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HTZ.OQ - Q1 2024 Hertz Global Holdings Inc Earnings Call

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OVERVIEW:

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PRESENTATION

Operator

Welcome to Hertz Global Holdings' First 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 of Investor Relations. Please go ahead.

Johann Rawlinson - *Hertz Global Holdings, Inc. - VP of IR*

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 would like 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 in the filings 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 presentation 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 recently appointed Chief Executive Officer; Alex Brooks, our Chief Financial Officer; and Justin Keppy, our Chief Operating Officer. We are also joined by Darren Arrington, our Executive Vice President for Revenue Management and Fleet. I'll now turn the call over to Gil.

Wayne Gilbert West - *Hertz Global Holdings, Inc. - CEO & Director*

Well, thanks, and good morning, and thank you all for joining the call today. I want to acknowledge right upfront that this was a challenging quarter for Hertz. We have a lot of work still to do, and I'll get to that shortly. But since I'm new to most of you, I want to take a few minutes to introduce myself before we dive into the numbers. So let me start by saying that I'm excited to be here. And there's a lot of reasons for that. And first, this is a great company with an iconic brand. Hertz invented the car rental business and has introduced many innovations over the years. .

I've been looking at the brand data and talking to customers, and I'm struck by how many of them have been fiercely loyal to the brand. And I've been one of those customers for a long time. Customer loyalty is the key to success in a business like ours. I'll come back to that point. Second, I'm deeply impressed by the Hertz people I've met: at the airport rental counters, in our behind-the-scene operations, in our call centers, and at our headquarters here in Estero. They are committed to the business and want to win. They are full of good ideas and have a deep desire to serve our customers.

Third, I see enormous potential for the company. Hertz has over 100 years of experience managing physical assets and operations at scale. We acquire nearly 20 million unique customers a year, operate over 11,000 global locations, drive 80% utilization of assets, and have over 0.5 million vehicles. And this creates a powerful platform that positions our company well for the future. Fourth, and this is personal, but I love cars. I got my start in my father's auto parts store when I was a kid. I've repaired, traded, collected and raced cars as a hobby my whole life. So leading a company that's in the business of cars is a dream come true for me. As I've said at the beginning of the call, we have a lot of work to do. So getting ahead of our challenges is what we owe our customers, our people, to our investors. And I look forward to leading the team to make it happen.

As I'm settling into my new role, there are a number of key priorities I'm focused on. It starts with having the right fleet. So balancing short-term decisions with long-term implications to drive a better return on assets. This includes making sure that we have the right supply and demand balance of our fleet, at the appropriate capital cost. Decisions around our fleet are based on return on assets and the discipline of fleeting inside the projected demand curve to ensure we achieve favorable revenue per day and revenue per unit performance, along with better managing our residual value risk.

Next is delivering operational excellence, which is fundamental and leads to best-in-class unit cost and a superior customer experience and, in turn, higher unit revenues. We must leverage our products, our fleet, our brands and our customer experience to keep customers coming back, and delivering a value proposition which commands a higher yield. We also must deliver on our operational cost and productivity initiatives that you heard about on our last call. And I'm an operations geek and have been for most of my career. For me, operational excellence is essential, and execution is the key.

So in my prior life with the airlines, I was part of the team that transformed the industry from leveraging operational excellence and our products to deliver a better customer experience. And through that customer loyalty, we were able to deliver unit revenue premiums to the industry, and combined with our obsessive cost management, achieved unprecedented profitability. Putting those same pieces together here at Hertz will unlock premium revenue and put us in control of RPD to drive growth, profitability and value.

So while it's early days for me, I'm eager to look further down the road at more ways Hertz can compete and win. But none of that is to take our eyes off the short-term operational priorities. Our quarterly results were unacceptable and reflected the impact of a decline in forward residual values used to determine vehicle depreciation, coupled with our EV rationalization and elevated cost structure. And to go a step further, while overall demand for travel remains strong, our RPD remains well above pre-COVID levels. Our revenue performance is not fully capturing the opportunities available to us.

This is also immediate focus area for the team. And as we've said previously, 2024 will be a transition year for us. The necessary work is already underway. And I know Hertz people wake up every morning eager to run the best operations possible to delight our customers, win their loyalty, create value, manage cost, and win in the marketplace. That's why -- that's really why I'm energized to be here, and that's why I'm so optimistic. I look forward to your questions later in the call. But first, I want Justin to bring you up to speed on our delivery against our operational commitments, and then Alex will do the numbers. So Justin, over to you.

Justin R. Keppy - *Hertz Global Holdings, Inc. - Executive VP & COO*

Thank you, Gil, and good morning, everyone. Revenue for the quarter was $2.1 billion, and we recorded negative adjusted corporate EBITDA of $560 million, heavily impacted by higher-than-usual depreciation expense and EV charges. Alex will go deeper into Q1 financial performance. As Gil stated, we have challenges to address. We have a broad understanding of the drivers pressuring performance. Over the last 3 years, anomalous supply events in the auto industry impacted our business in various aspects of the P&L, including elevated maintenance, higher cost of collision and damage, and most recently, elevated vehicle depreciation.

Coming off of peak residuals and new vehicle purchase prices of 2022, used car prices have decreased over the last 12 months and new vehicle cap costs are only recently moderating. We expect this moderation to continue and that the elevated P&L impacts will subside. But in the interim, these events exposed other opportunities in the business beyond the acute EV impacts, which we are addressing with a concerted focus on rotating the fleet mix towards lower mileage and lower cap vehicles which will have a direct positive impact on reducing vehicle depreciation and DOE.

On that note, let me share a few updates on our fleet and strategic initiatives prior to providing status on our productivity progress. Starting with our fleet. As discussed in the Q4 earnings call, we entered January at an elevated level. And for the quarter, our global average fleet was up 9% year-over-year. We depleted throughout the quarter and by March, our core rental fleet was tighter, up only 2% year-over-year. We plan to maintain tighter as we move into the summer season, which we expect to correlate with improved RPD performance, coupled with easier year-over-year compares.

Looking at the composition of our fleet, we are addressing the mix to lower the average cap cost and reduce the tail of higher mileage vehicles. Elevated cap costs are the consequence of a relative vehicle shortage and higher trim levels and MSRPs, which characterized recent vehicle purchases, inclusive of preowned vehicles. As we refresh the fleet, the cost and age profile is expected to reduce with corresponding improvements in vehicle depreciation and DOE.

With our recent vehicle purchases, we are having more influence on make and model mix, and trim and option configurations, which is bringing down our cap costs. We expect this trend to continue and we'll continue to manage this critical input, in line with our ROA focused approach to our vehicle purchase decisions. Within our RAC fleet, we expect to reduce vehicles with higher mileage by 75% and complete the rotation out of preowned vehicles by early 2025. This fleet refresh is expected to result in lowered vehicle depreciation, lower direct operating expenses, and deliver an improved customer experience.

Turning to EVs. We previously announced our plan to reduce the EV fleet by 20,000 units. And by the end of Q1, we sold about half of them. Given this progress, we increased the EV disposal plan by another 10,000 units, bringing the combined reduction to 30,000 vehicles, which we expect to complete by the end of the year. Upon completion, we anticipate that the remaining EV fleet will be better aligned with attractive demand for EVs with a priority on our rideshare business. Alex will discuss the impact of these sales during the financial overview.

Now let me transition to our profitability initiatives. To echo Gill, our profitability initiatives are designed to improve unit economics through revenue, as well as costs, with an opportunity to generate an incremental $500 million of adjusted corporate EBITDA. They fall into 3 categories. First, we are focused on the creation of profitable incremental revenue by growing rideshare and improving our European and value brand businesses. Second, yield enhancement on existing assets. These are initiatives designed to improve the yield on our core business and the assets deployed against it through a focus on improved revenue management. And third, our relentless focus on productivity and cost, reducing both direct operating costs and SG&A.

Overall, of the $500 million in the recurring adjusted corporate EBITDA improvement, we expect approximately 2/3 to be cost driven and 1/3 to be revenue-driven. I will briefly highlight some of the progress on our revenue activities before going deeper into cost. Starting with our value brands. We are focused on improving both NPS and RPD. In Q1, we launched new digital tools that enable skip the counter, reducing wait times and improving customer satisfaction. We plan to roll this capability out to our top airports prior to peak season.

Direct booking momentum is building on our dollar.com website, and recently, we launched a nonrefundable prepaid booking option, which is gaining traction by our customers. Our Q1 expansion of Dollar Thrifty brands to our North America off-airport network is also showing promise and offers adjacent complementary growth beyond our airport locations. Turning to our rideshare business. We are well positioned, and I am pleased to report that we've renewed our partnerships with both Uber and Lyft. Rideshare presents an attractive demand for both EVs and ICE vehicles, and offers an adjacent growth opportunity, lessening the impact of seasonality in the core RAC business.

With revenue management, we saw double-digit year-over-year improvements of our VAS, or value-added services revenue through enhanced offerings, with a focus on selling upgrades. We expect to have further innovation within our VAS product offerings to be a tailwind going forward. Lastly, we launched our Hertz and Dollar brands and T-Mobile's Magenta Status program, and we recently renewed our long-standing strategic relationships with the Air France-KLM Group and Marriott. We are also excited about our expanding relationship with Signature Aviation in the private aviation space.

Shifting to operating costs, direct operating expense, or DOE, per transaction day was $37.08 in the first quarter, flat versus Q4 despite seasonally reduced transaction volume and inflationary pressures. We anticipated that Q1 would be a period where we ramped up our productivity and cost benefit activities, resulting in $250 million of savings realized in 2024, which are realized through the year but are back-end weighted.

So where are we on the productivity and cost benefit journey? We are seeing momentum building on these efforts, and I believe we are on track to achieve our 2024 targets. We have detailed action plans, a governance process, and are in full execution mode. During March, we saw progress on these cost items, and our DOE per day showed sequential monthly improvement. Our March DOE per day was $35, 5% lower than the quarterly result and 2.5% lower than Q1 of 2023. I foresee the run rates on the actions initiated so far will account for more than half of our annual target, but we are far from done and expect accelerating momentum into the second half.

To share some examples of progress across the business. We have taken headcount actions and reduced third-party spend with line of sight to $100 million year-over-year improvement. In Q1, we closed 125 underperforming locations. We are in the final stages of contract negotiations for providers of our major commodity categories and anticipate productivity as we consolidate the spend. We continue to reduce the size of our EV fleet, resulting in lower operating costs, specifically with a reduction of transportation costs associated with remote charging. We rolled out enhanced workforce management tools to our top airports, tightening our third party and overtime by nearly 400 FTEs in North America.

While damage and collision are showing inflationary headwinds, we are mitigating full impacts through digital vehicle incident reports and counter collections, and we expect to start seeing benefits of the EV defleet and overall fleet rotation as we head into the second half. All cost areas are being assessed and new opportunities are being added to the pipeline, with March productivity exit rates providing a good baseline to build from. The entire organization is mobilized both on revenue and productivity to deliver improved profitability. Now let me turn it over to Alex.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Thank you, Justin, and good morning, everyone. Revenue for the quarter was $2.1 billion, slightly up year-over-year, driven by an increase in volume. We recorded an adjusted corporate EBITDA loss of $567 million, which is disappointing and unacceptable. Although we continue to be impacted by elevated costs, which Justin covered, the key driver of the loss is the increased vehicle depreciation, which has increased $588 million year-over-year.

For the first quarter, DPU was $592, of which $119 was due to incremental vehicle depreciation expense related to the EVs held for sale. We recorded a charge of $195 million to recognize a fair value adjustment for EVs remaining in our inventory at quarter-end, and to recognize losses on those units sold. DPU, excluding the EV charge of $473, is elevated due to declining forward residual estimates. Taking a closer look at revenue, revenue per day of $56.68 followed typical sequential seasonal trends. The year-over-year decline narrowed as we moved through the quarter. January RPD was down 10%, while March was down only 3% year-over-year. And we see the March trend continuing through April. We believe this rate performance to be the consequence of intra-quarter seasonality and the tightening of supply.

Volume for the quarter increased by 9% compared to 2023, driven by higher volume in leisure and rideshare. Exiting the quarter, our RAC fleet was up 2% compared to the prior year, which demonstrates the deliberate action we took to adjust our fleet level. Fleet tightness improved month-over-month as we systematically disposed of excess vehicles that we carried into the quarter. As a result of early overfleeting in the quarter, utilization was down 120 basis points year-over-year.

Overall, for the quarter, our adjusted corporate EBITDA reflected elevated vehicle depreciation, which was further burdened by the nonrecurring EV charges and an elevated cost structure that does not yet include the benefit of our various cost initiatives. In particular, the natural rotation of our fleet expected to occur fully over the next 18 to 24 months will allow us to materially reduce vehicle cap costs and better match vehicle type to demand. This rotation will drive a decrease in DPU to the low 300s and a corresponding reduction to collision and damage expense as well as maintenance expenses, both of which burdened DOE.

Turning to our capital structure and liquidity. With respect to our balance sheet, net corporate debt at the end of the first quarter was $3.25 billion. While this places us above our long-term leverage ambition, we intend to delever over time as our operational initiatives yield improved profitability. I would remind you that our net corporate leverage ratio is not comparable with our first-lien covenant ratio, which only applies to our first lien debt. In terms of the first-lien debt, earlier this week, we announced an amendment to the financial maintenance covenant in our credit agreement for the first-lien revolving credit facility to temporarily increase the consolidated first-lien leverage ratios. We took the opportunity to create additional operating flexibility for the company as we work through the fleet rotation and improved profitability initiatives.

Our available liquidity at March 31 was $1.3 billion, comprised of $465 million of unrestricted cash and the balance available under the first-lien revolving credit facility. At March 31, we had $2.7 billion of capacity under our vehicle debt facilities globally, with a portfolio that was approximately 70% fixed rate. We maintained sufficient equity cushion in our global ABS facilities. Earlier this month, we extended the maturity on our $3.8 billion U.S. ABS variable funding note facility from June 2025 to April 2026. We believe we have sufficient liquidity to execute the fleet refresh discussed earlier.

Turning to our cash flow. Adjusted free cash flow for the quarter was an outflow of $729 million. Although the first quarter is seasonally a negative cash flow quarter, the size of the outflow was driven by the quarterly results. Despite the challenging quarter behind us, I believe we are pointed in the right direction, and we have credible plans to achieve success. We're operating in a constructive travel environment with demand showing continued year-over-year growth. We will not add vehicles to the fleet simply because they are less expensive. Instead, we strive to stay inside projected demand. We know that the value of the business is enhanced by a disciplined approach to fleet management.

A final comment. We have outlined the meaningful initiatives that are in place to improve the financial results of the company. As we work through the implementation of those initiatives, we will hold off on formal quarterly guidance. I'm going to hand back to Gil for closing remarks before we go to Q&A.

Wayne Gilbert West - *Hertz Global Holdings, Inc. - CEO & Director*

Thanks, Alex. Yes, before we go to questions, I'd like to leave you with a view of what a transition year means for us. And it's about setting ourselves up for long-term success in 2025 and beyond. It's about being great at the basics. So operational excellence, customer service, and using that as a springboard for productivity and revenue growth.

We're setting up the fleet to move DPU from being a headwind to a tailwind by rotating the fleet, lowering vehicle cap costs, optimizing fleet mix, and increasing retail sales and mitigating residual value risk. This is also the year of growing premium revenue, getting Dollar Thrifty on RPD and NPS parity with the marketplace, and creating a unit cost advantage.

Lastly, it's about using technology and leveraging it as an enabler for all the things I just mentioned. Staying focused and executing on these things throughout the year positions Hertz for success going forward. I'm energized to be leading Hertz. We know we have big opportunities, and we're attacking them in order to drive the unit economic improvements for RPD, DOE per day and DPU. As an operator, I'm going to be obsessed with execution as we move forward. So with that, let's open up the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from line of Chris Woronka from Deutsche Bank.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Gil, welcome to the company. I guess, look, I know it was a rough quarter and, Gil, you're very new to the seat, you've been there, I guess, a little over a month. But I wanted to start off with just kind of maybe you can give us a general overview of kind of where you see this business going. And if you want to draw parallels to the airline business or something else. But just your higher-level views on where this business could get to. And then I have a follow-up.

Wayne Gilbert West - *Hertz Global Holdings, Inc. - CEO & Director*

Yes. Okay. Well, first, thanks for the welcome, Chris, and the question. So yes, first, I see a lot of potential for Hertz. And I think we've got to stay focused on unit economics for the business. So there are many inputs, of course, but the combination of the vehicle depreciation rate, unit costs and unit revenues are the most influential on our earnings. So as we're sitting here, right, our DPU is over $400, our DOE per day is at $37, and our RPD at $57, which is not where we want to be for our business. So we're highly focused on our operations and our customer experience and products along with our go-to-market approach and our fleet management to achieve more sustainable combination of the input.

So we want to create a business that's resilient and can be successful in a wide range of macro and other economic scenarios. And the best way to do that is to optimize our unit economics. And the way I'm looking at it is -- and of course, I'd preface it by -- I've been here a little over 3 weeks. But the way I'm looking at it is RPD and DOE per day have the ability to improve faster than DPU. So even though the residual values and new vehicle prices can normalize quickly as we've been seeing recently, DPU ultimately requires a fleet rotation. And then that's a function of our hold period. So timing is just naturally going to lag.

So from everything I've seen so far, and as I think about the business longer term, I think we've got to work towards kind of the following North Stars. So we've got to be able to pass through inflation and other cost pressures in revenue. So pushing RPD into the low 60s. And then as our fleet plan changes start to land as we've discussed, DPU reduces to the low 300s. And with the product initiatives that Justin updated us on, DOE per day should reach the low 30s. So I mean these are attractive unit economics that produce financial outcomes that are far better than where we sit today.

So we've got to pull all the levers to achieve these metrics over time, of course. And we've got to be disciplined around fleet and prioritize rate. And then I also think we've just got to run leaner and continue to improve utilization. We've got to better align our fleet mix with the core demand. Of course, grow retail vehicle sales through -- I mean, one, our footprint, with the partnerships that we have. And beyond that, I see additional growth opportunities beyond our core RAC business. But we've got to stay focused on the basics first. So thank you.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, very helpful. And then a follow-up, and it might be -- maybe it's a little bit more for Justin or Darren since it's a little more detailed on fleet related, which is trying to square the, I think, the commentary that you exited March up 2% on fleet. I mean, as you're trying to grow fleet less than demand, I mean how should we look at that over the balance of the year at a high level? I mean is there going to be less -- it almost implies like you would grow demand, that you would have demand less than 2%. Just trying to square. And then on the fleet really, just how do you get there? If you're selling EVs, how many more, I guess, ICE cars? Is it a one-for-one refresh? Or any kind of color we could get on that, just kind of square how you see the utilization playing out over the balance of the year?

Darren Richard Arrington - *Hertz Global Holdings, Inc. - EVP of Revenue Management & Fleet Operations*

Sure. So this is Darren. Thanks, Chris. So you've got it right on the fleet. We exited the quarter with our core fleet up only 2%, which we feel like we made really good progress through the quarter to get that fleet under control. You can expect that we will keep that tight and underneath what the indications are as to where travel is. We see travel indicators, including data from the airlines and ticketing data on the advance, that are up in the mid-single-digit range. And you can expect that our fleet plans right now have a similar gap in terms of our growth relative to that as we go through the peak here. So we believe it's very important to keep the fleet well underneath where the demand is at and that's going to give us the best chance to work our mix optimally so that we can get good yielding opportunities.

We also -- what I'd say on the fleet, you asked how do we get there? We're selling EVs. Are we replacing them one for one? We're not replacing them one for one as we take them out of the fleet. We realized lower utilization than what we really want to be at on the EV fleet that we have. And so as we think about the rotation of EVs out of the fleet, which were producing lower utilization and replacing that with an ICE car, which we believe will run higher utilization on, we do not need to replace them one for one. We also receive a cap cost benefit from doing that as the prevailing cost on EVs are higher than what they would be on a replacement ICE car.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Very helpful.

Operator

And our next question will come from the line of Ian Zaffino from Oppenheimer.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

So Gil, [just have similar question here], since you've been there for so long. But I guess as new CEO, what are you going to be prioritizing as investors and analysts -- any type of major changes or shifts in strategy we should expect? I know there was some talk on the prepared comments about some premium. I mean what does that mean? How do you get there? What does it take to do that? And then I have a follow-up.

Wayne Gilbert West - *Hertz Global Holdings, Inc. - CEO & Director*

Yes. Thanks, Ian. You were breaking up a bit. But as I understood the question, really around priorities and strategies kind of as I come in. So I'll talk about that a bit. I think I mean the focus I'm driving really starts with being what I would call great at the basics. So it's about operational excellence and customer experience. And then those 2 things really, again, unlock the unit cost and premium revenue opportunities. So we'll have a renewed focus on just rebuilding the foundation, right? And that never ends from my perspective. We can always do better and better and better and never be satisfied.

And then I think there's the 3 pieces that we've touched on, but it's probably worth just reiterating them again. Fleet, first of all -- and it's -- and to me, again, it's moving it from a headwind to really a competitive advantage. So we got to rotate out of our inflated vehicle cap cost, but do that in an orderly fashion as the market normalizes and continues to move from what was a seller's market during COVID, to a buyer's market and rationalize our EV fleet. But then we also need to continue to work on the demand side of that and improve our product market fit. So we're -- as Darren alluded to, we've got to optimize our EV allocations really into the right segments. So we're fortunate, and we'll optimize those in terms of ride-hail business, off airport operations, and then airport, really in that order.

And then we've got to continue to optimize our fleet mix more in line with the core customer demand as we rotate out the fleet. And then there's big opportunities to keep growing our retail sales channels. And as we're experiencing now, we've just got to mitigate our residual value risk as we go forward. So that's the first big one. Revenue, again, we just got to up our game in revenue management and grow premium revenues. So that starts again with the customer experience. So we can create that differentiated sticky customer experience.

And then we just -- we've also got to really elevate our RM tools, tech, talent as needed. And then as we talked about the -- we got to elevate the value brands: in Dollar Thrifty, experience, net promoter score, and achieve RPD parity with the marketplace. It's a really big opportunity for us. We'll keep driving profitable growth in ride hail, we'll keep driving growth in international, in particular, in the EU with [Elias'] leadership, and then keep growing our value-added services. And then, of course, finally, cost, and as I mentioned earlier, we've got to run excellent operations, continue to do that, and never be satisfied there. And then that really drives productivity.

And then we've got, as Justin went through, an extensive and growing list of initiatives. And we got to keep accelerating those. And kind of me coming in, it's another set of fresh eyes. So I've seen a number of new opportunities that we're adding to the list. And then, of course, we've got to leverage our tech as an enabler for those. The fleet rotation too will give us a tailwind on the direct operating costs that we need to take advantage of. And then we've got to also exploit our supply chain management. We've got $3 billion of spend there. So a big opportunity to go after.

And I mean, the way I would sum the cost piece up is, I'm a unit cost fanatic, so I think we need to create a competitive cost advantage here and have the opportunity to do it. We've got to always -- look, I mean there's always factors that we can control and those we can't, at least in the short run. I think you can control virtually anything over the long term. But we've obviously got to prioritize our focus around the factors more in our control and cost is the variable we can control the most. So I'm confident we can bend that curve. But everything comes down to execution, and that really is a key part of my priorities, is that we execute strongly here, and we over-index there. Thank you.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Great. That was very helpful. And then can you guys just maybe briefly talk about what you're seeing of the ICE versus EV performance maybe, from a depreciation perspective, direct OpEx, and how are they kind of tracking with each other, are they not? And then as far as the divestiture of the incremental 10,000 vehicles, what kind of precipitated that? Is it a more liquid market than you had thought? Are you getting higher prices than expected? Maybe help us understand what's driving that.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Why don't I -- this is Alex. Why don't I kick off with the question on ICE versus EV residuals, and then what kind of tag-team here and kick it over to Justin. So we did see EV residuals declining at a more severe rate than ICE vehicles during the quarter. And I think you saw that in the adjustments we made to the EVs held for sale. So we recognized a loss on the EVs that were disposed of during the quarter relative to what we marked them at, at the end of the year. And we also had to recognize a mark-to-market loss on the EVs that we were holding in inventory. The combination of those was about $81 million and is accounted for in depreciation expense for the quarter. So that's the impact you see there. And of course, we would have made appropriate adjustments to the EV fleet that is part of our regular fleet and that held for inventory as we look at forward residuals. With that, I'll turn it over to Justin to comment on the movement of the 10,000 vehicles.

Justin R. Keppy - *Hertz Global Holdings, Inc. - Executive VP & COO*

Yes. Thanks, Alex. So first of all, I'd like to say that we're about providing our customers with choice, and we do see attractive demand for EVs. Natural markets are the rideshare, which continues to grow, is up over 50% year-over-year from a quarterly basis. And also on the off-airport as well as airport, we do see demand. That said, our mantra has been our ROA mindset and keeping supply inside of demand. And we're moving forward with the further rightsizing the incremental 10,000, bringing the total population of EVs that are being looked at to sell to 30,000.

And it's kind of the decision of why is our progress here in Q1, we've sold about 10,000, which puts us on track to certainly meet the 12-month hold-for-sale sale period, and continue with that momentum. And if we rightsize this EV fleet, we expect a couple of things. One, it will be better aligned with demand, which we expect to improve both utilization as well as RPD as we align it with customers that are seeking out the EVs.

And also, it's going to eliminate a portion of collision with renters that are not familiar with the operations of driving a new EV who otherwise would have chosen to take an ICE vehicle, which, unfortunately, what they're needing to take an EV based on the fleet mix. So again, with the benefit from a reduction of fleet carrying costs, the lower operating costs also are with maintenance and transport, as you think about things with remote charging, we see a combination of benefits by further taking down an additional 10,000 that will rightsize demand with our supply. Thanks for the question.

Operator

(Operator Instructions) Our next question will come from the line of John Babcock from Bank of America.

John Plimpton Babcock - *BofA Securities, Research Division - VP*

I guess, my first question is just on the liquidity front. I mean we've gotten a lot of questions from investors on this. And I was wondering, first of all, if you could just talk about what tools you have to boost liquidity. That would be useful. And then also just generally how you're thinking about it, particularly in line with refreshing the fleet and how you'll execute on that and whether that potentially entails reducing the fleet. You did talk about keeping supply below demand. So maybe that's the answer. But maybe you can just talk broadly about that and how you'd guide investors. That would be useful.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Yes, John, this is Alex. Thanks for the question. I said it in my prepared remarks, but it's worth repeating, that we believe we have sufficient liquidity to complete the refresh as we have planned for it. So let me just put that out there. In terms of our tools to manage liquidity, you're absolutely right in pointing to our fleet management as being the most pervasive tool we have. So we do have a plan for a fleet rotation that includes deleting some of our higher cap cost vehicles that enables us to purchase new vehicles come in at a lower cap cost. When we do that, that actually improves our liquidity because the debt that we take on during that will be less than the debt we have outstanding now on these higher cap cost vehicles. So that rotation improves liquidity. And we have line of sight to what we need to do for the end of this year and maintain sufficient liquidity.

John Plimpton Babcock - *BofA Securities, Research Division - VP*

Got you. And then next question, and I know you're not providing any sort of quarterly guidance, but I was wondering if you might be able to provide some either qualitative or ideally quantitative, but at least qualitative, guidance on how we should think about fleet costs over the year because it's very unpredictable from quarter-to-quarter as we've seen, particularly in light of the decline in used prices. So any sort of color you could provide on that, whether it's going to go up, whether it's going to go down, or if there are certain factors we should be paying attention to get more color on that? That would be helpful.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Yes. I think Darren's comments around where we expect fleet size to be relative to overall demand and how we're running a tight fleet should provide an overview of what we expect to happen just with our -- the size of our fleet. So taking into account the size of our fleet, and as I mentioned, rotating out higher cap cost vehicles and replacing those with lower cap cost vehicles, is we expect the expenditures on fleet to be relatively stable through the end of the year.

Operator

And our next question will come from the line of John Healy from Northcoast Research.

John Michael Healy - *Northcoast Research Partners, LLC - MD & Equity Research Analyst*

Alex, I wanted to ask a question about fleet cost, maybe dig in a little bit deeper on just the Americas side of things. I think you reported $876 million of expense there. I know you've called out the $81 million, you've called out the $195 million, which to me kind of gives us around a $600 million number of expense on the 450,000 cars, which to me suggests kind of a fleet cost number of around $440 or so a month. Can you help us understand like what else is in that number and maybe what the base level of depreciation is without the adjustments that you're kind of running through for the EVs? And then just help us understand maybe the ICE rate versus the EVs that are left in the fleet rate?

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Sure. Let me unpack it a little bit for you. So you're absolutely right. So we had $969 million of depreciation expense for the quarter, of which $195 million of that was related to the EV held-for-sale charge. So on a per unit basis, it was $592 all in, and $119 was related to the EV charge. So therefore, the net debt per unit we had, excluding those EV charges, was $473 per unit. And what is driving this increase in net DPU is our expected residual values at the time of disposition, as well as the increased losses we had on vehicles that were sold during the quarter. Just to kind of give an example of what we're seeing in forward residual declines, if we just focus in on gross DPU, which excludes the EV held-for-sale charge and also excludes those losses on dispositions we had during the quarter, our gross DPU for Q4 2023 was about $315 per unit.

It went up to $423 per unit this quarter. So an increase of just over $100 quarter-over-quarter. In terms of the impact we saw on forward residuals on that number, if we have a vehicle with an average cap cost of $32,000, and the remaining holding period is about 18 months, and we're seeing about a 6% decline in forward residuals, we have to recognize another $1,900 or so of depreciation over our holding period for that vehicle. And that equates to about $107 per month. So that's what we're seeing in forward residuals, and that's what impacted our quarter.

As a reminder, our depreciation methodology is a combination of third-party data source as well as our own sales experience that drives our forward view of residuals. So that's what we're seeing for the quarter. In terms of ICE versus EV fleet and the differences between those, EV vehicles continue to be a higher depreciating vehicle for us than our ICE vehicles. Again, as we continue to defleet for the 20,000 EV vehicles that were remaining in inventory at the end of the quarter that are determined to be held for sale, we'll continue to see improvement on that. But the residual decline we saw during the quarter on forward residual values was relative to both ICE vehicles and EV vehicles. So it's not a problem solely related to EV vehicles.

John Michael Healy - *Northcoast Research Partners, LLC - MD & Equity Research Analyst*

And then just one follow-up question for me, just kind of big picture thinking on the fleet rotation. Understand there's some things to do there and it takes time to rotate that fleet. So that's what I was hoping to ask you, is, is this something that you think takes 9 months to rotate the fleet before it's ideal? Or is this more of like an 18- to 24-month dynamic that we'll have to be thinking about to get the fleet to the ideal position where Hertz would like it to be?

Darren Richard Arrington - *Hertz Global Holdings, Inc. - EVP of Revenue Management & Fleet Operations*

So John, this is Darren. So the fleet rotation, I mean, based on our holding periods will take us into '25. We look at it more like an 18- to 24-month rotation on our fleet to get it really cycled through 100%. Obviously, we're going to make progress every month and every quarter. So as we look at the pre-owned cars that we bought at peak values, over the last couple of years, those will come out and most of them will be gone by the early part of 2025. Some other new cars that we bought at peak values will take a little bit longer to cycle through. But what we're seeing really on the rotation is the ability for us to get a better lower cap cost vehicle into the fleet. And so that progress will happen consistently through the period. And the amount of cars that we'll have left to rotate will diminish in a significant way as we get into '25.

Operator

And our next question will come from the line of Lizzie Dove from Goldman Sachs.

Elizabeth Dove - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Just wanted to go back to the liquidity point. The cash burn was much higher than expected this quarter, and some focus on the equity cushion in the ABS and potential injection of cash there. I believe there's also kind of a debt holiday you had over COVID, which you now have to pay. So could you just walk me through in a little more detail kind of the moving pieces in terms of how to think about cash flow for this year and the liquidity piece a little bit more?

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Yes. Sure, Lizzie. So you are -- on the ABS, let me maybe start with ABS cushion. So we have sufficient equity cushion today. We did at quarter-end and we do today. As a reminder, the way the ABS depreciation works, it's at a rate of 1.67% per month. So we're making payments in at 1.67%, which exceeds our historical market depreciation rates by about 40 basis points a month. So in a flat residual environment, we expect to be building up additional cushion of about 40 basis points per month. So where we're sitting today, we're comfortable, and we don't anticipate a required funding event in the foreseeable future. So that's what we're thinking about ABS.

In terms of liquidity and cash burn, we're laser-focused on our liquidity and we are understanding the cash outflow that we had during the first quarter. And some of that is as it relates to the vehicles that were sold during the quarter, some -- the vehicles sold during the quarter had a higher advance rate on them, and so the ABS repayment was a higher-than-normal payment. And that includes the effect of the EVs that we sold during the quarter. As we just talked about how EVs had declining residuals during the quarter and that drove $81 million of additional incremental depreciation on the vehicles that were marked, for the portion of the vehicles that were sold, they carried a much higher debt balance because of those declining residuals during the quarter. So that also impacted our cash flow during the quarter.

Wayne Gilbert West - *Hertz Global Holdings, Inc. - CEO & Director*

Yes, I would just add to, Alex, that as Darren describes the fleet rotation as it relates to the ABS and liquidity. The deals that we're seeing now really have a lower cap cost, right? And they tend to be more program vehicle related. So that will lower our costs as well going in.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Yes. But just to be clear, we have sufficient liquidity to refresh our fleet, and we don't anticipate a required ABS funding event.

Elizabeth Dove - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. That's very helpful. And then just on the -- I think you mentioned on RPD, the exit rate for March, I think you said was down 3%, which is continuing into April. Was that a global or a U.S. number? And what is driving that? I mean across the board, it doesn't seem like there's any demand problem, it's held up really, really nicely. So the improvement through the quarter, is that kind of defleeting anything to kind of note in the industry there? I'm just curious what's driving that improvement?

Darren Richard Arrington - *Hertz Global Holdings, Inc. - EVP of Revenue Management & Fleet Operations*

Sure. So Lizzie, a couple of things. That's a global number that we quoted as the exit rate and the trends that we see as we get into April are very similar in terms of year-over-year decline to that number also globally. I think a couple of things. I think as soon as we saw our fleet tighten towards the end of March, we saw a very compelling improvement in our RPD numbers. And we saw that throughout the month of March as we really got our fleet tight. And I think it's a reflection of our ability to choose some mix that we're taking now, that was not available to us when the fleet levels were looser. So that helps.

I think also from a point of view of -- you're asking about industry trends, well, Q1 was the hardest compare that we had for RPD last year. The compares were fairly hard early into Q2, and then got easier towards the back part of Q2 and into Q3 and Q4. So we are past the hardest compare for RPU in terms of what it means to our year-over-year numbers. And I think we -- as we talked about with the fleet and tightening it down underneath where the travel demand is indicating it will be, we expect to be able to yield and to choose segments that we really want to do business in versus not.

Operator

And our next question will come from the line of Stephanie Moore from Jefferies.

Harold Antor - *Jefferies LLC, Research Division - Equity Associate*

This is Harold Antor on for Stephanie Moore. I guess on higher repair and collision costs, if you could just go into what are you doing there to mitigate those costs? And I guess what other items under your leadership you plan to drive down savings, whether that's on tech, to improve customer performance, and ultimately drive that RPU -- RPD.

Justin R. Keppy - *Hertz Global Holdings, Inc. - Executive VP & COO*

Thanks, Harold. This is Justin. I'll take that one. So on the maintenance cost, first of all, I will say on the positive side, we're about almost 250 basis points improved on our out-of-service if I look from a year-over-year compare. So we did have a concerted effort driving down out-of-service vehicles. A bit of a headwind there with a little bit higher on the safety recall from a compare. So without the safety recall, it would be even better from that standpoint.

That said, on the productivity side, we are -- we have a top 10 list of our top spend categories and everything, from body shops to glass, the tires and alike. And we are consolidating spend and are in the final stages of finalizing these contracts, which we expect on the forward to be beneficial. Additionally, our field operations are out locally assessing body shop by body shop, both rates as well as time and material, on repair aspects, and we are consolidating those negotiations where we have the ability from a local proximity standpoint. And we anticipate these negotiations to be complete here in Q2, realizing benefit go into the second half.

Secondarily, as we rotate the fleet, as older vehicles with longer miles go out and newer vehicles come in, by definition, there's a lower ongoing maintenance burden as they're newer on the mileage side. So we'll continue to see benefits with the fleet rotation. So everything we've talked about today is very complementary. And I think the second part of your question, sorry, is around broader cost reduction. So we are looking globally at all our costs, and we are talking about SG&A as well. It's in the full scope. And I can say that we've put in motion projects that are expected to reduce our corporate spend by over $100 million here in 2024, and we haven't stopped. As Gil highlighted, he's also adding incremental ideas, which we expect to update here in Q2.

Operator

And our last question for today will come from the line of Christopher Stathoulopoulos from Susquehanna.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

So Gil, I want to go back to your prepared remarks, you outlined 4 objectives. I realize this is still early days here, but part of that, you spoke about a great opportunity to serve the customer brand strength. Dig into that a little. And how are you thinking about unlocking the brand value across the portfolio? Is it about greater customer engagement or a more frictionless experience within the rental process? And then also, given that you spent a lot of time on the airline industry, you were at Delta curious if you have any thoughts around -- there's clearly been a change here within the industry in so far as post-pandemic demand patterns with blended travel and network changes, and perhaps if you see any opportunities around Hertz in that regard.

Wayne Gilbert West - *Hertz Global Holdings, Inc. - CEO & Director*

Yes. No, thanks for the question, Chris. Yes. I think on the customer experience piece, I think there's strong evidence, certainly, the airlines have done it. And I think if you look at Dollar Thrifty, Hertz' dynamics in terms of the correlation between net promoter score and RPD, there clearly exists a relationship between better customer experience and the ability to generate pricing power. So in terms of the experience itself, I think we have opportunities there. First of all, we've got great people on our team that are out there every day serving our customers. So that by itself is a big advantage.

There's a number of initiatives that are people-related, customer service related that are -- have been ongoing or in play. But ultimately, as we cut the NPS data, the biggest thing that stands out is time, right? We all value time. Certainly, our customers do. I think one of the differences between the airlines and the rental car business is we are at the very end of the travel ribbon, right, as you're flying into an airport. So all that pressure builds to the end. So if somebody is standing in front of a counter for a minute, it's going to feel like an hour, right?

So we've really got to value the customer's time. And a big part of that is very similar, I think, to what the airline journey has been over the years, is that is to create a digital experience that's frictionless for our customers, that they can move through the process and have a normal channel that just moves quick, frictionless and they can go. And that will likely fit the majority of our customers over time, but there are some customers that need customer support from agents. Again, I think we've got the best people in the business, and we need to do an even better job giving them the tools to serve our customers, which those actions are in work as well.

So one channel doesn't fit all, I think, is the lesson, but we've got opportunities in both with an eye towards pulling cost out of the -- or excuse me, time out of the equation. So that will be our focus. And there's no doubt in my mind that, as we do that, net promoter scores will improve. We have ongoing proof points of that, in particular, the momentum that we are creating with Dollar Thrifty. There's been a lot of focus on all the areas I've described around Dollar Thrifty, and we are seeing our net promoter scores improve substantially in that area. We still have work to do to get parity in the marketplace. And we know that with an improved customer experience, there's pricing power assumed with that experience. So that's been our focus.

Operator

Thank you. And this concludes today's Q&A session. This also concludes the Hertz Global Holdings' First Quarter 2024 Earnings Conference Call. Thank you for your participation. You may now disconnect. Everyone, have a great day.
