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HTZ.OQ - Q3 2024 Hertz Global Holdings Inc Earnings Call

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PRESENTATION

Operator

Welcome to Hertz Global Holdings third 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, 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 Chief Executive Officer; Scott Haralson, our Chief Financial Officer; and Sandeep Dube, our Chief Commercial Officer. We are also joined by Darren Arrington, our Executive Vice President for Revenue Management.

I'll now turn the call over to Gil.

Gil West - *Hertz Global Holdings Inc - CEO*

Thanks, Johann. Good morning, everyone, and thank you for joining our third-quarter earnings call. I want to begin by extending my deepest gratitude to our team. They've been hard at work behind the scenes here at Hertz.

This summer, they were dedicated to helping our customers seamlessly reach their destinations while, at the same time, driving forward our strategic goals, balancing day-to-day operations during our peak with a focus on our vision. They have truly demonstrated the energy and resilience that define us.

The unwavering commitment and resiliency of our people were also on full display during the hurricanes that impacted millions of people across the Southeast, including many of our customers and employees in Southwest Florida, which is home to our world headquarters. Throughout the storms, our primary focus was on the safety and security of our employees while being there for our customers and community.

We immediately activated our employee relief fund to provide critical aid to impacted team members, helped customers safely evacuate by providing one-way rentals, and collaborated with law enforcement to set up a command center at our headquarters so they were ready to serve the community. Additionally, we worked with the organizations like the American Red Cross to provide emergency services to those deeply impacted by the storms and provided in-kind vehicle rentals to our non-profit partner, Team Rubicon, to assist with post-hurricane cleanup and recovery.

In a time of crisis, we demonstrated our commitment to being a responsible corporate citizen and upholding one of our core corporate values, putting people first. We will continue to support our employees and communities on the long road to recovering from those natural disasters.

With that said, I'd like to first spend a moment contextualizing Hertz as I see it. This is a world-renowned brand that was built on a legacy of service, innovation, and loyalty that in recent years hasn't lived up to its full potential.

The first step in a turnaround is recognizing that. The next step is addressing it. And that's what we've been hard at work doing since I joined the company.

In the last quarter, we solidified a best-in-class senior management team, and we've continued to up level the talent throughout the organization. We have developed a clear road map with actionable plans and have established management operating systems acutely focused on data-driven goals that will allow us to control the things we can control and return this company to a position of strength and operational excellence that will generate sustainable, long-term value for both our customers and shareholders.

And our back-to-basic strategy is built on three pillars, our fleet, our revenue, and our cost management; and leverages key enablers around our people, technology, and process. Our operational transformation is on track for completion by the end of next year, and we are excited to share our progress with you.

I'll start by covering the progress we made regarding our fleet, and Sandeep will cover progress around revenue and customer service. Scott will then cover our Q3 results and provide an update on our direct operating cost and SG&A. He'll also give an update on our capital position.

So let me start with the fleet. Our strategy continues to be to operate the fleet inside demand. Through our analysis, we believe we can produce the same number of transaction days with less fleet, which will also benefit our cost structure. This includes maximizing asset returns by optimizing utilization.

Our most critical asset is currently our biggest constraint and has the most significant impact on our business. To address this, we have accelerated our fleet rotation. And this quarter, we have established a new vertical dedicated to end-to-end fleet management. During the third quarter, we also recorded an asset impairment charge, which primarily affected our US and European fleets, which Scott will cover in more detail.

Our new management team is focused on three key pillars: first, buying the right vehicles at competitive prices, ensuring a fleet mix that matches customer demand across different geographies and seasons, enabled by a proprietary data-driven platform; second, determining the right timing for rotating vehicles out of our rental fleet to sell them at the optimal point in the depreciation curve; and lastly, leveraging our retail car sales channels to maximize net proceeds, allowing for reinvestment into the business.

Our strategy aims to enhance the resilience of our fleet against industry dynamics and economic shifts, turning the management of depreciation into a core competency as we take advantage of our fleet management capabilities to manage to improve outcomes. The volatility in market conditions has masked the efficacy of our fleet management actions, which I believe -- this is now largely behind us, and it will become more apparent that we have fundamentally changed to be more agile.

This proactive model provides us with greater stability and growth over the long term. The largest market conditions -- the latest market conditions, combined with the strategy, lay out a clear path for us to achieve DPU below $300, given that acquisition conditions are more favorable than our original expectations.

Our expectations are supported by the expected economics of model year '25 purchases we've already secured. Ultimately, achieving this milestone will be the key to unlocking increased shareholder value.

Aside from the rotation, we continue to build operational excellence in how we manage and maintain a best-in-class rental fleet for our customers. The key component is decreasing the number of vehicles that are out of service by quickly identifying constraints and working to remove them.

Our vehicle sales and maintenance teams, leveraging process engineering, are focused on driving down work in process time and waste by redesigning process flows to reduce cycle time, which in turn, decreases the number of vehicles in the queue that aren't generating revenue; increasing throughput in constrained areas such as maintenance and repairs, reconditioning, transportation, licensing, and marketing to accelerate vehicle sales and minimize out-of-service time; reducing cumulative collision and repair times to improve damage cycle time; and leveraging fleet rotation tailwinds to further reduce out-of-service vehicles as newer model years generally require less maintenance and have a lower recall exposure.

Eliminating waste and reducing out-of-service vehicles is fundamental to improving our vehicle utilization. The scale of this opportunity is considerable, given that reduced out of service could improve utilization by several percentage points.

Throughout it all, our people and technology are fueling our progress. We are leveraging several new digital platforms that are focused on optimizing our fleet efficiency, improving depreciation cost, and maximizing the quality of our customer experience. Our front-line teams are celebrating these new tools and capabilities and are more engaged in the innovation process than ever before.

Now, I'll hand it over to Sandeep.

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Thanks, Gil, and good morning, everyone. In my first quarter leading our newly formed commercial team, we have defined our go-forward focus around three pillars that power our revenue engine.

First, we are committed to delivering an exceptional customer experience, which will drive greater demand and loyalty for our brands. Second, we aim to improve our ability to select, convert, and monetize the demand that we get today, resulting in a strong overall RPD mix. And third, we intend to drive better utilization of our primary asset, our fleet, by driving same days with a smaller fleet.

Our organization is doubling down on a customer-first approach, working collaboratively to drive continuous improvement in customer experience. In an ever-changing macro environment, whether faced with pricing shifts or supply-demand fluctuations, customer loyalty serves as the greatest buffer against all of that. Consistently delivering exceptional service creates loyal customers, driving durable demand into the future revenue funnel supported by a strong family of brands and our loyalty programs.

To achieve our long-term goals, we are implementing a rapid test-and-learn approach across the commercial team that delivers an undercurrent of ongoing performance improvement. We have improved the scale and speed of testing across revenue-driving initiatives, which is further enhanced by a consolidated commercial team, driving cross commercial strategy and decision-making.

Since the pandemic, Hertz has endeavored to keep vehicle supply within the demand curve with a focus on generating premium rates to maximize RPU. This continuous focus on profitable demand has allowed us to achieve sequential quarterly improvement in our year-over-year metrics in Q3 for both RPU and RPD.

In addition, our focus is on improving operational utilization not just by removing waste from our out-of-service fleet, but also through levers that aren't connected to pricing, like better operational execution between fleet and commercial in managing a fleet below the demand curve and improved execution between commercial and operations in managing utilization at non-airport locations. We are dialing up the sophistication and level of detail at which we manage our commercial business.

To summarize, as a commercial team, we are operating with discipline, aiming to drive up consumer demand for our brands, keeping vehicle supply well within our demand curve, and sweating our assets coupled with pricing discipline to maximize revenue per unit. We have just started the process of aligning our initiatives and our processes to deliver results across our three commercial pillars.

This journey will be a focused commercial transformation which over time is intended to be a flywheel that delivers incremental revenue growth. So far, I have been pleased with the velocity of progress as a freshly formed commercial team, but this is just the start. The full impact of our efforts will manifest over time, but I see signs of early progress.

On that note, I'll turn it over to Scott for his commentary.

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Thanks, Sandeep, and good morning, everyone. Let me begin with a huge thank you to the Hertz team for the resilience and strength demonstrated during the devastating storms. Our team is the lifeblood of this company, and they once again showed why they are the best in the business. So a big thank you to the team.

Now let me cover the financial results for the quarter. Revenue for the third quarter was $2.6 billion, and our adjusted corporate EBITDA was a loss of $157 million. In terms of revenue, transaction days were down 4% and RPD was relatively flat versus Q3 of last year. Lower market rates were supported by a deliberate strategy to drive better RPD mix.

Our results for the quarter were also impacted by a non-cash asset impairment charge of just over $1 billion. The evaluation and accounting for the impairment was cumbersome and complicated and drove our earnings release date to push later than expected.

The size of the impairment charge was largely due to the decline in fleet residual values over the last year or so. The timing of the impairment was driven by the cash flow generation of the business over the remaining hold period of the vehicles, which was primarily impacted by our recent accelerated fleet rotation initiative.

The process of evaluating an impairment includes comparing the carrying value of the collection of long-lived assets as a whole to the undiscounted future cash flow projections during the remaining hold period of the primary asset.

The increase in value of some of our non-fleet assets offset decreases in values in other assets. The result is that the impairment charge doesn't completely correct the book value to market value dislocation of our fleet.

Therefore, we will still have some excess depreciation to push through the P&L in future quarters. It will just be a much smaller number than before the impairment. Again, this is a non-cash charge that doesn't affect any other financing covenants or cash comparisons for our business.

In Q3, the impairment was recognized as of August 31. So our Q3 results include two months of non-impairment depreciation amounts plus the impairment charge, and then one month under the post-impairment depreciation rate.

DPU for Q3 was $537 per unit per month, and we expect Q4 DPU to be in the $350 to $375 range. This also doesn't affect the timing of when we expect to get to our targeted run rate DPU levels, which is still at the end of 2025.

And speaking of run rate DPU, we previously hinted at a target run rate of $325, but we have since contracted a significant portion of our model year 2025 purchases. And we now expect our run rate depreciation to be less than $300 per unit per month, providing an even stronger platform for the transformation.

In addition to lower DPU in the future, we believe we can operate the business with less vehicles overall. As Gil pointed out, driving improved asset utilization in an asset-intensive business like ours is a critical unlock for cost efficiency that is large, but probably underappreciated.

In fact, reducing our fleet 1% while producing the same number of transaction days could reduce our expenses by more than $30 million per year and reduce our cash outlay by more than $20 million and reduce our debt by more than $100 million. There are not many actions that we can take in our business that produce that kind of benefit.

Regarding non-fleet expenses, we also continue to see progress in driving long-term structural cost efficiencies in maintenance, collision, supply chain, facilities, and personnel. We still have headwinds in areas like insurance and revenue-related expenses, but the scale is starting to tip in our favor.

We still have a lot of wood to chop, and this is a journey, not a onetime cost reduction exercise. This is driving long-term sustainable efficiencies in the business. Plus, we have a number of opportunities where the results won't largely be visible until end of the future, including operating expense benefits of a newer fleet.

We do, however, need to continue to efficiently produce units or in our case transaction days to take full advantage of our structural cost improvements over the next year or so. But we can already see core cost improvements in our Q3 results.

Quarter over quarter, DOE is down almost 2%. The business is aggressively addressing the inefficiencies and the results are starting to show.

So now, let me talk about liquidity and cash flow. I'll be brief in commenting on the make-whole and post-petition interest claims arising from our bankruptcy as that litigation is still ongoing. There are published opinions and briefs available as well as a detailed disclosure in the 10-Q we filed this morning.

We intend to appeal the Third Circuit's decision, which overturned the bankruptcy court's decision that was in our favor to the US Supreme Court. In the meantime, we accrued an additional approximately $290 million in the third quarter.

We ended the quarter with liquidity of over $1.6 billion, comprised of over $500 million of unrestricted cash and over $1.1 billion of available capacity under the revolving credit facility. We continue to forecast that our low point of liquidity will be around the middle of 2025, given seasonal cash needs and the progress of our fleet rotation.

While I feel comfortable that our liquidity -- or with our liquidity and do expect these levels to be sufficient, I still would like to have more cushion for unexpected volatility in the market. So we will probably look to be active in the capital markets in the coming months.

We do also have other levers to generate cash inflows or moderate the cash outflows that give us flexibility. But I think it's prudent to take advantage of favorable capital markets when the opportunity is available.

Regarding our ABS, we have seen an equity cushion start to build in the facility. As we flagged on our prior call, we made a $100 million incremental lease payment into the structure in August. If you recall, residual values in June had decreased about 5%. And though the July residuals came in positive, they weren't enough to offset the impact.

Since then, residuals have stabilized. And as we bring in new vehicles, we are beginning to build some cushion. With more stable residuals and new vehicles at better purchase prices, we currently don't expect the need to make additional unscheduled payments into the facility.

Regarding the US vehicle debt maturing by the end of the year, our term ABS notes amortize in the six months prior to the final maturity dates. As of the end of Q3, $1 billion of the $2 billion of maturities had already been retired.

In addition, at quarter end, we maintained available commitments under our VFN of $2.2 billion, sufficient capacity to refinance the remaining $1 billion of maturing notes. On the corporate side, we do not have any meaningful maturities until mid-2026.

So in summary, this quarter produced an improving year-over-year variance in almost every important metric, EBITDA, RPD, DOE spread, DOE per day, and others. We are clearly not done, but improvements are visible. And we are optimistic about where we're heading.

We are still targeting our run rate metrics of DOE per day in the low $30s, RPU above $1,500, and now a new run rate DPU below $300. In regard to guidance, outside of our expectations around Q4 DPU in the $350 to $375 range, we are not yet in a position to provide more formal guidance but are working towards making this a regular feature in 2025.

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

Gil West - *Hertz Global Holdings Inc - CEO*

Thanks, Scott. In closing, we're clear-eyed about the challenges ahead, but we're hitting them head on and our employees and management teams are energized. I've seen this before. We have more opportunities in front of us than challenges.

Vehicle market conditions have normalized, which benefits our fleet rotation. The global travel macros remain strong. Both TSA and arc ticketing data reflect positive growth from here, and the readouts from the airlines are positive.

As I look at the broader picture around our transformation, I like the path we're on and the progress we've made. This is not about just improving our financials; it's about fundamentally reimagining how we operate. We're laying the groundwork now for sustainable, long-term success.

Our focus will remain on building momentum with a clear vision and dedicated team. We're excited about what's ahead and look forward to updating you on our progress in the coming quarters.

With that said, let's open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Gil and Scott, you mentioned an expectation that DPU can get down under that $300 range in the future. Can you maybe expand upon that a little bit and give us a little bit of color as to what's going to go into that and then, I guess, your level of confidence?

Gil West - *Hertz Global Holdings Inc - CEO*

Yeah. Thanks, Chris. I'll start and feel free to chime in if you like, Scott. But yeah, we definitely see a path a sustainable -- to get to sustainable sub-$300 DPU and really just getting back to historic levels. Our fleets our economic engine, as you know.

So the market conditions have normalized and the six sigma noise from COVID is subsided. So our 2025 fleet buy is well advanced, as Scott mentioned, and our expected economics on the buy that we've made to date give us a line of sight to DPU below $300.

So in addition to the market conditions normalizing, we've really changed fundamentally how we manage the fleet. So our fleet management strategies changed, and we're turning it into a core competency. And there's a couple of points I would make along that.

First, we've got an end-to-end fleet management team now in place. We buy right, so we've got targeted unit economics. We're thoughtful about getting the mix right. And we've got an eye towards reselling vehicles at maximum return on asset.

We've got targeted processes to sell vehicles at the optimal point of the depreciation curve, and that's at a make-and-model level because those curves differ, as you know, for each. And so the approach we're taking generally shortens our hold periods, then it optimizes our economics and gives us less exposure to fluctuations in longer-term residual values.

So we also want to grow the retail sales channels we have. That will maximize our gain on sales, and we're effectively a used car factory to leverage. So that's the mindset that we're creating.

And then as I think several of us noted earlier, we want to run a higher utilization, right, and reduce our nonproductive fleet that are out of service, whether it's in the sales channels or for maintenance. And we'll have tailwinds from a younger fleet in that respect.

And then I'd also point out that we've got a partnership with Palantir that gives us a leg up with a proprietary tool to better manage and plan our fleet. So a lot of benefits with the fleet strategy, of course, lower DPU, lower maintenance cost, sweating the assets harder, and then retail sales growth and a better customer experience on top of that. So we're confident in the path forward.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. As a follow-up, you talked a lot about being able to do more with less in terms of the savings you might get from reducing your fleet by 1% but still doing the same number of transactions, so increased utilization. And I know you've got other cost focuses as well.

But I guess, this is a scalable business, right? So I mean, I guess, is it to say that your longer-term plan is to stay smaller and not think about the benefits of scale and going back to, say, your 2019 fleet size? Just any thoughts on how to jive cost cutting with the fact that there is some scalability of operations here, right.

Gil West - *Hertz Global Holdings Inc - CEO*

Yeah. No, it's a fair point. Look, scale matters; we recognize that. But we also want to continue to operate the fleet inside the demand curve. We've been very disciplined with that, finding -- I think we've still got work to do to find that right balance between pricing and days, and the team is wholly focused on that.

But there's a demand generation piece on top of this. I'll turn it over to Sandeep, he can talk more about that. But we're also very focused on creating demand. And then that enables our ability to continue to scale.

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yeah, this is Sandeep here. I think heavy, heavy focus on driving demand in the right segments. Like when you talk about premium RPD, what are the factors that drive that incremental demand? And how do we generate that with customer experience, of course, being a key focus there? But there are other strategies in play there as well.

But while we are in this transformation stage, we are heavily focused on RPU. And part of that equation is actually being comfortable letting go of some of that lower-margin, brand-agnostic demand that comes our way, which -- we are pretty certain that in future, if from a scale perspective, we want to gain that, we can gain that back, but a heavy focus on customers who choose to do business with Hertz.

Operator

Ian Zaffino, Oppenheimer.

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

Can you guys maybe talk about some of the rate trends in October, November, what you're basically seeing there? And how do we think about it maybe even going into next year?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yeah. Ian, this is Sandeep here. Let me talk a little bit about that. So I think in general, when I -- let me talk a little bit about demand and supply in the industry in Q4 and late Q3. And then I'll come specifically to pricing and rates.

So overall, rates is a consequence of demand and supply. Demand in the industry overall is still pretty strong. Whether you look at overall transaction days, whether you look at forward-looking airline booking data through arc, it's pretty strong and continues to be consistently strong.

From a supply perspective, when I look at it in the tail end of Q3 and so far what we have seen in Q4, yes, there is slightly higher supply at the airports. And you can see that impact on rates with them being down a little bit at the first -- so far in Q4.

That being said, overall when you look at the industry, I would say supply is still in balance, right? Balance is a range; it's not a specific number. So by and large, when you look at demand and supply, it's still a very balanced state.

And when we look at overall pricing and you compare and contrast to 2019, we are still up in the upper 20 percentage mark when it comes to rates. So overall, I'd say both the demand side of the equation as well as the supply side of the equation is generally in balance, and we feel pretty comfortable with the trends.

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

Okay, great. And then maybe a question for Scott. Can you maybe just talk through some of the key considerations related to the impairment that was announced?

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

When it comes to an impairment, look, I mean, there's a scripted structured process in GAAP for monitoring, evaluating and calculating if an impairment is triggered. So we've been monitoring to see if we triggered an impairment in prior quarters, and we did not. And during our Q3 review, we found that we did trigger an impairment and began working through the complex and thorough accounting process to calculate it.

As I mentioned in my prepared remarks, the timing of that impairment was driven by the cash flow generation of the business over the holding period of our primary fleet asset, which in turn was impacted by the accelerated fleet rotation initiative. The size of the impairment was largely driven by the gap between book values and the current market value of vehicles. I think that's fairly obvious to most people.

And it affected about 70% of our fleet, so this is not isolated to anything individual. The impairment charge doesn't fully align the book right to market value difference, as I mentioned in the prepared remarks as well. It will just be a smaller value.

And again, I'll mention that it's a noncash expense. Our ABS facility already marks to market the value of the vehicles in the facility. So you could say that the impairment has already been pushed through on the cash side.

Operator

John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

I wanted to ask you a question just about the pricing side of things and not necessarily what we're seeing today, but maybe go forward. When you guys look at the business model, I mean, you're talking about fleet cost being down, call it, maybe 20% versus Q4 levels over the next 12 to 18 months or so.

You've got interest costs going lower. You also have dealers with a lot of cars and manufacturers trying to figure out what demand is.

So like, if you think about cars being available to the industry and then just the input cost of actually carrying the costs being lower, do your models call for pricing to be at these levels? Or do you think we should expect RPD levels to move closer to 2019 levels rather than stay at these levels over the next two or three years?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

John, this is Sandeep here. I'll take that question. See, I think I'll go back to what I mentioned earlier on, right, where, in general, I would say that both the supply side of the equation and the demand side of the equation seem to be pretty much in balance.

That being said, I want to actually pivot a little bit to our focus, right? Our focus is ensuring that we continue to improve RPU. And the way we are doing that is by ensuring that we fleet inside the demand curve and make sure that we go after that premium RPD.

Now for us, the one opportunity I do want to state as we look ahead is sweating our assets more. And I think Gil alluded to that from an aspect around improving the work in progress inventory and reducing that from a sales and maintenance perspective.

The opportunity that we see on the commercial side, actually, that we've uncovered over the last couple of months, is a tighter coordination between the fleet team and the commercial team. We've realized that basically, as we operationally execute in trying to fleet under the demand, there's a scope for better coordination and scope for better execution there where we could extract a point or two of Ute there and still gain the same number of days by utilizing a smaller fleet.

So I think there's scope for us to continue to sweat our assets more and thereby manage our pricing to a better extent. So there's a scope for improvement for us there.

John Healy - *Northcoast Research - Analyst*

Okay. And then just a question on just rightsizing the fleet a little bit. You guys made progress, but just curious on where you're targeting demand for next year? And what areas of the rental market are you willing to give up share?

I mean when I think about your business, you've got airport, you've got off-airport, you've got ride hail, you've got commercial leisure, you could also cut it by Hertz Dollar and Thrifty. Do you plan on like taking a piece of the business and getting that smaller? Or is it more universal, saying, hey, we're going to take x amount of fleet throughout all geographies out?

I'm just trying to understand where you're going to try to reduce the size and the presence of the business to get to those goals?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yeah. John, our -- at the end of the day, what we are focused on is contribution and making sure we -- based on the assets that we allocate, we get the right contribution back, right?

And so from that perspective, what are you talking about and what we are doing is essentially optimizing the business, taking a look at where demand is coming in, taking a look at the pricing trends, taking a look at how demand for our own brand on our assets is growing, and then essentially ensuring that we have the right fleet at the right location, right?

There's no fundamental change in our business model. What we are talking about is a transformation where on an ongoing basis, there's continuous improvement in the way that we operate so that we keep driving up that contribution margin. So it's not a fundamental difference. It's an ongoing continuous improvement and optimization.

Operator

John Babcock, Bank of America.

John Babcock - *BofA Global Research - Analyst*

I just want to go back to the DPU side of things. You lowered the target from $325 now into the low $300 -- actually, even potentially below $300 range.

But I want to get a sense -- I mean, when you think about this, is this being driven in part by some of the incentives that OEMs are currently offering? Or is this what you're seeing right now in terms of normalization.

Is that something that you believe is more sustainable over the longer term? And then also, if you could just talk about if there's been any shift in mix associated with those vehicles that you're buying right now, that would be helpful.

Gil West - *Hertz Global Holdings Inc - CEO*

Yeah. I'll take this, feel free to chime in. But yeah, I think there's two parts here that give us confidence that we can run sub-$300 DPU. One, the market conditions themselves, right, have normalized I think back to more or less historic levels. Clearly, the dust has settled from COVID there.

The deals we've done for model year '25, which is a sizable number of deals relative to our fleet objective, the economics foot to that. And then -- so the market conditions themselves being one piece of that. But I really harken back to our fleet strategy changes fundamentally are different. And that gives us the ability to sustain that level beyond '25, just the current deal environment, which is normalized.

But we think on a going-forward basis, it's sustainable. Again, we've got an end-to-end team now that focuses really on a whole return on asset mindset with the fleet, buying with an eye towards selling, optimizing our hold periods, planning the fleet.

Sandeep talked about it, but we want to sweat assets. We believe we can do more with less. We can squeeze out any waste or queue from vehicles so we can operate with a smaller fleet and produce the same number of days.

And then I think the mix piece, your question there, yeah, we're mindful of the mix. We've got an eye towards more what our customers book and demand versus what we were forced to buy, if you will, during COVID to have a fleet. So we've got the ability to optimize mix better than we've ever had.

And then in the sales side, again, with our fleet strategy changes, we got a holder -- shorter hold periods. And we're focused on the sales side of that at the optimal point and then through the right channels. So market conditions, coupled with fleet strategy changes, I think gives us the ability to sustain sub-$300 dep.

John Babcock - *BofA Global Research - Analyst*

Okay. And then just two quick follow-ups here. First of all, you did, I think, mentioned last quarter that you're about 30% through the fleet refresh. If you could just provide an update on how far along you are now. And then secondly, if you could just comment in terms of returning to the capital markets, what additional liquidity cushion you might be looking for to the extent you can provide that color?

Gil West - *Hertz Global Holdings Inc - CEO*

Yeah. So first on the fleet rotation, we continue to make progress. We're north of 40%. I've just reference you to some of the material, we've got published on the presentation side. That will give you some better definition of that.

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yes. I think maybe another add to that is that now that we have a different run rate DPU, it's probably better to think about the rotating fleet probably in a model year view versus a percent of the fleet that's at a certain depreciation level. And so as Gil said, we're about 40% or so that are in the model year '24 to '25 range, and that's probably how we'll view it going forward. So I think debt's probably the wrong way to look at it going forward from here.

John Babcock - *BofA Global Research - Analyst*

And then on the liquidity front?

Gil West - *Hertz Global Holdings Inc - CEO*

Sorry, could you repeat that?

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Can you ask the liquidity again?

John Babcock - *BofA Global Research - Analyst*

I was just wondering, you did talk about returning to the capital markets over the next couple of months or so. And I just want to get a sense for if you can comment on how much additional liquidity you'd like to add there.

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yes. It's still unsure right now what level at which we'll play in the capital markets. But I think it's my desire to probably do that over the next couple of months. We'll figure out the amount and the vehicle by which it looks like it will happen through, but I think it's just prudent to go ahead and do that.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

Firstly, with regard to the impairment. Will the charge count against the amount of equity versus debt in your fleet as calculated by your ABS lenders? And what are the implications for any capital that might be required to put into the plans to maybe top up fleet equity as a result of the charge?

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yeah, this is a non-cash charge. It doesn't affect any of the financing. It's neutral to the ABS facility, so no impact to any of that.

Ryan Brinkman - *JPMorgan - Analyst*

Okay. Very helpful. And then just another one on the impairment. Will the impairment that, I guess, was excluded from adjusted EBITDA in 3Q, will it benefit adjusted EBITDA going forward via lower ongoing vehicle depreciation? Is that one of the factors helping you to now target DPU below $300 versus low $300s prior?

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

So the impairment is an expense that we hit in the period. So it will not affect go-forward expense other than we will have less excess depreciation to push through the P&L. And so I mentioned the go-forward DPU, the Q4 DPU, is in the $350 to $375 range.

We'll continue to work the remaining excess dep out of the fleet through the end of '25. So we said our below $300 is our targeted run rate, which we expect to get to by the end of '25. So you could straight line from $350 to $375 to the sub-$300 level by the end '25 as you model it out.

Ryan Brinkman - *JPMorgan - Analyst*

Got it. And then just lastly, to follow up on the comment about looking to be active in the capital markets in the coming months and understanding that you're not sure how much you might want to raise. But just like considering where your debt is trading right now, where your equity is trading right now, what's the general thought process for trying to think about in the interest rate environment, whether you might want to raise equity, equity-linked versus debt capital?

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yeah, I think the focus now would be to raise debt capital. I don't think there's an appetite for equity capital at this point.

Operator

Lizzie Dove, Goldman Sachs.

Lizzie Dove - *Goldman Sachs Research - Analyst*

I think you mentioned with the impairment that there's less to push through going forward, but you may not quite be done. Could you quantify and help size that a little bit, especially in terms of, I don't know, how many EVs are left after the markdown or anything that can provide some color there?

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yeah. So look, I think you could get to the excess debt from this $350 to $375 range down to, call it, $300 for easy math. That differential, we would call the excess debt. And so you can use that as your marker for calculating the excess debt. I think that's a good way to do it.

And then sorry, what was the back end of the question there. Can you repeat that?

Lizzie Dove - *Goldman Sachs Research - Analyst*

On the EV side of things, like how far through that you are now in the --

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Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yeah. I mean, right. As we've mentioned before, I mean the EVs are less than 10% of the fleet today. So we've rotated through a vast majority of that move. The remaining EVs are strategically placed in our fleet, so we're happy with those levels. So I think it's really about the ICE being the large portion of the impairment as we think about DPU.

Lizzie Dove - *Goldman Sachs Research - Analyst*

Got it, okay. And then switching gears a little bit for my follow-up. Clearly, you guys' and Avis' as well, transaction days have been down as you're both prioritizing that high-value business. The TSA volume is still up.

It seems like maybe there's just some higher competition from other players as well. And I think as you look to de-fleet more. What is the right level to think about the next year's transactions? Is it fair to say that can continue to be down? And how much is competition from, say, enterprise a factor here?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yeah. Lizzie, this is Sandeep here. I'd say we're not formally giving any guidance for 2025, including anything on transaction days. And our strategy remains unchanged, right, in going after RPU as such and while still maintaining scale.

Gil West - *Hertz Global Holdings Inc - CEO*

Yeah. And just to add then, I also think we can produce the same number of days with a much smaller fleet. So that really is our focus is to drive utilization.

Lizzie Dove - *Goldman Sachs Research - Analyst*

Okay. And anything on the state of competition, whether that's increased or not?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Well, nothing that's fundamentally different in the industry.

Operator

Stephanie Moore, Jefferies.

Harold Antor - *Jefferies - Analyst*

This is Harold Antor on for Stephanie Moore. I think the last time we spoke, you guys spoke a lot on improving RPD through dynamic pricing. So I guess so far, has this yielded any results? Could you just walk through some of the early progress you've seen on that front?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Sorry, what was the question around, just to repeat the question, RPD through dynamic pricing?

Harold Antor - *Jefferies - Analyst*

Yes. I just was asking, as you implemented this process, have you seen any results? Or could you walk through any success to this pricing strategy that you've seen so far?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yeah. So when it comes to the utilization of dynamic pricing, I think the biggest example I can use out there where we've driven success is basically in our value-added service. That's a place where there's significant sensitivity from a customer-type perspective and from a location perspective.

And so we've gone ahead and actually executed that from a dynamic pricing -- executed dynamic pricing in value-added service, and we've seen significant gains from that strategy, right? We're going to continue to be, as a commercial team, heavy into a test and learn approach across the board, whether it's dynamic pricing, whether it's other elements of driving improved conversion, improved monetization of our assets.

So what I can say is that the commercial team, we've increased the frequency as well as the quantity of testing that we are doing across the board with dynamic pricing just being one example of that. So I expect a significant improvement in our ability to monetize our assets as we move forward.

Harold Antor - *Jefferies - Analyst*

Got it. And then I guess on the impact of the hurricanes, if you could quantify any impact that we should think about that happened within the quarter or it would happen in 4Q, that would be really helpful. Or how are you guys thinking about that?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yes. So in terms of the impact of hurricane, we had, of course, two significant hurricanes, one just preceded the quarter and then the other one that fell in the first half of October. And generally speaking, what you would see is demand goes down just preceding when the hurricane hits, of course, with customers basically not -- flights being canceled and customers not wanting to travel, other than the customers who want to leave some of the locations that are affected.

And so we supported a lot of that through one-way rentals out of the regions, especially in Southwest Florida. And then what you see is -- basically, in the following days, you see an increment in activity in those locations, first, through first responders, which we ensure that we have vehicles made available to them, and then even from the local population as you see more rental demand come through. So net-net, I'd say, not a significant impact on the quarter and, overall, pretty benign.

Operator

Dan Levy, Barclays.

Dan Levy - *Barclays Estimates - Analyst*

I wanted to follow up on one of the prior questions on the fleet refresh. Has your -- the liquidity dynamic in any way impacted the fleet refresh that you've done with regards to mix by segment, mix by OEM? Or do you think that you've approached that refresh in a really unencumbered manner to really get the fleet to be fully in line with the type of business that you want, with maybe a little less regard for the type of deals that are being offered out there, which are the types of things that maybe have skewed the refresh that you've done in past years?

Gil West - *Hertz Global Holdings Inc - CEO*

I'll start. Scott, you probably want to comment as well. But no, we've certainly taken a long view of fleet rotation because it's fundamental to the business model. It's our economic engine.

So we've approached this in terms of what does that look -- what does that rotation look like optimally? And while liquidity is always something we have to manage, it has not really changed the way we -- or the approach that we've taken to rotate the fleet or the deals that we've done.

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

No, that's right. I mean, we've talked about being conservative with liquidity. So it's not a restrictor in our ability to optimize the fleet in the time frame we want to do it. So to date, that has not been an issue. We're being very strategic about what we buy and how we buy it, so no.

Dan Levy - *Barclays Estimates - Analyst*

Great. Maybe we could also just talk about the DOE per transaction day and your guidance of getting to low $30s. How much of this is systems optimization that you need to do and refreshing your overall systems? And what's the type of resource outlay that you'll need to dedicate to get the systems in line to unlock that low $30 DOE per day.

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yeah, Dan. So that's a multi-level question to answer, and systems are a lot of things to us. So I'll try to do the best I can, and we'll have Gil and others chime in, too. But from a systems perspective, I think you're talking IT. But for us, it's really about process is, I think, the key unlock for us across the board.

We've already seen considerable progress in all operating components. We're actually down quarter over quarter and year over year in all of the operating components of DOE. Oddly enough that the headwinds are happening on revenue-related expenses and some of the license and tax pieces, but the biggest is insurance, a fairly sizable year-over-year increase in insurance costs and claims that we have to manage.

Like, no excuses for it. I mean, that's one of the things I mentioned before is that we have to manage the entire PL, but that is a significant headwind. But the things we're focused on operationally around process and data and making sure we can unlock waste that Gil pointed to, we're seeing good progress.

And -- but these things are not snap your fingers fixes. So we're taking them in chunks the business as aggressively looking at all of the things we can do in the short run with a long-term view around sustainable cost efficiencies. So we're excited about the progress, but there's a long road ahead for getting all of these things unlocked.

But operationally, we're excited about the process improvements, and that's the system. I mean there is going to take some IT and data progress, but it's not a large capital investment, which I think is the key component here is that this isn't about spending money. This is about operating what we do today.

Gil West - *Hertz Global Holdings Inc - CEO*

Yeah. I would just add. I think that's a good summary. A couple of things of note, too, it is fundamental change in the way we're approaching unit costs. So foundationally, we spent a lot of time putting what I would call management operating systems in place, but driving the right focus, the right goals of the organization because we want a culture that you, one, get what you measure.

But that management operating systems, it's really a process that drives results like unit cost management. So starting with the right goals, having good reporting, having the reviews, the ability to cut the data to action it, and it's closed loop. And it never ends, right?

So those management operating systems, which are foundational to everything we're doing, cost being one of those, we've stood up. The other piece, there's obviously a lot of work, a lot of initiatives, that fit to the cost -- unit cost goals. There's buckets that we've talked about before that we continue to make progress in, maintenance costs, supply chain, productivity, real estate, collisions, all those things.

And then there's the tailwinds really from a newer fleet that we're rotating into and higher utilization. All those things, we would expect to positively affect unit cost. But Scott alluded to it. But to me, the enablers are also really important to double down on people, first of all, having the right team that are responsible, that can manage results and unit cost being one of those.

Leveraging tech, to your question, Dan, I think, is another big opportunity for us. We've got great partners on the tech side, by the way. We've also got a great internal development team. Candidly, we're playing a little catch up here, but we've got the ability to leapfrog, I think, in a number of areas, and that's our focus.

And then the process, in terms of process engineering because that's a big lever for us. That's a lever for utilization as an example, but for everything -- rethinking from a process engineering how we're doing business. So to Scott's point, it's really a fundamental shift in our culture to manage unit cost going forward.

Operator

Christopher Stathoulopoulos, Susquehanna.

Christopher Stathoulopoulos - *Susquehanna Financial Group, LLLP - Analyst*

I guess, Gil or Sandeep, I want to just better understand the efforts around utilization. So driving same or higher transaction days on a smaller fleet. Maybe if we could -- I'm just thinking of what that might entail?

And if you could speak to, does that involve shifts around peak versus off-peak, brand, regions, technology? And then really, as we think about monitoring that, should we expect that to materialize more fully in RPD, DOE? Where should we ultimately see that benefit on the unit metric side?

Sandeep Dube - *Hertz Global Holdings Inc - EVP, Chief Commercial Officer*

Yeah. First of all, this is Sandeep, I'll take that. And then Gil, please add on to it, right? So when you think about driving utilization, I'll talk about like basically three components that come into play and then there are likely more than that, right?

First is when you look at overall total utilization, right, it's basically the waste in the process when it comes from a sales -- vehicles that are out for sale as well as what we have out of service, right? So Gil already referenced to that in his prepared remarks, but we see significant process improvement that removes that waste in the system.

And that's just a fleet that basically we can do without, right? Because it's not being productively utilized to this environment. Then we come to all the rentable vehicles, right? And from that perspective, I think I alluded to it in my prepared remarks, where essentially, when you look at the newly formed integrated fleet team -- fleet management team that Gil referenced and their coordination with the commercial team, I think there's scope for improvement there, right?

Because we talk about being -- fleeting under the demand curve. Candidly, there's work to be done there. There's work to be done there where there's better coordination between fleet and commercial in working truly to basically fleet below the demand curve and to be more agile when we see any differences come through from a demand perspective, right?

So there's work that has started on that. We're in the midst of that. Any time you make a change that's related to fleet and the process around fleet, there's a lead time before that comes into play. But we've recognized that opportunity, and we're working through that.

And then the third component I'll mention is this dynamic that you referenced to Christopher, which is essentially better managing the off-peak elements. And so there are components that our commercial team can engage on in terms of how the segment are offering, and the team is working through that, as well as their efforts towards incremental demand generation for those off-peak periods which come into play.

And lastly, there's, of course, where your vehicles are located regionally, and you can optimize that as well. So those are just some components. They're all, I would say, transformative. They're all a work in progress. And some of those will take some time.

At the end of the day, what our end objective is driving contribution and improving our RPU, and I think these things will help on that.

Christopher Stathoulopoulos - *Susquehanna Financial Group, LLLP - Analyst*

Okay. And as a follow-up, Gil or Scott, I don't think you've communicated a total cost -- I know cost is the third part of your back-to-basics plan. If you formally communicated a total dollar amount or if you could perhaps just give some color on where you are in that part of the plan.

Scott Haralson - *Hertz Global Holdings Inc - EVP, CFO*

Yeah. Hey, Chris. I'll start. This is Scott. We haven't given formal guidance for 2025 on a dollar or a DOE per day unit cost metric. We've talked about our target run rate of the low $30s for DOE. So I think we would leave it at that.

I think your -- a couple of pieces of color is I think we're exiting '24 at a better rate than the average of '24, but we still have a lot of work to do to get to our run rate levels. But there's incremental gradual progress that we're targeting.

Like I said, this is not a snap your fingers fix. These things are going to just continuously improve until we get to our run rate. So I think you would start at that level and gradually walk it down over time.

Operator

This concludes the Hertz Global Holdings third quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect.
