

Hertz Global Holdings (HTZ)

\$1.46 (As of 08/24/20)

Price Target (6-12 Months): **\$1.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: F

Summary

Hertz Global filed for bankruptcy as its business has been crippled by the coronavirus-led waning demand for rental-hire services. As a result, the company's shares have declined 88% since March. Amid concerns, billionaire investor Carl Icahn sold his entire stake in the company. Weakness in both the U.S. and International Rental Car segments have led to 40.3% decline in the top line in first-half 2020. Frequent management changes also raise concerns. However, filing for bankruptcy protection does not mean the end of the road for Hertz Global. Through the restructuring process, the company expects to emerge financially healthier. Significant cost-control measures should support its bottom line. Notably, operating expenses decreased 11.9% in the first half of 2020. Improvement in the U.S. used-car market is also a boon for the company.

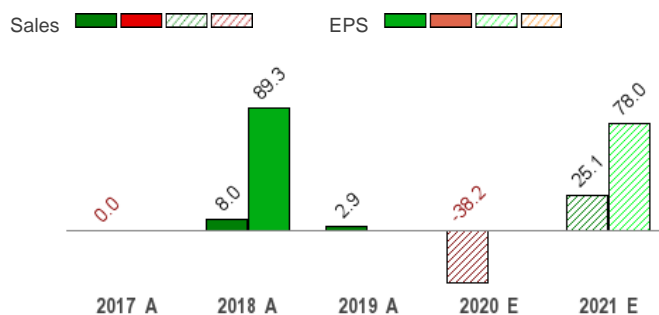
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.85 - \$0.78
20 Day Average Volume (sh)	10,536,886
Market Cap	\$228.1 M
YTD Price Change	-90.7%
Beta	1.41
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Transportation - Services
Zacks Industry Rank	Bottom 32% (172 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-50.6%
Last Sales Surprise	-9.5%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	11/02/2020
Earnings ESP	-214.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,558 E
2020	1,923 A	832 A	1,668 E	1,528 E	6,040 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					-\$1.14 E
2020	-\$1.78 A	-\$3.51 A	-\$0.47 E	-\$0.89 E	-\$5.18 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	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

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. 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.

On May 22, 2020, Hertz Global Holdings filed for bankruptcy as its business is being crippled by the coronavirus-induced waning demand for rental hire services with most people staying indoors. The bankruptcy filing does not include Hertz's operations in Europe, Australia and New Zealand as well as its franchised locations in the United States.

Even though Hertz Global Holdings has filed for bankruptcy protection, it does not mean the end of the road for the company. In fact, by declaring bankruptcy, the company has made it clear that it intends to stay in business while restructuring its debts.

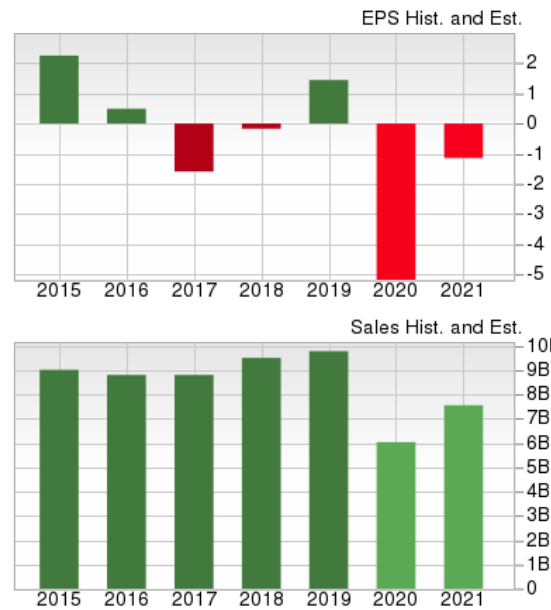
Hertz Global Holdings operates under three segments: **U.S. RAC** (accounted for 70.9% of the company's revenues in 2019), **International RAC** (22.2%) and **All Other Operations** (6.9%).

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.

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:

▲ Even though Hertz has filed for bankruptcy protection, it does not mean the end of the road for the company. In fact, by declaring bankruptcy, the company has made it clear that it intends to stay in business while restructuring its debts. By doing so, Hertz intends to emerge as a financially healthier company. Notably, many companies have gone through this bankruptcy process and posted record profits subsequently. Likewise, through the restructuring process, Hertz expects to emerge from the crisis stronger.

We are impressed with the company's efforts to control costs.

▲ We are also impressed with the company's efforts to control costs. Total expenses have largely been flat year over year in 2019. Moreover, direct vehicle and operating costs at the U.S. and International Rental Car segments declined 24.6% and 34.7% respectively in the first six months of 2020. By cancelling new fleet orders, returning program vehicles, cutting non-essential spending and capital expenses, and consolidating off-airport rental locations, the company reduced total selling, general and administrative expenses by 23.1% year over year in the first half of 2020. Total operating expenses decreased 11.9% in the same period. The company's cost-cutting measures are expected to generate about \$2.5 billion in annualized savings.

▲ With the re-opening of economies, the U.S. used-car market witnessed a strong rebound in May and June. To take advantage of the robust demand and significantly high resale prices, Hertz is boosting its used-car sales efforts in North America. The opening up of countries also had a positive impact on rental demand. Although revenues in April, May and June were down year over year, they showed sequential monthly improvement.

▲ The bankruptcy filing does not include Hertz's operations in Europe, Australia and New Zealand as well as its franchised locations in the United States. The decision to keep its European business solvent is indicative of its financial strength even in the current situation. Compared to its US operations, a larger proportion of its fleet of cars can be sold back in its European business to automakers at guaranteed prices.

Reasons To Sell:

- ▼ Coronavirus-related woes are weighing significantly on demand for Hertz's rental cars. The top line declined 40.3% year over year in the first six months of 2020 due to weakness in both the U.S. (down 42.1%) and International Rental Car (down 49.4%) segments. Moreover, the spike in coronavirus cases has dampened the modest uptrend in rental demand the company was experiencing with the re-opening of economies.
- ▼ On May 22, 2020, Hertz Global filed for bankruptcy as its business is being crippled by the coronavirus-induced waning demand for rental hire services with most people staying indoors. Notably, Hertz failed to pay roughly \$500 million to creditors by the deadline of May 4, thereby highlighting its poor financial condition. The company was granted an extension up to May 22 by its lenders. However, creditors of this debt-laden company did not grant any further extension thereby resulting in the filing for bankruptcy protection. Notably, the company exited the June quarter with cash and equivalents of \$1.37 billion, whereas its total debt amounted to \$12.98 billion. The company is planning to shrink its fleet significantly to repay for debt.
- ▼ Few days after the bankruptcy filing, the company's primary stakeholder, the billionaire investor Carl Icahn, sold his entire 55.3 million shares or 39% interest. Icahn decided to divest his owned portion for a significant loss. The exit of such a high-profile investor is a further setback to the company. Moreover, with Hertz Global's shares struggling (down 90.2% year-to-date), the company received a delisting notice from the New York Stock Exchange on May 26. Hertz Global appealed the notice and will remain listed until the issue is resolved. However, the uncertain situation raises grave concerns.
- ▼ On May 18, 2020, Hertz named its fourth CEO in six years when its board of directors named Paul Stone as the new president and chief executive officer effective immediately. Prior to being elevated, Stone served as Hertz's executive vice president and chief retail operations for its North American business activities. Management's uncertainty further dampens investors' confidence.

Coronavirus concerns are weighing significantly on demand for rental cars. Additionally, the company's high debt levels are quite concerning.

Last Earnings Report

Hertz Global Incurs Wider Than Expected Loss in Q2

Hertz Global incurred a loss (excluding \$2.35 from non-recurring items) of \$3.51 per share in second-quarter 2020, wider than the Zacks Consensus Estimate of a loss of \$2.33. In the year-ago period, the company reported earnings of 74 cents per share. Similar to the first quarter, second-quarter results were affected by decreased demand for rental cars amid coronavirus concerns. However, the impact in the second quarter is much greater.

Quarterly revenues of \$832 million also missed the Zacks Consensus Estimate of \$918.9 million. The top line declined 66.9% year over year due to weak performance by the U.S. and International Rental Car segments.

Segmental Performance

In the quarter under review, the U.S. Rental Car segment generated revenues of \$533 million, down 70% year over year. While airport rental-car volumes declined 82% due to weakness in air-travel demand caused by coronavirus, off airport volumes decreased 47%.

Vehicle utilization declined to 28% from 82% a year ago. Transaction days fell 69% year over year. Total revenue per transaction day ("RPD") decreased 10%. Adjusted EBITDA for the segment was (\$470 million) in the second quarter against \$156 million a year ago.

Segmental direct-vehicle and operating expenses dropped 47% to \$561 million. Meanwhile, interest expenses climbed 8%. However, selling, general and administrative expenses declined 47% year over year. Costs reduced due to strict cost-control measures and low volumes.

The International Rental Car segment generated revenues of \$135 million, down 76% year over year. Airport rental-car volumes plunged 84%, while off-airport volumes dropped 47%. Vehicle utilization fell to 36% from 77% in the year-ago quarter. Segmental RPD declined 24% year over year.

Segmental direct vehicle and operating costs fell 59% year over year to \$136 million. While interest expenses contracted 3%, selling, general and administrative expenses fell 28% year over year. Adjusted EBITDA for the segment came in at (\$127 million) compared with \$56 million in second-quarter 2019. Meanwhile, revenues from all other operations dipped 1% to \$164 million.

Balance Sheet Highlights

The company exited the second quarter with cash and cash equivalents of \$1,366 million compared with \$865 million at the end of 2019. Restricted cash and cash equivalents at the end of the period came in at \$945 million compared with \$495 million at 2019-end. As of Jun 30, 2020, total debt amounted to \$12.98 billion compared with \$17.09 billion as of Dec 31, 2019.

Quarter Ending 06/2020

Report Date	Aug 10, 2020
Sales Surprise	-9.46%
EPS Surprise	-50.64%
Quarterly EPS	-3.51
Annual EPS (TTM)	-3.93

Recent News

New CFO Appointed — Aug 14, 2020

Hertz appointed a new chief financial officer (CFO) named R. Eric Esper to fill in Jamere Jackson's shoes.

New CEO Appointed — May 18, 2020

Hertz named its fourth CEO in six years when its board of directors named Paul Stone as the new president and chief executive officer effective immediately. Prior to being elevated, Stone served as Hertz's executive vice president and chief retail operations for its North American business activities. Stone replaces Kathryn V. Marinello as the CEO. Marinello will remain at Hertz as a consultant for a year.

Valuation

Hertz Global shares are down 90.7% and 87.7% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry are up 4.3% in the year-to-date period, while those in the Zacks Transportation sector are down 1.7%. In the past year, the Zacks sub-industry and the sector are up 17.8% and 8.2% respectively.

The S&P 500 index is up 5.4% and 18.3% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 0.31X trailing 12-month price-to-book value compared with 4.05X for the Zacks sub-industry, 3.55X for the Zacks sector and 4.59X for the S&P 500 index.

In the past three years, the stock has traded as high as 2.65X and as low as 0.05X, with a three-year median of 1.24X. Our Neutral recommendation indicates that the stock will perform in-line than the market. Our \$1.5 price target reflects 0.42X 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	0.31	4.05	3.55	4.59
	3-Year High	2.65	5.66	4.01	4.59
	3-Year Low	0.05	2.63	2.13	3.03
	3-Year Median	1.24	3.9	3.41	3.97
EV/EBITDA TTM	Current	3.75	14.59	10.01	12.89
	3-Year High	7.02	17.21	11.09	12.89
	3-Year Low	3.75	8.97	5.38	8.29
	3-Year Median	5.45	13.24	7.79	11.32
P/S F 12M	Current	0.03	1.71	1.35	3.7
	3-Year High	0.28	1.76	1.41	3.7
	3-Year Low	0.01	1.23	0.85	2.76
	3-Year Median	0.17	1.54	1.18	3.19

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (172 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. (AN)	Outperform	1
Penske Automotive Group, Inc. (PAG)	Outperform	1
Sonic Automotive, Inc. (SAH)	Outperform	1
Avis Budget Group, Inc. (CAR)	Neutral	4
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral	3
CarMax, Inc. (KMX)	Neutral	3
Ryder System, Inc. (R)	Neutral	3
WYNDHAM DESTINATIONS, INC. (WYND)	Underperform	4

Industry Comparison Industry: Transportation - Services				Industry Peers		
	HTZ	X Industry	S&P 500	AN	CAR	KMX
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	1	4	3
VGM Score	B	-	-	A	C	A
Market Cap	228.06 M	934.20 M	23.81 B	5.07 B	2.37 B	17.74 B
# of Analysts	4	3	14	7	5	5
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	10.06	0.10	0.07	0.05	0.56	0.07
EV/EBITDA	3.26	7.74	13.37	6.63	4.46	21.55
PEG Ratio	NA	3.57	3.02	1.33	NA	2.72
Price/Book (P/B)	0.31	2.58	3.17	1.62	NA	4.96
Price/Cash Flow (P/CF)	0.06	8.48	12.77	8.69	0.73	16.10
P/E (F1)	NA	25.99	21.72	10.70	NA	33.75
Price/Sales (P/S)	0.03	0.95	2.48	0.25	0.32	0.98
Earnings Yield	-354.79%	2.93%	4.44%	9.35%	-22.06%	2.96%
Debt/Equity	21.80	0.64	0.76	0.67	-108.82	4.15
Cash Flow (\$/share)	22.61	1.96	6.93	6.70	46.65	6.76
Growth Score	D	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	NA%	7.94%	10.41%	4.16%	6.99%	13.75%
Proj. EPS Growth (F1/F0)	-459.38%	-53.60%	-5.05%	19.47%	-303.53%	-39.51%
Curr. Cash Flow Growth	14.79%	-0.60%	5.20%	2.81%	35.37%	7.77%
Hist. Cash Flow Growth (3-5 yrs)	3.24%	13.37%	8.50%	2.53%	7.65%	9.70%
Current Ratio	3.06	1.51	1.33	0.92	1.07	2.85
Debt/Capital	95.61%	40.94%	44.50%	40.07%	98.37%	80.58%
Net Margin	-14.55%	0.82%	10.13%	1.51%	-4.15%	3.45%
Return on Equity	-38.47%	7.26%	14.66%	14.20%	-66.36%	18.00%
Sales/Assets	0.32	1.08	0.51	1.97	0.32	0.89
Proj. Sales Growth (F1/F0)	-38.24%	-1.31%	-1.45%	-6.48%	-41.50%	-9.57%
Momentum Score	F	-	-	C	D	C
Daily Price Chg	-0.68%	0.00%	1.32%	0.12%	4.98%	1.76%
1 Week Price Chg	-5.16%	-0.01%	-1.45%	1.89%	3.55%	2.46%
4 Week Price Chg	-5.19%	8.08%	3.38%	2.96%	18.62%	11.28%
12 Week Price Chg	63.99%	21.14%	7.69%	47.72%	38.69%	20.77%
52 Week Price Chg	-87.73%	12.35%	3.85%	22.54%	36.40%	34.97%
20 Day Average Volume	10,536,886	149,914	1,873,293	866,376	3,189,554	1,035,840
(F1) EPS Est 1 week change	-2.83%	0.00%	0.00%	0.00%	0.00%	0.34%
(F1) EPS Est 4 week change	-2.83%	4.02%	1.00%	22.82%	-21.84%	0.05%
(F1) EPS Est 12 week change	20.05%	13.86%	3.40%	88.37%	-14.18%	6.37%
(Q1) EPS Est Mthly Chg	-25.68%	16.44%	0.00%	9.56%	-86.17%	0.80%

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	D
Momentum Score	F
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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