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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

Commission File Number 001-33139

HERC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-3530539

(I.R.S. Employer
Identification Number)

**27500 Riverview Center Blvd.
Bonita Springs, Florida 34134
(239) 301-1000**

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

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an 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	☒	Smaller reporting company	☐
Accelerated filer	☐	Emerging growth company	☐
Non-accelerated filer	☐		

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 Exchange Act). Yes ☐ No ☒

As of October 14, 2022, there were 29,258,196 shares of the registrant's common stock, \$0.01 par value, outstanding.

HERC HOLDINGS INC. AND SUBSIDIARIES**TABLE OF CONTENTS**

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HERC HOLDINGS INC. AND SUBSIDIARIES

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the period ended September 30, 2022 (this "Report") includes "forward-looking statements," as that term is defined by the federal securities laws. Forward-looking statements include statements concerning our business plans and strategy, projected profitability, performance or cash flows, future capital expenditures, our growth strategy, including our ability to grow organically and through M&A, anticipated financing needs, business trends, the impact of and our response to COVID-19, our capital allocation strategy, liquidity and capital management and other information that is not historical information. Forward looking statements are generally identified by the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts," "looks," and future or conditional verbs, such as "will," "should," "could" or "may," as well as variations of such words or similar expressions. All forward-looking statements are based upon our current expectations and various assumptions and apply only as of the date of this Report. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that our expectations, beliefs and projections will be achieved.

There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from those suggested by our forward-looking statements, including those set forth in our Annual Report on Form 10-K for the year ended December 31, 2021 under Item 1A "Risk Factors," in Part II, Item 1A of 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.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Cash and cash equivalents	\$ 56.9	\$ 35.1
Receivables, net of allowances of \$15.7 and \$13.6, respectively	519.0	388.1
Other current assets	58.8	46.5
Total current assets	634.7	469.7
Rental equipment, net	3,311.3	2,665.3
Property and equipment, net	365.7	308.4
Right-of-use lease assets	529.9	413.7
Intangible assets, net	424.5	388.7
Goodwill	379.1	231.5
Other long-term assets	38.8	13.1
Total assets	<u>\$ 5,684.0</u>	<u>\$ 4,490.4</u>
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	\$ 15.1	\$ 15.2
Current maturities of operating lease liabilities	41.8	38.7
Accounts payable	326.6	280.6
Accrued liabilities	200.6	195.4
Total current liabilities	584.1	529.9
Long-term debt, net	2,761.9	1,916.1
Financing obligations, net	108.3	111.2
Operating lease liabilities	504.4	387.4
Deferred tax liabilities	612.2	536.8
Other long term liabilities	30.0	32.1
Total liabilities	4,600.9	3,513.5
Commitments and contingencies (Note 12)		
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, 32.6 and 32.4 shares issued and 29.4 and 29.7 shares outstanding	0.3	0.3
Additional paid-in capital	1,811.9	1,822.2
Retained earnings (accumulated deficit)	143.4	(53.4)
Accumulated other comprehensive loss	(121.3)	(100.2)
Treasury stock, at cost, 3.2 shares and 2.7 shares	(751.2)	(692.0)
Total equity	1,083.1	976.9
Total liabilities and equity	<u>\$ 5,684.0</u>	<u>\$ 4,490.4</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
Equipment rental	\$ 706.2	\$ 519.6	\$ 1,838.4	\$ 1,368.0
Sales of rental equipment	21.5	16.6	68.5	91.1
Sales of new equipment, parts and supplies	10.0	8.6	27.1	22.5
Service and other revenue	7.4	5.6	18.8	13.5
Total revenues	745.1	550.4	1,952.8	1,495.1
Expenses:				
Direct operating	277.5	208.9	751.0	563.1
Depreciation of rental equipment	139.6	105.4	389.1	306.9
Cost of sales of rental equipment	16.2	13.7	48.8	76.8
Cost of sales of new equipment, parts and supplies	6.3	6.5	17.0	15.6
Selling, general and administrative	111.5	81.5	297.9	221.0
Non-rental depreciation and amortization	25.5	17.0	68.9	48.8
Interest expense, net	33.0	21.4	80.7	63.8
Other (income) expense, net	(0.1)	(0.1)	(0.8)	0.1
Total expenses	609.5	454.3	1,652.6	1,296.1
Income before income taxes	135.6	96.1	300.2	199.0
Income tax provision	(34.2)	(23.8)	(68.1)	(46.7)
Net income	\$ 101.4	\$ 72.3	\$ 232.1	\$ 152.3
Weighted average shares outstanding:				
Basic	29.7	29.6	29.8	29.6
Diluted	30.2	30.5	30.3	30.4
Earnings per share:				
Basic	\$ 3.41	\$ 2.44	\$ 7.79	\$ 5.15
Diluted	\$ 3.36	\$ 2.37	\$ 7.66	\$ 5.01

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 101.4	\$ 72.3	\$ 232.1	\$ 152.3
Other comprehensive income (loss):				
Foreign currency translation adjustments	(16.6)	(4.9)	(20.9)	0.6
Pension and postretirement benefit liability adjustments:				
Amortization of net losses included in net periodic pension cost	0.2	0.9	0.6	1.9
Income tax provision related to defined benefit pension plans	—	(0.1)	(0.8)	(0.3)
Total other comprehensive income (loss)	(16.4)	(4.1)	(21.1)	2.2
Total comprehensive income	\$ 85.0	\$ 68.2	\$ 211.0	\$ 154.5

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Shares	Amount					
Balance at December 31, 2021	29.7	\$ 0.3	\$ 1,822.2	\$ (53.4)	\$ (100.2)	\$ (692.0)	\$ 976.9
Net income	—	—	—	58.5	—	—	58.5
Other comprehensive income	—	—	—	—	1.9	—	1.9
Stock-based compensation charges	—	—	6.2	—	—	—	6.2
Dividends declared, \$0.575 per share	—	—	(17.6)	—	—	—	(17.6)
Net settlement on vesting of equity awards	0.2	—	(15.0)	—	—	—	(15.0)
Employee stock purchase plan	—	—	0.8	—	—	—	0.8
Balance at March 31, 2022	29.9	0.3	1,796.6	5.1	(98.3)	(692.0)	1,011.7
Net income	—	—	—	72.2	—	—	72.2
Other comprehensive loss	—	—	—	—	(6.6)	—	(6.6)
Stock-based compensation charges	—	—	5.1	—	—	—	5.1
Dividends declared, \$0.575 per share	—	—	—	(17.7)	—	—	(17.7)
Net settlement on vesting of equity awards	—	—	(0.2)	—	—	—	(0.2)
Employee stock purchase plan	—	—	0.8	—	—	—	0.8
Balance at June 30, 2022	29.9	0.3	1,802.3	59.6	(104.9)	(692.0)	1,065.3
Net income	—	—	—	101.4	—	—	101.4
Other comprehensive loss	—	—	—	—	(16.4)	—	(16.4)
Stock-based compensation charges	—	—	8.6	—	—	—	8.6
Dividends declared, \$0.575 per share	—	—	—	(17.6)	—	—	(17.6)
Net settlement on vesting of equity awards	—	—	(0.1)	—	—	—	(0.1)
Employee stock purchase plan	—	—	1.0	—	—	—	1.0
Exercise of stock options	—	—	0.1	—	—	—	0.1
Repurchase of common stock	(0.5)	—	—	—	—	(59.2)	(59.2)
Balance at September 30, 2022	29.4	\$ 0.3	\$ 1,811.9	\$ 143.4	\$ (121.3)	\$ (751.2)	\$ 1,083.1

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

HERC HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

Unaudited

(In millions)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Shares	Amount					
Balance at December 31, 2020	29.4	\$ 0.3	\$ 1,818.2	\$ (277.5)	\$ (107.0)	\$ (692.0)	\$ 742.0
Net income	—	—	—	32.9	—	—	32.9
Other comprehensive income	—	—	—	—	2.8	—	2.8
Stock-based compensation charges	—	—	5.3	—	—	—	5.3
Net settlement on vesting of equity awards	0.2	—	(7.1)	—	—	—	(7.1)
Employee stock purchase plan	—	—	0.6	—	—	—	0.6
Exercise of stock options	—	—	1.5	—	—	—	1.5
Balance at March 31, 2021	29.6	0.3	1,818.5	(244.6)	(104.2)	(692.0)	778.0
Net income	—	—	—	47.1	—	—	47.1
Other comprehensive income	—	—	—	—	3.5	—	3.5
Stock-based compensation charges	—	—	7.1	—	—	—	7.1
Net settlement on vesting of equity awards	—	—	(1.1)	—	—	—	(1.1)
Employee stock purchase plan	—	—	0.6	—	—	—	0.6
Exercise of stock options	—	—	0.2	—	—	—	0.2
Balance at June 30, 2021	29.6	0.3	1,825.3	(197.5)	(100.7)	(692.0)	835.4
Net income	—	—	—	72.3	—	—	72.3
Other comprehensive loss	—	—	—	—	(4.1)	—	(4.1)
Stock-based compensation charges	—	—	5.5	—	—	—	5.5
Net settlement on vesting of equity awards	—	—	(0.5)	—	—	—	(0.5)
Employee stock purchase plan	0.1	—	0.6	—	—	—	0.6
Balance at September 30, 2021	29.7	\$ 0.3	\$ 1,830.9	\$ (125.2)	\$ (104.8)	\$ (692.0)	\$ 909.2

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

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

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 232.1	\$ 152.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of rental equipment	389.1	306.9
Depreciation of property and equipment	46.7	40.9
Amortization of intangible assets	22.2	8.0
Amortization of deferred debt and financing obligations costs	2.4	2.4
Stock-based compensation charges	19.9	17.9
Provision for receivables allowances	34.7	20.6
Deferred taxes	77.9	37.4
Gain on sale of rental equipment	(19.7)	(14.3)
Other	2.5	2.8
Changes in assets and liabilities:		
Receivables	(155.5)	(81.2)
Other assets	(10.7)	(5.9)
Accounts payable	(1.4)	7.7
Accrued liabilities and other long-term liabilities	(17.0)	7.7
Net cash provided by operating activities	<u>623.2</u>	<u>503.2</u>
Cash flows from investing activities:		
Rental equipment expenditures	(841.2)	(447.0)
Proceeds from disposal of rental equipment	66.6	86.1
Non-rental capital expenditures	(81.7)	(31.1)
Proceeds from disposal of property and equipment	4.5	3.4
Acquisitions, net of cash acquired	(440.9)	(225.2)
Other investing activities	(23.0)	—
Net cash used in investing activities	<u>(1,315.7)</u>	<u>(613.8)</u>

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

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

	Nine Months Ended September 30,	
	2022	2021
Cash flows from financing activities:		
Proceeds from revolving lines of credit and securitization	2,079.8	482.9
Repayments on revolving lines of credit and securitization	(1,228.2)	(355.0)
Principal payments under finance lease and financing obligations	(11.5)	(9.7)
Payment of debt financing costs	(7.6)	(0.1)
Dividends paid	(51.5)	—
Net settlement on vesting of equity awards	(15.3)	(8.7)
Proceeds from employee stock purchase plan	2.6	1.8
Proceeds from exercise of stock options	0.1	1.7
Repurchase of common stock	(53.3)	—
Net cash provided by financing activities	715.1	112.9
Effect of foreign exchange rate changes on cash and cash equivalents	(0.8)	(0.1)
Net change in cash and cash equivalents during the period	21.8	2.2
Cash and cash equivalents at beginning of period	35.1	33.0
Cash and cash equivalents at end of period	<u>\$ 56.9</u>	<u>\$ 35.2</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 92.1	\$ 78.0
Cash paid for income taxes, net	\$ 16.3	\$ 13.3
Supplemental disclosure of non-cash investing activity:		
Purchases of rental equipment in accounts payable	\$ 38.6	\$ 67.2
Non-rental capital expenditures in accounts payable	\$ 5.5	\$ —
Supplemental disclosure of non-cash investing and financing activity:		
Equipment acquired through finance lease	\$ 12.8	\$ 19.1

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

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1—Organization and Description of Business

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," or "the Company") is one of the leading equipment rental suppliers with 351 locations in North America as of September 30, 2022. The Company conducts substantially all of its operations through subsidiaries, including Herc Rentals Inc. ("Herc"). With over 57 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, pumps, trench shoring, studio and production equipment, and its ProContractor professional grade tools.

Note 2—Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The Company prepares its condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, however, these condensed consolidated financial statements do not include all of the disclosures required for complete annual financial statements and, accordingly, certain information, footnotes and disclosures normally included in annual financial statements, prepared in accordance with U.S. GAAP, have been condensed or omitted in accordance with Securities and Exchange Commission ("SEC") rules and regulations. The Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, the condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 10, 2022.

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 condensed 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, valuation of acquired intangible assets, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies and accounting for income taxes, among others.

Principles of Consolidation

The condensed 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 condensed consolidated financial statements. The Company accounts for 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.

Reclassifications

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

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

Recently Issued Accounting Pronouncements

As of October 20, 2022, the Company has implemented all applicable new accounting standards and updates issued by the Financial Accounting Standards Board ("FASB") that were in effect. There were no new standards or updates during the three and nine months ended September 30, 2022 that had a material impact on the condensed consolidated financial statements.

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 operates in North America with revenue from the United States representing approximately 92.5% and 91.8% of total revenue for the three and nine months ended September 30, 2022, respectively, compared to 92.5% and 92.3% for the same periods in 2021.

The Company's rental transactions are accounted for under Accounting Standards Codification ("ASC") Topic 842, *Leases* ("Topic 842"). 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, *Revenue from Contracts with Customers* ("Topic 606"). The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for such products or services.

The following tables summarize the applicable accounting guidance for the Company's revenues for the three and nine months ended September 30, 2022 and 2021 (in millions):

	Three Months Ended September 30,					
	2022			2021		
	Topic 842	Topic 606	Total	Topic 842	Topic 606	Total
Revenues:						
Equipment rental	\$ 628.7	\$ —	\$ 628.7	\$ 468.0	\$ —	\$ 468.0
Other rental revenue:						
Delivery and pick-up	—	49.7	49.7	—	31.4	31.4
Other	27.8	—	27.8	20.2	—	20.2
Total other rental revenues	27.8	49.7	77.5	20.2	31.4	51.6
Total equipment rental	656.5	49.7	706.2	488.2	31.4	519.6
Sales of rental equipment	—	21.5	21.5	—	16.6	16.6
Sales of new equipment, parts and supplies	—	10.0	10.0	—	8.6	8.6
Service and other revenues	—	7.4	7.4	—	5.6	5.6
Total revenues	\$ 656.5	\$ 88.6	\$ 745.1	\$ 488.2	\$ 62.2	\$ 550.4

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

	Nine Months Ended September 30,					
	2022			2021		
	Topic 842	Topic 606	Total	Topic 842	Topic 606	Total
Revenues:						
Equipment rental	\$ 1,646.5	\$ —	\$ 1,646.5	\$ 1,238.1	\$ —	\$ 1,238.1
Other rental revenue:						
Delivery and pick-up	—	121.0	121.0	—	78.0	78.0
Other	70.9	—	70.9	51.9	—	51.9
Total other rental revenues	70.9	121.0	191.9	51.9	78.0	129.9
Total equipment rental	1,717.4	121.0	1,838.4	1,290.0	78.0	1,368.0
Sales of rental equipment	—	68.5	68.5	—	91.1	91.1
Sales of new equipment, parts and supplies	—	27.1	27.1	—	22.5	22.5
Service and other revenues	—	18.8	18.8	—	13.5	13.5
Total revenues	\$ 1,717.4	\$ 235.4	\$ 1,952.8	\$ 1,290.0	\$ 205.1	\$ 1,495.1

Topic 842 revenues

Equipment Rental Revenue

The Company offers a broad portfolio of equipment for rent on a hourly, daily, weekly or monthly basis, with substantially all rental agreements cancellable upon the return of the equipment. Virtually all customer contracts can be canceled by the customer with no penalty by returning the equipment within one day; therefore, the Company does not allocate the transaction price between the different contract elements.

Equipment rental revenue includes revenue generated from renting equipment to customers and is recognized on a straight-line basis over the length of the rental contract. As part of this straight-line methodology, when the equipment is returned, the Company recognizes as incremental revenue the excess, if any, between the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the equipment was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, the Company will have customers return equipment and be contractually required to pay more than the cumulative amount of revenue recognized to date under the straight-line methodology. Also included in equipment rental revenue is re-rent revenue in which the Company will rent specific pieces of equipment from vendors and then re-rent that equipment to its customers. Provisions for discounts, rebates to customers and other adjustments are provided for in the period the related revenue is recorded.

Other

Other equipment rental revenue is primarily comprised of fees for the Company's rental protection program and environmental charges. Fees paid for the rental protection program allow customers to limit the risk of financial loss in the event the Company's equipment is damaged or lost. Fees for the rental protection program and environmental recovery fees are recognized on a straight-line basis over the length of the rental contract.

Topic 606 revenues

Delivery and pick-up

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

HERC HOLDINGS INC. AND SUBSIDIARIES
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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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sales of rental equipment	\$ 21.5	\$ 16.6	\$ 68.5	\$ 91.1
Sales of new equipment	2.3	2.7	6.6	6.4
Sales of parts and supplies	7.7	5.9	20.5	16.1
Total	<u>\$ 31.5</u>	<u>\$ 25.2</u>	<u>\$ 95.6</u>	<u>\$ 113.6</u>

The Company recognizes 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.

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 \$7.0 million and \$11.1 million as of September 30, 2022 and December 31, 2021, respectively.

Service and other revenues

Service and other revenues primarily include revenue earned from equipment management and similar services for rental customers which includes providing customer support functions such as dedicated in-plant operations, plant management services, equipment and safety 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 842. The customers that are responsible for the remaining equipment rental 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. The Company manages credit risk associated with its accounts receivable at the customer level through credit approvals, credit limits and other monitoring procedures. The Company maintains allowances for doubtful accounts that reflect the Company's estimate of the amount of receivables that the Company will be unable to collect based on its historical write-off experience.

The Company does not have material contract assets or contract liabilities associated with customer contracts. The Company's contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. The Company did not recognize material revenue during the three and nine months ended September 30, 2022 and 2021 that was included in the contract liability balance as of the beginning of each such period.

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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 three and nine months ended September 30, 2022 and 2021 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of September 30, 2022.

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):

	September 30, 2022	December 31, 2021
Rental equipment	\$ 5,169.2	\$ 4,254.8
Less: Accumulated depreciation	(1,857.9)	(1,589.5)
Rental equipment, net	<u>\$ 3,311.3</u>	<u>\$ 2,665.3</u>

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Note 5—Business Combinations

2022 Business Combinations

On April 19, 2022, the Company completed the acquisition of Cloverdale Equipment Company ("Cloverdale"). Cloverdale was a full-service general equipment rental company comprising of approximately 120 employees and four locations serving industrial and construction customers with core operations in the metropolitan areas of Detroit and Grand Rapids, Michigan; Cleveland, Ohio; and Pittsburgh, Pennsylvania. The aggregate consideration was approximately \$178.2 million. The acquisition and related fees and expenses were funded through available cash and drawings on the senior secured asset-based revolving credit facility.

The following table summarizes the purchase price allocation of the assets acquired and liabilities assumed (in millions):

	Cloverdale
Accounts receivable	\$ 7.6
Other current assets	1.7
Rental equipment	125.2
Property and equipment	4.2
Intangibles ^(a)	10.9
Total identifiable assets acquired	149.6
Current liabilities	2.0
Long term liabilities	16.5
Net identifiable assets acquired	131.1
Goodwill ^(b)	47.1
Net assets acquired	<u>\$ 178.2</u>

(a) The following table reflects the fair values and useful lives of the acquired intangible assets identified (in millions):

	Cloverdale	Life (years)
Customer relationships	\$ 10.2	10
Non-compete agreements	0.7	5
	<u>\$ 10.9</u>	

(b) The level of goodwill that resulted from the acquisitions is primarily reflective of operational synergies that the Company expects to achieve that are not associated with identifiable assets, the value of Cloverdale's assembled workforce and new customer relationships expected to arise from the acquisition. All of the goodwill is expected to be deductible for income tax purposes.

The assets and liabilities for Cloverdale were recorded as of April 19, 2022 and the results of operations have been included in the Company's consolidated results of operations since that date. Total revenue and income before taxes for Cloverdale included in the consolidated statement of operations since the acquisition date are \$27.4 million and \$5.4 million, respectively.

In addition to the acquisition of Cloverdale, the Company completed the acquisitions of three companies totaling three locations including Southern Equipment Rental, Harris Diversified, LLC, and Kilowatt Boy, Inc. during the first quarter of 2022, five companies totaling five locations including All Trade Rentals, Inc., Absolute Rental & Supply, Inc., Single Source Rentals Ltd., Kropp Equipment, Inc., and Colvin's Inc. during the second quarter of 2022, and seven companies totaling 12 locations including All Star Rents, High River Rentals, Inc., Longhorn Car-Truck Rental, Inc., Avalanche Equipment, LLC, Portable Air II, LLC, Golf Tournaments, Inc., and Shore-Tek, Inc. during the third quarter of 2022.

2021 Business Combinations

On August 30, 2021, the Company completed the acquisition of substantially all of the assets of Contractors Building Supply Co. LLC ("CBS"). CBS was a full-service general equipment rental company comprising approximately 190 employees and twelve locations serving construction and industrial customers throughout Texas, as well as a location in New Mexico and Tennessee. The acquisition expanded the Company's presence in Texas to 38 physical locations, which collectively provide

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general and specialty equipment rental solutions and related services. The aggregate consideration was approximately \$190.3 million. The acquisition and related fees and expenses were funded through available cash and drawings on the senior secured asset-based revolving credit facility.

On November 15, 2021, the Company completed the acquisition of Rapid Equipment Rental Limited ("Rapid"). Rapid was a full-service general equipment rental company comprising approximately 110 employees and seven locations serving construction and industrial customers throughout the Greater Toronto Area. The aggregate consideration was approximately \$75.4 million and is subject to a potential working capital adjustment. The acquisition and related fees and expenses were funded through available cash and drawings on the senior secured asset-based revolving credit facility.

There have been no material adjustments to the purchase price allocations of CBS or Rapid during the nine months ended September 30, 2022.

Throughout 2021, the Company also completed the acquisitions of nine additional companies, totaling 14 locations, which included San Mateo Rentals and Jim-N-I Rentals, Inc., Dwight Crane Ltd. along with its U.S. based affiliate, LRX LLC, Reliable Equipment, LLC, SkyKing Lift, Inc., Atlantic Aerial Inc., Central Valley Shoring, Inc., Priority Rental LLC and Temp-Power, Inc.

Pro Forma Supplementary Data

The unaudited pro forma supplementary data presented in the table below (in millions) gives effect to the acquisitions of Cloverdale, CBS, and Rapid as if they had been included in the Company's condensed consolidated results for the entire period reflected. The unaudited pro forma supplementary data is provided for informational purposes only and is not indicative of the Company's results of operations had the acquisitions been included for the periods presented, nor is it indicative of the Company's future results.

	Nine Months Ended September 30, 2022		
	Herc	Cloverdale	Total
Historic/pro forma total revenues	\$ 1,952.8	\$ 18.4	1,971.2
Historic/combined pretax income	\$ 300.2	11.4	311.6
Pro forma adjustments to consolidated pretax income:			
Impact of fair value adjustments/useful life changes on depreciation ^(a)		2.2	2.2
Intangible asset amortization ^(b)		(0.4)	(0.4)
Interest expense ^(c)		(1.0)	(1.0)
Elimination of historic interest ^(d)		0.9	0.9
Elimination of merger related costs ^(e)		0.6	0.6
Pro forma pretax income			<u>\$ 313.9</u>

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	Three Months Ended September 30, 2021				
	Herc	CBS	Rapid	Cloverdale	Total
Historic/pro forma total revenues	\$ 550.4	\$ 10.7	\$ 6.7	\$ 16.2	\$ 584.0
Historic/combined pretax income	\$ 96.1	1.6	0.6	2.7	101.0
Pro forma adjustments to consolidated pretax income:					
Impact of fair value adjustments/useful life changes on depreciation ^(a)		0.8	(0.9)	2.1	2.0
Intangible asset amortization ^(b)		(0.8)	(0.5)	(0.3)	(1.6)
Interest expense ^(c)		(0.4)	(0.2)	(0.6)	(1.2)
Elimination of historic interest ^(d)		0.3	0.3	0.3	0.9
Elimination of merger related costs ^(e)		0.1	0.1	—	0.2
Pro forma pretax income					<u>\$ 101.3</u>

	Nine Months Ended September 30, 2021				
	Herc	CBS	Rapid	Cloverdale	Total
Historic/pro forma total revenues	\$ 1,495.1	\$ 42.9	\$ 18.7	\$ 44.6	\$ 1,601.3
Historic/combined pretax income	\$ 199.0	6.4	(0.6)	7.8	212.6
Pro forma adjustments to consolidated pretax income:					
Impact of fair value adjustments/useful life changes on depreciation ^(a)		2.8	(2.9)	5.0	4.9
Intangible asset amortization ^(b)		(3.3)	(1.4)	(1.0)	(5.7)
Interest expense ^(c)		(1.6)	(0.8)	(1.8)	(4.2)
Elimination of historic interest ^(d)		1.1	0.9	0.8	2.8
Elimination of merger related costs ^(e)		0.3	0.3	—	0.6
Pro forma pretax income					<u>\$ 211.0</u>

(a) Depreciation of rental equipment was adjusted for the fair value at acquisition and changes in useful lives of equipment acquired.

(b) Intangible asset amortization was adjusted to include amortization of the acquired intangible assets.

(c) As discussed above, the Company funded the Cloverdale, CBS and Rapid acquisitions primarily using drawings on its senior secured asset-based revolving credit facility. Interest expense was adjusted to reflect interest on such borrowings.

(d) Historic interest on debt that is not part of the combined entity was eliminated.

(e) Merger related direct costs primarily comprised of financial and legal advisory fees associated with the Cloverdale, CBS and Rapid acquisitions were eliminated as they were assumed to have been recognized prior to the pro forma acquisition date.

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Note 6—Goodwill and Intangible Assets

Goodwill

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

	September 30, 2022	December 31, 2021
Balance at the beginning of the period:		
Goodwill	\$ 906.5	\$ 775.4
Accumulated impairment losses	(675.0)	(674.9)
	231.5	100.5
Additions	150.6	131.1
Currency translation	(3.0)	(0.1)
Balance at the end of the period:		
Goodwill	1,046.4	906.5
Accumulated impairment losses	(667.3)	(675.0)
	<u>\$ 379.1</u>	<u>\$ 231.5</u>

Intangible Assets

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

	September 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related and non-compete agreements	\$ 167.7	\$ (31.5)	\$ 136.2
Internally developed software ^(a)	56.1	(36.2)	19.9
Total	223.8	(67.7)	156.1
Indefinite-lived intangible assets:			
Trade name	268.4	—	268.4
Total intangible assets, net	<u>\$ 492.2</u>	<u>\$ (67.7)</u>	<u>\$ 424.5</u>

(a) Includes capitalized costs of \$4.1 million yet to be placed into service.

	December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related and non-compete agreements	\$ 113.7	\$ (15.0)	\$ 98.7
Internally developed software ^(a)	49.6	(30.5)	19.1
Total	163.3	(45.5)	117.8
Indefinite-lived intangible assets:			
Trade name	270.9	—	270.9
Total intangible assets, net	<u>\$ 434.2</u>	<u>\$ (45.5)</u>	<u>\$ 388.7</u>

(a) Includes capitalized costs of \$7.4 million yet to be placed into service.

Amortization of intangible assets was \$9.2 million and \$22.2 million for the three and nine months ended September 30, 2022, respectively, and \$3.1 million and \$8.0 million for the three and nine months ended September 30, 2021, respectively.

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Note 7—Leases

The Company leases real estate, office equipment and service vehicles. The Company's leases have remaining lease terms of up to 16 years, some of which include options to extend the leases for up to 20 years. The Company determines the lease term used to record each lease by including the initial lease term and, in the case where there are options to extend, will include the option to extend if it has determined that it is reasonably certain that the Company would exercise those options.

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

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

	Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2021	2022	2021
Operating lease cost ^(a)	Direct operating	\$ 37.0	\$ 30.6	\$ 103.3	\$ 82.0
Finance lease cost:					
Amortization of ROU assets	Depreciation and amortization ^(b)	5.8	4.5	16.0	9.8
Interest on lease liabilities	Interest expense, net	0.4	0.3	1.1	0.9
Sublease income	Equipment rental revenue	(22.7)	(19.7)	(62.2)	(51.7)
Net lease cost		\$ 20.5	\$ 15.7	\$ 58.2	\$ 41.0

(a) Includes short-term leases of \$18.4 million and \$51.1 million for the three and nine months ended September 30, 2022, respectively, and \$16.2 million and \$38.7 million for the three and nine months ended September 30, 2021, respectively, and variable lease costs of \$0.8 million and \$2.1 million for the three and nine months ended September 30, 2022, respectively, and \$1.5 million and \$4.0 million for the three and nine months ended September 30, 2021, respectively.

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

Note 8—Debt

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

	Weighted Average Effective Interest Rate at September 30, 2022	Weighted Average Stated Interest Rate at September 30, 2022	Fixed or Floating Interest Rate	Maturity	September 30, 2022	December 31, 2021
Senior Notes						
2027 Notes	5.61%	5.50%	Fixed	2027	\$ 1,200.0	\$ 1,200.0
Other Debt						
ABL Credit Facility	N/A	4.22%	Floating	2027	1,222.1	456.0
AR Facility	N/A	3.80%	Floating	2023	300.0	225.0
Finance lease liabilities	2.99%	N/A	Fixed	2022-2029	56.4	52.6
Unamortized Debt Issuance Costs ^(a)					(5.4)	(6.1)
Total debt					2,773.1	1,927.5
Less: Current maturities of long-term debt					(11.2)	(11.4)
Long-term debt, net					\$ 2,761.9	\$ 1,916.1

(a) Unamortized debt issuance costs totaling \$11.0 million and \$5.0 million related to the ABL Credit Facility and AR Facility (as each is defined below) as of September 30, 2022 and December 31, 2021, respectively, and are included in "Other long-term assets" in the condensed consolidated balance sheets.

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

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Senior Notes

On July 9, 2019, the Company issued \$1.2 billion aggregate principal amount of its 5.50% Senior Notes due 2027 (the "2027 Notes"). Interest on the 2027 Notes accrues at the rate of 5.50% per annum and is payable semi-annually in arrears on January 15 and July 15. The 2027 Notes will mature on July 15, 2027. Additional information about the 2027 Notes is included in Note 11, "Debt" to the Company's financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2021.

ABL Credit Facility

On July 31, 2019, Herc Holdings, Herc and certain other subsidiaries of Herc Holdings entered into a credit agreement with respect to a senior secured asset-based revolving credit facility (the "ABL Credit Facility"), which was amended on July 5, 2022. As a result of the amendment, the aggregate amount of revolving credit commitments was increased from \$1.75 billion to \$3.5 billion (subject to availability under a borrowing base) and to extended the maturity date of the ABL Credit Facility to July 5, 2027. In addition, (i) the provisions of the ABL Credit Facility regarding interest on revolving loans were amended to replace LIBOR-based rates with rates based on Term SOFR with regard to loans denominated in U.S. dollars and to make certain associated changes; and (ii) certain of the operational and restrictive covenants and other terms and conditions of the ABL Facility were modified to provide the Company and its subsidiaries increased flexibility and permissions thereunder. Up to \$250 million of the revolving loan facility is available for the issuance of letters of credit, subject to certain conditions including issuing lender participation. Subject to the satisfaction of certain conditions and limitations, the ABL Credit Facility allows for the addition of incremental revolving commitments and/or incremental term loans.

The ABL Credit Facility was also amended to include a provision that the Company, in consultation with a Sustainability Coordinator, may establish key performance indicators ("KPIs") with respect to certain environmental, social and governance targets of the Company and its subsidiaries, which if mutually agreed, may be incorporated into the ABL Credit Facility through an amendment (an "ESG Amendment"). Upon the effectiveness of an ESG Amendment, the commitment fee and the spreads applicable to revolving loans may be increased or decreased within certain limits based on performance against the KPIs.

Additional information about the ABL Credit Facility is included in Note 11, "Debt" to the Company's financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2021.

Accounts Receivable Securitization Facility

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility"). The AR Facility was amended in August 2022 to extend the maturity date to August 31, 2023, increase the aggregate commitments from \$250 million to \$300 million and to replace LIBOR as a benchmark rate with Term SOFR. In connection with the AR Facility, Herc and one of its wholly-owned subsidiaries sell their accounts receivables on an ongoing basis to Herc Receivables U.S. LLC, a wholly-owned special-purpose entity (the "SPE"). The SPE's sole business consists of the purchase by the SPE of accounts receivable from Herc and the Herc subsidiary seller and borrowing by the SPE against the eligible accounts receivable from the lenders under the facility. The borrowings are secured by liens on the accounts receivable and other assets of the SPE. Collections on the accounts receivable are used to service the borrowings. The SPE is a separate legal entity that is consolidated in the Company's financial statements. The SPE assets are owned by the SPE and are not available to settle the obligations of the Company or any of its other subsidiaries. Herc is the servicer of the accounts receivable under the AR Facility. All of the obligations of the Herc subsidiary seller and the servicer and certain indemnification obligations of the SPE under the agreements governing the AR Facility are guaranteed by Herc pursuant to a performance guarantee. The AR Facility is excluded from current maturities of long-term debt as the Company has the intent and ability to consummate refinancing and extend the term of the agreement.

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Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company under the ABL Credit Facility and AR Facility as of September 30, 2022 (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 2,252.1	\$ 1,540.0
AR Facility	—	—
Total	<u>\$ 2,252.1</u>	<u>\$ 1,540.0</u>

Letters of Credit

As of September 30, 2022, \$25.8 million of standby letters of credit were issued and outstanding, none of which have been drawn upon. The ABL Credit Facility had \$224.2 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Note 9—Financing Obligations

In October 2017, Herc consummated a sale-leaseback transaction pursuant to which it sold 42 of its properties located in the U.S. for gross proceeds of approximately \$119.5 million, and during the fourth quarter of 2018, entered into sale-leaseback transactions with respect to two additional properties for gross proceeds of \$6.4 million. The sale of the properties did not qualify for sale-leaseback accounting due to continuing involvement with the properties. Therefore, the book value of the buildings and land remains on the Company's consolidated balance sheet.

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

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

	Weighted Average Effective Interest Rate at September 30, 2022	Maturities	September 30, 2022	December 31, 2021
Financing obligations	5.21%	2026-2038	\$ 114.3	\$ 117.2
Unamortized financing issuance costs			(2.1)	(2.2)
Total financing obligations			112.2	115.0
Less: Current maturities of financing obligations			(3.9)	(3.8)
Financing obligations, net			<u>\$ 108.3</u>	<u>\$ 111.2</u>

Note 10—Income Taxes

Income tax provision was \$34.2 million for the three months ended September 30, 2022 compared to \$23.8 million in 2021. The increase in provision was driven by the level of pre-tax income, offset primarily by certain non-deductible expenses.

Income tax provision for the nine months ended September 30, 2022 was \$68.1 million compared to \$46.7 million in 2021. The provision was driven by the level of pre-tax income, offset primarily by a benefit related to stock-based compensation of \$8.2 million for nine months ended September 30, 2022, compared to \$3.2 million for the nine months ended September 30, 2021, and certain non-deductible expenses.

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Note 11—Accumulated Other Comprehensive Income (Loss)

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) for the nine months ended September 30, 2022 are presented in the table below (in millions).

	Pension and Other Post- Employment Benefits	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2021	\$ (12.3)	\$ (87.9)	\$ (100.2)
Other comprehensive income before reclassification	(0.7)	(20.9)	(21.6)
Amounts reclassified from accumulated other comprehensive income	0.5	—	0.5
Net current period other comprehensive income	(0.2)	(20.9)	(21.1)
Balance at September 30, 2022	<u>\$ (12.5)</u>	<u>\$ (108.8)</u>	<u>\$ (121.3)</u>

Note 12—Commitments and Contingencies

Legal Proceedings

The Company is subject to a number of claims and proceedings that generally arise in the ordinary conduct of its business. These matters include, but are not limited to, claims arising from the operation of rented equipment and workers' compensation claims. The Company does not believe that the liabilities arising from such ordinary course claims and proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has established reserves for matters where the Company believes the losses are probable and can be reasonably estimated. For matters where a reserve has not been established, the ultimate outcome or resolution cannot be predicted at this time, or the amount of ultimate loss, if any, cannot be reasonably estimated. Litigation is subject to many uncertainties and there can be no assurance as to the outcome of the individual litigated matters. It is possible that certain of the actions, claims, inquiries or proceedings could be decided unfavorably to the Company or any of its subsidiaries involved. Accordingly, it is possible that an adverse outcome from such a proceeding could exceed the amount accrued in an amount that could be material to the Company's consolidated financial condition, results of operations or cash flows in any particular reporting period.

Off-Balance Sheet Commitments

Indemnification Obligations

In the ordinary course of business, the Company executes contracts involving indemnification obligations customary in the relevant industry and indemnifications specific to a transaction such as the sale of a business or assets or a financial transaction. These indemnification obligations might include claims relating to the following: accuracy of representations; compliance with covenants and agreements by the Company or third parties; environmental matters; intellectual property rights; governmental regulations; employment-related matters; customer, supplier and other commercial contractual relationships; condition of assets; and financial or other matters. Performance under these indemnification obligations would generally be triggered by a breach of terms of the contract or by a third-party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnification obligations and has accrued for expected losses that are probable and estimable. The types of indemnification obligations for which payments are possible include the following:

The Spin-Off

In connection with the Spin-Off, pursuant to the separation and distribution agreement (agreements and defined terms are discussed in Note 16, "Arrangements with New Hertz"), the Company has assumed the liability for, and control of, all pending and threatened legal matters related to its equipment rental business and related assets, as well as assumed or retained liabilities, and will indemnify New Hertz for any liability arising out of or resulting from such assumed legal matters. The separation and distribution agreement also provides for certain liabilities to be shared by the parties. The Company is responsible for a portion of these shared liabilities (typically 15%), as set forth in that agreement. New Hertz is responsible for managing the settlement or other disposition of such shared liabilities.

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Pursuant to the tax matters agreement, the Company has agreed to indemnify New Hertz for any resulting taxes and related losses if the Company takes or fails to take any action (or permits any of its affiliates to take or fail to take any action) that causes the Spin-Off and related transactions to be taxable, or if there is an acquisition of the equity securities or assets of the Company or of any member of the Company's group that causes the Spin-Off and related transactions to be taxable.

Guarantee

The Company has guaranteed an outstanding bank loan in connection with a previous joint venture. The Company has determined the maximum potential payment amount under the guarantee is approximately \$1.2 million; however, the probability of any payment is remote and therefore the Company has not recorded a liability on its balance sheet as of September 30, 2022. The bank loan is collateralized by the rental equipment and other assets of the former joint venture entity and has maturities through 2024.

Note 13—Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value of accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximates the carrying values because of the short-term nature of these instruments.

Cash Equivalents

Cash equivalents, when held, primarily consist of money market accounts which are classified as Level 1 assets which the Company measures at fair value on a recurring basis. The Company determines the fair value of cash equivalents using a market approach based on quoted prices in active markets. The Company had no cash equivalents at September 30, 2022 or December 31, 2021.

Debt Obligations

The fair values of the Company's ABL Credit Facility, AR Facility and finance lease liabilities approximated their book values as of September 30, 2022 and December 31, 2021. The fair value of the Company's 2027 Notes are estimated based on quoted market rates as well as borrowing rates currently available to the Company for loans with similar terms and average maturities (Level 2 inputs) (in millions).

	September 30, 2022		December 31, 2021	
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
2027 Notes	\$ 1,200.0	\$ 1,090.8	\$ 1,200.0	\$ 1,248.0

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

Note 14—Earnings Per Share

Basic earnings per share has been computed based upon the weighted average number of common shares outstanding. Diluted earnings per share has been computed based upon the weighted average number of common shares outstanding plus the effect of all potentially dilutive common stock equivalents, except when the effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic and diluted earnings per share:				
Numerator:				
Net income, basic and diluted	\$ 101.4	\$ 72.3	\$ 232.1	\$ 152.3
Denominator:				
Basic weighted average common shares	29.7	29.6	29.8	29.6
Stock options, RSUs and PSUs	0.5	0.9	0.5	0.8
Weighted average shares used to calculate diluted earnings per share	30.2	30.5	30.3	30.4
Earnings per share:				
Basic	\$ 3.41	\$ 2.44	\$ 7.79	\$ 5.15
Diluted	\$ 3.36	\$ 2.37	\$ 7.66	\$ 5.01
Antidilutive stock options, RSUs and PSUs	0.1	—	0.1	—

Note 15—Related Party Transactions
Agreements with Carl C. Icahn

The Company is subject to the Nomination and Standstill Agreement, dated September 15, 2014 (the "Nomination and Standstill Agreement"), with Carl C. Icahn and certain related entities and individuals. In connection with their appointments or nomination, as applicable, to the Company's board of directors (the "Board"), each of Hunter C. Gary, Steven D. Miller and Andrew Teno (collectively, the "Icahn Designees," and, together with Carl C. Icahn and the other parties to the Nomination and Standstill Agreements, the "Icahn Group") executed a Joinder Agreement agreeing to become bound as a party to the terms and conditions of the Nomination and Standstill Agreement (such Joinder Agreements, together with the Nomination and Standstill Agreement, are collectively referred to herein as the "Icahn Agreements").

Pursuant to the Icahn Agreements, the Icahn Designees were appointed to the Company's Board. So long as an Icahn Designee is a member of the Board, the Board will not be expanded beyond its current size without approval from the Icahn Designees then on the Board. In addition, pursuant to the Icahn Agreements, subject to certain restrictions and requirements, the Icahn Group will have certain replacement rights in the event an Icahn Designee resigns or is otherwise unable to serve as a director (other than as a result of not being nominated by the Company for an annual meeting).

In addition, until the date that no Icahn Designee is a member of the Board (or otherwise deemed to be on the Board pursuant to the terms of the Icahn Agreements), the Icahn Group agrees to vote all of its shares of the Company's common stock in favor of the election of all of the Company's director nominees at each annual or special meeting of the Company's stockholders, and, subject to limited exceptions, the Icahn Group further agrees to (i) adhere to certain standstill obligations, including the obligation to not solicit proxies or consents or influence others with respect to the same, and (ii) not acquire or otherwise beneficially own more than 20% of the Company's outstanding voting securities.

Pursuant to the Icahn Agreements, the Company will not create a separate executive committee of the Board so as long as an Icahn Designee is a member of the Board. Under the Icahn Agreements, if the Icahn Group ceases to hold a "net long position,"

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

as defined in the Nomination and Standstill Agreement, in at least 1,900,000 shares of the Company's common stock, the Icahn Group will cause one Icahn Designee to resign from the Board; if the Icahn Group's holdings are further reduced to specified levels, additional Icahn Designees are required to resign.

In addition, pursuant to the Icahn Agreements, the Company entered into a registration rights agreement, effective June 30, 2016 (the "Registration Rights Agreement"), with certain entities related to Carl C. Icahn on behalf of any person who is a member of the "Icahn group" (as such term is defined therein) who owns applicable securities at the relevant time and is or has become a party to the Registration Rights Agreement. The Registration Rights Agreement provides for customary demand and piggyback registration rights and obligations.

Note 16—Arrangements with New Hertz

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 and continues to operate its global vehicle rental business through its operating subsidiaries including The Hertz Corporation ("THC").

In connection with the Spin-Off, the Company entered into a separation and distribution agreement (the "Separation Agreement") with New Hertz. In connection therewith, the Company also entered into various other ancillary agreements with New Hertz to effect the Spin-Off and provide a framework for its relationship with New Hertz. The following summarizes some of the most significant agreements and relationships that Herc Holdings continues to have with New Hertz.

Separation and Distribution Agreement

The Separation Agreement sets forth the Company's agreements with New Hertz regarding the principal actions taken in connection with the Spin-Off. It also sets forth other agreements that govern aspects of the Company's relationship with New Hertz following the Spin-Off including (i) the manner in which legal matters and claims are allocated and certain liabilities are shared between the Company and New Hertz; (ii) other matters including transfers of assets and liabilities, treatment or termination of intercompany arrangements and releases of certain claims between the parties and their affiliates; (iii) mutual indemnification clauses; and (iv) allocation of Spin-Off expenses between the parties.

Tax Matters Agreement

The Company entered into a tax matters agreement with New Hertz that governs the parties' rights, responsibilities and obligations after the Spin-Off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax matters regarding income taxes, other taxes and related tax returns.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. 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 unaudited condensed consolidated financial statements and accompanying notes included in Part I, Item 1 of this Report, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our unaudited condensed 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 unaudited condensed 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 condensed consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

OVERVIEW OF OUR BUSINESS AND OPERATING ENVIRONMENT

We are engaged principally in the business of renting equipment. Ancillary to our principal business of equipment rental, we also sell used rental equipment, sell new equipment and consumables and offer certain services and support to our customers. Our profitability is dependent upon a number of factors including the volume, mix and pricing of rental transactions and the utilization of equipment. Significant changes in the purchase price or residual values of equipment or interest rates can have a significant effect on our profitability depending on our ability to adjust pricing for these changes. Our business requires significant expenditures for equipment, and consequently we require substantial liquidity to finance such expenditures. See "Liquidity and Capital Resources" below.

Our revenues primarily are 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;
- Non-rental depreciation and amortization; and
- Interest expense.

COVID-19 Update

We continue to monitor the ongoing impact of the COVID-19 pandemic, including the effects of recent notable variants of the virus. The health and safety of our employees, customers, and the communities in which we operate remains our top priority. We remain focused on the safety and well-being of our employees, customers and communities as we maintain a high-level of service to our customers. We continue to communicate frequently throughout the organization to reinforce our health and safety guidelines, informed by the Center for Disease Control recommendations.

HERC HOLDINGS INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

During 2021, customer demand improved as the government rolled out the distribution of vaccines and lifted COVID-19 related restrictions, which opened up local economic activity. Demand in 2022 remains strong, however, the impact of the COVID-19 pandemic continues to evolve and the economic recovery we are seeing could be slowed or reversed by a number of factors, including a widespread resurgence in COVID-19 infections, whether due to the spread of variants of the virus or otherwise, the rate and efficacy of vaccinations, labor constraints, the strength of the global supply chain, and government actions. We cannot predict the extent to which our financial condition, results of operations or cash flows will ultimately be impacted, however, we believe we are well-positioned to operate effectively through the present environment.

Seasonality

Our business is usually 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 products that serve different industries with less seasonality and different business cycles.

RESULTS OF OPERATIONS

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
Equipment rental	\$ 706.2	\$ 519.6	\$ 186.6	35.9 %	\$1,838.4	\$1,368.0	\$ 470.4	34.4 %
Sales of rental equipment	21.5	16.6	4.9	29.5	68.5	91.1	(22.6)	(24.8)
Sales of new equipment, parts and supplies	10.0	8.6	1.4	16.3	27.1	22.5	4.6	20.4
Service and other revenue	7.4	5.6	1.8	32.1	18.8	13.5	5.3	39.3
Total revenues	745.1	550.4	194.7	35.4	1,952.8	1,495.1	457.7	30.6
Direct operating	277.5	208.9	68.6	32.8	751.0	563.1	187.9	33.4
Depreciation of rental equipment	139.6	105.4	34.2	32.4	389.1	306.9	82.2	26.8
Cost of sales of rental equipment	16.2	13.7	2.5	18.2	48.8	76.8	(28.0)	(36.5)
Cost of sales of new equipment, parts and supplies	6.3	6.5	(0.2)	(3.1)	17.0	15.6	1.4	9.0
Selling, general and administrative	111.5	81.5	30.0	36.8	297.9	221.0	76.9	34.8
Non-rental depreciation and amortization	25.5	17.0	8.5	50.0	68.9	48.8	20.1	41.2
Interest expense, net	33.0	21.4	11.6	54.2	80.7	63.8	16.9	26.5
Other (income) expense, net	(0.1)	(0.1)	—	—	(0.8)	0.1	(0.9)	NM
Income before income taxes	135.6	96.1	39.5	41.1	300.2	199.0	101.2	50.9
Income tax provision	(34.2)	(23.8)	(10.4)	43.7	(68.1)	(46.7)	(21.4)	45.8
Net income	\$ 101.4	\$ 72.3	\$ 29.1	40.2 %	\$ 232.1	\$ 152.3	\$ 79.8	52.4%

NM - Not Meaningful

Three Months Ended September 30, 2022 Compared with Three Months Ended September 30, 2021

Equipment rental revenue increased \$186.6 million, or 35.9%, during the third quarter of 2022 due to higher volume of equipment on rent of 34.9% and positive pricing of 6.2% over the same period in the prior year.

HERC HOLDINGS INC. AND SUBSIDIARIES**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

Sales of rental equipment increased \$4.9 million, or 29.5%, during the third quarter of 2022 when compared to the third quarter of 2021. The margin on sales of rental equipment was 24.7% in 2022 compared to 17.5% in 2021. The increase in margin on sale of rental equipment in 2022 was due to a larger proportion of overall volume of sales through higher margin sales channels and improved pricing due to the overall strong market for used equipment.

Direct operating expenses in the third quarter of 2022 increased \$68.6 million, or 32.8%, when compared to the third quarter of 2021 primarily related to increases in (i) personnel-related expenses of \$29.8 million primarily resulting from increased headcount and increased wages and benefits, (ii) fleet related expenses including fuel and maintenance expense of \$27.9 million related to our increased fleet size and higher volume and average fuel prices in 2022 and (iii) facilities expense of \$7.1 million as we have added more locations through acquisitions and opening greenfield locations.

Depreciation of rental equipment increased \$34.2 million, or 32.4%, during the third quarter of 2022 when compared to the third quarter of 2021 due to the increase in average fleet size. Non-rental depreciation and amortization increased \$8.5 million, or 50.0%, primarily due to amortization of intangible assets related to acquisitions.

Selling, general and administrative expenses increased \$30.0 million, or 36.8%, in the third quarter of 2022 when compared to the third quarter of 2021. The increase was primarily due to selling expense, including commissions and other variable compensation increases, of \$13.1 million, general payroll and benefits of \$5.1 million and travel expense of \$2.2 million.

Interest expense, net increased \$11.6 million, or 54.2%, during the third quarter of 2022 when compared with the same period in 2021 due to higher average outstanding balances and weighted average interest rates on the ABL Credit Facility and AR Facility.

Income tax provision was \$34.2 million during the third quarter of 2022 compared to \$23.8 million in 2021. The provision in each period was driven by the level of pre-tax income, offset partially by certain non-deductible expenses.

Nine Months Ended September 30, 2022 Compared with Nine Months Ended September 30, 2021

Equipment rental revenue increased \$470.4 million, or 34.4%, during the nine months ended of 2022 primarily due to higher volume of equipment on rent of 33.1% and positive pricing of 5.4% over the same period in the prior year.

Sales of rental equipment decreased \$22.6 million, or 24.8%, during the nine months ended of 2022 when compared to the nine months ended of 2021. During the nine months ended of 2022, the decline in volume of sales was related to the increase in utilization and the strategic management of our rental equipment to maximize fleet size as part of our long-term strategy. The margin on sales of rental equipment was 28.8% in 2022 compared to 15.7% in 2021. The increase in margin on sale of rental equipment in 2022 was due to a larger proportion of overall volume of sales through higher margin sales channels and improved pricing due to the overall strong market for used equipment.

Direct operating expenses in the nine months ended of 2022 increased \$187.9 million, or 33.4%, when compared to the nine months ended of 2021 primarily related to increases in (i) personnel-related expenses of \$84.9 million primarily resulting from increased headcount and increased wages and benefits, (ii) fleet related expenses including fuel and maintenance expense of \$64.8 million related to our increased fleet size and higher volume and average fuel prices in 2022, (iii) facilities expense of \$17.3 million as we have added more locations through acquisitions and opening greenfield locations (iv) delivery expense of \$12.8 million due to increased volume of transactions, and (v) re-rent expense of \$12.3 million due to the corresponding increase in re-rent revenue.

Depreciation of rental equipment increased \$82.2 million, or 26.8%, during the nine months ended of 2022 when compared to the nine months ended of 2021 due to the increase in average fleet size. Non-rental depreciation and amortization increased \$20.1 million, or 41.2%, primarily due to amortization of intangible assets related to acquisitions.

Selling, general and administrative expenses increased \$76.9 million, or 34.8%, in the nine months ended of 2022 when compared to the nine months ended of 2021. The increase was primarily due to selling expense, including commissions and other variable compensation increases, of \$37.6 million and general payroll and benefits of \$8.9 million. Travel expense and professional fees also increased by \$9.0 million and \$7.5 million, respectively.

HERC HOLDINGS INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Interest expense, net increased \$16.9 million, or 26.5%, during the nine months ended of 2022 when compared with the same period in 2021 due to higher average outstanding balances and weighted average interest rates on the ABL Credit Facility and AR Facility.

Income tax provision was \$68.1 million during the nine months ended of 2022 compared to \$46.7 million in 2021. The provision in each period was driven by the level of pre-tax income, offset primarily by a benefit related to stock-based compensation of \$8.2 million and \$3.2 million for nine months ended September 30, 2022 and 2021, respectively, and non-deductible expenses.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs include the payment of operating expenses, purchases of rental equipment to be used in our operations, servicing of debt, funding acquisitions, payment of dividends and share repurchases. Our primary sources of funding are operating cash flows, cash received from the disposal of equipment and borrowings under our debt arrangements. As of September 30, 2022, we had approximately \$2.8 billion of total nominal indebtedness outstanding.

Our liquidity as of September 30, 2022 consisted of cash and cash equivalents of \$56.9 million and unused commitments of approximately \$1.5 billion under our ABL Credit Facility. See "Borrowing Capacity and Availability" below for further discussion. 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 or other financing arrangements will be sufficient to meet working capital requirements and anticipated capital expenditures, and other strategic uses of cash, if any, and debt payments, if any, 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):

	Nine Months Ended September 30,		
	2022	2021	\$ Change
Cash provided by (used in):			
Operating activities	\$ 623.2	\$ 503.2	\$ 120.0
Investing activities	(1,315.7)	(613.8)	(701.9)
Financing activities	715.1	112.9	602.2
Effect of exchange rate changes	(0.8)	(0.1)	(0.7)
Net change in cash and cash equivalents	<u>\$ 21.8</u>	<u>\$ 2.2</u>	<u>\$ 19.6</u>

Operating Activities

During the nine months ended September 30, 2022, we generated \$120.0 million more cash from operating activities compared with the same period in 2021. The increase was related to improved operating results primarily resulting from higher revenues coupled with improved operating leverage on costs.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Investing Activities

Cash used in investing activities increased \$701.9 million during the nine months ended September 30, 2022 when compared with the prior-year period. Our primary use of cash in investing activities is for the acquisition of rental equipment, non-rental capital expenditures and acquisitions. Generally, 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. Additionally, we closed on 16 acquisitions during the nine months ended September 30, 2022 for a net cash outflow of \$440.9 million.

Financing Activities

Cash provided by financing activities increased \$602.2 million during the nine months ended September 30, 2022 when compared with the prior-year period. Financing activities primarily represents our changes in debt, which included net borrowings of \$851.6 million on our revolving lines of credit and securitization, which were used primarily to fund acquisitions during the period. Net borrowings in the prior year period were \$127.9 million.

In accordance with our share repurchase program that was adopted in March 2014 ("Share Repurchase Program"), we may from time to time repurchase shares in the open market or through privately negotiated transactions, in accordance with applicable securities laws. We have repurchased approximately 540,000 shares during 2022 in accordance with our overall capital allocation strategy and as of September 30, 2022, \$336.7 million remains available for repurchases.

In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may from time to time repurchase our debt, including our notes, bonds, loans or other indebtedness, in privately negotiated, open market or other transactions and upon such terms and at such prices as we may determine. We will evaluate any such transactions in light of then-existing market conditions, taking into account our current liquidity and prospects for future access to capital. The repurchases may be material and could relate to a substantial proportion of a particular class or series, which could reduce the trading liquidity of such class or series.

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).

	Nine Months Ended September 30,	
	2022	2021
Rental equipment expenditures	\$ 841.2	\$ 447.0
Disposals of rental equipment	(66.6)	(86.1)
Net rental equipment expenditures	<u>\$ 774.6</u>	<u>\$ 360.9</u>

Net capital expenditures for rental equipment increased \$413.7 million during the nine months ended September 30, 2022 compared to the same period in 2021 as we manage our fleet by continuing to invest in our fleet in high growth markets as part of our long-term capital expenditure plans and manage disposals to respond to a tightening market.

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."

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. None of such assets are available to satisfy the claims of our general creditors. See

HERC HOLDINGS INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Note 11, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 "Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2021, and Note 8, "Debt" included in Part I, Item 1 "Financial Statements" 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 Facility. 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 Facility (i.e., the amount of debt we could borrow given the collateral we possess at such time).

As of September 30, 2022, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 2,252.1	\$ 1,540.0
AR Facility	—	—
Total	<u>\$ 2,252.1</u>	<u>\$ 1,540.0</u>

On July 5, 2022, we entered into an amendment to the ABL Credit Facility that was executed primarily to increase the aggregate amount of the revolving credit commitments to \$3.5 billion and to extend the maturity date of the ABL Credit Facility to July 5, 2027. Additionally, on August 26, 2022, we amended the AR Facility to increase the aggregate commitments from \$250 million to \$300 million and extend the maturity to August 31, 2023. See Note 8, "Debt" included in Part I, Item 1 "Financial Statements" of this Report for more information.

As of September 30, 2022, \$25.8 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which have been drawn upon. The ABL Credit Facility had \$224.2 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Covenants

Our ABL Credit Facility, our AR Facility and our 2027 Notes contain a number of covenants that, among other things, limit or restrict our ability to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay certain indebtedness, make certain restricted payments (including paying dividends, redeeming stock or making other distributions), create liens, make investments, make acquisitions, engage in mergers, fundamentally change the nature of our business, make capital expenditures, or engage in certain transactions with certain affiliates.

Under the terms of our ABL Credit Facility, our AR Facility and our 2027 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 September 30, 2022, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

Additional information on the terms of our 2027 Notes, ABL Credit Facility and AR Facility is included in Note 11, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 "Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2021. For a discussion of the risks associated with our indebtedness, see Part I, Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the year ended December 31, 2021.

HERC HOLDINGS INC. AND SUBSIDIARIES**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)****Dividends**

On August 5, 2022, the Company declared a quarterly dividend of \$0.575 per share to record holders as of August 19, 2022, with payment date of September 2, 2022. The declaration of dividends on our common stock is discretionary and 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.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of September 30, 2022, there have been no material changes to our indemnification obligations as disclosed in Note 17, "Commitments and Contingencies" in our Annual Report on Form 10-K for the year ended December 31, 2021. For further information, see the discussion on indemnification obligations included in Note 12, "Commitments and Contingencies" in Part I, Item 1 "Financial Statements" of this Report.

For information concerning contingencies, see Note 12, "Commitments and Contingencies" in Part I, Item 1 "Financial Statements" of this Report.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Note 2, "Basis of Presentation and Significant Accounting Policies" in Part I, Item 1 "Financial Statements" of this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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.

As of September 30, 2022, there has been no material change in the information reported under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Our senior management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined under Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

HERC HOLDINGS INC. AND SUBSIDIARIES

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of certain pending legal proceedings see Note 12, "Commitments and Contingencies" to the notes to our condensed consolidated financial statements in Part I, Item 1 "Financial Statements" of this Report.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors from those previously disclosed under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Program

In March 2014, we announced a \$1.0 billion share repurchase program (the "Share Repurchase Program"), which replaced an earlier program. The Share Repurchase Program permits us to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. We are not obligated to make any repurchases at any specific time or in any specific amount and our repurchases may be subject to certain predetermined price/volume guidelines, set from time-to-time, by our board of directors. The timing and extent to which we repurchase shares will depend upon, among other things, strategic priorities, market conditions, share price, liquidity targets, contractual restrictions, regulatory requirements 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.

The following table provides information about our repurchases of our common stock during the third quarter of 2022:

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Amount of Shares That May Yet Be Purchased Under the Program
July 1, 2022 to July 31, 2022	72,086	\$ 104.65	72,086	
August 1, 2022 to August 31, 2022	5,001	\$ 113.26	5,001	
September 1, 2022 to September 30, 2022	466,511	\$ 109.40	466,511	
Total	543,598	\$ 108.80	543,598	\$ 336,707,123

ITEM 5. OTHER INFORMATION

None.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1.1	<u>Amended and Restated Certificate of Incorporation of Herc Holdings (Incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on March 30, 2007).</u>
3.1.2	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, effective as of May 14, 2014 (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 14, 2014).</u>
3.1.3	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, dated June 30, 2016 (reflecting the registrant's name change to "Herc Holdings Inc.") (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).</u>
3.1.4	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, dated June 30, 2016 (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).</u>
3.2	<u>Amended and Restated By-Laws of Herc Holdings Inc., effective February 8, 2022 (Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on February 10, 2022.)</u>
10.1	<u>Amendment No. 3 to Receivables Financing Agreement, dated as of August 26, 2022, among Herc Receivables U.S LLC and The Additional Canadian Borrower To The Extent Added As A Party Thereto, as co-borrowers, Herc Rentals Inc., individually and as initial servicer and as performance guarantor, the Lenders and Managing Agents from time to time party thereto, and Credit Agricole Corporate and Investment Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on August 31, 2022.)</u>
31.1*	<u>Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>18 U.S.C. Section 1350 Certifications of Principal Executive Officer and the Principal Financial Officer</u>
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Filed herewith

**Furnished herewith

HERC HOLDINGS INC. AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 20, 2022

HERC HOLDINGS INC.
(Registrant)

By: /s/ MARK IRION

Mark Irion
Senior Vice President and Chief Financial Officer