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HTZ.OQ - Q2 2024 Hertz Global Holdings Inc Earnings Call

EVENT DATE/TIME: AUGUST 01, 2024 / 1:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Hertz Global Holdings second-quarter 2024 earnings call. (Operator Instructions) I would like to remind you that this morning's call is being recorded by the company. I would now like to turn the call over to our host, Johann Rawlinson, Vice President, Investor Relations. Please go ahead.

Johann Rawlinson - *Hertz Global Holdings Inc - Vice President, Investor Relations*

Good morning, everyone, and thank you for joining us. By now, you should have our earnings press release and associated financial information. We've also provided slides to accompany our conference call, and these can be accessed through the Investor Relations section of our website.

I want to remind you that certain statements made on this call contain forward-looking information. Forward-looking statements are not a guarantee of performance and by their nature are subject to inherent risks and uncertainties. Actual results may differ materially. Any forward-looking information relayed on this call speaks only as of today's date and the company undertakes no obligation to update that information to reflect changed circumstances.

Additional information concerning these statements, including factors that could cause our actual results to differ, is contained in our earnings press release and in the risk factors and forward-looking statements section of the filings that we make with the Securities and Exchange Commission. Our filings are available on the SEC's website and the Investor Relations section of the Hertz website.

Today, we'll use certain non-GAAP financial measures, which are reconciled with GAAP numbers in our earnings press release and earnings presentations available on our website. We believe that these non-GAAP measures provide additional useful information about our operations, allowing better evaluation of our profitability and performance. Unless otherwise noted, our discussion today focuses on our global business.

On the call this morning, we have Gil West, our Chief Executive Officer; Scott Haralson, our recently appointed Chief Financial Officer; and Sandeep Dube, our newly appointed Chief Commercial Officer. We are also joined by Darren Arrington, our Executive Vice President for Revenue.

I'll now turn the call over to Gil.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Good morning and thank you all for joining our second-quarter earnings call. We've accomplished a lot as a team over the past quarter and we look forward walking you through our Q2 results and the actions we've taken to advanced our strategic priorities, enhance our operational capabilities, and drive long-term and sustainable shareholder value.

As I said on our last call, we're in the midst of a critical transformation for our company and our priority is getting back to the basics: operational excellence and unmatched customer service and using these springboard for value creation and earnings growth. Our strategy to get there has three building blocks: our fleet, our revenue, and cost management.

Our recent additions to the executive team, investments in our technology, and product innovation, and the talent and hard work of our people, coupled with process rigor in how we manage the business are key enablers. To advance the strategic priorities, two things needed to be accomplished. First, strengthen the balance sheet and ensure a more stable liquidity position, so that we can accelerate the rotation of our fleet and take a longer view of how we manage the business. Both are essential parts of our transformation strategy.

Second, build a team and organizational design that ensures we can execute our strategy with speed, rigor, and excellence. We've quickly done both of these things.

On the financing side, we strengthened our balance sheet and improved our liquidity. With the additional capital buffer we secured in June, we are accelerating our fleet rotation, enabling us to lower our depreciation and maintenance cost, improve our customer experience, and increase pricing power. I'm pleased with the progress we're making and look forward to completing the fleet rotation as soon as practical. Our new CFO, Scott Haralson, will get into more detail on the financing and the actions we've taken to bolster the balance sheet to support our strategic plan.

On the leadership front, all the seasoned leaders we've recently announced come to Herz with a track record of driving commercial success across complex customer facing operations in the travel and transportation industries. I've known and worked with all of them, and I'm thrilled that they share my optimism for the value creation potential here at Hertz.

Starting with Scott, he brings deep expertise in financial and cost management and leveraging the capital markets to drive business transformation. He has a history of turning challenges into opportunities, and I know he's the right person for the job.

Sandeep Dube, our new Chief Commercial Officer., who you will also hear from on the call today brings a comprehensive and customer-centric approach across our commercial and revenue generating activities. He understands what customers desire and are willing to pay for, puts these customer expectations at the center of the business operation in innovative ways, and converts the resulting customer satisfaction into revenue. Having one executive taking a holistic view of all the commercial aspects is a novel approach at Hertz, and I'm thrilled to have him on the team.

We've also brought in additional senior asset management and operational expertise, with Greg May leading all aspects of Hertz fleet management, including fleet procurement and strategy, analytics and vehicle remarketing; Henry Kuykendall overseeing our airport and off-airport car rental operations in North America; and Mike Moore, who will lead all aspects of fleet maintenance. We've also asked Katherine Martin to take on the permanent role of General Counsel.

The new leadership structure will enable end to end oversight and accountability of key components of the business, which complement our existing dedicated teams who have deep institutional knowledge of the car rental industry. With these changes now in place I believe we have a transformative and achievable strategy along with the right team and organization.

So now more than ever, our focus is on execution. While we will remain nimble on the exact timing of key milestones, I'm confident that the execution of our strategy will render superior unit economics for the company. Let me focus the remainder of our comments on our strategy, particularly around fleet. Then Sandeep will cover what we are actioning around revenue and customers. After that, Scott will cover our Q2 financial performance, our cost management, and balance sheet position.

As I mentioned, a fundamental component of our strategy is our fleet and completing our fleet refresh and rotation is one of our highest priorities. A substantial portion of our fleet consist of vehicles with inflated cap costs that were acquired from OEMs during a period in which both volume discounts and trim packages befitting our rental car fleet were constrained. Our fleet also consist of high-cost pre-owned vehicles we acquired from spot market at peak pricing. Most vehicles purchased in that environment have experienced declines in resale value as the market normalized, resulting in an elevated monthly depreciation rate. This primarily applies to vehicles 12 months in age or older.

As we announced in June, we have accelerated our refresh and currently expect higher depreciation vehicles to be rotated by the end of 2025. As a result, by early 2026, we expect average depreciation per unit, our DPU, in the low-$300s per month. My confidence is driven by the fact that we are already seeing lower vehicle costs manifest and the purchase prices recently negotiated with OEMs already reflect our targeted DPU.

Scott will talk more about the operating cost and productivity. But it's worth mentioning here that another tailwind of completing our fleet rotation will be savings generated by reduced maintenance and collision costs, which will decrease our direct operating expenses.

Let's move on to the other building blocks, unit revenue and cost management. Sandeep, over to you.

Sandeep Dube - *Hertz Global Holdings Inc - Executive Vice President, Chief Commercial Officer*

Thanks, Gil, and good morning, everyone. I'm extremely pleased to join Hertz as Chief Commercial Officer. As Gil pointed out, my goal here is to bring a cohesive and customer-centric approach to our revenue generation efforts. From revenue management and pricing, e-commerce to corporate sales and strategic partnerships. I'll also be focusing on demand creation through strategic marketing and the experience of our customers throughout their rental journey.

Let me outline our approach. Our goal is to grow unit revenue by focusing on how we generate the revenue we collect and ensuring it enhances the bottom line. As we tighten the fleet, we will benefit from culling low RPD, low contribution demand, served through discretionary low price channels and contract rate business. These changes are highly actionable and removal from our book of business will improve our overall profitability. We are committed to remaining disciplined on capacity, and we'll seek to manage our fleet levels in response to demand. In line with this strategy, we intend to counter any headwind in yield with an appropriate tightening of the fleet to maintain return on assets and overall profitability.

We are also focused on driving more quality revenue through our direct booking channels. We are utilizing new optimization tools to improve paid media strategies as well as making structural improvements to the websites themselves. While we have work to do around growing our volumes, the trends are encouraging.

Another key component of our revenue strategy is an improved customer experience enabled by a self-service digital platform where appropriate. This means that customers both loyalty and non-loyalty can skip the counter and go directly to their vehicles, receiving faster, better service throughout their rental journey. We are already seeing the fruit of our efforts in the positive trend in net promoter scores across our brands, a reflection of our team's hard work and dedication and validating our commitment to investing in our customers. Providing an unmatched customer experience leads to loyalty and creates - pricing power. And we are pursuing rate parity with competitor value brands across an increased number of locations.

Lastly, we are focused on growing value-added service revenue. Currently, most of our products have static pricing. We are beginning to leverage smarter dynamic pricing tools and new ways of merchandising the products. We continue to further upgrade our forecasting and pricing tools with modern technologies to enable us to yield higher rates at each point in the booking curve.

During the quarter, we deliberately prioritized rate over volume. This is especially true in the Americas segment. Collectively, our revenue initiatives are showing early promise and global RPD, while down year over year as we guided, was up 5% sequentially. June RPD is marginally down year over year by 2%, an encouraging exit rate for the quarter and consistent with our expectations that year-over-year declines are narrowing. With global RPD rate parity expected in the third quarter year over year, the demand and revenue outlook remain strong.

With that, I'll turn it over to Scott.

Scott Haralson - *Hertz Global Holdings Inc - Executive Vice President, Chief Financial Officer*

Thanks, Sandeep, and good morning, everyone. First, I want to thank the Hertz team members who have been so welcoming in my short time here. It's been great to see the pride in the Hertz brand and the desire to win throughout the organization. It's an honor to join a global company with such a recognized and valuable brand and be part of the team to help bring Hertz back to its historical prominence and performance.

I knew coming in that we had a good bit of work to do, but it's now been over a month since I started, and some real themes are starting to come together for me. So before I cover some of the financial results for the quarter, let me highlight a few things.

The post-transformation view of the business is bright. Our North Star metrics are very attainable. And we will continue to push the business to be a data-driven, high-performance business with an efficiency mindset and a ROIC-based discipline. That's one side of the coin. The other side is that it could take us through 2025 to get where we need to be. Since my arrival, we've conducted further analysis and continue to refine our view of the financial impact and the timeline of the business transformation, particularly the fleet rotation and there are a few items to call out.

First and foremost, our fleet. A critical piece of our P&L repair is transforming the fleet. Our primary objective in its simplest form is to limit the difference between what we buy a car for and what we sell it for. This translates to our North Star DPU metric of the low $300 range. As of June 30, over 30% of our global fleet was at a DPU of $325 or less. And the remainder of our fleet was at a DPU of about $660. The deals we are consummating today for vehicles to be delivered later this year and into 2025 have DPU rates below $325.

We are executing the refresh at the utmost urgency, and we will accelerate this as fast as economically and logistically possible. With the speed of rotation as an objective, it may be helpful to clarify some important concepts about the rotation. The concepts of the total P&L impact of the rotation and the cash impact of the rotation, what they are, and why they are different.

Based on current residual estimates, we expect that the fleet refresh will push through a little more than $1 billion of non-cash depreciation through the P&L from Q3 of this year through probably the end of 2025. Obviously, it could be higher or lower depending on where residuals come out. The timing of that excess depreciation may be a bit lumpy depending on how quickly we can rotate, but we want that to happen as soon as possible. Although a bit counterintuitive, larger near-term depreciation amounts are the desired outcome. That means we are exiting high depreciation cost vehicles and bringing in lower ones quicker.

Now the confusion for some people is how can we push through that large of a P&L impact without it having a similar cash impact going forward. The answer lies in how we amortize the debt on the vehicles in our ABS facility. We amortize our vehicle financing facility typically quicker than we depreciate the assets on our P&L. In other words, the majority of the cash impact has already been felt through the ABS facility.

When we sell the vehicles, we will unlock the initial equity we invested as well as any amounts gained through the amortization of the debt, if any. The cash release from the sale of the vehicles left to be rotated will likely amount to more than $1.5 billion. And that money will be reinvested to acquire new vehicles and lower purchase prices or cap costs. Depending on the number of vehicles and the types, it will likely cover most of the new car buys. We may need to use some of our liquidity for new car purchases, but the amount of that is not firm yet, given the number of variables at play. We will try to give you a better sense of that amount on future calls.

Now the other side of the coin I mentioned is that this fleet rotation will take through 2025. So we must be realistic about the cash generation capabilities of the business between now and then. We are still refining the inputs to this, but it looks like we'll probably use some cash on the operating side through the first half of 2025. Given the cash burn on the operating side and the cash required for the fleet refresh, right now, we expect the low point of liquidity will likely be at the end of the second quarter of 2025. I'm not at a point yet where I can give you the specifics on the cash balance levels at that date. But we'll look to provide that information on future calls as well.

The good news is that we believe we have plenty of liquidity to handle this. With our recent capital raise, we have bolstered liquidity to a place where we are comfortable that we can complete the transformation, even if residuals decline at a faster rate than we have conservatively forecasted.

Next is our cost structure or DOE and SG&A expenses. Becoming more efficient and reducing our operating cost is an important component of our transformation. We've made some good progress so far. But overall, this is more than just managing initiatives. It's managing the entire cost structure with an efficiency mindset. We have some wood to chop here, but we made good progress quarter over quarter.

Again, though we have to be realistic about the timing of the reductions. DOE per transaction day for Q1 was $37 and Q2 was $36. While directionally positive, insurance and labor rates were higher than expected, which partially offset the value of the benefits we achieved. That's why I say we have to continue to manage the entire P&L, not just initiatives.

There are a lot of areas to address and some require process and technology enhancements or addressing out of market contracts and some have delayed benefits like those tied to the fleet rotation. So these impacts will be layered in overtime but you should measure us on seasonally adjusted DOE and SG&A metrics sequentially. With the new team we have, I am extremely confident that we will get there, but it will be a gradual progression.

So now let's cover Q2 results. Revenue for the quarter was $2.4 billion and our Adjusted Corporate EBITDA was a loss of $460 million, coming in at about the midpoint of the range we updated in mid-June. The results for the quarter were significantly impacted by the year-over-year increase in depreciation expense of about $700 million. Revenue was driven by our desire to maintain pricing integrity in the quarter, with particular strength in the Americas segment which saw a 5% increase quarter over quarter. This provides strong evidence of pricing discipline across our business and the desire to manage capacity at levels that support rates.

DPU was elevated, driven by our plans to accelerate the fleet refresh. As I mentioned earlier, higher DPU in the short run driven by our fleet refresh acceleration is a good thing because we will get to our target DPU faster. We've renegotiated several national contracts for parts and labor, while also exercising more centralized oversight of vehicle repair and maintenance expense. Refreshing the fleet will also contribute to the reduction of direct operating expenses per transaction day through reduced maintenance and lower losses on salvaged vehicles.

As a result, maintenance and collision have declined quarter over quarter by 12% on a volume-adjusted basis and we've only just begun. SG&A has decreased on a year-over-year basis as a result of headcount and third-party spend reductions taken both last year and this year as well as higher efficiency and lower marketing spend. Excluding non-EBITDA impacting items, SG&A decreased 9% year over year. We believe there is still more opportunity to tighten third-party expense, which we will be able to realize over time as centralized procurement works through our $3 billion base of contracted spend.

So now let me talk about liquidity and cash flow. We ended the quarter with $1.8 billion of liquidity, comprised of over $500 million of unrestricted cash and $1.3 billion of available capacity under the senior revolving credit facility. We raised $1 billion of liquidity in June by issuing $750 million of First-Lien Notes and $250 million of Exchangeable Second-Lien PIK notes. Both mature in 2029.

In addition, we issued $750 million of ABS securities for our US ABS program, which will refinance part of our near-term maturities coming due this year. Our committed VFN will more than cover the remaining amounts of those maturities. We used the net proceeds to pay down our senior credit facility and ended the quarter with $160 million drawn. We have no meaningful non-vehicle debt maturities until mid-2026.

The capital raise will help offset further expected cash burn as well as future liquidity contributions needed for the fleet refresh. That's also a buffer against unforeseen macro challenges and helps ensure stability throughout the transformation.

Regarding our vehicle debt, our ABS facilities are designed to amortize the loans faster than the vehicles are depreciating. As a result, the fair market values of our vehicles are typically greater than their ABS values. However, we have seen vehicle residuals decline at a higher rate than usual this year. In June, the Manheim Rental Risk index dropped by 5%. We currently have sufficient fair market value cushion in our ABS facilities. But to the extent the current volatility in the residual market negatively impacts that metric, we could expect to make incremental lease payments to maintain a positive cushion. Our liquidity position provides the flexibility to do so.

Staying on our fleet rotation for a moment, during Q2, we increased the fleet size ahead of the peak rental season, largely driving our adjusted free cash outflow of $553 million. As for the $2 billion in variable debt maturing at the end of the year, we have the option to refinance or to redeem the debt using the variable funding notes within the US ABS.

Before I turn it back over to Gil, for closing remarks, let me summarize comments made regarding our outlook: For Q3, demand is strong, but we're intentionally calling low RPD business so we don't expect days to grow materially year over year, and we expect RPD to be flat to slightly up 1%. Over the remainder of the year, we intend to manage our fleet levels below the same periods in 2023. We expect DPU to be elevated through 2024 before sequentially improving through 2025 until we near the end of the rotation.

When we get to the other side on the fleet rotation and have fully executed our transformation, we are targeting the following:

RPD in the low 60s, DPU in the low 300s, and DOE per day in the low 30s.

I echo Gil in that this is a critical phase for our company. Transformations are never easy, but we are putting the right pieces in place and believe the company's long-term unit economics and overall financial profile are appealing and achievable. And I come to the CFO position confident about our future.

Now let me hand it back to Gil for a closing comment.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Thanks, Scott.

Looking ahead, we are optimistic about our prospects. I've been here before and so is the team. We've got a lot of things going for us. Global travel demand remains strong and inflation is tempering. Supply chain constraints have abated and OEM production is on the rise. The macro environment for our business, combined with our operational strategy means that we have more opportunities than challenges ahead of us.

Our executive team is experienced with executing transformations committed to our strategy. Our employees are also highly dedicated to serving our customers, and I can't thank them enough for their heroism during the CrowdStrike software outage. While some companies in the travel industry face challenges from the outage, we had contingency plans in place that operated as intended. This minimized disruptions and allowed us to continue to go above and beyond for our customers to get them to their destinations.

Coming back to our operational strategy, as we mentioned previously, it's likely going to take the rest of the year and through 2025 to fully implement our plans and achieve our desired state of unit economics. Once we do that, I believe the financials of our business will be strong. I'm confident that we have the right strategy, the right team, and the liquidity to get there.

With that, let's open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Hi. Good morning, guys. Thanks for all the details so far and for taking my questions. I guess, first one, it's a liquidity question, and appreciating what Scott just mentioned about how you -- you took a lot of the -- you're actually taking a lot of the cash impact from the excess depreciation already prior to now. And so, the question is as you look back, you raised the capital about two months ago, was that the right amount to raise, more or less, and what are your thoughts on any future liquidity needs? Thanks.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah. Well, let me start. This is Gil. I'll turn it over to Scott, though. I'm sure he'll add more color. But let me just first say, we quickly built what I would call an all-star executive team with the skills and execution track record needed for the road ahead. And with the team in place and then beginning to get momentum, and we talked about the transformation strategies and the initiatives we got underway to improve the business, we secured the additional capital to first strengthen the balance sheet and then ensure a more stable liquidity position and then just enhance our flexibility in executing our transformation, should any -- I mean, really, should any risk arise, whether those risks are anticipated or unexpected. But the additional capital also allows us to accelerate the fleet rotation that we described. And it also gives us just a longer view to manage the business going forward.

Scott?

Scott Haralson - *Hertz Global Holdings Inc - Executive Vice President, Chief Financial Officer*

Yeah. No, thanks, Gil. Look, I think flexibility is the key word here. I said in my prepared remarks, my expectations on operating cash flow through the first half of '25, slightly negative, and then we should generate about $1.5 billion of proceeds from the sale of the vehicles that we have left to rotate.

So this should cover most of the needs for the new corporate purchases. There are number of variables that will influence cash inflow from the sale and the outflow required for the new car buy. I mean you have residuals and number of cars and type of mix and cap cost or risk versus program and even the ABS values will influence.

So as we sit today, while it is difficult to predict, it's possible that we're going to require some cash, but now that we have the capital raise, we have the liquidity to evaluate all of our options and not to be pinned into any particular outcome. I mean that's the liquidity benefit. That's the flexibility.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. Thanks, Gil. Thanks, Scott.

As a follow-up, another fleet question, and it's really you talked a lot about the discounts that you're getting on the new car buys and you're already in the low 300s of DPU on vehicles you're bringing into the fleet. So looking forward, I mean, do you expect that to hold? Is that a sustainable level? Do you expect -- if used car prices continue to moderate or normalize, do you think that the discounts potentially get even larger and just the fact that you're getting these discounts again make you want to accelerate your purchases? And also how do you hold periods look on these new purchases versus what you did historically? Thanks.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah. No, thanks, Chris. Great question. Well, just to reemphasize, we're already seeing the deals that get us to the North Star unit economics on DPU. Of course, it's always a little hard to predict the dynamics, but I think at least the way that I see it is some, you know, most importantly, we're going to be disciplined on the buy side and selective and make sure that the economics work for us. So we got, I think, a number of deals in the pipeline. We continue to evaluate. We'll just work with the OEMs. But I think, going forward, the macro environment, in my view, is normalize back to what we've seen historically.

So Darren, I don't know if you've got any other comments relative to what you're seeing.

Darren Arrington - *Hertz Global Holdings Inc - Executive Vice President - Revenue Management and Fleet Operations*

The other part of your question was around hold periods. And I think the industry has been pushed into higher hold periods than I think what is historically normal for us. And as those discounts are coming back into place, the math would tell you to bring the hold period back in line or closer to in line with where things have been before.

So, we're seeing a lot of deals right now that would benefit from a shorter rotation than what we've been pushed into as an industry. And we look forward to that because that carries a number of benefits beyond just depreciation, but also in terms of the customer and the product that we can offer to the customer, the damage and the maintenance expenses that go along with that. I think those aspects of it, besides just the dep, help really transform our business into something that's healthier.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah, it's well said. Because I think as the supply side is normalized and we rotate out of fleet, then we can focus on the optimal sell pointed at a vehicle level, a VIN number level, to optimize that. So that -- the hold periods may vary but -- between vehicle types, but we'll look to optimize that. We'll have the luxury to do it then with the supply side.

Operator

John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Thanks for taking my question. I wanted to dive in a little bit on RPD. I think it's slide nine, I think it's pretty important in the deck where you guys talk about kind of getting to that low $62 RPD potential. You talk about kind of moving away for some contractual business. Can you talk to what type of contractual business that is and how much you need to move away from? And did your RPD this quarter also get the benefit of some of that moving away? So, I'm trying to think about just kind of like pure market RPD and then what you're kind of moving away from? Is it the TNC business, is it insurance, is it corporate? Just trying to understand that.

Sandeep Dube - *Hertz Global Holdings Inc - Executive Vice President, Chief Commercial Officer*

Yeah, John, thanks for the question. So as you outlined, our North Star is to get to the low $60s RPD. In terms of the progression to that over the quarter, basically what we've done is try to cull out some of the lower RPD yielding segments, and some of that is at the tail end of what comes through from an insurance perspective, some of them are basically some of the opaque fares that we see coming through. So that's primarily what we have kind of deprioritized. That's the low RPD pieces in equation.

Now as we look ahead, we're going to continue to build on customer demand through high RPD channels. So whether that's direct booking and whether that's other sources that deliver a higher RPD back from a customer demand perspective, we're going to dial in on those factors. So that should be a factor that basically continues to enable us to refine our RPD and driving more premium RPD values.

The other factor that I'll bring in place is basically a focus on value added service. So we are doubling down our focus on value-added service, which is, of course, a high margin product offering for us. There is significant scope of optimization in that space, and that's another lever we can pull on significantly as we look into the future.

Part of your question was whether it had in-quarter impact. Yes, those actions did have in-quarter impact and we continue to expect those to have impact over the upcoming quarters

I don't know, Darren, if there's anything?

John Healy - *Northcoast Research - Analyst*

And then just one question I wanted to ask just about kind of longer-term fleet plans. I think you've talked about, you used the phrase, higher cap cost or more expensive cars, rotating those out. Previously, I think a lot of us were viewing those as the electric vehicles in your fleet. Gil, what's your thought about having electric vehicles in the fleet, probably in the medium-term here over the next three or four years? Does it make sense for Hertz? And do you see yourself doing that at size or was this an experiment that the conclusion is way too early and maybe not for rental? Just kind of what your big picture thought is on the category itself.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah, sure. I know it tends to make a lot of headlines, but I'll just start by saying, EVs are less than 10% of our fleet as it stands today, just to frame it. But -- and I'll confess, I was born and bred up an internal combustion engine enthusiast growing up in my dad's auto parts stores in the '70s. So -- but I do believe EVs are key for the future.

The transition and adoption curve is the real question there, right. So the whole automotive industry, including the OEMs have been impacted by the headwinds of the mainstream EV buyer adoption. So just make sure that it pointed out that this isn't a Hertz-only issue. This is widespread. Trying to predict the -- and match supply and demand of the EV adoption curve. So it has slowed that curve with consumers. And most OEMs, of course, are adjusting their production plans for EVs.

So predicting that, I would argue probably the whole automotive industry went too far too fast relative to what the actual adoption curves were. At Hertz, we've been adjusting for that, as you know. But ultimately, our aim is to really give customers a choice of what vehicles they want and drive and that includes EV. So we've gone through and rationalized our EV fleet and we're allocating it across our businesses and to maximize, of course, RPD, but also get the right product market fit to do that with our customers.

And so we've got three channels to optimize that with, right? So we've got we've got airports, we've got our off-airport operations, and then we've got our ride-hail business and all three have different product market fits in RPD profiles. So we have the ability to find that natural demand for EVs.

And then in terms of how our EV fleet looks going forward, the ins and outs of that, we just look to ensure that our fleet matches that natural demand and adjust accordingly, and that'll just be a normal course of business for us going forward. It's the same as any of our fleet. So, that's how we see EVs.

Operator

John Babcock, Bank of America.

John Babcock - *BofA Global Research - Analyst*

Hi. Good morning, and thanks for taking my questions. Just quickly on fleet, since we've been discussing that a little bit, I was just wondering if -- as you're completing the fleet refresh, if that's going to lead to any notable change in mix with relative to how Hertz has been operating recently?

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah, it will. I think it's the conclusion or that would be our desire because I think if you go back during the COVID production period when there was a limited supply of vehicles to acquire, our mix effectively was skewed outside the core demand. And as we're rotating out the fleet, we're focused to try to rectify that from a mix standpoint. So yeah, I think as we rotate the fleet, that will -- our mix will more normalize around where the core demand profiles are.

John Babcock - *BofA Global Research - Analyst*

Are you able to detail what you view as kind of that core demand? I mean, is that more CUV, SUV related, based on kind of where the market's gone or does that stand more on the sedan side? Any details you can provide there.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah, we prefer not to kind of tip our hand relative to the specifics of the fleet mix, but just know we certainly see the booking patterns of our customers. We, of course, measure their desires in terms of fleet preferences. And then we model that across the board literally at a, you know, not just classification type, but within the sub classifications, what our ideal state would be. And then we overlay the supply side purchasing opportunities on top of that, really to make the selections of what vehicles we acquire. So terms of methodology, that's how we're looking at it.

And there are some of those mixes that's -- some of those mixes candidly stand out more than others. And those are the ones we emphasize on the buy side.

John Babcock - *BofA Global Research - Analyst*

Okay. That's helpful. And then just next question. I mean, you talked about trying to -- rather the efforts to improve RPD and also some of the efforts on the cost cutting side within the business. But one of the other things that we've heard anecdotally is that Hertz ultimately has room to improve in terms of getting the right vehicles into the right markets. So I was just wondering, what you are doing to address that side of the business, especially since that can have a lot of impact on the supply demand dynamics?

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah. In terms of markets, you mean specific locations then, having the right allocations?

John Babcock - *BofA Global Research - Analyst*

Yeah, that's right.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yes. So there is -- and of course, with Sandeep coming onboard and Scott, I think as we move forward and especially as we plan the business and plan for the seasonal adjustments, which we're in the middle of right now, thinking about it at a market level to your point is very important in understanding the economics of those markets, both on the revenue side as well as on the cost side and then the customer demand patterns within those markets, right? The mix, as we were talking about earlier, varies from market to market, of course, and then getting those allocations right. Without trying to minimize the amount of movements that we have within our fleet because there's a cost associated with that. So there's definitely a lot of focus around that to try to optimize that.

Now we have the ability, of course, as we acquire and dispose of vehicles to do that naturally where we take delivery. So that ultimately is the lever to execute around those plans.

John Babcock - *BofA Global Research - Analyst*

Okay. And then, sorry, if you don't mind, just one more question. Just with everything you've talked about, are you sticking to the same cost cutting goals that you had laid out previously?

Scott Haralson - *Hertz Global Holdings Inc - Executive Vice President, Chief Financial Officer*

Hi. Yeah, thanks, John. This is Scott. So I hinted to this a little bit my prepared remarks, but I think maybe best to sort of unpack the philosophy a bit. So my overall cost management philosophy will be to sort of manage the entire P&L. I know initiatives were discussed in the past, and those items are obviously still being worked along with many other items across the business. And so I think it's just good cost management to think about it that way. I mean, we view it as a lifestyle change. It's not just about managing initiatives or projects.

So I think as I mentioned in the remarks, measure us on sort of DOE. We will probably get away from, you know, identifying specific projects and itemizing those things. I think it's just tough to reconcile. So I think look, the two important takeaways are the North Star metric on DOE in the low 30s is sort of our target. It's attainable. But given the items that we have to address, I think it's going to take us a year or so. So it's going to be a gradual move but measure us on that DOE metric.

Operator

Stephanie Moore, Jefferies.

Stephanie Moore - *Jefferies LLC - Analyst*

Hi. Good morning. Thank you. I appreciate all the incremental color on the fleet refresh and the actions that you're taking over the next year plus. I wanted to get your opinion and kind of your appetite on potentially increasing the number of program cars in the US as a percentage of your fleet. Clearly, it was much higher pre-COVID, it's higher in the -- higher internationally. So would love to get your thoughts in terms of being able to move forward with that and your appetite as well as OEM willingness. Thanks.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah. Thanks, Stephanie. I appreciate that question. I mean, we certainly recognize the program cars is a lever to help us manage the fleet rotation domestically and internationally.

So as we think about it, the dynamics, of course, are typically the financing in terms of how much equity is required to finance the vehicle is less on a program car, some trade-offs on kind of total vehicle carrying cost with it. But it also, as you know, helps us mitigate the residual risk exposure. So we do want to think of it as a balanced profile. But I would also say that the markets -- or the dynamics are different, international versus domestically.

So we'll likely tend to use more program cars internationally than domestically. But I also think the supply side is important in that. Generally, we're seeing more supply availability with program cars than we have been over the last couple of years. So we do have the luxury of kind of tools available to us as we manage the rotation of the fleet. So we'll look to play some of that in as we move forward.

Stephanie Moore - *Jefferies LLC - Analyst*

Thank you. And then maybe one for you, Scott, here. In terms of kind of your updated liquidity profile, I think you did call out in your prepared remarks the possibility of having to make incremental lease payments to your ABS, just given the movement that we've seen in residual values.

I think if we look at where Manheim and other third-party sites have kind of reported declining used car values on a monthly basis, it does seem to be a little bit greater than you guys would be planning here. So maybe if you could just expand on that likelihood of having to make those incremental lease payments and your positioning and able to do so? Thanks.

Scott Haralson - *Hertz Global Holdings Inc - Executive Vice President, Chief Financial Officer*

Yeah. Hey, Stephanie. Thanks. Thanks for the question. And I think I mentioned -- I hinted at it in the prepared remarks that we're obviously have a bit of cushion today and in compliance. I think as we look forward, I think there is a likelihood that on the US side of the ABS facility, given the decline of residuals, we do estimate that we're probably going to have to make a sort of cleanup there in that facility, probably a payment in the $50 million to $100 million range, which again, you know, the liquidity enhancement does provide us that ability to do that. And we do hope that that's temporary, given where things will move to over time as well. But there is a likelihood that we do have to do that.

Operator

Ian Zaffino, Oppenheimer.

Ian Zaffino - *Oppenheimer & Co. Inc. - Analyst*

Hi. Great. Thank you very much. Gil, I know you talked in the past about some premiumization of the fleet, et cetera, and the business. Can you maybe just tell us how that's progressing? What are you trying to do on that side? And then also, how does that kind of square with just bringing in a lower cost fleet or does that not matter? Thank you.

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

Yeah, if I understand your question right, feel free for a follow up if needed. But I think as we think about the fleet rotation, as we talked about earlier, the mix is important to get right and trying to align that with our customer demand, patterns is important. And then that ultimately optimizes our return on assets. So that's -- at a macro level, how we're thinking about it? I think the -- and that's a mix from everything and vehicle types, right, from luxury, SUVs to compacts.

So the other piece of it, though, and I think probably where your point was is as we rotate the fleet with a new fleet and then likely adjust our hold periods to shorter hold periods. And what we've done over the last few years, at least, that provides an improvement from a customer experience standpoint because of the condition of the vehicles at an aggregate level, it's right -- it's lower mileage, newer vehicles as we rotate out the fleet.

So there is a premium experience associated with that. And in turn, we see in the marketplace that the better the experience, the more pricing power that we create and loyalty that's generated. So we're able to monetize that. So we see the benefit, we think, on the revenue side, but certainly also on the cost side, because the newer fleet requires less maintenance cost associated with it. So there's other benefits to rotating the fleet beyond just DPU that we see as tailwinds that are generated as part of the fleet rotation.

Ian Zaffino - *Oppenheimer & Co. Inc. - Analyst*

Okay. And then maybe as a follow-up. I just kind of wanted to get your sense of commitment to managing the fleet as far as trying to keep RPDs up. Is it a matter of you'll just shrink the fleet to whatever it takes to keep RPDs up? Is there any point where there's somewhat of a trade-off between price and transaction fees? Thank you.

Sandeep Dube - *Hertz Global Holdings Inc - Executive Vice President, Chief Commercial Officer*

Ian, this is Sandeep here. I think we talked earlier in the call about culling at the lower end from an RPD perspective. That being said, there's a huge focus on generating greater customer demand, and we're actually focusing on that from multiple, multiple angles, whether it's going after greater direct booking channel demand, whether it's actually defining and elevating the value proposition of our Dollar brand.

The other element that I'll mention is actually improved ability using technology in terms of our revenue management, pricing, and forecasting tools. There are multiple angles. There's a multipronged approach we are taking and basically elevating customer demand and our ability to forecast that demand. So I think all of that should lead to basically our ability to basically continually expand demand for our brands. And that should kind of counter what we are doing in terms of culling at the lower end.

Operator

Christopher Stathoulopoulos, SIG.

Christopher Stathoulopoulos - *SIG - Analyst*

Good morning, everyone. Gil, congrats on getting the team in place here. So, this was originally a two-part question, but I'm going to combine this into one. So, Gil or Scott, appreciate all the detail on the algo, if you will, as we think about the vehicle around sales and costs, how that ties into the ABS facility and the sort of the cash impact here. But I'm wondering, if you put -- I think, you have some sort of soft targets out here, the second quarter next year is one, year end of next. I just want to better understand kind of the assumptions around demand and, of course, the secondary or used car market. Scott, as you know, there's a lot of flux here with the airlines today and, by extension, certain airport locations. I guess, the short of it is, is there a scenario where you could get to these desired unit economics or ROIC before year end '25? I mean, is there sort of some cushion contemplated in here? Just want to better understand some of the core assumptions or KPIs that you have baked into these timelines. Thanks.

Scott Haralson - *Hertz Global Holdings Inc - Executive Vice President, Chief Financial Officer*

Yeah, hey, Chris. Good to see you again under different colors this time -- or same colors but different brand. So good to talk to you again.

No, I think, look, I mean, I think what we're doing now is we're trying to take a new eye to the analysis here. And I think what we're doing is laying out a very methodical, realistic, achievable plan. But there are a lot of variables here, Chris. I mean, you can imagine the number of components here.

So we're creating flexibility. We're thinking about this in a way that that obviously has a bent towards acceleration because that, obviously, has the most benefit to us, so to get out of the high cost cars into lower cap cost cars as quickly as possible. But there are constraints to that.

So we have to manage all the ins and outs of that. So I mean, right now, look, we're putting out those sorts of metrics at the end of 2025. And as we go through and get more game film, we will update you along the way. But that's sort of what we're looking at today. I mean, there's always possibilities that things will change for good or for worse. But I think right now that's our plan and we're going to go and execute to it.

So I'll pause there. Gil, I don't know if you want to add some or Sandeep, but -- Darren?

Gil West - *Hertz Global Holdings Inc - Chief Executive Officer*

No, I think that you summarized it well. I mean, I'd just double up that to the degree. I think the pace of all this will be on the supply side. So we would want to lean into that, if possible. But I mean, that ultimately will pace everything.

Scott Haralson - *Hertz Global Holdings Inc - Executive Vice President, Chief Financial Officer*

Yeah, no good color there.

Christopher Stathoulopoulos - *SIG - Analyst*

Okay. So follow up for Sandeep, and congrats on the role. So you spoke about sizing the fleet within demand. My question -- one of my questions was on what that would entail in terms of fleet composition. I think, Gil, you said you didn't want to, quote, tip your hand on that. But if we move to the value added services piece, I'm assuming a big piece of that has to do with technology, prior it was moving or pursuing this more frictionless customer experience. So if you could, could you kind of give a little bit more color or detail, if you will, on what this value added services piece might look like? Thank you.

Sandeep Dube - *Hertz Global Holdings Inc - Executive Vice President, Chief Commercial Officer*

Yeah. Absolutely, Christopher. Thank you. Yeah, on the value added piece, I'd say that there are basically two specific aspects I would call out, right, merchandising and pricing. I think -- and look at merchandising. Value added service is about basically matching up the right products with the right customer at the right time.

And even if you take a look at our direct booking channel, and then there are other channels that we sell value-added services as well, primarily at the counter being a big one, there is significant -- the significant opportunity in terms of us putting that right product in front of the right customer. A lot of that is technology enabled both on our direct booking channel as well as at the counter. So that's basically one piece that we're working on.

The other piece that I mentioned was basically the pricing element, right, and it's about finding basically the customer's ability to pay and then ensuring that our products basically meet a significant part of that demand. So that's the other component that basically we are taking a look at from a value-added service perspective.

Operator

Thank you. And with that, this concludes the Hertz Global Holdings second-quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect, everyone. Have a great day.