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HTZ.OQ - Q4 2024 Hertz Global Holdings Inc Earnings Call

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PRESENTATION

Operator

Welcome to Hertz Global Holdings fourth-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 - IR Contact Officer*

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

I want to remind you that certain statements made on this call will contain forward-looking information. Forward-looking statements are not 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 and 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, who will provide an overview of our strategy and discuss operational highlights and our fleet. Our Chief Commercial Officer, Sandeep Dube, will then share insight into our capacity, unit revenue, and commercial strategy; followed by Scott Haralson, our Chief Financial Officer, who will discuss our financial performance and liquidity. We are also joined by Darren Arrington, our Executive Vice President for Revenue Management, who will be available to answer questions during the Q&A session.

I'll now turn the call to Gil.

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

Good morning, everyone. As I reflect on my first eight months at Hertz, 2024 was undoubtedly a challenging year for our company, but I am pleased to share that we've taken the necessary actions to turn the page on the past and set Hertz up for ongoing success. While there's still a lot of work to do, we are already seeing encouraging signs of progress as we've implemented fundamental changes, which have laid the foundation to transform our company for the long term.

When I joined, I recognized two basic truths. We have an iconic brand and our success is powered by our people. So I want to start by thanking our dedicated team for their resilience and commitment through this period of significant change, especially during the busy holiday season. We've strengthened our team throughout the year and supplemented our resident expertise in the rental car industry with experience in transformation and operational excellence across transportation companies and consumer brands.

Many of these individuals also have experience with managing asset-heavy businesses, and all of them are attracted and committed to transforming Hertz to once again be an industry leader.

Most recently, Chris Berg supplemented our best-in-class leadership team as our Chief Administrative Officer. Chris spent over 20 years at Home Depot, running large-scale transformation projects and operations across 500 stores and 100,000 employees and is immediately enhancing our ability to execute cross-functionally.

Doria Holbrook also recently joined as EVP of Mobility. Doria was instrumental in operationalizing Amazon's last-mile delivery service and will bring innovative expertise to the significant opportunities we see in this space.

Our new organizational structure enables faster, more rigorous execution of our strategy. We've also deployed robust management operating systems, which drive a disciplined approach to managing the business and achieving results. These systems are fueled by goals, which provide the proper focus for the team, managing with data, reporting on all aspects of the business, rigorous performance reviews, and reward systems that align to the success of the business. With these foundational elements in place, we are building a high-performance culture driven to win to once again become a leading employer of choice.

Our actions are guided by our back-to-basics roadmap and are anchored by three core financial pillars: fleet, revenue, and cost management. The key enablers to these pillars are our people, technology, and processes.

Turning now to the first of our financial pillars, the fleet. As I mentioned before, we’re turning our fleet from a headwind to a tailwind for the business through our ability to buy right, hold right, and sell right. Our transformative fleet rotation is well underway. And as of year-end 2024, over 60% of our fleet was comprised of vehicles one year old or less. And we remain on track to substantially complete our fleet rotation by year-end 2025.

In terms of our buy right strategy, our risk vehicles, that is vehicles with residual value exposure, have an average cap cost almost 30% lower than our existing fleet of model year '22 through '24 car buys. Our fleet rotation will provide benefits to our customers, our cost structure, our balance sheet, and unlocks our ability to achieve sub $300 DPU.

In Q4, we aggressively aligned our fleet size to meet the seasonal demand patterns and sold 100,000 vehicles, up from just over 30,000 in Q4 '23. This is a significant effort by the team, given both the volume and timing of the sales. Because of this, we chose to leverage wholesale channels in addition to our more desirable retail channels to achieve our strategic goals.

As one of the world's largest car dealers, we recognize the unique opportunity that Hertz car sales presents. Because of this, we are prioritizing making retail our primary car selling channel. We have several initiatives underway, including increasing awareness of the Hertz car sales brand and improving the digital and purchasing experiences so that customers can more easily discover and purchase the car they want, whether online or anywhere across Hertz' expansive footprint.

In parallel, we continue to grow our retail sales channels through strategic partnerships. In 2024, Hertz serviced 154 million transaction days. Our year-over-year utilization improved 270 basis points when comparing Q4 to Q3, despite the seasonally adjusted demand in the industry largely being similar between the quarters.

Through our operational improvements in our fleet management and our effort to sweat the assets, we remain focused on eliminating unproductive vehicles to generate higher utilization. We are working towards turning our vehicles more productively and shortening our vehicle turnaround time from drop off to rental, reducing vehicle out of service and shortening our vehicle sales cycle times, which drive out waste by leveraging process and technology.

Our partnerships with Palantir and Goldratt Group are enabling us to harness our data through redesigned processes to more efficiently operate our fleet. It is worth noting that we have completed the 30,000 EV fleet reduction announced just last year. Moving forward, we recognize the strategic value of EVs in the markets with established product market fit and infrastructure, particularly in our rideshare business where drivers receive advantageous partner incentives for choosing EVs over traditional ICE vehicles. I'm also encouraged by the progress our team is making both on revenue and cost, which Sandeep and Scott will discuss in detail.

Finally, I'd like to turn to our customers. We know that to truly earn customer loyalty, we must build trust and confidence in our service. In 2024, we directly confronted the issues that drive customer satisfaction by addressing key pain points, providing newer, well-maintained vehicles that customers want to drive, creating seamless digital experiences, better enabling self-service, reducing line waits at counters, delivering best-in-class customer service experience, and ensuring effective problem resolution.

By putting ourselves on the other side of the counter and in our customers' shoes, we've seen strong gains in our Net Promoter Scores, both in our core customer experience and in our customer service recovery. Our passion for a better experience will not stop here. We're committed to making 2025 a breakout year for our customer.

Having successfully launched our back-to-basics roadmap in 2024, our focus for 2025 is clear: excellence in execution. With strong execution of our strategy, we are confident we can strengthen the core business, unlock new areas of value creation, and restore Hertz back to its full potential. There's no doubt it will take hard work to make our strategic goals a reality. But I know we've got the right team and plans in place to do it.

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

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

Thanks, Gil, and good morning, everyone. First, let me thank the entire Hertz team for their hard work. Their focus on our customers and commitment to our success continue to make our company stronger.

On our last call, I commented on our newly formed commercial team and gave you some insight into our strategy: better utilization of our fleet, delivering an unmatched customer experience, and driving a better RPD mix through improved ability to generate, convert, and monetize demand.

Back then, we had just started on our journey by identifying areas for improvement. Since then, my team has been intensely focused on executing our strategy. We are starting to see the impact of those efforts. Let me start with our key commercial objective, maximizing RPU.

We have systematically delivered year-over-year RPU improvements for each quarter sequentially from Q1, where it was down 7%, to Q4 where it was down 1%, including a 150-basis-point improvement between Q3 and Q4. Just as encouraging is that we saw intra-quarter sequential year-over-year improvement from October to December. The key drivers were becoming better at capacity management relative to demand, improved demand generation, and improved segment management, which resulted in a greater mix of high RPD segments.

When it comes to fleeting under the demand curve, I had mentioned in the Q3 earnings call that we are working on process improvements between the fleet team and commercial team to refine our ability to fleet under the demand curve. Our stated goal is to sweat our assets while staying inside the demand curve. Well, a nimbler and more coordinated process between those two teams is delivering better results.

Our average fleet size was down 4% in Q4 year over year and even better. That same metric for December was down 6% year over year. We ended the year with a fleet size that was 7% below the start of 2024 and more in line with demand. What is exciting to me is that we see further scope for process improvement between the fleet and commercial team, and we are actively working on those to deliver results in 2025.

As Gil noted, we are seeing strong year-over-year utilization improvement quarter over quarter. We have a rich set of opportunities that we are actively working on, positioning us to be excited about 2025.

Turning to our commitment to delivering an unmatched customer experience, we firmly believe that customer satisfaction is the cornerstone of driving durable demand and fostering loyalty. We are moving with focus and speed.

A quick little example of the same. In August 2024 as part of commercial team's management operating system, we prioritized service recovery of customer issues. In just five months, through our focus and drive, leveraging people, process and technology, our service recovery scores have improved 60 points and we have only just started on this journey.

Our RPD mix initiatives are also beginning to show promise. We have seen year-over-year growth and a positive trajectory in bookings on hertz.com from Q2 through Q4. These are relatively higher RPD bookings. We are becoming more effective in our demand generation strategies, leveraging technology and the rapid test-and-learn culture that I detailed in a prior earnings call. In addition, our quest for driving greater durable demand is starting to show progress. Case in point, in Q4, loyalty enrollments grew 18% year over year.

We also continue to focus on exiting low-yielding, nondurable business and enhancing our revenue management tools. Additionally, we are focused on leveraging dynamic pricing for value-added services, which we believe will also add to improving RPU.

In summary, when I look back at 2024, I'm grateful to the Hertz teams in delivering improvements in our commercial results. Coming into 2025, travel demand continues to be robust. Demand looked really strong for MLK and reservations for the upcoming Presidents' Day weekend are looking good, too.

The commercial team is energized with the plethora of strategies we are actively working on. We are focused on leveraging our management operating system across the team. Every team member has clear goals and a prioritized list of high-impact initiatives being actively worked on to deliver transformation in 2025 and beyond. While we are in the early stages of our commercial strategy, we are building momentum, and my confidence remains high that our commercial strategies will yield results that drive us towards our north star target of RPU above $1,500.

And on that note, I'll turn it over to Scott.

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

Thanks, Sandeep. Before I get into the results, I want to give a huge shoutout to the entire Hertz team for their dedication to our customers and commitment to continuing to drive our transformation. 2024 was a year of transition, and our team was nimble and did a great job pivoting to meet the needs of the business while continuing to serve our customers. So a huge thanks to them.

Turning to our financial performance for Q4, revenue for the quarter was just over $2 billion and our adjusted EBITDA was a loss of $357 million. Revenue was about 7% lower year over year, largely driven by a decrease in volume. We remained disciplined on capacity and continued driving utilization. In fact, fleet utilization was higher year over year for the first time in 2024 as we continue to execute on process efficiencies in the business.

We made additional progress in the quarter on our fleet rotation and sold over 100,000 vehicles. We guided to a DPU of $350 to $375, and our gross depreciation came in slightly better than that at $347. However, MMR values dropped below forecasted levels and caused a book value loss on sale for those vehicles sold in the fourth quarter driving our net DPU number above the top end of the range. It was a risk of selling in the fourth quarter, which is a seasonally softer period, but it was the right thing to do to push forward and not carry the additional vehicles into 2025.

Overall, Q4 depreciation was clouded by the sale of vehicles, and it is likely this will continue into Q1 a bit as we continue to accelerate our fleet rotation. Given this, we expect DPU for the first quarter to be slightly below the fourth quarter of 2025. However, this should decline after Q1 for a few reasons.

One, gross depreciation continues to decline from newer model year car purchases. Two, we have less of the higher cap cost cars to sell. Three, we are further along optimizing our retail sales channels. And four, we will be selling into a seasonally stronger sales period. We still expect to exit the year at our target of below $300 a month per unit.

Regarding operating expenses, our operational execution in our core cost components of the business, such as labor, maintenance, collision, and supply chain are all working in our favor as those costs are lower year over year. In fact, in the fourth quarter, our core operating DOE per day is down slightly year over year even with lower days production. Also, we expect these trends to continue into 2025.

In addition to good cost control, as Sandeep mentioned, we'll continue to drive utilization through process efficiency. As I have said many times, good unit cost management starts with an efficient production of units, and we'll continue to drive that.

However, with all of that said, we had a couple of outsized headwinds that obscured the progress we have made on the operating side. As in prior periods, insurance continues to be a headwind. Initiatives we discussed on prior calls started to take effect in January. So we expect some benefits to start to materialize, but it will take until the latter part of the year to make a significant impact.

We took a sizable increase in our insurance reserve in Q4 that pushed DOE higher than our usual run rate. We anticipate that this will allow us to now maintain a more reasonable run rate going forward.

Second, a consequence of the impairment we recognized in the third quarter is a change in how we are required to account for lease expenses, primarily airport leases. The right-of-use asset was impaired but the post-impairment lease liability did not change. The accounting results in an expense that is no longer straight lined, but now results in a downward sloping expense through the end of the lease, meaning we expense more immediately after the impairment, but that expense gradually declines over time. So we will be taking a higher noncash increase in expense today but will benefit from a lower expense in the outer years, probably starting in 2027.

These items should start self-correcting themselves as we head through the year. All in all, we've made good progress on the core cost components, and we're controlling what we can control. But there are some items that conceal the real progress being made to our core operating costs. Despite all of this, we expect our DOE plus SG&A unit costs to be flat to down year over year in 2025, even with a smaller fleet.

Further for 2025, let me give you a little color on EBITDA for the year. We do expect to have a seasonal EBITDA loss in the first quarter at a smaller quarter over quarter but exaggerated by inflated depreciation associated with the remaining loss on sale from older vehicles. For the remainder of the year, we expect the second quarter to be roughly breakeven, a sizable EBITDA profit in the third quarter and a small profit in the fourth quarter. This all equates to a low single-digit EBITDA margin for the year.

In terms of liquidity, our position is strong at $1.8 billion at the end of 2024. In Q4, we completed a capital raise to enhance our liquidity and support our operational and strategic plans. We raised $500 million through the issuance of additional first-lien senior secured notes due in 2029. We also received the requisite consents to amend certain provisions of the indentures governing our first-lien senior secured notes due in 2029 and exchangeable senior second-lien PIK notes also due in 2029. This was a positive development for our capital structure and provides us with additional financial flexibility.

Looking ahead, we have upcoming debt maturities that we are actively planning to address and we are confident in our ability to manage these maturities. As we have mentioned previously, we still expect our low point of liquidity to be around the middle part of the year. We don't expect to start building cash until the third quarter and we'll use cash in our fleet rotation until the -- during the first and second quarter of this year. We also have pending litigation that has an undefined timing of resolution and outcome. We have, however, begun discussions aimed at resolving this matter.

Regarding our main ABS program, our equity cushion continued to build another couple of percentage points in the facility, primarily driven by our investment in newer vehicles. Assuming residual values remain stable and as we continue rotating out of older cars, we expect this trend to continue.

In terms of future guidance, since the cleanup from 2024 isn't completely done yet, it makes it difficult for us to accurately guide to more specific financial targets for the next quarter. The directional guidance given thus far is what we are prepared to give today, but it's a start, and we'll look to refine our guidance metrics over time.

Before I hand it back to Gil, I want to reflect a minute on 2024. When I look back on my six months in 2024, I see the groundwork being laid for progress but also recognize that the hole was large. We have been intensely focused on getting the business on solid footing and setting ourselves up for future success.

We knew the cleanup in 2024 would make things complicated from the fleet rotation to operational improvements, a number of leadership changes, and even an asset impairment and the resulting accounting complexities. We executed on liquidity initiatives to enhance our ability to rotate the fleet, drove sizable improvements in our customer experience and NPS scores that will continue to move north, launched detailed management operating systems that will be the backbone of our future execution, and now turning our attention to 2025.

The platform is taking shape. And by this time next year, I plan to be talking about how the business is now positioned for success as we get closer to a run rate level of financial production and focusing on positioning Hertz for the next decade and beyond.

With that, I'll hand it back to Gil for his closing comments.

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

Thanks, Scott. I want to close by reaffirming what makes us so excited for Hertz' future. As a global business with an iconic brand and a vast customer base, Hertz has the infrastructure, scale, and expertise to lead the industry once again in fleet asset management, operational excellence, and delivering an unmatched customer experience. With our world-class team, I am confident we've laid the groundwork to not only reach our North Star metrics but once again lead in the mobility space.

With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Babcock, Bank of America.

John Babcock - *Bank of America Securities - Analyst*

You did talk about the fleet refresh and also about some of the operational changes you've made. Could you just give us some sense as to what metrics you'd guide us to on a go-forward basis to gauge Hertz's progress on the operational front?

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

Well, I mean, I'll start and Scott can chime in. But I think on the operational front, in particular, the fleet rotation, our North Star metric there is achieving a DPU of less than $300. So a couple of comments around that probably. I mean, we were early to recognize the need for an improved fleet strategy, and we've been aggressively actioning it, as you know, making the necessary investments in that. The fleet strategy really unlocks our ability to get and sustain that sub $300 DPU.

We've got the committed model year '25 buys locked in at the economics that fit to that metric, and we've made the large investment in the fleet rotation, which is well underway. And of course, we'll make even further progress as those model year buys continue to deliver in the first half of the year.

So the other aspect of that really is our -- how we -- when we choose to sell the vehicles, right? We're more optimized the timing around that effectively shorten our holds, but then the channels we sell them through as well. So as I mentioned, driving those retail channels up are important. We've got right now less than 10% of our car sales run through auctions. And so we're confident we can achieve that DPU target.

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

Yeah. John, I'd probably add maybe one or two more here. Obviously, utilization is a bedrock of both driving RPU as well as cost efficiency in the business. So utilization is a critical metric that we're looking forward to. But also I would add to Sandeep's comments earlier around NPS. We know there's a strong correlation between being able to price and create demand in NPS. So that's a critical platform. So I think those two addition to what Gil said is what's driving our day.

John Babcock - *Bank of America Securities - Analyst*

Thanks. And actually, just quickly on the DPU front. How should we think about net DPU going through the year? So I mean, it sounds like you're targeting a little bit less in the 4Q level in the first quarter. And then some improvement. But as we get to the end of the year, that $300, is that more of a gross number? Or is that a net number? Or should those two converge?

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

Yeah. Thanks, John. What we've talked about is the net DPU number. We had an inflated net DPU in Q4. And like I said in my prepared remarks, we'll have an inflated number in Q1, and that will work down through the year. We still think we're going to exit the year at sub $300 on a net DPU basis. So that's the guide slope.

John Babcock - *Bank of America Securities - Analyst*

Okay, thank you. And then just last question, if you don't mind. It sounds like the fleet size ended the year about down 7%. How do you see the fleet size trending from here? And then also does this mean you end up -- you might end up seeing demand beyond the business you're intentionally giving up associated with the focus on the premium business?

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

Yeah. So John, this is Sandeep here. I think overall, our plan is to continue to sweat our assets, right, and drive higher Ute through improved demand capture, reducing out of service and reducing the sales cycle time, right? So as we run that playbook, I do expect us to have a smaller fleet to capture a given demand, right?

Also, you have to keep in mind that we were a bit over-fleeted in Q1 of 2024. So if you factor both of those, we do expect to have a smaller fleet in Q1. And that also goes towards our key commercial objective of maximizing our RPU, right, on our way to a north star metric of RPU about $1,500.

That being said, the way we accomplish all of this is basically ensuring that we're going after durable demand. That's incredibly important of a concept that we have dialed in within the commercial team, right? So we talked a little bit about the improvement in bookings and reservations to hertz.com. That's very durable demand. We talked a bit about the 18% improvement in loyalty enrollments in Q4 year over year. And that's again, durable demand.

So we are going after premium high RPD segments. We are going after our customers that keep choosing our brands because they love the experience that we deliver. So that's the playbook. We'll keep on following and keep on improving our unit economics, which is basically our focus.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank Securities Inc. - Analyst*

Appreciate the EBITDA cadence and the margin commentary you just provided for '25. So the question is, as we look a little further out, is there a medium- or long-term margin at which you think the company should operate at? If you get DPU down to $300 or less by year-end, you get OpEx optimized. I think you've mentioned low 30s per transaction day. Is there any kind of round or rough figure we can think about on a just a go-forward basis after '25? I'm not really asking for a specific year, just a normalized margin the way you might think about it.

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

Yeah, Chris, this is Scott. I'll start and Gil probably want to chime in, too. But I think you could use the basis of our north star metrics to get there. I mean, it's the 1,500 RPU, DOE in the low 30s and DOE in the low 30s, DPU at sub-$300. Those will sort of give you our sort of targets for EBITDA production. Again, this business is obviously volatile and depends on demand and residual values and those things. So it's really hard to predict and create sort of a floor of EBITDA.

But those are our targets, and we think they're achievable. So I would just guide you to do the math on those and kind of see where that may end up.

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

Yeah, I'd just echo that. And then, I mean, that's kind of the core business. There's certainly -- as we move forward, we want to get those unit economics dialed in, but there's additional growth opportunities for us, clearly, in the mobility space in general as well as car sales through the retail channels.

Chris Woronka - *Deutsche Bank Securities Inc. - Analyst*

Okay, fair enough. Thanks for that. And then as a follow-up, if you're continuing to optimize the business that you do take with a smaller fleet, can you maybe give us a little bit of color on which businesses you're -- or which segments you're maybe deemphasizing whether that's airport, off-airport, whether it's the Dollar, Thrifty brands, whether it's corporate versus leisure, so -- something else, just to try to frame it where we can see the revenue growth come from segment-wise? Thanks.

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

Yeah, Chris, this is Sandeep here. No, it's less about airports versus off airport. It's more about certain segments that are just like -- I'm going to use the term pretty low RPD in general and ones where the customer is not choosing a brand but going based on price. A lot of that is domestic opaque packages. That's one I would qualify in there, segments like that.

And then there are also certain other segments where -- across the board where we have done an exercise of looking at our lowest RPD contribution within each one of the segments and basically culled some of that business across the board as well because it wasn't a contribution margin that we were happy with.

Operator

Dan Levy, Barclays.

Dan Levy - *Barclays Capital Inc. - Analyst*

I wanted to go back to the DPU. And maybe you could just give us a sense versus when you last spoke and you were guiding us to $3.50, $3.75 for the quarter. You said there was losses on sale. Maybe what specifically materialized that was below your expectations?

And I would ask as a follow-up. With one of your competitors now engaging on an aggressive sort of rotation of their fleet and potentially another one of your competitors doing so, how does that then impact the remaining rotation of your fleet?

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

Yeah, I'll start and Scott can maybe add some color. He added some color in there on the loss of sales. Some of that on the fourth quarter is just the volume and timing aspects of the sale, coupled with rotating out the older vehicles, right? So a large portion of this and what we saw throughout almost all of '24 was some of the noise in depreciation as we're selling off the older vehicles, rotating the fleet. And then on a go-forward basis, we're far better positioned because we've got a lower cap cost going in. We got a shorter hold period and we're selling through retail channels.

So all of that really helps us sustain that -- get to and sustain the sub-$300 DPU, but we've been doing cleanup work throughout all of the last year, and some of that will -- will continue to trickle through until we're through the fleet rotation, the heavy lift is done, but there's still some to do left.

I think the -- in terms of kind of the supply side of the equation with vehicles, again, we've already made a big investment with a fleet rotation, right? I mentioned where 60% of our cars are less than a year old at this point or at the end of the year. So we'll continue to make progress.

We've got effectively all our model year '25 buys locked in, and those will continue to deliver. The model year '26, we'll shortly start to look at those and negotiate those. But what I would say is we've been first to recognize we needed to change the fleet strategy. And we've been aggressively pursuing it, and we've been accelerating it wherever we could. As we mentioned on prior calls, we would look to do that, and we have.

So we're positioned, I think, really well in terms of flexibility as you think about the dynamics going forward. So we have good fleet. We got -- the model year '25 is locked in. So as we think about the rotation, we've invested in the fleet, and that gives us flexibility. But then we think the model going forward certainly is sustainable.

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

Hey, Dan, this is Scott. I'll add just a little bit of color there, too. I think some of the confusion might be a little bit on our side. We were looking at MMR values and probably missed the drop in the fourth quarter. And then that's on us. We think that going forward, we have a better grasp of sort of where MMR values will sit. We're actually seeing good trending as we went through the year -- sorry, entered the 2025 year and going forward, values are stabilizing. So we feel good about where that is and where the guidance sits today.

Also too, we pulled forward a handful of vehicles too that were sort of mistimed. So they were under-depreciated and caused a bit of an outsized net-net dep issue. But I think a lot of this is really sort of unique in nature to the period and to us, and that's fixed going forward. So we feel good about where the guidance sits on residuals, and we've seen them in a pretty good place so far.

Dan Levy - *Barclays Capital Inc. - Analyst*

Okay. Thank you. As a follow-up, I wanted to ask about cash and liquidity. You're saying that it sounds like you're expecting EBITDA to be something above breakeven, but we do know there is an expensive -- what can be a costly fleet rotation for you. And you do have some calls on your cash over the next 18 months including a large maturity in '26 and there's the potential make-whole payment.

Maybe you could just run us through some of the cash considerations, how expensive the fleet rotation is, and what are your options to maintain a minimum level of cash on the balance sheet? Is it just to draw down the revolver or what other options do you have?

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

Yeah. So thanks, Dan. I'll give you a little bit of color here what we can give you. So we talked about the strong cash balance that we have: $1.8 billion of liquidity. And a good portion of that is the revolver, we have available $500 million-plus in cash and about $1.2 billion, $1.3 billion remaining on the revolver. So a strong level of liquidity to start the year.

I've talked about the business, we'll probably burn some cash in the first half. We'll spend money on the fleet rotation, and the low point will be in the second quarter. And then we'll start to generate cash from the business as we head to the back end of the year. And we haven't quantified what that low point is, and I'm not prepared to give specific numbers on that today. But I think that's the flow.

We feel good about our obligations. We have good starting cash balance. We have good balance sheet flexibility. We understand the maturities. So we feel good about where we are. Obviously, as a CFO, more cash is better, so I'm always going to be a little bit conservative with cash, but we have good flexibility to manage what lies ahead of us.

Operator

Harold Antor, Jefferies.

Harold Antor - *Jefferies LLC - Analyst*

Hello. This is Harold Antor on for Stephanie Moore. I guess given the elevated defleeting, could you talk about the options of disposing these vehicles, where there's still the auction process, retail or company channels? So if you could just give us a sense for what -- how are you disposing these vehicles and what are you seeing on the pricing side through these disposals.

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

Yeah. I mean, the general color around kind of our sales channels, right? I think directionally, we want to move towards the higher net margin sales channels. We're -- which tend to kind of break from one end of the spectrum, which is auctions to more of a dealer-to-dealer kind of mix in the middle to more retail in terms of the higher margin net sales for us.

So -- we're -- our strategy is to move towards overweight retail channels. We've been working that over the last -- at least the last year making progress, but there's still work to do. As I mentioned, we run less than 10% of our cars to auction at this point, and we continue to increase our mix of retail sales.

We -- and there's two channels of that. One is kind of the organic growth through our sales channels, and we really want to continue to grow those through the digital experience, being able to transact digitally, remove the friction for the customer and more brand visibility. We've got a footprint now. So we continue to drive more volume through that. But then also, we've got some really good strategic partnerships now. We'll add others, hopefully, and we'll continue to grow those segments as well. Got some partnerships.

So I think as we think about that going forward, it's kind of an end-to-end look. Ultimately, that unlocks our the sub-$300 DPU we're talking about. We also will inform our buy decisions as well. Obviously, we've got to overlay that with the right fleet mix for our rental business. But trying to work those in concert where we're buying vehicles with an eye towards obviously, the rental hold period, but then an eye towards what sales and then through what channels are really key because we've got a large fleet of vehicles. People are test driving them every day.

Effectively, we could have our whole fleet for sale at any given point in time. And we're -- the way I look at it at least is we're almost a used car factory, right? As I mentioned, we're one of the largest car dealerships in the world. So we have all the necessary ingredients to create value for us.

Harold Antor - *Jefferies LLC - Analyst*

That's great, thank you for the color. And then I guess just for my follow-up, one I wanted to piggyback on the liquidity question. What options do you have to refi the 2026 maturities? And then, I guess, if you could provide any sense on as you improve vehicle choice for customers, as you rotate the fleet -- how are you seeing -- is there any change in the fleet mix and any impact on RPD? Thank you.

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

Okay. I'll start with the first part around I think you were talking about balance sheet flexibility and refinancing. Yeah, we -- as I mentioned before, we have a good bit of balance sheet flexibility, and we'll look to refinance those obligations as the maturities come due. First up is obviously the revolver that we have that comes due in the first half of this year, and we're already in discussions addressing that. And then we'll deal with the remaining ones at the end of the year and stay ahead of them going current into '26. But we understand those today, and we feel like we're going to have all of those addressed in time.

And then I think you had a question, too, around the fleet and car sales mix.

Harold Antor - *Jefferies LLC - Analyst*

Yeah.

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

I can have -- this is Sandeep here. So on the asset class mix, essentially, our intent is always to ensure that what we buy is as close as possible to the customer generated demand from a class perspective, right? So that's always -- and that's generally a question around the supply that's available from the OEMs. That's a constant endeavor, and we keep aiming for a better match there.

I think the second part of your question around the impact on RPD, there's no material impact on RPD based on that. It's more of a cap cost consideration. So that's really the metric in play, less so RPD.

Operator

Chris Stathoulopoulos, Susquehanna.

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

Scott, so on the EBITDA guide, the cadence for the year, loss in 1Q, breakeven 2Q, sizable 3Q, 4Q small profit. I think you said low single-digit adjusted margin for the full year. So as we think about the exit rates for 4Q on yields -- DOE, DPU -- could you help bridge that versus the targets on the $1,500, the low 30s and sub-$300? Should we think about the first half of '26 as spring loaded or sort of a back-weighted? We just want to understand all the moving parts here, how the revenue and cost initiatives should mature as we exit this year and work into '26. Thanks.

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

Yeah, Chris, thanks for the question. I'll start, and maybe Gil and Sandeep want to chime in on some of the others. But I think we're not here to officially give guidance on specific numbers for Q4 or for '26 either. But I think directionally, you can imagine that the North Star targets will move directionally towards that. We've already said DPU, we think, will exit in that sub-$300 range. We think we're going to make progress on RPU as we go through the year. So we'll move closer to that $1,500 RPU target.

I think the one that's going to be a little more difficult in the short run, given the headwinds that I talked about in my prepared remarks, is going to be low 30s DOE, especially as we are a little bit smaller year over year in terms of fleet size, and it makes it a little more difficult to accelerate that to the low 30s target. But I think all in all, we're making good progress on all three.

The good news is that DPU, which is the one we have the most visibility on, is the biggest mover of our financial metrics from an EBITDA perspective, and we have confidence in that. But I think by the end of the year, we'll have good clarity on where the other two sit and we'll reserve that at that point. But we feel good about the exit rate for '25 heading into '26.

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

Okay. And as a follow-up, Gil, your thoughts on the tariffs. I realize it's still early here. We've seen that if new vehicle prices move higher, there could be demand for secondary or used, which would typically be good for residual values and Hertz. Any thoughts as or how you're thinking about the tariffs at this point? Thanks

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

Yeah. Thanks, Chris. Yes, obviously, top of mind for us. I mean, of course, I think it's -- I mean, it's a fluid situation, right? In all likelihood, temporary by nature, but the dynamics are breaking different ways.

I would just start by saying, I think for Hertz, we're largely insulated. And I think it's a result of all the work we've done, really trying -- working towards transforming Hertz, specifically around the fleet strategy. As I kind of mentioned earlier, we're well positioned in the short run because the strategy we've taken with fleet will pay dividends in any real trade environment. So we've made significant investments already in the fleet and progress towards the fleet rotation. And then in turn, that gives us a lot of flexibility to manage through the current period of uncertainty.

So we've locked in additional vehicles already, as I mentioned. And then as we're taking those and then we look for model year '26 is we've got a diversified supply chain, of course. And all that, that won't change through the tariffs. But on a macro basis, as you mentioned, if tariffs have a resulting increase in new car prices, the counterbalance is likely residual values will go up, which will help our business model. But we're -- we've made so much progress on the fleet rotation and what's coming in the first half already locked in, that we've got a lot of flexibility to manage through the environment.

Operator

Ian Zaffino, Oppenheimer.

Isaac Sellhausen - *Oppenheimer & Co. Inc. - Analyst*

This is Isaac Sellhausen on for Ian. I had one follow-up on the comments around DOE. Are you able to provide any additional details on the puts and takes for the full year? Is there -- I guess, a few moving pieces with the operational initiatives, rotations, and I guess, some cost headwinds on the insurance side? And I guess is there anything incremental on the operational side that could help offset some of those cost headwinds? Thanks.

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

This is Scott. I'll start. I think I can give you a little bit of color around the categorical nature of it, probably not numerically from a guidance perspective. But we've talked about the things that are working. Obviously, the core operating components of the business are moving in the right direction: labor, maintenance, collision, supply chain, rental ops. All those are moving directionally where we need them to go.

We have -- we do have a few headwinds that we're facing that we are addressing that are a little different, some accounting changes, some related to insurance that will have a lag effect on some of the initiatives that we put in place. So I think that's the sort of backdrop.

The initiatives are working. Obviously, we got to drive utilization, as I said. A critical piece of this is making sure we get the units. But I think the initiatives that we have in place are all working. We're seeing real benefit from the newer cars in the fleet. All of those things are good platforms. We just have to address the peripheral components of the business.

Operator

This concludes the Hertz Global Holdings fourth-quarter 2024 earnings conference call. Thank you for joining. You may now disconnect.
