

Statement of Cash Flows – Hertz Global Holdings, Inc.

Hertz (NYSE: HTZ) is a car and equipment rental company. The car rental segment operates a fleet of approximately 285,000 cars in the United States and 150,000 cars internationally. The company's average holding period for a rental car is fifteen months in the United States and twelve months internationally. Hertz acquires many of its cars as "program cars". For program cars, the manufacturers agree to repurchase the cars at a specified price, which is generally based on a predetermined percentage of the original car cost. This program limits Hertz's residual risk; however, typically the acquisition cost is higher for these program cars. The company was founded in 1918 and is headquartered in Park Ridge, New Jersey.

- 1) Hertz makes five adjustments (ignoring 'Other adjustments') to net income before including the changes in operating assets and liabilities. List each of these five items and briefly explain why each of these items is added (subtracted) from net income to calculate Net Cash Provided by Operating Activities.
- 2) Did receivables increase or decrease from the end of 2011 to the end of 2012? Did accrued liabilities increase or decrease from the end of 2011 to the end of 2012?
- 3) How much cash did Hertz pay out to investors in the form of dividends and/or share repurchases in 2012? (Ignore other financing activities.)
- 4) What is the largest asset reported on Hertz's balance sheet? Notice that Hertz does not separately classify assets as 'current' and 'long-term'. Do you think the largest asset is a current or long-term asset? Why?
- 5) Notice that the largest cash outflow (inflow) relates to rental car acquisition (disposal).
 - a. In which section of the cash flow statement are these cash flows reported?
 - b. Select balance sheet and cash flow information for Coinstar (parent of Redbox), Aaron's, and Men's Wearhouse is attached. Coinstar rents DVDs (called content library), Aaron's rents furniture (called lease merchandise), and Men's Wearhouse rents tuxedos. In which section of the cash flow statement does each of these companies report the cash outflows related to obtaining their rental products?
 - c. Do you think Hertz reports the cash flows related to the acquisition and disposal of rental cars in the appropriate section? If yes, explain why. If no, indicate which section you would report these cash flows and explain why.
- 6) In 2014, Hertz announced that there were material errors in its 2011–2013 financial statements. The full extent of the errors has not yet been determined and the company has not filed any quarterly financial statements for 2014. So far, we know of two accounting issues: (i) Hertz under-depreciated the self-service kiosks and (ii) Hertz underestimated the amount of bad debt expense related to receivables from customers for damaged rental vehicles. What effect do each of these errors have on 2012 operating cash flows?

- 7) What is the Book Value of the assets that Hertz sold during the year?
- 8) If Hertz had leased the cars under operating leases, in which section would the cash flows be reported?

Hertz Global Holdings, Inc.
Consolidated Balance Sheet
December 31, 2012
(in thousands)

Cash and cash equivalents	\$ 533,255
Receivables, less allowance for doubtful accounts of \$25,113	2,458,230
Inventories, at lower of cost or market	105,728
Prepaid expenses and other assets	470,120
Revenue earning equipment, at cost	15,831,227
Less accumulated depreciation	<u>(2,922,891)</u>
Revenue earning equipment, net	<u>12,908,336</u>
Property and equipment, at cost	2,549,882
Less accumulated depreciation	<u>(1,113,496)</u>
Property and equipment, net	<u>1,436,386</u>
Other intangible assets, net	4,032,111
Goodwill	<u>1,341,872</u>
Total assets	\$ <u><u>23,286,038</u></u>
Total liabilities	\$ 20,778,733
Total equity	\$ 2,507,305
Total liabilities and equity	\$ <u><u>23,286,038</u></u>

Hertz Global Holdings, Inc.
Consolidated Statement of Cash Flows
Year ended December 31, 2012
(in thousands)

Cash flows from operating activities:

Net income	\$ 243,079
Adjustments to reconcile net income (loss) to cash provided by operating activities:	
Depreciation of revenue earning equipment	2,068,378
Depreciation of property and equipment	172,582
Amortization of other intangible assets	84,096
Stock-based compensation charges	30,255
Gain on sale of property and equipment	(8,309)
Other adjustments	290,634
Changes in operating assets and liabilities, net of effects of acquisition:	
Receivables	(157,732)
Inventories, prepaid expenses and other assets	(30,802)
Accounts payable	49,896
Accrued liabilities	(22,554)
Accrued taxes	2,801
Public liability and property damage	(4,341)
Net cash provided by operating activities	<u>2,717,983</u>

Cash flows from investing activities:

Revenue earning equipment expenditures	(9,613,239)
Proceeds from disposal of revenue earning equipment	7,125,096
Property and equipment expenditures	(312,786)
Proceeds from disposal of property and equipment	137,694
Acquisitions, net of cash acquired	(1,904,649)
Other investing activities	(178,887)
Net cash used by investing activities	<u>(4,746,771)</u>

Cash flows from financing activities:

Proceeds from issuance of long-term debt	2,237,280
Repayment of long-term debt	(952,147)
Short-term borrowings:	
Proceeds	438,387
Repayments	(1,280,143)
Proceeds (repayments) under the revolving lines of credit, net	1,280,164
Other financing activities	(93,277)
Net cash provided by financing activities	<u>1,630,264</u>

Net change in cash and cash equivalents during the period	(398,524)
Cash and cash equivalents at beginning of period	931,779
Cash and cash equivalents at end of period	<u>\$ 533,255</u>



	Dec. 31, 2012
Current Assets:	
Cash and cash equivalents	\$ 282,894
Accounts receivable, net of allowances of \$2,003 and \$1,586	58,331
Content library	177,409
Deferred income taxes	7,187
Prepaid expenses and other current assets	<u>29,686</u>
Total current assets	555,507
Property and equipment, net	571,358
Notes receivable	26,731
Deferred income taxes	1,373
Goodwill and other intangible assets	358,829
Other long-term assets	<u>47,927</u>
Total assets	<u>\$ 1,561,725</u>
	2012
Operating Activities:	
Net income	\$ 150,230
Adjustments to reconcile net income to net cash flows from operating activities from continuing operations:	
Depreciation and other	179,147
Amortization of intangible asset	7,504
Share-based payments expense	19,362
Other	90,026
Cash flows from changes in operating assets and liabilities:	
Accounts receivable	(17,061)
Content library	(30,693)
Prepaid expenses and other current assets	(6,963)
Other assets	858
Accounts payable	58,248
Accrued payable to retailers	10,461
Other accrued liabilities	<u>2,787</u>
Net cash flows from operating activities	\$ 463,906
Investing Activities:	
Purchases of property and equipment	(208,054)
Proceeds from sale of property and equipment	1,131
Acquisition of NCR DVD kiosk business	(100,000)
Equity investments	<u>(39,727)</u>
Net cash flows from investing activities	\$ (346,650)



Feb. 02, 2013

CURRENT ASSETS:

Cash and cash equivalents	\$ 156,063
Accounts receivable, net	63,010
Inventories	556,531
Other current assets	79,549
Total current assets	<u>855,153</u>

PROPERTY AND EQUIPMENT, AT COST:

Land	18,524
Buildings	107,073
Leasehold improvements	439,079
Furniture, fixtures and equipment	473,450
	<u>1,038,126</u>

Less accumulated depreciation and amortization (649,008)

Net property and equipment 389,118

TUXEDO RENTAL PRODUCT, net 126,825

GOODWILL 87,835

INTANGIBLE ASSETS, net 32,442

OTHER ASSETS 4,974

TOTAL ASSETS \$ 1,496,347

2013

OPERATING ACTIVITIES:

Net earnings \$ 132,063,000

Adjustments:

Depreciation and amortization	84,979,000
Tuxedo rental product amortization	28,315,000
Asset impairment charges	482,000
Loss on disposition of assets	1,958,000
Share-based compensation	16,515,000
Other	3,213,000

Changes in operating assets and liabilities:

Accounts receivable	(6,447,000)
Inventories	16,026,000
Tuxedo rental product	(55,281,000)
Other assets	(11,089,000)
Accounts payable, accrued expenses and other current liabilities	9,103,000
Income taxes payable	5,172,000
Other liabilities	721,000

Net cash provided by operating activities \$ 225,730,000

INVESTING ACTIVITIES:

Capital expenditures	(121,433,000)
Investment in trademarks, tradenames and other assets	(2,075,000)
Proceeds from sales of property and equipment	33,000

Net cash used in investing activities \$ (123,475,000)



December 31,
2012
(In Thousands,

ASSETS:

Cash and Cash Equivalents	\$ 129,534
Investments	85,861
Accounts Receivable (net of allowances of \$6,001 in 2012 and \$4,768 in 2011)	74,157
Lease Merchandise	1,539,594
Less: Accumulated Depreciation	<u>(575,527)</u>
	964,067
Property, Plant and Equipment, Net	230,598
Goodwill	234,195
Other Intangibles, Net	6,026
Prepaid Expenses and Other Assets	77,387
Assets Held for Sale	<u>11,104</u>
Total Assets	<u>\$ 1,812,929</u>

2012

OPERATING ACTIVITIES:

Net Earnings	\$ 173,043
Adjustments to Reconcile Net Earnings to Net Cash From Operating Activities:	
Depreciation of Lease Merchandise	604,650
Other Depreciation and Amortization	56,783
Bad Debt Expense	31,842
Stock-Based Compensation	6,454
(Gain) Loss on Sale of Property, Plant, and Equipment and Assets Held for Sale	(397)
Gain on Asset Dispositions	(265)
Deferred Income Taxes	(23,241)
Excess Tax Benefits From Stock-Based Compensation	(5,967)
Other Changes, Net	7,830
Changes in Operating Assets and Liabilities, Net of Effects of Acquisitions and Dispositions:	
Additions to Lease Merchandise	(1,162,703)
Book Value of Lease Merchandise Sold or Disposed	466,799
Accounts Receivable	(18,528)
Prepaid Expenses and Other Assets	(9,263)
Income Tax Receivable	(22,379)
Accounts Payable and Accrued Expenses	(4,635)
Accrued Litigation Expense	(41,720)
Customer Deposits and Advance Payments	<u>1,451</u>
Cash Provided by Operating Activities	<u>59,754</u>

INVESTING ACTIVITIES:

Purchase of Investments	(91,000)
Proceeds from Maturities and Calls of Investments	102,118
Additions to Property, Plant and Equipment	(65,073)
Acquisitions of Businesses and Contracts	(30,799)
Proceeds from Dispositions of Businesses and Contracts	1,999
Proceeds from Sale of Property, Plant, and Equipment	<u>6,790</u>
Cash Used by Investing Activities	<u>(75,965)</u>