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HTZ.OQ - Q1 2025 Hertz Global Holdings Inc Earnings Call

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PRESENTATION

Operator

Welcome to Hertz Global Holdings first quarter 2025 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 - Investor Relations*

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

I 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, who will discuss operational highlights and our fleet.

Our Chief Commercial Officer, Sandeep Dube, will then share insights into our 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 over to Gil.

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

Thank you, Johann. Good morning, everyone. The first quarter of 2025 was dynamic, not just for Hertz or the travel industry, but across the broader business landscape as companies evaluated the near and long-term effects of macroeconomic events, including tariffs.

While these shifts continued to influence the operating environment, our strategy was designed to navigate uncertainty. Our success does not rely on tariff-related benefits, but we are pulling the right levers to capitalize on them. We remain focused on what we can control.

It's that discipline and a clear understanding of what drives this business that guides us forward. These past few months have only reinforced something I've known since day one. Hertz is at its core, an asset management company. We buy, rent, and sell cars, and we've sharpened our focus on that flywheel, not just to drive performance, but to stay agile in any environment.

The fleet is the economic engine of the company and our greatest lever. That's why transforming it from a headwind to a tailwind isn't just a goal, it's essential. Through the relentless execution of our back-to-basics roadmap, we're building momentum, reshaping Hertz, and delivering long-term value for our customers and shareholders.

Our strategy is anchored around three financial pillars, disciplined fleet management, revenue optimization, and rigorous cost management. We set clear North Star metrics. DPU below $300, RPU above $1500, and DOE per day in the low $30s. I'm proud of the progress our teams have made, and I'm grateful for their hard work and perseverance. It's because of their efforts that we're beginning to see foundational improvements take hold. With that, let's dive into the results.

Let's start with our most dominant economic lever, the fleet. One year ago, we established a disciplined end to end fleet management strategy and recognized the urgent need for a refresh. At that time, we were managing an older high-cost fleet with a sub-optimal mix of vehicles within a declining residual value market.

Guided by our buy right, hold right, and sell right strategy, we acted swiftly to reposition ourselves and rapidly execute our fleet rotation. Today, I'm pleased to share, we've made progress in our strategy and our investment is beginning to pay off.

With over 70% of our core US RAC fleet, now 12 months old or newer, we have a younger fleet that's well equipped to navigate today's uncertainty. Thanks to our early and deliberate effort to lock in vehicles at highly favorable economics ahead of tariff implementation. Our model year 2025 fleet is shaping up to be transformative for Hertz, as those vehicles currently have a DPU of sub $300 prior to the benefits associated with tariffs.

To make this happen, we worked closely with OEMs to accept vehicle deliveries in Q1, ahead of schedule to avoid tariff exposure. While we continue to aggressively rotate out older, higher cost vehicles, the timing of new vehicle deliveries was suboptimal at the local market level, impacting utilization and pricing. However, we view this as a deliberate short-term trade-off that better positions us for the remainder of the year.

With approximately two-thirds of our model year 2025 fleet already delivered, the long-term benefits are taking shape. Our proactive buy right strategy has also enabled us to diversify our supply chain, reduce reliance on any single OEM, and build a fleet mix that enhances our ability to quickly respond to market dynamics.

While I mentioned the younger fleet is already driving measurable improvements in our North Star metric of DPU, it is also delivering on DOE. We're seeing lower maintenance costs, and we expect these efficiencies to continue improving our P&L throughout the year.

As residual values rise, supported by early market indicators and analysts forecast of significant residual value increases, we're well positioned to benefit in this environment. To put it simply, every 1% increase in residual value generates more than $100 million in economic benefits to our fleet. Because of our early actions, we're not just adapting to market dynamics, we're out in front of them.

Through our disciplined fleet rotation, we're now managing a lower cost fleet with a more optimal mix in a rising residual value environment, putting us in nearly the inverse position of where we were when I joined the company. This is a clear sign that our strategy is working.

While overall demand remains solid, we recognize that there may be potential macroeconomic headwinds and uncertainty. Still, we remain disciplined on capacity management. To that end, we plan to run a smaller fleet year over year and sweat the assets to drive higher utilization to offset some of the reduction in capacity. We remain disciplined in our capacity. We do, however, have flexibility to adjust our fleet up or down as we move through the year, as we better gauge the macro environment.

Model year '26 vehicle supply and pricing remain an unknown at this point. Historically, vehicle supply chain disruption has supported stronger pricing, as well as increases in used vehicle residual values. If this is again the case, we're ready to respond quickly. We have a number of levers to pull to remain agile as we manage through the macro environment.

Looking beyond 2025, I would expect fleet growth in line with demand growth, improved unit economics as we exit the year, earn us the right to grow again. As one of the world's largest used car dealers, we recognize the value of Hertz car sales. And last quarter, we highlighted our sell right strategy to prioritize retail as our primary car selling channel.

We took proactive steps earlier in the year to raise awareness of this channel, timing that proved advantageous for our business. We began to see this play out in March, where our average selling price through retail channels strengthened, positively impacting depreciation per unit. In fact, this was a record quarter for retail car sales. As part of this strategy, we are focused on increasing our net margins by better managing reconditioning costs and capturing more finance and insurance commissions on the transaction.

Leveraging the strong residual market, we continue to drive awareness through Hertz car sales and expand our retail partnerships. In addition, we just launched AI pricing capability for our vehicle sales through a partnership with Cox Automotive. These efforts through our buy right, hold right, and sell right strategy are turning our fleet from a headwind to a tailwind for our business.

Another highlight this quarter was our ability to manage costs as our strategy contributed to nearly $100 million year over year improvement in total direct operating expense. We also achieved sequential improvement in DOE per day, despite lower volumes, and we estimate that the newer fleet drove almost $1 of DOE benefit year over year. These results aren’t one-off.

We remain disciplined and committed to continuous improvement in cost management as we build a more sustainable business. As we transform Hertz, we're focused on leveraging technology to improve our results, and we're strategically partnering with the world's leading tech companies. As we shared last quarter, we're leveraging Palantir's Foundry platform to improve our fleet management and workforce planning.

This quarter, we announced our partnership with UVeye, a global leader in AI powered vehicle inspection systems. This collaboration will enhance the speed and accuracy of our vehicle inspections and damage assessments, while also creating a more transparent digital first experience for our customers.

We're also working with Amadeus, a best in class global travel tech solutions provider on advanced capabilities designed to modernize our revenue management system and significantly enhance our pricing strategies and execution.

We've expanded our customer service AI agent capabilities, and we are working with Decagon, the conversational AI platform to deliver a more reliable personalized customer interactions at speed, greater scale, and lower cost.

Transformations like ours take time, but above all, it depends upon unwavering commitment to executing the strategy we established with our back to basics roadmap. Despite today's uncertain environment, we remain confident, steadfast, and fully committed to this plan.

We are beginning to see the tangible results. And as we chart our path forward, we will maintain our discipline, focus on what we can control while remaining agile and responsive to changing conditions. I'll turn now to Sandy to comment on capacity management and our commercial strategy.

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

Thank you, Gil. Good morning, everyone. Let me start by saying how proud I am of what the commercial team is accomplishing. As we execute our strategy and work towards our North Star metric of RPU greater than $1500, we are driving a transformation that will deliver greater durability and margins for our business.

Let's start with what we saw during the quarter. Revenue was down year over year, driven primarily by reduced fleet capacity. We continued to manage our fleet prudently, which was down 8% year over year in the first quarter. Given macro demand uncertainties, we intentionally ran a tighter fleet year over year, while capitalizing on the strong residual value environment to accelerate the rotation of its remaining older vehicles.

On a monthly per unit basis, revenue would have been flat year over year, excluding the impact of leap year. And a margin accretive yet RPU dilutive decision to orient our fleet mix towards lower depreciating vehicles, which is more in line with consumer booking behavior.

The impact of the fleet mix change will largely annualize by the first quarter of 2026. We continue to focus on sweating our assets through better fleet utilization, which showed improvement. In Q1, utilization was up 240 basis points year over year and would have been even higher without temporary headwinds of accelerated infleeting.

This is the journey we started in late 2024, and we foresee continuous progress on our ability to further sweat the fleets. Pricing for the quarter was down 5% year over year, partly driven by fleet mix. Breaking down pricing a bit further, while January and February performed better, March and the first couple of weeks in April came in lower. Part of it was expected with Easter shifting into Q2 this year, and the fact that there was no eclipse, which helped drive rate last year.

We were nimble in taking delivery of some model year 2025 vehicles earlier than planned ahead of tariffs. While this decision put us in an advantageous position pertaining to our fleet rotation, we were temporarily over fleeted in certain markets in a seasonally low demand period, which impacted RPD and utilization.

All told, we didn't get the utility out of these additional vehicles that we normally would have and probably left some price on the table. But we view this as temporary and isolated to Q1.

As we look ahead, we see macroeconomic uncertainty, but we also see opportunities. We are seeing demand moderate for corporate, government, and US inbound segments, but our forward bookings for Hertz leisure are up year over year. Our approach is to stay prudent by going into the summer with a tighter fleet, thereby also leveraging the rising residual values as we trim to stay under demand.

We will stay nimble as we continue to assess the changing demand environment. The macroeconomic opportunity lies in the upside revenue potential that Gil mentioned in the form of vehicle constraints, which may bring a tailwind to RPD. Historically, supply constraints such as the 2008 financial crisis and the most recent COVID period have consistently driven significant RPD gains in our industry.

Beyond the characterization of the macroeconomic environment, let's talk about the things that we get excited about the most, which are the outcomes we want to deliver for the rest of 2025 and into 2026. The commercial team is focused on fundamentally improving the durability and margins of our business.

The initiatives which underpin our strategy are as follows. First, improving our revenue management systems. We are in the early stages of a multi-year transformation journey, leveraging our newly signed partner Amadeus, who provide best-in-class RM systems to airlines and hotels.

We are enhancing the ability of our revenue management system to deliver higher margins. Through an iterative build process that will deliver incremental EBITDA on a regular basis. This improvement will be in the pricing and demand selection of non-contractual demand, which constitutes the majority of what we book. And any improvement will likely apply to a large revenue base, hence providing significant gains. We kick started the project in earnest in late Q4. And early initiatives that have already been executed are exceeding our expectations.

Second, we are optimizing the foundations for improved demand generation within our off-airport and mobility business units. While the airport business has higher RPDs, the off-airport business and the mobility business benefit from more consistent utilization and a longer length of keep, thereby driving lower direct operating expenses per transaction day, leading to healthy margins. They also have greater resiliency in demand and RPDs during periods of low economic growth.

During recent quarters, given our smaller fleet, we skewed our fleet to airports. Looking ahead, we intend to feed our off-airport and mobility businesses heavier than in prior periods. This diversification of our revenue stream over time should lead to greater resilience and improve margins for our business.

Third, we are improving the mix of our durable segments. Durable segments like direct sales through our own websites are segments that we aren't directly competing with our competitors on shared platforms or where competition is limited. We continue to enhance the mix of durable segments.

And lastly, I want to touch on driving customer preference. By the end of Q1, our net promoter scores improved by 11 points year over year, a result that displays the strength of this team to execute operationally across a global footprint.

Just as encouraging, our loyalty enrollments were up 11% year over year and are up even higher so far in Q2. Also, we are starting to see this translate into increased loyalty bookings.

In summary, the current market conditions present risks and opportunities. We are focused on capacity discipline to de-risk our fleet investments, improving our utilization through process improvements, and delivering on our commercial strategy to build a more durable and margin-accretive business. Let me now turn the call over to Scott for a detailed review of our financial performance and liquidity.

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

Thank you, Sandeep. Good morning, everyone. Let me walk you through our financial performance for the first quarter of 2025 and also provide an update on some recent transactions. Revenue was $1.8 billion for the quarter, and adjusted EBITDA was a loss of $325 million versus a loss of $567 million in the prior year period. As a result, our margin improved by 9% year over year.

We saw good movement and depreciation per unit, or DPU, and we hit our internal cost targets for the quarter. However, the early delivery of vehicles from OEMs and an unpredictable macroeconomic backdrop made pricing optimization a bit tricky on the revenue side. We also saw lower levels of industry supply in the quarter. All in all, our EBITDA results were in line with the guidance we gave during last quarter's earnings call.

Our fleet has now shifted from a significant headwind to a prominent tailwind for the business. The primary objective of the rotation is lower vehicle depreciation. And now that we are more than 70% rotated, you can see this play out in our P&L and metrics.

Q1 depreciation expense decreased 45% year over year and DPU for the quarter was $353 per month, a meaningful improvement both sequentially and year over year. This reflects the rotation benefits and improving residuals. Q1 2024 also included the unfavorable impact of EV's held for sale.

We had previously said we would reach sub $300 DPU by the end of 2025, and now, we expect it to be below $300 in the second quarter. Our accelerated fleet rotation, as well as some expected benefits from improved residuals, should drive our gross depreciation per unit below $300. We will also benefit from additional gains from car sales, which should drive net DPU even further below $300 per month.

During the quarter, our continued focus on productivity and lowering our direct operating costs continued to yield positive results. On a per day basis, DOE was down 4% quarter to quarter, notwithstanding lower volume.

Year over year DOE per day was down 1% on a volume adjusted basis, despite continued headwinds from insurance and rent expense as we discussed on our prior calls. In Q1, excluding the impact of stock-based compensation awards forfeited in the prior year quarter, our selling, general and administrative costs also decreased year over year since we structurally removed costs from the business.

This is our first quarter of hitting our budgeted cost targets, and we expect to do that in two as well. That may sound like an innocuous statement, but this is an important internal indication that our efforts of driving improved predictability in our forecasts and better execution on our productivity and costs are working.

The execution across our business is bearing fruit, and we expect these trends to continue as we move forward. In terms of liquidity, our position remains strong at $1.2 billion at the end of Q1. A couple of important transactions were recently concluded.

First, as we announced in a recent 8-K, we amended our revolving credit facility last week. The amendment provides for the extension of the maturity date of approximately $1.7 billion of commitments under the existing $2 billion facility from June of 2026 to March of 2028, subject to a springing maturity date. This means we have access to up to $2 billion until June of 2026, and thereafter, the amounts of commitments is approximately $1.7 billion until March of 2028.

Key financial terms are unchanged from the prior facility, and we have flexibility to replace the reductions if we choose to. We received very strong support from our lending banks that points to confidence in our transformation.

Second, our asset-backed securities programs continue to perform well, providing efficient funding for our fleet requirements. We've successfully completed several business as usual ABS transactions, including an extension of our HVF III variable funding notes, demonstrating strong market acceptance and competitive pricing. These funding channels remain a cornerstone of our fleet financing strategy, and we anticipate continued access to ABS markets on favorable terms.

Our ABS facilities have been buoyed by favorable US RAC fleet values, where the three-month average fair market value of $9.2 billion is 105% of the net book value of $8.8 billion as of March 2025. Overall, these transactions improve our capital structure and maturity ladder and de-risk the balance sheet, providing flexibility to continue transforming the company.

We are also pursuing several transactions which may generate liquidity through optimization of our letters of credit and real estate portfolio. These are not splashy financings, but rather tactical strategies designed to improve liquidity at a more effective cost of capital. Although discussions to date have been productive, we cannot provide any assurance that any transaction will be completed.

But giving effect to some of these that are currently in process and expected to close in the quarter, we expect to end the second quarter with over $1 billion of liquidity, even if we are required to pay for our make-whole litigation during the quarter. We also have other capital capacity in reserve totaling well north of $500 million, including debt capacity allowed under our credit facilities if needed.

Lastly, our board of directors recently authorized the launch of an ATM or at the market equity offering. We expect to file a shelf registration statement and prospectus in the coming days. With a successful fleet rotation largely behind us and the summer peak ahead, it is time to begin working on deleveraging. To that end, we have authorized up to $250 million of shares for the ATM, but the timing, total proceeds, and final number of shares offered will be determined as we progress.

These potential proceeds are not included in the over $1 billion of liquidity we expect to end the second quarter with and are intended to be used to start deleveraging the balance sheet. While we are certainly price sensitive, we generally see the equity for debt trade here to be P&L, cash flow, and shareholder accretive as the reduced interest and lower risk contributes to equity value.

We also expect to generate free cash flow from operations in the back half of the year. The combination of an improving earnings profile, refinancing levers, and the ATM optionality gives us a number of alternatives for addressing upcoming maturities.

During Q1, we utilize $210 million of cash for continued fleet rotation, and we'll continue to use cash as we fleet up for the peak and continue our rotation. Despite the tariffs that went into effect in April, we continue to take delivery of model year 2025 vehicles at the previously negotiated prices. It's too early to provide color on our model year 2026 buys, as we have only recently begun these negotiations.

Looking at the remainder of 2025, we're maintaining a balanced approach. While we see encouraging trends for both the industry and the company, we're mindful of potential headwinds, including consumer sentiment and possible tariff impacts.

We will continue to be prudent with our fleet, which was down 8% in Q1. We expect the full year to be down about the same level. We do, however, expect to make up some of the reduction in utilization. So we expect our transaction days for the full year to be down less than the fleet.

We believe this reduction in supply should be supportive of better pricing across our geographies. Overall, we continue to expect Q2 EBITDA to be approximately breakeven; Q3 EBITDA to be a sizable profit, and even positive from a net income basis, producing our first positive EPS since 2023 and Q4 to be a positive EBITDA result as well. All of this should produce a full year EBITDA margin in the low single digits, consistent with our prior expectations.

Our North Star targets continue to be DPU below $300, RPU above $1,500, and DOE per day in the low $30s, which we believe together could produce an EBITDA more than $1 billion by 2026. With that, I will hand it back to Gil for his closing comments.

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

Hey Scott. I'd like to close by sharing why I remain incredibly bullish about the future of Hertz. When I joined the company just over a year ago, I immediately saw the enormous potential of transforming our core business, and that belief has only deepened.

Achieving our North Star metrics is expected to unlock over a billion dollars of EBITDA core business run rate. And the potential extends well beyond that as we unlock value creation beyond our core business through retail car sales and our mobility business. We continue to build momentum in our transformation.

Our fleet strategy is working. Tariffs are an added tailwind. We're making excellent progress on better managing costs, sweating our assets, elevating our revenue management, and continue to action an expansive list of opportunities.

Our liquidity position remains strong and the team has worked to de-risk the business. This setup for the future bodes well. DPU outlook is strong with rising residual values. Demand remains solid, especially leisure. And we're building durable countercyclic demand beyond our core airport business.

We have a young and tight fleet, which gives us leverage for utilization and RPD as well as flexibility to manage through uncertainty. Model year '26, supply chain disruption has the potential to create further tailwinds for residual values and RPD.

Ultimately, everything comes down to execution, and we've assembled a world-class team who are focused on driving results. Momentum is on our side, and I truly believe the best days of Hertz are still ahead. Back to you, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ian Zaffino, Oppenheimer.

Ian Zaffino - *Oppenheimer - Analyst*

Thank you very much for the color. I wanted to ask about the fleet. And I guess, during this period of kind of over fleeting because you bought model year cars earlier or to delivery. How much do you think you are kind of over-fleeted? Or what do you do there, how many vehicles are we talking about?

And then also, as you look to divest vehicles, can you maybe help us understand what residuals look like in retail versus wholesale? And kind of what's stronger, what's weaker and why?

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

Thanks, Ian. I'll start. Yes. First of all, from an overfleeting standpoint, I think at the macro level, we're not overfleeted. As I mentioned, I think if anything, we've tried to tighten the fleet and keep supply inside of demand. So as Scott mentioned, we were down 8% in the quarter on fleet.

So we're tight, we're not over fleeted at the macro level. I think the points that were being made here were more at the local level, at the market level, pick a city, pick an airport. There we were over-fleeted because keep in mind the dynamic was we pulled forward the vehicle deliveries to avoid tariff exposure.

But those came -- the timing of those deliveries were not optimal for us at a market level. So there were markets we found oversupply and not at the aggregate level, but at the market level. And then that, in turn, at that market level hurts our ability to price in utilization, Sandeep?

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

And this is Sandeep here. The other point I'll make is the effect of that say, temporary overfleeting in certain local markets, it was a temporary effect, right. It was present to the tail end of Feb, March, and then probably the first couple of weeks of April. And then basically, we took proactive actions to minimize that and demand also kicked in. So I think that's no longer a factor in play.

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

And on the residual question, I guess what I would say, of course, I mean tariffs and really just generally the disrupted automotive supply chain creating some tailwinds for us given that we're an asset-heavy business. And we're seeing residual values rise. We've seen analyst projections, of course, as you have.

I think as we think about residuals, we're in both markets, wholesale as well as retail as we skewed our sales more towards retail. But I think if you look at the wholesale market, which tends to move quicker than the retail market in terms of pricing, we've seen those residuals rise fairly quickly in March and April.

I mean you can obviously look at the same data we are, but I mean as a proof point, I think the MMR rental car index for April was up 8%, just to kind of frame some of that. There's different inputs. But that is more seasonally adjusted for similar mixes. I think we're also seeing the younger cars residual values rising quicker, disproportionately.

Ian Zaffino - *Oppenheimer - Analyst*

kay. And then just as a follow-up. When you think about how the demand I guess you saw in this past quarter and what you've kind of seen so far, anything notably like geographically speaking. And I know there's certain markets are better in certain months. But anything you've kind of noticed like geographically. Is California a little bit weaker, like anything along those lines?

And then when we talk about the business, how much of the softness is seasonal versus maybe a pullback on corporate spend?

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

This is Sandeep here. I can -- I'll answer that question. So I think from a geographic level, there weren't any major differences in terms of how we saw the impact come through. There are, of course, certain geographies where segments of customers like corporate, they're more heavy.

Our government is more heavy, for example, through Washington DC. So you're going to see that impact come through, but it's more related to segments rather than anything else.

I think the one difference I would articulate in terms of day of week is given that corporate is heavy and government is heavy, at the early part of the week, Tuesdays and Wednesdays, that's where you saw a dip overall in demand. So that's how I would classify the difference in the environment.

In terms of seasonality, first of all, we are seeing the normal seasonal kick in demand that we would expect as we are moving towards summer and into summer. So that's the positive in the macro environment. The pullback that we have seen is on the corporate side, the government side, and inbound segment. And that's still there in the environment.

So it's a combination of the uptick due to seasonal demand as we get it work towards summer, but some pull down because of corporate, government, and inbound.

Operator

John Babcock, Bank of America.

John Babcock - *Bank of America - Analyst*

Just starting out, I was wondering if you might be able to talk about your fleeting efforts in April and May so far? I know you mentioned a bit of infleeting towards the end of 1Q, but just kind of curious what your activity has been like April and May, if you're able to talk about that?

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

I think, I mean, in general, of course, we continue to take vehicles throughout the year. And as we mentioned, we've got -- of course, as you know, we've been focused on our fleet rotation in particular with our model year '25 buys. We've taken about two-thirds of those now.

We have, from a timing standpoint, as we mentioned, some of those were pulled forward into the quarter in April, really from a tariff exposure strategy standpoint. But we'll continue to take vehicles throughout the year.

I think the larger unknown is model year '26 is, right? So I would just emphasize kind of where we're at, at least is with the model year '25 and the fleet rotation that we've done. We're set up really to have flexibility in the way we manage kind of the second half of the year and into '26 in terms of the fleet because there is a question relative to supply as you go forward, the volume, the pricing.

And with our fleet rotation with the model year '25, we've got flexibility to manage through that. But generally, the deliveries will continue through the end of the year as we take the final model year '25.

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

John, this is Scott too. If you're getting at sort of the quarter-over-quarter sequential size, I think we've talked about, we're going to take deliveries. We'll probably be in the mid- to high single digits, higher in Q2 than we were in Q1 as you're framing your thoughts around it.

John Babcock - *Bank of America - Analyst*

Okay. Very helpful. And then actually on tariffs before I just go to one other topic briefly here. Looking at your US fleet, do you have any sense for what share of vehicles you own might be subject to tariffs?

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

Well, basically, all the model year '25's that we're taking to delivery on were really not subject to tariffs. We will take those vehicles at the previously agreed to pricing. So we're not exposed in the short run.

John Babcock - *Bank of America - Analyst*

Okay. I'll follow up on that, I believe. And then last question here. I know you've talked a decent bit about cost cutting and also revenue optimization. Just anecdotally, I've been to some airports, and I've ultimately seen very long lines at like Hertz counters.

And I am wondering to some extent whether there might be some instances where you might need to actually add costs to perhaps generate revenue or to avoid losing revenue? So I was wondering if you might be able to talk about that kind of balance of cost cutting but also realizing that when you cost got too much, you might actually be losing revenue. So I don't know if you maybe Sandeep or Gil, if you want to go through that.

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

Yes. Thanks, John, great question. I'll start, but Sandeep I'm sure, have his thoughts. But from my vantage point, look, we're -- first of all, we're, as you know, over the last year have really leaned into our customer experience. So we're very sensitive to that.

As Sandeep mentioned, our Net Promoter Scores are up 11 points year over year. The momentum has been really good. One of the key drivers on Net Promoter Score are line waits as an example. But we understand what the NPS profile looks like in terms of where we have improvements in NPS or detraction from NPS.

As you may know, I think we mentioned it on a prior call, we partnered with Qualtrics, which gives us much better real time data to manage it. So we're of the view you can have the power of “and”, you can have both. You can have improved customer experience, which we've demonstrated and cost control as well. But we've got to be really sensitive to your point, that we're not penny wise and pound foolish, and we detract from the customer experience for the sake of cost savings. We can do both. Sandeep?

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

Yes, Gil you said it right. It's the power of the “and”. And I think what I'm excited about is the journey we have ahead in terms of Net Promoter Score. A lot of focus on the biggest levers. We are a customer-centric organization. That's the set of leaders we have here, and we'll continuously drive progress on that.

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

Yes. I think technology, in general, is another big unlock in the customer experience, too. So we're all about taking friction out in terms of line waits or other parts. So as we continue to lean into technology and the digital experience, that's accretive as well and pull costs out of the business

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

I appreciate all the color so far. My first question is kind of on the fleet strategy and relative to RPD. And Gil, I think you mentioned you're going to be doing more off-airport and ride share, you want to lean into that as part of utilization strategy.

But it also sounds like if you're shrinking the fleet, are you trying to go higher end kind of at the airport? Is there a push to whether it's regaining corporate accounts or higher-end leisure?

Just trying to understand kind of the components of the fleet strategy relative to an industry that's still kind of settling on normalized RPD.

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

Yeah, I'll let Sandeep comment. But I guess from my vantage point, we're -- I think the position we want to be in, ultimately, the setup is we're in part -- kind of as part of our transformation at Hertz, of course. I would just say broader brush, we prioritized fleet and cost actions at the top of the list. Cost, because it moves quicker; fleet because it's so impactful. It's 80% of our economics.

So not saying we haven't focused on revenue, Sandeep would certainly argue that point, we have been. But as we're moving through revenue transformation, we're pruning some revenue. The team is really focused on creating sustainable demand. And that also includes our trough periods, right, both seasonally and day of week.

Diversifying our revenue streams is important to your point, off-airport and mobility. We've been airport-centric as you know. And in channel mix, right, in particular, with the airports, what that looks like, along with revenue management tools, right? So I think all those things are playing out as we see them right now. But with a tighter fleet, our goal is to produce more demand than we can satisfy through all those actions and then be able to yield ultimately for profitability.

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

Just adding a little bit more color. I think from a revenue perspective, we are basically -- I'm going to use the term pruning our portfolio, right? There are certain segments and business units we are growing. There are others where we're basically pruning, all with an eye on unit economics and being margin accretive, right?

So we're now improved unit economics, and that positions us for growth in 2026 and beyond. And to be a little bit more specific, right? And even when I look back at Q1, we maintained really strong performance against our high RPD premium brand Hertz at the airports, right?

These are customers who are sticky and brand loyal. We also performed well when it comes to dollar and thrifty brand loyal customers who book directly with us. And lastly, we also drove incremental volume from our partners, right? This is a growing part of our business. These are higher RPD customers who generally tend to book earlier in the booking curve, it's really good business.

What we took less of and what we proved was the lower end of the market. These are brand agnostic customers, who come from competitive platforms. And while taking some of these customers would have been, I would say, revenue and RPU accretive, their margins would have been lower.

And we are focused, like Gil and I mentioned, on improving our margins. So giving up this revenue right now is the right decision for us. So I think that's the way I would kind of classify the geography of our demand profile.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. And then just as a follow-up, I appreciate all the guidance so far on DPU and what you said 2Q under $300, which is earlier than you thought. We look back to 2019, I think your US DPU was kind of just south of $260. And I don't know if that's -- your North Star targeting this under $300, so anything under $300 is there.

But is there any kind of -- with the current environment today? And when you think about buy prices possibly in '26? I mean is there a level below $300 that you think is we can get to the next target $275 or something else? Is there a way to kind of frame it a little bit more precisely than under $300?

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

Thanks, Chris. What I would say is, first of all, I think what you're alluding to in 2019, I mean, historically, if you put aside COVID DPU has been sub-$300, I think, historically. So I think your frame of reference is similar to how we look at that.

And irrespective of the cap cost, it's really the difference in buying and selling it's the economics that drive that. So the fleet strategy we have really can produce those results in any environment. Tariffs certainly a tailwind to accelerate that. Scott, if you want to give additional color or not?

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

I mean, thanks, Chris, for the question. I know what you're getting at. All of the mathematical components that go into that are obviously possible given the backdrop. But there's a lot of volatility on the tariff environment supply for '26 is and the corresponding residual value. So we're not ready to give any further indications of where that may end up. given sort of where we are, but all of those are possible given the backdrop.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. Yes, fair enough. Understood. Best of luck.

Operator

John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

I wanted to spend a couple more minutes on the depreciation side of things. Obviously, a lot's going on in the last year or so. So you guys wrote down the fleet to some degree. Now the used car market is coming back. And obviously, that's a tailwind for you.

But when you talk about that $300 number for Q2 or below that, what sort of gains are embedded in that? And secondly, as you buy new cars, what are you depreciating that? Because I feel like we're talking about these quarterly depreciation number. But in reality, I'm not sure how relevant they are given the movements of pluses and minuses going into the aggregate fleet value in the last year or so. So I'd just love to get some perspective on what the onboarding fleet, what are those depreciation numbers?

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

John, I'll start. I'm sure Gil would like to chime in, too. We tried to bifurcate in the prepared remarks around how this is playing out. We have the 2025 deliveries that are already making up a majority of our fleet that are depping at sub-$300 alone. And then as we talked about the guidance for Q2, our growth step sort of run rate dep is sub $300.

We will have some gains in the period that will make net DPU lower, but the intention is that we end up having gains as we go forward through the cycle and continue to do that.

So the idea is that there may be some volume fluctuations in gains as we sell more or less in certain periods and depending on the time of year, but I think the sort of -- the run rate dep of the business is sub-$300, and we're seeing that in a couple of different areas. So I think that's what we're trying to sort of get across sort of the foundational gross DPU is already sub-$300.

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

Yes, without any benefit of tariffs on that, right? Core fleet to your point, John, is that the model year '25 that we bought that we've been rotating, those have all been executed with our North Star in mind. So without any tariff tailwinds, those have been depping below $300.

And we continue to rotate out the older higher depreciating vehicles. The other dynamic of that, of course, is residual values have increased for those vehicles model year prior to 2025. Historically, we would have taken some loss on sale of those vehicles. Now with rising residual values, we can actually see some gains on some of the older fleet as we rotate out of it.

John Healy - *Northcoast Research - Analyst*

Got it. Makes sense. And just another high-level question. I mean you guys have brought down your fleet a lot. Avis has brought down their fleet as well.

But the rate environment still over the last four months has probably been softer. Do you think that's just the mix of business that's out there? Or is enterprise being more aggressive? As you look at the market , I know it is also come in? I'm just trying to understand at half the markdown in fleet, what's the pressure on rate? And is it channel or segmentation oriented or is it just more competition?

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

So this is Sandeep here. I think when you look at rate, I would again bifurcate January and February and then March, right? So when you look purely at January and February, and this is pre-tariff, I would classify the rate environment has been pretty stable, right? That's the way I would classify that.

The big dip actually came in a post tariff announcement that's. Where there was some pullback in some segments, and you saw that impact. There's also the impact of incremental add-ins that impacted us. I'm sure some of the other -- it affected some of the other industry players as well, right? That's -- I would classify that as a temporary impact.

As we look ahead and we look into summer, there's seasonal improvement, of course, in rates, but you also see just in general, the rate environment improve, especially as you look at summer and late summer. So I would say that there's a little bit of normalization back from a rate perspective that I see in the environment.

Now all of this is obviously subject to the macroeconomic environment and consumer sentiment, and that's a moving target. But in general, I see rates through the summer kind of normalize?

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Operator

Lizzie Dove, Goldman Sachs.

Lizzie Dove - *Goldman Sachs - Analyst*

Thanks for taking the question. You touched on it a little bit, but I'm wondering, you're running with a smaller fleet now. It feels like that's going to continue for this year, and then you said, within demand next year. And so to what extent does that kind of change the outlook for normalized EBITDA at all or how do you think about that over the long term?

I'm assuming some like descaling headwinds on that side of things, but maybe you could just talk about how you think about that profitability outlook and margin outlook with running at a smaller fleet.

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

Yeah, hey, Liz, this is Scott. I'll start. Others may want to chime in too. I don't think it affects our long-term targets. We talked about the below $300, RPU at $1,500 or above, low $30s DOE. I think the combination of those in varying degrees, we think we'll produce $1 billion dollars dollar EBITDA and maybe a quick time to correct my previous misstatement.

I was told by the group that I said, EBITDA by 2026. It's really EBITDA by 2027 is the right way to think about this. But I think the the volume isn't the lever that's going to move the needle for us. So we still think that that sort of $1 billion dollar run rate is the right target. We think there's other levers within the business as well, but I think it's the right way to think about it, regardless of volume.

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

Yeah, and I would just add, keep in mind the fleet size being down as a percent is one thing, but we have big opportunities on utilization. We've talked about them on previous calls, but we can make up a significant amount of fleet reduction by better utilization.

And we have a number of different buckets to go after there, but effectively it's reducing any queue time associated with the vehicles from a process engineering standpoint. And we're seeing really good progress in that area. Obviously, we got to drive rentable days as well on top of that. But our strategy is to mitigate some of the fleet reduction, which then gives us another economic lever.

Lizzie Dove - *Goldman Sachs - Analyst*

Got it. That makes sense. And then just one follow up on the RPU specifically. I know you're still targeting the $1,500, which I think it's like high teens ahead of where you were in 1Q, which I understand you know some headwinds to one. But how should we think about the cadence thing of getting those improvements in RPU?

Like, can that happen this year or towards the end of this year? I know there's a bit of a dip in April, but how should we think about that and maybe kind of quantifying the moving pieces there of that improvement on pricing?

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

So Sandeep here. So RPU, that's the metric, right? And that's what we aim for as a business, I think, to Gil's point, we'll make a significant improvement on the utilization part of that equation, right? That's -- there's a lot of effort being going on in that. I won't recant that story there and that those efforts there.

I think in the RPDPs, right, that's there's a bunch of initiatives. We have that eye detail on the call and then some beyond that that should provide a fundamental uptick in our ability to produce RPD. And then that's going to then be predicated with what's happening in the macro-economic environment as well.

It's a business where rates do depend on the macroeconomic environment and the combination of demand and supply. So that's a story that's yet to unfold. But fundamentally we are improving the foundations of our business to produce better yield and RPD.

Lizzie Dove - *Goldman Sachs - Analyst*

Great, thank you.

Operator

Stephanie Moore, Jefferies.

Stephanie Moore - *Jefferies - Analyst*

Touching on your, North Star long-term DOE target. Could you walk us through that DOE target? Can you achieve that target even on a lower fleet, or is there some kind of fixed cost headwinds that would prohibit you from hitting that low $30s DOE? And maybe more clearly, what is your underlying fleet size embedded in that low $30s DOE target? Thank you.

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

Yeah, Stephanie, that's a great question. Yeah, I think obviously lower fleet makes that number more difficult. Ultimately to get to the low $30s, we're going to need some scale to do that. But we have a number of initiatives internally to drive a reduction in fixed costs and more efficient variable cost reduction. So I think it's going to be a combination of all those things

But I think scale is going to be required to get to that North Star metric. Obviously, we have inflation components that are, headwinds as well, so it will be dependent on a number of factors. But we have a lot of initiatives in place. We've talked about a lot of those. We're not ready to give a ton of details on that at this point, but the basket is pretty large. But scale will be a contributing factor to it, no doubt.

Stephanie Moore - *Jefferies - Analyst*

Absolutely. So maybe just as a follow up of that, when do you think -- if you think about the scale and initiatives that you could be able to hit that target at current scale?

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

Yeah, I mean, our guidance right now is really thinking through 2027 as the point at which we get the scale and the efficiencies in the business, the initiatives to take footing. The estimate is that we get to sort of North Star metrics around that 2027 timeframe.

Stephanie Moore - *Jefferies - Analyst*

Got it. And then just switching gears to the liquidity side, the 2Q liquidity number, I believe, $1 billion that you pointed to, is that inclusive of the financing proceeds or was there some kind of working components of that $200 million dollar cash burden? I guess just trying to figure out if that's inclusive of any cash proceeds from selling down fleet or just more colors there would be helpful.

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

Yeah, hey, Stephanie, I tried to get some detail on the prepared remarks to walk through that. But we ended the quarter with about $1.2 billion. We have some other liquidity initiatives that are taking hold as we speak that will help shield against the potential Wells Fargo litigation payment in the quarter.

And so as we think through all the pluses and minuses of the financing, the cash burn in the business, the infleeting as well as the potential make-hole, we think we'll end the quarter at around maybe slightly above the $1 billion number. And that does not include the ATM proceeds, as I mentioned. This is just sort of the pluses and minuses of our sort of financings and the business cash flows.

Stephanie Moore - *Jefferies - Analyst*

Great. And then just lastly, how much of your -- what is your percentage of your travel that's inbound travel as a percentage of leisure for the US business or I guess the inbound percentage of your --?

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

It's a single digit business unit for us. So, yeah, relatively small.

Stephanie Moore - *Jefferies - Analyst*

Yes, thank you. I appreciate the time.

Operator

Ryan Brinkman, JPMorgan.

Josh Patwahan - *JPMorgan - Analyst*

Hi, good morning. This is [Josh Patwahan] for Ryan Brinkman. Thanks for taking our questions. I just wanted to take a closer look at the changes to your revenue management system. Would you be able to double click on how the new system is expected to support EBITDA margins and would appreciate if you could quantify any expected benefits from this transition?

You also mentioned that this is a part of a multi-year journey, so could you share more about the timeline and the pace of the rollout as you move forward? Thanks for another follow up.

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

Josh, thanks for the question. You know this is a very exciting journey for us. There's a lot of potential here. Unfortunately, on the details behind this, we don't disclose that, but super excited about what this could do to our foundational ability to drive better margins for the business.

Josh Patwahan - *JPMorgan - Analyst*

Got it. And then we discussed about, tariff implications from a fleet standpoint, but just wondering if you could spend a couple of minutes here on tariff implications from a DOE standpoint. Any insights helping us size the sensitivity of DOE to tariff-induced inflation in vehicle parts and perhaps any other areas outside the fleet value that may be impacted due to tariffs? Thank you.

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

Yeah, thanks. I'll start and Scott maybe you want to chime in. But it's -- I think both he and I mentioned, we've got an expansive list of opportunities to reduce DOE in general, right? Most of the exposure relative to tariffs would be on parts, cost, and maintenance. But what I would say in terms of parts and maintenance, we got tailwinds and benefits from, the newer fleet that we've been rotating into.

And, we've also got, I think I say this objectively, the best tech ops team in the business. And their innovation and execution and kind of rigor to run the business, we would expect our year over year maintenance costs to be down irrespective of any tariff headwinds. And the momentum is really good in that space, so.

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

Yeah, no, I think that's right. I mean, the majority of the potential exposures and maintenance, but the newer fleet will help counter that. I mean we'll also see potentials from IT spend and other components of the business. But that's our job to offset those things, and we'll continue to do that.

Josh Patwahan - *JPMorgan - Analyst*

Great. Thank you.

Operator

Dan Levy, Barclays.

Dan Levy - *Barclays - Analyst*

Hi, good morning. Thanks for squeezing me in. Let me just first start with a question on second quarter. You said second quarter was even break even, you're talking about $300 DPU. But to hit break even, I think you still need to have RPD to be down only slightly.

And I think you talked to some softness in early April. So what's the line of sight to improved RPD? And just remind us again on when that mixed benefit comes through on the channels and customers.

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

Yeah, Dan. This is Sandeep here. So, I think the mixed benefit is it's an ongoing effort from our end, right? That's not a point in time benefit. That's something that we drive. It's a journey that we're taking that will drive continuous improvement -- ongoing improvement in terms of how we channel is our mix, right?

And, the RPD component, you got it accurately, right? The first part of April, I think I'd mentioned the softness from an RPD perspective. RPD overall we see it progressively improve as we get into the summer piece. I think the overall story on that is yet to be told, right? We generally have a short booking, window.

Majority of that is within 30 days. So we are progressing towards that. What I've seen is a stabilization in the rates. I've seen a stabilization in the demand profile coming through in the last few weeks. So there's been stabilization. But yeah, there's uncertainty in the environment and we have to see it play through.

Dan Levy - *Barclays - Analyst*

Okay, thank you. And then just as a follow up touching on one of the prior questions, so appreciate the commentary that you're depreciating at sub $300 ex-gains, but can you just remind us how you would approach those gains, how you would approach stronger residuals and flowing those through the depreciation, or would you rather wait until you're actually disposing the vehicles and then take the gains there. So it's just when would you recognize those benefits and depreciation?

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

Yeah, hey Dan, this is Scott. I'll talk a little bit about depreciation. But some of this stuff is a bit sensitive, so won't give too many details. But as a general rule, we're going to sort of mark to market, the fleet, and so we'll do that. And we have parameters by which we do that.

but we do take gains in the period by which we sell vehicles, but our depreciation will move a bit as the market moves. Now maybe a little bit of a lag as the indicators and those barometers get flushed through our accounting system and how we think about those things, but generally it will move in tandem with the market, for the most part, but at a lag.

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

Okay. Thank you.

Operator

This concludes the Hertz Global Holdings first quarter 2025 earnings conference call. Thank you for your participation. You may now disconnect.
