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Hertz Global Holdings, Inc. (HTZ)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Hertz Global Holdings Third Quarter 2018 Earnings Conference 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 your 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 all 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 contain forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. 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 the 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 2017 Form 10-K and our third quarter 2018 Form 10-Q. Copies of these filings are available from the SEC and our Hertz's website.

Today we'll use certain non-GAAP financial measures, all of which are reconciled with GAAP numbers in our press release and related Form 8-K, which are posted on our website. We believe that our profitability and performance is better demonstrated by 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 Hertz Global Holdings. On the call this morning, we have Kathy Marinello, our CEO; and Jamere Jackson, Hertz's new 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. In the third quarter, our company celebrated its 100-year anniversary. With its unmatched history and tradition of creating customer connections and innovative experiences, Hertz has been setting the standard in rental car from the beginning. Today, we're presented with more opportunities to raise the bar than ever before, leveraging those opportunities begins by changing the way we think and act in order to strengthen the fundamentals of our businesses and reignite growth.

With the U.S. turnaround plan launched in early 2017, we introduced a more structured long-term approach for how Hertz operates at its foundation. It emphasizes managing fleet mix based on the highest rental and residual returns, planning fleet capacity at the local level using advanced demand forecasting tools, driving operational excellence through training, and productivity methodologies, returning excitement to our proposition and brands, and leading through systems innovation.

When we optimally execute on these strategies, we win customer support, discipline in the marketplace, sharpen our processes, and disrupt the status quo. Strong execution and discipline are key drivers of our turnaround progress as evidenced by another quarter of year-over-year revenue and earnings growth. The 2018 third quarter was highlighted by a 10% increase in revenue in the U.S. Rental Car business.

For the peak season, we closely aligned our fleets with the rising demand in our more profitable customer segments. The higher volume is being driven by the investments we've made in fleet quality, customer service, and marketing initiatives, as well as robust travel trends. As a result of disciplined fleet growth and a favorable customer mix, we generated a 5% increase in time and mileage rate in the U.S. year-over-year and a 30-basis-point improvement in utilization.

Revenue per unit, a key measure of how we assess our performance, rose 3% in the latest quarter, continuing to reflect year-over-year quarterly increases. Investments in our fleet, brands, and service are drivers of our early success. In marketing, our team is further refining the value proposition of Hertz, Dollar and Thrifty and working with our operations group to begin tailoring service delivery by brand to focus on what's most important to each customer set. Our goal is to tightly define our customer targets, keep them engaged and satisfied, and leverage their positive experiences to create more interactions and capture a larger percentage of their business. Targeted marketing and targeted service will contribute to higher returns.

In terms of the fleet, effective asset management, a core competency for Hertz, coupled with continued strength in the used car market helped reduce depreciation expense in the third quarter. Our fleet acquisition, fleet management, and fleet sales teams are executing on all cylinders. We expect to continue to benefit from an improved fleet purchasing strategy, an opportunistic selling program, and expansion of our retail sales channel to continue to control fleet costs. By year end, we'll have more than 85 used car sales locations across the country. Honing our fleet management capabilities positions us well in any residual environment and allows us to capitalize on evolving market trends.

As our revenue investment and fleet cost initiatives are gaining traction, we're tightening our focus on productivity. Training, reshaping the field organization structure and process remapping are investments that we've undertaken to improve service at the lowest cost. We are constantly reassessing our processes, thinking of ways to get faster, simpler, and more attractive to the consumer. With Jamere now on board, this will be a key priority for his team to lead to ensure we're concentrating on our biggest opportunities and stopping what doesn't add to the bottom line.

There is a significant productivity play here, some of which will come from simply working smarter and some will be enabled by the technology transformation we have underway. Jamere and Opal Perry, our CIO, are the newest members of the leadership team. Their solid partnership is already apparent with weekly and sometimes daily meetings to share ideas, identify opportunities, and ensure investments and expected returns are reasonable and on track.

Opal hit the ground running, when she joined Hertz just two months ago, and her insight, deep knowledge, and vision have already added incremental value to our technology transformation process and expected outcomes. That project continues to move forward against the fall of 2019 launch timeline.

Once the cloud-based systems are fully rolled out, we expect to benefit from depth and speed of data analytics that drive the customer experience and better inform our decisions, as well as modernize internal systems that can scale up quickly, provide resilience and reliability of the infrastructure, and are easier to manage, and keep score.

In addition, labor productivity from automation and improving workflows will enable our employees to act with more speed and independence, and we'll be able to offer new products and services that are now not supported by our current systems. We'll also have the ability to respond more quickly to changing market conditions. It really is an end-to-end transformation that will provide us with another competitive advantage to add to our portfolio of differentiators that includes our iconic brands, industry-leading partnerships, global distribution, service excellence, our retail car sales business, and Donlen's large corporate fleet management operation, and connectivity experience.

I'm proud of the progress we're making, which is a clear testament to our leadership strength, our employees' dedication and accountability, and better collaboration across the organization. We're all focused on actions that tap into our unique competitive advantages. We view challenges as opportunities for reinvention. Above all, we remain relentlessly focused on the fundamental of running great operations for our customers today and for the next 100 years.

With that, I'll turn it over to Jamere to walk you through the financial metrics in detail.

Jamere Jackson

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

Thank you, Kathy, and good morning, everyone. We had a great quarter. Our results reflect another quarter of year-over-year improvement in revenue, consolidated adjusted corporate EBITDA and many of our key operating metrics. These results reflect our continued commitment to build a faster growing, higher margin business driven by improvements in our fleet, product offering, customer service, and brand-building marketing. As we move forward, we expect the momentum from our growth initiatives, the investment in our technology, and our laser focus on productivity to drive margin expansion and earnings growth in 2019 and beyond.

First, let me provide an overview of our total company results. Slide 6 shows our consolidated results on a U.S. GAAP basis and our non-GAAP measures. Total revenue was nearly $2.8 billion, up 7% driven by exceptionally strong growth in our U.S. RAC segment along with moderate growth in our International RAC segment.

Net income attributable to Hertz Global was $141 million and net income per diluted share was $1.68, up from $1.12 in the third quarter of 2017. Our net income per share results were driven by higher revenue due to both volume growth and increased pricing, and lower depreciation. These drivers were partially offset by investment spending to support our transformation initiatives and increased vehicle interest expense, primarily in U.S. operations. On a non-GAAP basis, adjusted corporate EBITDA improved 9% to $351 million and our adjusted corporate EBITDA margin extended to 13%, a 30-basis-point increase from third quarter 2017. Adjusted net income improved 53% to $180 million and adjusted diluted EPS increased to $2.14 per share from $1.42 per share in the prior-year quarter.

Let me provide some additional color on the quarter, starting with our U.S. RAC segment, and let me start with revenue. The key takeaway is that our growth initiatives are delivering and the third quarter total U.S. RAC revenues were just over $1.85 billion, up 10% versus prior year and 8% excluding fleet dedicated to ride-hailing or TNC fleets. We saw strong volume growth with a 7% increase in transaction days and solid pricing with T&M rate up 5% and total RPD up 3% versus the prior year.

Ex-TNC, transaction days grew 4% and total RPD grew 3%. Our growth was broad based with growth across all brands, on and off airports, and in both corporate and leisure. While the market demand remains a tailwind for the industry, our teams are executing well with disciplined fleet management, a significant improvement in customer service, and brand-building marketing that are key drivers of our performance. These initiatives provides a blueprint for sustained top line growth in our business.

U.S. RAC adjusted corporate EBITDA was $208 million, a 25% increase versus the prior year, driven by the strong top line results and a 15% decrease in per unit vehicle depreciation. We continue to invest heavily in our transformation initiatives in operations and technology, and we expect those investments will enable new products and service offerings and drive future productivity.

Now turning to fleet, fleet capacity was up 7% and 4% ex-TNC fleet. As I mentioned earlier, we saw strong market demand and good traction on our growth initiatives. We've managed our fleet accordingly. Additionally vehicle utilization was 81%, up 30 basis points as we have rigorously matched fleet capacity to profitable demand. This disciplined approach which uses data science and predictive analytics is led by our revenue and fleet management teams, and is helping us drive price, revenue per unit and lower fleet costs. We have already successfully reduced fleet size with program returns [ph] and rig (12:26) sales in order to tighten the fleet in line with our demand projections for the fourth quarter.

Moving to depreciation, monthly vehicle depreciation expense of $261 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. On execution, we have aggressively managed our vehicle acquisition costs and utilized our high return retail channels to drive better outcomes on depreciation.

Let me move to our fleet sales initiatives, our non-program vehicle dispositions were up 15% in the quarter. Our retail channel has given us a competitive advantage and we'll continue to invest in our world-class sales team, new locations and our web-based platform to drive revenue growth and profitability. In addition, residual values have been favorable as the Manheim rental index posted 6% to 8% increases per month in the third quarter. As a result, we have been opportunistic in locating our fleets and optimizing holding costs.

Moving to our International RAC segment, total revenues increased 1% to $732 million. Transaction days were flat and RPD was up 3%. Utilization was down 120 basis points, which contributed to RPU being up only 1%. Excluding Brazil, which we exited last August, revenue was up 2%, transaction days were up 2% and RPD was up 1%. The results ex-Brazil were driven by solid growth in APAC, offset by slower than expected leisure growth in Europe most notably in Spain. Commercial growth remained solid in Europe. In addition, we had a two point drag on revenue due to foreign currency.

International RAC segment reported adjusted corporate EBITDA of $140 million, an 11% decrease versus the prior year quarter, driven by higher interest costs, a 3% increase in per unit vehicle depreciation, and higher direct operating expenses. We're focused on driving improved top line growth and profitability in International in the coming quarters with a focused set of growth and productivity initiatives.

Now, I'd like to provide an update on our financing activities, corporate liquidity, and free cash flow. First, we remain focused on managing the maturity profile of the debt stack, with no significant non-vehicle debt maturities due until October 2020. We will continue to be opportunistic as it relates to our capital markets execution as our financial performance improves. Our corporate leverage, as measured by adjusted corporate EBITDA to net corporate debt, declined over three turns to 9.1 times from 12.7 times at year-end 2017. We continue to focus on de-levering the business as our operating results improve.

On the liquidity front, we ended the quarter with no drawings under our corporate senior revolving credit facility, with nearly $1.3 billion in corporate liquidity and our first-lien covenant ratio of 1.5 times was well inside of the required three times. We established a new €1 billion European securitization facility to enhance our vehicle financing platform in Europe. That facility was not drawn on until the October 1 so it is not reflected on our balance sheet as of 09/30. The new securitization will allow us to lower our funding costs by reducing the overall strain on our bank-funded European fleet and provide more flexibility for our European fleet needs.

Turning to cash flow, year-to-date through September, adjusted free cash flow was negative $259 million, a $159 million improvement relative to the first nine months of 2017. The improvement was largely driven by $177 million year-over-year improvement in cash from operations, excluding vehicle-related depreciation, as we continued to gain traction on our operations turnaround. We expect continued improvement in overall cash flow through the remainder of the year as our fleet needs seasonally decline.

We now forecast full-year 2018 adjusted free cash flow will be positive versus negative $336 million in 2017. The positive cash outlook is being driven primarily by the improvement in operating cash flow, excluding vehicle depreciation, and favorable ABS fair market value marks on our U.S. fleet, consistent with a strong residual value market this year. The higher than forecasted vehicle values enable us to use less corporate cash for our fleet needs and hence provides a positive impact to adjusted free cash flow.

So, to wrap up, listen, I'm thrilled to join the Hertz team and I'm excited about the opportunity to help create a faster-growing, higher-margin business. The growth initiatives are delivering and we're winning in the marketplace. And as we move forward, we will have a keen focus on three key areas: one, maintaining the top-line growth momentum with disciplined fleet management, service excellence, innovation, and brand-building marketing; two, executing on the tech transformation, which will be a key enabler for growth; and three, leveraging that same technology to drive operational efficiency and productivity. These focus areas will be the catalyst to drive improving shareholder returns and I look forward to updating you on our progress in future quarters.

With that, I'll turn it back over to the operator for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Chris Woronka from Deutsche Bank. Please go ahead.

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

Hi, good morning, everyone.

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

Good morning.

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

Good morning. I was curious as to whether at this point you have any thoughts about potentially giving out 2019 guidance. Not asking for numbers yet, but just directionally whether you think you might return to providing guidance, possibly, when you report fourth quarter results?

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

Chris, I'm not surprised that that's the first question. I think the best way for me to answer it is we've been very focused on driving consistent and sustainable improvement in our operations. And I still think it's too early for me to predict how that will drive next year. What I think I've said in the past is, after we get through a fairly rigorous transformation of our technology and the efforts that that will drive and come out the other side of it, which as you know, has really elevated our spending across our operations, our efficiency, and our investments as well, and the things we have to do to survive until we get through that, I think in 2020, we'll be in a better position to be talking a little bit more about guidance. But I really hesitate to give direction, it's that I don't feel I have a great deal of confidence in given the efforts we have to get through next year. So, long answer to a short question.

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

Yeah. The only thing I'll add is that, while we won't provide 2019 guidance, what you will get from us is we'll continue to be transparent about the progress that we're making on the transformation initiatives and investments that we're making to strengthen the business. And we won't be very certain about forward-looking comments, but as we complete the journey, we'll be able to credibly provide more forward-looking comments about our financial performance.

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

Okay. Fair enough. And just a quick follow-up if I can. Do you think, kind of as you sit here today, do you see more momentum going forward on the commercial side, in terms of picking up more accounts or pricing or do you think the leisure side of it is still going to remain stronger going forward?

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

I think what we found is, as we've improved our fleet, our service, and the value we're delivering out into the corporate space, that has a great impact on our ability to have our fair share in that space, as well as to get price for the value we're creating. So, when you put out a great fleet and great service and great reliability and consistency for the business traveler, it has a positive impact also on our ability to hold price, to grow our share of that business, as well as to attract more in the retail space. So, I think we continue to work hard at that and we're seeing the benefits from that.

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

Okay, great. Thank you.

Operator: Your next question comes from the line of David Tamberrino from Goldman Sachs. Please go ahead.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC
Q

Great. I have a couple of questions. Hopefully, you'll be able to answer them. First, on your T&M metric, did you provide a breakdown of pricing for leisure and commercial?

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

We don't break that out.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC
Q

Okay.

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

But I would say we've had pretty good, consistent results in both of those areas. So, we're seeing improvement in growth in both commercial and our retail space.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC
Q

Okay.

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

And if we are very targeted demand forecasting, which is proving to drive some of the opportunities we're seeing in the third quarter and have been seeing and have been getting consistently. So, we have a very systemic, analytic approach to this and it's bearing out. And we continue to improve it. I mean, that's one of the beauties of machine learning and artificial intelligence. As you use it more, it gets better and smarter, and that's what we're seeing.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Understood. And it's improving but is commercial still a drag year-over-year?

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

A

I would say what we're seeing is a flattening of the pressure on price and I think that has to do with when you create the value, you can get the price. And then we're also seeing an improvement in our share and the wins we're getting. And as you know, most of these accounts are shared and we're growing our share of these accounts because we're consistently delivering a great fleet and great service and people are using our service more frequently and coming back more frequently. We're really doing a better job at retaining business.

David Tamberrino
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And my second question is on the direct operating expenses. I think it stepped up about 100 bps year-over-year. I know you're in some elevated spending, but you did have better utilization so that should have been a positive offset. I'm trying to get a sense of how much and what you're really spending on now and when do you really see [indiscernible] (23:17) I'm not looking for guidance, I'm just trying to understand how much more of a drag that should be. Because the pricing, obviously, is coming in better but not necessarily seeing that from the operations side fully dropping down.

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

A

So, I think, first of all, it is a math game. And if you look at it, you get a lot more out of growth than you get out of cutting expenses and doing it arbitrarily. So, in joining the company, clearly, there was an underinvestment across pretty much all areas of the company and so I've been very focused on reinvesting in the areas that will drive growth. And the great news is we've done the hard work. The team has really put together a great plan and it's working. We're getting price and we're getting growth and we're doing it with a very disciplined fleet approach.

At the same time, I also realize that there's a lot of opportunity for productivity. But that's really in our control. It's a lot harder to get growth, I think as anybody who's been in this job knows. The hardest thing, you ask any CEO what are the two things that keep them awake, it's leadership and talent and growth. And so, as we've, I think, continued to progress on improving our RPU and getting growth, we know we have to focus on expenses. And I think two areas where we see immediate impact where we can drive down costs is in logistics and transportation, and then maintenance expense.

So we have an effort around centralizing maintenance and that has an impact on our out-of-service as well. So I think we can get another 1% on our utilization if we can improve our out-of-service service by having both a better turnaround on maintenance but also a lower cost. So that's one of the areas that we have elevated expenses and then drove the 100 bps increase.

The other area is logistics and transporters. And one of the things that's impacting both maintenance and transportation and logistics is the rising cost of people. Low unemployment rates, increasing hourly wages, it's tough to find people to do maintenance and then when you do find them, we are getting charged more for it and then on the other side of it, same thing with transporters and moving around their cars.

But with Jamere joining and a focus around sourcing and working with Paul Stone we have a couple of leaders here that have a tradition of productivity and expense management and remember that Paul Stone comes from Walmart and retail operations there. So we have the right leadership and the right skills around that and they are laser focused on it. But we are going to be smart about it, we're not going to make arbitrary cost cuts that dampen the great service and the marketing efforts that have clearly won price in our space and won more customers, so we are going to be smarter about it.

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

Yeah. The only thing I'll add to that is, we said that our EBITDA would be impacted by the investments made in 2018 related to the transformation activities that Kathy talked about and we're on track, and a portion of this investment was around a richer fleet, around some of our marketing activities, and of course the technology and operations initiatives. But to be really clear, there is a productivity opportunity here that we are going after as part of our growth and margin expansion efforts, and productivity and efficiency will be a big focus area for us going forward.

As I wrapped up my comments a little bit earlier, we are going to continue to sustain the momentum that we have on the top line growth, but this opportunity around productivity and efficiency will be a business builder for us as well and in some respects will be a little bit of [indiscernible] (27:21) some of the things that we're wanting to do to improve our operations overall. So we are excited about the opportunity. It is a team sport, we are doing it across the organization. We've organized ourselves around a number of projects. There is lots of granularity around it. We have full management commitment associated with it, and I'm looking forward to talking more about that as we move forward.

Operator: Your next question comes from the line of John Healy from Northcoast Research. Please go ahead.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Thank you. I wanted to ask a little bit about fleet cost, the U.S. number of $261 this quarter was very impressive and just wanted to try to get more color on what we should be expecting on that line going forward, and I realize there's a lot of moving parts, but I was just hoping maybe you could provide us some framework, how to think about fleet cost for next year, maybe especially considering the growing TNC business and how that changes the life of hold of a vehicle?

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

I think from a fleet cost perspective, we mentioned it earlier. I do think the fleet is at a very disciplined level in general. There's questions around with tariffs and oil prices and interest rates et cetera, what will be the pressure on that. Where we focus is how are we the very best asset management in this space, and we have a team that's just working on all cylinders, as I said earlier, on being the very best at acquiring the cars that people want to drive and the good news is, they generally want to [ph] buy into (29:03) at the other end of it. And then we are very focused on getting price and growth for that fleet in between and then we are expanding our retail car sales growth and we are selling less in auctions and more out of these outlets. And we are also though adding in and what's helped us and continues to improve our depreciation expense line is opportunistic sales.

So we are using deep analytics to look at, when is the ultimate time to sell this car based on mileage and where to sell it and pulling those cars out of the fleet and opportunistic selling around them and then being able to flex up through our dealer connections and our relationships with the OEMs, but that's where we sell opportunistically, has really in the end made I think a pretty impressive improvement and consistency around our ability to manage depreciation expense. And so the best way to handle any ups or downs in this area is to be the very best at managing these assets and you'll win.

The good news is, is I think from an experience and understanding perspective, I have a pretty good relationships in the OEM markets, spent 10 years on the board of one of those companies and I understand how to work with them in such a way that we don't hurt residual values. And the fleet that we're buying and how we equip that fleet and when we sell it I think we all win. If we help the OEMs with residual values, it helps us as well, so I think all of those things come together with our continuing ability to manage fleet costs despite what environment we're coming into.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Thank you. And I just wanted to ask one clarification question. I thought you had made a comment about cash flow for the year. Are you expecting to be free cash flow positive for 2018 or did I misunderstand that?

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

No, we are expecting to be positive for 2018. It's a combination of the solid operating results that we had as a result of the turnaround, but it's also the ABS marks primarily impacting the fourth quarter. That allows us to use less [indiscernible] (31:30) cash flow. So that actually puts us cash flow positive [ph] for the year (31:35).

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

Yeah, coming into this company, one of the things that I knew had to happen and we have been focused [indiscernible] (31:43) is managing the cost of our assets and we are real focused on EBITDA and decreasing our leverage, and providing cash on a consistent basis. And, clearly this is one of the most important lines and areas to make that happen. And we will continue to be very disciplined in how we grow the fleet and very disciplined in how we manage it.

John Healy
Analyst, Northcoast Research Partners LLC
Q

Great, thank you.

Operator: Your next question comes from the line of Michael Millman from Millman Research. Please go ahead.

Michael Millman
Research Analyst, Millman Research Associates
Q

Thank you. Could you tell us what your year-over-year fleet comparison was as of October 31. Also I may have missed it, but you've typically told us what percentage is rented to ride hailing companies and if you separated the ride hailing companies piece of the fleet, could you give us an idea of what your fleet, average price or cost would be since it's considerably lower than Avis and would assume that your businesses are somewhat comparable? Thank you.

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

A

So, what I would say is the depreciation expense on our TNC fleet is, because it's relatively small, it's just a little over 30,000 cars in the fleet. It has very minimal, it's a couple of bucks and that's it. And we maintain those cars pretty well. There is a cost to that and there is expenses around damage et cetera, but it really has very little impact on the number. That number and how well it is achieved because we'll go out this year with 85 retail car sales outlets. And it's how we buy and acquire those cars and manage that cost down and our ability to sell most of those cars outside the auctions we are in and so in the middle of it drive opportunistic sales. We are getting that $261 because we're really effective at buying and selling cars and that has to be a core competency within this industry and we're very much focused on maintaining that core competency through any kind of cycle.

Michael Millman
Research Analyst, Millman Research Associates

Q

And your fleet level at the end of October.

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

A

We don't give guidance on that, but we continue to have a very disciplined fleet and we continue to get results that illustrate that and support that, where we're seeing again our ability in October to get both price and volume increases at the same time on our fleet level.

Michael Millman
Research Analyst, Millman Research Associates

Q

And just on the commercial you indicated that you're seeing some improvement. Does that mean that your actual T&M is up for commercial year-over-year or is it just not declining as fast as it had?

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

A

It is absolutely not declining as fast as it has. It's basically leveling off. We're getting very little decline in price and we're working hard as we renegotiate contracts to actually look for price increases based on the value and the service that we're providing out to these customers. And I think as importantly or more importantly, we're growing our share of customers in the commercial fleet space and we are signing new contracts.

Michael Millman
Research Analyst, Millman Research Associates

Q

Thank you.

Operator: Your next question comes from the line James Albertine from Consumer Edge. Please go ahead.

Derek J. Glynn
Analyst, Consumer Edge Research LLC

Q

Hi, this is Derek Glynn on for Jamie. Thanks for taking my question. As it relates to the marketing campaigns for your brands, what kind of return are you seeing from those so far? Is there anything you could share related to increases in traffic or conversion as a result of those campaigns?

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

What we're consistently seeing is what we love is more customers coming directly to our dot-com and the quality of the customers has improved as well and that shows up in our T&M pricing and both our growth and our price. So the great news we're seeing is, our marketing efforts, social media, e-commerce, et cetera, branding efforts and our partnerships, we continue to expand and grow and get more value from our marketing efforts, but we're particularly pleased with the ability to track more directly to our dot-com.

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

One of the things I've been very impressed with is the marketing teams use of all the sophisticated tools that you would expect for a consumer brand that does as much marketing [indiscernible] (37:01) space and so – and our teams are laser focused on ROI of all the marketing activities. They're doing all the sophisticated analyses using things like multi-touch attributions. And those things help you eliminate wage from the system and at the same time drive incremental [ph] rentals (37:20) to the franchise and be able to attract those in a way where we can see what the return on that investment is. So I'm very pleased with those efforts and we're winning, you could see in our marketplace, you could see it in our numbers and we're going to continue to track and measure that in a very rigorous way going forward.

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

And I think the great news is, those marketing efforts are being supported by energized, committed, dedicated employees across the world. And so when the customers show up, we deliver on the brand promises that we're making in these marketing efforts. And the real strength of this company and our brands is our people, and from across the leadership team in all our different regions, down to the people who are cleaning the cars and delivering the cars, everybody's heart is in their job, and it makes a big impact. If we did all this marketing and when people showed up, we didn't have the fleet and the service that we set them out to expect we wouldn't be seeing the growth that we're seeing in our business right now.

Derek J. Glynn
Analyst, Consumer Edge Research LLC
Q

Okay. And then I also had a follow up just related to the use environment and fleet cost. Program vehicles are still relatively small share and I think it's 12% of the total in the U.S. Given the strength we're seeing in use. Are OEMs more willing to sell program vehicles? Is there any expectation that that program vehicle mix could possibly increase in the future if the use environment remains strong? Thank you.

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

I don't think so. We've seen – what I will say is we've seen some nice program deals come through, but it's been pretty small volume and fairly random. So I don't see any future consistent growth in program. I think the mix as we stand is pretty much going to be the way it is out into the future as well.

Derek J. Glynn
Analyst, Consumer Edge Research LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Hamzah Mazari from Macquarie Capital. Please go ahead.

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning. Kathryn, the first question is just around, what inning do you think we are in the turnaround at this company? And then when does investment spend normalize. Is that 2020, 2021. Any thoughts there? Thank you.

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

A

Well, I think I've shared before that I think in 2020 we should return to a level of a more competitive level, and benchmark level of profitability. And you heard Jamere talk about productivity and expense efforts. I think in 2020, we're going to have to make sure that we constantly don't waste any money on higher level expenses than necessary, and that we use continuously improved productivity efforts to fuel future investments, but I think given where we're at and the turnaround from an innings perspective. I'm going to hesitate that I'm not that big of a baseball fan to figure out how to analyze that one.

But again I think in 2020 we should start to see more normalized operations, but again, doing in math, I've been through a fair amount of enterprise level technology changes. So I know what it takes, I know that you have to be very disciplined through these and you have to plan for – hope for the best, and plan for the worst.

And I think the great news that we've done is we have really solid partners that are committed at their chair and CEO level to our efforts, and we have a really solid leadership team that's working on all of the process and requirements and working hand-in-hand with our technology group and our partners. And we're very focused on those efforts.

So I expect when we work through that in the fourth quarter of next year on the other side of this in 2020, we should come out in a very strong position. And then I think as you've heard, from a cash perspective we are very focused on returning cash to the business, and that effort is already starting.

And so the more we get improvements in RPU and improvements – sustained improvements in our depreciation costs, the more cash we create and the more goodness that we'll have a tailwind in 2020 based on the efforts. There's a lot of work we're doing right now that have nothing to do with the technology transformation that will really come even more to bear when we have all the right tools. Right now we're kind of working with one or two hands tied behind our back.

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Got you. Very helpful. Any my follow up question is just around how you see the business model evolving in an autonomous car world. Do you need to sign more technology deals or sort of does that not matter? Thank you.

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

A

Well, I think first of all, we do have partnerships out there now, and I don't call it mobility, I call it connectivity, so the focus we have and the partners we're working with really revolve around connected cars. And the technology, if you look at our Donlen business and I managed the largest global fleet business for five years when I was at GE. The corporate fleet business has been dealing with connected car capabilities, and all of the fleet management expertise you get out of that for 15, 20 years. And we have a great company in Donlen that's very experienced in connected cars and has a significant connected car fleet already.

We also have both in the U.S. and in Europe connected cars in touchless rentals. And what I'm focused on in that regard is being the very best at managing the fleet. And if we are the very best and have unsurpassed capabilities in that level. How many companies out there are the best at managing 1 million cars around the world. So we are looking at everything we do in our fleet management technology and capabilities. If we could do that for somebody else who comes in and says, hey, can you manage my million cars. We can manage 1 million cars. And right now we're managing 1 million cars and we're very focused on improving all the capabilities you would need to manage 1 million cars for somebody else. If we can do it for ourselves, we clearly can do it for somebody else and we already do manage large corporate fleets.

And so between the analytic capabilities that we already have developed on deployment of fleet and demand forecasting, our ability across the country and world to deliver cars to consumers and keep those cars cleaned and keep them places, and then if you add into it, the enterprise system that we're putting in place is built to interact with touchless rentals and telematics and connected cars.

So the best way to win in the autonomous world and to win with partners, is to be – to have the skills and capabilities that they need to be successful in managing our autonomous fleet as well as our ability to manage our autonomous fleets, and so that's where we're focused right now.

Hamzah Mazari
Analyst, Macquarie Capital (USA), Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Chris Wang from Barclays. Please go ahead.

Chris(Yifan) Wang
HY Credit Research Analyst, Barclays

Q

Thanks for taking the call. I just have two quick ones. First I appreciate your comments on the positive free cash flow for the year. I think in the last quarter what was also particularly helpful with the pricing trend in July that you guys gave out; I know you typically don't give guidance, but maybe can you talk about the pricing trend sequentially in the quarter and maybe into the month of October, any directional color will be helpful there?

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

A

Well, we certainly won't give a kind of forward-looking statement comment, I'll say though that October is off to a very good start and we have some good momentum going into the final quarter of the year. Our teams are executing well. We are being really disciplined about the fleet, the fleet management capabilities. We're meeting almost daily with our fleet management teams, our revenue management teams so that we have the right sized fleet, the car is in the right place, the right mix of cars, so I feel pretty confident about our ability to execute in this environment, [ph] this year (46:50) October is off to a really good start.

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

A

Yeah, the good news is, October is off to a good start. Now the challenge is, is the holidays, they are always a wild card, all right. So, we've got Thanksgiving and Christmas. They always fall on different dates and December, it looks like we might get an extra week of corporate travel and some of the holiday will follow for Christmas and that holiday season into January. And then Thanksgiving is always a wild card, but right now we have the ability to manage our fleet appropriately and so far things are going well.

Chris(Yifan) Wang
HY Credit Research Analyst, Barclays

Q

Great. I appreciate the color and now I want to focus on the balance sheet a little bit. Obviously, the priority here is the front-end maturities, how are you thinking about the timeline of the refinancing here. I mean what are some of the consideration that you're thinking about internally. I mean outlook is pretty good. I mean the industry set up is pretty favorable, does it give you confidence to [ph] in a way to be longer (47:59)?

And on the other hand, I guess from what we saw, the market volatility has picked up in October and I think it becomes a little bit more of a fluid situation in terms of the access to the market and execution, so how do you think about balancing the two?

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

A

Yeah, so we are obviously focusing on de-risking, the good news is, is that we have a tailwind with our performance, the better operating performance that we have gives us an opportunity to go into the marketplace opportunistically, and de-risk and get better terms and better rates than we have in the past.

So, our capital market's execution will depend on a couple of things. One is clearly we're looking at the marketplace and finding what's the right window to go to do that and two, continuing to focus on our individual performance and putting together a story that suggests that we're a much better credit quality than the last time that we went to the marketplace. So, we have a world-class team that has the capability to do this, and I'm pretty confident that we'll be able to address the stack in a way that gives us a better outcome than the last time we were in the marketplace with financing initiatives.

Chris(Yifan) Wang
HY Credit Research Analyst, Barclays

Q

So do you still have a preference for secure paper and also is your preference still to do the 2020 and 2021 together?

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

A

Yeah, I mean I don't want to complicate our capital structure at this point. However, I will say I'm very focused on making sure that we get the best possible financial outcome for the company, and so if that means we have to introduce a little bit more complexity, we will do that. But my focus has been not necessarily to complicate the cash structure any more. And again, as we improve our financial performance and show traction as it relates to the turnaround, we will have a lot more flexibility in that regard.

Chris(Yifan) Wang
HY Credit Research Analyst, Barclays
Q

Got it. Thank you very much.

Operator: And at this time, there are no further questions.

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

Thank you and have a great day.

Operator: Ladies and gentlemen that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.