

Hertz Global Holdings (HTZ)

\$15.84 (As of 01/07/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

Akin to the first three quarters of 2019, Hertz Global's fourth-quarter performance was likely to have been aided by solid revenues at the U.S. Rental Car segment, courtesy of efficient fleet management. Its cost-containment measures are encouraging too. Also, steady improvement in the operating cash flow is commendable. The company expects full-year 2019 adjusted free cash flow to have been positive. However, the International Rental Car unit's performance (revenues declined 5.3% in the first nine months of 2019) is a concern. Furthermore, Hertz Global's investments in its turnaround plan are limiting bottom-line growth. The company's high debts are also worrisome. Also, structural issues with the car rental model are worrisome. Primarily due to these headwinds, shares of Hertz Global underperformed its industry in a year.

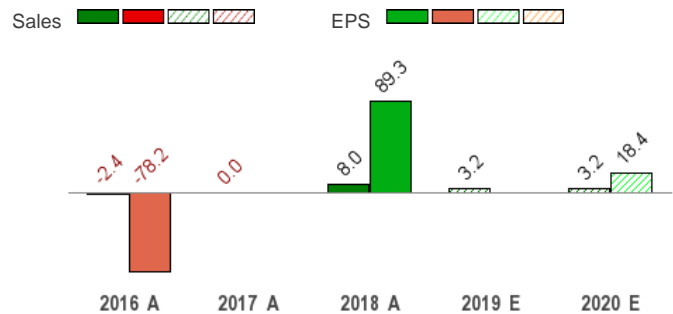
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.21 - \$11.24
20 Day Average Volume (sh)	1,883,811
Market Cap	\$2.3 B
YTD Price Change	0.6%
Beta	2.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Services
Zacks Industry Rank	Top 43% (109 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/24/2020
Earnings ESP	0.0%
P/E TTM	19.8
P/E F1	9.5
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					10,120 E
2019	2,107 A	2,511 A	2,836 A	2,341 E	9,807 E
2018	2,063 A	2,389 A	2,758 A	2,294 A	9,504 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.36 E	\$0.70 E	\$1.64 E	\$0.30 E	\$1.67 E
2019	-\$0.99 A	\$0.74 A	\$1.60 A	-\$0.25 E	\$1.41 E
2018	-\$1.58 A	-\$0.19 A	\$2.14 A	-\$0.55 A	-\$0.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/07/2020. The reports text is as of 01/08/2020.

Overview

Hertz Global Holdings, incorporated in Delaware in 2015, is the holding company for Rental Car Intermediate Holdings, LLC, which owns Hertz, the primary operating company of Hertz Global. Hertz was incorporated in Delaware in 1967.

The company, based in Estero, FL, is a key player in the vehicle rental industry and is responsible for the operation of vehicle rental services under the Hertz, Dollar and Thrifty brands.

The services are offered in approximately 10,200 corporate and franchisee locations spanning across North America, Europe, the Caribbean, Latin America, Africa, the Middle East, Asia, Australia and New Zealand.

On Jun 30, 2016, Hertz Global Holdings spun off its equipment rental business. Following the spinoff, a new Hertz Global Holdings, Inc. was formed to focus exclusively on its car rental and related services business.

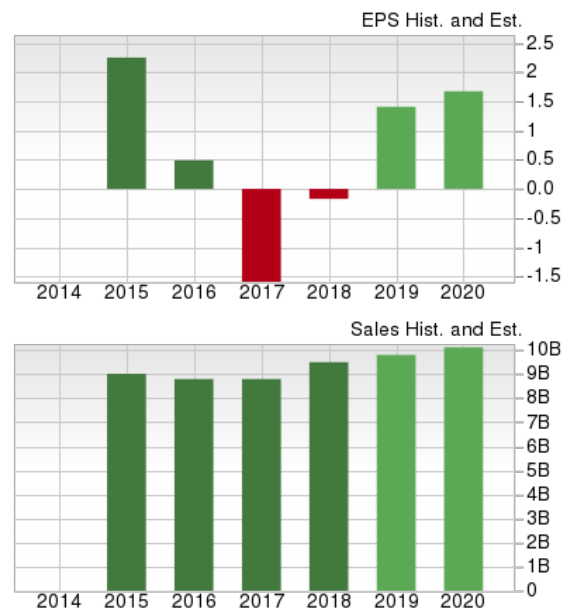
Hertz Global Holdings operates under three segments: **U.S. RAC** (accounted for 68.2% of the company's revenues in 2018), **International RAC** (23.9%) and **All Other Operations** (7.9%).

The U.S. RAC unit is responsible for the rental of vehicles, and sales of value-added products and services in the United States. Internationally, rental and leasing of vehicles as well as sales of value-added products and services are regulated by the International RAC unit.

The above segments offer various brands in order to present customers with a wide range of rental services at different prices, levels of offerings and products.

The company's Donlen operations fall under its 'All Other Operations' unit. The Donlen business is responsible for providing vehicle leasing and fleet management services, apart from offering other business activities in the United States and Canada. Notably, Donlen is a leading provider of services pertaining to vehicle leasing and fleet management for corporate fleets.

Geographically, 75.9% of the company's 2018 revenues stemmed from the United States and the rest was generated internationally. Hertz Global Holdings operated a rental fleet of approximately 535,100 vehicles in the United States and 207,100 vehicles internationally. The company's fiscal year coincides with the calendar year.



Reasons To Buy:

- ▲ Hertz Global is being aided by the strong performance of the U.S. Rental Car segment. Revenues at the segment grew 8.1% in 2018. Continuing with the trend, segmental revenues increased 7.4% in the first nine months of 2019. Efficient fleet management is driving growth at this key unit. Hertz Global's performance in fourth-quarter 2019 is also likely to have been aided by its U.S. Rental Car segment.
- ▲ We are also impressed with the company's efforts to control costs. Strong free cash flow generation is an added positive for Hertz Global . Notably, the company's adjusted free cash flow was \$99 million in 2018, reflecting an improvement on a year-over-year basis. The company believes that its performance with respect to operating cash flow will continue to improve. As a result, the company expects full-year 2019 adjusted free cash flow to have been positive.
- ▲ The travel and leisure industry is being aided by factors like a higher income, improved consumer confidence and a strong labor market. This bodes well for companies like Hertz Global as it looks to benefit from the expected increase in rental pick-ups, courtesy of thousands of locations across the country and a dedicated customer service team.

Hertz Global is being aided by strong performance of the U.S. Rental Car segment.

Reasons To Sell:

- ▼ Hertz Global is a highly leveraged company. This is evident from the fact that the ratio of its long-term debt-to-capitalization (expressed as a percentage) exceeds 100 and compares unfavorably to that of its industry. A high debt-to-equity ratio implies that the company is funding most of its ventures with borrowings.
- ▼ The presence of players like Uber and Lyft is a major threat as far as the need for car rental is concerned. Additionally, structural issues with the car rental model are worrisome. Furthermore, Hertz Global's heavy investment in its turnaround plan is limiting bottom-line growth.
- ▼ Furthermore, the company's International Rental Car segment delivered below-par performance in the first nine months of 2019. The segment generated revenues of \$1,695 million in the period, down 5.3% year over year. The unit's performance in the December quarter was likely to have been dismal too because of the sluggish European market.

Below-par performance of the International Rental Car segment is concerning.

Last Earnings Report

Earnings Beat at Hertz Global in Q3

The company's earnings (excluding 34 cents from non-recurring items) of \$1.60 surpassed the Zacks Consensus Estimate by 12 cents. However, quarterly earnings declined from the year-ago figure. Moreover, quarterly revenues of \$2,836 million were marginally short of the Zacks Consensus Estimate of \$2,876.9 million. However, the top line improved 2.8% year over year driven by impressive performance of the U.S. Rental Car segment.

Segmental Performance

In the quarter under review, the U.S. Rental Car segment generated revenues of \$1,962 million, up 5.9% year over year. This upside can be attributed to favorable pricing and upbeat demand.

Vehicle utilization decreased to 79% from 81% a year ago. Transaction days improved 5% year over year on the back of robust demand from summer leisure renters and ride-hailing drivers. Total revenue per transaction day (RPD) inched up 1%. Adjusted EBITDA for the segment were up 29% year over year to \$269 million, but short of the Zacks Consensus Estimate of \$308 million.

Segmental direct vehicle operating expenses inched up 2.9% to \$1,099 million. Meanwhile, interest expenses increased 12.8% while selling, general and administrative expenses declined 2.3% year over year.

The International Rental Car segment generated revenues of \$702 million, down 4% year over year. The downside was due to decreased volumes as a result of weakness in the European market. Meanwhile, segmental revenues were flat on a constant currency basis. Vehicle utilization was flat at 80%. Segmental RPD inched up 1%.

Segmental direct vehicle operating costs increased marginally year over year to \$386 million. Meanwhile, interest expenses were flat while selling, general and administrative expenses declined 7.5% year over year. Adjusted EBITDA for the segment not only declined 18% year over year to \$115 million, but also fell short of the Zacks Consensus Estimate of \$118 million. Meanwhile, revenues from all other operations dipped 1.1% to \$172 million.

Balance Sheet Highlights

The company exited the third quarter with cash and cash equivalents of \$465 million compared with \$1.13 billion at the end of 2018. Restricted cash and cash equivalents at the end of the period totaled \$230 million compared with \$283 million at 2018 end. As of Sep 30, 2019, total debt amounted to \$18.04 billion compared with \$16.32 billion as of Dec 31, 2018.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	-1.42%
EPS Surprise	8.11%
Quarterly EPS	1.60
Annual EPS (TTM)	0.80

Recent News

Partnership with Air France - Nov 27, 2019

In a customer-friendly move, Hertz International and Air France are offering passengers of the latter a new transfer service with private driver Hertz DriveU. The high-quality, hassle-free airport transfer service is available at more than 300 airports across the globe.

Valuation

Hertz Global shares are up 2.7% over the past year. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 8% and 11.7% in a year's time respectively. Over the past year, the S&P 500 index is up 24.3%.

The stock is currently trading at 1.13X trailing 12-month price-to-book value, which compares to 3.88X for the Zacks sub-industry, 3.24X for the Zacks sector and 4.42X for the S&P 500 index.

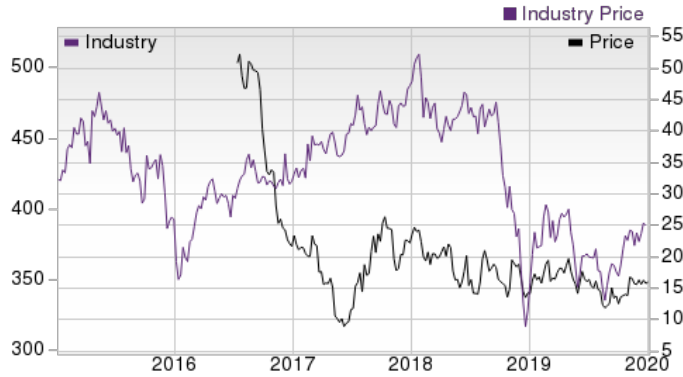
Over the past three years, the stock has traded as high as 2.65X and as low as 0.79X, with a 3-year median of 1.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 1.21X trailing 12-month book value.

The table below shows summary valuation data for HTZ

Valuation Multiples - HTZ					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.13	3.88	3.24	4.42
	3-Year High	2.65	5.89	3.89	4.45
	3-Year Low	0.79	3.13	2.68	3.36
	3-Year Median	1.36	4.59	3.48	3.89
EV/EBITDA TTM	Current	5.52	12.96	7.89	11.99
	3-Year High	7	17.22	11.1	12.86
	3-Year Low	3.36	9.93	6.79	9.33
	3-Year Median	5.45	13.12	7.83	11.15
P/S F12M	Current	0.88	1.5	1.12	3.47
	3-Year High	0.28	2.26	1.4	3.47
	3-Year Low	0.08	1.35	1.03	2.76
	3-Year Median	0.18	1.57	1.28	3.15

As of 01/07/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



Top Peers

Sonic Automotive, Inc. (SAH)	Outperform
AutoNation, Inc. (AN)	Neutral
Avis Budget Group, Inc. (CAR)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
CarMax, Inc. (KMX)	Neutral
Penske Automotive Group, Inc. (PAG)	Neutral
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral
Ryder System, Inc. (R)	Underperform

Industry Comparison Industry: Transportation - Services				Industry Peers		
	HTZ Neutral	X Industry	S&P 500	AN Neutral	CAR Neutral	KMX Neutral
VGM Score	B	-	-	A	B	D
Market Cap	2.25 B	1.78 B	23.82 B	4.15 B	2.44 B	14.34 B
# of Analysts	5	2	13	3	5	8
Dividend Yield	0.00%	0.00%	1.8%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	0.31	0.06	0.04	0.01	0.25	0.04
EV/EBITDA	6.45	8.45	13.92	6.27	6.20	21.07
PEG Ratio	NA	1.88	2.00	4.24	NA	1.33
Price/Book (P/B)	1.13	2.62	3.32	1.38	4.92	3.88
Price/Cash Flow (P/CF)	0.47	8.17	13.58	7.15	1.00	14.48
P/E (F1)	9.54	16.84	18.86	9.66	8.81	16.75
Price/Sales (P/S)	0.23	0.75	2.63	0.20	0.27	0.73
Earnings Yield	10.54%	5.88%	5.30%	10.35%	11.36%	5.97%
Debt/Equity	9.91	0.35	0.72	0.63	34.23	4.07
Cash Flow (\$/share)	33.36	2.25	6.94	6.50	32.97	6.02
Growth Score	C	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	NA%	12.57%	10.56%	4.07%	4.81%	15.43%
Proj. EPS Growth (F1/F0)	18.89%	17.88%	7.49%	11.06%	8.76%	8.69%
Curr. Cash Flow Growth	-2.64%	11.78%	14.83%	3.48%	2.74%	18.60%
Hist. Cash Flow Growth (3-5 yrs)	40.24%	10.51%	9.00%	4.47%	3.69%	10.83%
Current Ratio	1.53	1.45	1.23	0.85	0.94	2.43
Debt/Capital	90.83%	29.65%	42.92%	38.53%	97.16%	80.28%
Net Margin	-0.42%	1.22%	11.08%	1.82%	1.91%	4.40%
Return on Equity	12.04%	11.12%	17.16%	14.37%	66.13%	24.53%
Sales/Assets	0.40	1.28	0.55	1.98	0.40	1.00
Proj. Sales Growth (F1/F0)	3.19%	3.69%	4.15%	0.48%	2.61%	10.37%
Momentum Score	D	-	-	A	D	F
Daily Price Chg	-0.88%	0.00%	-0.22%	-1.59%	0.46%	0.21%
1 Week Price Chg	1.40%	0.00%	-0.30%	-1.92%	0.86%	-1.29%
4 Week Price Chg	-1.86%	3.36%	2.11%	-8.79%	2.74%	-10.02%
12 Week Price Chg	15.03%	9.68%	5.70%	-6.63%	12.93%	-5.62%
52 Week Price Chg	9.02%	11.82%	22.84%	28.44%	36.96%	34.39%
20 Day Average Volume	1,883,811	82,138	1,570,747	450,540	870,744	1,581,531
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.26%	0.00%	-0.45%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.26%	0.00%	-1.84%
(F1) EPS Est 12 week change	0.64%	-1.65%	-0.53%	4.44%	-12.79%	-1.51%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	2.21%	0.00%	-2.20%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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