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Hertz Global Holdings, Inc. (HTZ)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Hertz Global Holdings First Quarter 2019 Earnings Call. Currently, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. I would like to remind you that today's call is being recorded by the company. I would now like to turn the call over to our host, Leslie Hunziker. Please go ahead.

Leslie M. Hunziker

Senior Vice President-Investor Relations, Corporate Communications & Corporate Social Responsibility, Hertz Global Holdings, Inc.

Good morning, everyone. By now you should have our press release and associated financial information. We've also provided slides to accompany our conference call that can be accessed on our website. I want to remind you that certain statements made on this call contains forward-looking information.

Forward-looking statements are not guarantees of performance and by their nature are subject to inherent uncertainties. Actual results may differ materially. Any forward-looking information relayed on this call speaks only as of this date, and the company undertakes no obligation to update that information to reflect changed circumstances. Additional information concerning these statements is contained in our earnings press release and in the risk factors and forward-looking statements section of our 2018 Form 10-K and our first quarter 2019 Form 10-Q when filed. Copies of this filing are or will be available from the SEC and on the Hertz's website.

Today we'll use certain non-GAAP financial measures, all of which are reconciled with GAAP numbers in our press release which is posted on the website. We believe that our profitability and performance is better demonstrated using these non-GAAP metrics. Our call today focuses on Hertz Global Holdings, Inc., the publicly-traded company. Results for the Hertz Corporation are materially the same as the Hertz Global Holdings.

On the call this morning, we have Kathy Marinello, our CEO; and Jamere Jackson, Hertz's Chief Financial Officer. Now, I'll turn the call over to Kathy.

Kathryn V. Marinello

President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

Thank you, Leslie and good morning everyone. We're pleased with our performance in the first quarter where we continued to make progress in driving revenue and earnings growth. In the U.S. we generated a 7% increase in revenue in the first quarter on top of last year's 5% improvement as our upgraded vehicle fleet, improved service levels, strategic marketing actions, sophisticated demand forecasting and revenue management tools, and entry into adjacent markets like TNC continue to pay dividends.

Rate and volume trends also continue positive. Total U.S. RPD was up 2% and time and mileage pricing was 4% higher year-over-year. Volume rose 4% on a 6% improvement last year and revenue per unit a key measure of asset efficiency increased 2% in the U.S., the seventh consecutive quarterly year-over-year improvement. We are driving -- we are delivering sustainable top line growth.

In the first quarter, these results were even more satisfying for us because we had some macro challenges to overcome, and as you know the first quarter is our seasonally low period for demand. [ph] Add to that (00:03:00) a negative effect from the Easter calendar shift into the second quarter and to a lesser degree the impact from the severe winter weather in the Midwest. Yet despite these headwinds, we remain focused on our strength and leveraged our resources to stay on track.

In addition to the revenue growth in the U.S. we're capitalizing on value creating fleet acquisition and disposal strategies, continuing to optimize asset life by growing with TNC and insurance replacement accounts and opportunistically rotating fleet to capitalize on still strong market residuals. This enables us to control a significant portion of fleet cost and helps to reduce U.S. monthly depreciation per unit by 15% in the first quarter. Globally, we delivered 3% higher volume in our rental car business on a 1% increase in total revenue per day despite travel concerns across Europe relating to Brexit and the Paris protests. Worldwide, the higher revenue and a 12% reduction in monthly vehicle depreciation per unit and rental cost led to a $55 million improvement in adjusted corporate EBITDA in the first quarter. While we'll continue to focus on revenue and fleet cost management, this year we're also making a global commitment to driving productivity savings. Our goal is to bring greater discipline and control to our expense base without impacting the product quality, service levels, or employee programs that drive growth. Employees around the world are doing their part in our own every dollar initiative. We're creating a profit-focused culture that's based on a shared awareness of what productive overhead is and the important role individual accountability plays in maximizing earnings.

Employees across functions and in the field are taking an active part in analyzing processes from the perspective of the customer, by prioritizing value creating strengths, implementing supply chain best practices, and measuring returns we're looking to optimally scale our business. Jamere will share some of the more specific areas of opportunities, but I'm pleased with what we've achieved in the first quarter as we captured some of the low hanging fruit and put plans in place for addressing larger projects throughout the year.

In addition to more effective cost management, beginning to rollout our global technology platform is another major commitment for us in 2019. The technology transformation encompasses our digital assets, a customized CRM platform, enhanced reservation rental and fleet capabilities as well as a standardized group for back office support systems. All of these assets are being integrated in a cloud-based platform that allows for greater speed, access, visibility, and data sharing, and analytics. Let me give you an update on where we stand. Last month we began rolling out the advanced features and functions of our now cloud-based CRM system. The cloud allows us to unify our customer service strategies to ensure that all of our sales reps around the world are accessing the same, continuously updated digital information. It also enables us to automate certain key tasks like customer interaction tracking giving us a greater ability to more deeply address individual customer circumstances and supporting focus marketing initiatives.

This advanced fleet of services will enhance our customer relationships and improve the customer experience while providing us greater insight into customer preferences and improving the efficiency of our organization overall. Also in April, we released our redesigned Hertz app that gives customers the best and more personalized rental experience. We've received great feedback from our customers so far. Additional improvements will be made throughout 2019 powered by our technology transformation.

With regard to the transformation, between now and July, we'll be working on system integration testing with the goal of starting field user acceptance testing in August. Once that's completed, we have a [ph] four tiered (00:07:13) deployment strategy that kicks off this fall. The plan is to launch the integrated system in a couple of small markets in North America just after the peak season and then follow that with a larger, more complex region before year end. We'll then kick off the new year with the full U.S cutover in January with the EMEA system transition closely behind.

Besides activating this integrated enterprise wide platform, we also have plans to replicate our U.S. AI enabled revenue management and demand forecasting technology and international markets next month. Having leading edge capabilities for strategically pricing and positioning our assets overseas should allow us to more efficiently maximize revenue and utilization for worldwide margin expansion.

We feel really good about the progress we continue to make. As I look forward, I'm optimistic about what we can deliver incrementally in 2019. When it comes to the U.S. economy, it feels stable with no apparent signs of leisure or commercial travel softening. For Hertz, the comp gets a little tougher, but that doesn't change the goal of year-over-year improvement. We continue to be disciplined fleet managers. The automakers continue to be disciplined producers and our focus on the [ph] trisect of rate (00:08:31), volume and utilization is unwavering. For the TNC business, we expect to grow significantly again in 2019 with a fully connected ride-hailing fleet by year-end.

Finally, in the U.S. we've got an important debt refinancing on deck. As Jamere has told you, we're risk averse in this area. It's top of mind and we're well positioned to execute. In Europe, there is still some uncertainty as it relates to the potential economic impact from Brexit and the Yellow Jacket and it's tough to forecast the 2019 peak season based on 2018's unusual trends, considering the world [indiscernible] (00:09:11) and the heat waves impacting UK travel and the shift in vacation destinations to franchise countries like Turkey, Egypt, and Tunisia. Therefore we're being more prudent in our international fleet planning and as demand comes in better than expected, we'll simply take the opportunity to yield, leveraging the new AI tools we're putting in place. Globally, we've got a big ask of our teams regarding the productivity savings, but I'm confident that our employees will find efficiencies to better processes and smarter decision making. After all, these are the people that stepped up, brought ideas, and executed on our strategies for top line growth. They're the same dedicated employees that impress me every day with plans for driving asset value and optimizing fleet cost. They understand that maximizing profit allows us to reinvest in careers, and in the company, reward great performance, and return value to our shareholders. When it comes to productivity improvement, we're all hands in on this and we're getting it done. The technology work is also on track. We've got great partners that are as committed to the success of this project as our [ph] IT team (00:10:18).

Hard milestones are in place. Daily updates are happening and our technology delivery leads are all well for this. It's a big year for us. We have a lot of work to do and it goes without saying that execution will be critical, but it's also an exciting time. We've got the right people, the best fleet, great partners, and of course our iconic brand. We're globalizing AI tools and have game changing new technologies in the pipeline. We're going to continue to capitalize on the momentum we've created and I look forward to updating you on our progress.

With that, I'll turn it over to Jamere to give you more detailed insight into the first quarter performance.

Jamere Jackson

Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

Thank you Kathy and good morning everyone. Overall we had a great first quarter. Our continued focus on growth and productivity helped us deliver top line growth and margin expansion. Our solid execution in the quarter resulted in year-over-year improvement in both revenue and adjusted corporate EBITDA, while we continue to invest, and transform our business.

Before I get in the details there is one housekeeping item. On January 1 we adopted ASU 2016-02 leases also known as Topic 842 which required us [ph] as a lessee that (00:11:29) recorded net $1.5 billion of assets and corresponding liabilities on our balance sheet associated with leases. Adoption of the new standard did not have an impact from previously reported net income, earnings per share, or adjusted corporate EBITDA.

In addition, accounting under Topic 842 in 2019 did not materially impact our revenue or adjusted corporate EBITDA in the first quarter of 2019.

First, let me provide an overview of our total company results. Slide 6 shows our consolidated results on the U.S. GAAP basis and our non-GAAP measures for the first quarter. Total revenue of $2.1 billion was up 2% and up 4% on a constant currency basis versus first quarter of 2018, marking the seventh consecutive quarter of growth for our business. The solid revenue results were driven by 7% growth in our U.S. RAC segment, partially offset by a seven point drag on revenue due to foreign currency in our International RAC segment.

Net losses attributable to Hertz Global was $147 million and net loss per diluted share was $1.75, an improvement from a loss of $2.43 in the first quarter of 2018.

On a non-GAAP basis, adjusted corporate EBITDA improved 93% to negative $4 million and our adjusted corporate EBITDA margin expanded by 270 basis points. Our adjusted corporate EBITDA results were driven by higher revenue from increased volume and pricing, lower vehicle depreciation expense in our RAC business, and the impact of our productivity initiatives. These were partially offset by investment spending to support our transformation initiatives and increased vehicle interest expense primarily on our U.S. RAC operations. Adjusted net loss for the quarter improved 37% to $83 million and adjusted diluted loss per share improved to $0.99 from a loss of $1.58 in the prior year quarter.

Let me provide some additional color on the quarter starting with our U.S. RAC segment and I'll start with revenue. Our U.S. RAC business had another outstanding quarter. Total U.S. RAC revenues were $1.5 billion, up 7% versus prior year.

Our TNC business grew 84% behind strong volume, and pricing, and contributed approximately three percentage points of revenue growth to our U.S. RAC business. Overall, for the U.S. RAC segment, we saw strong volume growth, and pricing with a 4% increase in transaction days driven by TNC and T&M rate up 4%. Total RPD was up 2% versus prior year quarter and ex-TNC total RPD grew 3%.

In addition, we continue to drive revenue growth both on and off airport and in both business and leisure. U.S. RAC adjusted corporate EBITDA was a positive $7 million which was a $55 million improvement versus the prior year quarter. Our results were driven by strong top line growth, a 15% decrease in monthly per unit vehicle depreciation and solid productivity.

We continued to deliver on our execution of disciplined fleet management, strong customer service, and brand building marketing while we invest in technology to drive innovation and productivity. We're also laser focused on driving productivity. We'll see additional improvement in direct operating expenses and SG&A as we move through the year.

As I said during our Q4 2018 earnings call, we'll continue to invest in innovation in both operations and technology. Our recent rollout of the new faster Hertz mobile app and further expansion of Hertz Fast Lane powered by CLEAR are evidence of our progress on this front. The IT transformation efforts are on track and we're building exciting new capabilities that will drive long-term growth and profitability.

Now turning to fleet. We continue to manage our fleet capacity with rigor and discipline. Fleet capacity was up 5% and up 1% ex-TNC fleet. Vehicle utilization was 79% as we continued to go after profitable demand while managing a tight fleet and lowering our fleet cost in the U.S.

Moving to depreciation. Monthly vehicle depreciation expense is up $256 per unit, decreased 15% versus the prior year quarter. The decrease in unit vehicle depreciation expense was a result of disciplined fleet acquisition, residual value strength, and solid execution. Our model year 2019 vehicle acquisition costs are averaging lower than our model year buy on a like-to-like basis from 2018. We also continued to increase unit sales to a higher return retail channel to drive better outcomes on depreciation and the market continued to be strong throughout the first quarter of 2019.

Moving to our fleet sales initiative. Our non-program vehicle dispositions were up 18% in the quarter. As I've said before, our retail sales capability is a tremendous asset for us and dispositions through that channel grew 11% versus the prior year quarter, while same store unit sales grew 7%. We currently have 84 stores and during the quarter we opened new Hertz car sales locations in San Diego, Indianapolis, Port Lauderdale and Cleveland with plans to open more locations before the end of 2019.

Moving to our International RAC segment. Total revenues were down 7% at [ph] $433 (00:16:40) million, but were flat on a constant currency basis. RPD was down 2% and transaction days grew 2%. Our business in Asia Pacific saw solid volume growth in both the business and leisure customer segments. Although volume was up in Europe, overall, we saw some softness due to the lingering political uncertainties in markets like the UK and France. We continue to focus on expanding our revenue and fleet management capabilities for our international organization and we expect to benefit similar to what we're seeing in the U.S. when fully executed. The International RAC segment reported adjusted corporate EBITDA of negative [ph] $13 (00:17:17) million which reflects the impact of foreign currency on our revenue and expenses.

Before closing, I'd like to provide an update on our financing activities, corporate liquidity, and free cash flow. We ended the quarter with no drawings under our corporate senior revolving credit facility with $1 billion in corporate liquidity, and our first lane maintenance covenant ratio of 1.2 times was well below the maximum of three times.

In the near term, we are evaluating refinancing of our corporate debt maturing in October 2020 as we further de-risk the balance sheet.

Turning to cash. The timing of fleet rebates and ABS [indiscernible] (00:17:53) which can cause volatility from quarter-to-quarter drove the use of free cash flow in the quarter. We expect these dynamics to smooth out and normalize as we move through the year. The fleet cash use was partially offset by $110 million year-over-year improvement in our operating cash flow, excluding vehicle depreciation, which is a solid indication that our operational turnaround continues to gain traction.

So to wrap up, the first quarter of 2019 reflects continued momentum in our turnaround. Our U.S. RAC business delivered 7% growth, driven by higher price, and volume, and has solid momentum. The growth initiatives including the tremendous opportunity we see in TNC are delivered and we're driving higher margins. Our capabilities in fleet management, service excellence, brand building, marketing and innovation are the catalyst for building a faster growing business and we are focused on driving operational efficiency and productivity to drive a higher margin business.

We're confident in our ability to drive long term shareholder value and I look forward to updating you on our progress in the coming quarters.

And with that, I'll now turn it back over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] . Our first question will come from Chris Woronka from Deutsche Bank. Please go ahead.

Chris J. Woronka
Analyst, Deutsche Bank Securities, Inc.

Q

Hey good morning everyone. Another impressive quarter on the TNC rentals. Maybe just a little color on how big you think that program can ultimately get?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

The way we're approaching the program is to use it more as a way to generate better returns on the assets. So, if you look at this from where the real opportunity is. It's the length and the time we have the asset, put it into a very effective retail sales growth, and attract actually more buyers into that retail outlet, as well as make more money overall on the asset when we sell it. Additionally though as we build this out with prudence over the last year, or two, we have strong back office support capabilities. We have a great relationship with both Uber and Lyft that makes us a good deal both for the drivers, and ourselves, and we have very solid returns on it even given increased maintenance. If you [ph] think the length of key (00:20:25), the price we're getting, and the support we get from the providers, overall it's been a very effective program. From a growth perspective, we want to manage it prudently where we use the flow, the natural flow of vehicles out of our fleet as they age out into this fleet. We are possible because we have 84 sales units out there. We are able to buy some cars into this fleet and provide some further value, but we're going to be prudent on the growth.

Chris J. Woronka
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Very good. Thanks Kathy.

Operator: Thank you. Our next question in queue will come from David Tamberrino with Goldman Sachs. Please go ahead.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Great, thanks for taking our questions here. First one for Jamere, the first quarter looked like you had a fleet growth and a little bit of a cash outflow as a result of that. How are you expecting that to track throughout the remainder of the year and do you still believe the company is going to be in a negative free cash flow position for 2019?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Yeah. So, let me make just a comment on the quarter. The timing of rebates and incentives on fleet buyers as well as ABS marks which can drive volatility from quarter-to-quarter really drove the usage in the first quarter. We expect this to smooth out, normalize, as we move throughout the year, and as I said before we're pleased with the operational cash flow that we saw of over $100 million. What I'll say about fleet growth, if you listen to the U.S. RAC results where our capacity was up 5%, but was up 1% ex the TNC fleet, so the growth that's been driven there is primarily from TNC. You heard Kathy's comments there. It is a growth driver for us. We've been disciplined about managing the fleet and that discipline that we see in managing the fleet is actually helping us to drive yield. As I think about our expectations for free cash flow for the year, there are puts, and takes. We did want to set the right expectations. On the positive front, our operating cash performance is improving. We did say that we're anticipating a drag from interest rates and we have a heavy year of investing in our tech initiatives that sort of mute the performance that we're seeing there, but the swing factor will be residual values. If the market is strong, we'll need less corporate cash to finance our fleet needs and we could get the positive on free cash flow. And if the market gets more than anticipated then obviously we'd have to use more corporate cash. So, we came in the year based on our expectations around residual values, planning for negative, but there are clearly some puts and takes [ph] back to swing us (00:22:54) to positive.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. And then, Kathy, from an operating standpoint, kind of interesting your fleet size for TNC, I know you just responded to how you're thinking about that going forward, but can the ride-hailing partners grow their capacity and drivers without you? Are you -- are they are now somewhat captive to you for growth?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

I wouldn't say captive, but I do think we provide a really strong flow of cars into their driver network and we find the drivers are highly satisfied. We're finding NPS scores similar to our retail business. It's a great way for people to get into the business without making a financial commitment of thousands of dollars a month for lease car or even the outlay of a used car. And I think we're one of multiple outlets for driving more increased volume and revenue to their business. I don't know if they're captive, but I would say I think they appreciate our partnership. They've been working really well with them. We've been actually working with them on this, rolling it out almost three years ago. And as time has evolved we've built a better stronger partnership and it's obviously more effective given the growth we have. So, for us it's a win. For them it's a win. I think on constraint, obviously, there is a lot of drivers out there that they help to attract to deal with the volume. I know they have more demand than they can provide drivers, but we're helping them work on that.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Understood and the last one. I'm sorry if you addressed this in the opening comments, but, how are the near term trends in April so far and how do you see the peak season bookings shaping up?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.
A

Well, if you look at March and April, we are very pleased with what our volume is, what our pricing is, and the promise that holds for the summer peak season which is obviously our most important time of the year. A lot of the things we've done, better fleets, great marketing, we've deleveraged the Avengers Endgame which has been really powerful for us and just the marketing, the revenue management capabilities, the marketing capabilities, we really are seeing a great impact from all of the efforts out there and it's been sustained. I think -- if we look at it quarter-after-quarter, we see the same flow steady growth and price and volume and we saw a very strong April and if you put that together with March, it has a really great indication for the summer for us.

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.
A

Internally, spring break and Easter tend to be bellwethers for the summer peak and as Kathy said spring break and Easter were strong and in line with our expectations and generally point to a healthy peak season. I think the other thing is that the macro data also suggest that the consumer is relatively healthy heading into the summer and some of the early reach from our airline partners also suggest a pretty good summer, so all of this should go well for our business.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.
A

And I think to add to it, we've a really strong leadership team in place. We've got a great leader in operations that came out of Walmart, that's really rocketed out there with our employees. All the capabilities we've built over the past two years in operating, getting the cars in front of the customers and peers is really strong and continues to strengthen. We're at the top of the game from JD power perspective and that makes a difference. So, between the brand, our leadership team and how they're working together, all these things are coming into place nicely and sustained quarter after quarter, month after month.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC
Q

Understood. Thank you very much for answering the questions.

Operator: Thank you. Our next question will come from Derek Glynn with Consumer Edge Research. Please go ahead.

Derek J. Glynn
Analyst, Consumer Edge Research LLC
Q

Good morning, thanks for taking the questions. What impact does the TNC business have on U.S. pricing in the quarter, how much of the benefit or drag was that to core tonne and mileage pricing?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Yeah. So, our TNC business just from a mix standpoint is about a one point drag on U.S. business, but what I'll say is that, we're making really solid progress on pricing in T&M, so if you just look at that that business discretely in TNC, we got about a mid single-digit increase in RPD on our TNC business. It's a reflection of the work that we put in to really understand what our partners want and our partners need. The demand has been good and we've been providing a great fleet to that part of the business. So -- and then if you take a look at the profitability of that business, the fact that the RPD is a little bit lower, we actually [ph] more than make up for (00:28:03) the drag that you see in RPD because of a lower cost business model associated with it. [indiscernible] (00:28:08) associated with that business is a really big help for us as well as the fact that these are older cars that have a lower cost of car associated with themselves. We're pleased with our results there and it's been a growth driver for our business but it's also been a very profitable piece of business for us as well.

Derek J. Glynn
Analyst, Consumer Edge Research LLC

Q

Got it. That's very helpful. And then, with respect to the vehicle dispositions to the retail channel, what impact are you seeing if any from any finance and insurance products you're attaching to those sales?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

So, the F&I sales have been strong where team is world-class there. We've great discipline around making sure that we drive F&I. So, we treat this like you would treat a normal retail used car business. So, the teams have targets around those things and we drive those revenues as hard as we're driving the actual disposition of the cars. So, I'm pleased with the results there and we've got a world-class team with world class capabilities and going forward we'll look to continue to drive strong results in that area as well.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

If you look at the size and the distribution that we have in that business, we have 84 retail lots, it's growing. We also though have now grown well into the top 10 of used car dealers and we're operating that way. And, I do think that this asset is really core to sustaining long-term profitable margin and in down turn, we've reached the benefit of this network and the capabilities we felt as well in buying cars. We were better by 15% in this [indiscernible] (00:29:50) market which is pretty phenomenal. And then if things turn the other way, obviously, we're going to use that same set of assets to power through it and hopefully as good as anybody can and manage the downturn as well as we're taking advantage of these peaks that we are seeing right now with residual value.

Derek J. Glynn
Analyst, Consumer Edge Research LLC

Q

Got it, thanks for all the commentary.

Operator: Thank you. The next question in queue will come from Michael Millman with Millman Research Associates. Please go ahead.

Michael Millman
Analyst, Millman Research Asssociates

Q

Thank you. Just following up on the last, what is your expectation for depreciation -- unit depreciation in the U.S. for the year? Secondly, could you break out, I guess, what I'd call a catch-up technology from continuing technology in terms of its cost and what impact will that have on operations as well, I guess, what I'm looking for is what should be a normalized EBITDA once the catch-up is complete and what's the timing on that catch up?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Yeah, so, on depreciation, we came in a year expecting to see some declines in residuals in the low single-digit range in 2019, I think this was consistent with external forecast. You know, the reality of this absolute number is a little bit more nuance than that as it depends on a variety of factors, market conditions, our execution on retail dispositions et cetera. We'll say that, through the first three or four months in the year residual values have been strong. We have had favorable depreciation rates and our execution has been strong. So, we haven't changed our forecast for the year, but I will say that, through the first quarter or so, we do have some capability as it relates to that.

And then on the technology spend, the thing I'll point you to is a couple of things. First, in terms of the impact on our adjusted corporate EBITDA, we said this year that we would have some impact associated with the technology spent, it's probably going to be in the range of $30 million to $50 million, but we're also generating productivity to offset that impact and then outside of the adjusted corporate EBITDA, we said we have somewhere between $80 million and $100 million below the line and those are the things that are going to actually roll off. So, the way that we're approaching the technology spend this year is that we are going to essentially self-fund that with productivity improvements and then as that technology spends start to roll off, the back half of next year you will start to see those productivity improvements flow to the P&L and actually improve our adjusted corporate EBITDA numbers next year.

Michael Millman
Analyst, Millman Research Asssociates

Q

So everything else being equal, what should your EBITDA be?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

: Well, I mean, it'll depend on a lot of things, most notably what we expect to see in terms of top line growth, if you're looking at sort of our business from a long-term standpoint, what we've said is, we're positioning ourselves to be a faster growing higher margin business. We expect to grow our top line in line with the market and get our fair share of the market growth, and we are going to drive productivity at the same time. So, there is no reason structurally why we can't be a faster growing higher-margin business that's what we're focused on and all of our efforts internally are giving us a lot of confidence that we'll be able to do that as we exit the technology transformation at the back half of 2020.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

Considering we have a large corporate fleet management company, considering we have a top 10 used car retail outlet business, considering we have a profitable growing ride-hailing partnership, put this together with a solid iconic brand and then just, I'll sign the best employees in the world, there is no reason why we can't be competitive [ph] and/or (00:34:09) industry leading in profitability margins.

Michael Millman
Analyst, Millman Research Asssociates

Q

Would you care to put a number on that?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

No, we don't. You guys have been trying to get me to give guidance, but I think that's as close as I'm going to get to it.

Michael Millman
Analyst, Millman Research Asssociates

Q

That's our job.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

I know.

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

If she gave guidance I'd be [ph] kicking her under (00:34:26) the table.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

That's right.

Michael Millman
Analyst, Millman Research Asssociates

Q

Thank you.

Operator: Thank you [Operator Instructions] Next question is from [indiscernible] (00:34:37) with JPMorgan. Please go ahead.

Q

Thank you, few questions from me. Firstly, you talked about sort of ridesharing and what you're doing on that side of the business, but, perhaps, can you comment on the competitive side of the business, what are you seeing in terms of competition with ridesharing providers for your core business?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

We see when you say -- are you saying ridesharing -- I am not quite sure I [ph] have (00:35:03) the questions right, if you could try it again?

Q

Yeah. So, what are you seeing in terms of the competitive landscape in terms your competition from ridesharing at your core business?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

Okay. So, you mean is it -- how much is it [ph] leading (00:35:16) into our core business?

Q

Exactly, any change on that?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

I would say, back in the past years ago when it first started coming out, it probably had mid-to-high single digit erosion of our business and it was generally speaking very short-term rentals, which frankly aren't that great for us between turning around, cleaning them, fueling them, the longer length to keep the better. To that end, we probably saw an erosion of that that much. If you look at the size of our fleet now and how that's growing, I think we have more than replaced it and made up for it with profitable business by leveraging the opportunities saying, okay, these guys need cars, we are not in the best place on residual values when the car is a year or two old and only 40,000, 30,000 miles, let's put it into the ride-hailing business, let's manage it in such a way that it's profitable which we have and let's leverage the curve on residual value as well as the demands and we've -- with those partners we have created a win-win situation which we have managed pretty significant growth over the last two years, very effectively and profitably.

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Yeah, I mean, it's a growth driver for us, you've seen it in our results for the last few quarters or so, and what I would say from a competitive standpoint is we really haven't seen any change in sort of the core rental car used case trends where the average rental transaction is five days and roughly 500 miles, and ride-hailing customers are typically hiring for significantly shorter trips as alternatives to taxis or subways in urban environment and so our core business has held up very well, and we've turned the ride-hailing business if you will into a growth driver for us by dedicating a portion of our fleet to the market, and we're pretty pleased with the outlook going forward.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

What's financially a nice opportunity for us to bring together our rental business with our corporate fleet management business, and keep in mind that, I've spend five years at GE, managing the largest corporate fleet business in the world, that was also global. We've been able now to leverage that business that we have in Chicago, which is a sizable business, profitable business, I mean, manages large corporate fleet and managing these large corporate fleets in essence with Uber and Lyft. So, we are taking connected capabilities and maintenance capabilities that we have developed over the years for very sophisticated corporate fleets and starting to apply them into these rental fleet for ourselves as well. So, we think some of the learnings we are getting from that, we will be able to apply out in the future if you do get into autonomy any of these things, nobody has more competency I believe than we do in managing a large fleet in general. So there is a lot of goodness in these partnerships that we are seeing overall.

Q

Thank you, that's good color. Do you have a sense whether ridesharing at this point in time is affecting overall pricing in your business or maybe overall in the industry at this point?

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

No, I mean, if anything, they've had to try to ratchet it up a little bit so their drivers can make money. So, going out there is very well cost, but in order to continue to attract and retain drivers, they've added in tipping, they have deferred pricing, so anything, what some of our companies has found is sometimes their deals with us in the rental space are more productive and effective from a cost perspective than taking very, I would say, expensive search related type of ride. So, I think, the pricing is if anything ticking up as well as it's ticking down.

Q

Great. Thank you very much. Some more quick ones and I'll pass it on. I guess, firstly, I was not sure I got the response on the free cash flow in the question, for the year, I mean, assuming residual values, used car prices remain stable for the balance of the year, is free cash flow expected to be positive for 2019?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Well, as I said before, I mean, it will be the swing item. We came into the year expecting to have some drags from interest rates, we expect it to have a little bit of a drag from the investments that we're making. And the swing factor has always been what happens with residual values. If residual values remain strong, then we actually could swing the positive. If not, then we'll use a little bit more corporate cash flow. So, and you saw these dynamics last year where we came into the year expecting sort of negative free cash flow, and as residuals firmed up, we actually swung the positive by the end of the year.

So, there are puts and takes. We wanted to set the right expectations and as we move through the year and see what happens with residual values and the impacts on marks in our ABS facilities that will determine where we shake out from the cash flow standpoint. And I think the thing that we're really, really focused on and I'm very pleased with is that operationally we're making tremendous progress and that operational benefit is actually helping us from the free cash flow standpoint.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

Yeah. I think given we continue to get better operationally from a cost perspective, we continue to get better from a pricing perspective. We're going into this year with much better, much lower depreciation expense. We are cautiously optimistic that we should expect similar cash or better cash result this year than we saw last year, given the economics that we're turning in right now. And given how the peak and the Easter season turned out and how strong April was, again we're cautiously optimistic about the results for the year.

Q

Okay. Thank you. And the last question I had, you talked about so in refinancing the 2020 maturities, but you have the 2021 bond that matures just a few months later the [indiscernible] (00:41:37) 2021. How are you thinking about that bond?

Jamere Jackson

Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Well, we'll certainly be opportunistic about it. In the near term, we're focused on the 2020 stack. If we were in the market and the pricing was right, and we had an opportunity to upsize and de-risk more, we would certainly take a look at the 2021 stack as well. But, again, you know those dynamics when you get in the market and again we're focused on de-levering and de-risking the balance sheet. So, we'll do what's best for the company as it relates to refinancing.

Q

Thanks very much. That's all I had.

Jamere Jackson

Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Thank you.

Kathryn V. Marinello

President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

Thank you.

Operator: Thank you. And our next question in queue, that will come from Trent Porter with Guggenheim Securities. Please go ahead.

Trent Porter

Analyst, Guggenheim Securities LLC

Q

Oh, hi. Thank you. Just on, I think you've talked about this before, but I was hoping the systems that you plan to roll out to a couple of markets after peak season, I think these are -- as I recall, these are some big ones. So I was wondering if you can reiterate just what those systems are and qualitatively what the full rollout will do for you operationally and competitively just kind of the broad strokes of what you'll be able to do, accomplish once they're out that you can't do as effectively today?

Kathryn V. Marinello

President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

A

So, it will 100 -- we turned 100 years last year and our systems across the board are probably about 30 years old. So, we're facing into all the challenges well-established companies face into nowadays. And before I joined the company, the prior board had made a significant commitment and investment based on management's advice to really deal with it once and for all, and deal with it very holistically.

So, when I came into the business, there was a massive amount of efforts and spending around this in basically every aspect of our system. The one advantage we have is, we don't have the burden of a billing system which most companies do which tends to be the toughest task out there. And now we take Visa, MasterCard or credit card payments only. But the reality is our back office system, how we pay companies like Expedia et cetera, how we deal with our customers, our employees out there with [indiscernible] (00:44:02) ready to break.

So, it really isn't the best set of systems for employees to use right now to run the business and provide service to our customers. So, overall, over the last four years, we've literally spent hundreds of millions of dollars on our financial system. So, we are down to one instance of Oracle. We're about to complete that. We've changed out all of our CRM capabilities and now we had Salesforce and senior leadership the other day and they said we are leading edge on how we're using their capabilities on the CRM perspective. We've updated and broadened really brilliant guys from MIT to work with a brilliant group of people using AI to drive our demand forecasting and pricing capabilities which now will be expanded across the world for the summer season and have had a really tremendous effect on our ability to accurately price-lead and price-lead to maximize and see the seven quarters of RPU growth we've gotten.

And then finally, looking out into the future, if you think about autonomous vehicles and managing large fleet, if you don't have a really solid reservation rental in fleet management capabilities, it's really going to be hard to manage 1 million or 2 million car fleets around the world which frankly is probably how it has to end up. Nobody out there does that directly to consumers. You have some large corporate fleet businesses but they basically hand the car to somebody and that person drives off for two years and takes care of it. Uber drivers take care of those fleets. So, the biggest part of the effort, and probably the most impactful will be putting in a new enterprise-wide totally cohesive and ability to manage in and out all of the telematics capabilities involved with the connected fleet, a reservation rental in fleet management system backed up by a treasury management system to manage those assets that are very expensive and complicated to finance.

So, I mean, that was a long response, but, basically now we have this leading edge, not catch-up, but basically bringing it all into the cloud, driven and encompassing data and data analytics as well that frankly we will have globally by the end of 2020. And I will say, my confidence builds everyday based on the great results we're getting from our partners and the efforts we're seeing right now, things are falling into place very nicely on a very tough [indiscernible] (00:46:49) complicated technology effort. But we're getting there.

Trent Porter
Analyst, Guggenheim Securities LLC

Q

Okay, thank you. That was a long answer, but a perfect answer. Thank you very much and a couple of two, just two more quick ones. The first one, you've made a heck of a lot of progress in your core pricing, and I'm wondering your segmentation strategy, could you update us on how far along you are there? Are you in early innings and there's a lot of room left to push on that lever in order to further enhance or leverage the pricing momentum? And then the second question is, I was wondering if you could update us to the extent that you know how far you've been able to swing the pendulum in terms of recapturing corporate share?

Jamere Jackson
Executive Vice President and Chief Financial Officer, Hertz Global Holdings, Inc.

A

Yeah. So, from a pricing standpoint, I'm very pleased with the work that we've done inside of revenue management and fleet management to really be disciplined about where we put fleet for having the right cars in the right locations at the right times. We've done a tremendous job of using capabilities like AI and machine learning and predictive analytics to help us in that regard. We have a world-class revenue management leader and who's built a world-class team, and the capabilities that we've built around segmenting our revenue and driving yield are just fantastic, one of the bright spots at least in my first eight or nine months in the company. What I'll say about corporate share is that the corporate environment is as competitive as it's ever been. We are winning I would say more than our fair share as it relates to corporate and we're making solid progress there as it relates to the corporate business. We've been very disciplined about pricing. And the investments that we've made in having a nicer fleet and improving our service capabilities are the big drivers to us really building our corporate business. And, everywhere I go and where Kathy goes, we share feedback from business partners all over the country who say the changes that we've made and having a really nice fleet and the service capabilities really set us apart, and that's been the big driver for us. And so we've been able to take those investments that we've made and turn those into a business building proposition as it relates to driving business and corporate. Still very competitive, but we're pleased with the progress that we've made.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.
A

Yeah. And what's powerful is that better fleet and world-class fleet is at a significantly lower cost than it was well over a year ago as well as I would say it's industry-leading. If you look at how we're leveraging multiple strategies to get the cost of cars down, we're getting it down but we're putting out the best fleet ever, and that's making a huge difference. It's winning a lot of business.

Operator: Thank you very much. And ladies and gentleman, that does conclude your conference call for today. We do thank you for your participation and for using AT&T the Executive Teleconference. You may now disconnect.

Kathryn V. Marinello
President, Chief Executive Officer & Director, Hertz Global Holdings, Inc.

Thank you.