an annual basis and at interim periods when circumstances require, the Company tests the recoverability of its goodwill. The analysis is conducted as of October 1 each year. The Company has one reporting unit and compares the carrying value of its reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the Company recognizes an impairment charge for the amount equal to that excess.

The Company may first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If a quantitative impairment test is performed, the fair value of the reporting unit is estimated using a combination of an income approach on the present value of estimated future cash flows and a market approach based on published earnings multiples of

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

comparable entities with similar operations and economic characteristics as well as acquisition multiples paid in recent transactions. The Company's discounted cash flows are based upon reasonable and appropriate assumptions, which are weighted for their likely probability of occurrence, about the underlying business activities of the Company.

Indefinite-lived intangible assets, primarily our trade name, are not amortized but are evaluated annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recognized in an amount equal to that excess.

***Finite-Lived Intangible and Long-Lived Assets***

Intangible assets include customer relationships and technology. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three years to 10 years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset.

Long-lived assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as assets held for sale. Upon designation as an asset held for sale, the carrying value of each long-lived asset or disposal group is recorded at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and depreciation expense is no longer recorded.

***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 rental transactions are principally accounted for under Topic 842. Prior to the adoption of Topic 842 on January 1, 2019, the Company accounted for these transactions under ASC Topic 840, *Leases*, ("Topic 840"). Equipment rental revenue includes revenue generated from renting equipment to customers, including re-rent revenue, and is recognized on a straight-line basis over the length of the rental contract. Other equipment rental revenues include fees for the Company's rental protection program and environmental charges and are recognized on a straight-line basis over the length of the rental contract.

The Company's sale of rental and new equipment, parts and supplies along with certain services provided to customers are recognized under ASC Topic 606, *Revenue from Contracts with Customers*, ("Topic 606") which was adopted on January 1, 2018. Prior to adoption of Topic 606, the Company recognized these transactions under ASC Topic 605, *Revenue Recognition*, ("Topic 605"). The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for such products or services.

See Note 3, "Revenue Recognition" for further discussion of our revenue accounting.

***Advertising***

Advertising and sales promotion costs are expensed the first time the advertising or sales promotion takes place. Advertising costs are reflected as a component of "Selling, general and administrative" expense in the Company's consolidated statements of operations. For the years ended December 31, 2019, 2018 and 2017, advertising costs were \$2.7 million, \$1.0 million and \$2.7 million, respectively.

***Stock Based Compensation***

Under the Company's stock based compensation plans, certain employees and members of the Company's board of directors have received grants of restricted stock units, performance stock units and stock options for Herc Holdings common stock.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award. The Company estimates the fair value of stock options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield and risk-free interest rate.

The Company accounts for restricted stock unit and performance stock unit awards as equity classified awards. For restricted stock units, the expense is based on the grant date fair value of the stock and the number of shares that vest, recognized over the service period. For performance stock units, the expense is based on the grant date fair value of the stock, recognized over a service period depending upon the applicable performance condition. For performance stock units, the Company re-assesses the probability of achieving the applicable performance condition each reporting period and adjusts the recognition of expense accordingly.

***Income Taxes***

The Company applies the provisions of ASC Topic 740, *Income Taxes* ("Topic 740"), and computes the provision for income taxes on a Separate Return Basis. Under Topic 740, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities and are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The Company records valuation allowances to reduce its deferred tax assets by the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates and changes in the interpretations thereof will result in deferred taxes and changes to any related valuation allowances. Provisions are not made for income taxes on undistributed earnings of international subsidiaries that are intended to be indefinitely reinvested outside of the United States or are expected to be remitted free of taxes. Future distributions, if any, from these international subsidiaries to the United States or changes in U.S. tax rules may require a charge to reflect tax on these amounts.

In accordance with Topic 740, the Company recognizes, in its consolidated financial statements, the impact of the Company's tax positions that are more likely than not to be sustained upon examination. The Company will determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority with full knowledge of all relevant information. Upon determination that a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements. The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), had a substantial impact on the income tax benefit for the years ended December 31, 2018 and 2017. See Note 14, "Income Taxes" for further detail.

***Recently Issued Accounting Pronouncements***

**Adopted**

***Leases***

In February 2016, the Financial Accounting Standards Board ("FASB") issued new leasing guidance ("Topic 842") that replaced the existing lease guidance ("Topic 840"). Topic 842 established 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 are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also expanded 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.

The Company adopted Topic 842 on its effective date of January 1, 2019 using a modified retrospective transition approach; as such, Topic 842 was not applied to periods prior and the adoption had no impact on the Company's previously reported results. The Company recognized operating lease liabilities of \$165.3 million upon adoption, with corresponding ROU assets on its balance sheet. This guidance did not have a material impact on its results of operations and cash flows.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company took advantage of the transition package of practical expedients permitted within Topic 842 which allowed the Company not to reassess (i) whether any expired or existing lease contracts are or contain leases, (ii) the historical lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Company has elected not to combine lease and non-lease components for its real estate leases and allocates the consideration in the contract based on relative stand-alone prices of each component.

Additionally, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenues were accounted for under Topic 840 until the adoption of Topic 842. The Company recognized a cumulative-effect adjustment to the opening balance of retained earnings related to these items of \$7.6 million. The adoption of Topic 842 does not have a significant impact on future revenues. The Company also elected the practical expedient that allows lessors to treat the lease and non-lease components as a single lease component where the non-lease component would otherwise be accounted for under Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), as timing and pattern of transfer for the lease component and non-lease components associated with that lease component are the same.

Not Yet Adopted

*Compensation - Retirement Benefits*

In August 2018, the FASB issued guidance that adds, removes, and modifies disclosure requirements related to defined benefit pension and other postretirement plans in order to improve the disclosure effectiveness. The guidance is effective for fiscal years beginning after December 15, 2020 and should be applied on a retrospective basis to all periods presented, with early adoption permitted. The Company expects to adopt the new and modified disclosures requirements of this new guidance on its effective date.

*Fair Value Measurement*

In August 2018, the FASB issued new guidance that modifies disclosure requirements on fair value measurements, removing and modifying certain disclosures, while adding other disclosures. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company expects to adopt the new guidance on its effective date and adoption is not expected to have a material impact on the Company's financial statement disclosures.

*Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued guidance that will require companies to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectibility. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. Different components of the guidance require modified retrospective or prospective adoption. This guidance does not apply to receivables arising from operating leases and, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenue is accounted for as lease revenue under Topic 842. The Company expects to adopt this guidance when effective, and the impact on our financial statements is not expected to be material.

*Simplifying the Accounting for Income Taxes*

In December 2019, the FASB issued guidance that will simplify the accounting for income taxes. The guidance removes the following exceptions: (i) exceptions to the approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, (ii) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, (iii) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary and (iv) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally, the guidance simplifies the accounting for income taxes by: (i) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (ii) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, (iii) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

expense to a legal entity that is not subject to tax in its separate financial statements (although the entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority), (iv) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date and (v) making minor improvements for income tax accounting related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company expects to early adopt this guidance on January 1, 2020 and does not expect a material impact on its financial position, results of operations or 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 89.9%, 88.9% and 88.2% of total revenue for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company’s rental transactions are principally accounted for under Topic 842. Prior to the adoption of Topic 842, the Company accounted for rental transactions 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 Topic 606. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for such products or services.

The following table summarizes the applicable accounting guidance for the Company’s revenues (in millions):

	Year Ended December 31,								
	2019			2018			2017		
	Topic 842	Topic 606	Total	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
<b>Revenues:</b>									
Equipment rental . . . . .	\$ 1,549.9	\$ —	\$ 1,549.9	\$ 1,509.7	\$ —	\$ 1,509.7	\$ 1,372.3	\$ —	\$ 1,372.3
Other rental revenue:									
Delivery and pick-up . . . . .	—	98.0	98.0	—	88.4	88.4	—	75.2	75.2
Other . . . . .	53.9	—	53.9	60.2	—	60.2	51.5	—	51.5
Total other rental revenues . . . . .	53.9	98.0	151.9	60.2	88.4	148.6	51.5	75.2	126.7
<b>Total equipment rentals . . . . .</b>	<b>1,603.8</b>	<b>98.0</b>	<b>1,701.8</b>	<b>1,569.9</b>	<b>88.4</b>	<b>1,658.3</b>	<b>1,423.8</b>	<b>75.2</b>	<b>1,499.0</b>
Sales of rental equipment . . . . .	—	242.8	242.8	—	256.2	256.2	—	190.8	190.8
Sales of new equipment, parts and supplies . . . . .	—	44.0	44.0	—	49.3	49.3	—	52.3	52.3
Service and other revenues . . . . .	—	10.4	10.4	—	12.9	12.9	—	12.4	12.4
<b>Total revenues . . . . .</b>	<b>\$ 1,603.8</b>	<b>\$ 395.2</b>	<b>\$ 1,999.0</b>	<b>\$ 1,569.9</b>	<b>\$ 406.8</b>	<b>\$ 1,976.7</b>	<b>\$ 1,423.8</b>	<b>\$ 330.7</b>	<b>\$ 1,754.5</b>

Topic 842 revenues

*Equipment Rental Revenue*

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 by the customer with no penalty by returning the equipment within one day; therefore, the Company does not allocate the transaction price between the different contract elements.

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. As part of this straight-line methodology, when the equipment is returned, the Company recognizes as incremental revenue the excess, if any, between the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the equipment was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, the Company will have customers return equipment and

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

be contractually required to pay more than the cumulative amount of revenue recognized to date under the straight-line methodology. 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):

	Year Ended December 31,		
	2019	2018	2017
Sales of rental equipment .....	\$ 242.8	\$ 256.2	\$ 190.8
Sales of new equipment .....	21.0	21.3	26.9
Sales of parts and supplies .....	23.0	28.0	25.4
Total .....	\$ 286.8	\$ 305.5	\$ 243.1

The Company recognizes revenue from 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 \$15.6 million and \$19.5 million as of December 31, 2019 and 2018, respectively.

*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.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Receivables and contract assets and liabilities*

Most of the Company's equipment rental revenue is accounted for under Topic 842. 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 more than 5% of its 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 material contract assets or 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 for the years ended December 31, 2019 and 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 years ended December 31, 2019 and 2018 were not material. We also do not expect to recognize material revenue in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of December 31, 2019 and 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.

**Note 4—Rental Equipment**

Rental equipment consists of the following (in millions):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Rental equipment . . . . .	\$ 3,821.6	\$ 3,840.7
Less: Accumulated depreciation . . . . .	(1,331.6)	(1,336.0)
Rental equipment, net . . . . .	\$ 2,490.0	\$ 2,504.7

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5—Property and Equipment**

Property and equipment consists of the following (in millions):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Land and buildings . . . . .	\$ 116.1	\$ 120.2
Service vehicles . . . . .	305.3	258.6
Leasehold improvements . . . . .	94.3	89.1
Machinery and equipment . . . . .	23.3	27.3
Computer equipment and software . . . . .	64.9	64.8
Furniture and fixtures . . . . .	15.1	14.6
Construction in progress . . . . .	9.4	6.2
Property and equipment, gross . . . . .	<u>628.4</u>	<u>580.8</u>
Less: accumulated depreciation . . . . .	<u>(316.6)</u>	<u>(298.3)</u>
Property and equipment, net . . . . .	<u>\$ 311.8</u>	<u>\$ 282.5</u>

Depreciation expense for the years ended December 31, 2019, 2018 and 2017 was \$54.0 million, \$51.9 million and \$46.8 million, respectively. Depreciation expense for property and equipment is included in "Direct operating" and "Selling, general and administrative" expenses in the Company's consolidated statements of operations.

The Company leases certain of its service vehicles and office equipment under finance leases. Depreciation of assets held under finance leases is included in depreciation expense. The gross amounts of property and equipment and related depreciation recorded under finance leases, included in the table above, were as follows (in millions):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Service vehicles . . . . .	\$ 101.8	\$ 87.7
Furniture and fixtures . . . . .	1.0	—
	<u>102.8</u>	<u>87.7</u>
Less: accumulated depreciation . . . . .	<u>(46.2)</u>	<u>(50.3)</u>
	<u>\$ 56.6</u>	<u>\$ 37.4</u>

The Company has entered into financing obligations to lease certain of its properties as discussed further in Note 11, "Financing Obligations." Depreciation of assets held under financing obligations is included in depreciation expense. The gross amounts of land, building and leasehold improvements and related depreciation recorded under financing obligations, included in the table above, were as follows (in millions):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Land, building and leasehold improvements . . . . .	\$ 77.4	\$ 76.6
Less: accumulated depreciation . . . . .	<u>(36.1)</u>	<u>(32.7)</u>
	<u>\$ 41.3</u>	<u>\$ 43.9</u>

**Note 6—Goodwill and Intangible Assets**

***Goodwill***

The Company performed its annual goodwill impairment test as of October 1 and determined that no impairment existed for the years ended December 31, 2019 and 2018.



**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes the Company's goodwill (in millions):

	Year Ended December 31,	
	2019	2018
Balance at the beginning of the period:		
Goodwill	\$ 765.9	\$ 765.9
Accumulated impairment losses	(674.9)	(674.9)
	<u>91.0</u>	<u>91.0</u>
Additions	2.6	—
Balance at the end of the period:		
Goodwill	768.5	765.9
Accumulated impairment losses	(674.9)	(674.9)
	<u>\$ 93.6</u>	<u>\$ 91.0</u>

***Intangible Assets***

The Company performed its annual impairment test of indefinite-lived and finite-lived intangible assets as of October 1 and determined that no impairment existed for the years ended December 31, 2019 and 2018.

Intangible assets, net, consisted of the following major classes (in millions):

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related	\$ 11.4	\$ (8.9)	\$ 2.5
Internally developed software <sup>(a)</sup>	34.9	(16.4)	18.5
Total	<u>46.3</u>	<u>(25.3)</u>	<u>21.0</u>
Indefinite-lived intangible assets:			
Trade name	270.5	—	270.5
Total intangible assets, net.	<u>\$ 316.8</u>	<u>\$ (25.3)</u>	<u>\$ 291.5</u>

(a) Includes capitalized costs of \$1.4 million yet to be placed into service.

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related	\$ 11.4	\$ (7.8)	\$ 3.6
Internally developed software <sup>(a)</sup>	30.4	(10.5)	19.9
Total	<u>41.8</u>	<u>(18.3)</u>	<u>23.5</u>
Indefinite-lived intangible assets:			
Trade name	270.0	—	270.0
Total intangible assets, net.	<u>\$ 311.8</u>	<u>\$ (18.3)</u>	<u>\$ 293.5</u>

(a) Includes capitalized costs of \$0.9 million yet to be placed into service.

Amortization of intangible assets for the years ended December 31, 2019, 2018 and 2017 was approximately \$7.0 million, \$5.4 million and \$4.7 million, respectively. Based on the amortizable assets in-service as of December 31, 2019, the Company expects amortization expense to be approximately \$7.1 million in 2020, \$6.2 million in 2021, \$4.0 million in 2022, \$2.2 million in 2023 and \$0.1 million in 2024.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 7—Assets Held for Sale and Impairment**

As of December 31, 2019, the Company's assets held for sale consisted of the net assets of its remaining international operations outside of North America. The operations have been actively marketed for sale and management expects the sale to be completed within the next 12 months. In connection with the reclassification of the assets held for sale, an impairment analysis was performed and an impairment charge of approximately \$4.0 million was recorded during the year ended December 31, 2019.

The Company had been in the process of developing a new financial system and point of sale system as part of the separation from New Hertz that was initiated prior to the Spin-Off. During June 2017, the Company made the decision to discontinue developing these new systems based on the inability to provide the anticipated substantive service potential and significantly higher costs than were originally expected to develop the systems. As a result, the Company recorded an impairment charge of \$25.3 million during the year ended December 31, 2017.

The Company performed an impairment assessment of certain rental equipment and recorded an impairment charge of \$4.4 million during the year ended December 31, 2017. This rental equipment had a remaining net book value of \$4.3 million and was reclassified to held for sale and included in "Prepaid and other current assets" in the consolidated balance sheet as of December 31, 2017. These assets were sold in April 2018 and no additional impairment was recorded.

**Note 8—Leases**

The Company leases real estate, office equipment and service vehicles. The Company's leases have remaining lease terms of up to 15 years, some of which include options to extend the leases for up to 20 years. The Company has included the initial lease term and, in the case where there are options to extend, will include the option to extend if it has determined that it reasonably certain that the Company would exercise those options.

Leases are classified as either finance or operating at inception of the lease, with classification affecting the pattern of expense recognition in the income statement. Operating leases result in the recognition of ROU assets and lease liabilities on the balance sheet. ROU assets represent the Company's right to use the leased asset for the lease term and lease liabilities represent the obligation to make lease payments. The liability is calculated as the present value of the remaining minimum rental payments for existing operating leases using either the rate implicit in the lease or, if none exists, the Company's incremental borrowing rate. The Company's capital leases are accounted for as finance leases; no significant changes have been made for the accounting of such leases upon adoption of Topic 842 on January 1, 2019.

The Company also leases certain equipment that it rents to its customers where the payments vary based upon the amount of time the equipment is on rent. There are no fixed payments on these leases and, therefore, no lease liability or ROU assets have been recorded. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for these leases is recognized on a straight-line basis over the lease term.

The components of lease expense consist of the following (in millions):

	Classification	December 31, 2019
Operating lease cost <sup>(a)</sup> . . . . .	Direct operating	\$ 100.1
Finance lease cost:		
Amortization of ROU assets . . . . .	Depreciation and amortization <sup>(b)</sup>	12.5
Interest on lease liabilities . . . . .	Interest expense, net	1.7
Sublease income . . . . .	Equipment rental revenue	(67.2)
Net lease cost . . . . .		\$ 47.1

(a) Includes short-term leases of \$54.6 million for the year ended December 31, 2019, and variable lease costs of \$4.3 million for the year ended December 31, 2019.

(b) Depreciation and amortization is included with selling, general and administrative expense.

During the second quarter of 2019, the Company entered into a plan of restructuring with respect to certain branches in Canada. As part of the plan, certain of its leased locations were closed and the Company recorded a ROU asset impairment of \$4.8 million. Additionally, the Company recorded related leasehold improvement impairments of \$0.7 million and severance charges of \$2.2 million.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Balance sheet information related to leases consists of the following (in millions):

	Classification	December 31, 2019
<b>Assets</b>		
Operating lease ROU assets . . . . .	Right-of-use assets	\$ 207.3
Finance lease ROU assets . . . . .	Property and equipment, net <sup>(a)</sup>	56.6
Total leased assets . . . . .		\$ 263.9
<b>Liabilities</b>		
Current		
Operating . . . . .	Current maturities of operating lease liabilities	\$ 30.5
Finance . . . . .	Current maturities of long-term debt and financing obligations	21.8
Non-current		
Operating . . . . .	Operating lease liabilities	182.2
Finance . . . . .	Long-term debt, net	34.4
Total lease liabilities		\$ 268.9
Weighted average remaining lease term		
Operating leases . . . . .		8.6
Finance leases . . . . .		5.8
Weighted average discount rate		
Operating leases . . . . .		3.89%
Finance leases . . . . .		2.95%

(a) Finance lease right-of-use assets are recorded net of accumulated amortization of \$46.2 million.

Cash flow information related to leases consists of the following (in millions):

	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases . . . . .	\$ 37.9
Operating cash flows from finance leases . . . . .	1.7
Financing cash flows from finance leases . . . . .	14.2
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases . . . . .	76.3
Finance leases . . . . .	39.1

Maturities of lease liabilities are as follows (in millions):

	Operating Leases	Finance Leases
2020 . . . . .	\$ 37.3	\$ 23.2
2021 . . . . .	35.8	7.1
2022 . . . . .	31.0	6.9
2023 . . . . .	26.9	6.5
2024 . . . . .	24.2	6.0
After 2025 . . . . .	96.2	11.0
Total lease payments . . . . .	251.4	60.7
Less: Interest . . . . .	(38.7)	(4.5)
Present value of lease liabilities . . . . .	\$ 212.7	\$ 56.2

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 9—Accrued Liabilities**

Accrued liabilities consists of the following (in millions):

	December 31, 2019	December 31, 2018
Accrued compensation and benefit costs . . . . .	\$ 26.8	\$ 32.1
Rebate accrual . . . . .	33.6	30.3
Taxes payable . . . . .	16.0	21.2
Accrued interest . . . . .	32.2	7.2
Customer related deferrals . . . . .	11.3	9.6
Insurance reserves . . . . .	9.2	8.0
Other . . . . .	6.6	13.9
Total accrued liabilities . . . . .	<u>\$ 135.7</u>	<u>\$ 122.3</u>

**Note 10—Debt**

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

	Weighted Average Effective Interest Rate at December 31, 2019	Weighted Average Stated Interest Rate at December 31, 2019	Fixed or Floating Interest Rate	Maturity	December 31, 2019	December 31, 2018
<i>Senior Notes</i>						
2027 Notes . . . . .	5.61%	5.50%	Fixed	2027	\$ 1,200.0	\$ —
<i>Senior Secured Second Priority Notes</i>						
2022 Notes . . . . .	N/A	N/A	N/A	N/A	—	427.0
2024 Notes . . . . .	N/A	N/A	N/A	N/A	—	437.5
<i>Other Debt</i>						
New ABL Credit Facility . . . . .	N/A	3.22%	Floating	2024	650.0	—
Old ABL Credit Facility . . . . .	N/A	N/A	N/A	N/A	—	1,085.2
AR Facility . . . . .	N/A	2.48%	Floating	2020	175.0	175.0
Finance lease liabilities . . . . .	2.95%	N/A	Fixed	2020-2027	56.2	38.1
Other borrowings . . . . .	N/A	4.79%	Floating	2020	5.2	4.6
<i>Unamortized Debt Issuance Costs<sup>(a)</sup></i> . . . . .					(7.9)	(10.6)
Total debt . . . . .					<u>2,078.5</u>	<u>2,156.8</u>
Less: Current maturities of long-term debt . . . . .					(27.0)	(26.9)
Long-term debt, net . . . . .					<u>\$ 2,051.5</u>	<u>\$ 2,129.9</u>

(a) Unamortized debt issuance costs totaling \$9.3 million related to the New ABL Credit Facility and AR Facility (as each is defined below) as of December 31, 2019 and \$10.4 million related to the Old ABL Credit Facility (as defined below) and the AR Facility as of December 31, 2018 are included in "Other long-term assets" in the condensed consolidated balance sheets.

The effective interest rates for the fixed rate 2027 Notes (as defined below) includes the stated interest on the notes and the amortization of any debt issuance costs.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Maturities***

The nominal principal amounts of maturities of debt for each of the periods ending December 31 are as follows (in millions):

2020 .....	\$ 27.0
2021 .....	6.2
2022 .....	6.1
2023 .....	5.9
2024 .....	830.6
After 2024 .....	1,210.6
Total .....	<u>\$ 2,086.4</u>

The Company's liquidity needs arise from the funding of its costs of operations and capital expenditures and from debt service on its indebtedness. The Company believes that cash generated from operations and cash received from the disposal of rental and other equipment, together with amounts available under its new senior secured asset-based revolving credit facility (the "New ABL Credit Facility") and AR Facility (as defined below) will be adequate to permit the Company to meet its obligations over the next 12 months.

***Senior Notes***

On July 9, 2019, the Company issued \$1.2 billion aggregate principal amount of its 5.50% Senior Notes due 2027 (the "2027 Notes"). The net proceeds were used to redeem the remaining 2022 Notes and 2024 Notes (as defined below) and repay a portion of the indebtedness outstanding under the then existing ABL Credit Facility. Interest on the 2027 Notes accrues at the rate of 5.50% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2020. The 2027 Notes will mature on July 15, 2027.

***Ranking; Guarantees***

The 2027 Notes are the Company's senior unsecured obligations, ranking equally in right of payment with all of the Company's existing and future senior indebtedness, effectively junior to any of the Company's existing and future secured indebtedness, including the New ABL Credit Facility, to the extent of the value of the assets securing such indebtedness, and senior in right of payment to any of the Company's existing and future subordinated indebtedness. The 2027 Notes will be guaranteed on a senior unsecured basis, subject to limited exceptions including special purpose securitization subsidiaries, by the Company's current and future domestic subsidiaries.

***Redemption***

The Company may redeem the 2027 Notes, in whole or in part, at any time prior to July 15, 2022, at a price equal to 100% of the aggregate principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest, if any, to, but excluding, the redemption date. The Company may redeem the 2027 Notes, in whole or in part, at any time (i) on or after July 15, 2022 and prior to July 15, 2023, at a price equal to 102.750% of the principal amount of the 2027 Notes, (ii) on or after July 15, 2023 and prior to July 15, 2024, at a price equal to 101.833% of the principal amount of the 2027 Notes, (iii) on or after July 15, 2024 and prior to July 15, 2025, at a price equal to 100.917% of the principal amount of the 2027 Notes and (iv) on or after July 15, 2025, at a price equal to 100.000% of the principal amount of the 2027 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time on or prior to July 15, 2022, the Company may, at its option, redeem up to 40% of the original aggregate principal amount of the 2027 Notes with the proceeds of one or more equity offerings at a redemption price of 105.500% of the principal amount of the 2027 Notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

***Covenants***

The indenture governing the 2027 Notes contains certain covenants applicable to the Company and its restricted subsidiaries, including limitations on liens, indebtedness, mergers, consolidations and acquisitions, sales, transfers and other dispositions of assets, loans and other investments, dividends and other distributions, stock repurchases and redemptions and other restricted payments, restrictions affecting subsidiaries, transactions with affiliates and designations of unrestricted subsidiaries. Upon the occurrence of certain events

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constituting a change of control triggering event, the Company is required to make an offer to repurchase all of the 2027 Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to (but excluding) the repurchase date. If the Company sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the 2027 Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

*Events of Default*

The indenture also provides for customary events of default, including the following (subject to any applicable cure period): nonpayment, breach of covenants in the indenture, payment defaults under or acceleration of certain other indebtedness, failure to discharge certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs or is continuing, the trustee or the holders of at least 30% in aggregate principal amount of the 2027 Notes then outstanding may declare the principal of, premium, if any, and accrued and unpaid interest, if any, to be due and payable immediately.

*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 2017, October 2017 and July 2018, Herc drew down on its ABL Credit Facility (as defined below) and cumulatively redeemed \$183.0 million in aggregate principal amount of the 2022 Notes and \$187.5 million in aggregate principal amount of the 2024 Notes.

On July 9, 2019, Herc redeemed the remaining \$427.0 million outstanding principal amount of its 2022 Notes and the remaining \$437.5 million outstanding principal amount of its 2024 Notes. The Notes were redeemed at a redemption price of 103.750% in the case of the 2022 Notes and 105.813% in the case of the 2024 Notes, plus interest accrued to, but excluding, July 9, 2019. The Company used a portion of the net proceeds from its offering of the 2027 Notes to redeem the Notes and to pay related fees and expenses. The Company recorded a loss on early extinguishment of debt of \$51.0 million comprised of the cash premiums paid of \$41.5 million and unamortized debt issuance costs of \$9.5 million.

*New ABL Credit Facility*

On July 31, 2019, Herc Holdings, Herc and certain other subsidiaries of Herc Holdings entered into a credit agreement with respect to a new senior secured asset-based revolving credit facility, which refinanced in full and replaced the then existing asset-based credit facility ("Old ABL Credit Facility") and related guarantee and collateral/security agreements. On July 31, 2019, Herc Holdings borrowed \$722.0 million under the New ABL Credit Facility and repaid all amounts outstanding under the Old ABL Credit Facility.

The New ABL Credit Facility provides (subject to availability under a borrowing base) for aggregate maximum borrowings of up to \$1,750 million under a revolving loan 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. Subject to the satisfaction of certain conditions and limitations, the New ABL Credit Facility allows for the addition of incremental revolving commitments and/or incremental term loans.

*Maturity*

The New ABL Credit Facility matures on July 31, 2024.

*Guarantees; Collateral/Security*

The obligations of each of the borrowers under the New ABL Credit Facility are guaranteed by each of Herc Holdings' direct and indirect U.S. and Canadian subsidiaries, with certain exceptions, including special purpose securitization subsidiaries. The obligations of the borrowers under the New ABL Credit Facility and the guarantees thereof are secured by security interests in substantially all of the assets of each borrower and guarantor, including pledges of all the capital stock of all of their direct subsidiaries, with certain exceptions. The liens securing the New ABL Credit Facility are subject to certain exceptions. Also, subject to certain limitations and conditions, the New ABL Credit Facility permits the incurrence of future secured debt on a basis either pari passu with, or subordinated to, the liens securing the New ABL Credit Facility.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Interest*

The interest rates applicable to any loans under the New ABL Credit Facility are based, at the option of the borrowers, on (i) a floating rate based on LIBOR (for loans denominated in U.S. dollars) or CDOR (for loans denominated in Canadian dollars) plus an initial margin of 1.50% per annum or (ii) a base rate plus an initial margin of 0.50%, in each case, where margin is adjusted under the New ABL Credit Facility based on the quarterly average excess availability under the New ABL Credit Facility.

*Covenants*

The New ABL Credit Facility contains a number of covenants that, among other things, limit or restrict the ability of the borrowers and their subsidiaries to incur additional indebtedness, prepay other indebtedness, make dividends and other restricted payments, create or incur liens, make acquisitions and other investments, engage in mergers, consolidations or sales of assets, engage in certain transactions with affiliates, and enter into certain restrictive agreements limiting the ability to create or incur liens. In addition, under the New ABL Credit Facility, upon excess availability falling below certain levels, the borrowers will be required to comply with a minimum fixed charge coverage ratio of no less than 1.00:1.00.

*Events of Default*

The New ABL Credit Facility provides that the occurrence of any of the following events will constitute an event of default: payment default, breach of representation or warranty, covenant breach, cross default to other material indebtedness, certain bankruptcy events, dissolution, invalidity of the credit agreement or any intercreditor agreement (if any), judgment in excess of a certain monetary threshold, any security or guarantee documents cease to be in effect, an ERISA event, pension event or a change of control. Upon the occurrence and during the continuation of an event of default, the agent may exercise remedies on behalf of the lenders, including accelerating the repayment of outstanding loans under the New ABL Credit Facility.

***Old ABL Credit Facility***

The Company's Old ABL Credit Facility, executed by its Herc subsidiary, provided 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 \$1,750 million available to Canadian borrowers and U.S. borrowers, that had a maturity date of June 30, 2021. Up to \$250 million of the revolving loan facility was available for the issuance of letters of credit, subject to certain conditions including issuing lender participation. On July 31, 2019, Herc Holdings borrowed \$722.0 million under the New ABL Credit Facility and repaid all amounts outstanding under the Old ABL Credit Facility. The Company recorded a loss on early extinguishment of debt of \$2.6 million comprised of unamortized debt issuance costs.

***Accounts Receivable Securitization Facility***

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of \$175.0 million that matures on September 16, 2020. In connection with the AR Facility, Herc and one of its wholly-owned subsidiaries sell their accounts receivable 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 that 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. 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. The AR Facility is excluded from current maturities of long-term debt as the Company has the intent and ability to consummate refinancing and extend the term of the agreement.

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 December 31, 2019.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
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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.

***Other Borrowings***

In November 2019, the Company's subsidiary in China entered into 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 an applicable loan prime rate plus 0.535% published by National Interbank Funding Center and is payable quarterly. As of December 31, 2019, the Company had short-term borrowings under these facilities totaling \$5.2 million.

***Borrowing Capacity and Availability***

After outstanding borrowings, the following was available to the Company as of December 31, 2019 (in millions):

	<u>Remaining Capacity</u>	<u>Availability Under Borrowing Base Limitation</u>
New ABL Credit Facility .....	\$ 1,079.4	\$ 1,079.4
AR Facility .....	—	—
Total .....	<u>\$ 1,079.4</u>	<u>\$ 1,079.4</u>

At December 31, 2019, the Company's borrowing base was capped at \$175.0 million by the aggregate commitments under the AR Facility. Subsequent to December 31, 2019, the borrowing base under the AR Facility declined to \$169.4 million.

In addition, as of December 31, 2019, the Company's subsidiary in China had uncommitted credit facilities of which \$4.8 million was available for borrowing.

***Letters of Credit***

As of December 31, 2019, \$20.6 million of standby letters of credit were issued and outstanding under the New ABL Credit Facility, none of which had been drawn upon. The New ABL Credit Facility had \$229.4 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

**Note 11—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 during the fourth quarter of 2018, entered into sale-leaseback transactions with respect to two additional properties for gross proceeds of \$6.4 million. Herc 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 consolidated balance sheet.

During March 2019, Herc entered into a sale-leaseback transaction for certain service vehicles that did not qualify for sale-leaseback accounting, therefore the book value of the vehicles remains on the Company's consolidated balance sheet. Gross proceeds from the sale-leaseback transaction were \$4.7 million.

In connection with these transactions, the Company capitalized \$2.7 million in deferred financing obligations issuance costs. The costs are being amortized to interest expense using the effective interest method. Interest expense related to the amortization of these costs for the year ended December 31, 2019, 2018 and 2017 was \$0.4 million, \$0.2 million and \$0.1 million, respectively.



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

	Weighted Average Effective Interest Rate at December 31, 2019	Maturity	December 31, 2019	December 31, 2018
Financing obligations . . . . .	4.89%	2026-2038	\$ 123.5	\$ 122.1
Unamortized financing issuance costs . . . . .			(2.5)	(2.8)
Total financing obligations . . . . .			<u>121.0</u>	<u>119.3</u>
Less: Current maturities of financing obligations . . . . .			(3.4)	(3.0)
Financing obligations, net . . . . .			<u>\$ 117.6</u>	<u>\$ 116.3</u>

As of December 31, 2019, future minimum financing payments for the agreements referred to above are as follows (in millions):

2020 . . . . .	\$ 9.4
2021 . . . . .	9.4
2022 . . . . .	9.4
2023 . . . . .	9.4
2024 . . . . .	9.4
Thereafter . . . . .	<u>111.2</u>
Total minimum financing obligations payments . . . . .	158.2
Obligations subject to non-cash gain on future sale of property . . . . .	34.4
Less amount representing interest (at a weighted-average interest rate of 4.89%) . . . . .	<u>(69.1)</u>
Total financing obligations . . . . .	<u>\$ 123.5</u>

**Note 12—Employee Retirement Benefits**

***401(k) Savings Plan and Other Defined Contribution Plan***

On July 1, 2016, the Company established the Herc Holdings Savings Plan covering all of its U.S. employees. Contributions to the plans are made by both the employee and the Company. Company contributions to these plans are based on the level of employee contributions and formulas determined by the Company. Expenses for the defined contribution plans for the years ended December 31, 2019, 2018 and 2017 were approximately \$11.4 million, \$10.5 million and \$9.4 million, respectively.

***Defined Benefit Pension and Postretirement Plans***

Prior to the Spin-Off, the Company participated in certain THC-sponsored U.S. defined benefit pension and postretirement plans covering substantially all U.S. employees, as well as certain non-U.S. defined benefit plans covering eligible non-U.S. employees. Qualified U.S. employees of the Company, after completion of specified periods of service, were eligible to participate in The Hertz Corporation Account Balance Defined Benefit Pension Plan (the "Hertz Plan"), a cash balance plan that was frozen effective December 31, 2014.

In July 2016, the Company established the Herc Holdings Retirement Plan (the "Plan"), a U.S. qualified pension plan. The majority of assets and liabilities of the Hertz Plan attributable to current and former employees of the equipment rental business were transferred to the Plan following the Spin-Off based on a preliminary allocation. The final allocations and transfers were completed in 2017 and were lower than the preliminary allocation, resulting in a \$3.6 million increase to the pension liability funded status and a corresponding offset of \$2.0 million, net of taxes, to additional paid-in capital.

Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits for certain eligible retired employees in the U.S.

The Company reflects the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The Company is required

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to recognize as a component of other comprehensive income (loss), net of tax, the actuarial gains/losses and prior service credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income (loss) is adjusted as these amounts are later recognized in the statement of operations as components of net periodic benefit cost.

The Company's policy for funded plans is to contribute, at a minimum, amounts required by applicable laws, regulations and union agreements. The Plan represents approximately 99% of the Company's defined benefit plan obligations and 100% of its plan assets. The Company made a \$2.8 million contribution to the plan in 2019, however, no cash contributions were made in 2018 or 2017. The level of future contributions will vary and is dependent on a number of factors including investment returns, interest rate fluctuations, plan demographics, funding regulations and the results of the final actuarial valuation.

Additionally, pursuant to various collective bargaining agreements, certain union-represented employees participate in multiemployer pension plans.

The following table provides a reconciliation of benefit obligations and plan assets of the Company's pension plans and postretirement benefit plans (in millions):

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Change in Projected Benefit Obligations</b>				
Benefit obligations at beginning of year	\$ 148.5	\$ 160.0	\$ 1.0	\$ 1.1
Interest cost	6.2	5.7	—	—
Plan settlements	(6.3)	(7.9)	—	—
Benefits paid	(0.4)	(0.2)	—	—
Adjustment <sup>(1)</sup>	—	1.1	—	—
Actuarial (gain) loss	15.5	(10.2)	—	(0.1)
Benefit obligations at end of year	<u>\$ 163.5</u>	<u>\$ 148.5</u>	<u>\$ 1.0</u>	<u>\$ 1.0</u>
<b>Change in Fair Value of Plan Assets</b>				
Fair value of plan assets at beginning of year	\$ 123.6	\$ 140.4	\$ —	\$ —
Actual return on plan assets	24.0	(10.2)	—	—
Employer contribution	2.8	—	—	—
Plan settlements	(6.3)	(7.9)	—	—
Benefits paid	(0.4)	(0.2)	—	—
Adjustment <sup>(1)</sup>	—	1.5	—	—
Fair value of plan assets at end of year	<u>\$ 143.7</u>	<u>\$ 123.6</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Funded Status</b>	<u>\$ (19.8)</u>	<u>\$ (24.9)</u>	<u>\$ (1.0)</u>	<u>\$ (1.0)</u>
Accumulated benefit obligations	<u>\$ 163.5</u>	<u>\$ 148.5</u>		

(1) In connection with the Spin-Off, assets were allocated between THC and the Company in proportion to the associated liability. The adjustment for 2018 represented the final allocation and settlement with the Hertz Plan.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Amounts Recognized in Balance Sheet</b>				
Accrued liabilities .....	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)
Other long-term liabilities .....	(19.7)	(24.8)	(0.9)	(0.9)
Net amount recognized .....	<u>\$ (19.8)</u>	<u>\$ (24.9)</u>	<u>\$ (1.0)</u>	<u>\$ (1.0)</u>

**Amounts Recognized in Accumulated Other Comprehensive Loss**

Net actuarial gain (loss) .....	\$ (20.3)	\$ (25.6)	\$ 0.2	\$ 0.2
Prior service credits .....	0.1	0.1	—	—
Net amount recognized .....	<u>\$ (20.2)</u>	<u>\$ (25.5)</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>

**Weighted-Average Assumptions Used to Determine Projected Benefit Obligations**

Discount rate .....	3.2%	4.3%	3.2%	4.2%
Average rate of increase in compensation .....	—%	—%	—%	—%
Initial healthcare cost trend rate .....	N/A	N/A	5.8%	6.1%
Ultimate healthcare cost trend rate .....	N/A	N/A	4.5%	4.5%

The benefit obligations and fair value of plan assets for the Company's qualified and non-qualified pension and postretirement plans with projected benefit obligations or accumulated benefit obligations in excess of plan assets are as follows (in millions):

	<b>Pension</b>		<b>Postretirement</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Plans with Benefit Obligations in Excess of Plan Assets</b>				
Projected benefit obligations .....	\$ 163.5	\$ 148.5	\$ 1.0	\$ 1.0
Accumulated benefit obligations .....	163.5	148.5	—	—
Fair value of plan assets .....	143.7	123.6	—	—

The following table sets forth the net periodic pension cost (benefit) (in millions):

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Components of Net Periodic Pension Cost (Benefit):</b>			
Interest cost .....	\$ 6.2	\$ 5.7	\$ 6.1
Expected return on plan assets .....	(5.2)	(6.0)	(6.2)
Net amortization of actuarial net loss .....	1.1	0.7	1.4
Settlement loss .....	0.8	1.2	0.9
Net periodic pension cost (benefit) .....	<u>\$ 2.9</u>	<u>\$ 1.6</u>	<u>\$ 2.2</u>

**Weighted-Average Assumptions Used to Determine Net Periodic Pension Cost (Benefit)**

Discount rate .....	4.3%	3.6%	4.1%
Expected return on assets .....	5.8%	5.6%	6.5%
Average rate of increase in compensation .....	—%	—%	—%

The net periodic postretirement cost was immaterial in 2019, 2018 and 2017.

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The discount rate reflects the rate the Company would have to pay to purchase high-quality investments that would provide cash sufficient to settle its current pension obligations. The discount rate is determined based on a range of factors, including the rates of return on high-quality, fixed-income corporate bonds and the related expected duration of the obligations. The discount rate for the Plan is based on the rate from the Mercer Pension Discount Curve-Above Mean Yield that is appropriate for the duration of the obligations. The discount rate used to measure the pension obligation at the end of the year is also used to measure pension cost in the following year.

The expected return on plan assets for the U.S. qualified plan is based on expected future investment returns considering the target investment mix of plan assets. It reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In determining the expected long-term rate of return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

There was no average rate of increase in compensation for 2019, 2018 or 2017 as there are no longer any employees in the Plan accruing benefits.

The ultimate healthcare cost trend rates for the postretirement benefit plans are expected to be reached in 2038. Changing the assumed health care cost trend rates by one percentage point is estimated to have an immaterial (less than \$0.1 million) impact on the accumulated postretirement benefit obligation as of December 31, 2019 and the 2019 aggregate of service and interest costs.

The Company expects to amortize \$0.5 million of net actuarial losses from accumulated other comprehensive loss into net periodic pension cost (benefit) in 2020.

***Plan Assets***

The Company has a long-term investment outlook for its Plan assets, which is consistent with the long-term nature of the Plan's respective liabilities.

The Plan currently has a target asset allocation of 35% equity and 65% fixed income. The equity portion of the assets is actively managed in U.S. small/mid cap and international funds and a small allocation to a passively managed U.S. large cap index fund. The fixed income portion of the assets is actively managed in long/intermediate duration government/credit funds and small allocations to an actively managed high yield fund, a bank loan fund and an emerging market debt fund. A modest amount of cash is maintained to facilitate payment of benefits and plan expenses.

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The fair value measurements of all plan assets are based upon significant other observable inputs (Level 2), except for cash which is based upon quoted market prices in active markets for identical assets (Level 1). The following represents the Company's pension plan assets (in millions):

<u>Asset Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash . . . . .	\$ 2.3	\$ 1.9
Short Term Investments . . . . .	0.1	0.1
Equity Securities:		
U.S. Large Cap . . . . .	20.0	14.7
U.S. Mid Cap . . . . .	4.6	3.2
U.S. Small Cap . . . . .	1.2	1.2
International Developed . . . . .	18.6	14.3
International Emerging Markets . . . . .	6.9	6.8
Fixed Income Securities:		
U.S. Treasuries . . . . .	22.2	21.0
Corporate Bonds . . . . .	41.5	37.2
Government Bonds . . . . .	9.9	7.1
Municipal Bonds . . . . .	2.8	2.7
Mortgage-Backed Securities . . . . .	2.9	1.2
Asset-Backed Securities . . . . .	2.5	3.6
Bank Loans . . . . .	7.1	6.6
Other . . . . .	1.1	2.0
Total fair value of pension plan assets . . . . .	<u>\$ 143.7</u>	<u>\$ 123.6</u>

***Estimated Future Benefit Payments***

The following table presents estimated future benefit payments (in millions):

	<u>Pension</u>	<u>Postretirement</u>
2020 . . . . .	\$ 6.1	\$ 0.1
2021 . . . . .	6.6	0.1
2022 . . . . .	7.5	0.1
2023 . . . . .	8.5	0.1
2024 . . . . .	9.9	0.1
2025-2029 . . . . .	61.7	0.4
	<u>\$ 100.3</u>	<u>\$ 0.9</u>

**Multiemployer Pension Plans**

The Company contributes to several multiemployer defined benefit pension plans under collective bargaining agreements that cover certain union represented employees. The risks of participating in such plans are different from the risks of single-employer plans, in the following respects:

- (a) Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;
- (b) If a participating employer ceases to contribute to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and

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(c) If the Company ceases to have an obligation to contribute to the multiemployer plan in which the Company had been a contributing employer, the Company may be required to pay to the plan an amount based on the underfunded status of the plan and on the history of the Company's participation in the plan prior to the cessation of its obligation to contribute. The amount that an employer that has ceased to have an obligation to contribute to a multiemployer plan is required to pay to the plan is referred to as a withdrawal liability.

The Company's participation in multiemployer plans for the annual period ended December 31, 2019 is outlined in the table below. For each plan that is individually significant to the Company, the following information is provided:

- The "EIN/Pension Plan Number" column provides the Employer Identification Number assigned to a plan by the Internal Revenue Service.
- The "Pension Protection Act Zone Status" available is for plan years that ended in 2019 and 2018. The zone status is based on information provided to the Company and other participating employers by each plan and is certified by the plan's actuary. A plan in the "red" zone has been determined to be in "critical status," based on criteria established under the Internal Revenue Code, or the "Code," and is generally less than 65% funded. A plan in the "yellow" zone has been determined to be in "endangered status," based on criteria established under the Code, and is generally less than 80% funded. A plan in the "green" zone has been determined to be neither in "critical status" nor in "endangered status," and is generally at least 80% funded.
- The "FIP/RP Status Pending/Implemented" column indicates whether a Funding Improvement Plan, as required under the Code to be adopted by plans in the "yellow" zone, or a Rehabilitation Plan, as required under the Code to be adopted by plans in the "red" zone, is pending or has been implemented as of the end of the plan year that ended in 2019.
- The "Surcharge Imposed" column indicates whether a surcharge was paid during the most recent annual period presented for the Company's contributions to any plan in the red zone in accordance with the requirements of the Code. The last column lists the expiration dates of the collective bargaining agreements pursuant to which the Company contributed to the plans.

There are no plans where the amount contributed by the Company represents more than 5% of the total contributions to the plan for the years ended December 31, 2019, 2018 and 2017.

(In millions) Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP / RP Status Pending / Implemented	Contributions			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2019	2018		2019	2018	2017		
Midwest Operating Engineers	36-6140097	Green	Green	N/A	\$ 1.0	\$ 0.9	\$ 0.8	N/A	5/31/2021
Other Plans <sup>(a)</sup>					1.2	1.1	0.9		
Total contributions					<u>\$ 2.2</u>	<u>\$ 2.0</u>	<u>\$ 1.7</u>		

(a) Consists of six plans, none of which are individually significant to the Company.

**Note 13—Stock-Based Compensation**

On May 17, 2018, the Herc Holdings Inc. 2018 Omnibus Incentive Plan (the "2018 Omnibus Plan") was approved and replaced the Herc Holdings Inc. 2008 Omnibus Incentive Plan. The 2018 Omnibus Plan provides for grants of both equity and cash awards, including non-qualified stock options, incentive stock options, stock appreciation rights, performance awards (shares and units), restricted awards (shares and units) and deferred stock units to key executives, employees, non-management directors and non-employee consultants. The total number of common shares authorized for issuance under the 2018 Omnibus Plan is 2,200,000, of which approximately 1,913,000 remains available as of December 31, 2019 for future incentive awards.

Stock-based compensation awards are measured on their grant date using a fair value method and are recognized in the statement of operations over the requisite service period. The Company's stock-based compensation expense is included in "Selling, general and administrative" expense in the Company's consolidated statements of operations.

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The following table summarizes the expenses and associated income tax benefits recognized (in millions):

	Year Ended December 31,		
	2019	2018	2017
Compensation expense . . . . .	\$ 19.5	\$ 13.4	\$ 10.1
Income tax benefit . . . . .	(5.1)	(3.5)	(2.5)
Total . . . . .	<u>\$ 14.4</u>	<u>\$ 9.9</u>	<u>\$ 7.6</u>

As of December 31, 2019, there was \$15.8 million of total unrecognized compensation cost related to non-vested stock options, restricted stock units ("RSUs") and performance stock units ("PSUs"). The total unrecognized compensation cost is expected to be recognized over the remaining 1.5 years, on a weighted average basis, of the requisite service period that began on the grant dates.

**Stock Options**

All stock options granted had a per-share exercise price of not less than the fair market value of one share of common stock on the grant date. Stock options vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the 2018 Omnibus Plan). No stock options are exercisable after ten years from the grant date.

The Company's practice is to grant stock options at fair market value. Options vest over four years with terms of five years to 10 years, assuming continued employment with certain exceptions. Vesting of the option awards is contingent upon meeting certain service conditions. The fair value of option grants is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant. The compensation expense recognized for all stock-based awards is net of estimated forfeitures. Forfeitures were estimated based on an analysis of actual option forfeitures. There were no stock options granted during 2019, 2018 or 2017.

A summary of option activity is presented below.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions of dollars) <sup>(a)</sup>
Outstanding at December 31, 2018 . . . . .	370,273	\$ 37.56		
Granted . . . . .	—	—		
Exercised . . . . .	(25,508)	32.93		
Forfeited or expired . . . . .	(2,267)	33.19		
Outstanding at December 31, 2019 . . . . .	<u>342,498</u>	<u>\$ 37.94</u>		
Expected to Vest at December 31, 2019 . . . . .	<u>63,845</u>	<u>\$ 33.31</u>	3.6	\$ 1.0
Exercisable at December 31, 2019 . . . . .	<u>278,122</u>	<u>\$ 39.01</u>	2.9	\$ 3.4

(a) Market price per share on December 31, 2019 was \$48.94. The intrinsic value is zero for options with exercise prices above market value.

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Stock options as of December 31, 2019:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>
\$30.01-40.00 .....	277,998	33.19	3.6	214,501	33.19	3.6
40.01-50.00 .....	3,616	42.18	3.4	2,737	42.27	3.3
50.01-60.00 .....	46,820	56.12	0.5	46,820	56.12	0.5
70.01-80.00 .....	14,064	70.14	0.1	14,064	70.14	0.1
	<u>342,498</u>	<u>\$ 37.94</u>		<u>278,122</u>	<u>\$ 39.01</u>	

Additional information pertaining to stock option activity under the Omnibus Plan is as follows (in millions):

	<u>Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Aggregate intrinsic value of stock options exercised <sup>(a)</sup> .....	\$ 0.3	\$ 0.5	\$ 0.3
Cash received from the exercise of stock options .....	0.8	0.5	0.7
Tax benefit realized on exercise of stock options .....	0.1	0.1	0.1

(a) The intrinsic value is the difference between the market value of the shares on the exercise date and the exercise price of the option.

***Performance Stock Units***

PSUs will vest based on the achievement of pre-determined performance goals over performance periods determined by the Company's Compensation Committee. Each of the units granted represent the right to receive one share of the Company's common stock on a specified future date. Compensation expense for PSUs is based on the grant date fair value and is recognized ratably over the three year vesting period. In addition to the service vesting condition, the PSUs have an additional vesting condition which calls for the number of units to be awarded being based on the achievement of certain performance measures over the applicable measurement period. In the event of an employee's death or disability, a pro rata portion of the employee's PSUs will vest to the extent performance goals are achieved at the end of the performance period.

A summary of the PSU activity is presented below.

	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at December 31, 2018 .....	267,107	\$ 48.60
Granted .....	162,490	40.79
Vested .....	(97,997)	34.48
Forfeited .....	(9,807)	49.97
Nonvested at December 31, 2019 .....	<u>321,793</u>	<u>\$ 48.91</u>

The weighted average per share grant-date fair values of PSUs granted during 2019, 2018 and 2017 were \$40.79, \$64.51 and \$47.88, respectively. The total fair value of PSUs that vested during 2019 and 2018 were \$3.4 million and \$3.2 million, respectively. There were no PSUs that vested in 2017.

PSUs granted in 2019, 2018 and 2017 include vesting conditions based on the achievement of the Company's return on invested capital performance measured over a three-year period starting from the year of grant.



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***Restricted Stock Units***

RSUs granted under the Omnibus Plan will vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the Omnibus Plan) specified by the Compensation Committee. Compensation expense for RSUs is based on the grant date fair value and is recognized ratably over the vesting period which generally ranges from one year to three years.

A summary of the RSU activity under the Omnibus Plan is presented below.

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018 .....	456,654	\$ 46.57
Granted .....	245,176	41.18
Vested .....	(263,396)	40.44
Forfeited .....	(27,365)	47.71
Nonvested at December 31, 2019 .....	411,069	\$ 47.17

The weighted average per share grant date fair values of RSUs granted during 2019, 2018 and 2017 were \$41.18, \$62.89 and \$45.61, respectively. The total fair value of RSUs that vested during 2019, 2018 and 2017 was \$10.7 million, \$3.0 million and \$1.6 million, respectively.

**Note 14—Income Taxes**

The components of income (loss) before income taxes for the periods were as follows (in millions):

	Years Ended December 31,		
	2019	2018	2017
Domestic .....	\$ 61.9	\$ 60.5	\$ (59.2)
Foreign .....	1.7	8.3	(5.2)
Income (loss) before income taxes .....	\$ 63.6	\$ 68.8	\$ (64.4)

The provision (benefit) for income taxes consists of the following (in millions):

	Years Ended December 31,		
	2019	2018	2017
Current:			
Federal .....	\$ (1.4)	\$ 2.2	\$ 2.0
Foreign .....	3.5	1.9	5.0
State and local .....	3.7	5.5	(3.3)
Total current .....	5.8	9.6	3.7
Deferred:			
Federal .....	15.9	(7.0)	(214.9)
Foreign .....	0.4	(1.9)	(4.6)
State and local .....	(6.0)	(1.0)	(8.9)
Total deferred .....	10.3	(9.9)	(228.4)
Total income tax provision (benefit) .....	\$ 16.1	\$ (0.3)	\$ (224.7)

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The principal items of the U.S. and foreign net deferred tax assets and liabilities are as follows (in millions):

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>Deferred tax assets:</b>		
Employee benefit plans . . . . .	\$ 5.5	\$ 6.8
Tax credit carryforwards . . . . .	2.1	4.2
Right-of-use assets . . . . .	54.7	—
Accrued expenses . . . . .	35.0	34.9
Net operating loss carryforwards . . . . .	122.9	101.8
Total deferred tax assets . . . . .	<u>220.2</u>	<u>147.7</u>
Less: valuation allowance . . . . .	(9.0)	(5.8)
Total net deferred tax assets . . . . .	<u>211.2</u>	<u>141.9</u>
<b>Deferred tax liabilities:</b>		
Deferred state gain . . . . .	—	(6.3)
Lease liabilities . . . . .	(53.2)	—
Outside basis difference in foreign subsidiaries and other . . . . .	(2.0)	(3.4)
Depreciation on tangible assets . . . . .	(545.7)	(512.5)
Intangible assets . . . . .	(69.6)	(67.8)
Total deferred tax liabilities . . . . .	<u>(670.5)</u>	<u>(590.0)</u>
Net deferred tax liability . . . . .	<u>\$ (459.3)</u>	<u>\$ (448.1)</u>

As of December 31, 2019, a deferred tax asset of \$104.6 million was recorded for unutilized federal net operating loss carryforwards ("NOL carryforwards"). The total federal NOL carryforwards are \$509.1 million and the federal NOL carryforwards begin to expire in 2031. State NOL carryforwards have generated a deferred tax asset of \$11.1 million and expire over various years beginning in 2020.

As of December 31, 2019, deferred tax assets of \$2.0 million were recorded for federal Alternative Minimum Tax and various non-U.S. Tax Credits. As of December 31, 2019, deferred tax assets of \$7.2 million were recorded for foreign NOL carryforwards of \$35.6 million, of which \$15.9 million have an indefinite carryforward period.

In determining the valuation allowance, an assessment of positive and negative evidence was performed regarding realization of the net deferred tax assets in accordance with Topic 740. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, the availability of carryforwards and estimates of projected future taxable income. Based on the assessment, as of December 31, 2019, total valuation allowances of \$9.0 million were recorded against deferred tax assets. Although realization is not assured, the Company has concluded that it is more likely than not the remaining deferred tax assets of \$211.2 million will be realized and as such no valuation allowance has been provided on these assets.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The income tax in the accompanying consolidated statements of operations differs from the income tax calculated by applying the statutory federal income tax rate to income (loss) before income taxes due to the following (in millions):

	Years Ended December 31,		
	2019	2018	2017
Income tax (benefit) provision at statutory rate .....	\$ 13.3	\$ 14.4	\$ (22.5)
Increases (decreases) resulting from: .....			
Foreign taxes .....	0.9	0.9	1.9
State and local income taxes, net of federal income tax .....	(3.7)	3.6	2.6
Federal and foreign .....	3.1	1.1	0.5
Enactment of the 2017 Tax Act .....	—	(20.8)	(207.1)
Finalization of estimates from Spin-Off .....	—	—	(0.9)
Change in valuation allowance .....	2.6	(1.5)	1.1
Outside basis difference in foreign subsidiaries .....	(0.9)	0.9	—
All other items, net. ....	0.8	1.1	(0.3)
Income tax (benefit) provision .....	<u>\$ 16.1</u>	<u>\$ (0.3)</u>	<u>\$ (224.7)</u>

As a result of the 2017 Tax Act, previously undistributed earnings from foreign subsidiaries are deemed to have been repatriated as of December 31, 2017 for federal income tax purposes. Beginning in 2018, companies are generally able to repatriate earnings from foreign subsidiaries with no U.S. federal income tax impact. As of December 31, 2018, and as part of the finalization of the tax impacts of the 2017 Tax Act under SAB 118, the Company has determined not to assert that earnings from foreign operations are permanently reinvested. The Company therefore recorded a deferred tax liability of \$1.8 million with respect to the expected future tax liability associated with the repatriation of these earnings in the future. As of December 31, 2019, the Company had sold all interests in foreign subsidiaries that were responsible for recording the liability. As such, a benefit of \$1.8 million was recorded related to the reversal of the future tax liability. As of December 31, 2019, the Company has not changed its assertion that earnings from foreign operations are not permanently invested. The Company, as a matter of policy, looks to repatriate foreign earnings in a tax efficient manner. Many foreign jurisdictions impose taxes on distributions to other jurisdictions. Due to the variations and complexities of these laws, the Company believes it would be impractical to calculate and accrue these taxes beyond the normal earnings and profits standard for U.S. tax purposes.

As of December 31, 2019, the Company is maintaining the assertion that future earnings associated with the potential stock sale or liquidation of foreign subsidiaries is permanently reinvested. Accordingly, the Company has not recorded any deferred tax liabilities associated with these book-to-tax differences. The Company has analyzed the potential tax liability associated with these differences to be approximately \$44.8 million.

During the year ended December 31, 2019 the Company recorded unrecognized tax benefits of \$2.3 million related to tax positions in the prior periods.

The Company conducts business globally and, as a result, files one or more income tax returns in the U.S. and non-U.S. jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The open tax years for these jurisdictions span from 2005 to 2018. The IRS completed its audit of the Company's 2007 to 2011 consolidated income tax returns, in which Herc was included, and had no changes to the previously filed tax returns. The Company is currently under audit for the 2014 and 2015 income tax years. The Company was also recently notified that the IRS will be auditing the 2016 income tax return. Several U.S. state and non-U.S. jurisdictions are under audit. The Company does not expect any material assessments resulting from these audits.

In December 2017, the 2017 Tax Act was enacted. This legislation had significant impact on the current tax environment in the U.S. Subsequent to the enactment of the 2017 Tax Act, the Securities and Exchange Commission ("SEC") provided guidance issued in Staff Accounting Bulletin No. 118 ("SAB 118") on how public companies should report the effects of the 2017 Tax Act in future SEC filings. The Company performed an initial analysis of the 2017 Tax Act in accordance with this guidance. The Company recognized, as an estimate, an income tax net benefit of \$207.1 million for the year ended December 31, 2017 associated

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with the items that were reasonably estimable. This net benefit reflected (i) a \$245.2 million revaluation of the Company's net deferred tax liability based on a U.S. federal tax rate of 21%, partially offset by (ii) a one-time transition tax of \$38.1 million on unremitted foreign earnings and profits (the \$38.1 million did not represent cash taxes paid due to the utilization of NOL carryforwards).

During the fourth quarter of 2018, the Company completed the analysis of the 2017 Tax Act in accordance with SAB 118. Below is a summary of the key provisions of the 2017 Tax Act as finalized (in millions):

	Years ended December 31,		
	2019	2018	2017
Tax Rate Reduction . . . . .	\$ —	\$ 14.3	\$ (245.2)
Deemed Repatriation . . . . .	—	(35.1)	38.1
Total benefit related to the 2017 Tax Act . . . . .	<u>\$ —</u>	<u>\$ (20.8)</u>	<u>\$ (207.1)</u>

***Tax Rate Reduction***

The 2017 Tax Act reduced the federal income tax rate from 35% to 21% beginning in 2018. Accordingly, the Company recorded an estimated tax benefit of \$245.2 million for the year ended December 31, 2017 associated with the reduction in net deferred tax liabilities. The tax impact of this rate change was finalized in 2018 as part of the completion of the 2017 income tax returns. Based on the completion of this analysis, the Company recorded an adjustment of \$14.3 million to the 2017 estimate resulting in a final tax benefit of \$230.9 million.

***Deemed Repatriation***

Under the 2017 Tax Act, companies were required, as part of the December 31, 2018 income tax reporting, to calculate the amount of previously unrepatriated earnings from foreign operations and remit a one-time tax (“Toll Charge”) on these previously untaxed earnings. The Company recognized an estimated tax expense of \$38.1 million associated with this deemed repatriation for the year ended December 31, 2017. Based on the finalization of the analysis in 2018, the Company recorded a benefit of approximately \$35.1 million with respect to the Toll Charge. This benefit was partially offset by a rate reduction on federal NOL carryforwards previously utilized at 35% and reduced to 21%. The Company elected to utilize current NOL carryforwards to offset the remaining deemed repatriation income balance and therefore recorded no income tax payable for U.S. federal tax purposes.

***Interest Expense Limitation***

Beginning in 2018, interest expense deductions are limited to 30% of adjusted taxable income, subject to certain provisions. The Company completed the analysis with respect to the interest expense limitation. The Company was not subject to this limitation in 2019 or 2018.

***Territorial Taxation***

The 2017 Tax Act generally allows for the receipt of foreign dividends on a tax-free basis beginning in 2018. However, the 2017 Tax Act also enacts various new taxes with respect to transactions with, and operations of, foreign related parties. The Company has completed the analysis with respect to these new taxes and concluded as follows:

- Global Intangible Low-Taxed Income ("GILTI") - The Company, in accordance with the GILTI regulations with respect to foreign subsidiaries, was in a tested loss position for 2018 and therefore recorded no GILTI. Additionally, since the Company was not subject to the GILTI, no election has currently been made with respect to GILTI and deferred taxes or valuation allowances with respect to GILTI.
- Base Erosion Anti-Abuse Tax ("BEAT") - The Company made no payment to foreign subsidiaries subject to BEAT in 2018. Therefore, no BEAT has been recorded.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- Foreign Derived Intangible Income ("FDII") - The Company received no amounts from foreign subsidiaries subject to FDII in 2018. Therefore, no FDII has been recorded.

**Fixed Assets**

The 2017 Tax Act allows for a special 100% bonus depreciation deduction to be claimed on many fixed assets purchased subsequent to September 27, 2017 through December 2022. Additionally, the 2017 Tax Act terminated the availability of Section 1031 LKE treatment with respect to personal property items. As a result, the Company elected to cease matching asset sales with newly acquired assets effective October 1, 2017 and began utilizing the 100% expensing provision effective as of October 1, 2017.

**Reclassifications**

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 2017 Tax Act that would otherwise be 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 has elected to early adopt this guidance and as a result has recorded an adjustment of \$2.2 million to retained earnings as of January 1, 2018.

**Note 15—Accumulated Other Comprehensive Income (Loss)**

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) are presented in the tables below (in millions):

	<b>Pension and Other Post- Employment Benefits</b>	<b>Unrealized Gains on Hedging Instruments</b>	<b>Foreign Currency Items</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at December 31, 2018	\$ (18.7)	\$ 2.7	\$ (106.4)	\$ (122.4)
Other comprehensive income before reclassification	3.3	(1.5)	11.5	13.3
Amounts reclassified from accumulated other comprehensive loss	(0.6)	—	—	(0.6)
Net current period other comprehensive income	2.7	(1.5)	11.5	12.7
Balance at December 31, 2019	<u>\$ (16.0)</u>	<u>\$ 1.2</u>	<u>\$ (94.9)</u>	<u>\$ (109.7)</u>

	<b>Pension and Other Post- Employment Benefits</b>	<b>Unrealized Gains on Hedging Instruments</b>	<b>Foreign Currency Items</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance at December 31, 2017	\$ (13.5)	\$ 1.3	\$ (86.4)	\$ (98.6)
Other comprehensive income before reclassification	(5.6)	1.1	(20.0)	(24.5)
Amounts reclassified from accumulated other comprehensive loss	2.9	—	—	2.9
Cumulative effect of accounting change (Note 14)	(2.5)	0.3	—	(2.2)
Net current period other comprehensive income	(5.2)	1.4	(20.0)	(23.8)
Balance at December 31, 2018	<u>\$ (18.7)</u>	<u>\$ 2.7</u>	<u>\$ (106.4)</u>	<u>\$ (122.4)</u>

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Twelve Months Ended December 31,			Statement of Operations Caption
	2019	2018	2017	
<b>Pension and other postretirement benefit plans</b>				
Amortization of actuarial losses . . . . .	\$ 1.1	\$ 0.7	\$ 1.4	Selling, general and administrative
Settlement loss . . . . .	0.8	1.2	0.9	Selling, general and administrative
Total . . . . .	<u>1.9</u>	<u>1.9</u>	<u>2.3</u>	
Tax benefit (provision) . . . . .	(2.5)	1.0	(1.2)	Income tax benefit (provision)
Total reclassifications for the period . . . . .	<u>\$ (0.6)</u>	<u>\$ 2.9</u>	<u>\$ 1.1</u>	

**Note 16—Commitments and Contingencies**

**Legal Proceedings**

*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 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. On February 5, 2019, plaintiff filed a motion to set aside the judgment against it, and for leave to file a fifth amended complaint. The proposed amended complaint would add allegations related to the settlement with the SEC that, among other things, ordered New Hertz to cease and desist from violating certain of the federal securities laws and imposed a civil penalty of \$16.0 million. On February 26, 2019, New Hertz filed an opposition to plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On March 8, 2019, plaintiff filed a reply in support of that motion. On September 30, 2019, the court denied plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On October 30, 2019, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit.

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, 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, could be decided unfavorably to the Company or any of its subsidiaries involved. Accordingly, it is possible that

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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.

**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 21, "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 December 31, 2019 and December 31, 2018, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in the Company's consolidated balance sheets in "Accrued liabilities" were \$0.2 million and \$0.1 million, respectively. 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 ongoing 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).

*Guarantee*

The Company has an outstanding bank loan in connection with a previous joint venture. The Company has determined the maximum potential payment amount under the guarantee is approximately \$6.3 million; however the Company has not recorded a liability

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on its balance sheet as of December 31, 2019 as the bank loan is collateralized by the rental equipment and other assets of the joint venture entity and has maturities through 2023.

**Note 17—Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). Fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

The Company assesses the inputs used to measure fair value using the three-tier hierarchy promulgated under U.S. GAAP. This hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Inputs that reflect quoted prices for identical assets or liabilities in active markets that are observable.

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Inputs that are unobservable to the extent that observable inputs are not available for the asset or liability at the measurement date and include management's judgment about assumptions that market participants would use in pricing the asset or liability.

Under U.S. GAAP, entities are allowed to measure certain financial instruments and other items at fair value. The Company has not elected the fair value measurement option for any of its assets or liabilities that meet the criteria for this option. Irrespective of the fair value option previously described, U.S. GAAP requires certain financial and non-financial assets and liabilities of the Company to be measured on either a recurring basis or on a nonrecurring basis as shown in the sections that follow.

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The fair value of cash, accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximates carrying values because of the short-term nature of these instruments. The Company's assessment of goodwill and other intangible assets for impairment includes an assessment using various Level 2 (EBITDA multiples and discount rate) and Level 3 (forecasted cash flows) inputs. See Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements," for more information on the application of the use of fair value methodology.

**Cash Equivalents and Investments**

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 December 31, 2019 or 2018.

**Financial Instruments**

The fair value of the Company's financial instruments as of December 31, 2019 and 2018 are classified as Level 2 assets and liabilities and are priced using quoted market prices for similar assets or liabilities in active markets.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Debt Obligations

The fair values of the Company's New ABL Credit Facility, ABL Credit Facility, AR Facility, finance lease liabilities and other borrowings approximated their book values as of December 31, 2019 and 2018. The fair value of the Company's 2027 Notes, 2022 Notes and 2024 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).

	December 31, 2019		December 31, 2018	
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
2027 Notes . . . . .	\$ 1,200.0	\$ 1,265.0	\$ —	\$ —
2022 Notes and 2024 Notes . . . . .	—	—	864.5	901.2

**Note 18—Equity Earnings Per Share**

**Earnings Per Share**

Basic earnings per share has been computed based upon the weighted average number of common shares outstanding. Diluted earnings 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 per share (in millions, except per share data).

	Year Ended December 31,		
	2019	2018	2017
Basic and diluted earnings per share:			
Numerator:			
Net income, basic and diluted . . . . .	\$ 47.5	\$ 69.1	\$ 160.3
Denominator:			
Basic weighted average common shares . . . . .	28.7	28.4	28.3
Stock options, RSUs and PSUs . . . . .	0.4	0.5	0.3
Weighted average shares used to calculate diluted earnings (loss) per share . . . . .	29.1	28.9	28.6
Earnings per share:			
Basic . . . . .	\$ 1.66	\$ 2.43	\$ 5.66
Diluted . . . . .	\$ 1.63	\$ 2.39	\$ 5.60
Antidilutive stock options, RSUs and PSUs . . . . .	0.3	0.2	0.4

**Note 19—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 and certain related entities and individuals. In connection with their appointments or nomination, as applicable, to the Company's board of directors (the "Board"), each of Jonathan Frates, Louis J. Pastor and Nicholas F. Graziano (collectively, the "Icahn Designees," and, together with Carl C. Icahn and the other parties to the Nomination and Standstill Agreements 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, the Icahn Designees were appointed to the Company's Board. So long as an Icahn Designee is a member of the Board, the Board will not be expanded beyond its current size 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).

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 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.

Pursuant to the Icahn Agreements, the Company will not create a separate executive committee of the Board so as long as an Icahn Designee is a member of the Board. 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 certain entities related to Carl C. Icahn 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 20—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.

***Transition Services Agreement***

The Company entered into a transition services agreement ("TSA"), pursuant to which New Hertz or its affiliates provided, during the year ended December 31, 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 year ended December 31, 2018 and 2017, the Company incurred expenses of \$6.3 million and \$18.4 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.

***Tax Matters Agreement***

The Company entered into a 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.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***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.

**Note 21—Segment Information**

The Company consists of a single reportable segment, worldwide equipment rental. The Company considered guidance in ASC Topic 280, *Segment Reporting*, and used the management approach in determining its reportable segments.

We generate substantially all of our equipment rental revenue in North America. For each of the last three fiscal years, revenues from our external customers attributed to the U.S. and all foreign countries (primarily Canada) in total are set forth below:

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
United States .....	\$ 1,796.6	\$ 1,757.8	\$ 1,548.1
International .....	202.4	218.9	206.4
Total revenue .....	\$ 1,999.0	\$ 1,976.7	\$ 1,754.5

Geographic information for long-lived assets, which consist primarily of rental equipment and property and equipment, was as follows (in millions):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Total assets at end of year</b>		
United States .....	\$ 3,360.4	\$ 3,182.7
International .....	456.6	427.5
Total .....	\$ 3,817.0	\$ 3,610.2
<b>Rental equipment, net, at end of year</b>		
United States .....	\$ 2,254.2	\$ 2,248.3
International .....	235.8	256.4
Total .....	\$ 2,490.0	\$ 2,504.7
<b>Property and equipment, net, at end of year</b>		
United States .....	\$ 291.5	\$ 256.3
International .....	20.3	26.2
Total .....	\$ 311.8	\$ 282.5

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 22—Quarterly Financial Information (Unaudited)**

Provided below is a summary of the quarterly operating results during 2019 and 2018. Amounts are computed independently each quarter. As a result, the sum of the quarter's amounts may not equal the total amount for the respective year.

(In millions, except per share data)	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	2019	2019	2019	2019
Revenues .....	\$ 475.7	\$ 475.1	\$ 508.1	\$ 540.1
Income (loss) before income taxes .....	(9.8)	15.0	5.2	53.2
Net income (loss) <sup>(a)</sup> .....	(6.7)	9.7	9.4	35.1
Earnings (loss) per share:				
Basic .....	\$ (0.23)	\$ 0.34	\$ 0.33	\$ 1.22
Diluted .....	\$ (0.23)	\$ 0.33	\$ 0.32	\$ 1.20

(In millions, except per share data)	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	2018	2018	2018	2018
Revenues .....	\$ 431.3	\$ 485.5	\$ 516.2	\$ 543.7
Income (loss) before income taxes .....	(15.2)	0.5	45.2	38.3
Net income (loss) <sup>(b)</sup> .....	(10.1)	(0.3)	46.2	33.3
Earnings (loss) per share:				
Basic .....	\$ (0.36)	\$ (0.01)	\$ 1.62	\$ 1.17
Diluted .....	\$ (0.36)	\$ (0.01)	\$ 1.60	\$ 1.16

- (a) Net income for the second quarter includes a restructuring charge of \$7.7 million, the third quarter includes a loss on the early extinguishment of debt of \$53.6 million as discussed in Note 10, "Debt" and the fourth quarter includes an impairment of \$4.0 million related to certain assets held for sale.
- (b) Net income for the third quarter, fourth quarter and full year 2018 includes a net benefit of \$14.8 million, \$6.0 million and \$20.8 million, respectively, associated with the finalization of the impacts of the 2017 Tax Act discussed further in Note 14, "Income Taxes." The third quarter includes the early redemption of \$123.5 million of Notes, resulting in a loss on the early extinguishment of debt of \$5.4 million as discussed in Note 10, "Debt".

**SCHEDULE II**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**HERC HOLDINGS INC. AND SUBSIDIARIES**

(In millions)

	<u>Beginning Balance</u>		<u>Provisions</u>		<u>Translation Adjustments</u>		<u>Deductions</u>		<u>Ending Balance</u>
<b>Receivables allowances:</b>									
Year to date December 31, 2019 .....	\$ 21.5	\$	48.2	\$	0.1	\$	(51.0)	\$	18.8
Year to date December 31, 2018 .....	26.9		57.8		(0.2)		(63.0)		21.5
Year to date December 31, 2017 .....	24.9		52.4		0.3		(50.7)		26.9
<b>Tax valuation allowances:</b>									
Year to date December 31, 2019 .....	\$ 5.8	\$	4.4	\$	—	\$	(1.2)	\$	9.0
Year to date December 31, 2018 .....	7.6		0.3		(0.3)		(1.8)		5.8
Year to date December 31, 2017 .....	4.5		2.8		0.3		—		7.6

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 December 31, 2019, our disclosure controls and procedures were 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 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 our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

**Management's Report on 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). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2019.

The effectiveness of our internal control over financial reporting, as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Report.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information regarding our executive officers is included in Part I under the caption "Executive Officers of Registrant."

The other information required by this item is incorporated herein by reference to the information contained under the headings "Proposal 1. Election of Directors", "Delinquent Section 16(a) Reports" and "Corporate Governance; Board and Committee Matters" in our Proxy Statement.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Equity Compensation Plan Information**

The following table summarizes the securities authorized for issuance pursuant to our equity compensation plans as of December 31, 2019:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights <sup>(1)</sup> (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(2)</sup> (c)
Equity compensation plans approved by security holders . . . . .	1,075,360	37.94	1,912,920
Equity compensation plans not approved by security holders . . . . .	—	—	—
<b>Total . . . . .</b>	<b>1,075,360</b>		<b>1,912,920</b>

(1) Represents the weighted average exercise price of 342,498 outstanding stock options as of December 31, 2019. The remaining securities under this plan as of December 31, 2019 are restricted stock units and performance stock units, which have no exercise price and have been excluded from the calculation of the weighted average exercise price above.

(2) All of the securities remaining available for future issuance are available under our 2018 Omnibus Incentive Plan.

**Security Ownership of Certain Beneficial Owners and Management**

Other information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

**HERC HOLDINGS INC. AND SUBSIDIARIES**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE**

(a) Documents filed as part of this Report

(1) Consolidated financial statements:

Report of Independent Registered Public Accounting Firm

Herc Holdings Inc. and Subsidiaries Consolidated Balance Sheets at December 31, 2019 and 2018

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019, 2018 and 2017

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018 and 2017

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

(2) Schedule to the financial statements

Schedule II Valuation and Qualifying Accounts

(3) Exhibits

<b>Exhibit Number</b>	<b>Description</b>
2.1***	Separation and Distribution Agreement, dated June 30, 2016, by and between Herc Holdings and Hertz Global Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
3.1.1	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).
3.1.2	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).
3.1.3	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).
3.1.4	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).
3.2	Amended and Restated By-Laws of Herc Holdings, 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).
4.1	Indenture (including the form of Notes), dated as of July 9, 2019, among Herc Holdings Inc., the guarantors party thereto, and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K for Herc Holdings, Inc. (File No. 001-33139), as filed on July 9, 2019).
4.2*	Description of Securities of Registrant.
4.3	Nomination and Standstill Agreement, dated September 15, 2014, by and among the persons and entities listed on Schedule A thereto and Herc Holdings (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on September 16, 2014).
4.4	Confidentiality Agreement, dated September 15, 2014, by and among the persons and entities listed on Schedule A thereto and Herc Holdings (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on September 16, 2014).
4.5	Registration Rights Agreement, effective June 30, 2016, among Herc Holdings, High River Limited Partnership, Icahn Partners LP and Icahn Partners Master Fund LP, on behalf of certain other members of the Icahn group, together with those who may in the future become a party thereto under the terms thereof (Incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q of Herc Holdings (File No. 001-33139), as filed on August 9, 2016).



## HERC HOLDINGS INC. AND SUBSIDIARIES

- 10.1 ABL Credit Agreement, dated as of July 31, 2019, among Herc Holdings Inc., Herc Rentals Inc., Matthews Equipment Limited, certain other subsidiaries of Herc Holdings Inc., Bank of America, N.A., as agent, swingline lender and letter of credit issuer, Bank of America, N.A., JPMorgan Chase Bank N.A., Capital One, National Association, Wells Fargo Bank, National Association Bank of Montreal, Credit Agricole Corporate and Investment Bank, Goldman Sachs Bank USA, ING Capital LLC, MUFG Union Bank, N.A. and TD Bank, N.A., and the other financial institutions party thereto from time to time (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 July 31, 2019).
- 10.2 U.S. Guarantee and Collateral Agreement, dated July 31, 2019, made by Herc Holdings Inc. and certain of its subsidiaries from time to time made in favor of Bank of America, N.A., as agent (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 July 31, 2019).
- 10.3 Canadian Guarantee and Collateral Agreement, dated July 31, 2019, made by Herc Holdings Inc. and certain of its subsidiaries from time to time made in favor of Bank of America, N.A., as agent (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 31, 2019).
- 10.4 Transition Services Agreement, dated June 30, 2016, by and between Hertz Global Holdings, Inc. and Herc Holdings Inc. (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 July 6, 2016).
- 10.5 Tax Matters Agreement, dated June 30, 2016, among Herc Holdings Inc., The Hertz Corporation, Herc Rentals Inc. and Hertz Global Holdings, Inc. (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 July 6, 2016).
- 10.6 Employee Matters Agreement, dated June 30, 2016, by and between Hertz Global Holdings, Inc. and Herc Holdings Inc. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
- 10.7 Intellectual Property Agreement, dated June 30, 2016, among The Hertz Corporation, Hertz System, Inc. and Herc Rentals Inc. (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
- 10.8♦ Form of Change in Control Severance Agreement among Herc Holdings and executive officers (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
- 10.9 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).
- 10.10 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).
- 10.11.1♦ Offer Letter, dated as of May 18, 2015, by and between Herc Holdings and Lawrence H. Silber (Incorporated by reference to Exhibit 10.12 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
- 10.11.2♦ Offer Letter, dated as of August 13, 2014, by and between Herc Holdings and Christian J. Cunningham (Incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
- 10.11.3♦ Offer Letter, dated as of June 11, 2015, by and between Herc Holdings and James Bruce Dressel (Incorporated by reference to Exhibit 10.14 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
- 10.11.4♦\* Separation Agreement, dated December 2, 2019, by and between Herc Holdings and James Bruce Dressel.
- 10.11.5♦ Offer Letter, dated as of June 5, 2018, by and between Herc Holdings and Mark Irion. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Herc Holdings Inc. (File No. 001-33139), as filed on August 8, 2018).
- 10.11.6♦ Offer Letter, dated August 18, 2017, by and between Herc Holdings and Tamir Peres (Incorporated by reference to Exhibit 10.1 to the Quarter Report on Form 10-Q of Herc Holdings Inc. (File No. 001-33139), as filed on August 1, 2019).
- 10.12.1 Amended and Restated Herc Holdings Inc. Employee Stock Purchase Plan, effective May 17, 2018 (Incorporated by reference to Annex B to the Definitive Proxy Statement on Schedule 14A of Herc Holdings Inc. (File No. 001-33139), as filed on April 2, 2018).
- 10.12.2 Herc Holdings Inc. Employee Stock Purchase Plan International Sub-plan (as amended and restated, effective January 1, 2017). (Incorporated by reference to Exhibit 10.16.2 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
- 10.13.1♦ Herc Holdings 2008 Omnibus Incentive Plan (as amended and restated, effective June 30, 2016). (Incorporated by reference to Exhibit 10.18.1 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
- 10.13.2♦ Form of Executive Officer Restricted Stock Unit Agreement (form used beginning in August 2016) (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 August 24, 2016).
- 10.13.3♦ Form of Executive Officer Stock Option Agreement (form used beginning in August 2016) (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 August 24, 2016).

## HERC HOLDINGS INC. AND SUBSIDIARIES

- 10.13.4♦ Form of Performance Stock Unit Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (form used for Herc Adjusted Corporate EBITDA awards in 2016) (Incorporated by reference to Exhibit 10.5.21 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 9, 2016).
- 10.14.1 Herc Holdings Inc. 2018 Omnibus Incentive Plan, effective May 17, 2018 (Incorporated by reference to Annex A to the Definitive Proxy Statement on Schedule 14A of Herc Holdings Inc. (File No. 001-33139), as filed on April 2, 2018.)
- 10.14.2♦\* Form of Executive Officer Restricted Stock Unit Agreement.
- 10.14.3♦\* Form of Executive Officer Performance Stock Unit Agreement.
- 10.15♦\* Herc Holdings Inc. Supplemental Income Savings Plan.
  
- 10.16♦ Herc Holdings Inc. Senior Executive Bonus Plan (as amended and restated, effective June 30, 2016). (Incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
- 10.19 Form of Director Indemnification Agreement (Incorporated by reference to Exhibit 10.51 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on August 6, 2010).
- 14.1 Herc Holdings Inc. Code of Conduct (Incorporated by reference to Exhibit 14.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on October 18, 2016.)
- 21.1\* Subsidiaries of Herc Holdings Inc.
- 23.1\* Consent of Independent Registered Public Accounting Firm
- 31.1\* Certification of the Chief 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
- 31.2\* Certification of the Chief Financial 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
- 32.1\*\* 18 U.S.C. Section 1350 Certifications of the Chief Executive Officer and the Chief Financial Officer
- 101.INS\* XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH\* iXBRL Taxonomy Extension Schema Document
- 101.CAL\* iXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* iXBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\* iXBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* iXBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

\*\*\* Omitted schedules will be furnished supplementally to the SEC upon request.

♦ Indicates management contracts and compensatory agreements.

### ITEM 16. FORM 10-K SUMMARY

Not applicable.

## HERC HOLDINGS INC. AND SUBSIDIARIES

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HERC HOLDINGS INC.  
(Registrant)

By: /s/ MARK IRION

Name: Mark Irion

Title: *Senior Vice President and Chief Financial Officer*

(On behalf of the Registrant)

Date: February 27, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 27, 2020:

<b>Signature</b>	<b>Title</b>
<hr/> <i>/s/ LAWRENCE H. SILBER</i> Lawrence H. Silber	<i>President and Chief Executive Officer, Director</i> (Principal Executive Officer)
<hr/> <i>/s/ MARK IRION</i> Mark Irion	<i>Senior Vice President and Chief Financial Officer</i> (Principal Financial Officer)
<hr/> <i>/s/ MARK HUMPHREY</i> Mark Humphrey	<i>Vice President, Controller and Chief Accounting Officer</i> (Principal Accounting Officer)
<hr/> <i>/s/ HERBERT L. HENKEL</i> Herbert L. Henkel	<i>Non-Executive Chairman of the Board</i>
<hr/> <i>/s/ JAMES H. BROWNING</i> James H. Browning	<i>Director</i>
<hr/> <i>/s/ PATRICK D. CAMPBELL</i> Patrick D. Campbell	<i>Director</i>
<hr/> <i>/s/ JONATHAN FRATES</i> Jonathan Frates	<i>Director</i>
<hr/> <i>/s/ NICHOLAS GRAZIANO</i> Nicholas Graziano	<i>Director</i>
<hr/> <i>/s/ JEAN K. HOLLEY</i> Jean K. Holley	<i>Director</i>
<hr/> <i>/s/ JACOB M. KATZ</i> Jacob M. Katz	<i>Director</i>
<hr/> <i>/s/ MICHAEL A. KELLY</i> Michael A. Kelly	<i>Director</i>
<hr/> <i>/s/ LOUIS J. PASTOR</i> Louis J. Pastor	<i>Director</i>
<hr/> <i>/s/ MARY PAT SALOMONE</i> Mary Pat Salomone	<i>Director</i>

**HERC HOLDINGS INC. AND SUBSIDIARIES  
SUPPLEMENTAL INFORMATION**

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**SUPPLEMENTAL SCHEDULES**  
**EBITDA AND ADJUSTED EBITDA RECONCILIATIONS**

**Unaudited**  
**(In millions)**

EBITDA and adjusted EBITDA are not recognized terms under GAAP and should not be considered in isolation or as a substitute for our reported results prepared in accordance with GAAP. Further, since all companies do not use identical calculations, our definition and presentation of these measures may not be comparable to similarly titled measures reported by other companies.

**EBITDA and adjusted EBITDA** - EBITDA represents the sum of net income (loss), provision (benefit) for income taxes, interest expense, net, depreciation of rental equipment and non-rental depreciation and amortization. Adjusted EBITDA represents EBITDA plus the sum of merger and acquisition related costs, restructuring and restructuring related charges, spin-off costs, non-cash stock-based compensation charges, loss on extinguishment of debt (which is included in interest expense, net), impairment charges, gain (loss) on the disposal of a business and certain other items. Management uses EBITDA and adjusted EBITDA to evaluate operating performance and period-over-period performance of our core business without regard to potential distortions, and believes that investors will likewise find these non-GAAP measures useful in evaluating the Company's performance. However, EBITDA and adjusted EBITDA do not purport to be alternatives to net income as an indicator of operating performance. Additionally, neither measure purports to be an alternative to cash flows from operating activities as a measure of liquidity, as they do not consider certain cash requirements such as interest payments and tax payments.

**Adjusted EBITDA Margin** - Adjusted EBITDA Margin (Adjusted EBITDA/Total Revenues) is a commonly used profitability ratio. Adjusted EBITDA Margin does not purport to be an alternative to Net Margin (Net Income/Total Revenues as calculated under GAAP) as an indicator of profitability, as it does not account for GAAP reportable expenses such as depreciation and interest or the expense or benefit from income taxes.

These measures are frequently used by security analysts, institutional investors and other interested parties in the evaluation of companies in our industry.

	<b>Years Ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net income . . . . .	\$ 47.5	\$ 69.1	\$ 160.3	\$ (19.7)
Income tax provision (benefit) . . . . .	16.1	(0.3)	(224.7)	14.8
Interest expense, net . . . . .	173.5	137.0	140.0	84.2
Depreciation of rental equipment . . . . .	409.1	387.5	378.9	350.5
Non-rental depreciation and amortization . . . . .	61.0	57.3	51.5	44.8
<b>EBITDA</b> . . . . .	<b>707.2</b>	<b>650.6</b>	<b>506.0</b>	<b>474.6</b>
Restructuring . . . . .	7.7	5.0	1.2	4.0
Restructuring related charges . . . . .	—	0.3	4.3	2.9
Spin-Off costs . . . . .	0.5	14.4	35.2	49.2
Non-cash stock-based compensation charges . . . . .	19.5	13.4	10.1	5.5
Impairment . . . . .	5.1	—	29.7	—
Other <sup>(1)</sup> . . . . .	1.0	1.1	(1.1)	—
<b>Adjusted EBITDA</b> . . . . .	<b>\$ 741.0</b>	<b>\$ 684.8</b>	<b>\$ 585.4</b>	<b>\$ 536.2</b>
Total revenues . . . . .	\$ 1,999.0	\$ 1,976.7	1,754.5	1,554.8
Adjusted EBITDA . . . . .	741.0	684.8	585.4	536.2
<b>Adjusted EBITDA margin</b> . . . . .	<b>37.1%</b>	<b>34.6%</b>	<b>33.4%</b>	<b>34.5%</b>

(1) Comprised primarily of a cash separation benefit paid to our former Chief Financial Officer as part of a retirement and separation agreement for the year ended December 31, 2018 and a cash separation benefit paid to our former Chief Operating Officer as part of a separation agreement for the year ended December 31, 2019.

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**SUPPLEMENTAL SCHEDULES**  
**NET LEVERAGE RATIO CALCULATION**  
**Unaudited**

**Net Leverage Ratio** - The Company has defined its net leverage ratio as net debt, as calculated below, divided by adjusted EBITDA for the trailing twelve-month period. The measure should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The Company's definition of this measure may differ from similarly titled measures used by other companies. The calculation of the Company's net leverage ratio is provided below (dollars in millions).

	<b>Years ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Long-term debt, net. . . . .	\$ 2,051.5	\$ 2,129.9	\$ 2,137.1	\$ 2,178.6
Current maturities of long-term debt . . . . .	27.0	26.9	22.7	15.7
Unamortized debt issuance costs . . . . .	7.9	10.6	14.5	21.0
Cash and cash equivalents. . . . .	(33.0)	(27.8)	(41.5)	(24.0)
Net debt . . . . .	2,053.4	2,139.6	2,132.8	2,191.3
Adjusted EBITDA. . . . .	\$ 741.0	\$ 684.8	\$ 585.4	\$ 536.2
<b>Net Leverage</b> . . . . .	<b>2.8x</b>	<b>3.1x</b>	<b>3.6x</b>	<b>4.1x</b>

**HERC HOLDINGS INC. AND SUBSIDIARIES**  
**SUPPLEMENTAL SCHEDULES**  
**FREE CASH FLOW**  
**Unaudited**  
**(In millions)**

**Free cash flow** represents net cash provided by (used in) operating activities less rental equipment expenditures and non-rental capital expenditures, plus proceeds from disposal of rental equipment, proceeds from disposal of property and equipment, and other investing activities. Free cash flow is used by management in analyzing the Company's ability to service and repay its debt and to forecast future periods. However, this measure does not represent funds available for investment or other discretionary uses since it does not deduct cash used to service debt or for other non-discretionary expenditures.

	<b>Years Ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Net cash provided by operating activities</b> .....	\$635.6	\$559.1	\$349.1	\$433.4
Rental equipment expenditures .....	(638.4)	(771.4)	(501.4)	(468.3)
Proceeds from disposal of rental equipment .....	224.2	272.3	160.1	115.4
<b>Net rental equipment expenditures</b> .....	<u>(414.2)</u>	<u>(499.1)</u>	<u>(341.3)</u>	<u>(352.9)</u>
Non-rental capital expenditures .....	(56.9)	(77.6)	(74.6)	(47.8)
Proceeds from disposal of property and equipment .....	7.7	9.7	5.9	5.7
Other investing activities .....	(0.2)	—	—	—
<b>Free cash flow</b> .....	<u>\$ 172.0</u>	<u>\$ (7.9)</u>	<u>\$ (60.9)</u>	<u>\$ 38.4</u>

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## BOARD OF DIRECTORS

### **Herbert L. Henkel, Chairman**

Former Chairman of the Board and Chief Executive Officer, Ingersoll Rand plc

### **James H. Browning**

Former Partner, KPMG LLP

### **Patrick D. Campbell**

Former Senior Vice President and Chief Financial Officer, 3M Company

### **Jonathan Frates**

Managing Director, Icahn Enterprises L.P.

### **Nicholas F. Graziano**

Portfolio Manager, Icahn Capital

### **Jean K. Holley**

Former Senior Vice President and Chief Information Officer, Brambles Limited

### **Jacob M. Katz**

Former Managing Partner, Grant Thornton LLP

### **Michael A. Kelly**

Former Executive Vice President, Electronics and Energy Business, 3M Company

### **Louis J. Pastor**

Executive Vice President and General Counsel, Xerox Corporation

### **Mary Pat Salomone**

Former Chief Operating Officer, The Babcock & Wilcox Company

### **Lawrence H. Silber**

President and Chief Executive Officer

## EXECUTIVE OFFICERS

### **Lawrence H. Silber**

President and Chief Executive Officer

### **Aaron Birnbaum**

Senior Vice President and Chief Operating Officer

### **Christian J. Cunningham**

Senior Vice President and Chief Human Resources Officer

### **Mark Irion**

Senior Vice President and Chief Financial Officer

### **Tamir Peres**

Senior Vice President and Chief Information Officer

### **S. Wade Sheek**

Senior Vice President, Chief Legal Officer and Secretary

As of March 18, 2020

## INVESTOR INFORMATION

### **HERC HOLDINGS INC. STOCK LISTING**

**HRI**  
**LISTED**

Herc Holdings Inc. common stock began trading on the New York Stock Exchange under the symbol "HRI" on July 1, 2016.

**NYSE**

The common stock is included in the Russell 3000 Index®.

### **2020 ANNUAL MEETING**

Thursday, May 14, 2020, at 9:00 am Eastern Time

Herc Rentals Inc.  
Auditorium  
27500 Riverview Center Blvd.  
Bonita Springs, FL 34134

### **REGISTRAR AND STOCK TRANSFER AGENT**

Computershare Trust Company, N.A.  
C/O Shareholder Services  
P.O. Box 505000-5000  
Louisville, KY 40233  
Toll Free (877) 373-6374  
Outside of the U.S. (781) 575-4238  
[www.computershare.com](http://www.computershare.com)

### **INDEPENDENT AUDITORS**

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(813) 348-7000

### **CORPORATE CONTACTS**

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**HercRentals**®

For investor information, including our Form 10-K, our quarterly earnings releases and our other Securities Exchange Act reports, please visit our website: <http://ir.hercrentals.com>

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