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HTZ.OQ - Q2 2025 Hertz Global Holdings Inc Earnings Call

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PRESENTATION

Operator

Welcome to Hertz Global Holdings second 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, sir.

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 want to remind you that certain statements made on this call contain forward-looking information. Forward-looking statements are not a guarantee of performance, and by their nature, are subject to inherent risks and uncertainties. Actual results may differ materially.

Any forward-looking information relayed on this call speaks only as of today's date, and the company undertakes no obligation to update that information to reflect changed circumstances. Additional information concerning these statements, including factors that could cause our actual results to differ is contained in our earnings press release and in the Risk Factors and forward-looking Statement sections 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, and good morning, everyone. First, I'd like to thank the team at Hertz for their hard work and dedication over the last quarter. Our people continue to lead this transformation, driving execution improving operations and strengthening performance across the business.

When we introduced our Back-to-Basics Roadmap last year, we didn't just make a strategic pivot under new leadership. We began a multiyear journey to reset the foundation of the company and position Hertz for the future. This transformation isn't about broad strokes. It's about driving fundamental change starting at the core of our business and rebuilding it from the ground up.

At Hertz, we believe transformation is earned. We know that through disciplined execution and operational excellence, we will drive tangible results for our customers, our team members, and our shareholders. That's why we've been transparent about our goals, clear about our progress, grounded in the details that drive performance. And this quarter, we delivered our best set of results in nearly two years. For the first time in seven quarters, Hertz delivered positive adjusted corporate EBITDA, a nearly $0.5 billion year over year improvement.

We exceeded our North Star target for depreciation per unit, achieved the highest second quarter retail vehicle sales in five years, and had our highest fleet utilization in nearly two years. These gains supported $2.2 billion in revenue for the quarter and underscore our ability to sweat the assets and do more with less. Importantly, we also improved our direct operating expense per transaction day despite lower year over year volume, a clear sign of growing operational leverage.

What's behind that progress? The same three financial pillars we laid out at the start of our journey, disciplined fleet management, revenue optimization and rigorous cost management powered by our people, technology, and processes. These are the fundamentals for long-term durable profitability.

Let's dive deeper into these results and begin with the fleet. At its core, Hertz is an asset management company that buys, rents, and sells vehicles with the scale and brand recognition earned over more than a century of service. Our fleet is our most powerful economic lever, and we knew that any meaningful transformation had to start there.

Over the past year, we've moved aggressively to rotate the fleet and realign the mix to better reflect customer preferences. That progress has proven core to building our new foundation, resulting in tangible financial impact, measured best through the results delivered by our Buy Right, Hold Right, Sell Right strategy.

We achieved depreciation per unit of $251, well below the sub $300 North Star target thanks to our early action on favorable model year 2025 pricing and a timely acceleration of our fleet rotation. In the first quarter, we navigated a challenging environment marked by unpredictable travel demand and tariff developments. Confident in our strategy but mindful of the risks to demand and potential oversupply of fleet, we continued our fleet rotation in earnest selling off older, higher depreciating vehicles into a strengthening residual market while fleeting up for our peak season.

While the fleet size declined year over year, the quality of our assets improved setting the stage for better unit economics as we complete the rotation. This approach proved effective, yielding strong cash proceeds and positioning us for more efficient growth.

As a result, 80% of our US core rental fleet is now less than a year old. This younger fleet is driving better reliability, lower maintenance costs and stronger customer experience all while supporting lower depreciation.

Looking ahead, we're applying the same disciplined approach to model year 2026 vehicles. Despite supply chain-related delays, we're progressing in our negotiations, diversifying our OEM relationships, and maintaining flexibility as the industry continues to navigate any economic headwinds. Our refreshed fleet gives us flexibility to navigate this uncertainty.

We also had our best second quarter for retail vehicle sales in half a decade building on the momentum achieved in Q1's record performance. As we continue to elevate and expand awareness of our Hertz car sales channel, we've partnered with Cox Automotive to support a fully digital transaction, meeting customers where they are and enhancing how we engage across the car buying journey.

Their deep consumer insights through platforms like Autotrader will help inform and strengthen our marketing, pricing, and retail strategy as we scale. We're also seeing strong momentum in our rent-to-buy program which continues to deliver one of the highest conversion rates, a clear sign that try before you buy model is resonating. It combines the flexibility of a rental with the convenience of ownership and it's proving to be a meaningful driver of volume and customer satisfaction.

Beyond that, we're expanding our technology partnerships and digital integrations to improve visibility ease and reach, ensuring our vehicles are present on the platforms where consumers are already browsing and shopping. These efforts are designed to drive greater awareness stronger engagement and a seamless path from interest to ownership.

Shifting gears, our revenue results were down commensurate with our decision to reduce our fleet size for the reasons I outlined earlier. Our intent is to earn the right to grow again as we complete our fleet rotation and our unit economics fall into line. The headline on RPU is encouraging, essentially flat year over year when adjusting for car class mix shift, which is margin accretive as a peel back -- as you peel back the elements that make up RPU, we're making some great headway in demand generation and utilization, but have work to do in pricing.

We're staying focused on what we can control in this area and are encouraged by the market setup going forward. With tighter supply resulting in or resulting from OEM supply chain disruptions and recalls, along with growing macro demand. Our rigorous efforts to control costs also showed progress this quarter.

Despite previously mentioned insurance and rent expense headwinds, direct operating expense per transaction day was down year over year, driven by a younger fleet, better supply chain leverage, productivity improvements and tighter operating discipline. We expect these efficiencies to continue improving our P&L as we work towards North Star target of DOE per day in the low 30s.

Given the pace of change in this transformation, we need to stay focused on how we make Hertz, the most preferred rental car company in the world. As we improve our core economics of our business, we're focused on how we leverage that strengthened foundation to deliver an improved customer experience, putting our customers in the forefront of everything we do.

Net Promoter Score improved 11 points year over year, and we are seeing stronger enrollment in our loyalty programs, but our job to continue earning our customers' trust every day by delivering value, consistency and reliability. That's what we've set out to do with our digital vehicle inspections.

For over 100 years, manual damage inspections have caused confusion and frustration, creating unnecessary friction with customers. This technology is designed to bring much-needed precision, objectivity and transparency to the process while improving our ability to proactively identify specific maintenance actions and drive further operational efficiency.

We know change of this scale takes time and we're listening, learning, and improving every day. Our goal is to enhance the customer experience by removing friction, ensuring transparency, and building trust not just for the 3% who experience damage but also for the 97% who don't.

Before I hand it over to Sandeep, I'll say this, transformation doesn't happen overnight, but by tackling the largest economic lever, the fleet, first, we created the foundation needed to move faster and smarter. We can now empower our customer team to act with greater speed and precision at a local market level to capitalize on pricing and revenue opportunities and meet customer demand.

There is still a lot to be done, but we're making measurable progress in our operations and doing it the right way. We're staying disciplined, controlling what we can and executing with precision to earn the right to grow.

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

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

Thank you, Gil. Good morning, everyone. On the commercial side, we are focused on the foundational improvements that drive RPU towards our North Star metric of over $1,500. These efforts will directly enhance profitability and strengthen our position for future growth. In Q2, revenue was down 7%, in part due to, as Gil mentioned, running a smaller fleet down 6% year over year.

In that environment, we built momentum on demand generation and utilization but faced challenges with pricing. Going forward, we have a clear commercial strategy to unlock the value where we see significant potential. Our strategy begins with our ability to sweat our assets and drive more days for a given fleet size which you've heard is yielding results.

The utilization improvement in Q2 was driven by our world-class tech ops team, reducing out-of-sales vehicles, improved demand generation from our commercial and operations teams and better alignment of capacity and demand, driven by our fleet planning and revenue management teams. This utilization performance also supported a sequential improvement in year over year RPU even within a competitive pricing environment.

Looking ahead, we believe pricing represents one of our largest opportunities to unlock further value. To capture it, we are executing against a detailed plan, starting with the transformation of our revenue management platform. Our current system originally implemented in 2004, relies on outdated forecasting methods and batch-based optimization lacks real-time data and is not integrated with adjacent functions like capacity planning.

It also fails to reflect localized market dynamics or respond to real-time demand signals and is over reliant on human judgment. To change that, we are several quarters into a multiyear partnership with Amadeus, a global travel technology leader, to replace our legacy RM system. The new platform will introduce sophistication like that seen in the airline industry including real-time optimization, dynamic forecasting, and integration with adjacent systems. Our next major upgrade remains on track for deployment at the end of Q3.

The same rigor we applied to our operational overhaul is now guiding how we approach commercial execution at the local level. Mid-quarter, we launched new initiatives that empower and incentivize field leaders to drive profitability in their specific markets. Even in the early stages, we've seen value creation emerge from local teams identifying and acting on fleet and demand opportunities as this effort matures, it will further enable more effective pricing and higher margin decision-making.

Stronger demand generation, particularly in durable direct channels is another foundational lever. We saw a sequential improvement in direct website sales. A standout metric this quarter was a 100% year over year increase in new US Hertz loyalty member sign-ups, accompanied by increased member booking activity. We also made progress on revenue diversification with sequential growth in both our off-airport and mobility business units.

At our last earnings call, we had expected firmer pricing as we stepped into summer. However, the Q3 pricing environment started challenged, but the conditions are improving. Domestic air travel returned to positive year over year growth in July, supply constraints from model year '26 uncertainty and manufacturer recalls are tightening supply with recalls currently affecting approximately 2% of our US rental fleet.

For Hertz, US leisure forward bookings are currently tracking ahead of planned fleet capacity.Demand is strengthening and supply is getting constrained. While the challenged second quarter's trends continued through July, our US forward bookings for August through the fourth quarter are quickly narrowing the gap to last year's RPD trends. While this is materializing later than expected, we are increasingly optimistic about pricing in the second half of the year.

In summary, our gains in utilization are accelerating and we have momentum in our demand generation channels. We have an actionable plan to address our largest opportunity in pricing through technology modernization, revenue management strategy refinements and local market empowerment. Our focus remains on strengthening the core profitability of the business to serve as a launch pad for future growth.

Let me now turn the call over to Scott for a review of our financial performance and liquidity.

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

Thanks, Sandeep. Good morning, everyone. Great to have you on the call today. Let's start with our second quarter financial results. Total revenues were $2.2 billion, and adjusted corporate EBITDA came in at a positive $1 million, which was consistent with our guidance and an impressive turnaround from a loss of $460 million in the prior year, with a similar improvement in adjusted operating cash flow.

It's a clear indication that we are making significant progress. While we've taken a moment to celebrate this milestone with the team, we're already focused on the next one. Fully aware that continued progress will require sustained effort and execution. So a big high five to the team for the accomplishments so far, but now it's on to the next play.

Looking at our key operational metrics, RPU was $1,400, down slightly year over year and flat when adjusted for our change in fleet mix. Vehicle utilization reached 83% in Q2 marking a 300 basis point improvement year over year. This improved performance highlights our ability to optimize fleet deployment while maintaining service levels.

While there is solid demand generation, execution of our pricing initiatives will unlock material margin expansion, underscoring the strength of our fleet strategy in a favorable residual value environment, DPU came in well below guidance at $251 per unit per month, exceeding our North Star target by 16%. This is a meaningful improvement, both sequentially and year over year.

On a gross basis, DPU was around $280. Net gains on sale represented about $30 per unit per month driven by strong residual values achieved through our optimized disposition channels and our continued disposal of older vehicles. We expect gross DPU to remain under $300 for the rest of the year. We don't expect to have the same level of gains on sale in Q3 and Q4 due to an expected lower volume of sales than in Q2. So our net DPU numbers will likely be closer to our gross DPU numbers.

In addition to fleet, our operating cost management initiatives continue to yield positive results. Direct operating expenses or DOE, declined 3% year over year on an absolute dollar basis. DOE per transaction day of about $36 improved sequentially and year over year, reflecting disciplined cost control and operational agility, despite the reduction in capacity. SG&A remains well controlled through focused expense management and increased operational efficiency. Once again, we hit our internal cost targets, and we expect to continue to do so as we execute on productivity.

While we have more work to do to achieve our North Star DOE goal, these results reflect the continued execution of our transformation strategy and our commitment to building a more resilient and profitable business model.

Our liquidity at the end of June was $1.4 billion, a stronger position than we had signaled on our last earnings call. This was obviously bolstered by the delay of the Wells Fargo litigation resolution as the Supreme Court continues to consider whether they hear our appeal. During the quarter, we executed on a series of smaller transactions, which enhanced our liquidity and made efficient use of the balance sheet. We have no significant corporate debt maturities until the end of 2026.

On the ABS side, we completed several business-as-usual transactions that were well received by the market, demonstrating continued investor confidence in our business model and asset quality. Our ABS facilities remain strong, buoyed by a positive residual value environment with our ABS fair market values at about 110% of our net book values and resulting in an equity cushion of about $1 billion as of the end of June.

For our forward outlook, we anticipate maintaining our fleet size at approximately 6% below 2024 through year-end with flexibility to adjust based on demand signals. Our model year 2026 acquisition process is delayed versus the typical schedule as the industry continues to navigate supply chain volatility. However, we are cautiously optimistic about where things will end up, plus the significant number of model year 2025 acquisitions and the corresponding economics on those vehicles gives us a lot of optionality and flexibility.

And while the pricing uplift, we anticipated from both our own initiatives and the macro environment is materializing later than expected. We are now seeing early encouraging signs in August. However, with a limited data set, it's too soon to extrapolate this fully into the second half of the year's outlook.

For the third quarter, we expect our adjusted corporate EBITDA margin to be in the mid- to high single-digit range which incorporates an overall muted revenue forecast relative to what we said on the last call. We continue to expect the third quarter to show our first positive EPS since 2023, which is another milestone for the transformation.

For the fourth quarter, we still expect a slightly positive EBITDA margin based on improved pricing due to macro vehicle supply constraints, recent pricing trends as well as our own revenue initiatives. While the directional commentary on EBITDA still holds, the overall levels of positive EBITDA are slightly lower for Q3 and Q4 thereby pushing our full year EBITDA levels to slightly below breakeven versus our previous estimates of slightly above. For the longer term, we are confident we are still on track to achieve adjusted corporate EBITDA of $1 billion by 2027.

Overall, we remain committed to our transformation, and we are pleased with where the initiatives are tracking. There is a lot of background work on process, reporting, intelligence, insights, and the underlying platforms that allow us to continue to make better and better decisions. This is where a lot of critical work happens that doesn't always show up in the quarterly results.

However, we know these are key unlocks to future performance and we are excited to see the results of these initiatives. So again, proud of the progress to date and getting to our first financial goal of positive adjusted corporate EBITDA, but now the team has tasted some success and has rallied around where we can go. Exciting times to come.

With that, I'll turn it back to Gil for closing remarks.

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

Thank you, Scott. To reiterate, this quarter, for the first time in nearly two years, we delivered positive adjusted corporate EBITDA and almost a $500 million year over year improvement, alongside record retail vehicle sales, stronger DPU and meaningful gains in utilization, customer satisfaction and cost efficiency. These results show we've made real progress and are just a stopover on a longer journey. We are clear-eyed about the work still ahead and just as confident in our conviction about where we're going.

Hertz has the scale, brand and operational expertise to lead again. With sharper operations and a world-class team, we're building a business that's not only executing against the North Star metrics, but positioned to lead in the next era of mobility. And we're focused on getting it right. In our playbook, disciplined execution and bold transformation go hand in hand. Our momentum is real, our vision is focused, and our team is united in building the company fit for the future without trying to jump ahead of it.

With that, let's open it up for questions. Back to you, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank AG - Analyst*

Gil, maybe we can start off with a very kind of a longer-term question that would kind of be how you guys envision kind of in the future of AVs and robotaxis and things like that?

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

Yes, sure. Well, Chris, thanks for the question. Yes, well, first Hertz certainly has a role in the future of AVs and robotaxis. I'll just say I and others on the team know the space. The tech works, road safety will be dramatically improved with AVs, and the way I think about it as the cost of AVs decrease, the economics will be transformational.

So we've got a significant role to play in that future of mobility. And partnerships are just part of our DNA. This is a huge -- I think the whole robotaxi market is a huge TAM, right? And it's not a winner-take-all game here. So we're one of a limited number of companies that have all the necessary ingredients to be a major player in AVs.

So as I think about it, we've got an iconic brand. We've got a global operating footprint, driving operational excellence, you got advanced maintenance capabilities, of course, large fleet management skills, and we've also got the experience managing EVs because in all likelihood, all AVs will be EVs. And then, of course, infrastructure. But more importantly, we're an asset-heavy business, and we have vehicle financing capabilities. So bottom line is just owning and operating large fleets of vehicles. That's our core business. And as I see it, that's a foundation for AV business and mobility in the future.

Chris Woronka - *Deutsche Bank AG - Analyst*

Okay. As a follow-up, I was hoping we could maybe dig a little bit deeper into the RPD. And I know you like to sometimes look at more RPU basis, but just thought RPD on kind of what was printed in Q2 and your commentary. Is there any way to break down how much of that is mix versus kind of what's been going on in the market and do you think that breakdown or split is applicable to the back half of the year as well?

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

Yes. Chris, this is Sandeep here. And I know you said we'd like to focus on RPU versus RPD. Let me actually first start with RPU, and then I will get back to your question around RPD to share. So just overall, revenue is on an encouraging path, right?

Q2 had a sequential improvement in year over year revenue by six points while also improving RPU by one point. And we manage our revenue on a focus of our North Star metric of RPU, balancing RPU and ute at the local market level. Similar to what the airline industry does where RASM is the key unit revenue outcome, balancing yield and load. So that's how kind of we manage it all. Now when you break down Q2 in itself, RPD for us in isolation was down about 5% and would have been about two to three points better normalizing for change in fleet mix.

Now, we all know the market was pretty challenged in Q2 overall. And I'd say the overall market pricing was down mid- to high single digits as such. And there's a lot of work there that we have done in terms of improvement in our segment mix, improvement in the way we do we drive our revenue management strategies and tactics to extract and monetize more from the demand that we were generating. So I'd say we were able to overcome a decent bit of what was happening in the marketplace through the foundational improvement of how we monetize demand.

I think looking ahead, as we talked about in the -- a few minutes ago, I think the biggest opportunity for us on a year over year basis is going to be how we price, right? We have a pretty -- I'm going to use the term antiquated revenue management system. And it puts a lot of load on our revenue management system in making the right calls.

And I think over the next few quarters, I know this is a multiyear journey, but it's going to be material in terms of the year over year accretive nature of what we are trying to do here. So I'm actually super excited about the journey forward and so is the entire commercial team here.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan Chase & Co - Analyst*

I didn't hear much discussion of recalls in your prepared remarks and your utilization rate was very high during the quarter, which would be hard to achieve in the current recall environment. So I'm curious if you might have been disproportionately less exposed to the vehicles that were recalled or maybe the younger nature of your fleet now post rotation might have left you less exposed or just how recalls you think impacted the quarter and then what your outlook for their impact might be going forward?

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

Yes, thanks. I'll take that, Ryan. Thanks for the question. Yes, I think a couple of pieces to think of, first of all, for the quarter for Q2, we really didn't have much of a headwind for recalls. It's really Q3 is where I think we're going to experience the impact.

So we're -- as I think Sandeep mentioned, we're about 2% of our vehicles currently on recall that's about 1.5 points higher than normal. Let me say that kind of give you a sense of that. So we've seen a rash of recalls as we've entered the summer period, and I mean, as you know, we're implying we don't have the ability to rent a car when it's on recall. So we don't do that.

But, yes, I think what I would say in terms of how we've been managing this, just to put it in perspective, our tech ops team, first of all, is the best of the best. They are very proactive to identify and mitigate any upcoming vehicle recalls before they result in a vehicle out of service. So much of the impact that we see today is where an OEM does not have a fix for the recall developed candidly, or the parts aren't available. So those are the kind of two pieces that we're working our way through. And then I'll just say not all OEMs are created equal in this respect, right?

So mix is an important part of it. But you're right, I think the younger fleet also has less exposure to recalls in general.

Ryan Brinkman - *JPMorgan Chase & Co - Analyst*

Okay. Great. And obviously, great performance on depreciation per unit during the quarter. Thanks for the breakout of how much of the gains on sale contributed and how we might expect that to go forward. But be curious on the contribution from the higher prices achieved by selling more through the vertically integrated retail channel?

Like how much of the higher sales volume at retail, but the second best in five years was driven by a higher level of dispositions generally as maybe you were more successful in securing 2025 model year vehicles earlier because you're reducing the size of the fleet year over year versus how much was maybe driven by some initiatives on your end, perhaps structural in nature to drive a higher percent of dispositions through retail going forward?

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

Yes, thank you. I think it starts with our strategy, first of all, because that frames out kind of all the actions we've been taking to drive our depreciation down, and that includes the core of your question, too. So Again, we've been really focused on trying to develop a cohesive end-to-end strategy. We call it internally Buy Right, Hold Right, Sell Right, just to frame that out. And each of those three pieces have a lot of depth to them.

But as we've been executing the strategy, first of all, on the buy side, you're right. I mean we were -- we recognized, of course, early that we had a lot of fleet headwinds, and the team's done an amazing job kind of turning those headwinds into a real competitive tailwind now for us. And it's part of our fleet rotation strategy, but also as we bought vehicles in 2025, we tried to align our buys with the mix that our customers book to as close as we can.

But also, we were really rigorous and far more analytical about our approach to the buy-side economics with an eye towards when we sell the vehicles, what will that look like. And then, of course, our objective here is also to refine our hold period to optimize our depreciation and return on those assets as well.

But on the sell side of the equation, really important as well that we get more net out of what we're selling, right? And then it's really the retention value that we're trying to manage from when we buy the vehicle to when we sell it. And that's, of course, when we sell it, how much we sell it for, it's key in that. So the retail channels are the most accretive in that respect. So that's where we're leaning into.

And we've had partnerships, we've got our own internal car sales website, of course, that's a primary sales channel. Team's done a great job, as I mentioned, working to digitize that now. But the partnership model has also been very helpful to open up that. So we've got a number of partnerships, those are growing, by the way, and we'll continue to grow.

And then also looking to understand what is best-in-class performance in terms of net return on the vehicles. And of course, we benchmark externally and with our partners to understand where the F&I opportunities are, where the reconditioning cost opportunities are in the reduction, but ultimately trying to solve for a higher net out of the vehicles we're selling. So all that's really the end-to-end piece. And then probably also worth noting, as I mentioned in the earlier discussion, we're also -- we're mindful of, of course, seasonal demand that we need in the rental business.

But we did lean in during the quarter to take advantage of a real strong marketplace in vehicle sales and then continued to work towards that to accelerate our fleet rotation to sell out older, higher depreciating cars, which is helpful, that positions us well going forward.

But even with that, we were able to pick up some good gains when we did that. So part of that's market as well in the market dynamics on the gains. But then it's also -- all that's underpinned by the strategy of our fleet team.

Operator

John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Gil I wanted to ask a little bit more on the flipside of things, particularly as you discussed the relationship with Cox Automotive. I've always thought about them as more on the wholesale side of things, more so than retail. So I was just hoping you could explain kind of what you're doing with them and how those cars are getting retailed it to dealers or direct to consumer? And does this represent maybe a departure or a change in the relationship that you've had with Carvana?

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

Yes. No, thanks. Great question. First of all, Cox is a wonderful partner. I'll start there, known them for decades. In fact, I mean, even when I was a kid, I would go buy auto traders when I was 18 years old to look for cars to buy. So I've got tremendous respect for the company. As we partnered with them, what I will say is in terms of retail sales in particular, the opportunities that we've got with them, is one I mentioned earlier, is digital transformation of the sell experience. So the traditional model of selling cars, putting them out on a retail lot coming in, back and forth on price, reach a deal and then having to paper that up, right?

If you look at that whole process, probably the most agonizing part is all the documentation at the end, you've got to fill out and go through. We've worked with Cox to really digitize all that. So that's important on a couple of levels. One, it improves the customer experience, of course. But then it also allows us then to open up a much larger market of car sales that today doesn't -- or in the future doesn't require that physical footprint at lots. So we can advertise and transact digitally then, which is really opens up the opportunities for us.

And there's a lot of other dimensions to that too. But that's the ultimate objective. Our rent-to-buy program also plays a role in that where you can rent cars, experience them and then we can transact, right? So all those things are geared around that.

The other thing Cox has done for us is on our pricing strategies, right? So they've got tremendous data, of course, wholesale, as you mentioned, but also retail data because they've got Autotrader is just one example, but they've got a lot of (technical difficulty) retail space. So they've helped us leverage AI pricing. So we really know at a make, model, trim market location level, what the retail market is and kind of what the elasticity curve is in terms of price and time to sell the vehicle. So all of that then we ingest into our systems to be able to price vehicles optimally.

So again, they're a great partner, and there's a lot we're doing with them.

John Healy - *Northcoast Research - Analyst*

Great. And then Sandeep, I just wanted to ask one follow-up question. I think you -- when you were talking about RPD performance, you kind of -- I thought you said pricing was down kind of the industry mid to high single digits. I think we saw the pricing for Avis and kind of a bit lower than that or a bit better than that rather. So when you kind of have that view, does that suggestive of like a big change in what you're seeing out of enterprise or just any color there ?

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

Yes. I think when we look at year over year pricing for a specific brand, you have to look at what strategy they employed last year versus this year, right? There's generally there's that effect in play as well. So I just want to put that out there. And then the other thing just to mention is overall, our focus is on RPU, right?

And for us, it's finding the balance between ute and RPD at a local market level and the way we are operating on that this year is different than how we executed last year. And that's being represented in the RPU performance that we're driving. So again, similar to the airline industry, I'm going to say that we're going to be focused on RPU and finding that balance at the local market level. The -- so I'll leave it at that, yes.

Operator

Stephanie Moore, Jefferies.

Stephanie Moore - *Jefferies Equity Research - Analyst*

I wanted to follow up on maybe the updated EBITDA outlook for the full year. If you could talk a little bit about what drove the slight adjustment of going from maybe just slightly below breakeven versus slightly above before?

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

Yes, Stephanie, this is Scott. I'll start, I'm sure Sandeep and Gil want to chime in, too. But I think what we're really talking about here, we kind of hinted at this in the prepared remarks was that in our base assumption really through the summer and into the back end of the year was based on a certain curve of sort of pricing moves. We did see a bit of a delay in that. Honestly, the Q2 pricing, as we talked about, wasn't as strong as we had hoped.

But we're starting to see cracks in that as we head into August and into the meat of middle of Q3 and into Q4. So I think what we're talking about here is that sort of delayed pricing move has caused the math to come down slightly. So I think we're just sort of revising the volume of kind of what we thought around pricing and total revenue for the back end of the year.

But I think Sandeep kind of hinted to a lot of the green shoots that we're seeing that do give us a little bit of optimism. But like I mentioned, limited data set so far. So we're not ready to extrapolate that throughout the back end of the year yet.

Stephanie Moore - *Jefferies Equity Research - Analyst*

Okay. Understood. And then it would be helpful if you could discuss to the best that you can about the overall demand environment that you've seen -- that you saw in July, maybe thus far in August. And then maybe any commentary around forward bookings indicating the health of just the overall travel market?

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

Yes. This is Sandeep here. I'll cover that. So I think -- what we generally saw and -- specifically in the US, if you look at the segments that had shown a lot of decrease in the first half of the year, and I'm referring to corporate, I'm referring to government, and I'm referring to the high RPD inbound US and inbound segments.

Those were on a declining trend through the first half of the year for reasons we all know. The segments hit a -- I'm going to say, plateaued out in June, and since then, we've seen an improvement in all three of those segments, right? The corporate segment was down mid-single digits. We saw a good three to four points improvement in July from a demand perspective. Government sector, again, flattered out down 25% to 30%, and been seen in -- that was in June.

And then we saw about a five-point improvement in July in that segment. And I'd say the inbound segment, which -- where we've actually seen positive demand from APAC and Latin America, but of course, reduced demand from the EMEA region in the first half of the year, we actually saw some improvement in EMEA in July as well. And net-net, inbound was actually positive by one point to two points from a demand perspective in July. And I'd say those trends when we look at the early part of August continued to improve. So I think the demand profile as such that's coming in continues to improve.

Now going to the second part of your question around forward bookings, we are as I mentioned earlier on, we are booking ahead of our planned fleet capacity. That's indicative of two things, one is the improvement in demand that we see again, early days for that. I do want to say it's early days for that. We need to -- that trend to continue on, but also change in some of our RM strategies and tactics. As we keep on refining the way we foundationally do revenue management.

But overall, I'd say, increasingly optimistic, but the story still has to be told, right? We need to see more progress.

Stephanie Moore - *Jefferies Equity Research - Analyst*

I guess just to put that all together, so it sounds like demand environment, optimistic, stable, maybe even a little bit better. As you noted, pricing environment may be a little bit worse than had expected. And then how would you layer in maybe the overall used price environment and expectations around vehicle gains and DPU versus expectations to start the year?

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

I'll just mention on the pricing front, just one commentary. I think the pricing environment, the way I would characterize what we've seen so far is a delay in the improvement, right? We expected when we met in Q1 during the earnings call, we had expected pricing to improve through summer. That element has just been delayed, but then now we see progression narrowing of the gap on a year over year basis on that front. So I think it's a delay in that trajectory versus worsening. So I just want to ensure we communicate that .

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

Yes. And then just a follow-up on the other side around the fleet. I think the assumption going forward is that we generally expect stable residual values. We talked about gross DPU being somewhat similar in Q3 and Q4 as what we produced in Q2, probably won't have the same level of gains, less volume will be sold through the periods going forward as we did in Q2, slightly less. But all in all, we're expecting pretty stable residual values as we go forward.

Operator

Federico Merendi, Bank of America.

Federico Marini - *Bank of America Corporation - Analyst*

I just wanted to ask a question regarding liquidity. Could you help us to understand -- to bridge liquidity from current levels to the end of the year, given that some in the second half of the year is a little bit weaker than previously expected. And also, could you give us some more clarity or early comments for 2026, given the potentially $800 million, $900 million headwind from the debt repayment and the Wells Fargo liability.

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

Okay. Let me start here in '25. Yes, I mean slight revision downward in the back end of the year. Well, we will be cash flow positive in the back end of the year. We expect that to be the case as the business gets better, produces better operating cash flow.

The sort of fleet -- the fleet in and outs in the period are different in the back half than the front half. So we expect to end the year at a pretty sizable liquidity balance. I'm going to stop short of predicting the balance just given the fact that there's a number of components here that may be in and out.

I think the larger point is that we're sort of beyond the levels of liquidity that sort of caused concern in the front half and even last year, I think the business is in a better spot today. So we're going to think about liquidity as sources and uses of what the business can produce, what our obligations are, how we think about the continued fleet rotation, the fleet size next year.

All these inputs will drive where we may end up at the full year. So I'm not going to predict an outcome, but you will see a higher cash balance as we run through the year in preparation for 2026. So I'll sort of pause it there for '25. And as '26, maybe refresh me on your question for '26 real quick.

Federico Marini - *Bank of America Corporation - Analyst*

No, I was just.

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

The debt maturities, was it? Debt maturities -- yes, sure, sorry about that. The debt maturities on the Wells Fargo, obviously, we talked about the delay from the Supreme Court, whether or not to hear the case. We'll figure out where that ends up. And we've sort of earmarked funds for that internally.

So we mentioned on the last call that we would end up with a little bit higher than $1 billion or right at $1 billion. We exceeded that target here, excluding the sort of Wells Fargo potential, and then as we head through next year, there's a lot of flexibility to address the 2026 maturity. It's a December 2026 maturity. We have a lot of flexibility with our own cash production and within our own capital markets activities that are possible for us. Obviously, we have an ATM that we launched in May of last year that we did not execute on in the quarter.

And we have that capability as a strategic opportunistic capital raise possibility. And there's other mechanisms that we have today that we probably didn't have a year ago. So we have a lot of flexibility in how we can address those things in the future.

Federico Marini - *Bank of America Corporation - Analyst*

And I just wanted to ask a question on the RPD and DPU. So DPU came out, came down nicely and part of that from my understanding is the fleet mix changed? How does that fleet mix change impact on the RPD as well? Because I'm thinking that, let's say, you downsized in the kind of vehicles that you have in your fleet, I would assume that consumers -- customers wont pay the same RPD for those vehicles.

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

Yes. So I think the direction we are going on this front is essentially ensuring that customers have a certain booking behavior and ensuring that the -- from an economic perspective, the best decision for us is taking a look at this from an EBITDA perspective and saying, if we buy the right car class mixes that match up with the customer booking behavior, then that's a better outcome financially for the organization, right? And so that's the way we've aligned it.

The one of the metrics that gets impacted in that strategy is, of course, RPD because you're absolutely right, right? The per day rate that the consumer pays for a higher class vehicle or a larger vehicle is more than that of a smaller vehicle. But net-net its financially and economically this is actually a better decision for the organization, and that's why we have aligned in that direction. So we are prioritizing EBITDA over RPD and taking that decision.

Operator

Ian Zaffino, Oppenheimer.

Isaac Sellhausen - *Oppenheimer & Co Inc - Analyst*

This is Isaac Sellhausen on for Ian. I was just wondering if you could provide a quick update on Dollar and Thrifty, maybe if you're seeing any type of trade down to those brands or higher growth in them. And then maybe as a bigger picture question, is the goal still to drive kind of higher rates this brands?

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

Yes. So I'll first say that our goal is to drive higher RPU for every brand, right? So that's the objective as an organization. So we'll always be on that journey. I think what we've actually seen, and this is based on the hard work the entire organization is doing is actually, if I look at the overall mix between last year compare and contrast to this year, our mix of our premium brand Hertz is actually the one that's growing, and that's the direction we want to keep going.

That's the part of the business that I'm going to say is more margin accretive and it represents the premiumness of the Hertz brand, that is a strong pull for our consumers. That being said, Dollar and Thrifty has its place because there are consumers that need that good combination of value too and experience. And so we'll always have the Dollar and Thrifty brands that cater to that consumer based. But overall, as a business, we have shifted more towards that.

Isaac Sellhausen - *Oppenheimer & Co Inc - Analyst*

Okay. And then as a quick follow-up, just on the 2026 year buys. Obviously, a lot going on tariffs and supply chain and delays, I guess, when would you typically be making those forward vehicle purchases? And then any thoughts on anticipated DPU for those as well. Thanks.

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

Yes. No, thanks, Isaac. I'll try to respond. Yes, how I would describe it is after much delay due to the OEM supply chain disruptions, the model year '26 vehicle buys are starting to build momentum. And we remain very disciplined to ensure we achieve the economics necessary to sustain our North Star DPU target, mitigate of course, any residual value risk in a tariff type environment.

So I'd just say we're pleased to see where the unit economics and volumes are beginning to line up for the model year '26. And of course, the accelerated model year '25 buys that we did and our fleet rotation, it really gives us a lot of flexibility to manage that bridge. But yes, we're finally -- while it's been delayed a number of months, I think everything is building momentum on that side now.

Operator

Dan Levy, Barclays.

Dan Levy - *Barclays Equity Research - Analyst*

I wanted to first ask about your views on future fleet size because we've had some fleet shrinkage here, and I know that that's more strategic than anything else. But how much more you think you need to shrink the fleet from here? And then how does that play into achieving your North Star target on DOE given you're not going to have maybe the same scale benefits with a smaller fleet? Can you still get to that low 30 DOE? And what's your timing on that?

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

Yes. No, thanks, Dan. Great question. I'll just start by saying we want to grow profitably, start there. And candidly, we have had to shrink the fleet in order to grow again because the fleet itself was the biggest headwind we had. So we had to rotate it through, get to our dep number targets North Star targets and basically create a set of assets, then it's the foundation that we can build and grow from, right? So that's been the strategy.

I think, as Scott and Sandeep both mentioned, I think on a relative year over year basis, we're going to keep the fleet down similar amounts to what you saw in the quarter through the end of the year. But we do have the flexibility to grow as we move forward. We also want to make sure that as Sandeep mentioned, we're growing our demand through also more diverse revenue channels. So we're less concentrated at the airport. Two areas done a great job for us.

The off-airport and our mobility businesses really starting to grow. So we're happy about that. But there are -- what we really want to do is create multiple channels of revenue growth so that we can grow the fleet and ultimately, our profitability. And that's been the kind of underlying strategy of everything we're doing. So as we move forward, that's the way we're looking at it. Do you want to add anything to that, Scott?

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

No, I think that's good, Gil.

Dan Levy - *Barclays Equity Research - Analyst*

Okay. Great. Second is a question on balance sheet and cash. And first, maybe you could address -- we saw you issued the ATM last quarter, but looks like you didn't actually execute any stock. So maybe just explaining the plan on equity issuance.

And then maybe just like a bigger picture question. You're sitting on $0.5 billion a year of non-fleet interest. And I think the challenge is there's still maybe a bit of a ways to go before you're hitting free cash flow breakeven and can start to pay down some of that non-fleet debt. So what is the plan to deleverage the non-fleet debt? Is it just going to be the old-fashioned raise your free cash flow, pay it down? Or are there other options as far as potential equity issuance?

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

Yes. Dan, great question. Yes. I mean, look, there's a couple of facets to this. I think as we go forward, obviously, the first step in the transformation is getting the business to produce operating cash flow, positive free cash flow for the business.

That's the first step in the deleveraging plan, and it will be a key contributor to it. Obviously, as we think about speed and utilizing equity in the business, equity is going to play a role. We talked about the ATM that we launched was a first foray into using equity as a longer-term way to deleverage the balance sheet, and that's the plan, and we'll chip away at it. It's not going to happen overnight.

But I think as the business improves, you'll start to see that sort of house of cards get built and we'll use free cash flow, we'll use equity, we'll use better ways to refinance, we use some different ways to optimize the balance sheet with the ultimate goal of reducing that non-fleet corporate debt. I mean we all are very well aware of the amount of interest we pay every quarter from that. So something that is at forefront. But it's a longer-term plan that will happen over time.

Operator, I think that's all the questions.

Operator

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