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Hertz Global Holdings, Inc.

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Earnings Call

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Call Participants

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Presentation

Operator

Welcome to the Hertz Global Holdings First Quarter (sic) [Second Quarter] 2026 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 Bill Kocovski, Senior Vice President, Finance. Please go ahead.

Bill Kocovski

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, earnings presentation and in the Risk Factors and Forward-Looking Statements sections in the SEC filings we make with the Securities and Exchange Commission. Our filings are available on the SEC's website and in 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 strategy, operational highlights and our fleet. Our Chief Commercial Officer, Sandeep Dube, will share insights into our commercial strategy, followed by Scott Haralson, our Chief Financial Officer, who will discuss our financial performance.

I'll now turn the call over to Gil.

Wayne Gilbert West
CEO & Director

Thanks, Bill. Nice work. Good morning, everyone, and thank you for joining us. I want to begin by saying thanks to the Hertz team. Quarter after quarter, their discipline and execution are what turned strategy into results. We are halfway through 2026, and it's been more than two years since I stepped into this role. In that time, I had the chance to get into the detail of every part of this business -- the fleet, the operations and the economics that drive them. What's become clear is that this transformation is about both fixing what wasn't working and building for what's next.

We've done that under real pressure. Over these two years, we've navigated tariffs, vehicle recalls, inflation, partial government shutdown, elevated TSA wait lines and storm disruptions on top of the normal volatility of the rental car industry. None of it has changed our approach. We're staying focused on what we can control -- our fleet, our cost, our revenue performance and the customer experience we deliver. Through disciplined execution, we're building a financial footing strong enough to withstand whatever pressures today and tomorrow bring.

We're both running our core rental business better and building a platform spanning rent-a-car, fleet, service and mobility that diversifies and strengthens Hertz for the future. This quarter is more proof of that progress, where our disciplined execution is showing up in our results. Led by our continued commercial momentum, revenue was up year-over-year with a 1% smaller fleet and came in ahead of both consensus and our latest guidance. By continuing to sweat the assets and increasing total fleet utilization by 80 basis points to 79%, we achieved this despite elevated recalls compared to the year before.

This performance was driven by our strongest second-quarter RPD on record, excluding the peak COVID year of 2022. RPD was up 9% and RPU was up 8% versus last year, coming in at $1,542. RPU exceeded our North Star target, and we saw sequential improvements in both throughout the quarter. Adjusted corporate EBITDA came in at $81 million, a $63 million year-over-year improvement and above our latest guidance, driven primarily by an even stronger RPD in June than we anticipated.

We continue to execute on our annual DPU North Star target through our disciplined rotation strategy that is defined by our buy right, hold right and sell right approach. At $302, DPU remains in line with target. However, we did experience three quarter-specific items that caused the total gain on sale to be lower than originally expected. First, the seasonal decline was more pronounced than we anticipated as wholesale volume temporarily outpaced demand.

Second, our disposition channels were not as optimal as we would like given the volume of cars we sold. And third, during the quarter, we altered the mix of vehicles and prioritized older in certain models. These dynamics temporarily drove down the proceeds from sale, resulting in a lower gain on sale. However -- this didn't impact our go-forward view. The seasonally adjusted Manheim Rental Index increased 3.5% month-on-month in July, recovering from the declines experienced during the second quarter and remaining strong, up 6.1% year-on-year.

The used car market is good, and we're set up well for it. At the end of Q2, our model year '25 and '26 units made up nearly 94% of our U.S. core fleet. We believe we have an exceptionally healthy fleet, and we expect DPU will benefit as we rotate out of those vehicles over the coming quarters.Turning to cost. Total VOE per day increased slightly, primarily driven by costs that were both revenue related and were margin accretive, associated with stronger RPD performance.

Now, this brings me to a broader point. The North Star metrics have given our teams a steady compass over the last 2 years. But as the business evolves, it's important to recognize that these metrics do not operate in isolation. As revenue grows, a portion of our DOE naturally grows alongside it, and many of those costs are tied to higher revenue and stronger profitability. As a result, we're also increasingly focused on the relationship between those metrics, and we expect our performance framework to evolve as our transformation continues.

So, while DOE was higher, our RPD to DOE per day spread improved by 17% year-on-year, and it was our third consecutive quarter of year-over-year spread expansion. We remain extremely focused on managing core operating cost and the improvements we're seeing are the result of productivity initiatives encompassing people, processes and technology.One of our biggest levers we have is labor productivity. Supported by Palantir, our new labor planning model aligns staffing with real-time demand, reducing overtime, third-party labor and improving workforce planning.

We're also leveraging technology and AI-driven data insights to improve throughput and productivity across our operations to reduce our vehicle turnaround time. Additionally, we're making progress in leveraging our supply chain network, expanding part-out capabilities, strengthening collections recovery and improving maintenance processes, all to drive greater productivity with existing resources while lowering unit cost. Although these results demonstrate the progress we've made in strengthening the economics of the business, recalls remain a significant headwind. Recall volume was up 300% in Q2 from the year prior, impacting an average of 15,000 vehicles per month across the first half of 2026.

Recalls represented more than a $55 million EBITDA impact, and we're pursuing regulatory, operational and contractual solutions to address this issue. More importantly, our ability to deliver this level of performance despite that headwind reinforces our confidence in the path to our long-term targets. That said, while 2027 and $1 billion of adjusted corporate EBITDA are important milestones, they're not the final destination. As we've shared, we focused on something bigger. We are applying our commercial, operational and fleet management capabilities across the four strategic areas of our platform to drive greater efficiency, create diversified growth engines and strengthen the company for the future.

Our platform is the unlock to the next phase of value creation, deleveraging the balance sheet and growth. And one of the greatest opportunities to grow is by more effectively leveraging the power of the Hertz brand. Hertz is an iconic century-old brand recognized the world over. It's one of the most valuable assets with a strong reputation that we believe is undermonetized today. One way that we think we can use the power of our brand is in franchising. It is a strong asset-light, capital-efficient part of our business with attractive and predictable economics. It's not new either. Today, more than 25% of the Hertz branded revenue is generated by franchises.

However, we haven't grown it in years, and it hasn't received the level of focus necessary to full -- to realize its full potential. We're now changing that, and we're evaluating near-term opportunities across the global footprint through both white space expansion and conversion activity and thinking strategically about whether Hertz should look more like our partners in the hotel industry. If our goal is to achieve higher quality earnings, stronger free cash flow conversion, more durable shareholder returns and improved balance sheet, franchise there.

In the next area of our platform, fleet, we are building on our unique competitive advantage of one of the largest used car dealers in the country, enhancing the capabilities of our used car factory. We're continuing our journey of moving from primarily wholesale disposition towards more lucrative channels. We expect that expanding our ability to move additional car sales volume through these higher-yielding channels will have a significant effect on net DPU, and we're working to unlock those opportunities.

We're exploring how we build strategic relationships with the leading used car companies, creating more mutual value and structurally reducing our cost of sale alongside new partnerships with best-in-class retailers. We also continue to make progress on our direct retail channel. Wins this quarter included growing direct retail sales volumes, reducing reconditioning costs, delivering strong F&I performance.

In mobility, Oro is gaining momentum. For over a century, Hertz has mastered the ability to operate complex fleets reliably, efficiently and at scale. Today, Oro is extending those capabilities to a new era of mobility, filling a critical gap in the industry's transition towards commercially operated driver-led and autonomous fleets -- the capabilities we built from acquisition and financing to efficient fleet management and maintenance would be incredibly difficult and costly to replicate from scratch today.

We're putting those capabilities to work through Oro's driver-led business model, where we own, maintain and operate vehicles on rideshare platforms. Oro is now active on the Uber platform in four markets: Atlanta, Los Angeles, San Francisco and Northern New Jersey. We've expanded into these new offerings on the app, including Uber Black in New Jersey and Uber Teen in San Francisco and Los Angeles, and our drivers have logged more than 6 million miles to date. This business validates our ability to deliver high-quality and turnkey fleet solutions safely and at scale, supporting an enhanced customer experience.

At the same time, we're developing the operations, processes, systems and infrastructure that directly translate to operating AVs at scale. Earlier this year, we announced our first AV partnership with Uber's robotaxi program, supporting Lucid vehicles equipped with Nuro autonomous technology, and we're on track to begin operations later this year in the San Francisco Bay Area. We continue to see encouraging traction as we scale this part of the business.

Oro already has meaningful scale and momentum. Through these offerings and the existing rideshare rental business, we expect it to generate more than $600 million in total revenue this year with the ability to grow dramatically over the next decade. Opportunities for expanding capabilities, new partnerships and new avenues for value creation are emerging, and we're focusing our resources on unlocking that growth. This quarter is an exciting proof point in Hertz's transformation. We're making tangible progress across the business, and we're focused on execution and accelerating the improvements ahead of us.

As I look at the quarter, there are four key takeaways I'd highlight. First, our core rental car business continues to improve, and our commercial momentum is strong. The actions we've taken over the last 2 years are driving better unit economics, creating a clear path to stronger margins and potentially more than $1 billion of adjusted corporate EBITDA run rate in 2027 and beyond. Second, our fleet, buy right, hold right, sell right strategy should continue to yield strong near-term results and solidify our ability to deliver net DPU below $300 per month.

Third, our strategy to expand the franchise portion of the rental car business has the potential to accelerate that progress. We see it as a way to generate consistent earnings, strengthen free cash flow, unlock liquidity for growth initiatives and ultimately create a more durable value for shareholders while also supporting deleveraging. Finally, Oro may be new, but it is rapidly emerging as a meaningful growth platform. We believe it will continue to scale in revenue this year across all of its business lines, and we have a plan in place that we think can reshape Hertz's growth trajectory for years to come. The opportunities in front of us are significant. We're encouraged by the momentum across the business and the opportunities ahead. Ultimately, results speak louder than words, and we're focused on continuing to execute and demonstrating that progress quarter after quarter.

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

Sandeep Dube
Executive VP, Chief Commercial Officer & Director

Thanks, Gil, and good morning, everyone. In Q2, we delivered revenue of $2.4 billion, a 10% increase from the year before. RPU increased 8% from the prior year, even when factoring in elevated recalls. RPD increased 9% year-over-year, our highest second quarter RPD on our records, excluding the peak COVID year of 2022. The result was even better in the United States. U.S. airports car rental RPD increased 12% year-over-year. This was the second quarter in a row where we achieved double-digit year-on-year revenue growth globally, coupled with year-over-year RPU and RPD improvements in the mid- to high single-digit percentage range.

Let's detail our RPD improvement a bit. The majority of the improvement, roughly 6 to 7 percentage points, came from our commercial actions. Of the remainder, roughly 2 to 3 percentage points came from positive industry pricing and roughly less than 0.5 percentage point came from the World Cup. Our commercial strategy is gaining momentum based on the initiatives we have been executing over the last several quarters and the results of which are now clearly evident. Each quarter, we're getting more value from the same levers we have discussed previously. Let me break those down.

First, improving our customer experience. Our pursuit of a more consistent, convenient and caring customer experience is tangible across each area of the business as teams work together to develop more precise alignment between demand and available supply, enhance customer communication throughout the entire rental journey, expand the capabilities of our mobile app and more. One aspect to highlight is service recovery. Even when we fall short of customer expectations, we have significantly strengthened our service recovery capabilities over the past year. Now, overall, customers who go through our service recovery process have a positive Net Promoter Score.

Second, generating greater durable demand from higher-margin channels. We continue to invest in the brand to drive further direct channel growth while also making meaningful gains with corporate and government customers. Partnerships remain a key priority, and Q2 wins include our strongest year-on-year performance in the AAA partnership in more than 4 years. At the same time, we continue to drive consistent growth in our off-airport and rideshare rental businesses.

Third, improving our pricing tactics and strategies. Our key commercial objective is to drive positive RPD for comparable asset classes. And so far, the actions we have taken to implement and refine our pricing metrics continue to bring greater precision to the way we price demand, playing a part in this quarter's strong RPD results.

Fourth, improved monetization of our higher RPU assets. With our new fleet management tools in place, our team is better equipped to get the right vehicle in the right location at the right time, supporting more refined pricing.

Fifth, better value-added product sales. We have grown sales of our value-added products by improving both conversion and pricing while providing customers with greater clarity and consistency in their experience. And finally, local level profitability and optimization. We continue to manage our business with increased granularity, enabling greater profitability in each of our markets. Taken together, these actions are driving stronger demand for our brands and creating conditions for more durable pricing performance, enabling us to achieve a primary commercial objective, which is driving RPD gains beyond the industry pricing environment.

Talking about the industry pricing environment, it has been quite constructive. Some context might be helpful here. Over the past few years, industry costs, including fleet financing, depreciation and operating expenses moved materially higher, while pricing did not fully keep pace. However, more recently, the industry has just started recapturing ground lost over many years rather than simply keeping pace with current inflation. In the last three quarters, we've started to see the beginning of a reversal of the pricing declines that characterized much of the post-COVID period.

Before the industry reaches a more mature level of profitability, where pricing primarily offsets ongoing cost inflation, there remains an opportunity for pricing to continue normalizing towards levels that better reflect the economics of the business.

In Q2, consumer demand and willingness to pay was greater than what TSA numbers would imply. And that, combined with a more disciplined industry supply environment, supported positive pricing trends. Early Q3 results indicate that we are on track to deliver meaningful RPD gains again.

In July, we hit a major achievement, 200 consecutive days of positive year-over-year RPD, a milestone which reinforces that our growing commercial acumen, coupled with consistent execution, is translating into consistent commercial performance. Looking ahead at the rest of the quarter, the industry pricing environment, as we sit here today, continues to be supportive. Demand for our brands is healthy. Our fleet mix is expected to be a positive factor going forward. Most importantly, we have a long list of meaningful initiatives slated to come live in the next few quarters, which will be a rising tide for our customer experience, our demand generation and our pricing capabilities, thereby improving our ability to continue delivering strong RPD outcomes, enabling us to better control our destiny.

In summary, our commercial strategy is translating into strong revenue performance. And importantly, those results are driven by deliberate actions. We are seeing clear proof points that these actions are gaining traction. And with a strong pipeline of initiatives in front of us, we expect commercial performance to be a continued tailwind for the business. And given the positive trajectory for full year 2026, we now expect RPU to trend above our North Star target of $1,500.

Now I'll hand it over to Scott to walk through our financial performance.

Scott M. Haralson
Executive VP & CFO

Thanks, Sandeep. Good morning, everyone, and thanks for joining. Before I get into the financial results, I'd like to step back for a moment. In any transformation, it's easy to become consumed by the next quarter, the next milestone or the next challenge and lose sight of how much has already changed. While we're not declaring victory today, we are seeing a business that is executing with increasing consistency operationally, commercially and financially. Every successful transformation reaches an inflection point where the conversation begins to change.

Early on, the question is, can this company recover? Eventually, through consistent and disciplined execution, the question becomes, how do they do that? We believe that shift comes through consistent execution over time. We believe we are doing that, and this quarter represents another meaningful step in that journey, not because of any one single metric, but because the underlying economics of the business continue to improve. We recognize that it's hard for the market to fully reflect the progress we believe is occurring inside the business. That's understandable.

We recognize that investors remain focused on our capital structure and upcoming debt maturities. That's appropriate. Strengthening the balance sheet remains one of our highest priorities. What gives us confidence is that the business supporting our capital structure today is fundamentally different from the business of 2 years ago. We have continued to improve our fleet, the customer experience and operating efficiency, which has resulted in better operating performance and strengthened free cash flow.

Plus, we continue to create additional strategic options. Our focus remains on continuing that progress while thoughtfully addressing our capital structure in a disciplined manner. And while this quarters results are a really good outcome, and they are important, we believe the more significant story is the trajectory of the business and the strategic initiatives that are beginning to reshape our earnings profile. Gil outlined the takeaways for where we are today. I'd like to spend a minute discussing one on his list, and that's franchising because I believe it represents one of the most underappreciated value creation opportunities within our business.

I believe that our business today is ripe for an increasing level of franchising. It's already a consistent contributor to our adjusted corporate EBITDA results, and we haven't capitalized on this side of the business in the way that we should and will. Over the last 2 years, much of our work has been focused on transforming the operations. Increasingly, the next phase of our strategy is about transforming the quality of our earnings. Franchising has the potential to accelerate that evolution through a more capital-light model that enhances margins, free cash flow generation, returns on invested capital and financial flexibility.

It could give us more flexibility to allocate capital toward higher return opportunities across the platform, while also providing meaningful deleveraging benefits. We have already started down this path and we'll likely start to see evidence of this progression in the near future. Taken together, the near-term benefits of a more focused franchise strategy plus the opportunities in our fleet business for retail car sales as well as the longer-term potential in Oro on top of a consistently improving rental car business gives us a broader set of levers to improve margins, strengthen returns on capital and enhance how Hertz creates value over time. We recognize there is significant work ahead, but we have been building towards this for some time, and we expect to share more as these initiatives progress.

With that, let me pivot back to the Q2 results. I'll also cover liquidity and insights into Q3, the full year and a bit on 2027. For Q2, we generated revenue of $2.4 billion, up 10% year-on-year, notably with a 1% smaller fleet. This was driven by strong pricing performance with RPD up 9% year-on-year and total fleet utilization was 79%, up 80 basis points, even with a nearly 200 basis point headwind on utilization due to continued elevated recalls. This utilization increase allowed us to keep transaction days at prior year levels even with less available vehicles for rent.

Also, despite elevated recalls, RPU surpassed our expectations, reaching $1,542, up 8% year-over-year. GAAP net income for the quarter was $64 million and diluted GAAP EPS was $0.05 with an adjusted net loss of $47 million. GAAP net income benefited from gains on the sale of real estate locations on which we completed sale-leaseback transactions as well as revaluations of other exchangeable notes and warrants issued in prior years. Adjusted corporate EBITDA was $81 million, representing a $63 million year-on-year improvement and coming in at the top of our most recent guidance.

Adjusted corporate EBITDA margin improved by 260 basis points to 3.4% from 0.8% in the second quarter of last year and in line with our guidance expectations. These results included a total impact of recalls of approximately $55 million on revenue and $30 million in EBITDA. Despite this, we still produced a strong year-over-year improvement in EBITDA.

Turning to cost. Adjusted DOE per transaction day was $37.49, slightly higher than our expectations and higher year-over-year, primarily due to higher revenue-related variable costs and higher expenses related to sale-leaseback transactions. When normalizing for these factors and the days impact of recalls, adjusted DOE per day improved approximately 2% year-over-year. While these dynamics can make DOE appear less favorable in isolation, a large portion is tied to revenue growth and our adjusted corporate EBITDA accretive.

In fact, approximately 25% of our DOE cost structure is influenced by RPD movements, including airport facility costs or concessions, commissions, credit card processing fees and fuel-related expenses. Because of this, the spread between RPD and DOE per day is a key measure of the value we create from each vehicle day and the effectiveness of our commercial and operational execution. This quarter, our RPD to

DOE per day spread was approximately $24.36, up 17% year-over-year, and it's the third consecutive quarter that spread has increased.

SG&A increased slightly year-over-year, driven primarily by investments in sales and advertising, which contributed to this quarters strong RPD growth. As a percentage of revenue, SG&A declined from 11.3% to 10.8%, reflecting improved operating leverage. Gross depreciation per unit per month was $298 during the quarter. Net DPU was $302, reflecting an incremental $4 per unit per month driven by the loss on sale of a concentrated mix of older vehicles and pressure on the wholesale market dynamics that have since normalized.

With that said, we've seen the overall used car index and rental car index both show positive signs of stability. And year-to-date, gross DPU has been fairly stable. We now have our youngest rental car fleet in over a dozen years at just under 9 months and believe those vehicles are well positioned for good economics over their life cycle.

Our 2027 fleet acquisitions have been picking up steam. And while total volumes are still an unknown at this point, what we have secured to date are at similar economics to the 2026 model year vehicles. Our young fleet gives us a lot of flexibility to be picky about model year 2027 vehicles and consider growth given we can extend the life of vehicles a little further or sell during peak periods to monetize gains. This could be a useful lever going into 2027.

Turning to liquidity. We ended the quarter with $984 million of liquidity, which includes cash and cash equivalents and the available capacity under our revolving credit facility. This was in line with guidance of just under $1 billion. And in June, we completed an exchangeable senior first lien secured notes offering for a total of $350 million, which used capacity created through expiring revolving commitments as well as from term loan amortization.

In addition, we added another $30 million of notes offering in July as part of the exercising of the greenshoe, which would bring our pro forma liquidity post transaction to slightly over $1 billion. As mentioned on prior calls, we had anticipated refinancing the first lien capacity that was being freed up from the reduction in revolver capacity at the end of June.

With that in mind, lets discuss guidance. For liquidity, we expect to end the year between $1.0 billion and $1.4 billion, with sufficient levers to fund strategic growth initiatives. This contemplates some amount of free cash flow generation in the back half of the year as we enter the peak Q3 period, balanced with a somewhat off-peak Q4 period. The broad range contemplates the potential for strategic transactions, including franchise-related agreements that could take place during the back end of the year.

It also includes the payment of the remaining $200 million subportion of our December 2026 maturity in cash. This is also slightly lower than our previous guidance due to the fact that we removed proceeds from the ATM program from our forecast. However, it will remain available should that become a viable option in the future. An additional potential benefit to 2027 liquidity, we're also evaluating the seasonality of our fleet moves. As we reflect on what we're seeing throughout 2026 across the supply, demand, rental car pricing and used vehicle pricing, we're taking a fresh look at the timing of our fleet and investments and how we manage fleet levels throughout the year, particularly as it pertains to working capital, recognizing that decisions around fleet timing and seasonality can have a nine-figure impact to the timing of cash flows in the year.

This analysis balances the fact that peak demand for rental cars overlaps heavily with the peak periods to sell vehicles. For profitability, we expect Q3 adjusted corporate EBITDA production to be between $275 million and $325 million, with positive earnings per share for the quarter. Transaction days should be up approximately 1% year-over-year, and net DPU is expected to be in the $285 to $295 per unit per month range.

Also, for the full year, we expect EBITDA to be in the $225 million to $275 million range, with net DPU at approximately $300 and transaction days up approximately 2% year-over-year. For 2027, we continue to target $1 billion of adjusted corporate EBITDA, but we will need some scale for that number to be within a reasonable reach. However, at a minimum, we do expect that in 2027, we will finally reach full year net income profitability, and we will be free cash flow positive for the full year. We expect our year-end cash balance, together with our projected 2027 profitability to provide the liquidity necessary to support some modest growth in '27.

Any liquidity above the midpoint of our guidance range could be deployed toward additional growth investments. This highlights perhaps the most meaningful change in our business. We are increasingly shifting our conversations from how we finance the business to how we allocate capital to create the greatest long-term value. This is an important distinction, and it's one that we believe reflects the progress the business has made.

I'll leave you with one final thought. Every quarter tells part of the story, but transformations aren't defined by individual quarters. They're defined by the accumulation of hundreds of operational decisions, disciplined and smart capital allocation, consistent execution and an organization committed to improving every day. That is exactly what we believe we are building here at Hertz.

I'll now turn it back to Gil for closing remarks.

Wayne Gilbert West
CEO & Director

Yes. Thanks, Scott. We're proud of the progress we've made in our transformation to date. We've made great strides in shoring up our core rental car business. Adjusted corporate EBITDA improved $1.2 billion in 2025 and another $200 million in the first half of 2026. We are on track to deliver more than $500 million of year-on-year adjusted corporate EBITDA improvement and positive margins this year. That would represent nearly 2,000 basis points of margin expansion in just 2 years with more to come in 2027.

This quarter, our commercial momentum and operational initiatives continue to translate into results. Looking forward, we know exactly where the work is: revenue, depreciation, cost and customer experience. Sustaining our progress means executing with discipline across all of these, and we're encouraged by the momentum building across the business by what we're seeing in the opportunities ahead and by the actions already in motion.
With that, let's open it up to questions. Back to you, operator.

Question and Answer

Operator

[Operator Instructions] Your first question is from the line of Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

So honestly, it looks like a good print, and it sounds like you guys feel pretty confident about where the business is going. So in your eyes, what do you view investors are missing here? Because it feels like the drop in market cap just over the past 45 days or so is disconnected from the story you guys are telling and the confidence you have in the direction of the business. So any insight there would be helpful.

Wayne Gilbert West
CEO & Director

Yes. Thanks, Stephanie. This is Gil. I'll chime in. I'm sure Scott will want to add. Well, I mean, great question, certainly keeping us up at night. Candidly, the valuation of the business today is tough to understand. It's hard not to be distracted by the stock price. And of course, we remain focused on the long game. But there really does appear to be a disconnect between how the equity markets view Hertz over the last quarter. And the way I think about it is at the end of the first quarter, we sat at roughly $1.5 billion in market cap, which we felt at the time was undervalued.

And then during Q2, we refinanced the debt that fell off the revolver. And just prior to the earnings announcement today, for the third quarter, we were only at about third of that market cap that we were 90 days ago. So I would argue -- we're in a much better position than we were 90 days ago, and there's clear evidence of the momentum that we've been talking about. The core business is performing again. And then first on liquidity, we've navigated the seasonal low point with liquidity and came out, as Scott mentioned, at roughly $1 billion, which was consistent with what we had guided.

And we expect to build liquidity throughout the year and to be free cash flow positive in '27. And as we talked about, we're exploring franchising that not only can add liquidity, but also a path to delever the business. And then I think the EBITDA results as well, right, for the quarter and year-on-year improvements despite some headwinds. And the commercial momentum, revenue that Sandeep talked about, really doing more with less, revenue up 10% with a 1% smaller fleet. So the strategies and the hard work the team has been doing is paying off, and we expect more ahead.

And then depreciation as well, right, effectively hit our North Star target. And even though we accelerated the rotation of older vehicles, we got a really healthy fleet, and that ought to bode well for DPU as we sell those through more lucrative channels. So I think the other upside we see is the platform. Scott and I both talked about that. But that's all upside, but it's building momentum. Oro is an example. And then the valuation of Oro by itself could be very material in the mix as well. So look, I think we're focused on executing the strategies that we have. We know ultimately the stock price will take care of itself. So that's really key for us to stay focused and keep moving.

Scott M. Haralson
Executive VP & CFO

Yes. Stephanie, look, I think Gil outlined it well. I think the point is the fundamentals of the business are different than they were 2 years ago. How we're talking about the business today is different. The traditional rental car portion of our business is strong. Foundational elements of RPD and DPU are in a good position, if not improving. So that platform, coupled with the strategic plan that we've outlined I think the feeling in the building is really a lot different than what we're seeing in the marketplace. But -- and that's understandable.

Look, I mean, I talked about in the prepared remarks, we recognize that our investors are focused on the capital structure and the upcoming debt maturities, and that's okay. Our job is to continue to execute over and over again, and all that stuff will play out over time.

Stephanie Lynn Benjamin Moore
Jefferies LLC, Research Division

I appreciate the insight there. Just a follow-up for me. I mean I agree, I do think investors are focused on the liquidity profile and the capital structure. So it sounds like you have a plan in place. So it's kind of a two-part question: Are -- do you have to do some of these franchise deals from a liquidity standpoint? Or is that just more so another option that you have? And then secondly, as you think about what keeps you up at night, Gil, as you think about just your liquidity profile, what could go wrong? I mean, at this point, it does sound like you've made a lot of actions on your own within your own control. But if I'm an investor and I'm concerned about overall liquidity, is it mostly just a weaker deteriorating macro? Help me alleviate maybe that downside scenario. That's it for me.

Wayne Gilbert West
CEO & Director

No, I appreciate it. I'll start, and I think, Scott, you can talk more about the liquidity and the franchising piece. Yes. Look, I mean, we're -- as I said, earlier in the prepared remarks, we've been facing a lot of headwinds, right, for different reasons. Some are some macros that I mentioned. Others are just working through issues historically, not to relitigate some of the fleet discussions, but we had to rotate the fleet for a variety of reasons. That was hard to do, especially the liquidity hit, but we've come out the other side. So look, I think we've been facing headwinds and attacking them head-on. We know things can continue to change and happen. But I think given our starting point and the headwinds that we have faced and the things that could go wrong and did, we managed through that and then come out in a much better place. So we're -- we've got what I would say, the momentum, the team candidly and the more durable strategies, especially in fleet and revenue that can sustain us. So we're eyes wide open, and we'll manage all the variables as we see them materialize.

Scott M. Haralson
Executive VP & CFO

Yes. Stephanie, real quick on liquidity and maybe a little on franchise. Look, I think over the last 2 years, much of our discussion has centered around capital structure and really centered on liquidity, ensuring that we have the right resources needed to support the business, and rightfully so. But today, the conversation is increasingly different because the underlying economics of the business are materially stronger than they were 2 years ago. So as a result of all that, our focus is expanding beyond financing the business to thinking about capital allocation and long-term value.

So we believe our current liquidity provides us with a lot of flexibility to execute our operational and strategic plans while continuing to evaluate the opportunities to further strengthen the balance sheet. So as we think about liquidity, we think we're in a good spot to fund the business. The idea of franchise is we think that is a tremendous idea regardless of our capital structure. It's the right move for the business at this time, particularly with the strategic options around Oro and our fleet; these are capital allocation decisions, not capital structure decisions. So we think it's the right move for Hertz today.

Operator

The next question is from the line of Chris Woronka with Deutsche Bank.

Chris Jon Woronka
Deutsche Bank AG, Research Division

So I was hoping we could maybe unpack the residual issue a little bit. And you guys covered a lot of ground for Q2. So maybe we can just focus more on the forward-looking. Relative to what you thought maybe three or six months ago, is this more an issue of the market temporarily moved against you for a specific kind of model or something? Or is this really about channel mix not being quite what you thought or hoped? And if it's the latter, if it's channel mix, what -- how confident are you? And what are some of the steps you're taking to get the mix more favorable going forward? And then I'll have a follow-up.

Wayne Gilbert West
CEO & Director

Yes, sure. Chris, thanks. Good to hear from you. Good question. Yes. What I would say on residuals, and I tried to cover it in the prepared remarks, but I think we saw some things that were unique to the quarter that affected us. The broader outlook -- and keep in mind the backdrop of the dynamics, right? We saw record tax refunds. We saw that and forecasted that the market would go up. It did. It ran up strong in the first quarter, right? And February, March up, I don't know, 7%, 9% in the rental car index. So I think what we saw in the second quarter, again, is those kind of elevated levels on a year-over-year basis started to normalize in the 1% to 2% year-over-year range.

So you saw a monthly kind of fall off. And I think that was -- part of it might have been the pull forward for tax refund. Keep in mind, this is principally the wholesale market. And then the other dynamic there was volume, right? I think what we saw was a lot of volume. We played a part in that. The rest of the industry did. There were a lot of lease returns coming back as well. So that supply-demand imbalance, I think just price is the lever there, especially on the wholesale side. So we saw all that play out. I think ideally, in a perfect world, we would use more lucrative channels that aren't exposed to that.

But the challenge that ultimately we're trying to solve is, one, to build additional capacity in those more lucrative markets. But then periodically, we have volume to move, and we need the capacity to do that. So the channel mix side is a problem we've been focused on. We're obviously driving towards higher-yielding channels there, a variety of strategies to do that.

We -- our direct retail, both physical and digital area we focused on. Partnerships are another area. But just know, we continue to iterate and figure out how do we move from kind of, call it, 70% to 80-plus percent wholesale volume into flipping that equation to more lucrative channels. So it's a big area of our focus and has the opportunity to create a lot of value for us.

Chris Jon Woronka
Deutsche Bank AG, Research Division

Okay. Appreciate that. And then on the franchising, just to kind of follow up there, and I don't want to put the cart before the horse. I know it's still very early days of what you might do there. But at a very high level, do you envision that you would have some kind of requirements or standards for franchisees on the liquidity side so that they would remain in good health? Is that something you think you would consider if you go forward on this? And just in general, how much regulation do you want to put out there for franchisees?

Scott M. Haralson
Executive VP & CFO

Yes. Chris, this is Scott. I'll start. Look, I think it's probably a little early in the process to talk a lot of specifics around this. But I think a couple of things. One is this isn't new for us. We've been doing this for a long time. We just haven't fed that business the way it should. And we think it's an interesting option for us to expand that percentage. Today, we're north of 25% of our branded revenue is franchised. We think that number could be directionally higher. We're not going to today tell you where we think it could end up because we're not sure yet. But we do think it's a very interesting channel. And we have very high-quality franchisees today, and we'll continue to look for high-quality franchisees that can operate this complex business. But we're excited about where it goes, especially from a capital perspective. I think it's much more efficient use of our capital and creates a consistent level of EBITDA. And we'll give you more as we go down the path on this, but we're excited where this can go.

Operator

The next question is from Rajat Gupta of JPMorgan.

Jash Patwa

JPMorgan Chase & Co, Research Division

This is Jash Patwa on for Rajat Gupta. I just wanted to start on the retail disposition mix and if we could get an update where that stood in Q2? And how should we think about the runway to expand it from here? Is there a natural ceiling or a clear path towards that higher aspiration? It will also be helpful to understand how the partnerships you've built over the past couple of years with Amazon, eBay, Cox, how are those factoring into your retail disposition channels? And I have a quick follow-up.

Wayne Gilbert West
CEO & Director

Yes, sure. Comments and some of this may be repetitive. But again, I think it's obvious why we want to try to lean heavier into the higher-margin channels. And we think of it as any process, it's how do we increase throughput in those and that yield. And so we've taken a multipronged approach as we've talked about: our do-it-yourself model, direct and physical approach or digital and direct retail approach. We've also got partnerships now with a number of the larger used car dealerships.

And I think the point I would make there is as we look at this with those partnerships, it's how do we move from more a transactional type relationship to a more strategic relationship, right? Because ultimately, that approach can create a lot more mutual value between us, which then we can each share in, right? Right now, it's -- it's been more transactional, if you will. And there's value to create certainly on the price, certainly on the back-end F&I, reconditioning cost, also kind of our -- what I would call work in process of our cars sitting there waiting to sell, right?

We would like to be able to operate those and leverage the working capital with that. So I think there's a number of opportunities to create a lot of value between the scale matters in that environment. And then we partnered with other retailers, Amazon, eBay and others, right, for really to leverage in Cox as well to leverage our own direct retail car sales. And progress is being made. I don't want to indicate otherwise. But as I said earlier, as we think about kind of flipping the volume model from wholesale to the more lucrative channels, right, from, call it, I don't know, 70% to 80-ish percent wholesale now, depending on seasonally in the month and the volume we're moving to more of a -- we want to see 70% to 80% moving through the more lucrative channels. So that's been the approach.

Jash Patwa
JPMorgan Chase & Co, Research Division

That's very helpful. Just as a quick follow-up on Oro. I was curious like what's the magnitude and nature of the investment going into the San Francisco autonomous ramp? And how fungible should we think about the infrastructure? Is it built to flex across a range of autonomous players as the ecosystem shakes out? Or is it purpose-built to this one specific partner?

Wayne Gilbert West
CEO & Director

Yes. No, thanks. Great question. Yes, as I mentioned earlier, we're really excited about where Oro is heading and the capabilities and kind of our rightful place in AVs. What I would say about the infrastructure, and this is really the benefit of Hertz as a background is we have a lot of infrastructure footprint. We're operating on it. We can pivot and adapt into EVs with that. From an investment standpoint, a lot of that's already there. The biggest item to make sure we have the capability, of course, is EV charging networks in that distributed footprint.

As you know, we've got a lot of EV experience, and we have charging networks across the system. So it's another infrastructure investment that we've made in prior years that help play out with Oro as well. So -- and I think as I said earlier, if you think about kind of the infrastructure that we have, the ability to operate fleets at scale, own and finance vehicles, trying to replicate all that would take a whole lot of time and a lot of money. So that's kind of the going-in foundation with Oro that we have.

And we're excited about the role we will play in AVs. We see it as kind of that operating layer. And I mean the way I look at this, candidly, is the analogy is what data centers are to AI, the operating layer is that we play a role in is to AVs. So I think it's required, and we've got a big running start on it.

Operator

The next question is from Dan Levy from Barclays.

Dan Meir Levy
Barclays Bank PLC, Research Division

I wanted to start first with a question on the DOE. And I think you referenced this before that the challenge with the DOE is that as you are tight on your fleet, you're not getting the scale that you need to drive that DOE per day down to that low 30 North Star metric. So can you just give us a sense of the path to drive it lower if the intention is to keep the fleet levels tight?

Scott M. Haralson
Executive VP & CFO

Yes. Dan, this is Scott. And also I apologize to everyone, too, we're going to be close on time here given the extended remarks and some of the answers were a bit extended as well. But yes, to DOE, look, I mean, I think scale is one of the components we've talked about, not the only one, obviously. We think that a lot of the initiatives that we have in place are obviously moving in the right direction. We talked about core operating expenses down 2% year-over-year on basically flat days. Like that's an important baseline to start from. I mean, obviously, we have headwinds thinking about RPD-related costs and sale-leasebacks, financing costs, like -- but the core business is getting more efficient every year.

And we haven't even hit all the levers that we think are available. So there is room to run on unit cost efficiency. Now mathematically, scale is important. No doubt that it is important. So it's a combination of all those things. But one thing I do want to add to, we talk about North Stars and the ability to get to $1 billion or beyond. Cost is not our only lever here. Let's make it stated, that's the case. We do think there is room to run on VOE per day and unit cost, but it's one of multiple levers, including RPD, RPU, DPU, all of those things are going to be contributors. So there is room to run, but it's not the only lever that we have.

Dan Meir Levy
Barclays Bank PLC, Research Division

Okay. Great. As a follow-up, I wanted to ask about the liquidity dynamics. And just, a, maybe you can talk about what changed in the liquidity guidance you previously said ending the year with in excess of $1.5 billion now you're saying $1 billion to $1.4 billion. But as you're looking at these maturities on the debt side in '28 and '29, $2.5 billion a year, what is the confidence that those maturities can be addressed? Because I'm assuming you're already thinking about the different options for those right now.

Scott M. Haralson
Executive VP & CFO

Yes. Dan, just to clarify on the liquidity, yes, previous guide was about $1.5 billion. And I outlined in the prepared remarks that we removed ATM proceeds from that forecast. So that's naturally going to bring it down. And -- but we did say that, look, we're going to have the ATM in place and it remains available and it's a viable option, but it's not in the forecast really given where stock prices are. But look, we think we have the right amount of liquidity to fund the strategic plans and a little bit of modest growth into 2027. So we feel good where that is.

On the debt maturities, look, I mean, we know we have a number of debt maturities starting in the front half of 2028. And it's an important topic to investors. But we're not going to give specific views on the process today or even think about probabilities and confidence levels and all these things. I think as you've heard in our prepared remarks, and have seen over the last 2 years, the underlying business is strong and the economics are improving. Plus, we have a good strategic plan that we're executing to and talked about Oro and franchising and fleet management, retail car sales, service initiatives, all those things.

So, liquidity is good. We intend to pay the 2026 debt maturities in cash. And maybe most importantly, though, to reiterate with our views on free cash flow production for the remainder of this year and next year means that we're expecting that we're no longer going to be funding operating losses with debt or other outside capital. So it's an important distinction of where we have been historically. And we also have a number of levers to pull to generate growth capital. And a number of those levers line up with our strategic initiatives around franchising and Oro. So we feel good about where we are and where the business is headed, and we'll deal with the maturities in due course.

Operator

There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.