

HERC HOLDINGS INC.

2020 Annual Report



HercRentals[®]

HercRentals®

We equip our customers and communities to build a brighter future.

Our Vision

We aspire to be the supplier, employer and investment of choice in our industry.

Our Values

We do what's right.

We're in this together.

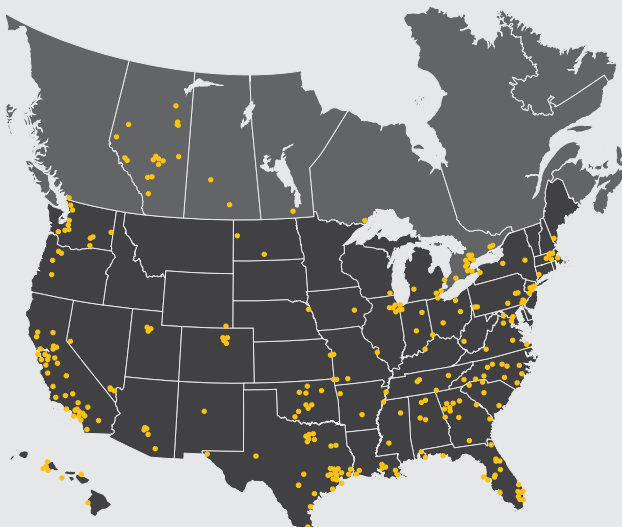
We take responsibility.

We achieve results.

We prove ourselves every day.

Our Mission

To ensure that end users of our equipment and services achieve optimal performance safely, efficiently and effectively.



2020 Key Facts

- Traded on the New York Stock Exchange under "HRI" since July 1, 2016.
- One of the leading North American equipment rental companies.
- Estimated 3% market share in a highly fragmented market.
- \$1.8 billion in total revenues.
- \$3.59 billion in fleet (OEC)*.
- 4,800 employees.
- 277 company operated locations in North America.

*Original equipment cost (OEC) based on American Rental Association guidelines. OEC as of December 31, 2020.

A Message to Our Shareholders



Larry Silber
President and Chief Executive Officer
Herc Holdings Inc.

To Our Shareholders:

Certainly, 2020 was a year that we'll all remember. What began as a strong start to the year for our company quickly became a challenging operational environment with the onset of the global pandemic.

Our customers' businesses began to feel the effect of lockdowns and other restrictions across North America beginning in mid-March. In fact, pandemic regulations continued to affect business activity throughout the year. Our team quickly responded to the lower demand by adjusting our operations, fleet size and costs, even as we tackled the challenges of new health and safety protocols to keep our team and our customers safe.

I'm proud of how our team responded. The challenges of 2020 tested us and we entered 2021 with even more confidence in our long-term strategy. As we start 2021, we are seeing improvement in volume and overall business activity. Looking ahead, we hope the broad distribution of vaccines will support a return to more normal operating conditions for the balance of the year.

2020 Overview

We ended 2020 with equipment rental revenue of \$1.54 billion, a decline of 9.3% from the prior year. After the dramatic downturn early in the year, we experienced gradual improvement in volume throughout the remainder of 2020 but remained below 2019 levels.

Total revenues were \$1.78 billion in 2020, a decline of 10.9% compared to 2019. Net income was \$73.7 million, an increase of 55.2% from \$47.5 million in 2019. On a diluted earnings per share basis, we grew 54% to \$2.51 from \$1.63 in the prior year. On an adjusted earnings per share¹ basis, we declined 4.4% to \$3.01 from \$3.15 in 2019.

Adjusted EBITDA² was \$689.4 million, a decline of about 7.0% from \$741.0 million in 2019. Adjusted EBITDA margin² improved 160 basis points to 38.7% from 37.1% the prior year.

Despite the slowdown in growth in 2020, our equipment rental revenue has grown at a compound annual growth rate of 3.4% and our adjusted EBITDA increased 6.5% since becoming a public company in 2016.

Substantially improved operating effectiveness was evidenced by the higher year-over-year adjusted EBITDA margin in 2020, which has improved over the last five years from a low of 33.4% in 2017 to 38.7% in 2020.

Operating performance coupled with disciplined capital management resulted in record high free cash flow³ of \$425 million, and allowed us to

1. Adjusted earnings per share is a non-GAAP financial measure. See page 89 of the Company's Form 10-K for a reconciliation to the comparable GAAP financial measure.

2. Adjusted EBITDA and adjusted EBITDA margin are non-GAAP financial measures. See page 90 of the Company's Form 10-K for a reconciliation to the comparable GAAP financial measure.

3. Free cash flow is a non-GAAP financial measure. See page 91 of the Company's Form 10-K for a definition and reconciliation to the most comparable GAAP financial measure.

reduce our net leverage⁴ by year end to 2.4x. Given the reduced net leverage, we have set a new target range of 2.0x and 3.0x for net leverage from the 2.5x to 3.5x range that was established when we first became an independent company in 2016.

Operating Performance

While 2020 volume was down 8.3% over the prior year, our strong national account structure helped minimize the impact of the pandemic on our business. Forty-five percent of our rental revenue is derived from national accounts, overseen by our Herc Plus team of experienced sales professionals in collaboration with the operations of our branch network. While local revenue was also impacted by the pandemic-related business slowdown, our local sales representatives continued to deliver strong growth in new accounts.

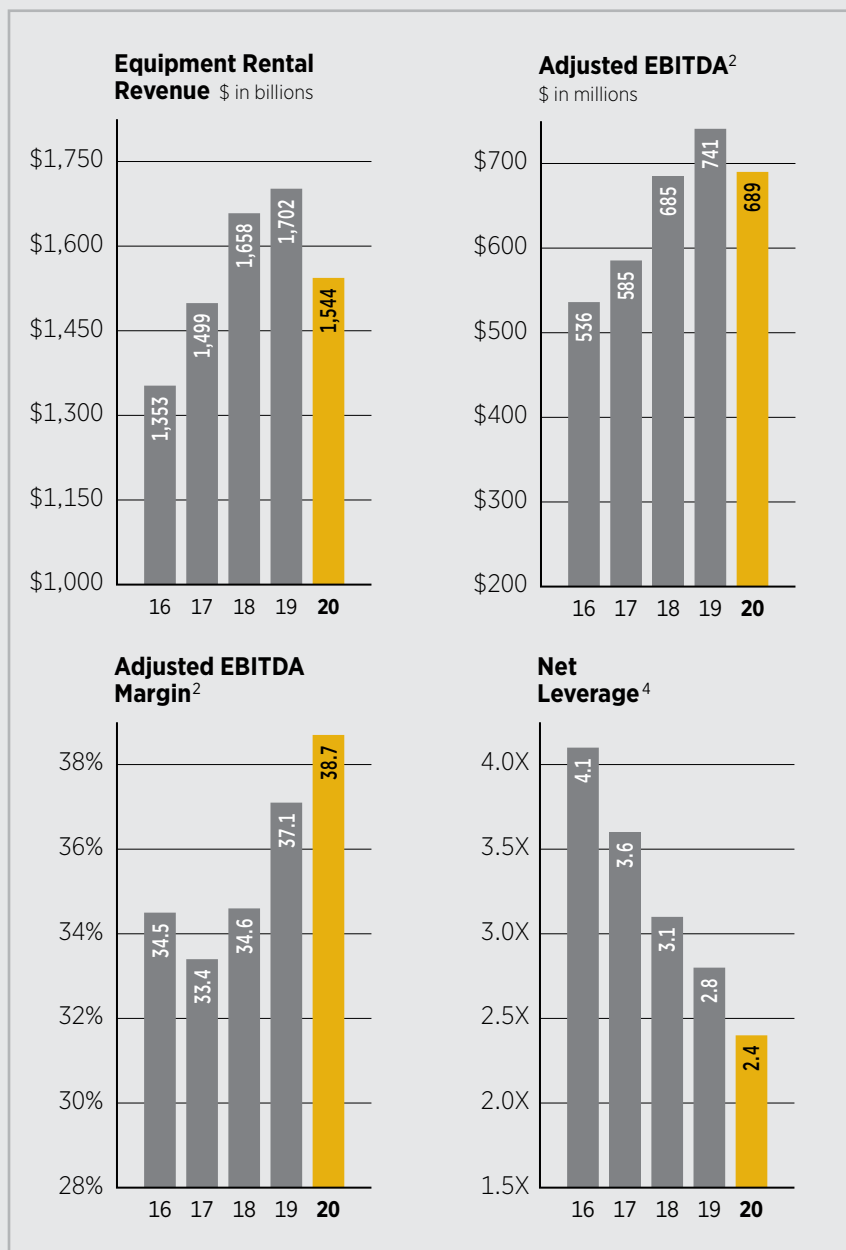
To improve utilization, we reduced fleet and ended the year with fleet at original equipment cost (OEC)⁵ of \$3.59 billion, 6.1% lower than 2019. We held purchases of rental equipment to less than half of what we spent in 2019. Net rental equipment capital expenditures were \$151.6 million in 2020 compared with \$414.2 million in 2019.

During the year we added greenfield locations in Denver, Ft. Lauderdale, and Toronto, and two in Dallas. We also completed the sale of our operations in China, and we now exclusively focus on North America markets.

On December 30, we completed the acquisition of Champion Rentals, a Houston-based company with four locations that has served the area since 1982.

With Champion in the fold, we now have 12 locations in the large and growing Houston area to better serve existing customers and expand our market share. Including the Champion branches, we ended 2020 with 277 locations, all in the United States and Canada.

Our equipment rental revenue has grown at a compound annual growth rate of 3.4% and our adjusted EBITDA increased 6.5% over the past five years.



4. See page 92 of the Company's Form 10-K for a calculation of the Company's net leverage ratio.
 5. Original equipment cost based on American Rental Association guidelines.

We are extremely proud of the performance of our ProSolutions® team, which grew rental revenue by 16% over 2019 in a challenging economy. Our ProSolutions rental equipment is used in restoration, remediation and climate control applications, and supports other mission-critical and essential operations. In 2020, our team supported numerous businesses and healthcare organizations with air scrubbers and other equipment to enhance and monitor air quality. Our ProSolutions team also supports our communities in the aftermath of natural disasters, such as hurricanes, tornados, wildfires and floods.

At the end of 2020, ProSolutions made up about 17% of our total OEC and, including ProContractor gear, our specialty business represented about 23% of total fleet at OEC. We intend to continue to invest in specialty fleet, targeting a range of 25% to 30% of total OEC.

Operating performance coupled with disciplined capital management resulted in record high free cash flow of \$425 million.

One of the hardest hit industries in 2020 was entertainment services, particularly the production of content for television, cable and movie theaters. We're already beginning to see a resurgence in studio rental revenue in 2021 and look forward to the return of live entertainment events this year. We also continued to focus on cost-savings initiatives that had been introduced in 2019 and which reduced direct operating expenses and selling, general and administrative costs in

2020. While some of the savings were related to lower volume and demand, we intend to carefully control incremental costs related to higher anticipated volumes in 2021.

Strategic Initiatives

Our strong financial position coming out of 2020 expands our strategic options to achieve long-term growth. Most notably, we will evaluate growth opportunities in selective geographies, through diversification of customers and industries we serve, in vertical markets and in product categories, including through acquisitions.

We also intend to continue to expand our presence in high-growth urban areas, targeting the top 25 metropolitan markets in North America through both greenfield location openings and acquisitions.

Investments in ProSolutions will remain a priority as we continue to expand our specialty equipment offerings and industry-leading expertise to provide

solutions to industrial, healthcare, government and other customers.

We will also continue to identify new categories of equipment where a rental solution makes more economic sense for our customers than purchasing fleet and which offer higher utilization and returns for Herc Rentals.

Safety

In 2020, we continued to improve our safety performance as our Total Recordable Incident Rate ("TRIR")

2020 Rental Revenue by Customer^{6,7}



● Contractors	33%
● Industrial	30%
● Infrastructure and Government	18%
● Other	19%

2020 North America Customer Mix⁷



● Local	55%
● National	45%

Fleet Mix by OEC⁸



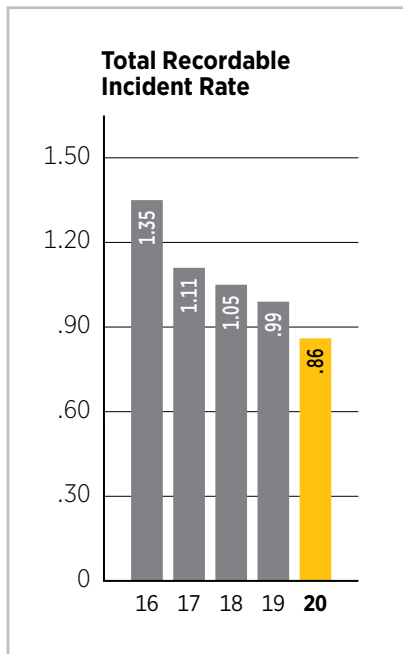
● Aerial	24%
● ProSolutions® and Procontractor	23%
● Material Handling	17%
● Earthmoving	13%
● Trucks and Trailers	15%
● Other	8%

Total \$3.59 Billion at OEC

6. North American rental revenues.

7. Refer to page 5 of the Company's Form 10-K for description of industries related to each customer classification.

8. Original equipment cost (OEC) based on American Rental Association guidelines. OEC as of December 31, 2020.



declined to 0.86, reflecting our ongoing effort to build a robust safety culture across our operations. In addition, on a branch-by-branch measurement, all of our locations reported at least 98% Perfect Days — a day without a reportable OSHA incident, an at-fault motor vehicle accident, or a Department of Transportation violation.

Sustainability Initiatives

In 2020, we began a process to improve our oversight and tracking of environmental, social and governance (ESG) initiatives. This reflects a growing interest by our investors, customers and employees in understanding how these factors impact our strategy and culture, as well as our overall enterprise value.

Since becoming a public company, we have had in place a vision, mission and values, code of ethics and major policies regarding these ESG issues, all of which set the tone for our overall strategy and operations.

In 2021 we intend to enhance our reporting of our ESG initiatives, policies and progress, using the Global Reporting Initiative’s standards in our annual corporate citizenship report, which will be released later this year.

Governance

In December 2020, our independent chairman of the board, Herb Henkel, retired. Herb had served in that position since Herc Holdings became an independent public company in

July 2016. His sage counsel and leadership were greatly appreciated. He is succeeded by Pat Campbell, retired chief financial officer of 3M Company. Pat also has been on the board of directors since we became a public company, having previously served as chair of the board’s Finance Committee.

We also welcome Shari Burgess, the retired vice president and treasurer of Lear Corporation, who joined the board in early December. Her experience in finance and in the area of diversity will serve our company well. In February 2021, Nick Graziano resigned from the board and was replaced by Andrew Teno, a portfolio manager of Icahn Capital LP.

A Tribute to Team Herc

Our 2020 performance once again demonstrated Team Herc’s resolve. Our team rapidly integrated enhanced pandemic safety protocols and adapted to new ways of working together and with our customers when physical distancing prevented in-person interaction.

Team Herc also supported fellow team members and communities in response to numerous natural disasters and maintained focus despite the year’s economic uncertainty, social unrest, political distractions and other disruptions in our daily lives.

I am proud to be part of Team Herc, and I thank all team members for their perseverance throughout a very challenging year.

Larry Silber

President and Chief Executive Officer
Herc Holdings Inc.

April 2, 2021

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

FORM 10-K

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

For the fiscal year ended December 31, 2020

OR

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

Commission File Number 001-3313

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)

**2750 Riverview Center Blvd.
Bonita Springs, Florida 34134
(239) 301-1000**

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the stock on the New York Stock Exchange on such date, was \$593.8 million.

As of February 12, 2021, there were 29,402,939 shares of the registrant's common stock outstanding.

Documents incorporated by reference:

Certain portions, as expressly described in this report, of the Registrant's Proxy Statement for its 2021 annual meeting of stockholders, to be filed within 120 days of December 31, 2020 (the "Proxy Statement"), are incorporated by reference into Part III.

HERC HOLDINGS INC. AND SUBSIDIARIES

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HERC HOLDINGS INC. AND SUBSIDIARIES

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2020 (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, anticipated financing needs, business trends, the impact of and our response to COVID-19 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," 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 Part I, Item 1A "Risk Factors" in this Report and in our other filings with the Securities and Exchange Commission. All forward-looking statements are expressly qualified in their entirety by such cautionary statements. We undertake no obligation to update or revise forward-looking statements that have been made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

HERC HOLDINGS INC. AND SUBSIDIARIES

PART I

ITEM I. BUSINESS

Our Company

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," or the "Company") is one of the leading equipment rental suppliers with 277 locations in North America. We conduct substantially all of our operations through subsidiaries, including Herc Rentals Inc. ("Herc"). With over 55 years of experience, we are a full-line equipment rental supplier offering a broad portfolio of equipment for rent. In addition to our principal business of equipment rental, we sell used equipment and contractor supplies such as construction consumables, tools, small equipment and safety supplies; provide repair, maintenance, equipment management services and safety training to certain of our customers; offer equipment re-rental services and provide on-site support to our customers; and provide ancillary services such as equipment transport, rental protection, cleaning, refueling and labor.

Our classic fleet includes aerial, earthmoving, material handling, trucks and trailers, air compressors, compaction and lighting. Our equipment rental business is supported by ProSolutions^R, our industry-specific solutions-based services, which includes power generation, climate control, remediation and restoration, and studio and production equipment, and our ProContractor professional grade tools.

Corporate History

On June 30, 2016, we, in our 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 our global vehicle rental business through a dividend to stockholders of all of the issued and outstanding common stock of Hertz Rental Car Holding Company, Inc., which was re-named Hertz Global Holdings, Inc. ("New Hertz"). New Hertz continues to operate its global vehicle rental business through its operating subsidiaries including The Hertz Corporation ("THC"). We changed our name to Herc Holdings Inc. on June 30, 2016, and trade on the New York Stock Exchange under the symbol "HRI."

Herc was incorporated in Delaware in 1965. Since its incorporation and until the Spin-Off, Herc was a wholly-owned subsidiary of Hertz Holdings or one of its subsidiaries operating its equipment rental business. Since the Spin-Off, Herc has been a wholly-owned subsidiary of Herc Holdings. Herc Holdings was incorporated in Delaware in 2005 under a previous name.

Our Industry

The equipment rental industry serves a diverse group of customers from individuals and small local contractors to large national accounts providing a wide variety of rental equipment including mid-size and heavy equipment, specialty equipment and contractor tools. The equipment rental industry is highly fragmented with few national competitors and many regional and local operators.

The growth and financial health of the North American equipment rental industry is driven by a number of factors including economic trends, non-residential construction activity, capital investment in the industrial sector, repair maintenance and overhaul spending, government spending and demand for construction and other rental equipment generally, including for remediation and re-building efforts related to natural disasters. We believe that companies have increasingly turned to the equipment rental market to manage their capital needs, which allows our customers to operate their businesses without incurring the significant acquisition cost and maintenance expense associated with owning their own equipment fleet. We believe the trend from equipment ownership to rental in the North American construction industry will continue in the near term.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

Our Competitive Strengths

Our competitive strengths include the following:

A Market Leader in North America with Significant Scale and Broad Footprint—We believe we are one of the largest equipment rental companies in the North American equipment rental industry, with an estimated 3% market share by revenue and 277 locations in 39 states in the United States and five provinces in Canada. Our scale compared to most of our competitors provides us with a number of significant competitive advantages including:

- the ability to provide premium brands and a comprehensive line of equipment and services, allowing us to be a single-source solution for our customers;
- the ability to track utilization and facilitate the seamless transfer of our fleet across multiple locations to adjust to local customer demand;
- a geographic footprint that allows us to maintain proximity and local expertise to serve our customers in local markets as well as serve national accounts with geographically dispersed equipment rental needs;
- favorable purchasing power or volume discount pricing opportunities on material and equipment;
- operational cost efficiencies across our organization, including with respect to purchasing, information technology, back-office support and marketing;
- a national sales force with significant expertise across our equipment fleet; and
- industry-specific expertise to assist our customers with customized solutions.

Since the North American equipment rental industry is highly fragmented, with very few national competitors, we believe that the majority of our competitors do not enjoy these same advantages.

Diverse Customer Markets and Expansion into Specialty Rental Markets—We provide equipment rental services to customers in a wide variety of large markets, including contractors in commercial and residential construction, specialty and remediation and environmental sectors; industrial, including energy, chemical processing and manufacturing; infrastructure, such as highway and bridges, railroads and sewer and waste disposal; and other industries such as facilities management and entertainment production and services. We believe that diversification of our customer base reduces our exposure to any particular market.

Large, Diverse and High-Quality Equipment Fleet—Our equipment fleet represents a significant investment and reflects our commitment to providing an array of rental equipment to our customers in a variety of industries. We offer a wide range of equipment from leading, globally-known original equipment manufacturers who we believe provide reliable equipment. We also offer a wide range of professional grade tools that target professional contractors. Our extensive and high-quality rental fleet enables us to serve a diverse customer base that requires large quantities and/or varied types of equipment for rent. Our increasing portfolio of specialty equipment further expands our capabilities and customer reach.

In recent years, we have diversified our portfolio into a variety of niche markets that experience business cycles that may vary in intensity and duration from that of the general economy. We believe this diversification also positions us to take advantage of any increase in demand for more specialized rental solutions.

Established National Accounts Program—Our national account program provides us with longer rental durations for much of our equipment, with many of our larger customers renting equipment from us for use in large, complex projects. These arrangements provide a number of additional benefits, including recurring revenue, attractive credit profiles, improved fleet utilization and enhanced presence in new markets. National accounts represented 45% of equipment rental revenue for the year ended December 31, 2020. Through our national customer relationship program, our sales teams serve as a single point of contact for those customers' equipment rental needs. This enables us to be a full end-to-end solutions provider.

Superior Customer Service—We have a well-established reputation for superior customer service, which has been a competitive differentiator for us throughout our history. Senior management remains focused on enhancing our customer service focused culture. We provide a suite of comprehensive services to support our customers and to maintain and service the equipment we rent. We spend significant time and resources training our personnel to effectively address the needs of our customers. We believe that these initiatives help support our pricing strategy and foster customer loyalty.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM I. BUSINESS (Continued)

Range of Value-Added Services—We offer a suite of customer-focused services. These services include equipment transport, fleet management and telematics, power solutions, on-site services and customized advice, re-rental options, and parts and supplies sales. This combination of services is designed to offer comprehensive value-added solutions to our customers that complement and enhance the rental equipment we offer.

Experienced Senior Leadership Team—We have an experienced senior leadership team committed to maintaining operational excellence with an average of approximately 21 years of experience in the equipment rental and heavy equipment industries. Our senior leadership team has extensive knowledge of all aspects of these industries, particularly in North America. Our team is dedicated to providing our customers a quality rental experience and is committed to further improving our performance capabilities.

Our Strategy

Our long-term strategy is focused on five priorities: developing our people and culture; expanding and diversifying our revenues; improving our operating effectiveness; enhancing the customer experience; and disciplined capital management. Through delivering on these priorities, we continue to identify additional environmental, social and governance ("ESG") related goals and enhance our reporting in the areas where we have a positive impact on our people and the communities we serve.

Develop Our People and Culture—We aspire to be the employer of choice in our industry, and we recognize that our people and culture are essential to our long-term, profitable growth. We are focused on attracting, developing and retaining diverse talent while continuously enhancing the overall employee experience. We have launched leadership development programs to improve our overall bench strength and employee engagement. We will continue to expand the learning and development opportunities available to our employees while creating compelling career paths which will contribute to our ability to attract and retain talent. We have implemented an employee survey process which enables us to better understand the needs and expectations of our employees. We are committed to identifying programs which will support and enhance the well-being of our employees while recognizing them for their contributions to our success. Our commitment to developing our people and culture is directly aligned with and strengthens our ability to become the supplier and investment of choice in our industry.

Expand and Diversify Revenues—We seek to achieve ongoing growth via our strategy to expand and diversify our revenues through customer- and market-focused initiatives. We have expanded and diversified our equipment rental fleet with a broader mix of equipment that increases the range of customers and markets we serve. We are growing our ProSolutions^R business which offers specialized equipment and services, including technical expertise and customized solutions, for customers and projects, as well as our ProContractor business, which focuses on professional grade tools and equipment that meet their needs. We will continue to offer a comprehensive equipment rental fleet to maintain our market leadership.

We are expanding our footprint in North America, with a focus on increasing the number of branches in major urban markets, and to continue to reconfigure existing locations with fleet and expertise tailored to local markets. Our footprint expansion includes locations dedicated to our ProSolutions^R and ProContractor business to better support our growing specialty equipment and services operations. We will continue to pursue initiatives that allow us to drive more volume through existing branches.

We are also increasing our focus on generating revenue from ancillary services as part of our total solutions offering.

Improve Operating Effectiveness—We are focused on generating continuous improvement across our operations, with an emphasis on building a strong safety culture, supplier management, fleet availability and improving margins. We continue to emphasize our commitment to building a safety culture across our business, including ongoing training and institutionalized programs, to embed safety awareness and behaviors into our daily operations. We have reduced the number of suppliers in each equipment category of our equipment rental fleet. This provides us with improved buying power as we negotiate our fleet purchases and lends efficiencies to our services and repair processes. Further, we are concentrating our capital expenditures on premium brands from top-tier suppliers, which we expect will reduce life cycle costs and deliver better end-of-service resale values. We have developed and rolled out the "Herc Way" operating model and other systems and procedures for developing and monitoring our branch network in order to foster a high operational standard throughout our locations. We will maintain our focus on optimizing our Herc Way operating model, which is designed to ensure a consistently efficient approach to managing, servicing and repairing our fleet.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM I. BUSINESS (Continued)

We are continuing to build a highly professional and technology-enabled sales force and to optimize our sales territories to support our revenue growth objectives. We will continue to improve the effectiveness of our sales team with focused training, strong customer relationship management capabilities, and ongoing technology enhancements.

Enhance the Customer Experience—We seek to differentiate our business by delivering a superior customer experience through the variety and quality of the equipment we offer, the ease of doing business with us and the added value we offer through services and technologies that improve customers’ productivity and efficiency. Our focused investment in top-tier brands is intended to meet our customers’ preferences and expectations for reliable, safe, efficient and effective gear. We are committed to delivering technology enhancements that enable us to drive improvements in customers’ efficiency and productivity. In developing these technologies, we are focused on meeting customer expectations related to convenience and on-demand access to data and information. Additionally, we provide training programs to our customers that focus on product use and safety.

Disciplined Capital Management—We manage our equipment rental fleet using a life cycle approach designed to optimize the timing of fleet purchasing, repair and maintenance and disposal, while at the same time satisfying our customers’ needs. Through continued use and development of our disciplined approach to efficient fleet management, we seek to maximize our utilization and return on investment.

Our Products and Services

Our principal products and services are described below.

Equipment Rental—We offer for rent, on an hourly, daily, weekly or monthly basis, equipment from a variety of leading, globally known original equipment manufacturers, with which we maintain strong relationships. The equipment is typically new at the time of acquisition and is not subject to any repurchase program. As of December 31, 2020, the average age of our equipment fleet was 46 months.

As of December 31, 2020, our rental fleet consisted of equipment with a total original equipment cost, based on the guidelines of the American Rental Association, of \$3.59 billion. The following table provides a breakdown of the composition of our equipment rental fleet based on original equipment cost:

Equipment Type	% of Original Equipment Cost	
	December 31,	
	2020	2019
Aerial - Booms	16.4 %	17.1 %
Aerial - Scissors and Other	7.2 %	7.3 %
Total Aerial	23.6 %	24.4 %
Material Handling - Telehandlers	13.3 %	13.6 %
Material Handling - Industrial	4.0 %	4.1 %
Total Material Handling	17.3 %	17.7 %
Earthmoving - Compact	8.0 %	8.3 %
Earthmoving - Heavy	5.5 %	5.6 %
Total Earthmoving	13.5 %	13.9 %
ProSolutions ^R	17.4 %	15.9 %
Trucks and Trailers	14.6 %	14.0 %
ProContractor	5.8 %	6.0 %
Air Compressors	2.3 %	2.4 %
Lighting	1.9 %	1.8 %
Compaction	1.3 %	1.4 %
Other	2.3 %	2.5 %

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM I. BUSINESS (Continued)

Sales of Used Rental Equipment—We routinely sell our used rental equipment to manage repair and maintenance costs, as well as the composition, age and size of our fleet. We dispose of our used equipment through a variety of channels, including retail sales to customers and other third parties, sales to wholesalers, brokered sales and auctions.

Sales of New Equipment, Parts and Supplies—We also sell new equipment. The types of new equipment that we sell vary by location and include a variety of ProContractor tools and supplies, small equipment (such as work lighting, generators, pumps, and compaction equipment and power trowels), safety supplies and expendables.

Our Customers

We have a wide range of customers across diverse markets with a large base of local small to mid-size customers as well as customers seeking specialty solutions or equipment. The principal markets we serve, based on our customers' Standard Industrial Classification ("SIC") codes, are as follows:

- **Contractors** - We serve various types of contractors in non-residential and residential construction, specialty trade, restoration, remediation and environment and facility maintenance. Contractor business represented approximately 33% of our equipment rental revenue for the year ended December 31, 2020.
- **Industrial** - We serve industrial customers across a broad range of industries, including refineries and petrochemical operations, industrial manufacturing including automotive and aerospace, power, metals and mining, agriculture, pulp, paper and wood and food and beverage. We believe that key drivers of growth within the industrial market include increased levels of spending on industrial capital and maintenance, repairs and overhaul. Industrial customers represented approximately 30% of our equipment rental revenue for the year ended December 31, 2020.
- **Infrastructure and Government** - We serve our infrastructure customers across a wide range of projects such as highways and bridges, sewer and waste, railroads and other transportation, utilities as well as all governmental spending. Infrastructure and government represented approximately 18% of our equipment rental revenue for the year ended December 31, 2020.
- **Other Customers** - In addition, we serve a variety of other customers across a diverse range of industries, including commercial facilities, hospitality, healthcare, recreation, entertainment production and special event management. These customers collectively represented approximately 19% of our equipment rental revenue for the year ended December 31, 2020.

We operate in mid-size and large urban markets serving a wide range of industries, which enables us to reduce exposure to any single customer or market, with no single customer making up more than 3% of our equipment rental revenue for the years ended December 31, 2020, 2019 or 2018. Our footprint and broad customer base also assist in reducing the seasonality of our revenues and the impact from any one market's cycle.

Sales and Marketing

We market and sell our services through a variety of complementary programs. Through a dedicated sales team, we provide our customers with support services, market and application expertise, and sales offerings. For example, we have sales teams committed to servicing various categories of our customer base, including clients in the construction, industrial, government and entertainment industries. Our product experts oversee general rentals and specialty products, providing application support and program management services to our clients. Through our national accounts program, our dedicated sales team provides our large customers with support across a number of diverse geographic, functional and equipment sectors. We also provide client support via our sales coordinators, reservation centers and customer care centers to help customers with their comprehensive needs.

We advertise our broad range of offerings through industry catalogs, participation and sponsorship of industry events, trade shows, and via the Internet. Additionally, through our website and mobile apps, our customers can arrange for the rental of equipment, browse and purchase used equipment, review our service offerings and manage their fleet and overall account with us.

Competition

Competition in the equipment rental industry is intense, often taking the form of aggressive price competition. Other competitive factors include customer loyalty, changes in market penetration, the introduction of new equipment, services and

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

technology by competitors, changes in marketing, product diversity and quality and the ability to supply equipment and services to customers in a timely, predictable manner.

Our competitors in the equipment rental industry range from other large national companies to regional and local businesses and include equipment vendors and dealers who both sell and rent equipment directly to customers. The equipment rental industry is highly fragmented, with many companies operating on a regional or local scale and offering a limited number of products. The number of our competitors operating on a national scale is comparatively much smaller, although they often have significant breadth in their rental equipment categories. We believe, based on market and industry data, that we are one of the leading participants in the North American equipment rental industry, with the remainder comprised of a small number of multi-location regional operators and a large number of relatively small, independent businesses serving discrete local markets and specialty rental segments. In North America, the other leading national-scale industry participants are United Rentals, Inc., Ashtead Group plc's Sunbelt Rentals brand and H&E Equipment Services, Inc. Aggreko is a global competitor in the power generation rental markets in which we also participate.

Seasonality

Our business is seasonal, with demand for our rental equipment tending to be lower in the winter months, particularly in the northern United States and Canada. Our equipment rental business, especially in the construction industry, has historically experienced decreased levels of business from December until late spring and heightened activity during our third and fourth quarters until December. We have the ability to manage certain costs to meet market demand, such as fleet capacity, the most significant portion of our cost structure. For instance, to accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. A number of our other major operating costs vary directly with revenues or transaction volumes; however, certain operating expenses, including rent, insurance and administrative overhead, remain fixed and cannot be adjusted for seasonal demand, typically resulting in higher profitability in periods when our revenues are higher, and lower profitability in periods when our revenues are lower. To reduce the impact of seasonality, we are focused on expanding our customer base through specialty products that serve different industries with less seasonality and different business cycles. See Item 1A "Risk Factors—Risks Related to Our Business."

Intellectual Property

We own intellectual property, including trademarks, copyrights and trade secrets, that plays an important role in maintaining our competitive position. While no single copyright or trade secret is, in our opinion, of such value to us that our business would be materially affected by the expiration or termination thereof, taken in the aggregate, these intellectual property rights provide meaningful protection for our business. However, we view the name and primary mark "Herc Rentals" and "Herc" as material to our business as a whole. We own a number of secondary trade names and trademarks applicable to certain aspects of our business that we also view as important.

Human Capital Management

As of December 31, 2020, we employed approximately 4,800 people, some of whom are covered by a variety of union contracts and, in the case of Canadian employees, have governmental regulations affecting, among other things, compensation, job retention rights and pensions. Approximately 390 employees in the United States and 150 employees in Canada are covered by collective bargaining arrangements and we believe that our relations with the labor unions are good. We also employ a number of temporary workers, and engage outside services, as is customary in the industry, principally for the movement of rental equipment between rental locations and the movement of rental equipment to and from customers' job sites.

Oversight and Management—Our vision is to be the supplier, employer and investment of choice in our industry. To fulfill this vision, we are investing significant time, effort and resources into recruiting top talent, developing our employees and providing a positive, inclusive and supportive environment. Our Chief Human Resources Officer ("CHRO") is responsible for managing employment-related matters, including recruiting and hiring, onboarding and training, compensation planning, performance management and professional development. In addition, the CEO and CHRO regularly update our Board of Directors and its committees on the operation and status of human capital trends and activities.

Under the direction of the CEO and CHRO, we conduct an anonymous employee survey on an annual basis to seek feedback from our employees on a variety of topics, including confidence in company leadership, competitiveness of our compensation and benefits package, career growth opportunities and improvements on how we could make our company an employer of choice. The results are reviewed by senior leadership and the Board of Directors who analyze areas of progress or deterioration and prioritize actions and activities in response to this feedback to drive meaningful improvements in employee engagement.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM I. BUSINESS (Continued)

Safety—We require an active commitment to, and personal accountability for, safety and safety compliance from all employees and contractors. Operations leaders have a key role in the communication and implementation of, and ensuring adherence to, safety and compliance policies and standards. Our safety culture is predicated on training, communications, empowerment, measurement and recognition.

Training includes more than 100 online, on-demand courses available to all team members, weekly branch "Toolbox Safety Meetings" centered on our safety guides and a lessons learned library of incidents and preventative recommendations.

Safety communications include an annual commitment to safety and ongoing safety reminders from the CEO, monthly "Safety Thoughts" messages that reinforce safety awareness and behaviors at work and at home, safety boards at every branch that serve as a dedicated resource for safety-related information, and morning stretch and safety huddles at all locations to help get every working day off to a safe start. We strive for the "Perfect Day" which is defined as a working day across our company with (i) no OSHA recordable incidents, (ii) no Department of Transportation violations and (iii) no "at fault" motor vehicle accidents. All of our branches achieved at least 98% Perfect Days in 2020.

All employees are empowered to intervene with a Stop Work Authority ("SWA") when they perceive an unacceptable safety condition, act or situation where an individual's lack of understanding could result in an incident. The SWA is supported through Safety Alert communications that emphasize safety practices and a daily observation program at our locations that prepares employees to assess their work environment and tasks for potential hazards.

We track and share standard safety performance metrics throughout the organization, such as the OSHA Total Recordable Incident Rate ("TRIR"), the Days Away/Restricted Transfer Rate ("DART") and Lost Time Case Rate ("LTC"). During the year ended December 31, 2020, we had a TRIR of 0.86, a DART of 0.36 and LTC of 0.16.

Health and Well-being—The health and well-being of our employees and their families is a top priority for us and we offer an array of health and financial benefits to our full-time employees including:

- Comprehensive health insurance including semi-annual biometric screening events;
- Our employee assistance program which offers confidential resources and assistance for everyday issues, such as work pressure and relationship issues, and highly impactful issues, such as loss, disability, anxiety or depression, especially in light of the challenges associated with COVID-19;
- A life planning account which provides employees with limited reimbursement for items such as wellness activities, student loans and education and financial planning;
- Company paid life and disability insurance; and
- Tuition reimbursement programs

We also provide employees with several voluntary benefits and optional services that support total well-being, including physical, mental and financial wellness.

Training and Talent Development—We are committed to the continued development of our employees and offer learning and development opportunities spanning instructor-led and online, on-demand courses that support improved performance and effectiveness as well as personal and professional growth. These opportunities apply to all employees across all stages of career progression and job responsibilities. More than a dozen instructor-led courses enhance employees' sales, managerial leadership and role-specific skills, such as our ProDriver Academy, Yard-to-Driver program, Shop and Counter Operations, and a Professional Development Series designed to improve the skills necessary to navigate and succeed in the workplace. In 2020, our employees enhanced their skills through approximately 150,000 hours of training focused in the areas of safety, customer service, sales fundamentals, process and tool training, management basics and soft skills, leveraging over 1,000 unique training assets and programs.

Strategic talent review and succession planning occur on a planned cadence annually. The CEO and CHRO meet regularly with senior leadership and the Board of Directors to review succession plans. We seek to provide opportunities for our employees to grow their careers by increasing our focus on internal talent mobility, which resulted in filling many open management positions internally during the year ended December 31, 2020.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1. BUSINESS (Continued)

Inclusion and Diversity—We strive to build a team that reflects the variety of people, cultures and communities we interact with to create an inclusive, productive environment. We believe that varied perspectives best leverage employee talents, leading to creative thinking, open communication and greater customer and team engagement. As part of our recruiting team, two individuals have earned the AIRS Certified Diversity Recruiter designation, which provides the knowledge and tools to create an effective plan for recruiting a diverse and inclusive workforce. As of December 31, 2020, females represented approximately 12% of our workforce and 16% of our managerial roles. Additionally, 30% of our non-employee members of the Board of Directors are female. As of December 31, 2020, minorities represented approximately 29% of our workforce and 15% of our managerial roles.

Our efforts to build an inclusive team led to the creation of two employee resource groups, Women in Action and the Veterans Resource Group. Women in Action seeks to empower, support and develop women by facilitating the exchange of knowledge and experiences through learning opportunities as well as with internal and external networking events. Similarly, the Veterans Resource Groups offers veterans a community of support, networking, collaboration, learning and sharing. As of December 31, 2020, approximately 450 of our employees have self-reported as veterans.

Environmental, Health, and Safety Matters and Governmental Regulation

Environmental, Health, and Safety—Our operations are subject to numerous national, state, local and international laws and regulations governing environmental protection and occupational health and safety matters. These laws govern such issues as wastewater, storm water, solid and hazardous wastes and materials, air quality and matters of workplace safety. Under these laws and regulations, we may be liable for, among other things, the cost of investigating and remediating contamination at our sites as well as sites to which we send hazardous wastes for disposal or treatment regardless of fault, as well as fines and penalties for non-compliance. Our operations generally do not raise significant environmental, health, or safety risks, but we use hazardous materials to clean and maintain equipment, dispose of solid and hazardous waste and wastewater from equipment washing, and store and dispense petroleum products from storage tanks at certain of our locations.

Based on the conditions currently known to us, we do not believe that any pending or likely remediation and compliance costs will have a material adverse effect on our business. We cannot be certain, however, as to the potential financial impact on our business if new adverse conditions are discovered, or compliance requirements become more stringent. See Item 1A "Risk Factors—Other Operational Risks."

Governmental Regulation—Our operations also expose us to a number of other national, state, local and international laws and regulations, in addition to legal, regulatory and contractual requirements we face as a government contractor. These laws and regulations address multiple aspects of our operations, such as taxes, consumer rights, privacy, data security and employment matters, and also may impact other areas of our business. There are often different requirements in different jurisdictions. Changes in government regulation of our business has the potential to materially alter our business practices or our profitability. Depending on the jurisdiction, those changes may come about through the issuance of new laws and regulations or changes in the interpretation of existing laws and regulations by a court, regulatory body or governmental official. Sometimes those changes may have both a retroactive and prospective effect. This is particularly true when a change is made through reinterpretation of laws or regulations that have been in effect for some time. Moreover, changes in regulation that may seem neutral on their face may have either more or less impact on us than on our competitors, depending on the circumstances. See Item 1A "Risk Factors—Other Operational Risks."

Available Company Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission ("SEC"). You may also access, free of charge, our reports filed with the SEC (for example, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) through our Internet website (<http://ir.hercrentals.com>). Reports filed with or furnished to the SEC will be available through our Internet website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our committee charters, Corporate Governance Guidelines and Code of Ethics are also available on our website. The information found on our website is not part of this or any other report filed with or furnished to the SEC. The SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information about issuers that file electronically with the SEC, including Herc Holdings.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS

Investing in or maintaining your investment in Herc Holdings common stock involves risk. You should carefully consider each of the risks and uncertainties set forth below as well as the other information contained in this Report before deciding to invest in our common stock. We have grouped our Risk Factors under captions that we believe describe various categories of potential risk. For the reader's convenience, we have not duplicated risk factors that could be considered to be included in more than one category. Any of the following risks and uncertainties could materially and adversely affect our business, financial condition, results of operations, liquidity and/or cash flows and the impact could be compounded if multiple risks were to occur. However, the following risks and uncertainties are not the only risks and uncertainties facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial also may materially and adversely affect our business, financial condition, results of operations, liquidity and/or cash flows. In the event that any of these risks have such a material adverse effect, the market price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Our business is cyclical and depends on the levels of capital investment and maintenance expenditures by our customers. A slowdown in economic conditions or adverse changes in the level of economic activity or other economic factors specific to our customers or their industries, in particular contractors and industrial customers, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our rental equipment is used by our customers in a wide variety of industries, including contractors in residential and commercial construction and restoration, remediation and environment; general industrial, including refineries and petrochemical operations, manufacturing, power, metals and mining and agriculture; infrastructure; and other customers, including commercial and retail services, facility maintenance, recreation and entertainment production. Many of these industries are cyclical in nature. The demand for our rental equipment is directly affected by the level of economic activity in these industries, which means that when these industries experience a decline in activity, there is likely a corresponding decline in the demand for our rental equipment. This could materially adversely affect our results of operations.

A substantial portion of our revenues are derived from the rental of equipment to various types of contractors, including in the non-residential construction market, and to industrial customers. A decline in construction or industrial activity could lead to a decrease in the demand for our rental equipment and intensified price competition from other equipment rental industry participants. Similarly, declines in oil or gas prices, or even the perception of longer-term lower oil and natural gas prices, could lead to a significant slowdown in business activity, capital investments and maintenance expenditures of industrial customers in the upstream oil and gas markets and related service providers, which could negatively affect our rentals to participants in this industry, and could extend to other markets that we serve. Worsening of economic conditions or not achieving anticipated levels of economic expansion, either generally or in our customers' specific industries, could have an adverse effect on demand for our products and services within those industries and extend to other markets that we serve, and could therefore materially adversely affect our business, financial condition and results of operations.

The following factors, among others, may cause weakness in our markets, either temporarily or long-term:

- a decrease in the expected levels of rental versus ownership of equipment;
- government regulations and policies, including government initiatives for infrastructure improvements or expansions, or the policies of governments regarding exploration for, and production and development of, oil and natural gas reserves;
- a prolonged or recurring shutdown of the U.S. government;
- an increase in the cost of construction materials;
- the level of supply and demand and relative prices or anticipated prices for oil and natural gas;
- an overcapacity of fleet in the equipment rental industry;
- a lack of availability of credit;
- an increase in interest rates; and
- terrorism or hostilities involving the United States or Canada.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

Additionally, some of our customers may delay capital investment and maintenance even when favorable conditions exist in their industries or markets.

If we were to experience a significant decrease in orders or an increase in order delays or cancellations that can result from the aforementioned economic conditions or other factors beyond our control, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our industry is highly competitive, and competitive pressures or not timely identifying and responding to customer needs, expectations or trends could lead to a decrease in our market share or in the prices that we can charge.

The equipment rental industry is highly fragmented and competitive. Our competitors include small, independent businesses with one or two rental locations, regional competitors that operate in one or more states, public companies or divisions of public companies, and equipment vendors and dealers who both sell and rent equipment directly to customers. We may in the future encounter increased competition from our existing competitors or from new competitors. Competitive pressures could adversely affect our revenues and operating results by, among other things, decreasing our rental volumes, depressing the prices that we can charge or increasing our costs to retain employees. In addition, the success of our business depends, in part, on our ability to identify and respond promptly to evolving trends in consumer preferences, expectations and needs while also managing appropriate equipment in our branches and maintaining an excellent customer experience. It is difficult to successfully predict the equipment and services our customers will demand. We also need to offer more localized assortments of our equipment to address local requirements and needs. If we do not successfully identify and provide the appropriate equipment to meet our customers' needs and expectations, we may lose market share.

The widespread outbreak of an illness or any other communicable disease, or any other public health crisis, could adversely affect our business, results of operations and financial condition.

The widespread outbreak of an illness or any other communicable disease, or any other public health crisis that results in economic and trade disruptions could negatively impact our business and the businesses of our customers. In December 2019, a novel strain of coronavirus, COVID-19, was identified and the virus continues to spread globally. COVID-19 has spread throughout the world, including the United States and Canada, and the World Health Organization has declared COVID-19 a pandemic. Many jurisdictions have implemented orders to slow and limit the transmission of the virus. These orders have limited or prohibited certain economic activity, including, in some jurisdictions, the shutdown of construction activity.

COVID-19 has caused many of our customers to delay or cancel projects and events, leading to a decrease in demand for our rental equipment and services, possible deterioration in our customers' financial condition and their inability to timely pay outstanding receivables owed to us. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frame, will depend on future developments, including the duration and spread of the pandemic and related restrictions on economic activity, all of which are uncertain and cannot be predicted. An extended period of economic disruption could materially affect our business, results of operations, access to sources of liquidity, particularly our cash flow from operations, and financial condition.

Our business is heavily reliant upon communications networks and centralized IT systems and the concentration of our systems creates or increases risks for us, including the risk of the misuse or theft of information as a result of cybersecurity breaches or otherwise, which could harm our brand, reputation or competitive position and give rise to material liabilities.

We rely heavily on communication networks and IT systems, including the Internet, to process rental and sales transactions, manage our pricing, manage our equipment fleet, manage our financing arrangements, pay suppliers and other third parties, collect from our customers, account for our activities and otherwise conduct our business and report our financial results. Our major IT systems and accounting functions are centralized in a few locations. Any disruption, termination or substandard provision of these services, whether as the result of computer or telecommunications issues (including operational failures, ransomware or other computer malware), localized conditions (such as a power outage, fire or explosion) or events or circumstances of broader geographic impact (such as an earthquake, storm, flood, other natural disaster, epidemic, strike, act of war, civil unrest or terrorist act), could materially adversely affect our business by disrupting normal operations. Our systems are also subject to cyber attacks (such as business e-mail compromise or other social engineering attacks) which, if successful, could have a materially adverse affect on our ability to operate our business and negatively impact our reputation.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

We regularly possess, store and handle non-public information about individuals and businesses, including both credit and debit card information and other sensitive and confidential personal information. In addition, our customers regularly transmit confidential information to us via the Internet and through other electronic means. Our facilities and systems and those of our third-party service providers may contain defects in design or manufacture or other problems that could compromise information security, and are also subject to the risk of human error. Unauthorized parties also may attempt to gain access to our systems or facilities, or those of third parties with whom we do business, and these attacks are increasing in their frequency, sophistication and intensity. Many of the techniques used to obtain unauthorized access, including malware and other malicious software programs, are difficult to anticipate until launched against a target and we may be unable to implement adequate preventative measures.

A compromise of our security systems resulting in unauthorized access to certain personal information about our customers, distributors or employees could adversely affect our corporate reputation as well as our operations, and could result in litigation against us or the imposition of penalties. Security breaches can create system disruptions, shutdowns or unauthorized disclosure of confidential information, which could result in financial damage or loss. Most states have enacted laws requiring companies to notify individuals and often state authorities of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which would harm our reputation and brand, and may cause our customers and employees to lose confidence in the effectiveness of our data security measures. As a result, a security breach could cause the loss of customers and could also require that we invest significant additional resources related to our information security systems.

In addition, we outsource a portion of our IT services. Therefore, we are also susceptible to disruptions, failures and breaches of the systems maintained by our outsourced providers, which we do not control. Any disruption, failure, breach or poor performance of any of these systems could lead to lower revenues, increased costs or other material adverse effects on our business and results of operations.

Failure to maintain, upgrade or replace our IT systems could materially adversely affect us.

Our business continues to demand the use of sophisticated systems and technology. As a result, we devote significant time and expense in maintaining, upgrading or replacing our systems in order to meet customers' demands and expectations. These types of activities subject us to additional costs and inherent risks associated with replacing and changing these systems, including impairment of our ability to manage our business, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, demands on management time, training our employees to operate the systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. We rely on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. Further, the software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner.

In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology, maintenance or adequate support of outdated or other existing systems could disrupt or reduce the efficiency of our business operations and could have an adverse effect on our operations if not anticipated and appropriately mitigated. Our competitive position may be adversely affected if we are unable to maintain, upgrade or replace systems that allow us to manage our business in a competitive manner. We also may not achieve the benefits that we anticipate from an upgraded or replaced system. Additionally, any systems failures could impede our ability to timely collect and report financial results in accordance with applicable laws and regulations.

We may fail to respond adequately to changes in technology and customer demands.

In recent years, our industry has been characterized by rapid changes in technology and customer demands. For example, industry participants have taken advantage of new technologies to improve fleet efficiency, decrease customer wait times and improve customer satisfaction. Our ability to continually improve our current processes and customer-facing tools in response to changes in technology or in customer expectations is essential in maintaining our competitive position and maintaining current levels of customer satisfaction. We may experience technical or other difficulties that could delay or prevent the development or implementation of new technologies. We also may not achieve the benefits that we anticipate from new

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

technologies we develop or implement. The effects of these risks may, individually or in the aggregate, materially adversely affect our results of operations, liquidity and cash flows.

We face intense competition, including from our own suppliers, that may lead to downward pricing or an inability to increase prices.

The markets in which we operate are highly competitive. Competitive factors in our industry include price competition, the importance of customer loyalty, changes in market penetration, the introduction of new equipment, services and technology by competitors, changes in marketing, product diversity and quality and the ability to supply equipment and services to customers in a timely, predictable manner. Because we do not have multi-year contractual arrangements with many of our customers, these competitive factors could cause our customers to cease renting our equipment and shift suppliers quickly.

The equipment rental market is highly fragmented, and we believe that price is one of the primary competitive factors. The Internet has enabled cost-conscious customers to more easily compare rates available from rental companies. If we try to increase our pricing, our competitors, some of whom may have greater resources and better access to capital or lower fixed operating costs, may seek to compete aggressively on the basis of pricing. In addition, our competitors may reduce prices in order to attempt to gain a competitive advantage, capture market share or compensate for declines in rental activity. To the extent we do not match or remain within a reasonable competitive margin of our competitors' pricing, our revenues and results of operations could be materially adversely affected. If competitive pressures lead us to match any of our competitors' downward pricing and we are not able to reduce our operating costs, then our margins, results of operations and cash flows could be materially adversely impacted.

We face competition from traditional rental companies as well as our own suppliers. We purchase our rental equipment from leading, globally-known original equipment manufacturers. Under our supplier arrangements, the suppliers may appoint additional distributors, elect to sell or rent directly to our customers or unilaterally terminate their arrangements with us at any time without cause. Any such actions could have a material adverse effect on our business, financial condition, results of operations, liquidity and cash flows due to a reduction of, or an inability to increase, our revenues.

Our success depends on our ability to attract and retain key management, sales and trades talent, while supporting the onboarding and career development of our team members.

Our ability to successfully execute on our business plan depends upon the contributions of our senior management team as well as other key talent including our dedicated sales force and trades talent such as drivers and mechanics. In recent years we have experienced increasing competition for available talent in the North American workforce as reflected by the low unemployment rate and shortages of available industry trades talent. As a result, we could experience inefficiencies or a lack of business continuity due to employee turnover, new employees' lack of historical knowledge and lack of familiarity with the business processes, operating requirements, policies and procedures, and key information technologies and related infrastructure used in our day-to-day operations and financial reporting. Historically we have noted a ramp-up period before new members of our sales organization typically achieve a level of sales comparable to those we have employed for a longer period of time. We may also experience additional costs as new employees learn their roles and gain necessary experience, in addition to the cost of hiring new individuals. It is important to our success that newly hired team members quickly adapt to and excel in their new roles. If they are unable to do so, our business and financial results could be materially adversely affected. Further, if we cannot meet our needs for IT staff, we may not be able to fulfill our technology initiatives while continuing to provide maintenance on existing systems.

If we were to lose the services of members of our senior management team or other key talent, whether due to death, disability, resignation or termination of employment, our ability to successfully implement our business strategy, financial plans, marketing and other objectives could be significantly impaired. In addition, if we are unable to attract and retain qualified key talent, we may not be able to effectively and efficiently manage our business and execute our business plan.

Due to seasonality, especially in the construction industry, any occurrence that disrupts rental activity during our peak periods could materially adversely affect our results of operations, liquidity and cash flows.

Significant components of our expenses are fixed in the short-term, including real estate taxes, rent, insurance, utilities, maintenance and other facility-related expenses, the costs of operating our IT systems and certain staffing costs. Seasonal changes in our revenues do not alter those fixed expenses, typically resulting in higher profitability in periods when our

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

revenues are higher, and lower profitability in periods when our revenues are lower. Our business, especially in the construction industry, has historically experienced lower levels of business from December until late spring, particularly in the northern United States and Canada, and heightened activity during our third and fourth quarter until December. Any occurrence that disrupts rental activity during this period of heightened activity, including adverse weather conditions such as prolonged periods of cold, rain, blizzards, floods, fires, hurricanes or other severe weather patterns, could have a disproportionately adverse effect on our business, results of operations, liquidity and cash flows.

Some or all of our deferred tax assets could expire if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code (the "Code").

An "ownership change" could limit our ability to utilize tax attributes, including net operating losses, capital loss carryovers, excess foreign tax carryforwards, and credit carryforwards, to offset future taxable income. As of December 31, 2020, we had unutilized U.S. federal net operating loss carryforwards of approximately \$302.6 million. Our ability to use such tax attributes to offset future taxable income and tax liabilities may be significantly limited if we experience an "ownership change" as defined in Section 382(g) of the Code. In general, an ownership change will occur if and when the percentage of Herc Holdings' ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percentage points over the lowest percentage of stock owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally should be subject to an annual limitation on its pre-ownership change tax loss carryforward which accumulates each year to the extent that there is any unused limitation from a prior year. The limitation on our ability to utilize tax losses and credit carryforwards arising from an ownership change under Section 382 depends on the value of our equity at the time of any ownership change. If we were to experience an "ownership change," it is possible that a significant portion of our tax loss carryforwards could expire before we would be able to use them to offset future taxable income. Many states have adopted the federal Section 382 rules and therefore have similar limitations with respect to state tax attributes.

Other Operational Risks

Any decline in our relationships with our key national account customers or the amount of equipment they rent from us could materially adversely affect our business, financial position, results of operations and cash flows.

Our business depends on our ability to maintain positive relations with our key national account customers, which collectively accounted for 45% of our rental revenue in 2020. We cannot assure you that all of these relationships will continue at current levels or on current terms. Our contracts with our customers generally do not obligate them to rent equipment from us. Revenue from customers that have accounted for significant revenue in past periods, individually or as a group, may not continue in future periods or, if continued, may not reach or exceed historical levels in any period. Further, if our key customers fail to remain competitive in their respective markets or encounter financial or operational problems, our business, financial position, results of operations and cash flows may be materially adversely affected.

Our rental fleet is subject to residual value risk upon disposition and may not sell at the prices we expect.

The market value of our equipment at the time of its disposition could be less than its estimated residual value or its depreciated value at such time. A number of factors could affect the value received upon disposition of our equipment, including:

- the market price for similar new equipment;
- the age of the equipment, wear and tear on the equipment relative to its age and the performance of preventive maintenance;
- the time of year that it is sold;
- the supply of used equipment relative to the demand for used equipment, including as a result of changes in economic conditions or conditions in the markets that we serve;
- inventory levels at original equipment manufacturers; and
- the existence and capacities of different sales outlets.

A sale of equipment below its net book value could adversely affect our results of operations, liquidity and cash flows. Accordingly, decisions to reduce the size of our rental fleet in the event of an economic downturn or to respond to changes in rental demand are subject to the risk of loss based on the residual value of rental equipment.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

We incur maintenance and repair costs associated with our rental fleet that could have a material adverse effect on our financial condition, results of operations, liquidity and cash flows in the event these costs are greater than anticipated.

As our rental equipment ages, the cost of maintaining such equipment, if not replaced within a certain period of time, and the risk of fleet equipment being out of service, generally increase. As of December 31, 2020, the average age of our rental equipment fleet was approximately 46 months. Determining the optimal age at disposition for our rental equipment is subjective and requires considerable estimates by management. We have made estimates regarding the relationship between the age of our rental equipment, the maintenance and repair costs, the availability of our fleet and the market value of used equipment. It is possible that we may allow the average age of our rental equipment fleet to increase, which would increase our costs for maintenance and repair and likely would negatively impact the market value of such equipment at the time of its disposition. If maintenance and repair costs are higher than estimated or in-service times or market values of used equipment are lower than estimated, our financial condition, results of operations, liquidity and cash flows could be materially adversely affected.

We are exposed to a variety of claims and losses arising from our operations, and our insurance may not cover all or any portion of such claims.

We are exposed to a variety of claims arising from our operations, including claims by third parties for injury or property damage arising from the operation of our equipment or acts or omissions of our personnel and workers' compensation claims. We are currently a defendant in numerous actions and have received numerous claims on which actions have not yet been commenced for liability and property damage arising from the operation of equipment rented from us. We also are exposed to risk of loss from damage to our equipment and resulting business interruption. Our responsibility for such claims and losses is increased when we waive the provisions in certain of our rental contracts that hold a renter responsible for damage or loss under an optional loss or damage waiver that we offer. While we attempt to mitigate our exposure to large liability losses arising from such claims by maintaining general liability, workers' compensation and vehicle liability insurance coverage, our coverage may not be adequate to protect us against these exposures and we self-insure against losses associated with exposures not covered by these insurance policies.

Moreover, in the event that insurance coverage does apply, we will bear a portion of the associated losses through the application of deductibles and self-insured retention in the insurance policies. For a company our size, such deductibles or self-insured retention could be substantial. There is also no assurance that insurance policies of these types will be available for purchase or renewal on commercially reasonable terms, or at all, or that the premiums and deductibles under such policies will not substantially increase, including as a result of market conditions in the insurance industry.

If we were to incur one or more liabilities that are significant, individually or in the aggregate, where we are not fully insured, that we self-insure against or that our insurers dispute, it could have a material adverse effect on our financial condition. Even with adequate insurance coverage, we still may experience a significant interruption to our operations as a result of third-party claims or other losses arising from our operations.

Environmental, health, and safety laws and regulations and the costs of complying with them, or any change to them impacting our markets, could materially adversely affect our financial position, results of operations and cash flows.

Our operations are subject to numerous national, state, provincial and local laws and regulations governing environmental protection and occupational health and safety matters. These laws govern such issues as wastewater, storm water, solid and hazardous wastes and materials, air quality and matters of workplace safety. Under these laws and regulations, regardless of fault we may be liable for, among other things, the cost of investigating and remediating contamination at our sites as well as sites to which we have sent hazardous wastes for disposal or treatment, and also fines and penalties for non-compliance. We use hazardous materials to clean and maintain equipment, dispose of solid and hazardous waste and wastewater from equipment washing, and store and dispense petroleum products from storage tanks at certain of our locations. We also indemnify various parties for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages. The amount of any such expense or related natural resource damages for which we may be held responsible could be substantial. We cannot predict the potential financial impact on our business if adverse environmental, health, or safety conditions are discovered, or environmental, health, and safety requirements become more stringent. As of December 31, 2020 and December 31, 2019, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in the Company's consolidated balance sheets in "Accrued liabilities" were \$0.4 million and \$0.2 million, respectively. If we are required to incur environmental, health, or safety

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

compliance or remediation costs that are not currently anticipated by us, our financial position, results of operations and cash flows could be materially adversely affected, depending on the magnitude of the cost.

Climate change and legal or regulatory responses thereto may have a long-term negative impact on our business and results of operations.

There is increasing concern that a gradual increase in global average temperatures due to the concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant change in weather patterns around the globe and increase the frequency and severity of natural disasters. Climate change may also exacerbate water scarcity, negatively impacting our capability to deliver equipment that meets the safety and functional expectations of our customers as well as the health and safety of our employees. Increased frequency or duration of extreme weather conditions could impact our business and the demand for our equipment and services. An increase in demand for rental equipment may require additional capital expenditures in order for us to compete for such demand and we may not be able to make similar levels of investment as our larger competitors. In addition, in an effort to combat climate change, our customers may require our rental equipment to meet certain standards. If we are unable to meet such standards and the expectations of our customers, our business and results of operations could be materially adversely affected.

In addition, the U.S. Congress and other legislative and regulatory authorities in the United States and internationally have considered, and likely will continue to consider, numerous measures related to climate change, greenhouse gas emissions and other laws and regulations affecting our end markets, such as oil, gas and other natural resource extraction. Should such laws and regulations become effective, demand for our services could be affected, our fleet and/or other costs could increase and our business could be materially adversely affected.

Further, investors are placing a greater emphasis on non-financial factors, including ESG factors, when evaluating investment opportunities. If we are unable to provide sufficient disclosure about ESG practices or if we fail to achieve ESG goals, investors may not view us as an attractive investment, which could have a negative effect on our stock price and business.

Part of our strategy includes pursuing strategic transactions, which could be difficult to identify and implement, and could disrupt our business or change our business profile significantly.

We may opportunistically consider the acquisition of other companies or service lines of other businesses that either complement or expand our existing business, or we may consider the divestiture of some of our businesses. Any acquisitions or divestitures we may seek to consummate will be subject to the negotiation of definitive agreements, satisfactory financing arrangements and applicable governmental approvals and consents, including under applicable antitrust laws, such as the Hart-Scott-Rodino Act. We cannot assure you that we will be able to identify suitable transactions and, even if we are able to identify such transactions, that we will be able to consummate any such acquisitions or divestitures on acceptable terms. Any future acquisitions or divestitures we pursue may involve a number of risks, including some or all of the following:

- the diversion of management's attention from our core business;
- the disruption of our ongoing business;
- inaccurate assessment of undisclosed liabilities;
- potential known and unknown liabilities of the acquired or divested businesses and lack of adequate protections or potential related indemnities;
- the inability to integrate our acquisitions without substantial costs, delays or other problems;
- the loss of key customers or employees of the acquired or divested business;
- increasing demands on our operational systems;
- the integration of information systems and internal control over financial reporting; and
- possible adverse effects on our reported results of operations or financial position, particularly during the first several reporting periods after an acquisition or divestiture is completed.

Any acquired entities or assets may not enhance our results of operations. Even if we are able to integrate future acquired businesses with our operations successfully, we cannot assure you that we will realize the cost savings, synergies or revenue enhancements that we may anticipate from such integration or that we will realize such benefits within the expected time frame. Any acquisition also may cause us to assume liabilities, record goodwill and other intangible assets that will be subject to

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

impairment testing and potential impairment charges, incur potential restructuring charges and increase working capital and capital expenditure requirements, which may reduce our return on invested capital.

If we were to undertake a substantial acquisition, the acquisition likely would need to be financed in part through additional financing from banks, through public offerings or private placements of debt or equity securities or with other arrangements. We cannot assure you that the necessary acquisition financing would be available to us on acceptable terms if and when required, given our substantial indebtedness and restrictions in the terms of our indebtedness that may limit the additional indebtedness that we may incur or the acquisitions that we may pursue, which may make it difficult or impossible for us to obtain financing for acquisitions. If we were to undertake an acquisition by issuing equity securities or equity-linked securities, the acquisition may have a dilutive effect on the interests of the holders of our common stock.

A significant divestiture would, in the short term, result in loss of revenues and possibly earnings, and could require the amendment or refinancing of our outstanding indebtedness or a portion thereof. Further, to the extent that we agree to accept payment of all or a portion of the sale price over time, we will bear the risk that the portion of the price that is not paid at closing may be uncollectible. In addition, in connection with any divestiture, we may agree to retain obligations related to the business or assets sold and we may agree to indemnify the purchaser for outstanding liabilities or with respect to the representations, warranties or covenants included in the definitive agreement between the parties. These retained obligations and indemnification obligations could result in significant costs and expenses.

We may face issues with our union employees.

Labor contracts covering the terms of employment of approximately 390 employees in the U.S. and 150 employees in Canada were in effect as of December 31, 2020 under approximately 20 active contracts with local unions, affiliated primarily with the International Brotherhood of Teamsters and the International Union of Operating Engineers. These contracts are renegotiated periodically. Failure to negotiate a new labor agreement when required could result in a work stoppage. Although we believe that our labor relations have generally been good, it is possible that we could become subject to additional work rules imposed by agreements with labor unions, or that work stoppages or other labor disturbances could occur in the future. In addition, our non-union workforce has been subject to unionization efforts in the past, and we could be subject to future unionization, which could lead to increases in our operating costs and/or constraints on our operating flexibility.

Risks Related to the Spin-Off and Our Separation from New Hertz

We and New Hertz have assumed and will share responsibility for certain liabilities in connection with the Spin-Off, any of which could have a material adverse effect on our business, financial condition and results of operations.

Pursuant to the separation and distribution agreement entered into in connection with the Spin-Off, we assumed, among other things, liabilities associated with our equipment rental business and related assets, whether such liabilities arose prior to or subsequent to the Spin-Off, and have agreed to indemnify New Hertz for any losses arising from such liabilities, as well as any other liabilities we assumed pursuant to the separation and distribution agreement. We also will be responsible for a portion (typically 15%) of certain shared liabilities not otherwise specifically allocated to us or New Hertz under the separation and distribution agreement. Although we will be responsible for a portion of these shared liabilities, New Hertz has the authority to manage the defense and resolution of them. The amount of such liabilities could be greater than anticipated and have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, New Hertz has assumed, among other things, liabilities associated with its vehicle rental business and related assets, whether such liabilities arose prior to or subsequent to the Spin-Off, and has agreed to indemnify us for any losses arising from such liabilities, as well as any other liabilities it assumed pursuant to the separation and distribution agreement. New Hertz also will be responsible for a portion (typically 85%) of certain shared liabilities not otherwise specifically allocated to New Hertz or us under the separation and distribution agreement. We rely on New Hertz to manage the defense and resolution of these shared liabilities. If New Hertz fails to satisfy its performance and payment obligations under the separation and distribution agreement, including its indemnification obligations, such failure could have a material adverse effect on our business, financial condition, results of operations and cash flows.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

If there is a determination that any portion of the Spin-Off transaction is taxable for U.S. federal income tax purposes, then we and our stockholders could incur significant U.S. federal income tax liabilities.

Hertz Holdings received a favorable private letter ruling from the Internal Revenue Service (the "IRS") to the effect that, subject to the accuracy of and compliance with certain representations, assumptions and covenants, (i) the Spin-Off qualified as a tax-free transaction under Sections 355 and 368(a)(1)(D) of the Code, and (ii) the internal spin-off transactions (collectively with the Spin-Off, the "Spin-Offs") qualified as tax free under Section 355 of the Code. A private letter ruling from the IRS generally is binding on the IRS. However, the IRS ruling does not rule that the Spin-Offs satisfied every requirement for a tax-free spin-off, and Hertz Holdings relied solely on opinions of its tax advisors to determine that such additional requirements were satisfied. The ruling and the opinions relied on certain facts, assumptions, representations and undertakings from Hertz Holdings and New Hertz regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, Herc Holdings, its affiliates and its stockholders may not be able to rely on the ruling or the opinions of tax advisors and could be subject to significant tax liabilities. Notwithstanding the private letter ruling and opinions of tax advisors, the IRS could determine on audit that the Spin-Offs and related transactions are taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinions that are not covered by the private letter ruling, or for other reasons, including as a result of certain significant changes in the stock ownership of Herc Holdings or New Hertz after the Spin-Off. If the Spin-Offs or related transactions are determined to be taxable for U.S. federal income tax purposes, we and, in certain cases, our stockholders could incur significant U.S. federal income tax liabilities, including taxation on the value of the New Hertz common stock in the Spin-Off.

The Spin-Off may be challenged by creditors as a fraudulent transfer or conveyance.

If, under relevant federal and state fraudulent transfer and conveyance statutes, in a bankruptcy or reorganization case or a lawsuit by or on behalf of unpaid creditors of New Hertz, a court were to find that (i) the Spin-Off and related transactions were undertaken with the intent of hindering, delaying or defrauding current or future creditors of New Hertz, or (ii) at the time that Hertz Holdings undertook the Spin-Off and related transactions, New Hertz was insolvent, or was rendered insolvent, by reason of the completion of the Spin-Off and related transactions, then the court could rescind the Spin-Off or, under certain circumstances, require Herc Holdings to fund liabilities of New Hertz for the benefit of creditors.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied in the relevant legal proceeding. Generally, however, New Hertz would be considered insolvent if, at the time that Hertz Holdings undertook the Spin-Off and related transactions, either:

- the sum of New Hertz's debts, including contingent liabilities, was greater than its assets, at a fair valuation; or
- the fair saleable value of New Hertz's assets was less than the amount required to pay the probable liability on its total existing debts and liabilities, including contingent liabilities, as they become absolute and matured.

We cannot give you any assurance as to what standards a court would use to determine whether New Hertz was solvent at the relevant time, or whether, whatever standard is used, the Spin-Off would be rescinded or other liabilities would be imposed on us on another of the grounds described above. We believe that no basis exists to challenge the Spin-Off as a fraudulent transfer or conveyance under the foregoing standards. However, in reaching such conclusion we have relied upon the advice of Hertz Holdings' management and its third-party advisors whose analysis was based on certain projections and other assumptions. We cannot assure you, however, that a court would reach the same conclusion.

Risks Related to Our Significant Indebtedness

Our significant level of indebtedness exposes or makes us more vulnerable to a number of risks that could materially adversely affect our financial condition, results of operations, cash flows, liquidity and ability to compete.

As of December 31, 2020, we had total outstanding debt of approximately \$1.7 billion, including our outstanding senior notes and the amounts drawn under our credit facilities. This significant indebtedness requires us to dedicate a significant portion of our cash flows from operations and investing activities to make payments on our debt, which reduces the amount available for working capital, capital expenditures or other general corporate purposes and which decreases our profitability and cash flow. We cannot assure you that we will maintain financing activities and cash flows sufficient to permit us to pay the principal,

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

premium, if any, and interest on our indebtedness. In addition, our indebtedness could materially adversely affect us. For example, it could: (i) make it more difficult for us to satisfy our obligations to the holders of our outstanding debt securities and to the lenders under our credit facilities, resulting in possible defaults on, and acceleration of, such indebtedness; (ii) be difficult to refinance or borrow additional funds in the future; (iii) increase our vulnerability to, and limit our flexibility to plan for, or react to, general adverse economic and industry conditions, (iv) place us at a competitive disadvantage to our competitors that have proportionately less debt or comparable debt at more favorable interest rates or on better terms; and (v) limit our ability to react to competitive pressures, or make it difficult for us to carry out capital spending that is necessary or important to our growth strategy and our efforts to improve operating margins. There is also a risk that one or more of the financial institutions providing commitments under our revolving credit facilities could fail to fund an extension of credit under any such facility, due to insolvency or otherwise, leaving us with less liquidity than expected. Our ability to manage these risks will depend, among other things, on financial market conditions as well as our financial and operating performance, which, in turn, is subject to a wide range of risks, including those described above under “—Risks Related to Our Business.”

If our capital resources (including borrowings under our financing arrangements and access to other refinancing indebtedness) and operating cash flows are not sufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced, among other things, to do one or more of the following: (i) sell certain of our assets; (ii) reduce the size of our rental fleet; (iii) reduce or delay capital expenditures; (iv) obtain additional equity capital; (v) forgo business opportunities, including acquisitions and joint ventures; or (vi) restructure or refinance all or a portion of our debt before maturity. We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. If we cannot refinance or otherwise pay our obligations as they mature and fund our liquidity needs, our business, financial condition, results of operations, cash flows, liquidity, ability to obtain financing and ability to compete could be materially adversely affected.

Substantially all of our consolidated assets secure certain of our indebtedness, which could materially adversely affect our business and holders of our debt and equity.

Substantially all of our consolidated assets, including our rental fleet, are subject to security interests under our revolving credit facility. As a result, the lenders under those financing arrangements have a secured claim on such assets in the event of our bankruptcy, insolvency, liquidation or reorganization, and we may not have sufficient funds to pay in full, or at all, all of our creditors or make any amount available to holders of our equity. The same is true with respect to structurally senior obligations. In general, all liabilities and other obligations of a subsidiary must be satisfied before the assets of such subsidiary can be made available to the unsecured or junior creditors (or equity holders) of the parent entity.

Because substantially all of our assets are encumbered under our revolving credit facility, our ability to incur additional secured indebtedness or to sell or dispose of assets to raise capital may be impaired, which could have a material adverse effect on our financial flexibility and liquidity and force us to attempt to incur additional unsecured indebtedness, which may not be available to us.

An increase in interest rates or in our borrowing margin would increase the cost of servicing our debt and could reduce our profitability.

A significant portion of our indebtedness bears interest at floating rates, which increases our vulnerability to general adverse economic and industry conditions (such as economic cycles and credit-related disruptions), including interest rate fluctuations. To the extent we have not hedged against rising interest rates, an increase in the applicable benchmark interest rates would increase our cost of servicing our debt and could reduce our profitability and materially adversely affect our results of operations.

In addition, we may in the future seek to refinance our indebtedness. If interest rates or our borrowing margins increase between the time an existing financing arrangement was consummated and the time such financing arrangement is refinanced, the cost of servicing our debt would increase and our results of operations and liquidity could be materially adversely affected.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM IA. RISK FACTORS (continued)

Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks described above.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the agreements and instruments governing our financing arrangements contain restrictions on our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness that could be incurred in compliance with these restrictions could be substantial. Further, these restrictions also do not prevent us from incurring obligations that do not constitute indebtedness. If new debt or other obligations are added to our current debt and liability levels without a corresponding refinancing or redemption of our existing indebtedness and obligations, the risks related to our substantial indebtedness could increase.

Risks Related to the Securities Markets and Ownership of Our Common Stock

The market price of our common stock could decline as a result of the sale or distribution of a large number of shares of our common stock in the market or the perception that a sale or distribution could occur. These factors also could make it more difficult for us to raise funds through future offerings of our common stock.

We are unable to predict whether significant amounts of our common stock will be sold in the open market or the potential negative effects that these sales could have on the price of our common stock. Certain shareholders, most notably affiliates of Carl Icahn and Mario Gabelli, have accumulated significant amounts of our common stock. Sales or distributions of substantial amounts of our common stock in the public market, or the perception that such sales or distributions will occur, could adversely affect the market price of our common stock and make it difficult for us to raise funds through securities offerings in the future. As of December 31, 2020, there were 29.4 million shares of our common stock outstanding, which are freely transferable without restriction or further registration under the Securities Act of 1933, as amended (the “Securities Act”), unless held or acquired by our “affiliates” as that term is defined in Rule 144 under the Securities Act. In addition, all shares of our common stock acquired upon exercise of stock options and other equity-based awards granted under our stock incentive plan also will be freely tradable under the Securities Act unless acquired by our affiliates, as will shares acquired by our employees under our employee stock purchase plan. Approximately 2.6 million shares of common stock have been issued or are reserved for issuance under our stock incentive plan and our employee stock purchase plan.

We also may issue additional common stock for a number of reasons, including to finance our operations and business strategy (including acquisitions), to adjust our ratio of debt to equity, or to provide incentives pursuant to certain executive compensation arrangements. Such future issuances of equity securities, or the expectation that they will occur, could cause the market price for our common stock to decline.

Provisions of our Certificate of Incorporation and our By-Laws could discourage potential acquisition proposals and could deter or prevent a change in control.

Our Certificate of Incorporation and By-Laws contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids and to encourage prospective acquirers to negotiate with our Board of Directors rather than to attempt a hostile takeover. These provisions include:

- granting to our Board of Directors sole power to set the number of directors and to fill any vacancy on the Board of Directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- the ability of our Board of Directors to designate and issue one or more series of preferred stock without stockholder approval, the terms of which may be determined at the sole discretion of our Board of Directors;
- prohibiting our stockholders from acting by written consent;
- prohibiting our stockholders from calling special meetings of stockholders;
- the absence of cumulative voting; and
- advance notice requirements for stockholder proposals and nominations for election to the Board of Directors at stockholder meetings.

We believe that these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our Board of Directors and by providing our Board of Directors with more time to assess

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS (continued)

any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is in our best interests and that of our stockholders. Any or all of the foregoing provisions could limit the price that some investors might be willing to pay for shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of February 12, 2021, we had 277 locations in the United States and Canada. We also operate regional headquarters, sales offices and service facilities in the foregoing countries in support of our equipment rental operations. Our principal executive offices are located in Bonita Springs, Florida.

As of December 31, 2020, we owned approximately 8% of the locations from which we operate our equipment rental business, with the remainder leased. Those leases are typically triple net leases, where Herc is responsible for the ongoing expenses of the property, including real estate taxes, insurance, and maintenance, in addition to paying rent and utilities.

Our rental locations generally are located in industrial or commercial zones. A growing number of locations have highway or major thoroughfare visibility. The typical location includes a customer reception area, an equipment service area and storage facilities for equipment. Most branches have stand-alone maintenance and fueling facilities and showrooms.

Legal proceedings, see Note 17 "Commitments and Contingencies" of our consolidated financial statements included in Part II, Item 8 of this Report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

The name, age, position and a description of the business experience of each of our executive officers is provided below. There is no family relationship among the executive officers or between any executive officer and a director.

Name	Age	Position
Lawrence H. Silber	64	President and Chief Executive Officer, Director
Mark H. Irion	54	Senior Vice President and Chief Financial Officer
Christian J. Cunningham	59	Senior Vice President and Chief Human Resources Officer
Aaron D. Birnbaum	55	Senior Vice President and Chief Operating Officer
Tamir Peres	51	Senior Vice President and Chief Information Officer
S. Wade Sheek	44	Senior Vice President, Chief Legal Officer and Secretary

Lawrence H. Silber. Mr. Silber joined the Company in May 2015. Prior to that, Mr. Silber most recently served as an executive advisor at Court Square Capital Partners, LLP, a private equity firm primarily investing in the business services, healthcare, general industrial and technology and telecommunications sectors, from April 2014 to May 2015. Mr. Silber led Hayward Industries, one of the world's largest swimming pool equipment manufacturers, as chief operating officer from 2008 to 2012, overseeing a successful transition through the recession and returning the company to solid profitability. From 1978 to 2008, Mr. Silber worked for Ingersoll-Rand plc, a publicly traded manufacturer of industrial products and components, in a number of roles of increasing responsibility. He led major Ingersoll-Rand business groups, including Utility Equipment, Rental and Remarketing and the Equipment and Services businesses. Earlier in his career, he led sales, marketing and operations functions in Ingersoll-Rand's Power Tool Division and Construction and Mining Group. Mr. Silber served on the board of directors of

HERC HOLDINGS INC. AND SUBSIDIARIES

Executive Officers of the Registrant (continued)

SMTC Corporation, a mid-size provider of end-to-end electronics manufacturing services, from 2012 to 2015 (and from May 2013 through January 2014 served as its interim president and CEO).

Mark H. Irion. Mr. Irion joined the Company in June 2018. Prior to that, Mr. Irion most recently served as the chief financial officer of Neff Corporation, a publicly traded equipment rental company, for 19 years until its sale in October 2017. Prior to his role with Neff, he was chief financial officer for Markvision Holdings, Inc., a computer component distribution company, from 1994 to 1998 and, before that, he was an audit senior for Deloitte & Touche LLP in the U.S. and New Zealand.

Christian J. Cunningham. Mr. Cunningham joined the Company in September 2014 from DFC Global Corporation where he served as vice president, corporate HR and HR services since June 2013 with global responsibility for all human resource matters for corporate staff. Previously, Mr. Cunningham held the position of vice president, HR, compensation and benefits at Sunoco Inc. and Sunoco Logistics from 2010 to 2013. Prior to Sunoco, Mr. Cunningham served at ARAMARK as vice president, global compensation and strategy from 2008 to 2010; at Scholastic Inc. as vice president, compensation, benefits and HRIS from 2006 to 2007; and at Pep Boys as assistant vice president, human resources from 2005 to 2006. Previously, Mr. Cunningham held director and regional managerial positions in roles with increasing levels of responsibility at Pep Boys from 1995 to 2005 and Tire Service Corporation, Inc. from 1985 to 1995.

Aaron D. Birnbaum. Mr. Birnbaum served the Company and its predecessor business for more than 30 years. Prior to his current role, Mr. Birnbaum has served as the Company's Senior Vice President from 2017 to 2019 and served as a Regional Vice President from 2012 to 2017. As Senior Vice President, Mr. Birnbaum oversaw the Company's Western, Northwest, North Central and Canada regions as well as its Herc Entertainment Services® and Cinelease® specialty equipment rental units. Mr. Birnbaum also has held leadership responsibilities related to the Company's strategic planning, operational execution and M&A activities.

Tamir Peres. Mr. Peres joined the Company in September 2017 from Sunoco Logistics, a publicly-traded, midstream energy company, where he served as vice president and chief information officer since 2012, leading the Sunoco Logistics Information Technology group. From 2005 to 2012, Mr. Peres held the position of director of corporate information technology at Sunoco, Inc., where he was responsible for all strategic and tactical aspects of technology across the Refining and Supply, Retail Marketing, Chemicals, Logistics and Coke business units. He was previously director of Worldwide Financial Systems for Kulicke & Soffa Industries, Inc., a global manufacturer and supplier of semiconductor equipment, and before that he worked for Ernst & Young, including as an audit senior in its Assurance Services area.

S. Wade Sheek. Mr. Sheek joined the Company in November 2019 from Republic Airways Holdings Inc., a regional airline, where he served as general counsel and secretary from 2018 to 2019 and oversaw the legal, contracting, communications and government relations functions. From 2013 to 2018, he served as deputy general counsel and corporate secretary at Allegion plc, a multi-national manufacturing company, and had responsibility for SEC matters, corporate governance, M&A and strategic initiatives. Prior to that, Mr. Sheek held roles with increasing responsibility with The Home Depot, Inc., UnitedHealth Group Incorporated and Ingersoll-Rand plc.

PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITY

Common Stock and Registered Holders

Our common stock trades on the New York Stock Exchange ("NYSE") under the symbol "HRI". On February 12, 2021, there were 1,266 registered holders of our common stock. The number of beneficial owners is substantially greater than the number of record holders because a large portion of our common stock is held of record in "street name."

Share Repurchase Program

In March 2014, Hertz Holdings announced a \$1.0 billion share repurchase program (the "Share Repurchase Program"), which replaced an earlier program. The Share Repurchase Program permits us, as the successor to Hertz Holdings, to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. We are not obligated to make any repurchases at any specific time or in any specific amount. The timing and extent to which we repurchase shares will depend upon, among other things, market conditions, share price, liquidity

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

targets, contractual restrictions and other factors. Share repurchases may be commenced or suspended at any time or from time to time, subject to legal and contractual requirements, without prior notice. There were no share repurchases during the year ended December 31, 2020. As of December 31, 2020, the approximate dollar value that remains available for share purchases under the Share Repurchase Program is \$395.9 million.

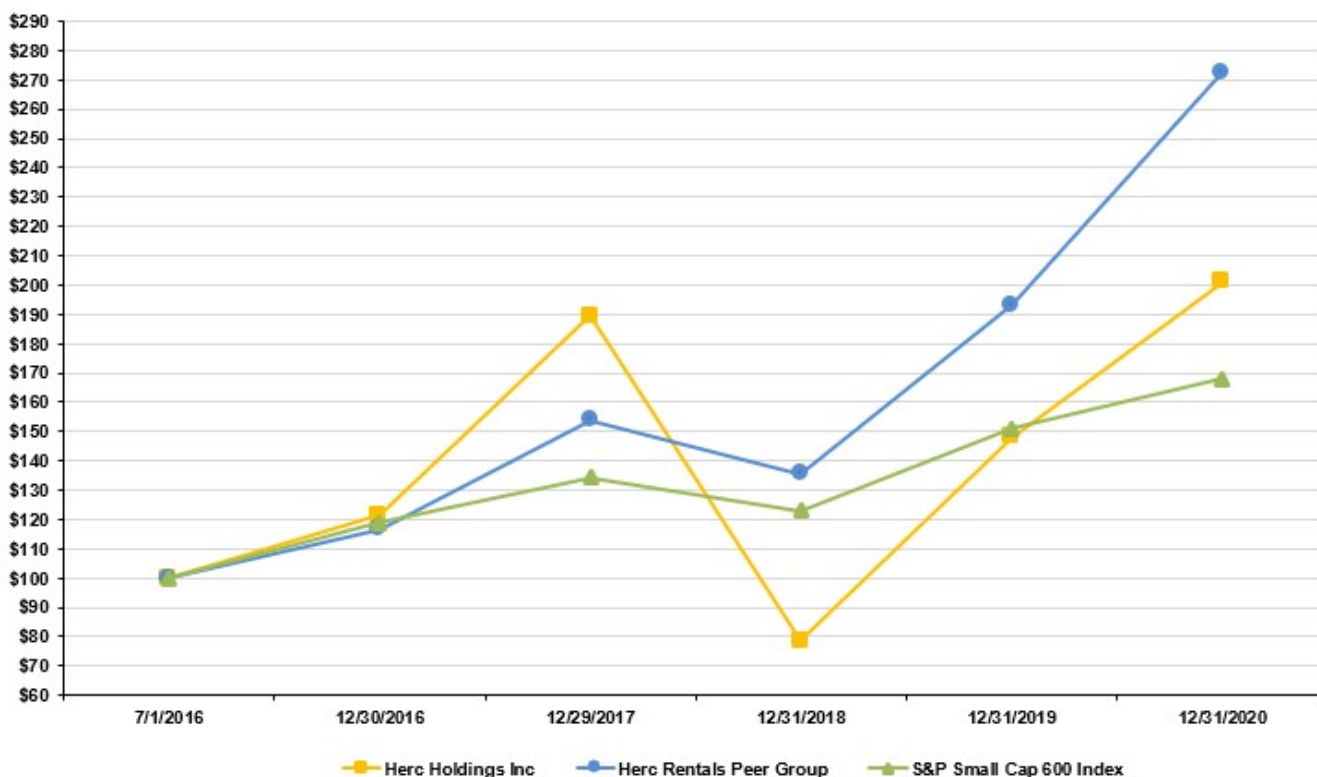
Dividends

We paid no cash dividends on our common stock in 2020, and we do not expect to pay dividends on our common stock for the foreseeable future. The agreements governing our indebtedness restrict our ability to pay dividends. See Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Dividends," in this Report.

Recent Performance

The following graph compares the cumulative total stockholder return on Herc Holdings common stock from July 1, 2016, the first day of trading for our stock on the NYSE, through December 31, 2020, with the cumulative total returns of the Standard & Poor's Small Cap 600 Index and an industry peer group. The industry peer group is comprised of publicly traded companies participating in the equipment rental industry and other relevant companies of comparable size in the broader industry in which we compete. Our industry peer group is comprised of Aggreko plc, Applied Industrial Tech Inc., Ashstead Group plc, Beacon Roofing Supply, Inc., Fastenal Company, GATX Corp., H&E Equipment Services, KAR Auction Services Inc., McGrath RentCorp, NOW Inc., Pool Corp., Ritchie Bros. Auctioneers Incorporated, Triton International Ltd., Watsco Inc., WillScot Mobile Mini Holdings Corp. and United Rentals, Inc. Mobile Mini, Inc. was previously included in our peer group, and, upon its merger with WillScot Corporation in 2020, the combined company is now included in our peer group.

The graph assumes that \$100 was invested on July 1, 2016 over the indicated time periods and assumes reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends and, therefore, the cumulative total return calculation for Herc Holdings is based solely upon stock price appreciation. The stock price performance shown on the graph is not necessarily indicative of future price performance.



HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected consolidated financial information and are not necessarily indicative of results of future operations. The information presented should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in this Report in Item 8, "Financial Statements and Supplementary Data," to fully understand factors that may affect the comparability of the information presented below. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements.

(In millions, except per share data)	Years ended December 31,				
	2020	2019	2018	2017	2016
Statement of Operations Data					
Total revenues	\$ 1,781.3	\$ 1,999.0	\$ 1,976.7	\$ 1,754.5	\$ 1,554.8
Total expenses ^(a)	1,687.2	1,935.4	1,907.9	1,818.9	1,559.7
Income (loss) before income taxes	94.1	63.6	68.8	(64.4)	(4.9)
Income tax benefit (provision) ^(b)	(20.4)	(16.1)	0.3	224.7	(14.8)
Net income (loss)	\$ 73.7	\$ 47.5	\$ 69.1	\$ 160.3	\$ (19.7)
Earnings (loss) per share:					
Basic	\$ 2.53	\$ 1.66	\$ 2.43	\$ 5.66	\$ (0.70)
Diluted	\$ 2.51	\$ 1.63	\$ 2.39	\$ 5.60	\$ (0.70)

(In millions)	As of December 31,				
	2020	2019	2018	2017	2016
Balance Sheet Data					
Cash and cash equivalents	\$ 33.0	\$ 33.0	\$ 27.8	\$ 41.5	\$ 24.0
Total assets	3,588.4	3,817.0	3,610.2	3,549.7	3,466.0
Total debt	1,663.7	2,078.5	2,156.8	2,159.8	2,194.3
Total equity ^(c)	742.0	644.3	572.7	510.4	317.7

- (a) Total expenses were impacted by long-lived asset impairments in 2020, 2019 and 2017 of \$15.4 million, \$5.1 million and \$29.7 million, respectively and losses on extinguishment of debt in 2019, 2018 and 2017 of \$53.6 million, \$5.4 million, and \$11.4 million respectively.
- (b) Income tax benefit in 2018 and 2017 includes a net benefit of \$20.8 million and \$207.1 million, respectively, resulting from the Tax Cuts and Jobs Act of 2017.
- (c) Total equity as of December 31, 2016 was impacted by \$2.0 billion of distributions and transfers to THC related to the Spin-Off.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8 of this Report, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts in our consolidated financial statements and the accompanying notes including receivables allowances, depreciation of rental equipment, the recoverability of long-lived assets, useful lives and impairment of long-lived tangible and intangible assets including goodwill and trade name, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies, accounting for income taxes and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and our knowledge of actions that we may undertake in the future in determining the estimates that will affect our consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

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 are primarily derived from rental and related charges and consist of:

- Equipment rental (includes all revenue associated with the rental of equipment including ancillary revenue from delivery, rental protection programs and fueling charges);
- Sales of rental equipment and sales of new equipment, parts and supplies; and
- Service and other revenue (primarily relating to training and labor provided to customers).

Our expenses primarily consist of:

- Direct operating expenses (primarily wages and related benefits, facility costs and other costs relating to the operation and rental of rental equipment, such as delivery, maintenance and fuel costs);
- Cost of sales of rental equipment, new equipment, parts and supplies;
- Depreciation expense relating to rental equipment;
- Selling, general and administrative expenses; and
- Interest expense.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

2020 Overview

Our results for 2020 reflect the challenges our business faced with the COVID-19 pandemic, and while our business was deemed essential and was allowed to remain open, many industries in which our customers operate were required to temporarily close their facilities or delay or cancel projects and events. Our customer and fleet diversification strategy helped to offset the reduction in volume we experienced in certain parts of the business, with the stability of our national accounts business helping to offset the declines in local customer revenue. We were also able to maintain positive pricing during 2020, increasing 0.1%, despite the decline in volume resulting from the COVID-19 related business shutdowns. As a result, equipment rental revenues declined 9.3% to \$1.54 billion in 2020 compared to \$1.70 billion in 2019.

Despite this challenging time, we continued our focus on quality of earnings through the execution of company-wide initiatives to increase our operating margins and profitability. We reduced our capital spending in the short-term and, where possible, reduced operating expenses while ensuring ongoing safe and reliable operations. Many cost saving initiatives that were implemented in 2019 also contributed to a reduction in operating expenses during 2020 resulting in an increase in net income to \$73.7 million from \$47.5 million in 2019.

Additionally, during 2020, we completed our first multi-location acquisition since we became an independent, publicly traded company in 2016. This acquisition supports our long-term strategy to achieve greater density and scale in select urban markets across North America to better serve both our local and national customers.

Impacts of COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) was identified in China and has since spread globally. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Efforts to contain the spread of COVID-19 intensified in March 2020 when most states in the United States and provinces in Canada enacted shelter in place orders, declared states of emergency, took steps to restrict travel, enacted temporary closures of non-essential businesses and took other restrictive measures in response to the COVID-19 pandemic. These business shutdowns and restrictions have had significant negative economic impacts and, as discussed above, we have experienced year-over-year declines in volume of fleet on rent which has resulted in lower equipment rental revenue.

We have begun to see economic recovery within our industry and our business throughout the year since the second quarter of 2020 and we expect to position ourselves for growth in 2021 by opening greenfield locations and adding select fleet in high growth regions. Despite the recovery we are seeing, the impact of the COVID-19 pandemic continues to evolve and the recovery could be slowed or reversed by a number of factors, including a widespread resurgence in COVID-19 infections, whether due to the spread of any variants of the virus or otherwise, and the rate in which state and local governments are re-opening businesses or, in certain jurisdictions, reversing re-opening decisions. Therefore, we cannot predict the extent to which our financial condition, results of operations or cash flows will ultimately be impacted.

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, based on the Center for Disease Control recommendations. Within our operations, a number of adjustments have been made to minimize physical interactions. These include utilizing our information technology platforms to accommodate as many employees as possible to work remotely from their homes. At the operations level, we have implemented new policies to expand the washing of equipment and sanitization of high-touch areas such as dashboards and steering wheels. We have reduced access to our customer showrooms and have implemented curb-side pick-up and drop-off of equipment at our branches. We are supplying personal protective equipment for those employees who interact with customers and are employing remediation companies to assist in cleaning branches where necessary.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

RESULTS OF OPERATIONS

(\$ in millions)	Year Ended December 31,			
	2020	2019	\$ Change	% Change
Equipment rental	\$ 1,543.7	\$ 1,701.8	\$ (158.1)	(9.3)%
Sales of rental equipment	198.5	242.8	(44.3)	(18.2)
Sales of new equipment, parts and supplies	28.2	44.0	(15.8)	(35.9)
Service and other revenue	10.9	10.4	0.5	4.8
Total revenues	<u>1,781.3</u>	<u>1,999.0</u>	<u>(217.7)</u>	<u>(10.9)</u>
Direct operating	689.2	771.1	(81.9)	(10.6)
Depreciation of rental equipment	403.9	409.1	(5.2)	(1.3)
Cost of sales of rental equipment	203.6	243.2	(39.6)	(16.3)
Cost of sales of new equipment, parts and supplies	20.5	33.3	(12.8)	(38.4)
Selling, general and administrative	257.4	294.8	(37.4)	(12.7)
Restructuring	0.7	7.7	(7.0)	(90.9)
Impairment	15.4	5.1	10.3	NM
Interest expense, net	92.6	173.5	(80.9)	(46.6)
Other income, net	3.9	(2.4)	6.3	NM
Income before income taxes	94.1	63.6	30.5	48.0
Income tax provision	(20.4)	(16.1)	(4.3)	26.7
Net income	<u>\$ 73.7</u>	<u>\$ 47.5</u>	<u>\$ 26.2</u>	<u>55.2 %</u>

NM - Not Meaningful

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Equipment rental revenue decreased \$158.1 million, or 9.3%, during the year ended December 31, 2020 when compared with 2019. The decrease was primarily attributable to lower volume of equipment on rent (including delivery and other ancillary revenues) primarily related to the ongoing economic impacts of COVID-19. Re-rent revenues decreased \$22.2 million as we continue to strategically reduce re-rent volume.

Sales of rental equipment decreased \$44.3 million, or 18.2%, during the year ended December 31, 2020 when compared with 2019. At the onset of the COVID-19 pandemic in early 2020, our primary focus was to manage fleet size and mix given the anticipated declines in demand due to the uncertainty of the economic impact resulting from COVID-19 business shutdowns. Rental equipment capital expenditures throughout the industry were cut significantly from earlier expectations for the year, impacting used equipment prices and our planned sales of older fleet. These actions resulted in a decline in the volume of sales of rental equipment for the majority of the year. The cost of sales of rental equipment as a percentage of the related revenue was 102.6% during 2020 compared to 100.2% in the prior-year period. The decrease in margin on sale of rental equipment during 2020 was primarily due to overall reductions in the pricing of used rental equipment in the market.

Direct operating expenses decreased \$81.9 million, or 10.6%, during the year ended December 31, 2020 when compared with 2019 primarily due to the following:

- Fleet and related expenses decreased \$58.1 million as a result of (i) a decrease in delivery and freight expenses of \$22.2 million due to the decrease in deliveries as a result of reduced volume of equipment on rent and better management of transportation costs; (ii) a decrease in re-rent expense of \$21.0 million due to the decrease in re-rent revenue; (iii) a decrease in maintenance expense of \$14.3 million as more rental equipment was less utilized during 2020 and more maintenance was performed internally; and (iv) a decrease in fuel expense of \$5.5 million due to the decrease in volume of equipment on rent and a decrease in the price of fuel.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

- Personnel-related expenses decreased \$23.6 million primarily due to a reduction in wages related to furloughs implemented during the second quarter of 2020 and our initiative to limit overtime expense in response to reduced transaction volume due to COVID-19.

Selling, general and administrative expenses decreased \$37.4 million, or 12.7%, during the year ended December 31, 2020 compared with 2019. The decline was primarily due to decreases in selling expense of \$10.4 million, travel expense of \$8.4 million, professional fees of \$2.7 million and commissions and incentives of \$2.2 million due to cost containment measures related to the reduced transaction volume associated with COVID-19 business shutdowns. Additionally, credit and collections expense decreased \$7.7 million during 2020 due to continued improvements in collections.

Restructuring expense was \$0.7 million during 2020 related to personnel reductions in the second quarter and additional costs related to a prior restructuring plan. Restructuring expense was \$7.7 million during 2019 as a result of our plan of restructuring in Canada which included right-of-use assets and related leasehold improvement impairment of \$5.5 million and severance charges of \$2.2 million.

Impairment expense was \$15.4 million during 2020 and consisted of \$6.3 million related to the partial impairment of a long-term receivable related to the sale of our former joint venture, \$4.8 million related to certain rental equipment, \$1.7 million related to an ROU asset impairment charge for two locations closed in 2019 as a result of reduced sublease assumptions due to economic conditions surrounding those locations, \$1.5 million related to certain assets that were sold during 2020 and \$1.1 million related to a financial reporting and consolidation system that was replaced during the fourth quarter of 2020.

Interest expense, net decreased \$80.9 million, or 46.6%, during 2020 when compared with the same period in 2019. Interest expense was higher in the prior year primarily due to a loss on extinguishment of debt of \$53.6 million included in 2019 related to the extinguishment of the senior secured second priority notes due 2022 and 2024. Interest expense was also lower during 2020 due to lower interest rates on the 2027 Notes and lower average outstanding balances and interest rates on the ABL Credit Facility as compared to the same period in 2019.

Income tax provision was \$20.4 million during 2020 when compared with \$16.1 million for the same period in 2019. The provision during 2020 was primarily driven by the level of pre-tax income, non-deductible expenses, stock-based compensation, valuation allowances recorded on losses generated by certain foreign loss jurisdictions and income tax audit adjustments.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs include the payment of operating expenses, purchases of rental equipment to be used in our operations and servicing of debt. Our primary sources of funding are operating cash flows, cash received from the disposal of equipment and borrowings under our debt arrangements. As of December 31, 2020, we had approximately \$1.7 billion of total nominal indebtedness outstanding. A substantial portion of our liquidity needs arise from debt service on our indebtedness and from the funding of our costs of operations and capital expenditures.

Our liquidity as of December 31, 2020 consisted of cash and cash equivalents of \$33.0 million and unused commitments of \$1.4 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. Based on the impacts of COVID-19, we reduced our net rental equipment expenditures in 2020 significantly to effectively manage our fleet and liquidity. Notwithstanding the COVID-19 pandemic, 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 reduced 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.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

The following table summarizes the change in cash and cash equivalents for the periods shown (in millions):

	Years Ended December 31,		
	2020	2019	\$ Change
Cash provided by (used in):			
Operating activities	\$ 610.9	\$ 635.6	\$ (24.7)
Investing activities	(207.5)	(463.6)	256.1
Financing activities	(406.0)	(167.1)	(238.9)
Effect of exchange rate changes	2.6	0.3	2.3
Net change in cash and cash equivalents	<u>\$ —</u>	<u>\$ 5.2</u>	<u>\$ (5.2)</u>

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Operating Activities

During December 31, 2020, we generated \$24.7 million less cash from operating activities compared with the same period in 2019. The decrease was primarily related to timing of payments on accounts payable and other liabilities, partially offset by improved collections on accounts receivable during December 31, 2020 as compared to the same period in 2019.

Investing Activities

Cash used in investing activities decreased \$256.1 million during the 2020 when compared with the prior-year period. Our primary use of cash in investing activities is for the acquisition of rental equipment and non-rental capital expenditures, which we reduced during 2020 due to the impacts of the COVID-19 pandemic. 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.

Financing Activities

Cash used in financing activities increased \$238.9 million during 2020 when compared with the prior-year period. Cash used in financing activities during 2020 primarily represents our changes in debt, which included net repayments of \$396.7 million on our revolving lines of credit and securitization during 2020. Net repayments in the prior year period were \$434.8 million, which were offset by net proceeds from the refinancing of our long-term debt of \$335.5 million.

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.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

Capital Expenditures

Our capital expenditures relate largely to purchases of rental equipment, with the remaining portion representing purchases of property, equipment and information technology. The table below sets forth the capital expenditures related to our rental equipment and related disposals for the periods noted (in millions).

	Years Ended December 31,	
	2020	2019
Rental equipment expenditures	\$ 344.1	\$ 638.4
Disposals of rental equipment	(192.5)	(224.2)
Net rental equipment expenditures	\$ 151.6	\$ 414.2

Net capital expenditures for rental equipment decreased \$262.6 million during the year ended December 31, 2020 compared to 2019. During 2020, we reduced rental equipment expenditures and disposals to effectively manage our fleet and liquidity in light of the uncertainty surrounding the COVID-19 pandemic.

In 2021, we expect our net rental equipment capital expenditures to be in the range of \$400 million to \$450 million.

Borrowing Capacity and Availability

Our ABL Credit Facility and AR Facility (together, the "Facilities") provide our borrowing capacity and availability. Creditors under the Facilities have a claim on specific pools of assets as collateral as identified in each credit agreement. Our ability to borrow under the Facilities is a function of, among other things, the value of the assets in the relevant collateral pool. We refer to the amount of debt we can borrow given a certain pool of assets as the "Borrowing Base."

In connection with the AR Facility, we sell accounts receivable on an ongoing basis to a wholly-owned special-purpose entity (the "SPE"). The accounts receivable and other assets of the SPE are encumbered in favor of the lenders under our AR Facility. The SPE assets are owned by the SPE and are not available to settle our obligations or any of our 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 Note 11, "Debt" included in Part II, Item 8 "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 December 31, 2020, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	\$ 1,471.6	\$ 1,380.3
AR Facility	—	—
Total	\$ 1,471.6	\$ 1,380.3

At December 31, 2020, our borrowing base was capped at \$175.0 million by the aggregate commitments under the AR Facility.

As of December 31, 2020, \$23.4 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which had been drawn upon. The ABL Credit Facility had \$226.6 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

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 December 31, 2020, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

For further information on the terms of our 2027 Notes, ABL Credit Facility and AR Facility see Note 11, "Debt" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Report. For a discussion of the risks associated with our significant indebtedness, see Part I, Item 1A "Risk Factors" contained in this Report.

Dividends

Our payment of dividends on our common stock will be determined by our Board of Directors in its sole discretion and will depend on our business conditions, financial condition, earnings, liquidity and capital requirements, contractual restrictions and other factors. The amounts available to pay cash dividends are restricted by our debt agreements. As of the date of this Report, we have no plans to pay dividends on our common stock.

CONTRACTUAL OBLIGATIONS

The following table details the contractual cash obligations for debt and related interest payable, finance and operating leases, and other purchase obligations as of December 31, 2020 (in millions):

	Payments Due by Period				
	Total	2021	2022-2023	2024-2025	After 2025
Debt principal, including current maturities	\$ 1,630.0	\$ —	\$ —	\$ 430.0	\$ 1,200.0
Interest on debt ^(a)	452.6	71.8	143.6	135.4	101.8
Financing obligations ^(b)	150.9	9.5	19.0	19.0	103.4
Finance lease obligations ^(c)	43.8	13.0	13.2	12.4	5.2
Operating lease obligations ^(d)	314.7	39.5	75.8	59.4	140.0
Purchase obligations ^(e)	21.9	11.4	9.7	0.8	—
Total	\$ 2,613.9	\$ 145.2	\$ 261.3	\$ 657.0	\$ 1,550.4

(a) Estimated interest payments have been calculated based on the applicable interest rates as of December 31, 2020.

(b) Includes obligations under financing agreements primarily for the lease of 44 properties. See Note 12, "Financing Obligations" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

(c) Includes obligations under lease agreements primarily for service vehicles. See Note 9, "Leases" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

(d) Includes obligations under lease agreements for real estate and computer equipment. Such obligations are reflected to the extent of their minimum non-cancelable terms. See Note 9, "Leases" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

(e) Purchase obligations represent agreements to purchase goods or services that are legally binding on us and that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Only the minimum non-cancelable portion of purchase agreements and related cancellation penalties are included as obligations. In the case of contracts that state minimum quantities of goods or services, amounts reflect only the stipulated minimums; all other contracts reflect estimated amounts.

The table excludes our pension and other postretirement benefit obligations. See Note 13, "Employee Retirement Benefits" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of December 31, 2020 and 2019, the following guarantees (including indemnification commitments) were issued and outstanding:

Indemnification Obligations

In the ordinary course of business, we execute contracts involving indemnification obligations customary in the relevant industry and indemnifications related to a specific transaction such as the sale of a business. These indemnification obligations might include claims relating to the following: environmental matters; condition of property; intellectual property rights; governmental regulations and employment-related matters; customer, supplier and other commercial contractual relationships; and financial or other matters. Performance under these indemnification obligations would generally be triggered by a breach of terms of the contract or by a third-party claim. We regularly evaluate the probability of having to incur costs associated with these indemnification obligations and accrue for expected losses that are probable and estimable. Also see Note 21, "Arrangements with New Hertz" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report. For discussion of the risks associated with indemnification obligations in the context of divestitures see Part I, Item 1A "Risk Factors—Other Operational Risks" contained in this Report.

Contingencies, Environmental Matters and Guarantee

The information concerning the ongoing securities litigation and governmental investigation contained in Part I, Item 3 "Legal Proceedings" of this Report and the information concerning other contingencies, including environmental contingencies and the amount currently held in reserve for environmental matters and our guarantee is contained in Note 17, "Commitments and Contingencies incorporated herein by reference. The additional information concerning environmental matters included in Part I, Item 1 "Business—Environmental, Health and Safety Matters and Governmental Regulation" of this Report is also incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts in our consolidated financial statements and accompanying notes.

Certain of our accounting policies, as discussed below, involve a higher degree of judgment and complexity in their application and, therefore, represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. For additional discussion of our critical accounting policies, as well as our significant accounting policies, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Revenue Recognition

Equipment rental revenue includes revenue generated from renting equipment to customers and is recognized on a straight-line basis over the length of the rental contract. Also included in equipment rental revenue are fees for equipment delivery and pick-up and fees for our rental protection program, which allows customers to limit risk of financial loss in the event our equipment is damaged or lost. Delivery and pick-up fees are recognized as revenue when the services are performed and fees related to our rental protection program are recognized over the length of the contract term.

We recognize revenue from the sale of rental equipment, new equipment, parts and supplies when control of the asset transfers to the customer, which is typically when the asset is picked up by or delivered to the customer and when significant risks and rewards of ownership have passed to the customer. Sales and other tax amounts collected from customers and remitted to government authorities are accounted for on a net basis and, therefore, excluded from revenue.

Service and other revenue is recognized as the services are performed.

HERC HOLDINGS INC. AND SUBSIDIARIES

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

Rental Equipment

Our principal assets are rental equipment, which represented 63.0% and 65.2% of our total assets as of December 31, 2020 and 2019, respectively. Rental equipment consists of equipment utilized in our equipment rental operations. When rental equipment is acquired, we use historical experience, industry residual value guidebooks and the monitoring of market conditions to set depreciation rates. Generally, we estimate the period that we will hold the asset, primarily based on historical measures of the amount of equipment usage and the targeted age of equipment at the time of disposal. We also estimate the residual value of the applicable rental equipment at the expected time of disposal. The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded over the estimated holding period. Depreciation rates are reviewed regularly based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used equipment sales also can be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment and incentives offered by manufacturers. As a result of this ongoing assessment, we make periodic adjustments to depreciation rates of rental equipment in response to changing market conditions.

Defined Benefit Pension Obligations

The Herc Holdings Retirement Plan is a U.S. qualified defined benefit pension plan that has been frozen to new employees since it was established in 2016. Additionally, pursuant to various collective bargaining agreements, certain union-represented employees participate in multiemployer pension plans.

Employee pension costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. While we believe that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect our pension costs and obligations. The various employee-related actuarial assumptions (e.g., retirement rates, mortality rates and salary growth) used in determining pension costs and plan liabilities are reviewed periodically by management, assisted by the enrolled actuary, and updated as warranted. The discount rate used to value the pension liabilities and related expenses and the expected rate of return on plan assets are the two most significant assumptions impacting pension expense. The discount rate used is a market-based rate as of the valuation date. For the expected return on assets assumption, we use a forward-looking rate that is based on the expected return for each asset class (including the value added by active investment management), weighted by the target asset allocation. The past annualized long-term performance of the Plan's assets has generally been in line with the long-term rate of return assumption.

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

Business Combinations

The Company has made acquisitions and may continue to make acquisitions in the future. The assets acquired and liabilities assumed are recorded based on their respective fair values at the date of acquisition. Long-lived assets (principally rental equipment), goodwill and other intangible assets generally represent the largest components of the acquisitions. Rental equipment is valued utilizing either a cost, market or income approach, or a combination of certain of these methods, depending on the asset being valued and the availability of market or income data. The intangible assets that the Company has acquired are non-compete agreements, customer relationships and trade names and associated trademarks. The estimated fair values of these intangible assets reflect various assumptions about discount rates, revenue growth rates, operating margins, terminal values, useful lives and other prospective financial information. Goodwill is calculated as the excess of the cost of the acquired entity over the net of the fair value of the assets acquired and the liabilities assumed. Non-compete agreements, customer relationships and trade names and associated trademarks are valued based on an excess earnings or income approach based on projected cash flows and may be amortized over the useful life if they are determined to be finite-lived intangible assets. Determining the fair value of the assets and liabilities acquired is judgmental in nature and can involve the use of significant estimates and assumptions.

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

As part of an acquisition, the Company will also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these other assets and liabilities generally approximate the book values on the acquired entities' balance sheets.

Goodwill and Indefinite-Lived Intangible Assets

On an annual basis and at interim periods when circumstances require, we test the recoverability of our goodwill. Goodwill impairment is deemed to exist if the carrying value of goodwill of a reporting unit exceeds its fair value. A reporting unit is an operating segment or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. We have assessed the guidance and performed our analysis using our one reporting unit, worldwide equipment rental.

Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350, *Intangibles-Goodwill and Other*, ("Topic 350"), an entity may first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. Various factors are considered in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting unit, our stock price and the excess amount between our reporting unit's fair value and carrying value as indicated on our most recent quantitative assessment.

When assessing the fair value of our reporting units using a quantitative approach, we estimate the fair value using a combination of an income approach on the present value of estimated future cash flows and a market approach based on published earnings multiples of comparable entities with similar operations and economic characteristics as well as acquisition multiples paid in recent transactions. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the weighted average cost of capital, or "WACC," methodology. The WACC methodology considers market and industry data as well as company specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. The cash flows represent management's most recent planning assumptions. These assumptions are based on a combination of industry outlooks, views on general economic conditions and our expected pricing plans. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. If the carrying value of the reporting unit is greater than its fair value, we recognize an impairment charge for the amount equal to that excess. A significant decline in the projected cash flows or a change in the WACC used to determine fair value could result in a future goodwill impairment charge.

Indefinite-lived intangible assets, primarily trademarks, are not amortized but are evaluated annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

In connection with our impairment analysis for goodwill and indefinite-lived intangible assets conducted as of October 1, 2020, we assessed qualitative factors as described above to determine if it is more likely than not that goodwill and indefinite-lived assets may be impaired and concluded that there was no impairment related to such assets.

See Note 6, "Goodwill and Intangible Assets" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Finite-Lived Intangible and Long-Lived Assets

Finite-lived intangible assets include technology, customer relationships, trade names and other intangibles. Intangible assets with finite lives are amortized over the estimated economic lives of the assets, which range from three to 14 years. These assets are primarily amortized using the straight-line method, however, certain assets may be amortized using an accelerated method that reflects the economic benefit to us. Long-lived assets, including intangible assets with finite lives, are reviewed for

HERC HOLDINGS INC. AND SUBSIDIARIES

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

impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and net bases of assets and liabilities and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets by the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates will result in changes to deferred taxes and any related valuation allowances. We have recorded a deferred tax asset for unutilized net operating loss carryforwards in various tax jurisdictions.

The Company has determined not to assert that earnings from foreign operations are permanently reinvested. Therefore, the Company recognizes deferred taxes on foreign earnings as appropriate. The Company has asserted that future earnings associated with the potential stock sale or liquidation of foreign subsidiaries is permanently reinvested. Accordingly, the Company has not recorded any deferred tax liabilities associated with these book-to-tax differences. We regularly review our cash positions and our determination of permanent reinvestment of foreign earnings. If we determine that all or a portion of such foreign earnings are repatriated, we may be subject to additional foreign withholding taxes and U.S. state income taxes. Many foreign jurisdictions impose taxes on distributions to other jurisdictions. Due to the variations and complexities of these laws, we believe it would be impractical to calculate and accrue these taxes beyond the normal earnings and profits standard for U.S. tax purposes.

In accordance with ASC Topic 740, *Income Taxes*, ("Topic 740"), the Company recognizes, in its consolidated financial statements, the impact of the Company's tax positions that are more likely than not to be sustained upon examination. The Company will determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority with full knowledge of all relevant information. Upon determination that a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements. The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, accruals for tax contingencies are established based on the probable outcomes of such matters. Our ongoing assessments of the probable outcomes of the examinations and related tax accruals require judgment and could increase or decrease our effective tax rate as well as impact our operating results.

See Note 15, "Income Taxes" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Stock Based Compensation

All stock-based compensation award disclosures are measured in terms of common stock of Herc Holdings. The cost of employee services received in exchange for an award of equity instruments is based on the grant date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award, referred to as the vesting period. In addition to the service vesting condition, the performance stock units have an additional vesting condition, which stipulates the number of units that will be awarded based on achievement of a certain level of return on invested capital or other performance measures as defined in the applicable award agreements, over the applicable measurement period.

We estimate the fair value of options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield and risk-free interest rate. These factors combined with the

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

stock price on the date of grant result in a fixed expense which is recorded on a straight-line basis over the vesting period. The assumed volatility was calculated based on a blend of peer group volatility and implied volatility as we do not have sufficient stock price data to calculate historical volatility. The assumed dividend yield is zero. The risk-free interest rate is the implied zero-coupon yield for U.S. Treasury securities having a maturity approximately equal to the expected term of the options, as of the grant dates.

See Note 14, "Stock-Based Compensation" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK MANAGEMENT

For a discussion of additional risks arising from our operations, see Part I, Item 1A "Risk Factors" included in this Report.

Market Risk

We are exposed to a variety of market risks, including the effects of changes in interest rates (including credit spreads), foreign currency exchange rates and fluctuations in fuel prices. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage our exposure to counterparty nonperformance on such instruments.

Interest Rate Risk

We have assessed our exposure to changes in interest rates by analyzing the sensitivity to our earnings assuming various changes in market interest rates. Assuming a hypothetical increase of one percentage point in interest rates on our ABL Credit Facility, AR Facility and cash and cash equivalents as of December 31, 2020, our pre-tax earnings would decrease by an estimated \$4.0 million over a 12-month period.

From time to time, we may enter into interest rate swap agreements to manage interest rate risk on our mix of fixed and floating rate debt. Consistent with the terms of certain agreements governing our debt obligations, we may decide to hedge a portion of the floating rate interest exposure under the ABL Credit Facility to provide protection in respect of such exposure.

Foreign Currency Risk

We have foreign currency exposure to exchange rate fluctuations, primarily with respect to the Canadian dollar.

We manage our foreign currency risk primarily by incurring, to the extent practicable, operating and financing expenses in the local currency in the countries in which we operate, including making fleet and equipment purchases and borrowing locally.

We also manage exposure to fluctuations in currency risk on cross currency intercompany loans we make to certain of our subsidiaries by entering into foreign currency forward contracts, when appropriate, which are intended to offset the impact of foreign currency movements on the underlying intercompany loan obligations.

We do not hedge our operating results against currency movement as they are primarily translational in nature. Using foreign currency forward rates as of December 31, 2020, each hypothetical one percentage point change in foreign currency movements would not have a significant impact on our revenue or earnings.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Herc Holdings Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Herc Holdings Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations, of comprehensive income (loss), of changes in equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2020 appearing under Item 8 (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 9 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 due to the adoption of Topic 842, using a modified retrospective transition method.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

HERC HOLDINGS INC. AND SUBSIDIARIES

dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Income Taxes

As described in Notes 2 and 15 to the consolidated financial statements, the Company recorded an income tax provision of \$20.4 million as of December 31, 2020. Additionally, the Company reported a net deferred tax liability balance of \$474.0 million. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Management also records deferred tax assets for unutilized net operating loss carryforwards in various tax jurisdictions. Management records valuation allowances to reduce its deferred tax assets by the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates will result in changes to deferred taxes and any related valuation allowances. Management recognizes the impact of the Company's uncertain tax positions that are more likely than not to be sustained upon examination. Management will determine whether it is more likely than not that a tax position will be sustained upon examination. Upon determination that a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements.

The principal considerations for our determination that performing procedures relating to income taxes is a critical audit matter are the significant judgment by management in determining the income tax provision and in evaluating the Company's tax positions related to analyzing uncertain tax positions and assessing the realizability of deferred tax assets, which in turn led to significant auditor judgment, subjectivity, and effort in performing audit procedures and evaluating audit evidence relating to income taxes.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the income tax provision, the identification of uncertain tax positions and assessment of related liability changes, if material, and assessing the realizability of any deferred tax assets, including assessing the related positive and negative evidence. These procedures also included, among others, (i) testing the completeness and accuracy of the income tax provision, including the rate reconciliation, return to provision adjustments, and permanent and temporary differences, (ii) testing the completeness of management's assessment of both the identification of uncertain tax positions and the possible outcomes of each uncertain tax position, and (iii) evaluating management's assessment of the realizability of deferred tax assets on a jurisdictional basis, including an assessment of the positive and negative evidence regarding realization.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
February 18, 2021

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

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

	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 33.0	\$ 33.0
Receivables, net of allowances of \$15.5 and \$18.8, respectively	301.2	306.7
Other current assets	32.9	28.9
Assets held for sale	—	31.1
Total current assets	<u>367.1</u>	<u>399.7</u>
Rental equipment, net	2,260.4	2,490.0
Property and equipment, net	290.4	311.8
Right-of-use lease assets	255.9	207.3
Intangible assets, net	295.9	291.5
Goodwill	100.5	93.6
Other long-term assets	18.2	23.1
Total assets	<u>\$ 3,588.4</u>	<u>\$ 3,817.0</u>
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	\$ 15.8	\$ 30.4
Current maturities of operating lease liabilities	32.1	30.5
Accounts payable	125.8	126.5
Accrued liabilities	154.3	135.7
Total current liabilities	<u>328.0</u>	<u>323.1</u>
Long-term debt, net	1,651.5	2,051.5
Financing obligations, net	114.5	117.6
Operating lease liabilities	234.1	182.2
Deferred tax liabilities	474.0	459.3
Other long-term liabilities	44.3	39.0
Total liabilities	<u>2,846.4</u>	<u>3,172.7</u>
Commitments and contingencies (Note 17)		
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, 32.1 and 31.5 shares issued and 29.4 and 28.8 shares outstanding	0.3	0.3
Additional paid-in capital	1,818.2	1,796.9
Accumulated deficit	(277.5)	(351.2)
Accumulated other comprehensive loss	(107.0)	(109.7)
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0)	(692.0)
Total equity	<u>742.0</u>	<u>644.3</u>
Total liabilities and equity	<u>\$ 3,588.4</u>	<u>\$ 3,817.0</u>

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

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

	Years Ended December 31,		
	2020	2019	2018
Revenues:			
Equipment rental	\$ 1,543.7	\$ 1,701.8	\$ 1,658.3
Sales of rental equipment	198.5	242.8	256.2
Sales of new equipment, parts and supplies	28.2	44.0	49.3
Service and other revenue	10.9	10.4	12.9
Total revenues	<u>1,781.3</u>	<u>1,999.0</u>	<u>1,976.7</u>
Expenses:			
Direct operating	689.2	771.1	785.2
Depreciation of rental equipment	403.9	409.1	387.5
Cost of sales of rental equipment	203.6	243.2	244.3
Cost of sales of new equipment, parts and supplies	20.5	33.3	37.7
Selling, general and administrative	257.4	294.8	311.3
Restructuring	0.7	7.7	5.0
Impairment	15.4	5.1	0.1
Interest expense, net	92.6	173.5	137.0
Other expense (income), net	3.9	(2.4)	(0.2)
Total expenses	<u>1,687.2</u>	<u>1,935.4</u>	<u>1,907.9</u>
Income before income taxes	94.1	63.6	68.8
Income tax benefit (provision)	(20.4)	(16.1)	0.3
Net income	<u>\$ 73.7</u>	<u>\$ 47.5</u>	<u>\$ 69.1</u>
Weighted average shares outstanding:			
Basic	29.1	28.7	28.4
Diluted	29.4	29.1	28.9
Earnings per share:			
Basic	\$ 2.53	\$ 1.66	\$ 2.43
Diluted	\$ 2.51	\$ 1.63	\$ 2.39

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

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

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 73.7	\$ 47.5	\$ 69.1
Other comprehensive income (loss):			
Foreign currency translation adjustments	3.7	11.5	(20.0)
Reclassification of foreign currency items to other expense (income), net ..	2.1	—	—
Unrealized gains and (losses) on hedging instruments:			
Unrealized gains (losses) on hedging instruments	—	(3.6)	1.5
Reclassification into net income	(1.5)	—	—
Income tax benefit (provision) related to hedging instruments	0.3	2.1	(0.4)
Pension and postretirement benefit liability adjustments:			
Amortization of net losses and settlement losses included in net periodic pension cost	1.7	1.9	1.9
Pension and postretirement benefit liability adjustments arising during the period	(3.2)	3.3	(5.6)
Income tax benefit (provision) related to pension and postretirement plans ..	(0.4)	(2.5)	1.0
Total other comprehensive income (loss)	2.7	12.7	(21.6)
Total comprehensive income	<u>\$ 76.4</u>	<u>\$ 60.2</u>	<u>\$ 47.5</u>

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Shares	Amount					
Balance at:							
December 31, 2017	28.3	\$ 0.3	\$ 1,763.1	\$ (462.4)	\$ (98.6)	\$ (692.0)	\$ 510.4
Net income	—	—	—	69.1	—	—	69.1
Cumulative effect of accounting change	—	—	—	2.2	(2.2)	—	—
Other comprehensive loss	—	—	—	—	(21.6)	—	(21.6)
Net settlement on vesting of equity awards	0.1	—	(1.1)	—	—	—	(1.1)
Stock-based compensation charge	—	—	13.4	—	—	—	13.4
Employee stock purchase charges	—	—	2.0	—	—	—	2.0
Exercise of stock options	0.1	—	0.5	—	—	—	0.5
December 31, 2018	28.5	0.3	1,777.9	(391.1)	(122.4)	(692.0)	572.7
Net income	—	—	—	47.5	—	—	47.5
Adoption of new accounting pronouncement	—	—	—	(7.6)	—	—	(7.6)
Other comprehensive income	—	—	—	—	12.7	—	12.7
Net settlement on vesting of restricted stock	0.3	—	(3.7)	—	—	—	(3.7)
Stock-based compensation charge	—	—	19.5	—	—	—	19.5
Employee stock purchase charges	—	—	2.4	—	—	—	2.4
Exercise of stock options	—	—	0.8	—	—	—	0.8
December 31, 2019	28.8	0.3	1,796.9	(351.2)	(109.7)	(692.0)	644.3
Net income	—	—	—	73.7	—	—	73.7
Other comprehensive income	—	—	—	—	2.7	—	2.7
Net settlement on vesting of equity awards	0.3	—	(3.0)	—	—	—	(3.0)
Stock-based compensation charge	—	—	16.4	—	—	—	16.4
Employee stock purchase charges	—	—	2.3	—	—	—	2.3
Exercise of stock options	0.3	—	5.6	—	—	—	5.6
December 31, 2020	29.4	\$ 0.3	\$ 1,818.2	\$ (277.5)	\$ (107.0)	\$ (692.0)	\$ 742.0

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

HERC HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 73.7	\$ 47.5	\$ 69.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of rental equipment	403.9	409.1	387.5
Depreciation of property and equipment	54.5	54.0	51.9
Amortization of intangible assets	8.0	7.0	5.4
Amortization of deferred debt and financing obligations costs	3.4	5.2	6.3
Loss on extinguishment of debt	—	53.6	5.4
Stock-based compensation charges	16.4	19.5	13.4
Restructuring	—	5.5	—
Impairment	15.4	5.1	0.1
Provision for receivables allowance	31.4	48.2	57.8
Deferred taxes	11.9	10.7	(10.5)
Loss (gain) on sale of rental equipment	5.1	0.4	(11.9)
Other	4.7	(1.8)	0.5
Changes in assets and liabilities:			
Receivables	(24.6)	(38.3)	(29.9)
Other assets	(7.9)	4.1	1.8
Accounts payable	(6.4)	(12.9)	(1.7)
Accrued liabilities and other long-term liabilities	21.4	18.7	13.9
Net cash provided by operating activities	<u>610.9</u>	<u>635.6</u>	<u>559.1</u>
Cash flows from investing activities:			
Rental equipment expenditures	(344.1)	(638.4)	(771.4)
Proceeds from disposal of rental equipment	192.5	224.2	272.3
Non-rental capital expenditures	(41.4)	(56.9)	(77.6)
Proceeds from disposal of property and equipment	6.6	7.7	9.7
Acquisitions	(45.6)	(4.2)	—
Proceeds from disposal of business	24.5	—	—
Other investing activities	—	4.0	—
Net cash used in investing activities	<u>(207.5)</u>	<u>(463.6)</u>	<u>(567.0)</u>

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

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

(In millions)

	Years Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	1,200.0	—
Repayments of long-term debt	—	(864.5)	(123.5)
Proceeds from revolving lines of credit and securitization	528.0	1,230.0	737.5
Repayments on revolving lines of credit and securitization	(924.7)	(1,664.8)	(604.0)
Proceeds from financing obligations	—	4.7	6.4
Principal payments under finance lease and financing obligations	(13.9)	(17.2)	(17.0)
Debt redemption premium payment	—	(41.5)	(3.7)
Payment of financing obligation and debt financing costs	(0.3)	(13.3)	(1.3)
Proceeds from exercise of stock options	5.6	0.8	0.5
Proceeds from employee stock purchase plan	2.3	2.4	2.0
Net settlement on vesting of equity awards	(3.0)	(3.7)	(1.1)
Net cash used in financing activities	<u>(406.0)</u>	<u>(167.1)</u>	<u>(4.2)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	2.6	0.3	(1.6)
Net increase (decrease) in cash and cash equivalents during the period	—	5.2	(13.7)
Cash and cash equivalents at beginning of period	33.0	27.8	41.5
Cash and cash equivalents at end of period	<u>\$ 33.0</u>	<u>\$ 33.0</u>	<u>\$ 27.8</u>

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 92.4	\$ 130.6	\$ 129.3
Cash paid for income taxes, net	\$ 5.0	\$ 7.9	\$ 13.4

Supplemental disclosures of non-cash investing activity:

Purchases of rental equipment in accounts payable	\$ 4.0	\$ —	\$ —
Non-rental capital expenditures in accounts payable	\$ 1.3	\$ 2.8	\$ —
Disposals of property and equipment in accounts receivable	\$ —	\$ 2.4	\$ —
Note receivable on disposal of joint venture	\$ —	\$ 19.0	\$ —

Supplemental disclosures of non-cash investing and financing activity:

Equipment acquired through finance leases	\$ 1.4	\$ 39.1	\$ 2.6
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The accompanying notes are an integral part of these financial statements.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Background

Herc Holdings Inc. ("Herc Holdings" or the "Company") is one of the leading equipment rental suppliers with 277 locations in North America as of December 31, 2020. The Company conducts substantially all of its operations through subsidiaries, including Herc Rentals Inc. ("Herc"). With over 55 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^R, its industry-specific solutions-based services, which includes power generation, climate control, remediation and restoration, pumps, and studio and production equipment, and its ProContractor professional grade tools.

On June 30, 2016, the Company, in its previous form as the holding company of both the existing equipment rental operations as well as the former vehicle rental operations (in its form prior to the Spin-Off, "Hertz Holdings"), completed a spin-off (the "Spin-Off") of its global vehicle rental business through a dividend to stockholders of all of the issued and outstanding common stock of Hertz Rental Car Holding Company, Inc., which was re-named Hertz Global Holdings, Inc. ("New Hertz") in connection with the Spin-Off. New Hertz is an independent public company and continues to operate its global vehicle rental business through its operating subsidiaries including The Hertz Corporation ("THC"). The Company began operating as an independent company and changed its name to Herc Holdings Inc. on June 30, 2016.

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the consolidated financial statements include receivables allowances, depreciation of rental equipment, the recoverability of long-lived assets, useful lives and impairment of long-lived tangible and intangible assets including goodwill and trade name, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies and accounting for income taxes.

Principles of Consolidation

The consolidated financial statements include the accounts of Herc Holdings and its wholly owned subsidiaries. In the event that the Company is a primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity are included in the Company's consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity of three months or less.

Concentration of Credit Risk

The Company's cash and cash equivalents are held in checking accounts, various investment grade institutional money market accounts or bank term deposits. Deposits held at banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate such risks by spreading the risk across multiple

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

counterparties and monitoring the risk profiles of these counterparties. In addition, the Company has credit risk from financial instruments used in hedging activities, when appropriate. The Company limits its exposure relating to financial instruments by diversifying the financial instruments among various counterparties, which consist of major financial institutions.

No single customer accounted for more than 3% of the Company's equipment rental revenue during the years ended December 31, 2020, 2019 and 2018. As of December 31, 2020 and 2019, no single customer accounted for more than 5% of accounts receivable.

Receivables

Receivables are stated net of allowances and represent credit extended to customers and manufacturers that satisfy defined credit criteria. The estimate of the allowance for doubtful accounts is based on the Company's historical experience and its judgment as to the likelihood of ultimate collection. Actual receivables are written-off against the allowance for doubtful accounts when the Company determines the balance will not be collected. Estimates for future credit memos are based on historical experience and are reflected as reductions to revenue, while the provision for bad debt for rental transactions is reflected as a component of "Selling, general and administrative expenses" in the Company's consolidated statements of operations.

Rental Equipment

Rental equipment is stated at cost, net of related discounts, with holding periods ranging from one year to 15 years. Generally, when rental equipment is acquired, the Company estimates the period that it will hold the asset, primarily based on historical measures of the amount of rental activity (e.g. equipment usage) and the targeted age of equipment at the time of disposal. The Company also estimates the residual value of the applicable rental equipment at the expected time of disposal. The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded over the estimated holding period. Depreciation rates are reviewed on a quarterly basis based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used equipment sales can also be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment and incentives offered by manufacturers of new equipment. These key factors are considered when estimating future residual values and assessing depreciation rates. As a result of this ongoing assessment, the Company makes periodic adjustments to depreciation rates of rental equipment in response to changed market conditions.

Property and Equipment

Property and equipment are stated at cost and are depreciated utilizing the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the estimated useful lives of the related assets or leases, whichever is shorter.

Useful lives are as follows:

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

The Company follows the practice of charging routine maintenance and repairs, including the cost of minor replacements, to maintenance expense. Costs of major replacements are capitalized and depreciated.

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

Leases

Leases are classified as either finance or operating at inception of the lease, with classification affecting the pattern of expense recognition in the income statement. Operating and finance leases result in the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. ROU assets represent the Company's right to use the leased asset for the lease term and lease liabilities represent the obligation to make lease payments. The liability is calculated as the present value of the remaining minimum lease payments for existing operating leases using either the rate implicit in the lease or, if none exists, the Company's incremental borrowing rate. Operating lease cost is recorded on a straight-line basis over the remaining lease term. Finance lease cost includes amortization of the ROU assets on a straight-line basis and interest on the lease liabilities using the effective interest method.

In certain instances, the Company may sell property and enter into an arrangement to lease the property back from the landlord. In these instances, the Company performs a sale-leaseback analysis to determine if the assets can be removed from the balance sheet. If certain criteria are met, the Company recognizes the transaction as a sale, removes the assets from its balance sheet and reflects the future lease payments as rent expense. If the criteria for sale is not met, such as available repurchase options or continuing involvement with the property, the Company is considered the owner for accounting purposes. In these instances, the Company is precluded from derecognizing the assets from its balance sheet and will continue to depreciate the assets over the expected lease term. In conjunction with these arrangements, the Company records a financing obligation equal to the cash proceeds or fair market value of the assets received from the landlord. Lease payments for these properties are recognized as interest expense and a reduction of the financing obligation using the effective interest method. At the end of the lease term, including exercise of any renewal options, the net remaining financing obligation over the net carrying value of the fixed asset will be recognized as a non-cash gain on sale of the property.

Public Liability and Property Damage

The obligation for public liability and property damage on self-insured equipment represents an estimate for both reported accident claims not yet paid, and claims incurred but not yet reported. The related liabilities are recorded on a non-discounted basis. Reserve requirements are based on actuarial evaluations of historical accident claim experience and trends, as well as future projections of ultimate losses, expenses, premiums and administrative costs. The adequacy of the liability is regularly monitored based on evolving accident claim history and insurance-related state legislation changes. If the Company's estimates change or if actual results differ from these assumptions, the amount of the recorded liability is adjusted to reflect these results.

Reserves for Claims

The Company is exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure include: (i) workers compensation claims; (ii) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (iii) automobile liability claims; and (iv) employee health insurance claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. The Company's methodology for developing self-insurance reserves is based on management estimates and independent third party actuarial estimates. The estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in the Company's claim history or receipt of additional information relevant to assessing the claims and the amount of the recorded liability is adjusted to reflect these changes. The long-term portion of our self-insurance reserves is included in "Other long-term liabilities" in the consolidated balance sheet.

Defined Benefit Pension Plans and Other Employee Benefits

The Company's employee pension costs and obligations are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation, as well as independent studies of trends performed by actuaries. However, actual results may differ substantially from the estimates that were based on the assumptions. The Company uses a December 31 measurement date for all of the plans.

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

Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect its recognized expense in such future periods. While management believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the Company's pension costs and obligations.

Foreign Currency Translation and Transactions

Assets and liabilities of international subsidiaries whose functional currency is the local currency are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average exchange rates throughout the year. The related translation adjustments are reflected in "Accumulated other comprehensive income (loss)" in the equity section of the Company's consolidated balance sheets. Foreign currency gains and losses resulting from transactions are included in earnings.

Financial Instruments

The Company is exposed to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. The Company manages exposure to these market risks through ongoing processes to monitor the impact of market changes and, when deemed appropriate, through the use of financial instruments. Financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. The Company accounts for all derivatives in accordance with U.S. GAAP, which requires that they be recorded on the balance sheet as either assets or liabilities measured at their fair value. For financial instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. The effective portion of changes in fair value of financial instruments designated as cash flow hedging instruments is recorded as a component of other comprehensive income (loss). Amounts included in accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of financial instruments designated as cash flow hedges is recognized currently in earnings within the same line item as the hedged item, based upon the nature of the hedged item. For financial instruments that are not part of a qualified hedging relationship, the changes in their fair value are recognized currently in earnings.

Business Combinations

The Company has made acquisitions and may continue to make acquisitions in the future. The assets acquired and liabilities assumed are recorded based on their respective fair values at the date of acquisition. Long-lived assets (principally rental equipment), goodwill and other intangible assets generally represent the largest components of the acquisitions. Rental equipment is valued utilizing either a cost, market or income approach, or a combination of certain of these methods, depending on the asset being valued and the availability of market or income data. The intangible assets that the Company has acquired are non-compete agreements, customer relationships and trade names and associated trademarks. The estimated fair values of these intangible assets reflect various assumptions about discount rates, revenue growth rates, operating margins, terminal values, useful lives and other prospective financial information. Goodwill is calculated as the excess of the cost of the acquired entity over the net of the fair value of the assets acquired and the liabilities assumed. Non-compete agreements, customer relationships and trade names and associated trademarks are valued based on an excess earnings or income approach based on projected cash flows and may be amortized over the useful life if they are determined to be finite-lived intangible assets. Determining the fair value of the assets and liabilities acquired is judgmental in nature and can involve the use of significant estimates and assumptions.

As part of an acquisition, the Company will also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these other assets and liabilities generally approximate the book values on the acquired entities' balance sheets.

Goodwill and Indefinite-Lived Intangible Assets

On an annual basis and at interim periods when circumstances require, the Company tests the recoverability of its goodwill. The analysis is conducted as of October 1 each year. The Company has one reporting unit and compares the carrying value of its

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

reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the Company recognizes an impairment charge for the amount equal to that excess.

The Company may first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If a quantitative impairment test is performed, the fair value of the reporting unit is estimated using a combination of an income approach on the present value of estimated future cash flows and a market approach based on published earnings multiples of comparable entities with similar operations and economic characteristics as well as acquisition multiples paid in recent transactions. The Company's discounted cash flows are based upon reasonable and appropriate assumptions, which are weighted for their likely probability of occurrence, about the underlying business activities of the Company.

Indefinite-lived intangible assets, primarily our trade name, are not amortized but are evaluated annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recognized in an amount equal to that excess.

Finite-Lived Intangible and Long-Lived Assets

Intangible assets include technology, customer relationships and other intangibles. Intangible assets with finite lives are amortized over the estimated economic lives of the assets, which range from three to 14 years. These assets are primarily amortized using the straight-line method, however, certain assets may be amortized using an accelerated method that reflects the economic benefit to the Company. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset.

Long-lived assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as assets held for sale. Upon designation as an asset held for sale, the carrying value of each long-lived asset or disposal group is recorded at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and depreciation expense is no longer recorded.

Revenue Recognition

The Company is principally engaged in the business of renting equipment. Ancillary to the Company's principal equipment rental business, the Company also sells used rental equipment, new equipment and parts and supplies and offers certain services to support its customers.

The Company's rental transactions are accounted for under ASC Topic 842, *Leases*, ("Topic 842"). Prior to the adoption of Topic 842 on January 1, 2019, the Company accounted for these transactions under ASC Topic 840, *Leases*, ("Topic 840"). Equipment rental revenue includes revenue generated from renting equipment to customers, including re-rent revenue, and is recognized on a straight-line basis over the length of the rental contract. Other equipment rental revenues include fees for the Company's rental protection program and environmental charges and are recognized on a straight-line basis over the length of the rental contract.

The Company's sale of rental and new equipment, parts and supplies along with certain services provided to customers are recognized under ASC Topic 606, *Revenue from Contracts with Customers*, ("Topic 606") which was adopted on January 1, 2018. 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.

See Note 3, "Revenue Recognition" for further discussion of our revenue accounting.

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

Advertising

Advertising and sales promotion costs are expensed the first time the advertising or sales promotion takes place. Advertising costs are reflected as a component of "Selling, general and administrative" expense in the Company's consolidated statements of operations. For the years ended December 31, 2020, 2019 and 2018 advertising costs were \$2.2 million, \$2.7 million and \$1.0 million, respectively.

Stock Based Compensation

Under the Company's stock based compensation plans, certain employees and members of the Company's board of directors have received grants of restricted stock units, performance stock units and stock options for Herc Holdings common stock.

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award. The Company estimates the fair value of stock options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield and risk-free interest rate.

The Company accounts for restricted stock unit and performance stock unit awards as equity classified awards. For restricted stock units, the expense is based on the grant date fair value of the stock and the number of shares that vest, recognized over the service period. For performance stock units, the expense is based on the grant date fair value of the stock, recognized over a service period depending upon the applicable performance condition. For performance stock units, the Company re-assesses the probability of achieving the applicable performance condition each reporting period and adjusts the recognition of expense accordingly.

Income Taxes

The Company applies the provisions of ASC Topic 740, *Income Taxes*, ("Topic 740"), and computes the provision for income taxes on a Separate Return Basis. Under Topic 740, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities and are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The Company records valuation allowances to reduce its deferred tax assets by the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates and changes in the interpretations thereof will result in deferred taxes and changes to any related valuation allowances. Provisions are not made for income taxes on undistributed earnings of international subsidiaries that are intended to be indefinitely reinvested outside of the United States or are expected to be remitted free of taxes. Future distributions, if any, from these international subsidiaries to the United States or changes in U.S. tax rules may require a charge to reflect tax on these amounts.

In accordance with Topic 740, the Company recognizes, in its consolidated financial statements, the impact of the Company's tax positions that are more likely than not to be sustained upon examination. The Company will determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority with full knowledge of all relevant information. Upon determination that a tax position meets the more-likely-than-not recognition threshold, it is measured to determine the amount of benefit to recognize in the financial statements. The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), had a substantial impact on the income tax benefit for the year ended December 31, 2018. See Note 15, "Income Taxes" for further detail.

Impacts of COVID-19

In December 2019, a novel strain of coronavirus ("COVID-19") was identified in China and has since spread globally. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Federal, state and local efforts to contain the spread of COVID-19 intensified in March 2020 when most states in the United States, including Florida where the Company is

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

headquartered, enacted shelter in place orders, declared states of emergency, took steps to restrict travel, enacted temporary closures of non-essential businesses and took other restrictive measures in response to the COVID-19 pandemic. The Company's business was deemed essential and was allowed to remain open, however, many industries in which its customers operate were required to temporarily close their facilities or delay or cancel projects and events. The Company reduced its capital spending during 2020 and, where possible, reduced operating expenses while ensuring ongoing safe and reliable operations. Additionally, as the timing and extent of the removal of these measures and the residual economic impact of the pandemic remains unclear, the Company is currently experiencing a year-over-year decrease in volume of fleet on rent and this reduction in volume is likely to have a negative impact on equipment rental revenue. The impact of the COVID-19 pandemic continues to evolve as state and local governments are re-opening businesses in multiple phases and, in certain jurisdictions, reversing re-opening decisions. Therefore, we cannot predict the extent to which our financial condition, results of operations or cash flows will ultimately be impacted.

Recently Issued Accounting Pronouncements

Adopted

Fair Value Measurement

In August 2018, the Financial Accounting Standards Board ("FASB") issued new guidance that modifies disclosure requirements on fair value measurements, removing and modifying certain disclosures, while adding other disclosures. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company adopted the new guidance on its effective date and it did not have a material impact on its financial statement disclosures.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued guidance that requires companies to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectibility. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. Different components of the guidance require modified retrospective or prospective adoption. This guidance does not apply to receivables arising from operating leases and, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenue is accounted for as lease revenue under Topic 842. The Company adopted this guidance on its effective date and there was no material impact on its financial position, results of operations or cash flows.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued guidance that simplifies the accounting for income taxes. The guidance removes the following exceptions: (i) exceptions to the approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, (ii) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, (iii) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary and (iv) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally, the guidance simplifies the accounting for income taxes by: (i) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (ii) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, (iii) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements (although the entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority), (iv) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date and (v) making minor improvements for income tax accounting related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. The Company early adopted this guidance on January 1, 2020 and there was no material impact on its financial position, results of operations or cash flows.

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

Compensation - Retirement Benefits

In August 2018, the FASB issued guidance that adds, removes, and modifies disclosure requirements related to defined benefit pension and other postretirement plans in order to improve the disclosure effectiveness. The guidance is effective for fiscal years beginning after December 15, 2020 and should be applied on a retrospective basis to all periods presented. The Company early adopted this guidance on December 31, 2020 as permitted, and there was no impact the Company's financial position, results of operations or cash flows. See Note 13, "Employee Retirement Benefits" for revised disclosures in accordance with this guidance.

Not Yet Adopted

Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued guidance that provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. This guidance is effective beginning March 12, 2020 through December 31, 2022 where the transition method varies depending upon the specific expedient or exception. The Company is in the process of assessing the available expedients and exceptions and, if applicable, the method and timing of adoption.

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 91.5%, 89.9% and 88.9% of total revenue for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company's rental transactions are accounted for under Topic 842. Prior to the adoption of Topic 842, the Company accounted for rental transactions under Topic 840. The Company's sale of rental and new equipment, parts and supplies along with certain services provided to customers are accounted for under 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 table summarizes the applicable accounting guidance for the Company's revenues (in millions):

	Years Ended December 31,								
	2020			2019			2018		
	Topic 842	Topic 606	Total	Topic 842	Topic 606	Total	Topic 840	Topic 606	Total
Revenues:									
Equipment rental	\$ 1,401.1	\$ —	\$ 1,401.1	\$ 1,549.9	\$ —	\$ 1,549.9	\$ 1,509.7	\$ —	\$ 1,509.7
Other rental revenue:									
Delivery and pick-up	—	86.7	86.7	—	98.0	98.0	—	88.4	88.4
Other	55.9	—	55.9	53.9	—	53.9	60.2	—	60.2
Total other rental revenues	55.9	86.7	142.6	53.9	98.0	151.9	60.2	88.4	148.6
Total equipment rentals	1,457.0	86.7	1,543.7	1,603.8	98.0	1,701.8	1,569.9	88.4	1,658.3
Sales of rental equipment	—	198.5	198.5	—	242.8	242.8	—	256.2	256.2
Sales of new equipment, parts and supplies	—	28.2	28.2	—	44.0	44.0	—	49.3	49.3
Service and other revenues	—	10.9	10.9	—	10.4	10.4	—	12.9	12.9
Total revenues	\$ 1,457.0	\$ 324.3	\$ 1,781.3	\$ 1,603.8	\$ 395.2	\$ 1,999.0	\$ 1,569.9	\$ 406.8	\$ 1,976.7

HERC HOLDINGS INC. AND SUBSIDIARIES
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Topic 842 revenues

Equipment Rental Revenue

The Company offers a broad portfolio of equipment for rent on a daily, weekly or monthly basis, with most rental agreements cancelable upon the return of the equipment. Virtually all customer contracts can be canceled 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.

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):

	Years Ended December 31,		
	2020	2019	2018
Sales of rental equipment	\$ 198.5	\$ 242.8	\$ 256.2
Sales of new equipment	11.5	21.0	21.3
Sales of parts and supplies	16.7	23.0	28.0
Total	<u>\$ 226.7</u>	<u>\$ 286.8</u>	<u>\$ 305.5</u>

The Company recognizes revenue from rental equipment, new equipment, parts and supplies when control of the asset transfers to the customer, which is typically when the asset is picked up by or delivered to the customer and when significant risks and rewards of ownership have passed to the customer. Sales and other tax amounts collected from customers and remitted to government authorities are accounted for on a net basis and, therefore, excluded from revenue.

The Company routinely sells its used rental equipment in order to manage repair and maintenance costs, as well as the composition, age and size of its fleet. The Company disposes of used equipment through a variety of channels including retail sales to customers and other third parties, sales to wholesalers, brokered sales and auctions.

The Company also sells new equipment, parts and supplies. The types of new equipment that the Company sells vary by location and include a variety of ProContractor tools and supplies, small equipment (such as work lighting, generators, pumps,

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

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 \$13.8 million and \$15.6 million as of December 31, 2020 and 2019, 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, 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 revenue that is accounted for under Topic 606 are generally the same customers that rent the Company's equipment. Concentration of credit risk with respect to the Company's accounts receivable is limited because a large number of geographically diverse customers makes up its customer base. No single customer makes up more than 3% of the Company's equipment rental revenue or more than 5% of its accounts receivable balance for the last three years. The Company manages credit risk associated with its accounts receivable at the customer level through credit approvals, credit limits and other monitoring procedures. The Company maintains 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 years ended December 31, 2020, 2019 or 2018 that was included in the contract liability balance as of the beginning of such period.

Performance obligations

Most of the Company's revenue recognized under Topic 606 is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, the Company does not generally recognize a significant amount of revenue from performance obligations satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the years ended December 31, 2020, 2019 and 2018 were 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 December 31, 2020.

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.

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

Note 4—Rental Equipment

Rental equipment consists of the following (in millions):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Rental equipment	\$ 3,613.5	\$ 3,821.6
Less: Accumulated depreciation	(1,353.1)	(1,331.6)
Rental equipment, net	<u>\$ 2,260.4</u>	<u>\$ 2,490.0</u>

Note 5—Property and Equipment

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Land and buildings	\$ 117.3	\$ 116.1
Service vehicles	278.7	305.3
Leasehold improvements	105.8	94.3
Machinery and equipment	23.6	23.3
Computer equipment and software	75.9	64.9
Furniture and fixtures	15.6	15.1
Construction in progress	7.2	9.4
Property and equipment, gross	<u>624.1</u>	<u>628.4</u>
Less: accumulated depreciation	(333.7)	(316.6)
Property and equipment, net	<u>\$ 290.4</u>	<u>\$ 311.8</u>

Depreciation expense for the years ended December 31, 2020, 2019 and 2018 was \$54.5 million, \$54.0 million and \$51.9 million, respectively. Depreciation expense for property and equipment is included in "Direct operating" and "Selling, general and administrative" expenses in the Company's consolidated statements of operations.

The Company leases certain of its service vehicles and office equipment under finance leases. Depreciation of assets held under finance leases is included in depreciation expense. The gross amounts of property and equipment and related depreciation recorded under finance leases, included in the table above, were as follows (in millions):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Service vehicles	\$ 72.7	\$ 101.8
Furniture and fixtures	0.7	1.0
	<u>73.4</u>	<u>102.8</u>
Less: accumulated depreciation	(32.6)	(46.2)
	<u>\$ 40.8</u>	<u>\$ 56.6</u>

The Company has entered into financing obligations to lease certain of its properties as discussed further in Note 12, "Financing Obligations." Depreciation of assets held under financing obligations is included in depreciation expense. The gross amounts of land, building and leasehold improvements and related depreciation recorded under financing obligations, included in the table above, were as follows (in millions):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Land, building and leasehold improvements	\$ 77.4	\$ 77.4
Less: accumulated depreciation	(38.7)	(36.1)
	<u>\$ 38.7</u>	<u>\$ 41.3</u>

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

Note 6—Goodwill and Intangible Assets

Goodwill

The Company performed its annual goodwill impairment test as of October 1 and determined that no impairment existed for the years ended December 31, 2020 and 2019.

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

	Years Ended December 31,	
	2020	2019
Balance at the beginning of the period:		
Goodwill	\$ 768.5	\$ 765.9
Accumulated impairment losses	(674.9)	(674.9)
	<u>93.6</u>	<u>91.0</u>
Additions	6.9	2.6
Balance at the end of the period:		
Goodwill	775.4	768.5
Accumulated impairment losses	(674.9)	(674.9)
	<u>\$ 100.5</u>	<u>\$ 93.6</u>

Intangible Assets

The Company performed its annual impairment test of indefinite-lived and finite-lived intangible assets as of October 1 and determined that no impairment existed for the years ended December 31, 2020 and 2019.

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

	December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related and non-compete agreements	\$ 18.7	\$ (10.0)	\$ 8.7
Internally developed software ^(a)	39.9	(23.3)	16.6
Total	<u>58.6</u>	<u>(33.3)</u>	<u>25.3</u>
Indefinite-lived intangible assets:			
Trade name	270.6	—	270.6
Total intangible assets, net	<u>\$ 329.2</u>	<u>\$ (33.3)</u>	<u>\$ 295.9</u>

(a) Includes capitalized costs of \$1.2 million yet to be placed into service.

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related	\$ 11.4	\$ (8.9)	\$ 2.5
Internally developed software ^(a)	34.9	(16.4)	18.5
Total	<u>46.3</u>	<u>(25.3)</u>	<u>21.0</u>
Indefinite-lived intangible assets:			
Trade name	270.5	—	270.5
Total intangible assets, net	<u>\$ 316.8</u>	<u>\$ (25.3)</u>	<u>\$ 291.5</u>

(a) Includes capitalized costs of \$1.4 million yet to be placed into service.

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

Amortization of intangible assets for the years ended December 31, 2020, 2019 and 2018 was approximately \$8.0 million, \$7.0 million and \$5.4 million, respectively. Based on the amortizable assets in-service as of December 31, 2020, the Company expects amortization expense to be approximately \$8.8 million in 2021, \$6.5 million in 2022, \$3.6 million in 2023, \$0.7 million in 2024 and \$4.5 million thereafter.

Note 7—Business Combination

In December 2020, the Company completed the acquisition of Champion Rentals, Inc. ("Champion"). Champion was a full-service general equipment rental company comprising approximately 100 employees and four locations serving contractors and industrial, manufacturing and government customers in the Houston metropolitan area. The acquisition of Champion expands the Company's Houston-area presence to 12 physical locations, which collectively provide general and specialty equipment rental solutions and related services. The aggregate consideration paid was approximately \$47.9 million and is subject to a potential working capital adjustment within 180 days of closing. The acquisition and related fees and expenses were funded through cash on hand.

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

Accounts receivable	\$	3.4
Other current assets		0.3
Rental equipment		28.3
Property and equipment		2.1
Intangibles ^(a)		7.3
Total identifiable assets acquired		<u>41.4</u>
Current liabilities		<u>0.4</u>
Net identifiable assets acquired		<u>41.0</u>
Goodwill ^(b)		<u>6.9</u>
Net assets acquired	\$	<u><u>47.9</u></u>

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

	<u>Fair value</u>	<u>Life (years)</u>
Customer relationships	\$ 7.1	14
Non-compete agreements	<u>0.2</u>	5
	<u>\$ 7.3</u>	

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

The assets and liabilities were recorded as of December 30, 2020 and the results of operations will be included in the Company's consolidated results of operations as of that date. Pro-forma operating results, as if the Company had completed the acquisition at the beginning of the periods presented, are not significant to the Company's consolidated statements of operations and are not presented.

Note 8—Assets Held for Sale and Impairments

In December 2020, the Company performed an impairment assessment of certain rental equipment and recorded an impairment charge of \$4.8 million. Additionally, the Company recorded an impairment charge of \$1.1 million related to a financial reporting and consolidation system that was replaced during the fourth quarter of 2020.

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

In September 2020, the Company closed on the sale of two branches and realized a loss on the sale of \$0.2 million that was recorded in "Other income (expense), net" in the Company's consolidated statements of operations. In June 2020, the Company had reclassified the assets of these branches to assets held for sale and in connection therewith, an impairment analysis was performed and an impairment charge of approximately \$1.5 million was recorded at June 30, 2020.

During June 2020, the Company recorded a right-of-use ("ROU") asset impairment charge of \$1.7 million related to two leased locations that were closed during the second quarter of 2019. See Note 9, "Leases" for additional information on the restructuring charges taken in the prior year related to the closures.

During March 2020, the Company recorded an impairment charge of \$6.3 million on a long-term receivable related to a previous joint venture sale, the remaining balances of \$4.0 million and \$8.7 million are included in "Other current assets" and "Other long-term assets," respectively, in the consolidated balance sheets.

As of December 31, 2019, the Company's assets held for sale consisted of the net assets of its remaining international operations outside of North America. In connection with the reclassification of the assets held for sale, an impairment analysis was performed and an impairment charge of approximately \$4.0 million was recorded during the year ended December 31, 2019. In April 2020, the Company closed on the sale, which was comprised of six locations, for total proceeds of \$24.5 million and realized a loss on the sale of \$2.8 million that was recorded in "Other income (expense), net" in the consolidated statements of operations.

Note 9—Leases

The Company leases real estate, office equipment and service vehicles. The Company's leases have remaining lease terms of up to 18 years, some of which include options to extend the leases for up to 20 years. The Company has included 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 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 Company adopted Topic 842 on its effective date of January 1, 2019 using a modified retrospective transition approach; as such, Topic 842 was not applied to periods prior and the adoption had no impact on the Company's previously reported results.

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

	Classification	Years Ended December 31,	
		2020	2019
Operating lease cost ^(a)	Direct operating	\$ 83.1	\$ 100.1
Finance lease cost:			
Amortization of ROU assets	Depreciation and amortization ^(b)	11.1	12.5
Interest on lease liabilities	Interest expense, net	1.5	1.7
Sublease income	Equipment rental revenue	(46.6)	(67.2)
Net lease cost		<u>\$ 49.1</u>	<u>\$ 47.1</u>

(a) Includes short-term leases of \$31.4 million and \$54.6 million for the year ended December 31, 2020 and December 31, 2019, respectively, and variable lease costs of \$5.2 million and \$4.3 million for the year ended December 31, 2020 and December 31, 2019, respectively.

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

During 2019, the Company entered into a plan of restructuring with respect to certain branches in Canada. As part of the plan, certain of its leased locations were closed and the Company recorded a ROU asset impairment of \$4.8 million. Additionally, the Company recorded related leasehold improvement impairments of \$0.7 million and severance charges of \$2.2 million.

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

Balance sheet information related to leases consists of the following (in millions):

	Classification	December 31, 2020	December 31, 2019
Assets			
Operating lease ROU assets	Right-of-use assets	\$ 255.9	\$ 207.3
Finance lease ROU assets	Property and equipment, net ^(a)	40.8	56.6
Total leased assets		<u>\$ 296.7</u>	<u>\$ 263.9</u>
Liabilities			
Current			
Operating	Current maturities of operating lease liabilities	\$ 32.1	\$ 30.5
Finance	Current maturities of long-term debt and financing obligations	12.2	21.8
Non-current			
Operating	Operating lease liabilities	234.1	182.2
Finance	Long-term debt, net	28.6	34.4
Total lease liabilities		<u>\$ 307.0</u>	<u>\$ 268.9</u>

(a) Finance lease right-of-use assets are recorded net of accumulated amortization of \$32.6 million and \$46.2 million for the year ended December 31, 2020 and December 31, 2019, respectively.

	December 31, 2020
Weighted average remaining lease term:	
Operating leases	10.6
Finance leases	5.6
Weighted average discount rate:	
Operating leases	3.41 %
Finance leases	3.24 %

Cash flow information related to leases consists of the following (in millions):

	Years Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 35.5	\$ 37.9
Operating cash flows from finance leases	1.5	1.7
Financing cash flows from finance leases	10.8	14.2
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	144.4	76.3
Finance leases	1.4	39.1

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

Maturities of lease liabilities are as follows (in millions):

	Operating Leases	Finance Leases
2021	\$ 39.5	\$ 13.0
2022	40.0	6.7
2023	35.8	6.5
2024	32.5	6.2
2025	26.9	6.2
After 2026	140.0	5.2
Total lease payments	314.7	43.8
Less: Interest	(48.5)	(3.0)
Present value of lease liabilities	<u>\$ 266.2</u>	<u>\$ 40.8</u>

Note 10—Accrued Liabilities

Accrued liabilities consists of the following (in millions):

	December 31, 2020	December 31, 2019
Accrued compensation and benefit costs	\$ 33.4	\$ 26.8
Rebate accrual	31.9	33.6
Taxes payable	29.1	16.0
Accrued interest	31.3	32.2
Customer related deferrals	13.5	11.3
Insurance reserves	7.8	9.2
Other	7.3	6.6
Total accrued liabilities	<u>\$ 154.3</u>	<u>\$ 135.7</u>

Note 11—Debt

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

	Weighted Average Effective Interest Rate at December 31, 2020	Weighted Average Stated Interest Rate at December 31, 2020	Fixed or Floating Interest Rate	Maturity	December 31, 2020	December 31, 2019
<i>Senior Notes</i>						
2027 Notes	5.61%	5.50%	Fixed	2027	\$ 1,200.0	\$ 1,200.0
<i>Other Debt</i>						
ABL Credit Facility	N/A	1.56%	Floating	2024	255.0	650.0
AR Facility	N/A	1.03%	Floating	2021	175.0	175.0
Finance lease liabilities	3.24%	N/A	Fixed	2021-2027	40.8	56.2
Other borrowings	N/A	NA	NA	NA	—	5.2
<i>Unamortized Debt Issuance Costs^(a)</i>					(7.1)	(7.9)
Total debt					<u>1,663.7</u>	<u>2,078.5</u>
Less: Current maturities of long-term debt					(12.2)	(27.0)
Long-term debt, net					<u>\$ 1,651.5</u>	<u>\$ 2,051.5</u>

(a) Unamortized debt issuance costs totaling \$7.1 million and \$9.3 million related to the ABL Credit Facility and AR Facility (as each is defined below) as of December 31, 2020 and December 31, 2019 are included in "Other long-term assets" in the consolidated balance sheets.

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

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

Maturities

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

2021	\$ 12.2
2022	5.8
2023	5.9
2024	435.8
2025	6.0
After 2025	1,205.1
Total	<u>\$ 1,670.8</u>

The Company's liquidity needs arise from the funding of its costs of operations and capital expenditures and from debt service on its indebtedness. The Company believes that cash generated from operations and cash received from the disposal of rental and other equipment, together with amounts available under its senior secured asset-based revolving credit facility (the "ABL Credit Facility") and AR Facility (as defined below) will be adequate to permit the Company to meet its obligations over the next 12 months.

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.

Ranking; Guarantees

The 2027 Notes are the Company's senior unsecured obligations, ranking equally in right of payment with all of the Company's existing and future senior indebtedness, effectively junior to any of the Company's existing and future secured indebtedness, including the ABL Credit Facility, to the extent of the value of the assets securing such indebtedness, and senior in right of payment to any of the Company's existing and future subordinated indebtedness. The 2027 Notes will be guaranteed on a senior unsecured basis, subject to limited exceptions including special purpose securitization subsidiaries, by the Company's current and future domestic subsidiaries.

Redemption

The Company may redeem the 2027 Notes, in whole or in part, at any time prior to July 15, 2022, at a price equal to 100% of the aggregate principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest, if any, to, but excluding, the redemption date. The Company may redeem the 2027 Notes, in whole or in part, at any time (i) on or after July 15, 2022 and prior to July 15, 2023, at a price equal to 102.750% of the principal amount of the 2027 Notes, (ii) on or after July 15, 2023 and prior to July 15, 2024, at a price equal to 101.833% of the principal amount of the 2027 Notes, (iii) on or after July 15, 2024 and prior to July 15, 2025, at a price equal to 100.917% of the principal amount of the 2027 Notes and (iv) on or after July 15, 2025, at a price equal to 100.000% of the principal amount of the 2027 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time on or prior to July 15, 2022, the Company may, at its option, redeem up to 40% of the original aggregate principal amount of the 2027 Notes with the proceeds of one or more equity offerings at a redemption price of 105.500% of the principal amount of the 2027 Notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Covenants

The indenture governing the 2027 Notes contains certain covenants applicable to the Company and its restricted subsidiaries, including limitations on liens, indebtedness, mergers, consolidations and acquisitions, sales, transfers and other dispositions of assets, loans and other investments, dividends and other distributions, stock repurchases and redemptions and other restricted payments, restrictions affecting subsidiaries, transactions with affiliates and designations of unrestricted subsidiaries. Upon the

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

occurrence of certain events constituting a change of control triggering event, the Company is required to make an offer to repurchase all of the 2027 Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to (but excluding) the repurchase date. If the Company sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the 2027 Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

Events of Default

The indenture also provides for customary events of default, including the following (subject to any applicable cure period): nonpayment, breach of covenants in the indenture, payment defaults under or acceleration of certain other indebtedness, failure to discharge certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs or is continuing, the trustee or the holders of at least 30% in aggregate principal amount of the 2027 Notes then outstanding may declare the principal of, premium, if any, and accrued and unpaid interest, if any, to be due and payable immediately.

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 provides (subject to availability under a borrowing base) for aggregate maximum borrowings of up to \$1,750 million under a revolving loan facility. 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.

Maturity

The ABL Credit Facility matures on July 31, 2024.

Guarantees; Collateral/Security

The obligations of each of the borrowers under the ABL Credit Facility are guaranteed by each of Herc Holdings' direct and indirect U.S. and Canadian subsidiaries, with certain exceptions, including special purpose securitization subsidiaries. The obligations of the borrowers under the ABL Credit Facility and the guarantees thereof are secured by security interests in substantially all of the assets of each borrower and guarantor, including pledges of all the capital stock of all of their direct subsidiaries, with certain exceptions. The liens securing the ABL Credit Facility are subject to certain exceptions. Also, subject to certain limitations and conditions, the ABL Credit Facility permits the incurrence of future secured debt on a basis either *pari passu* with, or subordinated to, the liens securing the ABL Credit Facility.

Interest

The interest rates applicable to any loans under the ABL Credit Facility are based, at the option of the borrowers, on (i) a floating rate based on LIBOR (for loans denominated in U.S. dollars) or CDOR (for loans denominated in Canadian dollars) plus an initial margin of 1.50% per annum or (ii) a base rate plus an initial margin of 0.50%, in each case, where margin is adjusted under the ABL Credit Facility based on the quarterly average excess availability under the ABL Credit Facility.

Covenants

The ABL Credit Facility contains a number of covenants that, among other things, limit or restrict the ability of the borrowers and their subsidiaries to incur additional indebtedness, prepay other indebtedness, make dividends and other restricted payments, create or incur liens, make acquisitions and other investments, engage in mergers, consolidations or sales of assets, engage in certain transactions with affiliates, and enter into certain restrictive agreements limiting the ability to create or incur liens. In addition, under the ABL Credit Facility, upon excess availability falling below certain levels, the borrowers will be required to comply with a minimum fixed charge coverage ratio of no less than 1.00:1.00. As of December 31, 2020, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

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

Events of Default

The ABL Credit Facility provides that the occurrence of any of the following events will constitute an event of default: payment default, breach of representation or warranty, covenant breach, cross default to other material indebtedness, certain bankruptcy events, dissolution, invalidity of the credit agreement or any intercreditor agreement (if any), judgment in excess of a certain monetary threshold, any security or guarantee documents cease to be in effect, an ERISA event, pension event or a change of control. Upon the occurrence and during the continuation of an event of default, the agent may exercise remedies on behalf of the lenders, including accelerating the repayment of outstanding loans under the ABL Credit Facility.

Accounts Receivable Securitization Facility

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of \$175 million. The AR Facility was amended in September 2020 to extend the maturity date to August 31, 2021. 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.

The agreements governing the AR Facility contain restrictions and covenants which include limitations applicable to Herc, the Herc subsidiary seller and the SPE on the creation of certain liens, and restrictions and covenants which include limitations applicable to the SPE on the making of certain restricted payments, and limitations applicable to Herc and the SPE with respect to certain corporate acts such as mergers, consolidations and the sale of substantially all assets, with certain exceptions. The Company was in compliance with all such covenants as of December 31, 2020.

The financing agreement with the lenders provides for customary events of default (subject to customary exceptions, thresholds and grace periods) including, without limitation, failure to perform covenants, ineffectiveness of transaction documents, invalidity of security interests or failure to cooperate in the administrative agent's assumption of control of accounts, material inaccuracy of representations or warranties, failure of certain ratios related to the accounts receivables, specified cross default and cross acceleration to other material indebtedness, certain bankruptcy events, certain ERISA events, material judgments, material adverse effect and change in control.

Other Borrowings

The Company's former subsidiary in China had uncommitted credit agreements for up to an aggregate principal amount of \$10.0 million. Interest accrued on the loans drawn under these facilities at an applicable loan prime rate plus 0.535% published by National Interbank Funding Center and was payable quarterly. In conjunction with the sale of the Company's subsidiary in China in April 2020, the credit agreement was terminated and no borrowings were outstanding at December 31, 2020.

Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company as of December 31, 2020 (in millions):

	<u>Remaining Capacity</u>	<u>Availability Under Borrowing Base Limitation</u>
ABL Credit Facility	\$ 1,471.6	\$ 1,380.3
AR Facility	—	—
Total	<u>\$ 1,471.6</u>	<u>\$ 1,380.3</u>

At December 31, 2020, the Company's borrowing base was capped at \$175.0 million by the aggregate commitments under the AR Facility.

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

Letters of Credit

As of December 31, 2020, \$23.4 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which had been drawn upon. The ABL Credit Facility had \$226.6 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Note 12—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. Herc entered into a master lease agreement pursuant to which it has continued operations at those properties as a tenant. The triple net lease agreement has an initial term of 20 years, subject to extension, at Herc's option, for up to five additional periods of five years each. The sale of the properties did not qualify for sale-leaseback accounting due to continuing involvement with the properties. Therefore, the book value of the buildings and land remains on the Company's consolidated balance sheet.

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.

In connection with these transactions, the Company capitalized \$2.9 million in deferred financing obligations issuance costs. The costs are being amortized to interest expense using the effective interest method. Interest expense related to the amortization of these costs for the year ended December 31, 2020, 2019 and 2018 was \$0.5 million, \$0.4 million and \$0.2 million, respectively.

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

	Weighted Average Effective Interest Rate at December 31, 2020	Maturity	December 31, 2020	December 31, 2019
Financing obligations	5.11%	2026-2038	\$ 120.5	\$ 123.5
Unamortized financing issuance costs			(2.4)	(2.5)
Total financing obligations			118.1	121.0
Less: Current maturities of financing obligations			(3.6)	(3.4)
Financing obligations, net			<u>\$ 114.5</u>	<u>\$ 117.6</u>

As of December 31, 2020, future minimum financing payments for the agreements referred to above are as follows (in millions):

2021	\$ 9.5
2022	9.5
2023	9.5
2024	9.5
2025	9.5
Thereafter	<u>103.4</u>
Total minimum financing obligations payments	150.9
Obligations subject to non-cash gain on future sale of property	34.6
Less amount representing interest (at a weighted-average interest rate of 5.11%)	<u>(65.0)</u>
Total financing obligations	<u>\$ 120.5</u>

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

Note 13—Employee Retirement Benefits

401(k) Savings Plan and Other Defined Contribution Plan

On July 1, 2016, the Company established the Herc Holdings Savings Plan covering all of its U.S. employees. Contributions to the plans are made by both the employee and the Company. Company contributions to these plans are based on the level of employee contributions and formulas determined by the Company. Expenses for the defined contribution plans for the years ended December 31, 2020, 2019 and 2018 were approximately \$10.9 million, \$11.4 million and \$10.5 million, respectively.

Defined Benefit Pension and Postretirement Plans

In July 2016, the Company established the Herc Holdings Retirement Plan (the "Plan"), a U.S. qualified pension plan. The Plan's assets and liabilities attributable to current and former employees of the equipment rental business were transferred to the Plan following the Spin-Off. The Plan has been frozen to new participants since it was established.

Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits for certain eligible retired employees in the U.S.

The Company reflects the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The Company is required to recognize as a component of other comprehensive income (loss), net of tax, the actuarial gains/losses and prior service credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income (loss) is adjusted as these amounts are later recognized in the statement of operations as components of net periodic benefit cost.

The Company's policy for funded plans is to contribute, at a minimum, amounts required by applicable laws, regulations and union agreements. The Plan represents approximately 99% of the Company's defined benefit plan obligations and 100% of its plan assets. The Company made contributions to the Plan of \$2.5 million and \$2.8 million in 2020 and 2019, respectively however, no cash contribution was made in 2018. The level of future contributions will vary and is dependent on a number of factors including investment returns, interest rate fluctuations, plan demographics, funding regulations and the results of the final actuarial valuation.

Additionally, pursuant to various collective bargaining agreements, certain union-represented employees participate in multiemployer pension plans.

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

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

	<u>Pension</u>		<u>Postretirement</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Change in Projected Benefit Obligations				
Benefit obligations at beginning of year	\$ 163.5	\$ 148.5	\$ 1.0	\$ 1.0
Interest cost	5.1	6.2	—	—
Plan settlements	(8.0)	(6.3)	—	—
Benefits paid	(0.3)	(0.4)	—	—
Actuarial (gain) loss	16.5	15.5	0.1	—
Benefit obligations at end of year	<u>\$ 176.8</u>	<u>\$ 163.5</u>	<u>\$ 1.1</u>	<u>\$ 1.0</u>
Change in Fair Value of Plan Assets				
Fair value of plan assets at beginning of year	\$ 143.7	\$ 123.6	\$ —	\$ —
Actual return on plan assets	19.6	24.0	—	—
Employer contribution	2.5	2.8	—	—
Plan settlements	(8.0)	(6.3)	—	—
Benefits paid	(0.3)	(0.4)	—	—
Fair value of plan assets at end of year	<u>\$ 157.5</u>	<u>\$ 143.7</u>	<u>\$ —</u>	<u>\$ —</u>
Funded Status	<u>\$ (19.3)</u>	<u>\$ (19.8)</u>	<u>\$ (1.1)</u>	<u>\$ (1.0)</u>
Accumulated benefit obligations	<u>\$ 176.8</u>	<u>\$ 163.5</u>		
	<u>Pension</u>		<u>Postretirement</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Amounts Recognized in Balance Sheet				
Accrued liabilities	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)
Other long-term liabilities	(19.2)	(19.7)	(1.0)	(0.9)
Net amount recognized	<u>\$ (19.3)</u>	<u>\$ (19.8)</u>	<u>\$ (1.1)</u>	<u>\$ (1.0)</u>
Amounts Recognized in Accumulated Other Comprehensive Loss				
Net actuarial gain (loss)	\$ (21.7)	\$ (20.3)	\$ 0.2	\$ 0.2
Prior service credits	0.1	0.1	—	—
Net amount recognized	<u>\$ (21.6)</u>	<u>\$ (20.2)</u>	<u>\$ 0.2</u>	<u>\$ 0.2</u>
Weighted-Average Assumptions Used to Determine Projected Benefit Obligations				
Discount rate	2.3 %	3.2 %	2.2 %	3.2 %
Average rate of increase in compensation	— %	— %	— %	— %
Interest credit rate	3.8 %	3.8 %	— %	— %
Initial healthcare cost trend rate	N/A	N/A	5.5 %	5.8 %
Ultimate healthcare cost trend rate	N/A	N/A	4.5 %	4.5 %

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

The benefit obligations and fair value of plan assets for the Company's qualified and non-qualified pension and postretirement plans with projected benefit obligations or accumulated benefit obligations in excess of plan assets are as follows (in millions):

	Pension		Postretirement	
	2020	2019	2020	2019
Plans with Benefit Obligations in Excess of Plan Assets				
Projected benefit obligations	\$ 176.8	\$ 163.5	\$ 1.1	\$ 1.0
Accumulated benefit obligations	176.8	163.5	—	—
Fair value of plan assets	157.5	143.7	—	—

The following table sets forth the net periodic pension cost (benefit) (in millions):

	Years Ended December 31,		
	2020	2019	2018
Components of Net Periodic Pension Cost (Benefit):			
Interest cost	\$ 5.1	\$ 6.2	\$ 5.7
Expected return on plan assets	(6.1)	(5.2)	(6.0)
Net amortization of actuarial net loss	0.7	1.1	0.7
Settlement loss	1.0	0.8	1.2
Net periodic pension cost (benefit)	\$ 0.7	\$ 2.9	\$ 1.6

Weighted-Average Assumptions Used to Determine Net Periodic Pension Cost (Benefit)

Discount rate	3.2 %	4.3 %	3.6 %
Expected return on assets	5.2 %	5.8 %	5.6 %
Average rate of increase in compensation	— %	— %	— %
Interest credit rate	3.8 %	3.8 %	3.8 %

The net periodic postretirement cost was immaterial in 2020, 2019 and 2018.

The discount rate reflects the rate the Company would have to pay to purchase high-quality investments that would provide cash sufficient to settle its current pension obligations. The discount rate is determined based on a range of factors, including the rates of return on high-quality, fixed-income corporate bonds and the related expected duration of the obligations. The discount rate for the Plan is based on the rate from the Mercer Pension Discount Curve-Above Mean Yield that is appropriate for the duration of the obligations. The discount rate used to measure the pension obligation at the end of the year is also used to measure pension cost in the following year.

The expected return on plan assets for the U.S. qualified plan is based on expected future investment returns considering the target investment mix of plan assets. It reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In determining the expected long-term rate of return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

There was no average rate of increase in compensation for 2020, 2019 or 2018 as there are no longer any employees in the Plan accruing benefits.

The ultimate healthcare cost trend rates for the postretirement benefit plans are expected to be reached in 2038.

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

Plan Assets

The Company has a long-term investment outlook for its Plan assets, which is consistent with the long-term nature of the Plan's respective liabilities.

The Plan currently has a target asset allocation of 30% equity and 70% fixed income. The equity portion of the assets is actively managed in U.S. small/mid cap and international funds and a small allocation to a passively managed U.S. large cap index fund. The fixed income portion of the assets is actively managed in long/intermediate duration government/credit funds and small allocations to an actively managed high yield fund, a bank loan fund, a preferred securities fund and an emerging market debt fund. A modest amount of cash is maintained to facilitate payment of benefits and plan expenses.

The fair value measurements of most plan assets are based upon significant other observable inputs (Level 2), except for the high yield mutual fund and cash which are based upon quoted market prices in active markets for identical assets (Level 1). The following represents the Company's pension plan assets (in millions):

<u>Asset Category</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Cash	\$ 3.0	\$ 2.3
Short Term Investments	1.5	0.1
Equity Securities:		
U.S. Large Cap	19.4	20.0
U.S. Mid Cap	3.5	4.6
U.S. Small Cap	0.5	1.2
International Developed	17.9	18.6
International Emerging Markets	6.5	6.9
Fixed Income Securities:		
U.S. Treasuries	22.9	22.2
Corporate Bonds	49.8	41.5
Government Bonds	10.3	9.9
Municipal Bonds	3.1	2.8
Mortgage-Backed Securities	2.3	2.9
Asset-Backed Securities	2.1	2.5
Bank Loans	7.4	7.1
Preferreds	7.3	—
Other	—	1.1
Total fair value of pension plan assets	<u>\$ 157.5</u>	<u>\$ 143.7</u>

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

Estimated Future Benefit Payments

The following table presents estimated future benefit payments (in millions):

	<u>Pension</u>	<u>Postretirement</u>
2021	\$ 7.0	\$ 0.1
2022	7.2	0.1
2023	8.3	0.1
2024	9.5	0.1
2025	10.4	0.1
2026-2030	63.9	0.3
	<u>\$ 106.3</u>	<u>\$ 0.8</u>

Multiemployer Pension Plans

The Company contributes to several multiemployer defined benefit pension plans under collective bargaining agreements that cover certain union represented employees. The risks of participating in such plans are different from the risks of single-employer plans, in the following respects:

- (a) Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;
- (b) If a participating employer ceases to contribute to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- (c) If the Company ceases to have an obligation to contribute to the multiemployer plan in which the Company had been a contributing employer, the Company may be required to pay to the plan an amount based on the underfunded status of the plan and on the history of the Company's participation in the plan prior to the cessation of its obligation to contribute. The amount that an employer that has ceased to have an obligation to contribute to a multiemployer plan is required to pay to the plan is referred to as a withdrawal liability.

The Company's participation in multiemployer plans is outlined in the table below. For plans that are not individually significant to the Company, the total amount of contributions is presented in the aggregate. There are no plans where the amount contributed by the Company represents more than 5% of the total contributions to the plan for the years ended December 31, 2020, 2019 and 2018.

(In millions) Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP / RP Status Pending / Implemented	Contributions			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2020	2019		2020	2019	2018		
Midwest Operating Engineers	36-6140097	Green	Green	N/A	\$ 0.9	\$ 1.0	\$ 0.9	N/A	5/31/2021
Other Plans ^(a)					1.1	1.2	1.1		
Total contributions					<u>\$ 2.0</u>	<u>\$ 2.2</u>	<u>\$ 2.0</u>		

(a) Consists of six plans, none of which are individually significant to the Company.

Note 14—Stock-Based Compensation

On May 17, 2018, the Herc Holdings Inc. 2018 Omnibus Incentive Plan (the "2018 Omnibus Plan") was approved and replaced the Herc Holdings Inc. 2008 Omnibus Incentive Plan. The 2018 Omnibus Plan provides for grants of both equity and cash awards, including non-qualified stock options, incentive stock options, stock appreciation rights, performance awards (shares and units), restricted awards (shares and units) and deferred stock units to key executives, employees, non-management directors and non-employee consultants. The total number of common shares authorized for issuance under the 2018 Omnibus Plan is 2,200,000, of which approximately 1,579,000 remains available as of December 31, 2020 for future incentive awards.

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

Stock-based compensation awards are measured on their grant date using a fair value method and are recognized in the statement of operations over the requisite service period. The Company's stock-based compensation expense is included in "Selling, general and administrative" expense in the Company's consolidated statements of operations.

The following table summarizes the expenses and associated income tax benefits recognized (in millions):

	Year Ended December 31,		
	2020	2019	2018
Compensation expense	\$ 16.4	\$ 19.5	\$ 13.4
Income tax benefit	(4.2)	(5.1)	(3.5)
Total	<u>\$ 12.2</u>	<u>\$ 14.4</u>	<u>\$ 9.9</u>

As of December 31, 2020, there was \$18.8 million of total unrecognized compensation cost related to non-vested stock options, restricted stock units ("RSUs") and performance stock units ("PSUs"). The total unrecognized compensation cost is expected to be recognized over the remaining 1.7 years, on a weighted average basis, of the requisite service period that began on the grant dates.

Stock Options

All stock options granted had a per-share exercise price of not less than the fair market value of one share of common stock on the grant date. Stock options vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the 2018 Omnibus Plan). No stock options are exercisable after ten years from the grant date.

The Company's practice is to grant stock options at fair market value. Outstanding options vest over four years with terms of seven years to 10 years, assuming continued employment with certain exceptions. Vesting of the option awards is contingent upon meeting certain service conditions. The fair value of option grants is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant. The compensation expense recognized for all stock-based awards is net of estimated forfeitures. Forfeitures were estimated based on an analysis of actual option forfeitures. There were no stock options granted during 2020, 2019 or 2018.

A summary of option activity is presented below.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions of dollars) ^(a)
Outstanding at December 31, 2019	342,498	\$ 37.94		
Granted	—	—		
Exercised	(165,327)	33.51		
Forfeited or expired	(21,580)	46.99		
Outstanding at December 31, 2020	<u>155,591</u>	<u>\$ 41.38</u>		
Expected to Vest at December 31, 2020	<u>—</u>	<u>\$ —</u>	—	\$ —
Exercisable at December 31, 2020	<u>155,591</u>	<u>\$ 41.38</u>	3.1	\$ 3.9

(a) Market price per share on December 31, 2020 was \$66.41. The intrinsic value is zero for options with exercise prices above market value.

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

Stock options as of December 31, 2020:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
\$30.01-40.00	111,006	33.19	2.6	111,006	33.19	2.6
40.01-50.00	629	43.59	0.2	629	43.59	0.2
50.01-60.00	29,892	58.22	4.5	29,892	58.22	4.5
70.01-80.00	14,064	70.14	4.2	14,064	70.14	4.2
	<u>155,591</u>	\$ 41.38		<u>155,591</u>	\$ 41.38	

Additional information pertaining to stock option activity under the Omnibus Plan is as follows (in millions):

	Year Ended December 31,		
	2020	2019	2018
Aggregate intrinsic value of stock options exercised ^(a)	\$ 3.7	\$ 0.3	\$ 0.5
Cash received from the exercise of stock options	5.6	0.8	0.5
Tax benefit realized on exercise of stock options	1.0	0.1	0.1

(a) The intrinsic value is the difference between the market value of the shares on the exercise date and the exercise price of the option.

Performance Stock Units

PSUs will vest based on the achievement of pre-determined performance goals over performance periods determined by the Company's Compensation Committee. Each of the units granted represent the right to receive one share of the Company's common stock on a specified future date. Compensation expense for PSUs is based on the grant date fair value and is recognized ratably over the three year vesting period. In addition to the service vesting condition, the PSUs have an additional vesting condition which stipulates the number of units to be awarded being based on the achievement of certain performance measures over the applicable measurement period and can range from 0% to 200% of the target. In the event of an employee's death or disability, a pro rata portion of the employee's PSUs will vest to the extent performance goals are achieved at the end of the performance period.

A summary of the PSU activity is presented below.

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	321,793	\$ 48.91
Granted	181,693	38.56
Vested	(143,696)	47.78
Performance change	49,716	48.33
Forfeited	(18,741)	45.57
Nonvested at December 31, 2020	<u>390,765</u>	\$ 44.60

The weighted average per share grant-date fair values of PSUs granted during 2020, 2019 and 2018 were \$38.56, \$40.79 and \$64.51, respectively. The total fair value of PSUs that vested during 2020, 2019 and 2018 were \$6.9 million, \$3.4 million and \$3.2 million, respectively.

Almost all PSUs granted in 2020, 2019 and 2018 include vesting conditions based on the achievement of the Company's return on invested capital performance measured over a three-year period starting from the year of grant.

HERC HOLDINGS INC. AND SUBSIDIARIES
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Restricted Stock Units

RSUs granted under the Omnibus Plan will vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the Omnibus Plan) specified by the Compensation Committee. Compensation expense for RSUs is based on the grant date fair value and is recognized ratably over the vesting period which generally ranges from one year to three years.

A summary of the RSU activity under the Omnibus Plan is presented below.

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	411,069	\$ 47.17
Granted	292,669	35.36
Vested	(267,688)	46.41
Forfeited	(23,296)	41.95
Nonvested at December 31, 2020	<u>412,754</u>	\$ 39.65

The weighted average per share grant date fair values of RSUs granted during 2020, 2019 and 2018 were \$35.36, \$41.18 and \$62.89, respectively. The total fair value of RSUs that vested during 2020, 2019 and 2018 was \$12.4 million, \$10.7 million and \$3.0 million, respectively.

Note 15—Income Taxes

The components of income (loss) before income taxes for the periods were as follows (in millions):

	Years Ended December 31,		
	2020	2019	2018
Domestic	\$ 95.5	\$ 61.9	\$ 60.5
Foreign	(1.4)	1.7	8.3
Income before income taxes	<u>\$ 94.1</u>	<u>\$ 63.6</u>	<u>\$ 68.8</u>

The provision (benefit) for income taxes consists of the following (in millions):

	Years Ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ —	\$ (1.4)	\$ 2.2
Foreign	1.8	3.5	1.9
State and local	6.1	3.7	5.5
Total current	<u>7.9</u>	<u>5.8</u>	<u>9.6</u>
Deferred:			
Federal	22.5	15.9	(7.0)
Foreign	(7.1)	0.4	(1.9)
State and local	(2.9)	(6.0)	(1.0)
Total deferred	<u>12.5</u>	<u>10.3</u>	<u>(9.9)</u>
Total income tax provision (benefit)	<u>\$ 20.4</u>	<u>\$ 16.1</u>	<u>\$ (0.3)</u>

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The principal items of the U.S. and foreign net deferred tax assets (liabilities) are as follows (in millions):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Deferred tax assets:		
Employee benefit plans	\$ 5.3	\$ 5.5
Tax credit carryforwards	0.5	2.1
Right-of-use assets	48.5	54.7
Accrued expenses	37.0	35.0
Net operating loss carryforwards	75.1	122.9
Total deferred tax assets	<u>166.4</u>	<u>220.2</u>
Less: valuation allowance	(3.2)	(9.0)
Total net deferred tax assets	<u>163.2</u>	<u>211.2</u>
Deferred tax liabilities:		
Lease liabilities	(46.4)	(53.2)
Outside basis difference in foreign subsidiaries and other	(1.8)	(2.0)
Depreciation on tangible assets	(517.4)	(545.7)
Intangible assets	(71.6)	(69.6)
Total deferred tax liabilities	<u>(637.2)</u>	<u>(670.5)</u>
Net deferred tax liability	<u>\$ (474.0)</u>	<u>\$ (459.3)</u>

As of December 31, 2020, a deferred tax asset of \$61.8 million was recorded for unutilized federal net operating loss carryforwards ("NOL carryforwards"). The total federal NOL carryforwards are \$302.6 million and have an indefinite carryforward period. State NOL carryforwards have generated a deferred tax asset of \$10.6 million and expire over various years beginning in 2021.

As of December 31, 2020, deferred tax assets of \$0.5 million were recorded for federal and various state tax credit carryforwards. As of December 31, 2020, deferred tax assets of \$2.5 million were recorded for foreign NOL carryforwards of \$15.5 million, all of which have an indefinite carryforward period.

In determining the valuation allowance, an assessment of positive and negative evidence was performed regarding realization of the net deferred tax assets in accordance with Topic 740. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, the availability of carryforwards and estimates of projected future taxable income. Based on the assessment, as of December 31, 2020, total valuation allowances of \$3.2 million were recorded against deferred tax assets. Although realization is not assured, the Company has concluded that it is more likely than not the remaining deferred tax assets of \$163.2 million will be realized and as such no valuation allowance has been provided on these assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The income tax in the accompanying consolidated statements of operations differs from the income tax calculated by applying the statutory federal income tax rate to income (loss) before income taxes due to the following (in millions):

	Years Ended December 31,		
	2020	2019	2018
Income tax (benefit) provision at statutory rate	\$ 19.8	\$ 13.3	\$ 14.4
Increases (decreases) resulting from:			
Foreign taxes	(0.1)	0.9	0.9
State and local income taxes, net of federal income tax	3.1	(3.7)	3.6
Federal and foreign	3.5	3.1	1.1
Enactment of the 2017 Tax Act ^(a)	—	—	(20.8)
Change in valuation allowance	(5.8)	2.6	(1.5)
Outside basis difference in foreign subsidiaries	—	(0.9)	0.9
All other items, net	(0.1)	0.8	1.1
Income tax (benefit) provision	\$ 20.4	\$ 16.1	\$ (0.3)

(a) In December 2017, the 2017 Tax Act was enacted and during the year ended December 31, 2018, the Company finalized its estimates and recorded a net benefit of \$20.8 million comprised of (i) a \$14.3 million expense related to the revaluation of the Company's net deferred tax liability based on a U.S. federal tax rate of 21% and (ii) a \$35.1 million benefit related to the one-time transition tax on previously unrepatriated earnings from foreign operations.

As a result of the 2017 Tax Act, previously undistributed earnings from foreign subsidiaries are deemed to have been repatriated as of December 31, 2017 for federal income tax purposes. Beginning in 2018, companies are generally able to repatriate earnings from foreign subsidiaries with no U.S. federal income tax impact. As of December 31, 2020, the Company continues to assert that earnings from foreign operations are not permanently invested. The Company, as a matter of policy, looks to repatriate foreign earnings in a tax efficient manner. Many foreign jurisdictions impose taxes on distributions to other jurisdictions. Due to the variations and complexities of these laws, the Company believes it would be impractical to calculate and accrue these taxes beyond the normal earnings and profits standard for U.S. tax purposes.

As of December 31, 2020, the Company is maintaining the assertion that future earnings associated with the potential stock sale or liquidation of foreign subsidiaries are permanently reinvested. Accordingly, the Company has not recorded any deferred tax liabilities associated with these book-to-tax differences. The Company has analyzed the potential tax liability associated with these differences to be approximately \$46.6 million.

The total cumulative amount of unrecognized tax benefits is \$2.7 million as of December 31, 2020.

The Company conducts business globally and, as a result, files one or more income tax returns in the U.S. and non-U.S. jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The open tax years for these jurisdictions span from 2005 to 2018. The IRS completed its audit of the Company's 2007 to 2011 consolidated income tax returns, in which Herc was included, and had no changes to the previously filed tax returns. The Company is currently under audit for the 2014 through 2016 income tax years. Several U.S. state and non-U.S. jurisdictions are under audit. The Company does not expect any material assessments resulting from these audits.

Reclassifications

In February 2018, the FASB issued guidance that allows reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the 2017 Tax Act that would otherwise be stranded in accumulated other comprehensive income. This guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company has elected to early adopt this guidance and as a result has recorded an adjustment of \$2.2 million to accumulated deficit as of January 1, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16—Accumulated Other Comprehensive Income (Loss)

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) are presented in the tables below (in millions):

	Pension and Other Post- Employment Benefits	Unrealized Gains on Hedging Instruments	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2019	\$ (16.0)	\$ 1.2	\$ (94.9)	\$ (109.7)
Other comprehensive income before reclassification	(3.2)	—	3.7	0.5
Amounts reclassified from accumulated other comprehensive loss	1.3	(1.2)	2.1	2.2
Net current period other comprehensive income	(1.9)	(1.2)	5.8	2.7
Balance at December 31, 2020	<u>\$ (17.9)</u>	<u>\$ —</u>	<u>\$ (89.1)</u>	<u>\$ (107.0)</u>
	Pension and Other Post- Employment Benefits	Unrealized Gains on Hedging Instruments	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2018	\$ (18.7)	\$ 2.7	\$ (106.4)	\$ (122.4)
Other comprehensive income before reclassification	3.3	(1.5)	11.5	13.3
Amounts reclassified from accumulated other comprehensive loss	(0.6)	—	—	(0.6)
Net current period other comprehensive income	2.7	(1.5)	11.5	12.7
Balance at December 31, 2019	<u>\$ (16.0)</u>	<u>\$ 1.2</u>	<u>\$ (94.9)</u>	<u>\$ (109.7)</u>

Amounts reclassified from accumulated other comprehensive income (loss) to net income were as follows (in millions):

	Twelve Months Ended December 31,			Statement of Operations Caption
	2020	2019	2018	
Pension and other postretirement benefit plans				
Amortization of actuarial losses	\$ 0.7	\$ 1.1	\$ 0.7	Selling, general and administrative
Settlement loss	1.0	0.8	1.2	Selling, general and administrative
Total	1.7	1.9	1.9	
Tax benefit (provision)	(0.4)	(2.5)	1.0	Income tax benefit (provision)
Total reclassifications for the period	<u>1.3</u>	<u>(0.6)</u>	<u>2.9</u>	
Hedging				
Gain on settlement	(1.5)	—	—	Interest expense, net
Tax provision	0.3	—	—	Income tax benefit (provision)
Total reclassifications for the period	<u>(1.2)</u>	<u>—</u>	<u>—</u>	
Reclassification of foreign currency items	2.1	—	—	Other expense (income), net
Total reclassifications for the period	<u>\$ 2.2</u>	<u>\$ (0.6)</u>	<u>\$ 2.9</u>	

Note 17—Commitments and Contingencies

Legal Proceedings

In re Hertz Global Holdings, Inc. Securities Litigation - In November 2013, a putative shareholder class action, Pedro Ramirez, Jr. v. Hertz Global Holdings, Inc., et al., was commenced in the U.S. District Court for the District of New Jersey naming Hertz Holdings and certain of its officers as defendants and alleging violations of the federal securities laws. The complaint alleged

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that Hertz Holdings made material misrepresentations and/or omission of material fact in its public disclosures during the period from February 25, 2013 through November 4, 2013, in violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder. The complaint sought unspecified monetary damages on behalf of the purported class and an award of costs and expenses, including counsel fees and expert fees. In June 2014, Hertz Holdings moved to dismiss the amended complaint. In October 2014, the court granted Hertz Holdings' motion to dismiss without prejudice, allowing the plaintiff to amend the complaint a second time. In November 2014, plaintiff filed a second amended complaint which shortened the putative class period and made allegations that were not substantively very different than the allegations in the prior complaint. In early 2015, Hertz Holdings moved to dismiss the second amended complaint. In July 2015, the court granted Hertz Holdings' motion to dismiss without prejudice, allowing plaintiff to file a third amended complaint. In August 2015, plaintiff filed a third amended complaint which included additional allegations, named additional then-current and former officers as defendants and expanded the putative class period to extend from February 14, 2013 to July 16, 2015. In November 2015, Hertz Holdings moved to dismiss the third amended complaint. The plaintiff then sought leave to add a new plaintiff because of challenges to the standing of the first plaintiff. The court granted plaintiff leave to file a fourth amended complaint to add the new plaintiff, and the new complaint was filed on March 1, 2016. Hertz Holdings and the individual defendants moved to dismiss the fourth amended complaint with prejudice on March 24, 2016. In April 2017, the court granted Hertz Holdings' and the individual defendants' motions to dismiss and dismissed the action with prejudice. In May 2017, plaintiff filed a notice of appeal and, in June 2018, oral argument was conducted before the U.S. Court of Appeals for the Third Circuit. In September 2018, the court affirmed the dismissal of the action with prejudice. On February 5, 2019, plaintiff filed a motion to set aside the judgment against it, and for leave to file a fifth amended complaint. The proposed amended complaint would add allegations related to the settlement with the SEC that, among other things, ordered New Hertz to cease and desist from violating certain of the federal securities laws and imposed a civil penalty of \$16.0 million. On February 26, 2019, New Hertz filed an opposition to plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On March 8, 2019, plaintiff filed a reply in support of that motion. On September 30, 2019, the court denied plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On October 30, 2019, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit. On October 13, 2020, the U.S. Court of Appeals for the Third Circuit affirmed the denial of the plaintiff's motion for relief from judgement with respect to the former officers. The court did not rule on the appeal with respect to Hertz Global Holdings, Inc. due to the automatic stay created by Hertz Global Holding, Inc.'s ongoing bankruptcy proceedings.

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

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:

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The Spin-Off

In connection with the Spin-Off, pursuant to the separation and distribution agreement (as discussed in Note 21, "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. 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 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 \$5.3 million; however the Company has not recorded a liability on its balance sheet as of December 31, 2020 as the bank loan is collateralized by the rental equipment and other assets of the joint venture entity and has maturities through 2023.

Note 18—Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). Fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

The Company assesses the inputs used to measure fair value using the three-tier hierarchy promulgated under U.S. GAAP. This hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Inputs that reflect quoted prices for identical assets or liabilities in active markets that are observable.

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Inputs that are unobservable to the extent that observable inputs are not available for the asset or liability at the measurement date and include management's judgment about assumptions that market participants would use in pricing the asset or liability.

Under U.S. GAAP, entities are allowed to measure certain financial instruments and other items at fair value. The Company has not elected the fair value measurement option for any of its assets or liabilities that meet the criteria for this option. Irrespective of the fair value option previously described, U.S. GAAP requires certain financial and non-financial assets and liabilities of the Company to be measured on either a recurring basis or on a nonrecurring basis as shown in the sections that follow.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value of cash, accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximates carrying values because of the short-term nature of these instruments. The Company's assessment of goodwill and other intangible assets for impairment includes an assessment using various Level 2 (EBITDA multiples and discount rate) and Level 3 (forecasted cash flows) inputs. See Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements," for more information on the application of the use of fair value methodology.

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Cash Equivalents and Investments

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 December 31, 2020 or 2019.

Debt Obligations

The fair values of the Company's ABL Credit Facility, AR Facility, finance lease liabilities and other borrowings approximated their book values as of December 31, 2020 and 2019. 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).

	December 31, 2020		December 31, 2019	
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
2027 Notes	\$ 1,200.0	\$ 1,276.4	\$ 1,200.0	\$ 1,265.0

Note 19—Equity Earnings Per Share

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).

	Years Ended December 31,		
	2020	2019	2018
Basic and diluted earnings per share:			
Numerator:			
Net income, basic and diluted	\$ 73.7	\$ 47.5	\$ 69.1
Denominator:			
Basic weighted average common shares	29.1	28.7	28.4
Stock options, RSUs and PSUs	0.3	0.4	0.5
Weighted average shares used to calculate diluted earnings per share	29.4	29.1	28.9
Earnings per share:			
Basic	\$ 2.53	\$ 1.66	\$ 2.43
Diluted	\$ 2.51	\$ 1.63	\$ 2.39
Antidilutive stock options, RSUs and PSUs	0.4	0.3	0.2

Note 20—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 Jonathan Frates, Nicholas F. Graziano and Andrew Langham (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

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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," 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 21—Arrangements with New Hertz

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.

Employee Matters Agreement

The Company and New Hertz entered into an employee matters agreement to allocate liabilities and responsibilities relating to employment matters, employee compensation, benefit plans and programs and other related matters for current and former employees of the vehicle rental business and the equipment rental business.

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Intellectual Property Agreement

The Company and New Hertz entered into an intellectual property agreement (the “Intellectual Property Agreement”) that provides for ownership, licensing and other arrangements regarding the trademarks and related intellectual property that New Hertz and the Company use in conducting their businesses. The Intellectual Property Agreement allocates ownership between New Hertz and the Company of all trademarks, domain names and certain copyrights that Hertz Holdings or its subsidiaries owned immediately prior to the Spin-Off.

Note 22—Segment Information

The Company consists of a single reportable segment, worldwide equipment rental. The Company considered guidance in ASC Topic 280, *Segment Reporting*, and used the management approach in determining its reportable segments.

We generate substantially all of our equipment rental revenue in North America. For each of the last three fiscal years, revenues from our external customers attributed to the U.S. and all foreign countries (primarily Canada) in total are set forth below:

	Years Ended December 31,		
	2020	2019	2018
United States	\$ 1,624.4	\$ 1,796.6	\$ 1,757.8
International	156.9	202.4	218.9
Total revenue	\$ 1,781.3	\$ 1,999.0	\$ 1,976.7

Geographic information for long-lived assets, which consist primarily of rental equipment and property and equipment, was as follows (in millions):

	December 31, 2020	December 31, 2019
Total assets		
United States	\$ 3,285.9	\$ 3,360.4
International	302.5	456.6
Total	\$ 3,588.4	\$ 3,817.0
Rental equipment, net		
United States	\$ 2,061.3	\$ 2,254.2
International	199.1	235.8
Total	\$ 2,260.4	\$ 2,490.0
Property and equipment, net		
United States	\$ 271.9	\$ 291.5
International	18.5	20.3
Total	\$ 290.4	\$ 311.8

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Note 23—Quarterly Financial Information (Unaudited)

Provided below is a summary of the quarterly operating results during 2020 and 2019. Amounts are computed independently each quarter. As a result, the sum of the quarter's amounts may not equal the total amount for the respective year.

(In millions, except per share data)	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	<u>2020</u>	<u>2020</u>	<u>2020</u>	<u>2020</u>
Revenues	\$ 436.2	\$ 368.0	\$ 456.7	\$ 520.4
Income (loss) before income taxes	(2.6)	0.1	51.6	45.0
Net income (loss) ^(a)	(3.7)	2.0	39.9	35.5
Earnings (loss) per share:				
Basic	\$ (0.13)	\$ 0.07	\$ 1.37	\$ 1.22
Diluted	\$ (0.13)	\$ 0.07	\$ 1.35	\$ 1.19

(In millions, except per share data)	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>
Revenues	\$ 475.7	\$ 475.1	\$ 508.1	\$ 540.1
Income (loss) before income taxes	(9.8)	15.0	5.2	53.2
Net income (loss) ^(b)	(6.7)	9.7	9.4	35.1
Earnings (loss) per share:				
Basic	\$ (0.23)	\$ 0.34	\$ 0.33	1.22
Diluted	\$ (0.23)	\$ 0.33	\$ 0.32	1.20

- (a) Net income (loss) for the first, second and fourth quarters includes impairment charges of \$6.3 million, \$3.2 million and \$5.9 million as discussed in Note 8, "Assets Held for Sale and Impairments."
- (b) Net income for the second quarter includes a restructuring charge of \$7.7 million, the third quarter includes a loss on the early extinguishment of debt of \$53.6 million and the fourth quarter includes an impairment of \$4.0 million related to certain assets held for sale.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
HERC HOLDINGS INC. AND SUBSIDIARIES

(In millions)

	<u>Beginning Balance</u>		<u>Provisions</u>		<u>Translation Adjustments</u>		<u>Deductions</u>		<u>Ending Balance</u>
Receivables allowances:									
Year to date December 31, 2020	\$ 18.8	\$	31.4	\$	—	\$	(34.7)	\$	15.5
Year to date December 31, 2019	21.5		48.2		0.1		(51.0)		18.8
Year to date December 31, 2018	26.9		57.8		(0.2)		(63.0)		21.5
Tax valuation allowances:									
Year to date December 31, 2020	\$ 9.0	\$	—	\$	0.3	\$	(6.1)	\$	3.2
Year to date December 31, 2019	5.8		4.4		—		(1.2)		9.0
Year to date December 31, 2018	7.6		0.3		(0.3)		(1.8)		5.8

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 December 31, 2020, 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 our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2020.

The effectiveness of our internal control over financial reporting, as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Report.

Changes in Internal Control Over Financial Reporting

In October 2020, we completed the implementation of a new financial reporting and consolidation system. There were no other changes in our internal control over financial reporting during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

HERC HOLDINGS INC. AND SUBSIDIARIES

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information regarding our executive officers is included in Part I under the caption "Executive Officers of the Registrant."

The other information required by this item is incorporated herein by reference to the information contained under the headings "Proposal 1. Election of Directors", "Delinquent Section 16(a) Reports" and "Corporate Governance; Board and Committee Matters" in our Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The following table summarizes the securities authorized for issuance pursuant to our equity compensation plans as of December 31, 2020:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights ⁽¹⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽²⁾
	(a)	(b)	(c)
Equity compensation plans approved by security holders	959,110	41.38	1,579,318
Equity compensation plans not approved by security holders	—	—	—
Total	<u>959,110</u>		<u>1,579,318</u>

(1) Represents the weighted average exercise price of 155,591 outstanding stock options as of December 31, 2020. The remaining securities under this plan as of December 31, 2020 are restricted stock units and performance stock units, which have no exercise price and have been excluded from the calculation of the weighted average exercise price above.

(2) All of the securities remaining available for future issuance are available under our 2018 Omnibus Incentive Plan.

Security Ownership of Certain Beneficial Owners and Management

Other information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

HERC HOLDINGS INC. AND SUBSIDIARIES

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) Documents filed as part of this Report

(1) Consolidated financial statements:

Report of Independent Registered Public Accounting Firm

Herc Holdings Inc. and Subsidiaries Consolidated Balance Sheets at December 31, 2020 and 2019

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019 and 2018

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Changes in Equity for the years ended December 31, 2020, 2019 and 2018

Herc Holdings Inc. and Subsidiaries Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018

Notes to Consolidated Financial Statements

(2) Schedule to the financial statements

Schedule II Valuation and Qualifying Accounts

(3) Exhibits

Exhibit Number	Description
2.1***	Separation and Distribution Agreement, dated June 30, 2016, by and between Herc Holdings and Hertz Global Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
3.1.1	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).
3.1.2	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).
3.1.3	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).
3.1.4	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).
3.2	Amended and Restated By-Laws of Herc Holdings, effective May 17, 2018 (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Herc Holdings, Inc. (File No. 001-33139), as filed on May 23, 2018).
4.1	Indenture (including the form of Notes), dated as of July 9, 2019, among Herc Holdings Inc., the guarantors party thereto, and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K for Herc Holdings, Inc. (File No. 001-33139), as filed on July 9, 2019).
4.2	Description of Securities of Registrant. (Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K of Herc Holdings (File No. 001-33139) as filed on February 27, 2020).
4.3	Nomination and Standstill Agreement, dated September 15, 2014, by and among the persons and entities listed on Schedule A thereto and Herc Holdings (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on September 16, 2014).
4.4	Confidentiality Agreement, dated September 15, 2014, by and among the persons and entities listed on Schedule A thereto and Herc Holdings (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on September 16, 2014).
4.5	Registration Rights Agreement, effective June 30, 2016, among Herc Holdings, High River Limited Partnership, Icahn Partners LP and Icahn Partners Master Fund LP, on behalf of certain other members of the Icahn group, together with those who may in the future become a party thereto under the terms thereof (Incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q of Herc Holdings (File No. 001-33139), as filed on August 9, 2016).

HERC HOLDINGS INC. AND SUBSIDIARIES

- 10.1 ABL Credit Agreement, dated as of July 31, 2019, among Herc Holdings Inc., Herc Rentals Inc., Matthews Equipment Limited, certain other subsidiaries of Herc Holdings Inc., Bank of America, N.A., as agent, swingline lender and letter of credit issuer, Bank of America, N.A., JPMorgan Chase Bank N.A., Capital One, National Association, Wells Fargo Bank, National Association Bank of Montreal, Credit Agricole Corporate and Investment Bank, Goldman Sachs Bank USA, ING Capital LLC, MUFG Union Bank, N.A. and TD Bank, N.A., and the other financial institutions party thereto from time to time (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 July 31, 2019).
- 10.2 U.S. Guarantee and Collateral Agreement, dated July 31, 2019, made by Herc Holdings Inc. and certain of its subsidiaries from time to time made in favor of Bank of America, N.A., as agent (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 31, 2019).
- 10.3 Canadian Guarantee and Collateral Agreement, dated July 31, 2019, made by Herc Holdings Inc. and certain of its subsidiaries from time to time made in favor of Bank of America, N.A., as agent (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 31, 2019).
- 10.4 Transition Services Agreement, dated June 30, 2016, by and between Hertz Global Holdings, Inc. and Herc Holdings Inc. (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 July 6, 2016).
- 10.5 Tax Matters Agreement, dated June 30, 2016, among Herc Holdings Inc., The Hertz Corporation, Herc Rentals Inc. and Hertz Global Holdings, Inc. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
- 10.6 Employee Matters Agreement, dated June 30, 2016, by and between Hertz Global Holdings, Inc. and Herc Holdings Inc. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
- 10.7 Intellectual Property Agreement, dated June 30, 2016, among The Hertz Corporation, Hertz System, Inc. and Herc Rentals Inc. (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
- 10.8♦ Form of Change in Control Severance Agreement for Executive Officers and Certain Key Employees (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 December 3, 2020).
- 10.9 Receivables Financing Agreement, dated as of September 17, 2018, among Herc Receivables U.S. LLC, Herc Rentals Inc., 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 September 21, 2018).
- 10.9.1 Amendment No. 1 to Receivables Financing Agreement among Herc Receivables U.S. LLC, the Additional Canadian Borrower to the Extent Added As A Party Thereto, Herc Rentals, Inc., 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 September 1, 2020).
- 10.10 Purchase and Contribution Agreement, dated as of September 17, 2018, among Herc Rentals Inc., as a Seller and Collection Agent, Cinelease, Inc. as a Seller, and Herc Receivables U.S. LLC, as Purchaser. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139) as filed on September 21, 2018).
- 10.11.1♦ Offer Letter, dated as of May 18, 2015, by and between Herc Holdings and Lawrence H. Silber (Incorporated by reference to Exhibit 10.12 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
- 10.11.2♦ Offer Letter, dated as of August 13, 2014, by and between Herc Holdings and Christian J. Cunningham (Incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
- 10.11.3♦ Offer Letter, dated as of June 5, 2018, by and between Herc Holdings and Mark Irion. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Herc Holdings Inc. (File No. 001-33139), as filed on August 8, 2018).
- 10.11.4♦ Offer Letter, dated August 18, 2017, by and between Herc Holdings and Tamir Peres (Incorporated by reference to Exhibit 10.1 to the Quarter Report on Form 10-Q of Herc Holdings Inc. (File No. 001-33139), as filed on August 1, 2019).
- 10.11.5* Offer Letter, dated December 23, 2019, by and between Herc Holdings and Aaron Birnbaum.
- 10.12.1 Amended and Restated Herc Holdings Inc. Employee Stock Purchase Plan, effective May 17, 2018 (Incorporated by reference to Annex B to the Definitive Proxy Statement on Schedule 14A of Herc Holdings Inc. (File No. 001-33139), as filed on April 2, 2018).
- 10.12.2 Herc Holdings Inc. Employee Stock Purchase Plan International Sub-plan (as amended and restated, effective January 1, 2017). (Incorporated by reference to Exhibit 10.16.2 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
- 10.13♦ Herc Holdings 2008 Omnibus Incentive Plan (as amended and restated, effective June 30, 2016). (Incorporated by reference to Exhibit 10.18.1 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
- 10.14.1 Herc Holdings Inc. 2018 Omnibus Incentive Plan, effective May 17, 2018 (Incorporated by reference to Annex A to the Definitive Proxy Statement on Schedule 14A of Herc Holdings Inc. (File No. 001-33139), as filed on April 2, 2018.)
- 10.14.2* First Amendment to the Herc Holdings Inc. 2018 Omnibus Incentive Plan, effective December 3, 2020.

HERC HOLDINGS INC. AND SUBSIDIARIES

- 10.14.3* Form of Executive Officer Restricted Stock Unit Agreement.
- 10.14.4* Form of Executive Officer Performance Stock Unit Agreement.
- 10.14.5* Form of Director Restricted Stock Unit Agreement.
- 10.15♦ Herc Holdings Inc. Supplemental Income Savings Plan, effective as of June 30, 2016. (Incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K of Herc Holdings (File No. 001-33139) as filed on February 27, 2020).
- 10.16♦ Herc Holdings Inc. Senior Executive Bonus Plan (as amended and restated, effective June 30, 2016). (Incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
- 10.19 Form of Director Indemnification Agreement (Incorporated by reference to Exhibit 10.51 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on August 6, 2010).
- 14.1 Herc Holdings Inc. Code of Conduct (Incorporated by reference to Exhibit 14.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on October 18, 2016.)
- 21.1* Subsidiaries of Herc Holdings Inc.
- 23.1* Consent of Independent Registered Public Accounting Firm
- 31.1* Certification of the Chief 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
- 31.2* Certification of the Chief Financial 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
- 32.1** 18 U.S.C. Section 1350 Certifications of the Chief Executive Officer and the Chief Financial Officer
- 101.INS* XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH* iXBRL Taxonomy Extension Schema Document
- 101.CAL* iXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* iXBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* iXBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* iXBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith

*** Omitted schedules will be furnished supplementally to the SEC upon request.

♦ Indicates management contracts and compensatory agreements.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

HERC HOLDINGS INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HERC HOLDINGS INC.
(Registrant)

By: /s/ MARK IRION

Name: Mark Irion

Title: *Senior Vice President and Chief Financial Officer*

(On behalf of the Registrant)

Date: February 18, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 18, 2021:

Signature	Title
<hr/> <i>/s/ LAWRENCE H. SILBER</i> Lawrence H. Silber	<i>President and Chief Executive Officer, Director</i> (Principal Executive Officer)
<hr/> <i>/s/ MARK IRION</i> Mark Irion	<i>Senior Vice President and Chief Financial Officer</i> (Principal Financial Officer)
<hr/> <i>/s/ MARK HUMPHREY</i> Mark Humphrey	<i>Vice President, Controller and Chief Accounting Officer</i> (Principal Accounting Officer)
<hr/> <i>/s/ PATRICK D. CAMPBELL</i> Patrick D. Campbell	<i>Non-Executive Chairman of the Board</i>
<hr/> <i>/s/ JAMES H. BROWNING</i> James H. Browning	<i>Director</i>
<hr/> <i>/s/ SHARI L. BURGESS</i> Shari L. Burgess	<i>Director</i>
<hr/> <i>/s/ JONATHAN FRATES</i> Jonathan Frates	<i>Director</i>
<hr/> <i>/s/ JEAN K. HOLLEY</i> Jean K. Holley	<i>Director</i>
<hr/> <i>/s/ JACOB M. KATZ</i> Jacob M. Katz	<i>Director</i>
<hr/> <i>/s/ MICHAEL A. KELLY</i> Michael A. Kelly	<i>Director</i>
<hr/> <i>/s/ ANDREW LANGHAM</i> Andrew Langham	<i>Director</i>
<hr/> <i>/s/ MARY PAT SALOMONE</i> Mary Pat Salomone	<i>Director</i>

**HERC HOLDINGS INC. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION**

HERC HOLDINGS INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
ADJUSTED NET INCOME AND ADJUSTED EARNINGS PER DILUTED SHARE RECONCILIATION
Unaudited
(In millions, except per share data)

Adjusted Net Income and Adjusted Earnings Per Diluted Share - Adjusted Net Income represents the sum of net income (loss), restructuring and restructuring related charges, spin-off costs, loss on extinguishment of debt, impairment charges, gain (loss) on the disposal of a business and certain other items. Adjusted Earnings per Diluted Share represents Adjusted Net Income divided by diluted shares outstanding. Adjusted Net Income and Adjusted Earnings Per Diluted Share are important measures to evaluate our results of operations between periods on a more comparable basis and to help investors analyze underlying trends in our business, evaluate the performance of our business both on an absolute basis and relative to our peers and the broader market, provide useful information to both management and investors by excluding certain items that may not be indicative of our core operating results and operational strength of our business.

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 73.7	\$ 47.5	\$ 69.1
Loss on extinguishment of debt	—	53.6	5.4
Restructuring	0.7	7.7	5.0
Restructuring related	—	—	0.3
Spin-Off costs	0.6	0.5	14.4
Impairment	15.4	5.1	—
Loss on disposal of business	2.8	—	—
Other ⁽¹⁾	0.4	1.0	1.1
Tax impact of adjustments ⁽²⁾	(5.1)	(23.8)	(27.5)
Adjusted net income	\$ 88.5	\$ 91.6	\$ 67.8
Diluted shares outstanding	29.4	29.1	28.9
Adjusted earnings per diluted share	\$ 3.01	\$ 3.15	\$ 2.35

(1) Comprised primarily of a cash separation benefit paid to our former Chief Operating Officer as part of a separation agreement for the year ended December 31, 2019 and a cash separation benefit paid to our former Chief Financial Officer as part of a retirement and separation agreement for the year ended December 31, 2018.

(2) The tax rate applied for adjustments is 25.7% and reflects the statutory rates in the applicable entities. Additionally, the tax benefit of \$6.3 million recognized during the year ended December 31, 2019 related to the debt transactions and the tax benefit of \$20.8 million recognized in the year ended December 31, 2018 related to the Tax Cuts and Jobs Act of 2017, were also adjusted.

HERC HOLDINGS INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
EBITDA AND ADJUSTED EBITDA RECONCILIATIONS

Unaudited
(In millions)

EBITDA and Adjusted EBITDA are not recognized terms under GAAP and should not be considered in isolation or as a substitute for our reported results prepared in accordance with GAAP. Further, since all companies do not use identical calculations, our definition and presentation of these measures may not be comparable to similarly titled measures reported by other companies.

EBITDA and Adjusted EBITDA - EBITDA represents the sum of net income (loss), provision (benefit) for income taxes, interest expense, net, depreciation of rental equipment and non-rental depreciation and amortization. Adjusted EBITDA represents EBITDA plus the sum of merger and acquisition related costs, restructuring and restructuring related charges, spin-off costs, non-cash stock based compensation charges, loss on extinguishment of debt (which is included in interest expense, net), impairment charges, gain (loss) on disposal of a business and certain other items. Management uses EBITDA and Adjusted EBITDA to evaluate operating performance and period-over-period performance of our core business without regard to potential distortions, and believes that investors will likewise find these non-GAAP measures useful in evaluating the Company's performance. However, EBITDA and Adjusted EBITDA do not purport to be alternatives to net income as an indicator of operating performance. Additionally, neither measure purports to be an alternative to cash flows from operating activities as a measure of liquidity, as they do not consider certain cash requirements such as interest payments and tax payments.

Adjusted EBITDA Margin - Adjusted EBITDA Margin (Adjusted EBITDA / Total Revenues) is a commonly used profitability ratio. Adjusted EBITDA Margin does not purport to be an alternative to Net Margin (Net Income / Total Revenues as calculated under GAAP) as an indicator of profitability, as it does not account for GAAP reportable expenses such as depreciation and interest or the expense or benefit from income taxes.

These measures are frequently used by security analysts, institutional investors and other interested parties in the evaluation of companies in our industry.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
Net income (loss)	\$ 73.7	\$ 47.5	\$ 69.1	\$ 160.3	\$ (19.7)
Income tax provision (benefit)	20.4	16.1	(0.3)	(224.7)	14.8
Interest expense, net	92.6	173.5	137.0	140.0	84.2
Depreciation of rental equipment	403.9	409.1	387.5	378.9	350.5
Non-rental depreciation and amortization	62.5	61.0	57.3	51.5	44.8
EBITDA	653.1	707.2	650.6	506.0	474.6
Restructuring	0.7	7.7	5.0	1.2	4.0
Restructuring related	—	—	0.3	4.3	2.9
Spin-Off costs	0.6	0.5	14.4	35.2	49.2
Non-cash stock-based compensation charges	16.4	19.5	13.4	10.1	5.5
Loss on disposal of business	2.8	—	—	—	—
Impairment	15.4	5.1	—	29.7	—
Other ⁽¹⁾	0.4	1.0	1.1	(1.1)	—
Adjusted EBITDA	\$ 689.4	\$ 741.0	\$ 684.8	\$ 585.4	\$ 536.2
Total revenues	\$ 1,781.3	\$ 1,999.0	\$ 1,976.7	\$ 1,754.5	\$ 1,554.8
Adjusted EBITDA	689.4	741.0	684.8	585.4	536.2
Adjusted EBITDA margin	38.7 %	37.1 %	34.6 %	33.4 %	34.5 %

(1) Comprised primarily of a cash separation benefit paid to our former Chief Operating Officer as part of a separation agreement for the year ended December 31, 2019 and a cash separation benefit paid to our former Chief Financial Officer as part of a retirement and separation agreement for the year ended December 31, 2018.

HERC HOLDINGS INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
FREE CASH FLOW RECONCILIATION
Unaudited
(In millions)

Free cash flow - Free cash flow represents net cash provided by (used in) operating activities less rental equipment expenditures and non-rental capital expenditures, plus proceeds from disposal of rental equipment, proceeds from disposal of property and equipment, and other investing activities. Free cash flow is used by management in analyzing the Company's ability to service and repay its debt and to forecast future periods. However, this measure does not represent funds available for investment or other discretionary uses since it does not deduct cash used to service debt or for other non-discretionary expenditures.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
Net cash provided by operating activities	\$ 610.9	\$ 635.6	\$ 559.1	\$ 349.1	\$ 433.4
Rental equipment expenditures	(344.1)	(638.4)	(771.4)	(501.4)	(468.3)
Proceeds from disposal of rental equipment	192.5	224.2	272.3	160.1	115.4
Net rental equipment expenditures	<u>(151.6)</u>	<u>(414.2)</u>	<u>(499.1)</u>	<u>(341.3)</u>	<u>(352.9)</u>
Non-rental capital expenditures	(41.4)	(56.9)	(77.6)	(74.6)	(47.8)
Proceeds from disposal of property and equipment	6.6	7.7	9.7	5.9	5.7
Other investing activities	—	4.0	—	—	—
Free cash flow	<u>\$ 424.5</u>	<u>\$ 176.2</u>	<u>\$ (7.9)</u>	<u>\$ (60.9)</u>	<u>\$ 38.4</u>

HERC HOLDINGS INC. AND SUBSIDIARIES
SUPPLEMENTAL SCHEDULES
NET LEVERAGE RATIO CALCULATION
Unaudited
(In millions)

Net Leverage Ratio –The Company has defined its net leverage ratio as net debt, as calculated below, divided by adjusted EBITDA for the trailing twelve-month period. This measure should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The Company’s definition of this measure may differ from similarly titled measures used by other companies.

	Years Ended December 31,				
	2020	2019	2018	2017	2016
Long-term debt, net	\$ 1,651.5	\$ 2,051.5	\$ 2,129.9	\$ 2,137.1	\$ 2,178.6
Current maturities of long-term debt	12.2	27.0	26.9	22.7	15.7
Unamortized debt issuance costs	7.1	7.9	10.6	14.5	21.0
Cash and cash equivalents	(33.0)	(33.0)	(27.8)	(41.5)	(24.0)
Net debt	1,637.8	2,053.4	2,139.6	2,132.8	2,191.3
Adjusted EBITDA	\$ 689.4	\$ 741.0	\$ 684.8	\$ 585.4	\$ 536.2
Net Leverage	2.4x	2.8x	3.1x	3.6x	4.1x

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Board of Directors

Patrick D. Campbell, Chairman

Retired Senior Vice President and Chief Financial Officer,
3M Company

James H. Browning

Retired Partner,
KPMG LLP

Shari L. Burgess

Retired Vice President and Treasurer,
Lear Corporation

Jonathan Frates

Managing Director,
Icahn Enterprises L.P.

Jean K. Holley

Retired Senior Vice President and Chief Information Officer,
Brambles Limited

Jacob M. Katz

Retired Managing Partner,
Grant Thornton LLP

Michael A. Kelly

Retired Executive Vice President, Electronics
and Energy Business,
3M Company

Andrew N. Langham

General Counsel, Icahn Enterprises L.P.

Mary Pat Salomone

Retired Chief Operating Officer,
The Babcock & Wilcox Company

Lawrence H. Silber

President and Chief Executive Officer

Andrew J. Teno

Portfolio Manager,
Icahn Capital L.P.

Executive Officers

Lawrence H. Silber

President and Chief Executive Officer

Aaron Birnbaum

Senior Vice President and
Chief Operating Officer

Christian J. Cunningham

Senior Vice President and
Chief Human Resources Officer

Mark Irion

Senior Vice President and
Chief Financial Officer

Tamir Peres

Senior Vice President and
Chief Information Officer

S. Wade Sheek

Senior Vice President,
Chief Legal Officer and Secretary

As of April 2, 2021

Investor Information

Herc Holdings Inc. Stock Listing

HRI
LISTED

Herc Holdings Inc. common stock began trading on the New York Stock Exchange under the symbol "HRI" on July 1, 2016.

NYSE

The common stock is included in the Russell 3000 Index®.

2021 Annual Meeting

Thursday, May 13, 2021, at 9:00 am Eastern Time

Herc Rentals Inc.

Auditorium

27500 Riverview Center Blvd.

Bonita Springs, FL 34134

Registrar and Stock Transfer Agent

Computershare Trust Company, N.A.

C/O Shareholder Services

P.O. Box 505000

Louisville, KY 40233

Toll Free (877) 373-6374

Outside of the U.S. (781) 575-4238

www.computershare.com

Independent Auditors

PricewaterhouseCoopers LLP

4040 West Boy Scout Blvd.

Tampa, FL 33607

(813) 348-7000



Corporate Contacts

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For investor information, including our Form 10-K, our quarterly earnings releases and our other Securities Exchange Act reports, please visit our website: <http://ir.hercrentals.com>

HercRentals.com



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