

Hertz Global Holdings (HTZ)

\$6.11 (As of 03/16/20)

Price Target (6-12 Months): **\$7.00**

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:A

Value: B

Growth: A

Momentum: C

Summary

Hertz Global is benefiting from impressive performance of the U.S. Rental Car segment. Notably, segmental revenues grew 7.1% in 2019. Efficient fleet management and improved services are aiding the unit's growth. The company's measures to check costs are also appreciative. Courtesy of slower rise in direct operating expenses and selling, general and administrative costs, operating expenses were largely flat year over year in 2019. However, shares of the company have underperformed its industry partly due to persistent weakness in the International Rental Car segment. Revenues at the unit declined 4.7% in 2019. Softness in the European market is hurting the segment's performance. The company's high debt levels further add to its woes. Also, the coronavirus-led low demand for car rental may hurt the company's results.

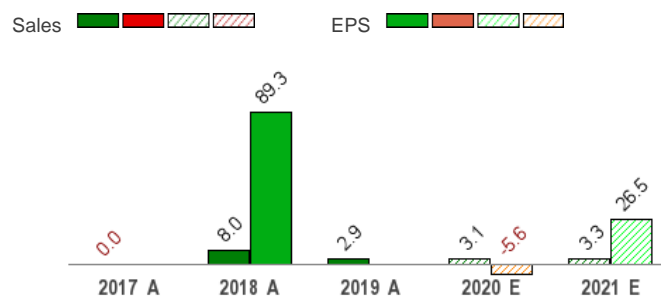
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.85 - \$5.58
20 Day Average Volume (sh)	7,311,763
Market Cap	\$868.4 M
YTD Price Change	-61.2%
Beta	2.20
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 24% (192 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.0%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-18.8%
Expected Report Date	05/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,414 E
2020	2,197 E	2,588 E	2,932 E	2,406 E	10,086 E
2019	2,107 A	2,511 A	2,836 A	2,326 A	9,779 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.72 E
2020	-\$0.62 E	\$0.42 E	\$1.65 E	-\$0.27 E	\$1.36 E
2019	-\$0.99 A	\$0.74 A	\$1.60 A	-\$0.24 A	\$1.44 A

*Quarterly figures may not add up to annual.

P/E TTM	5.5
P/E F1	4.5
PEG F1	NA
P/S TTM	0.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/16/2020. The reports text is as of 03/17/2020.

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.

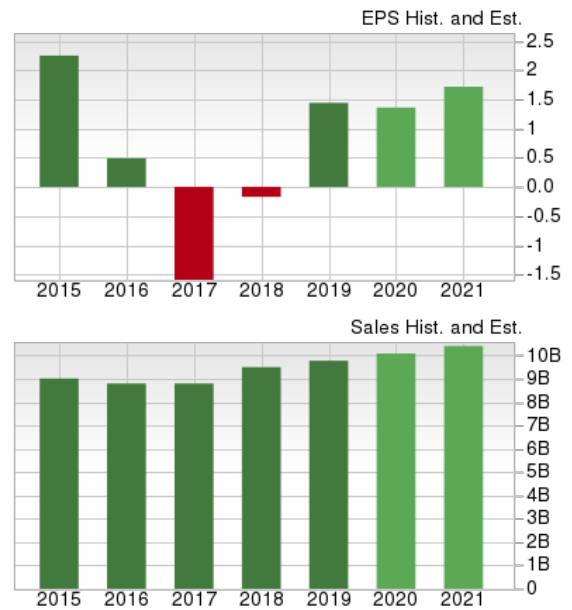
Hertz Global Holdings operates under three segments: **U.S. RAC** (accounted for 70.9% of the company's revenues in 2019), **International RAC** (22.2%) and **All Other Operations** (6.9%).

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, 77.7% of the company's 2019 revenues stemmed from the United States and the rest was generated internationally. Hertz Global Holdings operated a rental fleet of approximately 567,600 vehicles in the United States and 204,000 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 7.1% in 2019. Efficient fleet management and improved service is driving growth at this key unit. Hertz Global's performance in 2020 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. Total expenses have largely been flat year over year in 2019. Slower rise in direct operating expenses and selling, general and administrative costs is helping keep costs under check.
 - ▲ 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.
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Hertz Global is being aided by strong performance of the U.S. Rental Car segment.

Reasons To Sell:

- ▼ Furthermore, the company's International Rental Car segment delivered below-par performance in 2019. The segment generated revenues of \$2,169 million in the period, down 4.7% year over year. Sluggishness in the European market is affecting the unit's performance. Persistent weakness in the segment may affect overall performance going forward. Moreover, coronavirus-led low demand for car rentals may hurt the company going forward.
- ▼ 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) is 90.9, which compares unfavorably to that of the industry's average of 49.4. 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. Furthermore, the company's negative adjusted free cash flow (\$202 million) in 2019 raises concerns. Adjusted free cash flow was affected by shift in timing of de-fleeting i.e, the company held cars longer from safety recall activity during GM strike and unfavorable ABS fair market value.

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

Last Earnings Report

Hertz Global Incurs Loss in Q4

Hertz Global incurred a loss (excluding 59 cents from non-recurring items) of 24 cents per share in the fourth quarter of 2019, narrower than the Zacks Consensus Estimate of a loss of 25 cents. Moreover, the amount of loss decreased year over year.

Quarterly revenues of \$2,326 million fell short of the Zacks Consensus Estimate of \$2,340.6 million. However, the top line inched up 1.4% year over year, driven by an impressive performance of the U.S. Rental Car segment.

Quarter Ending **12/2019**

Report Date	Feb 24, 2020
Sales Surprise	-0.62%
EPS Surprise	4.00%
Quarterly EPS	-0.24
Annual EPS (TTM)	1.11

Segmental Performance

In the quarter under review, the U.S. Rental Car segment generated revenues of \$1,673 million, up 6.2% year over year. This upside can be attributed to favorable pricing and higher volumes.

Vehicle utilization decreased to 79% from 81% a year ago. Transaction days improved 2% year over year on the back of robust demand from growth initiatives in TNC and delivery rentals. Total revenue per transaction day (RPD) increased 4%. Adjusted EBITDA for the segment was flat year over year at \$48 million.

Segmental direct vehicle operating expenses rose 2.1% to \$1,019 million. Meanwhile, interest expenses jumped 15.2%. Also, selling, general and administrative expenses climbed 3.3% year over year.

The International Rental Car segment generated revenues of \$474 million, down 3% year over year. This downside was due to decreased volumes as a result of persistent weakness in the European market. Meanwhile, segmental revenues were flat on constant currency basis. Vehicle utilization was flat at 72%. Segmental RPD rose 1%.

Segmental direct vehicle operating costs were up 4% year over year to \$312 million. However, interest expenses decreased 8%. Selling, general and administrative expenses also declined 16.4% year over year. Adjusted EBITDA for the segment came in at a loss of \$10 million against profit of \$8 million in the year-ago period. Meanwhile, revenues from all other operations plunged 23% to \$179 million.

Balance Sheet Highlights

The company exited the fourth quarter with cash and cash equivalents of \$865 million compared with \$1.13 billion at the end of 2018. Restricted cash and cash equivalents at the end of the period came in at \$495 million compared with \$283 million at 2018 end. As of Dec 31, 2019, total debt amounted to \$17.09 billion compared with \$16.32 billion as of Dec 31, 2018.

Valuation

Hertz Global shares are down 63.9% over the past year. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 20.4% and 31.9% in a year's time respectively. Over the past year, the S&P 500 index is down 16.5%.

The stock is currently trading at 0.46X trailing 12-month price-to-book value, which compares to 4.43X for the Zacks sub-industry, 2.02X for the Zacks sector and 3.21X for the S&P 500 index.

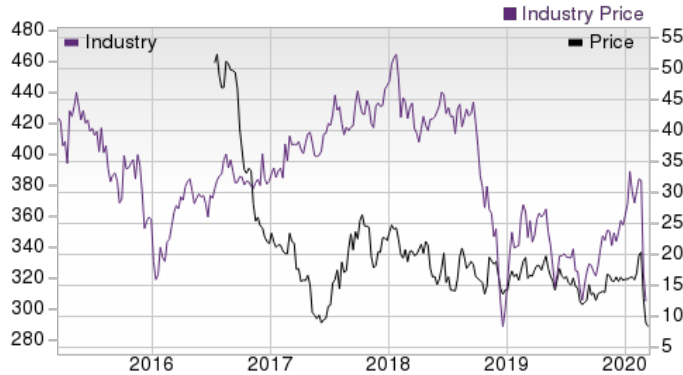
Over the past three years, the stock has traded as high as 2.78X and as low as 0.46X, with a 3-year median of 1.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$7 price target reflects 0.54X trailing 12-month book value.

The table below shows summary valuation data for HTZ

Valuation Multiples - HTZ					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.46	4.43	2.02	3.21
	3-Year High	2.78	12.92	4.64	4.55
	3-Year Low	0.46	3.13	2.02	2.85
	3-Year Median	1.4	4.46	3.41	3.63
EV/EBITDA TTM	Current	4.59	11.79	6.04	8.81
	3-Year High	7.02	17.19	11.11	12.88
	3-Year Low	3.35	9.79	6.04	8.81
	3-Year Median	5.45	13.22	7.88	11.21
P/S F 12M	Current	0.09	1.12	0.75	2.55
	3-Year High	0.28	1.74	1.41	3.43
	3-Year Low	0.08	1.12	0.75	2.55
	3-Year Median	0.18	1.53	1.21	3.15

As of 03/16/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 253)



Top Peers

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

Industry Comparison Industry: Transportation - Services				Industry Peers		
	HTZ Neutral	X Industry	S&P 500	AN Neutral	CAR Outperform	KMX Neutral
VGM Score	A	-	-	B	A	C
Market Cap	868.39 M	1.08 B	16.36 B	2.46 B	1.06 B	8.98 B
# of Analysts	5	2	13	6	5	8
Dividend Yield	0.00%	0.00%	2.63%	0.00%	0.00%	0.00%
Value Score	B	-	-	B	A	B
Cash/Price	1.16	0.11	0.06	0.01	0.51	0.05
EV/EBITDA	4.77	5.80	10.54	4.12	4.27	17.15
PEG Ratio	NA	1.42	1.46	3.25	NA	0.81
Price/Book (P/B)	0.46	1.75	2.26	0.78	1.61	2.44
Price/Cash Flow (P/CF)	0.27	5.26	8.80	4.11	0.31	9.12
P/E (F1)	4.39	10.81	13.18	5.55	3.67	9.83
Price/Sales (P/S)	0.09	0.55	1.78	0.12	0.12	0.46
Earnings Yield	22.26%	8.18%	7.56%	17.99%	27.27%	10.17%
Debt/Equity	10.03	0.42	0.70	0.60	25.34	4.07
Cash Flow (\$/share)	22.61	1.95	7.01	6.70	46.76	6.02
Growth Score	A	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	NA%	10.49%	10.85%	3.94%	5.91%	15.43%
Proj. EPS Growth (F1/F0)	-5.56%	15.01%	5.72%	8.86%	5.92%	8.57%
Curr. Cash Flow Growth	14.79%	-1.15%	6.15%	2.81%	35.37%	18.60%
Hist. Cash Flow Growth (3-5 yrs)	3.24%	11.33%	8.55%	2.53%	7.65%	10.83%
Current Ratio	1.71	1.46	1.24	0.86	0.96	2.43
Debt/Capital	90.93%	32.45%	42.57%	37.33%	96.20%	80.28%
Net Margin	-0.59%	2.60%	11.64%	2.11%	3.29%	4.40%
Return on Equity	11.29%	9.68%	16.74%	14.46%	60.29%	24.53%
Sales/Assets	0.39	1.27	0.54	2.00	0.39	1.00
Proj. Sales Growth (F1/F0)	3.13%	3.16%	3.50%	-1.06%	2.69%	6.27%
Momentum Score	C	-	-	C	A	B
Daily Price Chg	-25.85%	-9.84%	-12.67%	-19.11%	-20.60%	-20.58%
1 Week Price Chg	-7.00%	-10.34%	-11.01%	-19.39%	-25.36%	-18.60%
4 Week Price Chg	-69.00%	-31.39%	-32.63%	-42.08%	-65.38%	-44.39%
12 Week Price Chg	-62.12%	-29.78%	-30.17%	-43.51%	-56.59%	-38.38%
52 Week Price Chg	-63.93%	-32.18%	-23.26%	-18.27%	-59.34%	-9.16%
20 Day Average Volume	7,311,763	176,070	3,457,426	849,500	3,498,991	1,793,633
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
(F1) EPS Est 4 week change	-18.76%	0.00%	-0.48%	0.93%	3.95%	0.00%
(F1) EPS Est 12 week change	-18.76%	-3.13%	-0.93%	3.19%	3.95%	-3.08%
(Q1) EPS Est Mthly Chg	-72.22%	-1.99%	-0.60%	-1.30%	3.49%	0.00%

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	B
Growth Score	A
Momentum Score	C
VGM Score	A

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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