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HTZ.OQ - Q1 2022 Hertz Global Holdings Inc Earnings Call

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APRIL 27, 2022 / 9:00PM, HTZ.OQ - Q1 2022 Hertz Global Holdings Inc Earnings Call

CORPORATE PARTICIPANTS

Johann Rawlinson

Kenny K. Cheung Hertz Global Holdings, Inc. - CFO & Executive VP

Stephen M. Scherr Hertz Global Holdings, Inc. - CEO & Director

CONFERENCE CALL PARTICIPANTS

Brian Arthur Johnson Barclays Bank PLC, Research Division - MD & Senior Equity Analyst

Chris Jon Woronka Deutsche Bank AG, Research Division - Research Analyst

Ian Alton Zaffino Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

John Michael Healy Northcoast Research Partners, LLC - MD & Equity Research Analyst

Stephen White Grambling Goldman Sachs Group, Inc., Research Division - Equity Analyst

PRESENTATION

Operator

Welcome to Hertz Global Holdings First Quarter 2022 Earnings Call. (Operator Instructions) I would like to remind you that this afternoon's call is
being recorded by the company.

I would now like to turn the call over to your host, Johann Rawlinson, Vice President of Investor Relations. Please go ahead.

Johann Rawlinson

Good afternoon, everyone, and thank you for joining us. By now, you should have our earnings press release and associated financial information.
We've also provided slides to accompany our conference call that can be accessed on our website.

I would like to remind you that certain statements made on this call contain 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 today's 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 2021 Form 10-K and our first quarter 2022 Form 10-Q filed with the SEC and on the Hertz website.

Today, we'll use certain non-GAAP financial measures, which are reconciled with GAAP numbers in our earnings press release available on the
Investor Relations section of our website. We believe that our profitability and performance is better demonstrated using these non-GAAP measures.
Comparisons discussed will exclude the effects of Donlen fleet leasing and management business, which we sold in March 2021.

On the call this afternoon, we have Stephen Scherr, our Chief Executive Officer; and Kenny Cheung, our Chief Financial Officer.

I'll now turn the call over to Stephen.

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Thank you, Johann. Good afternoon, everyone, and welcome to our first quarter earnings call. This is my first call as the new CEO of Hertz, and I
look forward to speaking and meeting with many of you in the coming weeks and months.

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Let me start by saying how proud I am to be a part of this company. My first 60 days have been exciting and have provided me with valuable insights
into the business, both in terms of what we do well and equally where we need to improve. I've spent considerable time with our senior leadership
team as well as our colleagues in the field at locations across the country. My initial impressions are uniformly positive and consistent with what
attracted me to the opportunity to lead this company.

Hertz possesses an extraordinary brand, a brand that is commercially powerful and that aligns well with other emerging leaders in mobility. It is
also a brand that attracts talent, both in terms of retention and in bringing new talent to the company. Hertz benefits from an exceptionally resilient
workforce with employees that have long tenure at the company with a deep appreciation for and relationship with our customers. These tenured
employees, combined with new and innovative talent, is a powerful combination.

Hertz enjoys an exciting first-mover advantage with electric vehicles, now deployed across more than 30 markets in RAC and TNC. A considerable
portion of our fleet will be electric by year-end with promising economics as EVs command higher pricing and draw lower operating costs. We are
benefiting from early performance analytics and a growing roster of OEM partners.

And of significance, Hertz operates from a position of financial strength following its reorganization with impressive cash flow conversion, a renewed
focus on returns, low leverage and a disciplined fleet size that is more in balance with demand at better margins than where the industry has been
historically.

I took the CEO seat at Hertz because this company has the potential to reimagine its customer offering, produce higher returns and grow through
its participation in the mobility equation through improved technology and better use of data. Hertz will continue to move people and things as
it has throughout its 103-year history, except we will do it now in the context of a changing mobility landscape. We are building a more diversified
fleet, including electric vehicles and a wider set of customer channels, including individuals, corporates and ridesharing.

At its core and borrowing from my past, I have come to view Hertz as an asset management business that combines vehicle purchasing, renting
and disposition into a single analytical framework against which we measure returns. With a renewed focus on customers and greater attention
to return on our assets, the Hertz of the future will be fundamentally different from the Hertz of the past.

There is much to do. The journey to improve our technology is underway. From the use of mobile phones to the deployment of telematics, to the
incorporation of artificial intelligence, Hertz will be in a better position to serve our customers, to price our assets and to manage our business.

We are building in the cloud with API architecture to enable Hertz to partner with others. We will have nearly the entire North
American fleet equipped with telematics by year-end. All technology need not be built by Hertz as we can embed existing advancements in our systems at lower
cost.

What's more, with a growing EV fleet and a network of charging stations on our premises expanding to 3,000 across 80 markets by year-end, we
will participate in the development of a new large-scale charging network being conceived both in the U.S. and abroad. Interested parties include
governments, private capital, energy companies and infrastructure investors. As the mobility ecosystem changes, Hertz will play in it and grow
with it.

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To accomplish our objectives, we must compete in the race for talent. On this score, we are beginning with an exceptional base. As I noted, I have
met with some of our Hertz professionals who have been with us for 25, 40 and even close to 50 years. We are also attracting new talent with a
focus on engineering, technology and product design to a new and exciting opportunity at Hertz, including our announcement this morning of a
new Chief Product Development Officer and recently around a new General Counsel.

We also implemented a company-wide profit sharing program, which means now all Hertz employees will participate in our success and will be
awarded with cash bonuses as we hit profitability and customer satisfaction targets. Combining young innovative talent with technology will be a priority for the company in the pursuit of our strategic objectives.

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The results in the first quarter, which Kenny will detail, tell a story of 2 halves. The first 6 weeks of the quarter were softer than expected due primarily to the impact of Omicron and lower volumes. By late February, we began to see demand rebound and our results for the back half of the quarter compensated for the initial softness. March was the first month since the onset of the pandemic where revenue exceeded its 2019 level, and we are seeing that momentum continue into April.

The progressive improvement in rentable utilization from January through February into March, moving from 66% to 80% across the quarter, was a good indicator of that momentum as well as a reflection of stability in demand and solid management of the fleet.

Total revenue for the quarter was $1.8 billion, a 57% improvement from the prior year period. And adjusted corporate EBITDA was $614 million, a margin of 34%. While a portion of our results are unquestionably attributable to positive market forces, they also reflect pricing disciplines, structural improvements made to the business and strength in the residual value of the fleet. Current conditions provide us with an opportunity to invest in our future and to reduce our equity base through share repurchases.

Like others in the industry, we are experiencing the impact of constraints on the supply of new vehicles as well as certain inflationary cost pressures. It remains difficult to source fleet to meet demand, and this dynamic may well persist into 2023. The recent industry dynamics of limited fleet supply, combined with rapid post-COVID recovery of travel, have led to demand for rental cars materially exceeding available supply, which is reflected in pricing. Given these challenges, our organization remains operationally flexible and careful on the cost side.

We are keeping cars longer, buying low mileage preowned vehicles and infleeting new car supply, including electric vehicles, more quickly than before. We are also being careful to dispose of older vehicles from the fleet so as to ensure quality of product. As our cars age, we are taking care to weigh elevated used car prices against potential rental earnings and time our dispositions to maximize asset returns. Notwithstanding strong top line performance, now is the time to get prepared for as and when market conditions turn.

Impressively, our strong results this quarter were achieved while corporate and international inbound activity remained considerably below prepandemic levels. Domestic leisure travel, nonetheless, remains strong, coming into the high summer season. As business travel returns, we are focused on serving the highest quality, highest margin demand offered in the market at any given time. In aggregate, we expect the return of corporate and international inbound activity to be accretive to our earnings and margins for the balance of the year.

In my first 60 days, we have established near-term work plans to address our core technology stack, systems architecture, changes to the app and various other components of the customer journey. Progress will be real and incremental, and we will report on it as such.

As we enter the summer peak season, we have already initiated enhancements to the customer experience. Our objective is to provide customers with a seamless digital experience every step of the way, in short to take the hassle out of renting a car. This begins with the app, which must be reimagined. Early progress in technology won't always be visible to our customers, but the experience will get better over a manageable time period.

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We have multiple pilot programs currently underway to field test certain touchless exit gate and rental experiences. Learnings here will be invaluable as we scale these initiatives. We are also running a pilot to move our insurance replacement business from a heavily paper-based system onto

a
digital platform.

Earlier this week, we announced that we will be collaborating with Amazon Web Services to modernize and digitize the Hertz customer experience
and key components of our new mobility platform such as enhanced data analytics and vehicle telematics. We're also engaged with Oracle on the
upgrade of our back-end systems and with Stripe on improvements to our payment systems. These initiatives will improve the efficiency and
integrity of our operations and equip us with the tools to improve customer experience.

On the topic of customers, I want to address the ongoing media coverage around the false arrest litigation. Let me first note that the overwhelming
majority of these cases involve renters who have kept our vehicles well beyond the due date and ignored repeated requests from Hertz to return
our cars. In those instances, we have a responsibility to secure our assets and protect the company.

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In the minority of cases where customers were negatively affected, through no fault of their own, as I have said publicly, we will do right by them.
Our policies and procedures are designed to diminish the possibility of innocent customers being impacted in the future. While the affected group
is a fraction of a percentage of the millions of rentals we process a year. Even 1 customer being negatively and unfairly impacted is too much. The
task to fix this belongs with me as the CEO of the company.

Let me pivot to our strategy around electric vehicles, where our momentum continues. We've expanded our Tesla rental offering to more than 20
markets, and we intend to be in 40 markets with Teslas by year-end. Looking forward, we are excited to take in additional Model 3 and Model Y
vehicles over the course of the coming quarters. Rentals for the Model Ys have commenced in California and the rest of the country will follow
soon.

Our recent partnership with Polestar is yet another important milestone in our EV journey. This partnership stretches over 5 years and aims to bring
65,000 Polestar 2 vehicles into our fleet. We continue to talk to multiple EV manufacturers to accelerate the adoption of electrification of our fleet
while promoting a lower carbon footprint. And I would like to see more than 30% of our fleet being electric by the end of 2024.

Our EV partnership with Uber also continues to grow and stretches across over 30 markets in the United States. The utilization rates we are seeing
on this portion of the fleet are well over 80%, and we continue to experience strong driver demand, supported by the increased earnings these
drivers can generate by renting from Hertz versus outright ownership. The longer rental periods typical of this segment means fewer vehicle turns
and meaningfully lower variable costs. This channel also provides us with greater flexibility to pivot our vehicles between rental and ridesharing
so as to make better use of our assets.

We are also continuing to see strong progress with our Carvana partnership. Several thousand cars have been sold through the Carvana platform,
and we are very pleased with the results, providing us with a material uptick to prices found in the wholesale market. All these initiatives are
expected to be earnings accretive for Hertz.

Looking ahead, we do not see demand for our services lessening anytime soon. And in fact, all indications point to an extremely busy summer.
This, coupled with our high operating leverage and attention to the risks of supply chain and cost control, gives me confidence that we are well
positioned for the next quarter and the balance of the year.

I equally have confidence that we are taking the right steps to position this business for success in an evolving mobility landscape. From the cars
we acquire to the customer experience and the products we offer, to the expanding channels of customers with whom we engage, to the increasing
efficiency with which we price and manage our fleet, to the way in which we dispose of our fleet, Hertz now has execution road maps and technology
plans to elevate its competitive and strategic position.

Now I'll turn it over to Kenny to walk you through our results in more detail.

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

Thank you, Stephen, and good afternoon, everyone. We continue to execute on our strategy of focusing on profitable revenue growth, staying
disciplined with fleet and size, utilization and productivity.

Our first quarter adjusted EPS was $0.87 and adjusted corporate EBITDA was $614 million, a margin, as Stephen noted, of 34%. Our revenue for the
first quarter was $1.8 billion, 57% higher than in 2021. This was slightly higher than the estimate that I put forward on our last call and mask the
fact that this was really 2 different periods within the quarter, as mentioned earlier.

The first 6 weeks were weaker than originally expected due to Omicron, but March more than compensated for that. Our performance in the back
half of the quarter was due in large measure to improved rates, primarily driven by leisure customer demand. Our disciplined pricing, together
with structural improvements we've spoken about previously, led to revenue per unit per month of $1,326, up 26% from 2021.

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Within Q1, our RPU sequentially increased from approximately $1,100 in January to over $1,600 in March, driven by sequential improvement in utilization and pricing. I should highlight that effective from Q1, we revised our calculation of monthly revenue per unit, or total RPU, to use average rentable vehicles as the denominator.

Average rentable vehicles, excludes vehicles for sale on the company's retail lots, were actively being sold through other disposition channels and are therefore unavailable for rent. We believe this is a better measurement of productivity of our rental fleet as it is unaffected by fluctuations in our disposition activity. For clarity, the calculation of depreciation per unit remains unchanged and includes all cars in the fleet as these remain subject to depreciation.

As I've said before, we are keenly focused on generating healthy revenue that is more accretive to the bottom line, and we are deliberate about pursuing high-quality business. We've worked hard to permanently improve our business from a go-to-market standpoint, but market forces on pricing are a function of limited supply and recovering demand.

Depreciation per unit per month for Q1 was a gain of $40 instead of an expense, which is within the range we previously guided. As explained in detail on our Q4 call, this is a result of today's strong market for used cars. As we fleet up for our spring and summer peak season and as we rotate more expensive cars into the fleet, the number of fully depreciated vehicles will decrease. As such, we continue to expect monthly depreciation per unit to increase sequentially through the remainder of 2022, normalizing towards the end of the year.

For Q2, we expect depreciation per unit per month to be between $110 and $130. We expect full year monthly DPU to be between $175 and $225.
Our quarterly estimates of depreciation are based on our fleet plan, composition, vehicle acquisition and disposal amounts and related holding periods. Present and future market conditions factor into vehicle cap costs and residual value and therefore, also impact depreciation. These factors are also relevant in assessing ROA in connection with both acquisitions and disposition of vehicles.

Now moving to cost more broadly. Like most companies in the U.S., and as Stephen mentioned, we also experienced inflationary pressure during the quarter, which impacted us primarily in 3 ways: first, higher vehicle acquisition costs, which increased gross depreciation; second, higher operating costs resulting from labor shortages and increased employee compensation; and third, higher maintenance costs for our vehicles due to increased pricing of parts and service labor. We see these as being industry-wide factors that need to be offset by pricing and other initiatives.
As we mitigate these challenges, we will emerge a more operationally efficient organization. Notwithstanding these immediate challenges, we have several ongoing initiatives to drive additional productivity and operational efficiencies, including hiring at the field level to avoid costly outsourced labor and bringing on more mechanics and leveraging partnerships with vendors to meet the maintenance needs of the fleet. We anticipate that cost inflation will further promote industry discipline and ensure optimal allocation of resources across the board.

Overall, the permanent cost improvements we have made and are making to the business have helped us to mitigate these inflationary pressures. As a percentage of revenue, DOE and SG&A for the quarter were 800 bps or $145 million better than 2021 and 250 bps or $45 million better than 2019.

In terms of our capital structure and liquidity, our balance sheet remains very healthy, positioning us well to fund our strategic initiatives and return value to shareholders via our share repurchase program. As of March 31, our liquidity was $2.7 billion and is comprised of $1.5 billion of

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unrestricted
cash and nearly $1.2 billion available under the revolving credit facility.

During the quarter, we increased our RCF capacity by $220 million to nearly $1.5 billion, which creates additional financial flexibility and enhances
our corporate liquidity. We also raised approximately $2.5 billion through the issuance of medium-term notes as part of our ABS structure. The
proceeds were used to repay existing revolving ABS debt, which, in turn, freed up incremental capacity for future growth. We also increased the
commitments under the variable funding notes by $200 million to $3.2 billion.

Turning now to our cash flow for the quarter and our capital deployment strategy more broadly. There are several possible uses of our cash, which
needs to be considered together and assessed on a relative basis. They are not mutually exclusive. We consider investments in our revenue-generating
asset base, our fleet, and these positions are based on long-term calculations on growth and return on investments.

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Capital allocation requires that we are mindful of the balance between sizing capacity to demand and return on assets. In making an investment
decision on fleet, we consider the potential for a differentiated return on investment, between EVs and ICE vehicles as an example, whereby the
returns on EVs may prove higher because of elevated RPD, lower operating costs and the possibility of extended depreciable life.

We also consider nonfleet capital expenditure, which mainly consists of information technology and infrastructure, all consistent with the strategy of improving customer experience and operational efficiency that Stephen spoke to earlier. Here again, we focus on ROI of these investments in
terms of improving fleet deployment and customer experience.

As we have over the past several quarters, we consider the return of cash to shareholders. Given our net leverage governor of up to 1.5x and our
current cash generating ability, we are in a position where we can invest in growth and return cash to shareholders without placing pressure on the balance sheet. As of April 21, we purchased approximately 55 million shares under the $2 billion plan with approximately $800 million remaining to spend. Before we exhaust the current plan, we will be approaching the Board with proposals around subsequent plans.

Turning now to some specific cash flow numbers for the quarter. Our adjusted operating cash flow was $677 million, our nonfleet CapEx was $29
million, and net fleet CapEx was $569 million, resulting in adjusted free cash flow of $79 million this quarter. As we rotate our older cars and broaden
new or high-quality preowned cars, we fund those at about 20% equity. We generated sufficient cash flow to fund our fleet growth, and the
reduction in liquidity was related to share repurchases.

Let me explain for a moment on how I see cash flow playing out for the full year. We expect that cash taxes and working capital will be approximately
10% of EBITDA and that our nonfleet CapEx will be around $250 million to $300 million for the year. Given the investment in fleet we are making
this year, we expect our net fleet CapEx to be between $1 billion to $1.5 billion, depending on market conditions to reflect the equity component
of our fleet rejuvenation and growth investments. Bear in mind, this is mostly funded by the gains realized upon disposals of other vehicles, which
are reflected in our reported depreciation and, therefore, embedded in EBITDA.

We know that people are acutely focused on our view of EBITDA and cash flow once the market normalizes. As we have told you in the past, we
continue to believe that at prepandemic demand levels and industry-wide depreciation rates, our normalized annual EBITDA generation would be approximately $1.5 billion, excluding initiatives such as the transition towards EVs, supplying to ridesharing fleets and our Carvana and Amex GBT relationships.

From that EBITDA baseline, we will normally expect free cash flow conversion of at least 70%. This is because once our aggregate fleet value and
depreciation return to a more normal level, we expect that EBITDA will adequately reflect the entirety of our fleet expense and net fleet CapEx will
be minimal.

Finally, with a view forward and consistent with what we are seeing across the travel industry, the positive trend we saw in March is continuing into Q2, where month-to-date RPU is similar to the strength we saw in March. We generated 20% more EBITDA in March than we had originally
expected due to fleet tightness and strong demand. We do not see any abatement of the limited vehicle supply, as Stephen mentioned earlier.
With the current geopolitical environment impacting the supply chain constraints, I believe industry fleets will continue to be tight and that pricing and residual values will remain elevated as a result.

Q2 revenue has historically been higher than Q1 by about 20% due to seasonality. Given the momentum we are seeing in our business, we expect
our performance for Q2 to exceed Q1 by 30% to 35%.

With that, let's open the call for Q&A.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Chris Woronka from Deutsche Bank.

Chris Jon Woronka - Deutsche Bank AG, Research Division - Research Analyst

Stephen, yes, there's a mention of the $1.5 billion kind of as a normalized EBITDA range, which I think most people think of as 2023 or beyond. I
mean, as new CEO, what are some of the kind of the opportunities and threats to that number?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Yes, sure. So thanks, Chris. I appreciate the question. With Kenny, in his prepared remarks, talked about normalized EBITDA in the context of '19 as a reference point. So let me come at it slightly different angle, which is let's look at current conditions kind of as a delta to where we think normal
is.

So let's look first at the demand side. On the demand side, notwithstanding how elevated it is, we're still shy of where I think normal demand will
sit. So you look at leisure in the RAC business, it's at about 90% of where it was in '19, so limited amount to see there. But if you look at corporate
and you look at inbound, so these are international travelers coming to the United States, there's considerable demand that can be recovered to
get us to a normal state of affairs.

So thinking about corporate travel. Corporate is now running at about 63% of where it was in '19 and inbounds are running only at about 35%.
And that will change as COVID measures and the like of entry into the United States will change. So on the demand side, there's still room, right,
for improvement to get us to a normalized state.

Then you look at the supply side, right, typically through fleet. And I think as we've said, more limited conditions around supply, much as we will
get our fair share of it, I think, persist in through '23, maybe a bit beyond. And so there, I think as fleet comes on to more normalized levels, you'll
see us grow our fleet but grow it in the context of demand that's there. So fleet will increase. I think we can sustain utilization at levels that we're
seeing now in March and in through the second quarter.

Let's assume there's some softness in price, it's not going to stay as elevated. So if one assumes that we take a 20% or 25% reduction,
right, to what we're looking at on rate and then get to more normalized depreciation, the fact is that at more modest margins, okay, we're going to produce $1.5
billion.

The upside to that, okay, because as Kenny referred to it, we haven't included is look at both sources of incremental revenue and cost reductions.

So we're not thinking about ridesharing to Uber growing or what we can sell through on an increased basis through Carvana or collaborative
marketing efforts that are out there or, for that matter, the benefit we're going to get as more electric vehicles come in and the RPU on those are
higher than what we're seeing on ICE.

And on the cost side, much of what I talked about in the context of certain technology developments and the like, we'll have a better pricing engine.
We'll take our out-of-service down. Cloud migration of our overall platform will generate meaningful cost reduction in the context of what

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we
spend on older generation technology.

So those are a bit of the puts and takes. I'm just giving you kind of my own take looking both at supply/demand and what increment we can generate there. And again, 2019 is a good gut check, but I just wanted to offer you a slightly different perspective than just to simply revert back
to '19.

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Chris Jon Woronka - Deutsche Bank AG, Research Division - Research Analyst

Yes, I know. Stephen, very helpful. And just as a follow-up, like kind of on the fleet side. And you mentioned that the RPU of the things you're bringing in, which you have a lot of EVs coming into the fleet. Does that make you reconsider wanting to get the total fleet even back to '19 levels even if demand gets there? Is there a case to be made that you could be smaller with different fleet because the fleet -- the cost of that fleet is going to look a little bit different? And so therefore, really totally zone in on RPU and not on matching the fleet to the demand equation?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Yes. I mean my view on this is that this is managing a set of assets, okay, and sweating the ROA on your fleet. So unless focused on the aggregate amount of fleet, I'm more focused on making sure that I'm sizing fleet into demand. And that the composition of the fleet as between electric vehicle and ICE is taken into consideration in part because I think the ROA on the EVs will be higher. They will be higher because they attract a higher rate and they carry with them appreciably lower operating costs with respect to maintenance and otherwise.

And I think on the forward, there's more good to be had on depreciation of those vehicles because I think we're operating with very limited history. But in the end, I think the life of those vehicles will be longer and the depreciation less.

So my point to you is that I'm not looking to go back to a prescribed fleet number. I want to grow fleet in the context of sweating the ROA, meeting the demand that's there and looking at the mix of fleet in the context of where I can harvest the greatest margin on the fleet itself.

Operator

And your next question comes from the line of John Healy from Northcoast Research.

John Michael Healy - Northcoast Research Partners, LLC - MD & Equity Research Analyst

Big picture question for you, Stephen and Kenny. Just getting a lot of questions about where we're at in the cycle and what's happening with the economy. Would just love to get your view of how Hertz is thinking about the economy and maybe how Hertz is different relative to historical periods as maybe we encounter some potential economic turbulence.

So would just love to hear your thoughts on kind of leading economic indicators and how you're planning the business and maybe how the business might be more or less resistant to those pressures that come about cyclically.

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

John, yes, it's Kenny. I'll try to answer this one first. So thanks for the question. A few things come to my mind as I think about your question, right? The potential downturn, economic pressure. I'll say 2 things here, right? First and foremost, we can fleet up and down our fleet very, very quickly, unlike other travel and hospitality peers who cannot with their fixed asset. The name of the game for us, regardless of any environment, recession or no recession or pressure, is to match fleet to demand right below the demand curve, right, to maximize profit.

The second thing I'd say is we are a very nimble company, right? 70% of our cost base is variable and that provides flexibility as volume flexes up
and down. And remember, this is combined with the fact that we have a very strong book of business off-airport, which is resilient as proven at
the peak of the pandemic.

The second thing I'd say is that people talk about inflation, right? My view is we don't view inflation as necessarily a bad thing for us as this creates
more discipline across the industry in terms of pricing and asset allocation, which you can see currently.

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The second thing I'd say is that in an inflationary environment, car rental is not a bad place to be at. As you're utilizing an asset, purchase that today
slash historical value and monetize them against the backdrop of rising rate environment.

And the last thing I'd say about inflation is that we continue to drive productivity, optimize business processes and drive operational efficiencies
to offset that.

And then the last thing I'd say around the current environment is interest rates, right? As I mentioned in my prepared remarks, we have a really
strong balance sheet. But if you think about debt profile, right, our debt stack, 70% of our total debt is fixed rate. So we are largely insulated from
interest rate hikes. And we have caps in place as well on the VFN standpoint.

So long story short, while the current environment is dynamic, as you pointed out, our business model is resilient across a wide range of circumstances.
And by the way, we are -- we've been battle-tested and we are students of the business. We analyze and study all aspects of the auto market since,
quite frankly, we participate in all aspects of it. So we are prepared for all scenarios.

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

John, it's Stephen. The one other perspective I'll offer you is that I think rental car -- the rental car industry and the travel industry more broadly is
going to be the beneficiary of what I would describe as a delayed consumptive response, meaning if you look across a range of other industries,
stimulus led to increased consumption in the back half of 2021. If you think about travel, travel has not had that opportunity just yet, largely by
virtue of COVID and restrictions that have been in place.

If I look at our forward book of bookings in the summer, what it's suggesting to me is that we may see delayed consumptive patterns around travel,
and we will be the beneficiary of that. And as I said in response to the question that I was answering for Chris, just look at where we've yet to pick
up the demand that indicates there's some delay to it. So think about what's left on corporate demand to come through. And impressively, what's
left on the inbound international traveler to the U.S., which is a very profitable segment for us.

And so I think there's an element here where stimulus came through, we saw that in the consumptive behavior of consumers, but it didn't necessarily
materialize in the way in which I think it will in this summer. And so that's just a broad perspective to offer you in the context of what the forward
holds for the industry.

John Michael Healy - Northcoast Research Partners, LLC - MD & Equity Research Analyst

Great. No, that's really helpful. And just 1 follow-up question, Kenny. Could you run us through the math on the view on fleet cost for the year
again? Was that a -- were those just U.S. comments? Or was that company-wide? And I was just hoping to try to sketch out kind of the $175 to $225
number because it's, to me, in size, maybe a number like $300 at the end of the year?

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

Okay. So yes, so let me go a bit deeper since I'm sure I'll get more questions on depreciation, so I'll hit it right now. So if you think about this quarter,
right, call it negative $40, if you bifurcate between gross depreciation, which is simply your recorded depreciation of the vehicle, and then your
gains on sale, if you bifurcate that, you're roughly $223 of gross depreciation per car per unit per month and $263 of gains per car per month per
unit. That's negative $40, right?

So as you work your way into, call it, Q2 now, your fully depreciated vehicles will decrease, as I mentioned in the prepared remarks. And then
essentially, if you do the math, right, if Q2 was, call it, $100 or $120 and change, then that means your back half will normalize, right, closer to the
$300 mark in terms of depreciation. So -- and then the number I've given for the full year, that is a global number.

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Operator

And next up, we have Stephen Grambling from Goldman Sachs.

Stephen White Grambling - Goldman Sachs Group, Inc., Research Division - Equity Analyst

My first question is a big picture question for Stephen. There are a lot of different views about what the future of mobility looks like. And obviously, there are a lot of moving parts. But as you were attracted to this opportunity, what was your own framework for what that future looks like over the next, call it, 3 to 5 years? And how are you balancing moving the company towards that view while also staying nimble if the future goes in a bit of a different direction?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Sure. Thanks, Stephen. I appreciate it. So I'll answer that on a couple of levels. First of all, my view was that Hertz sits with an extraordinary brand, perhaps a brand that was worthy of an even better business, which I think we can build, and that doesn't often happen.

In the context of mobility, there are enough really impressive players that are in and around those changes where I think Hertz can align itself quite comfortably. And we're already doing that, obviously, in the context of Tesla and Uber and Carvana and the like. And I think there's more to do there.

For me, the forward path around mobility is all about us thinking now about the way in which we diversify the composition of fleet and equally think about diversification of our customer channels. So in the context of fleet, obviously, it's about combustion engine and electric vehicle and what that will mean and what that carries, okay? On the customer side, it means not just playing direct, but also thinking about corporate and equally ridesharing and the forward view on what that might mean for fleet management overall.

In the context of corporate, there's an interesting developing phenomenon, which is that the electric vehicle is turning out to be a great appeal to our corporate customer. They need to rent cars to their employees, but they're equally through EV, satisfying their own ESG and carbon footprint objectives. And that's sort of an interesting dynamic there.

On the Uber side and translate that over through to Lyft or to a variety of other fleet players, imagine where Hertz is in a position, in this case, to take EVs and rent them, changing the consistency of product delivery and the economic dynamics to the driver. What could we do with other fleets and other fleet management in the context of electric vehicles there? And so there's a forward path, right, that we can achieve.

I think all of this is meant to be achieved for a company that sits on an extraordinary mine of data. We have yet to sort of tap into it, and we haven't consumed it and analyzed it such that we can find ourselves in a much better position to sort of manage a fleet and serve interests that are ever-changing: electric fleets, corporate customers and the like.

And so I think the forward here is really quite real and our ability to do it in ways that embed existing technology. So think about the mobile phone. The phone can be used in a way to meaningfully improve the customer experience of an individual. We can now geolocate cars. We can access the car. We can use the phone as the key fob to start the car. By the way, we can identify you because your identification on the phone will

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change.
All of that changes the dynamic of what Hertz can do with the rental business today with a forward view to mobility.

So the younger demographic need not rent a car where Hertz has a location. We can preposition a car for them in another location. They can access
it. It can be a seamless proposition. And all of that is using existing technology and embedding it in the customer journey.

So I think there are many ways that we can tap into the forward mobility prospect and the ability to do that with others is quite real. And that was
and is an exciting proposition for me and I think holds the promise of realizing consistent and impressive financial returns to the company.

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Stephen White Grambling - Goldman Sachs Group, Inc., Research Division - Equity Analyst

That's helpful and interesting. As a follow-up on the fleet side of your response, is there any sense for how electric vehicle pricing has trended as
you've rolled out more? And you kind of alluded to this, but maybe it's too early to really see this in terms of differences in uptake versus -- between
consumers versus business customers. And then how you're just generally thinking about the pricing umbrella of these vehicles versus the base
they become more ubiquitous.

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Sure. Well, I think what we're seeing in the early introduction of electric vehicles into the fleet is consistent with what we had analytically modeled
in making the decision that the ROA on this segment of the fleet was attractive. That is we're seeing elevated pricing certainly into RAC and equally
into ridesharing.

On the ridesharing side, it carries the extra benefit of those rentals being longer, 4 weeks. It means our touch point into those cars is appreciably
less, meaning we won't touch the car 3, 4, 5 times in the way in which we would in the normal fleet. So the operating cost associated with that is
much lower.

The maintenance, while it's early, the maintenance is lower. We expect those maintenance costs to continue to be lower. And utilization, as an
expression of demand in both the corporate segment as well as in ridesharing and RAC, would suggest to us that the demand is really impressive.
I mean we're seeing waiting lists among Uber drivers to take these cars, and we're seeing very, very quick uptake, again, at high utilization levels
across the consumer and the corporate side.

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

It's Kenny. I mean from a financial standpoint, I'm excited to say that the Teslas coming in is validating our long-term view of the EV economics
being accretive to ICE vehicles. So our view was having a first-mover advantage here is as valuable here as the learnings are improving our daily
operations and giving us a huge competitive advantage.

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Steve, I would also say one other thing, which is if one harbors a view that there will be forward softness for a variety of reasons, right, in price, I
think the EVs present, as they grow within our fleet, a pretty defensive floor, if you will, as to where that pricing will go, meaning we have a first-mover
advantage. They are a scarce component of the fleet just on a relative basis. Therefore, the ability to hold price, I think, is higher. And so it's just an
exciting proposition for us as we take more of these vehicles in and look to partner with more OEMs on the intake.

Operator

Next up, we have Brian Johnson from Barclays.

Brian Arthur Johnson - Barclays Bank PLC, Research Division - MD & Senior Equity Analyst

I just want to talk a little bit more about the depreciation, in particular, around not just used car sales and pricing outlook, but used car acquisitions.
As I'm sure you're probably aware, there's some well-known used car resellers who were seen by the market in the most recent earnings results of
buying used cars earlier in the year or late last year 1 price and then selling them at another.

So 2 questions. One, can you give us some sense of how your activity in the used car acquisition market was, how that factors into your depreciation
outlook? And then number two, it's comforting that you're guiding to about $110 next quarter. The $1,500 number, very similar to what's in our

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model and other analysts' reference. We do have depreciation normalizing as part of that. But how do investors get some comfort that as used car prices moderate slightly, there isn't an overshoot in your depreciation numbers?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

So why don't I let Kenny start and then we'll come back.

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

I think one of the questions that I think you're alluding to, Brian, is that how do we think about a normalized depreciation rate going forward, right? As you know, right now, the back half, the exit rate, close to $300 as I alluded to earlier.

Here's how I think about it, right? When you look at depreciation, it's unfair to look at it in silo, right? You have to look at it in conjunction with other dynamics, RPD, residuals, cap costs, just to name a few, right? So let me give you a quick stat.

It's not a coincidence that RPD residual cap cost right now, at this very moment, is all up by 30% to 40% versus prepandemic, right? So simple math is, if DPU, right, use an example, right, went up to $500, you may say, "Wow, that's really high." But RPU follows the $2,000, I'd take that economics all day and all night, right?

So I think it's important to really look at depreciation in conjunction with other variables. And that goes back to the point about return on assets that Stephen mentioned, right? So I don't know, Stephen, if you have to add on.

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

No, no. I mean I think the point that Kenny is making is the right one, which is, obviously, we need to be mindful of depreciation and think about it in the context of how we manage the fleet, and I'll come back to that.

But I think when Kenny and I manage the business, we're looking at a dashboard that has multiple indicators on it, okay? We're looking at the rate we're charging. We're looking at utilization. We're looking at depreciation. And you need to take those all in tandem.

Now my adherence to sort of ROA as a good framework is we want to sweat the asset. And therefore, all of these are inputs to the return that the fleet is ultimately going to yield to us.

Now in the context of our own behavior in the used car market, we are, at the moment, both a buyer and a seller, okay? So we are buying low mileage, high-quality used cars because the returns are attractive in a market that's displaying the kind of demand relative to supply that it is.

At the same time, we are looking at selling portions of our fleet because they are high mileage cars. They're of deteriorating value. It's not a product that we want to put a customer in. And when we do the math and we do the analytics, harvesting at the current elevated residual level or car price on that through Carvana or any other channel is in excess of the present value of the rental revenue that we're otherwise going to take in. That's the kind of dynamic we need to go through as both a buyer and a seller. And so I think that answers your question, but that's how we're thinking about this more broadly.

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Brian Arthur Johnson - Barclays Bank PLC, Research Division - MD & Senior Equity Analyst

Okay. So you're not worried that you bought -- basically what you're saying is used car acquisitions are an alternative in a tight market to new car
acquisitions and can follow depreciation curve, and obviously, you're renting them in the meantime?

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Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

I think that's right. And I think that equally, I'm not standing in a static position, meaning if we start to see the market move, okay, so something
happens in the relationship, if you will, between new car prices and where we're taking in expensive vehicles and what we're doing with respect to the residual on the used. My view is that it's unlikely to move at a beta of 1. And equally, it's not going to move on an overnight basis. And so
because we study this all the time, we're going to act, right, on where those numbers sit.

So the calculus that we do about do you keep the car or do you sell the car is in the context of a spot price relative to where we can earn rental
money on the property itself. So we're going to be quick on this should these dynamics change. But again, I think ROA is the broader context within
which to think of it.

Operator

And our next question comes from the line of Ian Zaffino from Oppenheimer.

Ian Alton Zaffino - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

As far as -- and I know you guys mentioned Carvana saying you got an uptick. Is there any more color you can maybe give us surrounding that,
maybe how much was the uptick? Or do you expect to see continued upticks? And how many vehicles do you think you could actually move
through that channel? How do we think about that?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Sure. Well, I think we need to stay away from the specifics of the arrangement for a host of different competitive reasons, but let me shed a little
bit of light on it. What we're seeing in Carvana is a material uptick to what we could harvest in the wholesale market. Carvana, therefore, provides
us with an incremental channel alongside the Hertz used car retail channel that we have to sort of provide us with really interesting economics on
the sale of the used car fleet.

I'd also point out, particularly relevant to the last question and the last exchange, anytime you avail yourself of an incremental channel to move
used cars, you therefore provide yourself with added flexibility to be quick and agile as in to the extent that there's changing circumstance in the
market or pricing.

But what we are seeing through Carvana is perhaps more elevated in terms of volumes than what we had initially imagined. And it's a good, robust
channel for us that's suiting us in the context of materially elevated prices relative to what the wholesale market provides.

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

Ian, this is Kenny. Just to kind of dimensionize potential -- how you think about volume, right? In a normal year, usually, we sell 1/3 of our vehicles
through our retail channel and 2/3 through the wholesale auction channel. Carvana is not cannibalizing the retail side of the house, which is the
highest margin for us, right, from a disposition standpoint. It's really taken away from the wholesale auction side. So again, it's accretive for

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our
business and our margins.

Ian Alton Zaffino - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Okay. Great. And then as a follow-up question, I know we had a nice discussion about ROA and investment in either the business or the fleet. But
I know you still have about $800 million left in your buyback. But based on kind of like your leverage ratios that you're talking about, you can take

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on incremental leverage just to reach your target. And with that excess, call it, cash or capacity, where do buybacks fit in that? And again, I know
you have some left on there, but are they mutually exclusive? And how do we exactly think about that going forward?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Sure. So let me just say the following. First, in the context of what we were doing in the first quarter, we were in kind of an elongated blackout, and
therefore, what we were doing by way of volume was a prescribed volume.

Obviously, the opportunity for us to recalibrate the volume and reevaluate the volume of shares that we'll repurchase happens now, occasioned
by the fact that we're having this earnings call and the earnings release, and therefore, we are free to sort of recalibrate the volume that we want
to do, and we will do that.

And my view is we will exhaust the existing program, and we will roll into a new program as we pick up just the aggregate amount with -- among
the management team and the Board. So that's just the mechanic of it.

As a philosophical matter, I think repurchase stands alongside what Kenny had articulated, which is we have opportunity to invest in fleet. We have
opportunity to invest in the business to render it more operationally efficient. And we have the opportunity, particularly in this market, to look at
share repurchase. And all 3 are always on the table in the context of yielding attractive returns. And so that's the philosophy we'll continue to take.
I think given the [largest] of the market in which we're in, we can do all 3. We will do all 3. And I think we'll take up the pace of that repurchase now
that we have earnings behind us.

Kenny K. Cheung - Hertz Global Holdings, Inc. - CFO & Executive VP

And your math is right. We're 1 turn away from a governor number, so this shows you that we have a lot of optionality and flexibility when it comes
to capital allocation.

Operator

And as our last question, I will turn the call over back to our CEO, Stephen Scherr, for closing remarks. Sir?

Stephen M. Scherr - Hertz Global Holdings, Inc. - CEO & Director

Okay. So I want to thank you all for participating today. I hope that today's call provided you with a better sense of the progress we've made, the
dynamics we're seeing in the industry and the market and a better appreciation for the improved financial condition and prospects for the company.
I look forward to sharing further updates with you on our next call and obviously meeting and visiting with many of you now sitting in my new
seat.

So with that, we thank you again for joining us.

Operator

Thank you, presenters. This concludes the Hertz Global Holdings First Quarter 2022 Earnings Conference Call. Thank you for your participation, and
good afternoon.

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