Siena Market Line
2nd week of May 2016

Hertz Global Holdings, Inc.

HTZ: NYSE

Analyst: Peter Ostrowski
Sector: Consumer Staples

Sell

Price Target: $5.40

Key Statistics as of 4/29/2016

Market Price:	$9.00
Industry:	Road and Rail
Market Cap:	$3.8B
52-Week Range:	$6.9-21.31
Beta:	1.89

Thesis Points:

- Uber continues to rapidly take market share
- Company could go bankrupt as soon as 2018
- Free cash flow shows company is destroying value

Company Description:

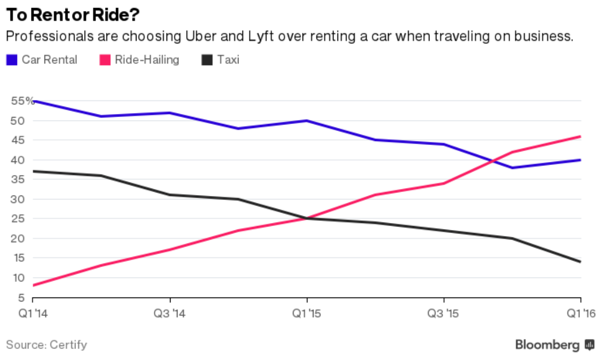
Hertz Global Holdings, Inc. is a holding company that operates car, truck and equipment rental centers through its subsidiaries in the United States and internationally. In addition to car rental and equipment rental businesses, Hertz provides fleet leasing and management services.

Thesis

Hertz Global Holdings, Inc is a sell. It is currently trading at 5.6X Ebitda with downside potential of 50%. Hertz is in a dying industry as Uber continues to steal market share. People simply do not rent cars anymore as a paradigm shift has occurred within the industry. Unfortunately, Hertz is also highly leveraged with the majority of their long term payments being due by 2018. It will be very difficult for Hertz to come up with the appropriate cash to make these payments with the current status of their financials. With nearly negative $9B in free cash flow this past year, the story Hertz is telling shows a quickly declining business structure. The assets also contains significant flaws as this analysis will show.

Industry Outlook

Car rental sales are declining within the industry. This is largely due to the high price sensitivity of consumers. Rental car transactions have fallen 15 percentage points over the last 2 years with Uber recently taking the majority of the market share at the end of 2015 as this graph shows:



This study was conducted by surveying American business travelers. Uber and Lyft now have 43% of the market share with rental companies declining to 40%. Taxis have obviously taken the biggest hit. Avid Budget group another car rental company also took a sharp decline with shares going down nearly 50% last year. The biggest issue for these rental companies is that Uber and Lyft are still new and growing. Uber plans to expand globally and take over the market even more. This will pose a significant problem for Hertz as almost 25% of Hertz business is in foreign markets. The first large expansion will occur in China. Hertz has operations in big cities such as Shanghai and Beijing. This could pose further issues for Hertz.

People simply do not see the convenience in renting cars anymore. It is cheaper and easier to use Uber and Lyft. One can just use the Uber application to order the ride and be picked up within 5-10 minutes. The prices are also cheaper overall. The average price of a car rental is about $40 per day while Uber rides average $15. Short rides make more sense to take an Uber. And with the high price elasticities of the consumers in this industry it is worth it for people to simply take a bus or Amtrak for the longer trips.

Debt Obligations vs. Working Capital

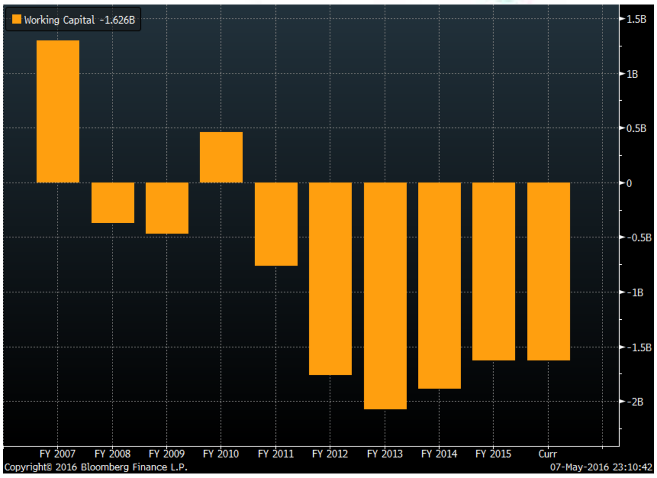
Hertz currently has $16B of debt with only $486M in cash. The majority of debt payments will come within the next few years as well. By the end of 2017, Hertz will have to pay $4B in US fleet notes as shown below:

HVF II U.S. ABS Program				
HVF II U.S. Fleet Variable Funding Notes:				
HVF II Series 2013-A	1.27%	Floating	10/2017	980
HVF II Series 2013-B	1.32%	Floating	10/2017	1,308
HVF II Series 2014-A	1.78%	Floating	10/2016	1,737
				4,025

A large part of the debt is supposed to be repaid this November as well. Amounting to $1.7B. This will likely begin to cripple Hertz. Over the next few years more debt payments will come up:

Facility	Weighted Average Interest Rate at December 31, 2015	Fixed or Floating Interest Rate	Maturity	December 31, 2015
Corporate Debt				
Senior Term Facility	3.26%	Floating	3/2018	$ 2,062
Senior ABL Facility	N/A	N/A	N/A	—
Senior Notes[1]	6.58%	Fixed	4/2018–10/2022	3,900
Promissory Notes	7.00%	Fixed	1/2028	27
Other Corporate Debt	3.93%	Fixed	Various	66
Unamortized Net (Discount) Premium (Corporate)				2
Total Corporate Debt				6,057

The interest rates on these notes range from 3.26% to 7%. The note due in 2018 is another $2B payment that will be extremely difficult for Hertz to pay for without becoming even more leveraged. The future notes will begin to contain even higher interest rates. The working capital is also negative as shown below:



They have not had positive working capital in nearly six years. This suggests that they will struggle to pay off short term obligations more as in the future as the debt payments previously discussed come into the picture.

The negative working capital and high amount of leverage show that there will be a considerable change in the possibility of bankruptcy within the next few years.

Financials

The financials for Hertz are sketchy. The reason I say this is because of the assets on the balance sheet. Of the 23B of assets, over 80% of these assets are noncurrent. Intangible assets amount to $5.2B alone. Property plant and equipment result in the other $14.3B. PPE is most likely misstated due to the high amounts of depreciation and accounting tricks that are associated with it.

Hertz has also struggled to create cash over the past year as their cash conversion cycle suggests: It currently takes them almost 9 days to complete the cycle. This is the highest the number has been since 2009. Free cash flow is also highly important to bring up. Their capital expenditures are increasing much faster than the company is able to collect on cash from operations. The majority of the cash from operations is also from depreciation which suggests that Hertz is performing even worse than they state. $3B of the $3.3B is from depreciation and amortization. The free cash flow is the lowest that it has been for Hertz since 2005. The current free cash flow is -$9B. This shows that the company is not sustainable in the long run if they continue to perform this way. They are not seeing a return of investment.

Conclusion

I recommend an immediate sell on Hertz. The current industry is fundamentally flawed and shows little signs of recovery without taking significantly lower margins. Uber is taking over the market and their expansion to China will most likely decrease the share of Hertz further. Not only is the industry going down, the capital structure is very bad. Hertz is highly leveraged and will have to pay a large chunk of their long term debt in 2018. If Hertz cannot come up with the capital, bankruptcy is imminent. Consistent negative free cash flows of $9B show that the sustainability of Hertz is very low.

Hertz Global Holdings, Inc. (htz)

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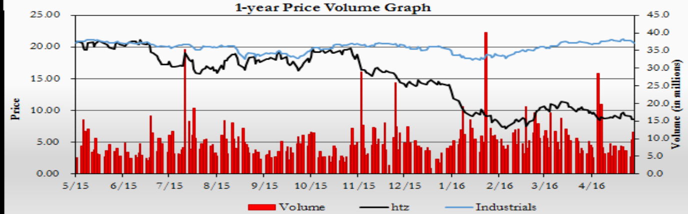
Analysis by Peter Ostrowski	Current Price:	$9.00	Intrinsic Value	$4.49	Target 1 year Return: -40.22%
5/7/2016	Divident Yield:	0.0%	Target Price	$5.38	Probability of Price Increase: 23%

1-year Price Volume Graph



Description

Hertz Global Holdings, Inc. engages in the rental and lease of cars and trucks worldwide.

General Information

Sector	Industrials
Industry	Road and Rail
Last Guidance	November 3, 2015
Next earnings date	May 9, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	37%
Effective Operating Tax rate	35%

Market Data

Market Capitalization	$3,819.40
Daily volume (mil)	8.32
Shares outstanding (mil)	424.38
Diluted shares outstanding (mil)	456.00
% shares held by institutions	78%
% shares held by investments Managers	61%
% shares held by hedge funds	22%
% shares held by insiders	0.12%
Short interest	8.26%
Days to cover short interest	3.62
52 week high	$21.31
52-week low	$6.95
Levered Beta	5086.45
Volatility	45.63%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2014	-1.92%	-90.48%
3/31/2015	-4.26%	N/A
6/30/2015	-2.50%	-14.37%
9/30/2015	-5.61%	-11.31%
12/31/2015	-7.55%	-34.01%
Mean	-4.37%	-37.54%
Standard error	1.0%	18.3%

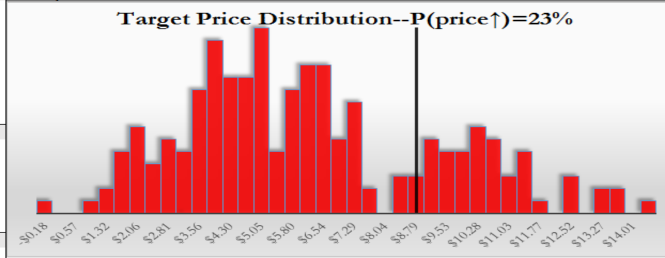
Peers

Avis Budget Group, Inc.
Swift Transportation Company
Ryder System, Inc.
AMERCO
eHi Car Services Limited

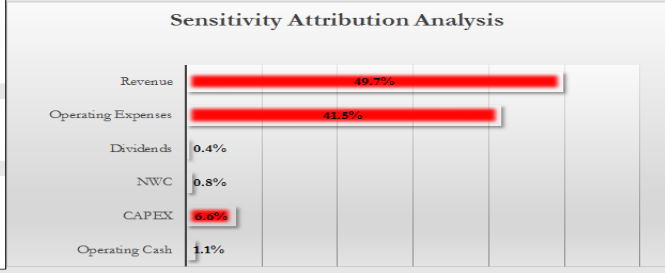
Management	Position	Total compensations growth	Total return to shareholders
Tague, John	Chief Executive Officer, Pre	N/M	N/M
Kennedy, Thomas	Chief Financial Officer and	52.27% per annum over 2y	171.3% per annum over 2y
Best, Tyler	Chief Information Officer an	-96.68% per annum over 1y	636.03% per annum over 1y
Foland, Jeffrey	Chief Revenue Officer and Se	N/M	N/M
Kramer, Robin	Chief Accounting Officer and	52.27% per annum over 2y	171.3% per annum over 2y
Hunziker, Leslie	Staff Vice President of Inve	N/M	N/M

Profitability	htz (LTM)	htz (5 years historical average)	Industry (LTM)
ROIC	4.0%	12.50%	11.01%
NOPAT Margin	7%	18.15%	16.0%
Revenue/Invested Capital	0.60	0.69	0.69
ROE	3.9%	20.47%	14.90%
Adjusted net margin	0%	11.48%	13.9%
Revenue/Adjusted Book Value	-240.98	1.78	1.07
Invested Funds	**htz (LTM)**	**htz (5 years historical average)**	**Industry (LTM)**
Total Cash/Total Capital	4.0%	4.1%	3%
Estimated Operating Cash/Total Capital	2.9%	3.1%	N/A
Non-cash working Capital/Total Capital	-6.0%	-3.0%	1%
Invested Capital/Total Capital	99.0%	99.0%	94%
Capital Structure	**htz (LTM)**	**htz (5 years historical average)**	**Industry (LTM)**
Total Debt/Common Equity (LTM)	1.67	0.77	0.48
Cost of Existing Debt	10.07%	10.88%	4.46%
Estimated Cost of new Borrowing	6.15%	6.15%	4.46%
CGFS Risk Rating	D	D	B
Unlevered Beta (LTM)	5086.45	464.85	0.96
WACC	30522.83%	2154.78%	9.03%

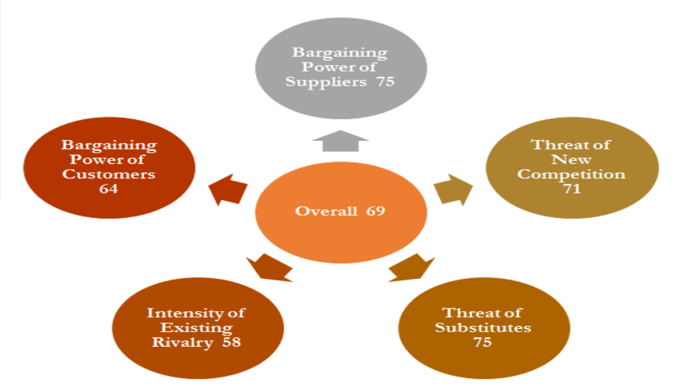
Target Price Distribution--P(price↑)=23%



Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	-4.6%	6.6%	0.00
12/31/2016	-1.5%	4.3%	0.33
12/31/2017	1.5%	5.1%	0.37
12/31/2018	1.3%	5.9%	0.45
12/31/2019	7.9%	8.4%	0.70
12/31/2020	3.1%	9.3%	0.78
12/31/2021	2.9%	9.6%	0.79
12/31/2022	2.8%	10.0%	0.83
12/31/2023	2.6%	10.7%	0.90
12/31/2024	2.5%	11.1%	0.89
12/31/2025	2.3%	11.5%	0.93
Continuing Period	2.1%	11.8%	0.97

Period	Invested Capital	Net Claims	Price per share
Base Year	$11,916.26	$10,886.22	$4.84
12/31/2016	$13,152.45	$12,157.19	$5.43
12/31/2017	$16,623.16	$12,033.48	$5.97
12/31/2018	$17,293.51	$12,089.92	$6.63
12/31/2019	$17,428.61	$12,098.27	$7.67
12/31/2020	$16,852.07	$12,552.23	$8.71
12/31/2021	$17,790.31	$12,727.45	$9.90
12/31/2022	$17,259.67	$12,896.49	$11.27
12/31/2023	$17,050.13	$13,361.78	$12.82
12/31/2024	$17,272.59	$13,004.17	$14.62
12/31/2025	$18,035.17	$12,548.98	$16.53
Continuing Period			