

HERC HOLDINGS INC
Form 10-K
February 28, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
o OF 1934
Commission File Number 001-33139
HERC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware 20-3530539

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

27500 Riverview Center Blvd.

Bonita Springs, Florida 34134

(239) 301-1000

(Address, including Zip Code, and telephone number,
including area code, of registrant's principal executive offices)

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

Title of each class	Name of each exchange on which registered
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Common Stock, par value \$0.01 per share	New York Stock Exchange
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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 29, 2018, 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 \$1.1 billion.

As of February 22, 2019, there were 28,524,081 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 2018 annual meeting of stockholders, to be filed within 120 days of December 31, 2018, are incorporated by reference into Part III.

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HERC HOLDINGS INC. AND SUBSIDIARIES

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2018 (this "Report") includes "forward-looking statements," as that term is defined by the federal securities laws. Forward-looking statements include statements concerning our plans, intentions, objectives, goals, strategies, forecasts, future events, future revenue or performance, future capital expenditures, financing needs, business trends and other information that is not historical information. When used in this Report, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts," and future or conditional verbs, such as "will," "should," "could" or "may," as well as variations of such words or similar expressions are intended to identify forward-looking statements, although not all forward-looking statements are so designated. All forward-looking statements are based upon our current expectations and various assumptions and apply only as of the date of this Report. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that 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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

PART I

ITEM 1. BUSINESS

Our Company

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," "the Company" or as the context requires, "its") is one of the leading equipment rental suppliers with approximately 270 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 ProSolutionsTM, 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, 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"). 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."

For accounting purposes, due to the relative significance of New Hertz to Hertz Holdings, New Hertz was considered the spinor or divesting entity in the Spin-Off and Herc Holdings was considered the spinnee or divested entity. As a result, despite the legal form of the transaction, New Hertz was the "accounting successor" to Hertz Holdings. Under the accounting rules, the historical financial information of Herc Holdings, including certain information presented in the consolidated financial statements included in this Report, reflects the financial information of the equipment rental business and certain parent legal entities of Herc as historically operated as part of Hertz Holdings, as if Herc Holdings was a stand-alone company for the applicable periods presented.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

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 270 locations in 39 states in the United States and seven 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;
- the ability to track utilization and facilitate the fluid 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 43% of equipment

rental revenue for the year ended December 31, 2018. 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.

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ITEM 1. BUSINESS (Continued)

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.

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™ 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™ 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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

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 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, 2018, the average age of our equipment fleet was 46 months.

As of December 31, 2018, our rental fleet consisted of equipment with a total original equipment cost, based on the guidelines of the American Rental Association, of \$3.78 billion. The following table provides a breakdown of the composition of our equipment rental fleet based on original equipment cost:

	% of Original Equipment Cost	
Equipment Type	December 31, 2018	2017
Aerial - Booms	18.3 %	18.7 %
Aerial - Scissors and Other	7.6 %	7.5 %
Total Aerial	25.9 %	26.2 %
Material Handling - Telehandlers	13.5 %	13.3 %
Material Handling - Industrial	4.2 %	3.6 %
Total Material Handling	17.7 %	16.9 %
Earthmoving - Compact	8.5 %	7.7 %
Earthmoving - Heavy	5.7 %	8.2 %
Total Earthmoving	14.2 %	15.9 %
ProSolutions TM	14.3 %	13.8 %
Trucks and Trailers	13.0 %	12.6 %

ProContractor	6.7 %	6.1 %
Air Compressors	2.4 %	2.6 %
Lighting	1.7 %	1.7 %
Compaction	1.5 %	1.6 %
Other	2.6 %	2.6 %

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

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.

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 35% of our equipment rental revenue for the year ended December 31, 2018.

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, 2018.

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 17% of our equipment rental revenue for the year ended December 31, 2018.

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 19% of our equipment rental revenue for the year ended December 31, 2018.

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, 2018, 2017 or 2016. 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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

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 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 4,900 employees, with approximately 4,700 persons in our North American operations and 200 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, 2018, labor contracts covering approximately 400 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.

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ITEM 1. BUSINESS (Continued)

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 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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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.

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ITEM 1A. 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 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, 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, computer viruses or security breaches), 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.

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 expend significant additional resources related to our information security systems.

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

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ITEM 1A. RISK FACTORS (continued)

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.

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 and other key personnel, and the ability of new employees to learn their new roles.

Our ability to successfully execute on our business plan depends upon the contributions of our senior management team as well as other key personnel, such as our dedicated sales force. In recent years we have experienced significant changes to our key personnel. Because of these personnel changes, we could experience inefficiencies or a lack of business continuity due to the 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 who have been employed by the Company 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 new key employees quickly adapt to and excel in their new roles. If they are unable to do so, our

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ITEM 1A. RISK FACTORS (continued)

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 personnel, 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 other key personnel, 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, 2018, we had unutilized U.S. federal net operating loss carryforwards of approximately \$412.1 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 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, 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

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ITEM 1A. RISK FACTORS (continued)

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.

Our non-U.S. operations include joint ventures and other alliances. Additional risks characteristic of these arrangements include the risk of conflicts arising between us and our joint venture partners and the lack of unilateral control of management. We also risk circumstances where our joint venture partner may fail to satisfy its obligations, which could result in increased liabilities to us.

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 are located in 39 states in the United States and seven provinces in Canada, and 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, 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 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 10.0% of our total assets as of December 31, 2018. 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.

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ITEM 1A. RISK FACTORS (continued)

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 43% of our rental revenue in 2018. 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 fleet of 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, 2018, the average age of our rental equipment fleet was approximately 46 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 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.

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ITEM 1A. RISK FACTORS (continued)

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.

We may face issues with our union employees.

Labor contracts covering the terms of employment of approximately 400 employees in the U.S. and 150 employees in Canada were in effect as of December 31, 2018 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.

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.

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

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ITEM 1A. RISK FACTORS (continued)

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.

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ITEM 1A. 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.

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.

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

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS (continued)

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.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS (continued)

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.

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, 2018, we had total outstanding debt of approximately \$2.2 billion, including our outstanding 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

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS (continued)

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 financing arrangements. 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 financing arrangements, 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.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS (continued)

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, 2018, there were 28.5 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 2.7 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.

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;

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS (continued)

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 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 22, 2019, we had approximately 270 locations primarily in the United States and Canada, with locations also in China, Saudi Arabia and Qatar. 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, 2018, 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

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 3. LEGAL PROCEEDINGS (Continued)

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 described below. 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.

Governmental Investigations - In June 2014, Hertz Holdings was advised by the staff of the New York Regional Office of the SEC that it was investigating the events disclosed in certain of Hertz Holdings' filings with the SEC. In addition, Hertz Holdings and New Hertz had communications with the United States Attorney's Office for the District of New Jersey regarding the same or similar events. New Hertz was responsible for managing these matters. The investigations and communications generally involved the restatements included in Hertz Holdings' 2014 Form 10-K and related accounting for prior periods. On December 31, 2018, the SEC entered an administrative order that, among other things, orders New Hertz to cease and desist from violating certain of the federal securities laws and imposes a civil penalty of \$16.0 million. Pursuant to the Separation and Distribution Agreement that we entered into in connection with the Spin-Off, the Company agreed to indemnify New Hertz for 15% of any shared liabilities. Accordingly, the Company has accrued a loss contingency of \$2.4 million for this matter with respect to the quarter ended December 31, 2018. In addition, New Hertz has advised us that it does not expect any further communications with the United States Attorney's Office for the District of New Jersey.

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.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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 commenced trading on the New York Stock Exchange ("NYSE") under the symbol "HRI" on July 1, 2016. On February 22, 2019, there were 1,283 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 the Company, 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. It does not obligate the Company to make any repurchases at any specific time or in any specific amount. The timing and extent to which the Company repurchases its 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 years ended December 31, 2018 or 2017. As of December 31, 2018, 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 2018 or 2017, 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, 2018, 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.

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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.

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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 of the Company presented below for periods prior to the Spin-Off is not necessarily indicative of what the Company's financial position or results of operations actually would have been had it 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.

Years ended December 31,

(In
millions,

	2017	2016	2015	2014
except 2018 per share data)				
Statement of Operations Data				
Total revenues	\$1,976.7	\$1,754.5	\$1,554.8	\$1,678.2
Total expenses ^(a)	1,907.9	1,818.9	1,559.7	1,521.3
Income (loss)	668.8	(64.4)	(4.9)	156.9
Income taxes				144.5
Income tax benefit (provision) ^(b)	0.3	224.7	(14.8)	(45.6)
Net earnings (loss)	669.1	\$160.3	\$(19.7)	\$111.3
Earnings (loss) per share:				\$89.7
Basic	\$5.66	\$(0.70)	\$3.69	\$3.00
Diluted	\$5.60	\$(0.70)	\$3.69	\$2.87

As of December 31,

(In millions)	2018	2017	2016	2015	2014
Balance Sheet Data					
Cash and cash equivalents ^(c)	\$27.8	\$41.5	\$24.0	\$24.7	\$28.0

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Total assets	3,610.2	3,549.7	3,466.0	3,397.0	3,599.7
Total debt ^(d)	2,156.2	2,159.8	2,194.3	136.7	866.1
Total equity ^(e)	572.7	510.4	317.7	2,302.0	1,693.7

- Total expenses were impacted by long-lived asset impairments in 2017 and 2014 of \$29.7 million and \$9.6 million, respectively, losses on extinguishment of debt in 2018, 2017 and 2014 of \$5.4 million, \$11.4 million and, \$0.8 million, respectively, and the gain on the sale of our operations in France and Spain in 2015 of \$50.9 million.
- (a) 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.
- (b) Includes the correction of an error which increased the amount by \$12.4 million, \$9.0 million and \$9.1 million as of December 31, 2016, 2015 and 2014, 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 this Report.
- (c) Includes net loans payable to affiliates as of December 31, 2015 and 2014 of \$73.2 million and \$449.0 million, respectively.
- (d) Total equity as of December 31, 2016 was impacted by \$2.0 billion of distributions and transfers to THC related to the Spin-Off.
- (e)

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HERC HOLDINGS INC. AND SUBSIDIARIES

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.

THE SPIN-OFF

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."

On June 30, 2016, the Company effected a 1-for-15 reverse stock split. The reverse stock split reduced the number of authorized shares of common stock and preferred stock to 133.3 million and 13.3 million, respectively. All share data and per share amounts have been retroactively adjusted for the reverse stock split in the accompanying consolidated financial statements and notes thereto for the year ended December 31, 2016.

For accounting purposes, due to the relative significance of New Hertz to Hertz Holdings, New Hertz was considered the spinor or divesting entity in the Spin-Off and Herc Holdings was considered the spinnee or divested entity. As a result, despite the legal form of the transaction, New Hertz was the "accounting successor" to Hertz Holdings. Under the accounting rules, the historical financial information of New Hertz is required to reflect the financial information of Hertz Holdings, as if New Hertz spun off Herc Holdings in the Spin-Off. In contrast, the historical financial information of Herc Holdings, including certain information presented in this Report, reflects the financial information of the equipment rental business and certain parent legal entities of Herc as historically operated as part of Hertz Holdings, as if Herc Holdings was a stand-alone company for all periods presented. The historical financial information of the Company presented in the following MD&A for the period prior to the Spin-Off is not necessarily indicative of what the Company's financial position or results of operations actually would have been had it operated as a separate, independent company for the period presented.

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.

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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.

2018 Financial Overview

An overview of our business and financial performance in 2018 and key factors influencing our results include:

Equipment rental revenue increased \$159.3 million, or 10.6%, during the year ended December 31, 2018 when compared with 2017. The increase was attributable to a higher level of rental equipment on rent resulting from higher demand from existing customers, diversifying and growing our customer base and improving our product mix, including through increases in our ProSolutions™ and ProContractor product offerings. Additionally, pricing increased by 2.9% during the year ended December 31, 2018 as compared to 2017.

In July 2018, we drew down on our asset-based revolving credit facility (the "ABL Credit Facility") and redeemed \$61.0 million in aggregate principal amount of the 2022 Notes and \$62.5 million in aggregate principal amount of the 2024 Notes and recorded a \$5.4 million loss on the early extinguishment of debt, comprised of a 3% cash premium totaling \$3.7 million and a non-cash charge of \$1.7 million for the write-off of unamortized debt issuance costs. The loss on early extinguishment of debt is included in "Interest expense, net" in our consolidated statement of operations.

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of \$175 million that matures in September 2020.

Income tax benefit for the year ended December 31, 2018, includes \$20.8 million net benefit resulting from the completion of the analysis of Tax Cuts and Jobs Act of 2017.

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RESULTS OF OPERATIONS

(\$ in millions)	Year Ended December 31,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	\$	%	\$	%
				Change	Change	Change	Change
Equipment rental	\$1,658.3	\$1,499.0	\$1,352.7	\$159.3	10.6 %	\$146.3	10.8 %
Sales of rental equipment	256.2	190.8	122.5	65.4	34.3	68.3	55.8
Sales of new equipment, parts and supplies	49.3	52.3	68.2	(3.0)	(5.7)	(15.9)	(23.3)
Service and other revenue	12.9	12.4	11.4	0.5	4.0	1.0	8.8
Total revenues	1,976.7	1,754.5	1,554.8	222.2	12.7	199.7	12.8
Direct operating	788.9	719.8	655.9	69.1	9.6	63.9	9.7
Depreciation of rental equipment	387.5	378.9	350.5	8.6	2.3	28.4	8.1
Cost of sales of rental equipment	244.3	192.0	144.0	52.3	27.2	48.0	33.3
Cost of sales of new equipment, parts and supplies	37.7	39.5	53.0	(1.8)	(4.6)	(13.5)	(25.5)
Selling, general and administrative	312.6	320.2	275.3	(7.6)	(2.4)	44.9	16.3
Impairment	0.1	29.7	—	(29.6)	(99.7)	29.7	NM
Interest expense, net	137.0	140.0	84.2	(3.0)	(2.1)	55.8	66.3
Other income, net	(0.2)	(1.2)	(3.2)	1.0	(83.3)	2.0	(62.5)
Income (loss) before income taxes	68.8	(64.4)	(4.9)	133.2	206.8	(59.5)	NM
Income tax benefit (provision)	0.3	224.7	(14.8)	(224.4)	(99.9)	239.5	NM
Net income (loss)	\$69.1	\$160.3	\$(19.7)	\$(91.2)	(56.9)%	\$180.0	NM

NM - Not Meaningful

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Equipment rental revenue increased \$159.3 million, or 10.6%, during the year ended December 31, 2018 when compared with 2017. The increase was attributable to a higher level of equipment on rent resulting from higher demand from existing customers, diversifying and growing our customer base and improving our product mix, including through increases in our ProSolutions™ and ProContractor product offerings. Additionally, pricing increased by 2.9% during the year ended December 31, 2018 when compared to 2017.

Sales of rental equipment increased \$65.4 million, or 34.3%, during the year ended December 31, 2018 when compared with 2017 as we increased the volume of sales to improve the equipment mix and reduce fleet age. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 95.4% during the year ended December 31, 2018 compared to 100.6% in 2017. The improvement in margin was due to improved pricing based on a strong market for used rental equipment.

Sales of new equipment, parts and supplies decreased \$3.0 million, or 5.7%, during the year ended December 31, 2018 when compared with 2017 driven by our overall reduction of new equipment sales programs. The cost of sales of new equipment, parts and supplies as a percentage of the related revenue was 76.5% during the year ended December 31, 2018 compared to 75.5% in 2017. The increase was due to the mix of the new equipment sold.

Direct operating expenses increased \$69.1 million, or 9.6%, during the year ended December 31, 2018 when compared with 2017 primarily due to the following:

Fleet and related expenses increased \$26.8 million primarily as a result of higher delivery and freight expense of \$9.2 million mainly due to an increase in deliveries associated with higher rental volume, partially offset by better management of transportation costs through the roll-out of a third-party logistics program during 2018. Equipment re-rent expense increased \$6.3 million to supplement our fleet to accommodate additional customer demand. Fuel expense increased by \$5.8 million driven by higher fuel prices and sales volume and insurance expense increased \$3.3 million due to certain claims during 2018.

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

Personnel-related expenses increased \$31.0 million as a result of continued investment in branch management to drive operational improvements and investments in branch operating personnel to support continued revenue growth.

Other direct operating costs increased \$11.3 million primarily due to increased depreciation and amortization of \$5.0 million primarily related to an increase in service vehicles and an increase in facilities expense of \$3.5 million. Additionally, restructuring expense increased by \$2.9 million due to the closure of several branches during 2018, primarily in Canada.

Depreciation of rental equipment increased \$8.6 million, or 2.3%, during the year ended December 31, 2018 when compared with 2017. The increase was due to a larger fleet size during the year ended December 31, 2018 when compared with 2017. The increase was partially offset by additional depreciation recognized during the year ended December 31, 2017, based on the reduction in residual values and the planned holding period of certain classes of assets, that did not recur during 2018.

Selling, general and administrative expenses decreased \$7.6 million, or 2.4%, during the year ended December 31, 2018 when compared with 2017. The decrease was primarily due to a decrease in Spin-Off related costs and professional fees of \$27.7 million partially offset by a \$17.3 million increase in variable compensation related to commissions and incentives to drive revenue growth.

Impairment charges of \$29.7 million were recorded during the year ended December 31, 2017. The impairments related to the write-off of intangible assets previously capitalized as part of the development of new financial and point of sale systems of \$25.3 million and the impairment of certain rental equipment of \$4.4 million that was deemed held for sale at December 31, 2017.

Interest expense, net decreased \$3.0 million, or 2.1%, during the year ended December 31, 2018 when compared with 2017 primarily due to a reduction in interest expense on the Notes of \$14.0 million resulting from lower average outstanding balances from the redemptions made in March and October 2017 and July 2018. Additionally, the loss on early extinguishment of debt on the redemption of the Notes was \$5.4 million in 2018 compared to \$11.4 million in 2017. Offsetting these decreases was an increase in interest expense on the ABL Credit Facility of \$12.8 million based on higher average outstanding borrowings and a higher average interest rate during the year ended December 31, 2018 compared to 2017 and an increase of \$5.5 million related to interest expense on our financing obligations that were established in the fourth quarter of 2017.

Income tax benefit was \$0.3 million during the year ended December 31, 2018 compared to \$224.7 million in the prior-year period. The reduction in income tax benefit in 2018 was primarily driven by the increase in pre-tax income to \$68.8 million, which was offset by an overall net benefit related to the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") of \$20.8 million. The income tax benefit during the year ended December 31, 2017 was primarily driven by an estimated \$207.1 million net benefit related to the 2017 Tax Act and a pre-tax loss of \$64.4 million.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Equipment rental revenue increased \$146.3 million, or 10.8%, during the year ended December 31, 2017 when compared with 2016. The increase was attributable to a higher level of rental equipment on rent resulting from higher

demand from existing customers as well as diversifying and growing our customer base, including through increases in our ProSolutionsTM and ProContractor product offerings. Additionally, pricing increased by 1.9% during the year ended December 31, 2017 as compared to 2016.

Sales of rental equipment increased \$68.3 million, or 55.8%, during the year ended December 31, 2017 when compared to 2016. During 2017, the level of rental equipment sold increased as part of our strategy to shift the mix of our fleet as well as higher sales due to the rotation of rental equipment based on normal holding periods. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 100.6% in 2017 compared to 117.6% in 2016. Losses on the sale of rental equipment decreased in 2017 as the volume of sales made through the lower-margin auction channel was reduced and shifted toward the wholesale channel. The loss on sale of rental equipment in 2016 was primarily due to the higher level of sales through the auction channel of equipment used in the upstream oil and gas markets and equipment manufactured by certain suppliers as we reduced the number of brands of equipment we carry in our fleet.

Sales of new equipment, parts and supplies decreased \$15.9 million, or 23.3%, during the year ended December 31, 2017 when compared with 2016. This decrease was driven by our implementation of changes to de-emphasize new equipment sales programs.

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

The cost of sales of new equipment, parts and supplies as a percentage of the related revenue was 75.5% for the year ended December 31, 2017 compared to 77.7% for 2016. The decrease was due to the mix of the new equipment sold.

Direct operating expenses increased \$63.9 million, or 9.7%, during the year ended December 31, 2017 when compared to 2016 primarily due to the following:

- Fleet and related expenses increased \$38.3 million primarily as a result of higher delivery and freight expense of \$17.6 million mainly due to an increase in deliveries associated with higher equipment rental revenue.
- Equipment re-rent expense increased \$7.3 million to supplement our fleet due to additional customer demand.
- Fuel expense increased by \$6.2 million driven by higher gas prices and sales volume during the year ended December 31, 2017 as compared to 2016. Additionally, maintenance expense increased by \$5.9 million in an effort to reduce our fleet unavailable for rent.

Personnel-related expenses increased \$21.9 million as a result of an increase in salary expense of \$17.6 million primarily associated with continued investment in branch management to drive operational improvements and investments in branch operating personnel to support revenue growth. Additionally, there was an increase in benefits expense of \$4.6 million primarily due to higher healthcare insurance costs as a stand-alone company.

Other direct operating costs increased \$3.7 million primarily due to increased depreciation of \$7.0 million related to the increase in service vehicles. These increases were partially offset by a decrease in restructuring expense of \$5.7 million resulting from charges taken for several location closures during 2016 and 2015.

Depreciation of rental equipment increased \$28.4 million, or 8.1%, during the year ended December 31, 2017 when compared with 2016. The increase was due to a larger fleet size during the year ended December 31, 2017 as compared to the same period in 2016 and an increase of \$18.0 million due to the impact of the 2016 reduction in residual values and the planned holding period of certain classes of equipment.

Selling, general and administrative expenses increased \$44.9 million, or 16.3%, during the year ended December 31, 2017 compared to 2016. The increase is primarily due to higher stand-alone public company costs and information technology costs related to the Spin-Off of \$19.8 million, a \$14.8 million increase for additional sales personnel and related commissions to drive revenue growth, and an \$8.5 million increase in provision for bad debt attributable to higher revenue and levels of receivables.

Impairment charges of \$29.7 million were recorded during the year ended December 31, 2017. The impairments related to the write-off of intangible assets previously capitalized as part of the development of new financial and point of sale systems of \$25.3 million and the impairment of certain rental equipment of \$4.4 million that was deemed held for sale at December 31, 2017. See Note 7, "Impairment" to the notes to our consolidated financial statements for further information.

Interest expense, net increased \$55.8 million, or 66.3%, during the year ended December 31, 2017 compared to the prior-year period due to interest incurred on the Notes issued in June 2016, an \$11.4 million loss on the early extinguishment of a portion of the Notes, and borrowings under the ABL Credit Facility. The increases were partially offset by decreases in interest on the predecessor asset-based revolving credit facility (the "Predecessor ABL Facility") and loans from THC and its affiliates, which were settled as part of the Spin-Off in June 2016.

Other income was \$2.0 million during the year ended December 31, 2017, primarily comprised of earnings from our joint ventures and proceeds received from insurance. Other income was \$3.2 million during the year ended December 31, 2016, primarily comprised of earnings from our joint ventures.

Income tax benefit was \$224.7 million during the year ended December 31, 2017 compared to an income tax provision of \$14.8 million in 2016. The income tax benefit during the year ended December 31, 2017 was primarily driven by an estimated \$207.1 million net benefit related to the enactment of the 2017 Tax Act and pre-tax losses. Income tax expense in 2016 included \$11.2 million of state taxes, primarily due to the Spin-Off, and \$3.2 million of non-deductible items and transaction costs related to the Spin-Off.

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

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 borrowings under our debt arrangements. As of December 31, 2018, we had approximately \$2.2 billion of total nominal indebtedness outstanding. We are highly leveraged and 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, 2018 consisted of cash and cash equivalents and unused commitments under our ABL Credit Facility. See "Borrowing Capacity and Availability" below. Our practice is to maintain sufficient liquidity through cash from operations, our 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 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,			2018 vs. 2017 vs. 2016	
	2018	2017	2016	\$ Change	\$ Change
Cash provided by (used in):					
Operating activities	\$559.1	\$349.1	\$433.4	\$210.0	\$(84.3)
Investing activities	(567.0)	(410.0)	(395.0)	(157.0)	(15.0)
Financing activities	(4.2)	70.1	(38.7)	(74.3)	108.8
Effect of exchange rate changes	(1.6)	1.3	(0.4)	(2.9)	1.7
Net change in cash and cash equivalents	\$(13.7)	\$10.5	\$(0.7)	\$(24.2)	\$11.2

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Operating Activities

During the year ended December 31, 2018, we generated \$210.0 million more cash from operating activities compared with 2017. The increase was related to higher pre-tax income during the year ended December 31, 2018 as compared 2017, primarily resulting from higher revenues and lower professional fees and other Spin-Off related costs and the timing of collections of accounts receivable based on increased collection efforts, during the year ended December 31, 2018 as compared to 2017.

Investing Activities

Cash used in investing activities increased \$157.0 million for the year ended December 31, 2018 as compared to 2017. 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.

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

Financing Activities

Cash used in financing activities was \$4.2 million for the year ended December 31, 2018 as compared to cash provided of \$70.1 million for 2017. Cash flows used in financing activities during the year ended December 31, 2018 primarily represents our changes in debt, which included the net proceeds of \$133.5 million on our revolving lines of credit and securitization, offset by the redemption of \$123.5 million of our Notes and \$17.0 million of payments on capital leases and financing obligations. Cash provided by financing activities for the year ended December 31, 2017 included the net draw down of \$222.7 million on our ABL Credit Facility and AR Facility and proceeds of \$119.5 million received from financing obligations, partially offset by the redemption of \$247.0 million of our Notes.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Operating Activities

During the year ended December 31, 2017, cash provided by operating activities decreased \$84.3 million compared to 2016. The decrease was primarily related to a \$61.0 million increase in interest payments as well as lower operating income resulting from higher information technology and other stand-alone public company costs, as well as the timing of collections of accounts receivable and payments of liabilities during the year ended December 31, 2017 as compared to 2016.

Investing Activities

Cash used in investing activities increased \$15.0 million during the year ended December 31, 2017 as compared to 2016. Our primary use of cash in investing activities is for the acquisition of rental equipment and non-rental capital expenditures, which increased primarily due to investments in our information technology, service vehicles and facilities, and was partially offset by a decrease in our investments in rental equipment. We renew our equipment and manage our fleet of rental equipment in line with customer demand. Changes in our net capital expenditures are described in more detail in the "Capital Expenditures" section below.

Financing Activities

Cash flows from financing activities increased \$108.8 million during the year ended December 31, 2017 as compared to 2016. Cash flows from financing activities during the year ended December 31, 2017 primarily represents our changes in debt, which included the net draw down of \$222.7 million on our revolving lines of credit and proceeds of \$119.5 million received from financing obligations, partially offset by the redemption of \$247.0 million of our Notes. Cash used in financing activities in 2016 mainly related to \$2.1 billion of financing and transfer activities with Hertz Holdings, which primarily funded our operations prior to the Spin-Off and was settled using total proceeds of \$2.1 billion, net of issuance costs, from our Notes and ABL Credit Facility.

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,		
	2018	2017	2016
Rental equipment expenditures	\$771.4	\$501.4	\$468.3
Disposals of rental equipment	(272.3)	(160.1)	(115.4)
Net rental equipment expenditures	\$499.1	\$341.3	\$352.9

Net capital expenditures for rental equipment increased \$157.8 million during the year ended December 31, 2018 compared to 2017. During 2018, we purchased more rental equipment to increase the amount of equipment available for rent based on higher demand from our customers, with increased purchases in our ProSolutions™ and ProContractor equipment. We also sold more rental equipment to improve the equipment mix and reduce fleet age.

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

Net capital expenditures for rental equipment decreased \$11.6 million during the year ended December 31, 2017 compared to 2016. During 2017, we purchased more rental equipment as part of our fleet mix transformation out of large earthmoving equipment and into more compact earthmoving, ProSolutions™ and ProContractor equipment. Our disposals also increased in 2017 due to a shift in the mix and rotation of our fleet.

In 2019, we expect our net rental equipment capital expenditures to be in the range of \$370.0 million to \$410.0 million.

Borrowing Capacity and Availability

Our ABL Credit Facility and AR Facility (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 the obligations of the Company or any of its other subsidiaries. Substantially all of the remaining assets of Herc and certain of its U.S. and Canadian subsidiaries are encumbered in favor of our lenders under our ABL Credit Facility and the Notes and, as such, are generally not available to satisfy the claims of our general creditors. See Note 9, "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).

As of December 31, 2018, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 640.2	\$ 640.2
AR Facility	—	—
Total	\$ 640.2	\$ 640.2

At December 31, 2018, the Company's borrowing base was capped at \$175.0 million by the aggregate commitments under the AR Facility. Subsequent to December 31, 2018, the borrowing base under the AR Facility declined to \$159.1 million.

In addition, as of December 31, 2018, the Company's subsidiary in China had uncommitted credit facilities of which \$5.4 million was available for borrowing.

As of December 31, 2018, \$24.6 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which had been drawn upon. The ABL Credit Facility had \$225.4 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Covenants

Our ABL Credit Facility, AR Facility and our 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,

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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 ABL Credit Facility, our AR Facility and our Notes, we are not subject to ongoing financial maintenance covenants; however, under the 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, 2018, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

At December 31, 2018, Herc Holdings' balance sheet was substantially identical to that of Herc, the borrower, with the exception of the components of shareholders equity. For the years ended December 31, 2018 and 2017, the statements of operations of Herc Holdings and Herc were identical.

For further information on the terms of our Notes, ABL Credit Facility and AR Facility see Note 9, "Debt" included in Part I, Item 1 "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.

CONTRACTUAL OBLIGATIONS

The following table details the contractual cash obligations for debt and related interest payable, capital and operating leases, and other purchase obligations as of December 31, 2018 (in millions):

	Payments Due by Period				
	Total	2019	2020-2021	2022-2023	After 2023
Debt principal, including current maturities	\$2,129.3	\$4.6	\$ 1,260.2	427.0	\$437.5
Interest on debt ^(a)	425.4	120.8	209.3	81.2	14.1
Financing obligations ^(b)	159.6	8.5	17.0	17.0	117.1
Capital lease obligations ^(c)	40.3	23.6	14.5	2.2	—
Operating lease obligations ^(d)	202.2	34.6	53.0	38.8	75.8
Purchase obligations ^(e)	18.3	8.3	8.2	1.8	—
Total	\$2,975.1	\$200.4	\$ 1,562.2	\$ 568.0	\$644.5

(a) Estimated interest payments have been calculated based on the applicable interest rates as of December 31, 2018.

(b) Includes obligations under financing agreements primarily for the lease of 44 properties. See Note 10, "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 14, "Leases " to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Includes obligations under lease agreements for real estate and office and computer equipment. Such obligations (d) are reflected to the extent of their minimum non-cancelable terms. See Note 14, "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 11, "Employee Retirement Benefits" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of December 31, 2018 and 2017, 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 21, "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.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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

Rental Equipment

Our principal assets are rental equipment, which represented 69.4% and 66.9% of our total assets as of December 31, 2018 and 2017, 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.

Defined Benefit Pension Obligations

Prior to the Spin-Off, we participated in certain THC-sponsored 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 recorded our portion of the expense and the related obligations which were actuarially determined and the assets were allocated proportionally. In July 2016, we established the Herc Holdings Retirement Plan (the "Plan"). All assets and liabilities under the THC-sponsored plans attributable to current and former employees of the equipment rental business were transferred to the Plan following the Spin-Off. 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 11, "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

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HERC HOLDINGS INC. AND SUBSIDIARIES

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

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.

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, 2018, 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 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 to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Income Taxes

For the first half of 2016, we were included in the consolidated income tax returns of Hertz Holdings. 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 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 when it is more likely than not that a tax benefit will not 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 taxing authorities may examine the positions that led to the generation of those net operating losses. If the utilization of any of those losses are disallowed, a deferred tax asset may have to be reduced.

See Note 13, "Income Taxes" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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

Financial Instruments

We are exposed to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. We manage exposure to these market risks through regular operating and financing activities 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. In addition, 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. We account for all financial instruments 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, we designate 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.

Stock Based Compensation

For all periods presented prior to the Spin-Off, all stock-based compensation awards held by our employees were granted by Hertz Holdings, under various Hertz Holdings' sponsored plans, based on the common stock of Hertz Holdings. In connection with the Spin-Off, outstanding equity awards were adjusted and converted in accordance with a formula designed to preserve the intrinsic economic value of the original equity awards after taking into account the Spin-Off and the reverse stock split. 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 corporate EBITDA, 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 12, "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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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 ABL Credit Facility, AR Facility and cash and cash equivalents as of December 31, 2018, our pre-tax earnings would decrease by an estimated \$12.3 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. See Note 17, "Financial Instruments" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

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 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, Euro, Chinese yuan and British pound.

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 possible, 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, 2018, each hypothetical one percentage point change in foreign currency movements would not have a significant impact on our revenue or earnings.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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, 2018 and 2017, 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, 2018, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2018 appearing on page 91 (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

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 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.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
February 28, 2019

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

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HERC HOLDINGS INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In millions, except par value)

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 27.8	\$41.5
Receivables, net of allowances of \$21.5 and \$26.9, respectively	332.4	386.3
Inventory	17.9	23.7
Prepaid and other current assets	22.3	23.0
Total current assets	400.4	474.5
Rental equipment, net	2,504.7	2,374.6
Property and equipment, net	282.5	286.3
Intangible assets, net	293.5	283.9
Goodwill	91.0	91.0
Other long-term assets	38.1	39.4
Total assets	\$ 3,610.2	\$3,549.7
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	\$ 29.9	\$25.4
Accounts payable	147.0	152.0
Accrued liabilities	122.3	113.3
Total current liabilities	299.2	290.7
Long-term debt, net	2,129.9	2,137.1
Financing obligations, net	116.3	112.9
Deferred tax liabilities	448.3	462.8
Other long-term liabilities	43.8	35.8
Total liabilities	3,037.5	3,039.3
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, 31.2 and 31.1 shares issued and 28.5 and 28.3 shares outstanding	0.3	0.3
Additional paid-in capital	1,777.9	1,763.1
Accumulated deficit	(391.1) (462.4)
Accumulated other comprehensive loss	(122.4) (98.6)
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0) (692.0)
Total equity	572.7	510.4
Total liabilities and equity	\$ 3,610.2	\$3,549.7

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

Table of ContentsHERC HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Years Ended December 31,		
	2018	2017	2016
Revenues:			
Equipment rental	\$1,658.3	\$1,499.0	\$1,352.7
Sales of rental equipment	256.2	190.8	122.5
Sales of new equipment, parts and supplies	49.3	52.3	68.2
Service and other revenue	12.9	12.4	11.4
Total revenues	1,976.7	1,754.5	1,554.8
Expenses:			
Direct operating	788.9	719.8	655.9
Depreciation of rental equipment	387.5	378.9	350.5
Cost of sales of rental equipment	244.3	192.0	144.0
Cost of sales of new equipment, parts and supplies	37.7	39.5	53.0
Selling, general and administrative	312.6	320.2	275.3
Impairment	0.1	29.7	—
Interest expense, net	137.0	140.0	84.2
Other income, net	(0.2)	(1.2)	(3.2)
Total expenses	1,907.9	1,818.9	1,559.7
Income (loss) before income taxes	68.8	(64.4)	(4.9)
Income tax benefit (provision)	0.3	224.7	(14.8)
Net income (loss)	\$69.1	\$160.3	\$(19.7)
Weighted average shares outstanding:			
Basic	28.4	28.3	28.3
Diluted	28.9	28.6	28.3
Earnings (loss) per share:			
Basic	\$2.43	\$5.66	\$(0.70)
Diluted	\$2.39	\$5.60	\$(0.70)

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

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

	Years Ended December		
	31,		
	2018	2017	2016
Net income (loss)	\$69.1	\$160.3	\$(19.7)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(20.0)	17.7	15.8
Unrealized gains and (losses) on hedging instruments:			
Unrealized gains on hedging instruments	1.5	2.1	—
Income tax provision related to hedging instruments	(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	2.3	1.4
Pension and postretirement benefit liability adjustments arising during the period	(5.6)	—	0.1
Income tax benefit (provision) related to pension and postretirement plans	1.0	(1.2)	(0.6)
Total other comprehensive income (loss)	(21.6)	20.1	16.7
Total comprehensive income (loss)	\$47.5	\$180.4	\$(3.0)

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

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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	
Balance at:	Share	Amount					
December 31, 2015	28.2	\$ 0.3	\$3,734.6	\$ (605.5)	\$ (135.4)	\$ (692.0)	\$2,302.0
Net loss	—	—	—	(19.7)	—	—	(19.7)
Other comprehensive income	—	—	—	—	16.7	—	16.7
Net settlement on vesting of equity awards	—	—	(0.5)	—	—	—	(0.5)
Stock-based compensation charges	—	—	5.5	—	—	—	5.5
Exercise of stock options and other	0.1	—	10.0	—	—	—	10.0
Distribution and net transfers to THC	—	—	(1,996.3)	—	—	—	(1,996.3)
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 13)	—	—	—	2.2	(2.2)	—	—
Other comprehensive income	—	—	—	—	(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

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

Table of ContentsHERC HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December		
	31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	\$69.1	\$160.3	\$(19.7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of rental equipment	387.5	378.9	350.5
Depreciation of property and equipment	51.9	46.8	39.7
Amortization of intangible assets	5.4	4.7	5.1
Amortization of deferred debt and financing obligations costs	6.3	6.4	5.6
Stock-based compensation charges	13.4	10.1	5.5
Impairment	0.1	29.7	—
Provision for receivables allowance	57.8	52.4	44.4
Deferred taxes	(10.5)	(228.4)	12.3
Loss (gain) on sale of rental equipment	(11.9)	1.2	21.5
Income from joint ventures	(1.6)	(1.9)	(2.3)
Other	3.8	5.8	8.6
Changes in assets and liabilities:			
Receivables	(29.9)	(131.6)	(59.2)
Inventory, prepaid and other assets	1.8	(2.1)	(19.0)
Accounts payable	(1.7)	(10.0)	9.2
Accrued liabilities and other long-term liabilities	17.6	26.8	31.2
Net cash provided by operating activities	559.1	349.1	433.4
Cash flows from investing activities:			
Rental equipment expenditures	(771.4)	(501.4)	(468.3)
Proceeds from disposal of rental equipment	272.3	160.1	115.4
Non-rental capital expenditures	(77.6)	(74.6)	(47.8)
Proceeds from disposal of property and equipment	9.7	5.9	5.7
Net cash used in investing activities	(567.0)	(410.0)	(395.0)

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

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

	Years Ended December		
	31,		
	2018	2017	2016
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	—	1,235.0
Repayments of long-term debt	(123.5)	(247.0)	—
Proceeds from revolving lines of credit and securitization	737.5	561.9	1,791.0
Repayments on revolving lines of credit and securitization	(604.0)	(339.2)	(881.0)
Proceeds from financing obligations	6.4	119.5	—
Principal payments under capital lease and financing obligations	(17.0)	(16.7)	(12.4)
Debt extinguishment costs	(3.7)	(7.4)	—
Payment of financing obligation and debt financing costs	(1.3)	(2.7)	(41.5)
Proceeds from exercise of stock options and other	0.5	0.7	10.0
Proceeds from employee stock purchase plan	2.0	1.1	—
Net settlement on vesting of equity awards	(1.1)	(0.1)	(0.5)
Distributions and net transfers to THC	—	—	(2,071.9)
Net financing activities with affiliates	—	—	(67.4)
Net cash provided by (used in) financing activities	(4.2)	70.1	(38.7)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(1.6)	1.3	(0.4)
Net increase (decrease) in cash, cash equivalents and restricted cash during the period	(13.7)	10.5	(0.7)
Cash, cash equivalents and restricted cash at beginning of period	41.5	31.0	31.7
Cash, cash equivalents and restricted cash at end of period	\$27.8	\$41.5	\$31.0
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$129.3	\$131.7	\$70.7
Cash paid (refunded) for income taxes, net	\$13.4	\$(5.5)	\$2.9
Supplemental disclosures of non-cash investing activity:			
Purchases of rental equipment in accounts payable	\$—	\$22.8	\$15.1
Disposals of rental equipment in accounts receivable	\$—	\$12.6	\$—
Non-rental capital expenditures in accounts payable	\$—	\$—	\$7.8
Supplemental disclosures of non-cash financing activity:			
Non-cash settlement of transactions with THC through equity	\$—	\$2.0	\$75.6
Supplemental disclosures of non-cash investing and financing activity:			
Equipment acquired through capital lease	\$2.6	\$0.4	\$20.3

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

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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 270 locations as of December 31, 2018, 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™, 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."

For accounting purposes, due to the relative significance of New Hertz to Hertz Holdings, New Hertz was considered the spinor or divesting entity in the Spin-Off and Herc Holdings was considered the spinnee or divested entity. As a result, despite the legal form of the transaction, New Hertz was the "accounting successor" to Hertz Holdings. Under the accounting rules, the historical financial information of New Hertz is required to reflect the financial information of Hertz Holdings, as if New Hertz spun off Herc Holdings in the Spin-Off. In contrast, the historical financial information of Herc Holdings, including certain information presented in this Report, reflects the financial information of the equipment rental business and certain parent legal entities of Herc as historically operated as part of Hertz Holdings, as if Herc Holdings was a stand-alone company for all periods presented. The historical financial information of the Company presented in these consolidated financial statements is not necessarily indicative of what the Company's results of operations actually would have been had it operated as a separate, independent company for the year ended December 31, 2016.

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, accounting for income taxes, and prior to the Spin-off allocated general corporate expenses from THC, among others.

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The Company accounts for its investments in joint ventures using the equity method when it has significant influence but not control and is not the primary beneficiary. All significant intercompany transactions have been eliminated in consolidation.

Stock Split

On June 30, 2016, the Company effected a 1-for-15 reverse stock split. The reverse stock split reduced the number of authorized shares of common stock and preferred stock to 133.3 million and 13.3 million, respectively. All share data and per share amounts have been retroactively adjusted for the reverse stock split in the accompanying consolidated financial statements and notes thereto for the year ended December 31, 2016.

Reclassifications

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

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, 2018, 2017 and 2016. As of December 31, 2018 and 2017, no single customer accounted for more than 3% 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.

Inventory

Inventory is comprised of finished goods and consists of new equipment, supplies, tools, parts, fuel and related supply items. Inventory is stated at the lower of cost and net realizable value. Cost is determined by inventory type on the average cost method.

Rental Equipment

Rental equipment is stated at cost, net of related discounts, with holding periods ranging from two 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

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Useful lives are as follows:

Buildings	8 to 33 years
Service vehicles	3 to 13 years
Machinery and equipment	1 to 15 years
Computer equipment	1 to 5 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	The lesser of the economic life or the lease term

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

The Company leases certain property and equipment used in operations.

If the lease is considered an operating lease, it is not recorded on the balance sheet and rent expense is recognized on a straight-line basis over the expected lease term.

Certain property and equipment are held under capital leases. These assets are included in property and equipment and depreciated over the term of the lease. Rent expense is not recognized for a capital lease. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense.

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 rental 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. Rent 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

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 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 to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Revenue Recognition

Equipment rental revenue is recognized under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 840, Leases, ("Topic 840"). 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 following addresses our primary revenue types based on the accounting standard used to determine the accounting.

Topic 840

Equipment rental - 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 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 and are recognized on a straight-line basis over the length of the rental contract.

Topic 606

Delivery and pick-up

Delivery and pick-up revenue associated with renting equipment is recognized when the services are performed.

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.

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2018, 2017 and 2016, advertising costs were \$1.0 million, \$2.7 million and \$3.6 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.

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's operations are subject to U.S. federal, state and local, and foreign income taxes, portions of which have historically been included in the Hertz Holdings consolidated U.S. federal income tax return, along with certain state and local and foreign income tax returns. In preparing its combined financial statements for periods prior to the Spin-Off, the Company has determined the tax provision for those operations that are included in the Hertz Holdings consolidated tax return on a separate company return basis, assuming that the Company had filed on a stand-alone basis separate from Hertz Holdings ("Separate Return Basis").

The current and deferred tax related balances and related tax carryforwards reflected in the Company's combined financial statements for periods prior to the Spin-Off have been determined on a Separate Return Basis. As a result, the tax balances and carryforwards on the Company's tax returns post Spin-Off, including net operating losses and tax credits, will be different from those reflected in the combined financial statements. In addition, as a consequence of the Company's inclusion in the Hertz Holdings' consolidated income tax returns, the Company is severally liable, with other members of the consolidated group, for any additional taxes that may be assessed. There are no unrecognized tax benefits based on the Herc operations prior to the Spin-Off reflected in these combined financial statements.

The Company's Like-Kind Exchange Program ("LKE Program") was in place for several years. Pursuant to the program, the Company disposed of equipment and acquired replacement equipment in a form intended to allow such dispositions and replacements to qualify as tax-deferred "like-kind exchanges" pursuant to Section 1031 of the Internal Revenue Code ("Section 1031"). The program had resulted in deferral of federal and state income taxes in prior years. The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") eliminated the eligibility of personal property for Section 1031 treatment. The 2017 Tax Act also enacted an election to immediately expense all purchases of new and used personal property placed in service after September 27, 2017. As a result of the 2017 Tax Act, the Company ceased its LKE Program and therefore reflects zero restricted cash as of December 31, 2017.

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 and laws that will be in effect when the differences are expected to reverse. 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 a valuation allowance to reduce its deferred tax assets to 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 any related valuation allowances. Provisions are not made for income taxes

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 based on the technical merits of the positions. The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

The 2017 Tax Act, which was enacted in December 2017, had a substantial impact on the income tax benefit for the years ended December 31, 2018 and 2017. See Note 13, "Income Taxes" for further detail.

Recently Issued Accounting Pronouncements

Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that replaced existing revenue recognition guidance in U.S. GAAP. The new guidance requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company did not record any amount to the opening balance of retained earnings as of January 1, 2018 as the cumulative impact of adopting the guidance was not material. The comparative financial statement information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the guidance had no material impact on the Company's consolidated balance sheet as of January 1, 2018. The Company's accounting for equipment rental revenue is primarily outside the scope of this new revenue guidance and will be evaluated under the new lease guidance which is described further under the subheading "Leases" below.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued guidance to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the year ended December 31, 2017 by reclassifying \$7.4 million of debt extinguishment costs from cash used in operating activities to cash used in financing activities.

Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued guidance requiring an entity to recognize upon transfer the income tax consequences of an intra-entity transfer of an asset other than inventory, eliminating the current recognition exception. Two common examples of assets included in the scope of this standard are intellectual property and property, plant and equipment. The Company adopted this guidance on January 1, 2018 in accordance with the effective date. Adoption of this guidance did not have a significant impact on the Company's financial position, results of operations

or cash flows.

Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued guidance requiring restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the years ended December 31, 2017 and 2016 accordingly.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs

In March 2017, the FASB issued guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The guidance requires the reporting of the service cost

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HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

component of the net periodic benefit costs in the same income statement line item as other components of net periodic costs arising from services rendered by an employee during the period, and that non-service-cost components be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The guidance also allows for the capitalization of the service cost components, when applicable. The Company adopted this guidance on January 1, 2018 in accordance with the effective date. Adoption of this guidance resulted in an immaterial reclassification of costs from "Direct operating" and "Selling, general and administrative" expense into "Other income, net" in the Company's statement of operations.

Compensation - Stock Compensation

In May 2017, the FASB issued guidance pursuant to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the updated guidance, a modification is defined as a change in the terms or conditions of a share-based payment award, and an entity should account for the effects of a modification unless all of the following are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation techniques that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The guidance requires prospective application to an award modified on or after the adoption date. The Company adopted the new guidance on January 1, 2018 in accordance with the effective date and will apply the guidance to any future changes to the terms or conditions of its share-based payment awards.

Income Statement - Reporting Comprehensive Income

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 December 31, 2018.

Not Yet Adopted

Leases

In February 2016, the FASB issued new leasing guidance ("Topic 842") that replaces the existing lease guidance. Topic 842 establishes 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 will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also expands 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. Topic 842 is

effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods using a modified retrospective transition approach.

The Company will adopt Topic 842 on its effective date of January 1, 2019 and expects to recognize additional lease liabilities of approximately \$166.0 million, with corresponding ROU assets on its balance sheet. The Company does not expect this guidance to have a material impact on its results of operations and cash flows. 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 existing capital leases will be accounted for as finance leases upon adoption and the Company does not expect any significant changes to the accounting for such leases upon adoption.

The Company plans to use the transition method that allows it to apply the guidance as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings, which the Company does not expect to be material. Additionally, Topic 842 will not be applied to periods prior to adoption and the adoption will have no impact on our previously

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reported results. The Company also plans to take advantage of the transition package of practical expedients permitted within Topic 842 which allows 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 also expects to use the practical expedient that allows lessees to treat the lease and non-lease components of leases as a single lease component.

The Company has implemented a lease management system to assist in the accounting and is evaluating additional changes to its processes and internal controls to ensure the new reporting and disclosure requirements are met upon adoption.

Additionally, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenues will be accounted for under the current lease accounting standard, Topic 840, until the adoption of Topic 842. The Company is still evaluating the impact of adoption of Topic 842 on certain of its equipment rental revenues and expects to recognize a cumulative-effect adjustment to the opening balance of retained earnings related to these items. The Company expects Topic 842 to have an immaterial impact on future revenues.

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 88.9%, 88.2% and 87.6% of total revenue for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company's rental transactions are principally accounted for 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 ASC Topic 606. Prior to the adoption of Topic 606, the Company accounted for these non-rental transactions under ASC Topic 605.

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

	Year Ended December 31,								
	2018			2017			2016		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total	Topic 840	Topic 605	Total
Revenues:									
Equipment rental	\$1,509.7	\$—	\$1,509.7	\$1,372.3	\$—	\$1,372.3	\$1,247.1	\$—	\$1,247.1
Other rental revenue:									
Delivery and pick-up	—	88.4	88.4	—	75.2	75.2	—	66.9	66.9
Other	60.2	—	60.2	51.5	—	51.5	38.7	—	38.7
Total other rental revenues	60.2	88.4	148.6	51.5	75.2	126.7	38.7	66.9	105.6
Total equipment rentals	1,569.9	88.4	1,658.3	1,423.8	75.2	1,499.0	1,285.8	66.9	1,352.7
Sales of rental equipment	—	256.2	256.2	—	190.8	190.8	—	122.5	122.5
Sales of new equipment, parts and supplies	—	49.3	49.3	—	52.3	52.3	—	68.2	68.2

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Service and other revenues	—	12.9	12.9	—	12.4	12.4	—	11.4	11.4
Total revenues	\$1,569.9	\$406.8	\$1,976.7	\$1,423.8	\$330.7	\$1,754.5	\$1,285.8	\$269.0	\$1,554.8

Topic 840 revenues

Equipment Rental Revenue

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

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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,		
	2018	2017	2016
Sales of rental equipment	\$256.2	\$190.8	\$122.5
Sales of new equipment	21.3	26.9	38.4
Sales of parts and supplies	28.0	25.4	29.8
Total	\$305.5	\$243.1	\$190.7

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 \$19.5 million as of December 31, 2018.

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.

Receivables and contract assets and liabilities

Most of the Company's equipment rental revenue is accounted for under Topic 840. 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 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

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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 contract assets or material 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 during the year ended December 31, 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 year ended December 31, 2018 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 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):

	December 31, December	
	2018	31, 2017
Rental equipment	\$ 3,840.7	\$3,757.2
Less: Accumulated depreciation	(1,336.0)	(1,382.6)
Rental equipment, net	\$ 2,504.7	\$2,374.6

Depreciation rates on the Company's rental equipment 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 estimated holding periods. The impact of depreciation rate changes increased expense \$0.7 million, \$18.0 million

and \$9.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

During 2017, the Company deemed certain rental equipment, with a net book value of approximately \$4.3 million, to be held for sale and reclassified such equipment to "Prepaid and other current assets" in the consolidated balance sheet as of December 31, 2017. The Company also performed an impairment assessment of rental equipment and recorded an impairment charge during the year ended December 31, 2017, as discussed further in Note 7, "Impairment." These assets were sold in April 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5—Property and Equipment

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

	December 31, December 31,	
	2018	2017
Land and buildings	\$ 120.2	\$ 123.5
Service vehicles	258.6	260.4
Leasehold improvements	89.1	74.4
Machinery and equipment	27.3	25.7
Computer equipment and software	64.8	58.4
Furniture and fixtures	14.6	11.8
Construction in progress	6.2	20.2
Property and equipment, gross	580.8	574.4
Less: accumulated depreciation	(298.3)	(288.1)
Property and equipment, net	\$ 282.5	\$ 286.3

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 was \$51.9 million, \$46.8 million and \$39.7 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 under capital leases. Depreciation of assets held under capital leases is included in depreciation expense. The gross amounts of property and equipment and related depreciation recorded under capital leases, included in service vehicles in the table above, were as follows (in millions):

	December 31, December 31,	
	2018	2017
Service vehicles	\$ 87.7	\$ 107.4
Less: accumulated depreciation	(50.3)	(55.2)
	\$ 37.4	\$ 52.2

The Company has entered into financing obligations to lease certain of its properties as discussed further in Note 10, "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):

	December 31, December 31,	
	2018	2017
Land, building and leasehold improvements	\$ 76.6	\$ 70.1
Less: accumulated depreciation	(32.7)	(25.7)
	\$ 43.9	\$ 44.4

Note 6—Goodwill and Intangible Assets

Goodwill

The Company performed its annual goodwill impairment test and determined that no impairment existed for the years ended December 31, 2018 and 2017.

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

	Year Ended	
	December 31,	
	2018	2017
Balance at the beginning and end of the period:		
Goodwill	\$765.9	\$765.9
Accumulated impairment losses	(674.9)	(674.9)
	\$91.0	\$91.0

Intangible Assets

The Company performed its annual impairment test of indefinite-lived intangible assets and determined that no impairment existed for the years ended December 31, 2018 and 2017. The Company also reviewed its finite-lived intangible assets for impairment and determined that certain assets were impaired during the year ended December 31, 2017 as further discussed in Note 7, "Impairment." There was no impairment of finite-lived intangible assets in 2018.

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

	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 ^(a)	30.4	(10.5)	19.9
Total	41.8	(18.3)	23.5
Indefinite-lived intangible assets:			
Trade name	270.0	—	270.0
Total intangible assets, net	\$311.8	\$ (18.3)	\$ 293.5

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

	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related	\$14.8	\$ (9.4)	\$ 5.4
Internally developed software ^(a)	19.3	(6.8)	12.5
Total	34.1	(16.2)	17.9
Indefinite-lived intangible assets:			
Trade name	266.0	—	266.0
Total intangible assets, net	\$300.1	\$ (16.2)	\$ 283.9

(a) Includes capitalized costs of \$5.4 million yet to be placed into service.

Amortization of intangible assets for the years ended December 31, 2018, 2017 and 2016 was approximately \$5.4 million, \$4.7 million and \$5.1 million, respectively. Based on the amortizable assets in-service as of December 31,

2018, the Company expects amortization expense to be approximately \$6.5 million in 2019, \$6.1 million in 2020, \$5.2 million in 2021, \$3.1 million in 2022 and \$1.7 million in 2023.

Note 7—Impairment

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.

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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—Accrued Liabilities

Accrued liabilities consists of the following (in millions):

	December 31, December 31,	
	2018	2017
Accrued compensation and benefit costs	\$ 32.1	\$ 27.5
National accounts accrual	30.3	29.7
Accrued property, sales, use and other related taxes	15.7	14.8
Accrued interest	7.2	7.5
Customer related deferrals	9.6	7.7
Self-insurance reserves	8.0	6.2
Income taxes payable	5.5	7.1
Other	13.9	12.8
Total accrued liabilities	\$ 122.3	\$ 113.3

Note 9—Debt

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

	Weighted Average Effective Interest Rate at December 31, 2018	Weighted Average Stated Interest Rate at December 31, 2018	Fixed or Floating Interest Rate	Maturity	December 31, December 31, 2018 2017	
Senior Secured Second Priority Notes						
2022 Notes	7.88%	7.50%	Fixed	2022	\$ 427.0	\$ 488.0
2024 Notes	8.06%	7.75%	Fixed	2024	437.5	500.0
Other Debt						
ABL Credit Facility	N/A	4.46%	Floating	2021	1,085.2	1,130.0
AR Facility	N/A	3.29%	Floating	2020	175.0	—
Capital leases	4.15%	N/A	Fixed	2019-2023	38.1	53.7
Other borrowings	N/A	4.79%	Floating	2019	4.6	2.6
Unamortized Debt Issuance Costs ^(a)					(10.6) (14.5)
Total debt					2,156.8	2,159.8
					(26.9) (22.7)

Less: Current maturities of long-term debt		
Long-term debt, net	\$ 2,129.9	\$ 2,137.1

Unamortized debt issuance costs totaling \$10.4 million and \$13.3 million related to the ABL Credit Facility and, as (a) of December 31, 2018, the AR Facility (as each is defined below) are included in "Other long-term assets" in the consolidated balance sheet as of December 31, 2018 and December 31, 2017, respectively.

The effective interest rates for the fixed rate 2022 Notes and 2024 Notes (as defined below) include the stated interest on the notes and the amortization of any debt issuance costs.

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Maturities

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

2019	\$26.9
2020	187.4
2021	1,086.5
2022	428.4
2023	0.7
After 2023	437.5
Total	\$2,167.4

The Company is highly leveraged and its 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 asset-based revolving credit facility (the "ABL Credit Facility") will be adequate to permit the Company to meet its obligations over the next 12 months.

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 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"). The funds were used to: (i) finance the Spin-Off and make a cash transfer to New Hertz and its affiliates in connection therewith and (ii) pay fees and other transaction expenses in connection therewith.

The following summarizes other significant terms and conditions of the Notes:

Interest

Interest on the 2022 Notes accrues at the rate of 7.50% per annum and is payable semi-annually in arrears on June 1 and December 1. The 2022 Notes mature on June 1, 2022. Interest on the 2024 Notes accrues at the rate of 7.75% per annum and is payable semi-annually in arrears on June 1 and December 1. The 2024 Notes mature on June 1, 2024.

Guarantees

The Notes are guaranteed, on a senior secured basis, by each wholly-owned domestic subsidiary of Herc, subject to certain exceptions. The guarantee of each subsidiary is a senior secured obligation of that subsidiary.

Collateral

Substantially all of the assets of Herc and certain of its U.S. and Canadian subsidiaries are encumbered in favor of Herc's lenders under the terms of the indenture dated as of June 9, 2016 (the "Indenture"), among Herc, as issuer, and

Wilmington Trust National Association, as trustee and note collateral agent, and the related collateral documents. The security interests in the collateral may be released without the consent of the holders of the Notes if collateral is disposed of in a transaction that complies with the terms of the Indenture and the related collateral documents, and will be released, so long as any obligations under the ABL Credit Facility are outstanding, upon the release of all liens on such collateral securing the obligations under the ABL Credit Facility obligations.

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Redemption

Herc may redeem the 2022 Notes, in whole or in part, at any time prior to June 1, 2019, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, plus the applicable make-whole premium. Herc may redeem the 2022 Notes, in whole or in part, at any time (i) on or after June 1, 2019 and prior to June 1, 2020, at a price equal to 103.750% of the principal amount of the 2022 Notes, (ii) on or after June 1, 2020 and prior to June 1, 2021, at a price equal to 101.875% of the principal amount of the 2022 Notes, and (iii) on or after June 1, 2021, at a price equal to 100% of the principal amount of the 2022 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time prior to June 1, 2019, Herc at its option may redeem up to 40% of the original aggregate principal amount of the 2022 Notes with the proceeds of one or more equity offerings at a redemption price of 107.500%, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Herc may redeem the 2024 Notes, in whole or in part, at any time prior to June 1, 2019, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, plus the applicable make-whole premium. Herc may redeem the 2024 Notes, in whole or in part, at any time (i) on or after June 1, 2019 and prior to June 1, 2020, at a price equal to 105.813% of the principal amount of the 2024 Notes, (ii) on or after June 1, 2020 and prior to June 1, 2021, at a price equal to 103.875% of the principal amount of the 2024 Notes, (iii) on or after June 1, 2021 and prior to June 1, 2022, at a price equal to 101.938% of the principal amount of the 2024 Notes and (iv) on or after June 1, 2022, at a price equal to 100% of the principal amount of the 2024 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time prior to June 1, 2019, Herc at its option may redeem up to 40% of the original aggregate principal amount of the 2024 Notes with the proceeds of one or more equity offerings at a redemption price of 107.750%, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

On July 12, 2018, for the redemption period from June 1, 2018 to May 31, 2019, Herc drew down on its ABL Credit Facility and redeemed \$61.0 million in aggregate principal amount of the 2022 Notes and \$62.5 million in aggregate principal amount of the 2024 Notes and recorded a \$5.4 million loss on the early extinguishment of debt, comprised of a 3% cash premium totaling \$3.7 million and a non-cash charge of \$1.7 million for the write-off of unamortized debt issuance costs. The loss on early extinguishment of debt is included in "Interest expense, net" in the Company's consolidated statement of operations.

In March and October 2017, Herc drew down on its ABL Credit Facility and cumulatively redeemed \$122.0 million in aggregate principal amount of the 2022 Notes and \$125.0 million in aggregate principal amount of the 2024 Notes and recorded an \$11.4 million loss on the early extinguishment of debt, comprised of a 3% cash premium totaling \$7.4 million and a non-cash charge of \$4.0 million for the write-off of unamortized debt issuance costs. The losses on early extinguishment of debt are included in "Interest expense, net" in the Company's consolidated statement of operations.

Covenants

The Indenture contains covenants that, among other things, limit the ability of Herc to incur additional indebtedness, guarantee indebtedness or issue certain preferred shares; pay dividends on, redeem or repurchase stock or make other distributions in respect of its capital stock; repurchase, prepay or redeem subordinated indebtedness; make loans and investments; create liens; transfer or sell assets; consolidate, merge or sell or otherwise dispose of all or substantially

all of its assets; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. Upon the occurrence of certain events constituting a change of control triggering event, Herc is required to make an offer to repurchase all or any part of the 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 Herc sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the 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 following are events of default under the Indenture (subject to customary exceptions, thresholds and grace periods): the nonpayment of principal when due; the nonpayment of interest when due continued for 30 days; the failure to comply for 60 days after receipt of requisite notice with specified obligations, covenants or agreements contained in the Notes or the Indenture; the failure of any subsidiary guarantor to comply for 45 days with its obligations under its guarantee or a failure of any guarantee of a significant subsidiary to be in full force and effect; the failure to pay any indebtedness for borrowed money after final maturity or cross acceleration of material debt if the total amount of such indebtedness exceeds \$150.0 million; certain events of bankruptcy, insolvency or reorganization; the failure to discharge any judgment in excess of \$100.0 million; and the failure of any security

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document securing the Notes to be in full force and effect with respect to any collateral having a fair market value in excess of \$150.0 million.

ABL Credit Facility

The Company's ABL Credit Facility held by its Herc subsidiary, provides 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 \$350 million available to Canadian borrowers and U.S. borrowers. 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. Extensions of credit under the ABL Credit Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible rental equipment, eligible service vehicles, eligible spare parts and merchandise, eligible accounts receivable, and eligible unbilled accounts subject to certain reserves and other adjustments. Subject to the satisfaction of certain conditions and limitations, the ABL Credit Facility allows for the addition of incremental revolving and/or term loan commitments. In addition, the ABL Credit Facility permits Herc to increase the amount of commitments under the ABL Credit Facility with the consent of each lender providing an additional commitment, subject to satisfaction of certain conditions.

The following summarizes the significant terms and conditions of the ABL Credit Facility:

Interest and Fees

The interest rates applicable to the loans under the ABL Credit Facility are based on a fluctuating rate of interest measured by reference to either, at the borrowers' option, (i) an adjusted London inter-bank offered rate, plus a borrowing margin or (ii) an alternate base rate, plus a borrowing margin (or, in the case of the Canadian borrowers, a rate equal to the rate on bankers' acceptances with the same maturity, plus a borrowing margin). The borrowing margin on the ABL Credit Facility is determined based on a pricing grid that is bifurcated based on corporate credit ratings, with levels within the grid based on available commitments. Customary fees are also payable in respect of the ABL Credit Facility, including a commitment fee on the unutilized portion thereof.

Maturity and Prepayments

The ABL Credit Facility matures on June 30, 2021. The ABL Credit Facility may be prepaid at the borrowers' option at any time without premium or penalty and will be subject to mandatory prepayment (i) if the outstanding U.S. dollar or Canadian dollar denominated revolving loans under the ABL Credit Facility exceed either the aggregate commitments with respect thereto or the current applicable borrowing base, in an amount equal to such excess or (ii) if, following the occurrence of asset dispositions or any settlement of or payment in respect of any property or casualty insurance claim or any condemnation proceeding relating to the collateral, less than 100% of the net cash proceeds have been reinvested in Herc's business within 365 days and the available loan commitments are less than \$250 million.

Guarantees and Security

Herc and certain of its subsidiaries, including Canadian subsidiaries, are the borrowers under the ABL Credit Facility. Herc Intermediate Holdings LLC, Herc and each direct and indirect domestic subsidiary of Herc (and, in the case of Canadian obligations, each direct and indirect Canadian subsidiary of Herc) guarantees the borrowers' payment obligations under the ABL Credit Facility, subject to certain exceptions.

The ABL Credit Facility and the guarantees thereof are secured by (i) a first priority pledge of (A) all of the capital stock of Herc and each domestic borrower, (B) all of the capital stock of all domestic subsidiaries owned by Herc, each domestic borrower and each domestic subsidiary guarantor and (C) 65% of the capital stock of any foreign subsidiary held directly by Herc, any domestic borrower or any domestic subsidiary guarantor and (ii) a first priority security interest in substantially all other tangible and intangible assets owned by Herc, each domestic borrower and each domestic subsidiary guarantor, in each case to the extent permitted by applicable law and subject to certain exceptions.

The Canadian obligations under the ABL Credit Facility are also secured, pursuant to a Canadian guarantee and collateral agreement made by the Canadian borrowers and certain Canadian subsidiaries of Herc in favor of the Canadian agent and Canadian ABL collateral agent, by a first priority security interest in substantially all assets of the Canadian borrowers and the Canadian guarantors, subject to certain exceptions.

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The liens securing the ABL Credit Facility are first in priority (as between the ABL Credit Facility and the Notes) with respect to the collateral.

Covenants

The ABL Credit Facility contains a number of negative covenants that, among other things, limit or restrict the ability of the borrowers and, in certain cases, their restricted subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay certain indebtedness, make certain dividends, create liens, make investments, make acquisitions, engage in mergers, change the nature of their business, engage in certain transactions with affiliates and enter into certain restrictive agreements.

Failure to maintain certain levels of liquidity will subject the Herc credit group 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, 2018, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

Covenants in the ABL Credit Facility restrict payment of cash dividends to any parent of Herc, including Herc Holdings, except in an aggregate amount, taken together with certain investments, acquisitions and optional prepayments, not to exceed \$200.0 million. Herc may also pay additional cash dividends under the ABL Credit Facility under certain circumstances.

The ABL Credit Facility also contains certain affirmative covenants, including financial and other reporting requirements.

Events of Default

The ABL Credit Facility provides for customary events of default (subject to customary exceptions, thresholds and grace periods), including, without limitation, non-payment of principal, interest or fees, violation of covenants, material inaccuracy of representations or warranties, specified cross default and cross acceleration to other material indebtedness, certain bankruptcy events, certain ERISA events, material invalidity of guarantees or security interest, material judgments and change of control.

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.

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, 2018.

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.

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.

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Other Borrowings

In June 2017, 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 a rate of 110% of the prevailing base lending rates published by People's Bank of China and is payable quarterly. As of December 31, 2018, the Company had short-term borrowings under these facilities totaling \$4.6 million.

Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company as of December 31, 2018 (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 640.2	\$ 640.2
AR Facility	—	—
Total	\$ 640.2	\$ 640.2

At December 31, 2018, the Company's borrowing base was capped at \$175.0 million by the aggregate commitments under the AR Facility. Subsequent to December 31, 2018, the borrowing base under the AR Facility declined to \$159.1 million.

In addition, as of December 31, 2018, the Company's subsidiary in China had uncommitted credit facilities of which \$5.4 million was available for borrowing.

Letters of Credit

As of December 31, 2018, \$24.6 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which had been drawn upon. The ABL Credit Facility had \$225.4 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Debt Issuance Costs

In connection with the issuance of the Notes and entry into the ABL Credit Facility in 2016, the Company capitalized \$41.5 million in deferred debt issuance costs, of which \$22.5 million were recorded to "Long-term debt" and \$19.0 million were recorded to "Other long-term assets" in the consolidated balance sheet as of December 31, 2018. In addition, in connection with the issuance of the AR Facility in September 2018, the Company capitalized \$1.1 million in deferred debt issuance costs, which were recorded to "Other long-term assets" in the consolidated balance sheet as of December 31, 2018. The debt issuance costs are being amortized to interest expense using the effective interest method for costs related to the Notes and on a straight-line basis for costs related to the ABL Credit Facility over the respective contractual terms of the applicable debt. Non-cash interest expense related to the amortization of these debt issuance costs for the years ended December 31, 2018, 2017 and 2016 were \$6.1 million, \$6.3 million and \$3.4 million, respectively. The Company wrote off \$1.7 million of unamortized deferred financing costs during the year ended December 31, 2018 related to the July partial redemption of its Notes. The Company wrote off \$1.7 million and

\$4.0 million of unamortized deferred financing costs during the years ended December 31, 2018 and 2017, respectively, related to the partial redemptions of its Notes.

Note 10—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 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. Additionally, during 2018, the Company entered into sale-leaseback transactions with respect to two additional properties for gross proceeds of \$6.4 million.

In connection with the sale-leaseback, the Company capitalized \$2.7 million in deferred financing obligations issuance costs. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2018 and 2017 was \$0.2 million and \$0.1 million, respectively.

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

	Weighted Average Effective Interest Rate at December 31, 2018	Maturity	December 31, 2018	December 31, 2017
Financing obligations	4.73%	2038	\$ 122.1	\$ 118.2
Unamortized financing issuance costs			(2.8) (2.6
Total financing obligations			119.3	115.6
Less: Current maturities of financing obligations			(3.0) (2.7
Financing obligations, net			\$ 116.3	\$ 112.9

As of December 31, 2018, future minimum financing payments for the agreement referred to above are as follows (in millions):

2019	\$8.5
2020	8.5
2021	8.5
2022	8.5
2023	8.5
Thereafter	117.1
Total minimum financing obligations payments	159.6
Obligations subject to non-cash gain on future sale of property	33.2
Less amount representing interest (at a weighted-average interest rate of 4.73%)	(70.7)
Total financing obligations	\$122.1

Note 11—Employee Retirement Benefits

401(k) Savings Plan and Other Defined Contribution Plans

Prior to the Spin-Off, the Company participated in a THC-sponsored U.S. defined contribution plan covering substantially all U.S. employees (the "Hertz Savings Plan"), as well as certain non-U.S. defined contribution plans covering eligible non-U.S. employees, primarily in Canada.

On July 1, 2016, the Company established the Herc Holdings Savings Plan covering all of its U.S. employees. Following the Spin-Off, the accounts (including loans) of the Company's current and former employees were transferred from the Hertz Savings Plan to the new Herc Holdings Savings Plan.

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, 2018, 2017 and 2016 were approximately \$10.5 million, \$9.4 million and \$7.5 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 98% of the Company's defined benefit plan obligations and 100% of its plan assets. The Company did not make any cash contributions to the Plan or the predecessor Hertz Plan in 2018, 2017 or 2016 and does not anticipate making any contributions during 2019. 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.

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

	Pension		Postretirement	
	2018	2017	2018	2017
Change in Projected Benefit Obligations				
Benefit obligations at beginning of year	\$ 160.0	\$ 149.4	\$ 1.1	\$ 1.0
Interest cost	5.7	6.1	—	—
Plan settlements	(7.9)	(6.8)	—	—
Benefits paid	(0.2)	(0.3)	—	—
Adjustment ⁽¹⁾	1.1	—	—	—
Actuarial (gain) loss	(10.2)	11.6	(0.1)	0.1
Benefit obligations at end of year	\$ 148.5	\$ 160.0	\$ 1.0	\$ 1.1
Change in Fair Value of Plan Assets				
Fair value of plan assets at beginning of year	\$ 140.4	\$ 133.2	\$ —	\$ —
Actual return on plan assets	(10.2)	17.9	—	—
Plan settlements	(7.9)	(6.8)	—	—
Benefits paid	(0.2)	(0.3)	—	—
Adjustment ⁽¹⁾	1.5	(3.6)	—	—
Fair value of plan assets at end of year	\$ 123.6	\$ 140.4	\$ —	\$ —
Funded Status	\$(24.9)	\$(19.6)	\$(1.0)	\$(1.1)
Accumulated benefit obligations	\$ 148.5	\$ 160.0		

(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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	Pension		Postretirement	
	2018	2017	2018	2017
Amounts Recognized in Balance Sheet				
Accrued liabilities	\$(0.1)	\$(0.1)	\$(0.1)	\$(0.1)
Other long-term liabilities	(24.8)	(19.5)	(0.9)	(1.0)
Net amount recognized	\$(24.9)	\$(19.6)	\$(1.0)	\$(1.1)
Amounts Recognized in Accumulated Other Comprehensive Loss				
Net actuarial gain (loss)	\$(25.6)	\$(21.8)	\$0.2	\$0.1
Prior service credits	0.1	0.2	—	—
Net amount recognized	\$(25.5)	\$(21.6)	\$0.2	\$0.1

Weighted Average Assumptions Used to Determine Projected Benefit Obligations

Discount rate	4.3	%	3.6	%	4.2	%	3.5	%
Average rate of increase in compensation	—	%	—	%	—	%	—	%
Initial healthcare cost trend rate					6.1	%	6.4	%
Ultimate healthcare cost trend rate					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):

	Pension		Postretirement	
	2018	2017	2018	2017
Plans with Benefit Obligations in Excess of Plan Assets				
Projected benefit obligations	\$ 148.5	\$ 160.0	\$	1.0