

Herc Holdings Inc

Q4 falls short

Reiterate Rating: UNDERPERFORM | PO: 110.00 USD | Price: 141.19 USD

2024 outlook a bit light, particularly given 3-yr targets

Herc's (HRI) Q4 results were came in broadly below expectations as Cinelease and unfavorable weather comps weighed on performance. (EBITDA \$382mn, -5% vs consensus), with 2024 outlook somewhat below consensus expectations (\$1.55-\$1.6bn vs \$1.59bn cons.). There were bright spots: Q4 REBITDA flowthrough of 63%, +5.8% YoY rate growth in Q4 was resilient, and 2024 rate is expected to offset cost inflation (MSD). That said, 2024 outlook was broadly below 3-yr targets unveiled at the Investor Day (ID) just 3 months ago. We remain constructive on rental markets but continue to prefer to express this rental theme via Buy-rated United Rentals (URI) to U/P-rated HRI given FCF profile.

Some signs of cooling, but demand remains steady

Herc provided 2024 guidance on an organic basis ex-Cinelease. Organic revenue growth of 7-10% was more muted vs ID (10-14% CAGR '24-'26) as local growth normalizes from high levels (target 60% Local mix). Outlook included Net Capex of \$500-\$700mn (-40% YoY at midpoint) on \$750mn-\$1bn of gross capex (-34% YoY) (\$550-\$650mn of disposals at OEC). With lower capex (subject to change through 2024) Herc is aiming to drive fleet efficiency, with utilization expected to improve. Herc also expects rate to remain supportive, as higher equipment costs and interest rates push smaller competitors to maintain pricing discipline. 2024 looks to be a year of transition from high fleet churn and overheated growth to more normalized, seasonal operating conditions. The concern remains around a reacceleration in 2025 – will long tailed mega projects be enough to drive growth to 3 year targets?

Aerials still a pinch point

Herc noted that while lead times for aerials have improved somewhat, they remain extended. The lead times have limited Herc's ability to purchase aerials, particularly as a large supplier near-shores production. Despite limited progress on lead times, delivery dates have become more reliable.

Underperform: Lowering estimates, PO to \$110

We trim our 2024/25 estimates 1% on outlook. We now model \$1,580mn/\$1,750mn in EBITDA for 2024/25 respectively, & assume rental rate of 4% for 2024. We increase our PO to \$110 (from \$105) on the same 4.25x 24E EBITDA, on lower net debt. Reit. U/P.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	11.26	12.30	14.75	16.80	18.23
GAAP EPS	10.92	12.09	14.75	16.80	18.23
EPS Change (YoY)	49.7%	9.2%	19.9%	13.9%	8.5%
Consensus EPS (Bloomberg)			14.72	15.64	20.61
DPS	2.30	2.53	2.66	2.86	3.07
Valuation (Dec)					
P/E	12.5x	11.5x	9.6x	8.4x	7.7x
GAAP P/E	12.9x	11.7x	9.6x	8.4x	7.7x
Dividend Yield	1.6%	1.8%	1.9%	2.0%	2.2%
EV / EBITDA*	4.8x	4.1x	3.7x	3.4x	3.2x
Free Cash Flow Yield*	-5.8%	-1.6%	5.0%	2.2%	2.1%

* For full definitions of *IQmethod*SM measures, see page 4.

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12659290

Timestamp: 14 February 2024 05:00AM EST

14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	105.00	110.00
2024E Rev (m)	3,586.3	3,468.6
2025E Rev (m)	3,952.9	3,805.8
2026E Rev (m)	NA	4,167.9
2024E EBITDA (m)	1,600.0	1,580.0
2025E EBITDA (m)	1,770.0	1,750.0
2026E EBITDA (m)	NA	1,850.0
2024E DPS	2.78	2.66

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Stock Data

Price	141.19 USD
Price Objective	110.00 USD
Date Established	14-Feb-2024
Investment Opinion	C-3-7
52-Week Range	93.97 USD - 156.59 USD
Mrkt Val (mn) / Shares Out (mn)	4,010 USD / 28.4
Free Float	93.1%
Average Daily Value (mn)	22.47 USD
BofA Ticker / Exchange	HRI / NYS
Bloomberg / Reuters	HRI US / HRI.N
ROE (2024E)	29.6%
Net Dbt to Eqty (Dec-2023A)	284.4%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Herc Holdings Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.2%	8.7%	8.8%	9.0%	8.8%
Return on Equity	32.6%	29.6%	29.6%	27.7%	24.6%
Operating Margin	20.5%	20.2%	22.4%	21.7%	20.5%
Free Cash Flow	(234)	(65)	201	87	85

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.7x	3.1x	2.5x	2.9x	2.5x
Asset Replacement Ratio	1.9x	1.6x	1.1x	1.4x	1.2x
Tax Rate	23.1%	22.0%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	260.2%	284.4%	236.9%	195.1%	164.0%
Interest Cover	4.6x	3.0x	3.4x	4.1x	4.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,739	3,282	3,469	3,806	4,168
% Change	32.1%	19.8%	5.7%	9.7%	9.5%
Gross Profit	969	1,111	1,245	1,353	1,415
% Change	40.8%	14.6%	12.1%	8.6%	4.6%
EBITDA	1,227	1,452	1,580	1,750	1,850
% Change	37.2%	18.3%	8.8%	10.8%	5.7%
Net Interest & Other Income	(122)	(224)	(225)	(200)	(180)
Net Income (Adjusted)	340	353	413	469	507
% Change	48.9%	3.8%	17.1%	13.4%	8.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	344	355	413	469	507
Depreciation & Amortization	599	714	782	900	964
Change in Working Capital	(360)	(198)	(201)	(135)	(452)
Deferred Taxation Charge	84	89	(100)	0	0
Other Adjustments, Net	249	126	133	102	266
Capital Expenditure	(1,151)	(1,151)	(825)	(1,250)	(1,200)
Free Cash Flow	-234	-65	201	87	85
% Change	NM	72.3%	NM	-57.0%	-1.9%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,002	740	(50)	50	50

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	54	71	47	53	51
Trade Receivables	523	563	665	834	1,028
Other Current Assets	68	98	98	98	98
Property, Plant & Equipment	392	465	499	533	517
Other Non-Current Assets	4,921	5,864	5,848	6,139	6,366
Total Assets	5,957	7,061	7,157	7,657	8,060
Short-Term Debt	16	19	19	19	19
Other Current Liabilities	588	489	491	592	560
Long-Term Debt	2,922	3,673	3,623	3,673	3,723
Other Non-Current Liabilities	1,322	1,607	1,507	1,507	1,507
Total Liabilities	4,848	5,788	5,640	5,791	5,809
Total Equity	1,109	1,273	1,518	1,866	2,251
Total Equity & Liabilities	5,957	7,061	7,157	7,657	8,060

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Industrial Services/Equipment Rental

Company Description

Formed in 2016 through a spinout from parent Hertz Global Holdings, Herc Rentals is one of the largest equipment service companies in the US. Herc rents, sells, and provides parts and support service for general rental categories as well as specialty equipment through its ProContractor and ProSolutions segments. Nearly 100% of sales are derived from the US & Canada.

Investment Rationale

We rate Herc at Underperform. Herc has enjoyed a somewhat successful turnaround in recent years and remains a strong number three in the equipment rental space behind United Rentals and Ashtead. Herc has demonstrated vastly improved financial and operating performance since its IPO, however Herc has become more of an execution story, and we expect the idiosyncratic exposure to entertainment will drive a near-term headwind in otherwise constructive rental markets.

Stock Data

Average Daily Volume 159,155

Quarterly Earnings Estimates

	2023	2024
Q1	2.35A	2.48E
Q2	2.69A	3.44E
Q3	4.00A	4.43E
Q4	3.24A	4.42E

Price objective basis & risk

Herc Holdings Inc (HRI)

Our price objective for Herc is \$110 per share, or 4.25x 2024E EV/EBITDA, a turn below the historical average. We assume no multiple benefit vs prior trading history given the rising rate environment and a slowing macroeconomic backdrop.

Downside risks to our PO are a recession, disorderly spike in interest rates, renewed weakness in the energy markets, slower-than-expected rental rates, and turmoil in the debt markets.

Upside risks come from a sharper-than-expected economic recovery, a bounce in oil prices, increase in infrastructure work, and the company being taken over eventually in a consolidating US equipment rental market.

United Rentals Inc (URI, C-1-7, \$636.88)

Our PO of \$650 is based on 7.5x 2024E EV/EBITDA multiple, at the high end of the historical range (4-8x). We believe a higher multiple is warranted given impressive free cash flow characteristics. While higher rates and macro economic concerns are headwinds, URI has managed downturns extremely well and the balance sheet leverage is the lowest in a decade (1.6x vs 2-3x range).

Upside risks to our price objective are better-than-expected rental pricing, stronger-than-expected FCF, a better-than-expected resurgence in non-residential construction, and overall cost cutting effort. Downside risks to our price objective are a more hawkish Federal Reserve Board trying to keep a lid on inflation, increased volatility in the high yield credit markets, renewed weakness in energy markets, or a slower than expected recovery in rental rates in the event that the rental sector accumulates too much fleet in the next 12-18 months.

Analyst Certification

I, Sherif El-Sabbahy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
NEUTRAL				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger
UNDERPERFORM				
	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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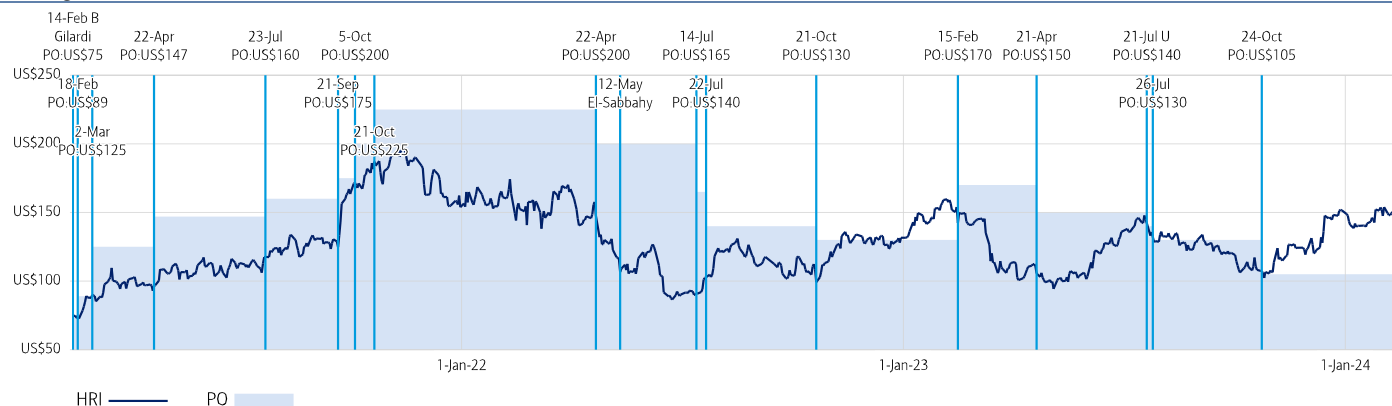
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Important Disclosures

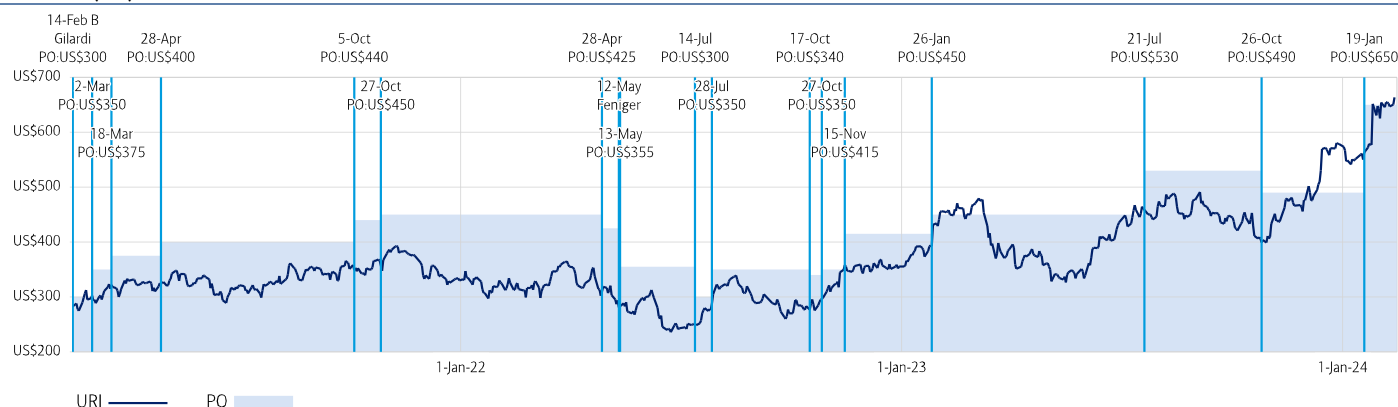
Herc Holdings (HRI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

United Rentals (URI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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