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HTZ.OQ - Q1 2023 Hertz Global Holdings Inc Earnings Call

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PRESENTATION

Operator

Welcome to the Hertz Global Holdings First Quarter 2023 Earnings Call. (Operator Instructions). Following management's commentary, we will conduct a question-and-answer session. I would like to remind you that this morning's call is being recorded by the company.

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

Johann Rawlinson - *Hertz Global Holdings, Inc. - VP of IR*

Good morning, everyone, and thank you for joining us. By now, you should have our earnings press release and associated financial information. We've also provided slides to accompany our conference call, which can be accessed on our website. I want to remind you that certain statements made on this call contain forward-looking information. Forward-looking statements are not a guarantee of performance, and by their nature, are subject to inherent 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 2022 Form 10-K and our first quarter 2023 Form 10-Q filed with the SEC. These documents are also available on the Investor Relations section of the Hertz website.

Today, we'll use certain non-GAAP financial measures, which are reconciled with GAAP numbers in our earnings press release available on our website. We believe that these non-GAAP measures provide additional information about our operations allowing better evaluation of our profitability and performance. Unless otherwise noted, our discussion today focuses on our global business.

On the call this morning, we have Stephen Scherr, our Chief Executive Officer; and Alex Brooks, our Interim Chief Financial Officer. I'll now turn the call over to Stephen.

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

Thank you, Johann. Good morning, and thank you all for joining us on this first quarter earnings call. I want to begin by welcoming Alex Brooks to the call. As you know, Alex has been our Chief Accounting Officer for several years and has now assumed the role of Interim CFO.

Alex is a proven leader and under her guidance, our team orchestrated a seamless close of Q1 in the context of the CFO transition. We look forward to naming a permanent CFO upon completion of our review process.

With that, let me turn to our quarterly results. Hertz posted strong results in the first quarter, reflecting continued growth in demand across our customer segments and a stable pricing environment in both the U.S. and abroad. As we guided, Q1 revenue came in at $2 billion on the back of strong volumes, thereby breaking with seasonal expectations of softer demand in Q1 relative to Q4.

Importantly, we remain optimistic about our expected performance in Q2. Our momentum exiting the first quarter continued into April with high utilization and solid rates, both holding across customer channels and international markets. As we close in on the second month of the quarter, we remain focused on aggressively calibrating the fleet, driving down delivery costs and aligning price to demand. We are quick to move in markets where strong advanced bookings warrant.

Looking beyond the levers we can control, our optimism is further bolstered by the positive demand indicators coming from the broader travel industry as we move into the critical summer season. To provide a bit more detail on our top line, revenue of $2 billion in Q1 was up year-over-year. Of particular note, transaction days in Q1 increased 10% year-over-year, while average fleet was up only 5%, reflecting improved utilization and continued focus on ROA.

This higher turn on our fleet is reflected in the Q1 revenue per unit, or RPU of $1,409, a meaningful improvement over the prior year. On a sequential basis, the strength in transaction days was all the more impressive given the burden of elevated manufacturing recalls in the quarter, which have now largely been resolved.

Coming off historically high pricing across 2022, rate in Q1 was flat year-over-year, reflecting relative stability as well as the impact of growth in rideshare and corporate travel on the calculation of RPD, as both exhibit lower RPD than Leisure. While pricing was softer sequentially in Q1, rate in March, as we exited the quarter, was up versus the whole of Q4.

As I mentioned, our momentum coming out of the quarter bodes well for Q2 performance. Of note, nearly 40% of transaction volume in the quarter was generated in March. We exited Q1 with March RPD well above January's pricing and March RPU materially higher than January. With Q2 now underway, we remain disciplined around fleet and see rates sustaining, particularly in certain high-demand markets.

Further to our results, Hertz produced adjusted Corporate EBITDA of $237 million reflecting a 12% margin. Adjusted Corporate EBITDA also reflected lower-than-expected depreciation and a positive contribution of steps taken to monetize interest rate caps associated with our ABS facility.

Depreciation in Q1 came in lower than anticipated at $381 million or $252 per unit per month, primarily related to an uptick in pricing on used vehicles and, to a lesser extent, fleet mix and optimization. We expect our work relative to the Dollar and Thrifty brands as well as our rideshare channel to give rise to longer expected length of keep on portions of our fleet.

On expenses, our DOE per transaction day was up very modestly on a sequential basis versus our expectation of flat due primarily to elevated collision expenses and, to a lesser degree, recall-related maintenance in the quarter. Keep in mind that even though the OEMs bear the direct cost of completing a recall-related repair, recalls burden our operations by increasing expense and reducing transaction days. As we noted in our Q4 call, we remain confident that we will reduce our unit expenses through the rest of 2023.

Finally, regarding the interest rate caps. Adjusted Corporate EBITDA in the quarter included an $88 million positive contribution from the monetization of interest rate caps associated with our ABS facility. In managing our liquidity and rate risk, we brought forward interest savings attributable to the caps expected over the next 4 quarters into EBITDA in Q1.

Given the move in rates since the inception of the caps in 2021, we saw opportunity to monetize the embedded value of those rate caps and realize the cash for reinvestment in our operations. Given where rates have moved since transacting, the monetized value exceeds the additional expected fleet interest over the relevant period by more than $15 million. As such, we expect this will be a net benefit to full year EBITDA in 2023.

Let me turn now to free cash flow and capital allocation. In Q1, based on investments in both fleet and non-fleet CapEx, we experienced an adjusted free cash outflow of $83 million. As you know, investment in fleet is more heavily weighted to the first half of the year, as we position ourselves to meet expected demand over the summer months. To that end, we expect returns on our fleet investment to be attractive and free cash flow generation to turn meaningfully positive in Q3 and Q4.

That said, we remain committed to our strategy of growing fleet to sit inside expected demand and underwriting investment decisions through the lens of returns over the prescribed period of car ownership.

Measuring return on assets is not limited to fleet and includes other company assets, including our real estate portfolio. To that end, in Q1, we sold a large parcel of real estate adjacent to LAX and produced net cash proceeds of $139 million. This sale should be understood in the context of the ROA mindset taking hold across the company.

Our team is increasingly focused on undertaking a continuous review of assets to ensure their accretive contribution to the overall return profile of our business with an eye toward creating opportunity to buffer cash consumption where it makes strategic sense to do so.

Reflecting on our performance in Q1, let me speak to 2 trends as they relate to the opportunity that sits in front of us. First, on the macro environment. As we move into Q2, the travel industry is positioning itself for a strong summer. We are doing the same. Already, we have experienced seasonal acceleration with a strong spring break and Easter week bringing us forward to Memorial Day, and we have some good demand indicators with respect to summer.

Airlines and hotels are both forecasting robust demand and have reported strength in advanced summer bookings in their earnings calls. For Hertz, there is a particular opportunity around international inbound travel, which has been a significant component of rental revenue. It remains only 60% back to pre-pandemic levels through Q1. Recall that this customer segment traditionally demonstrates higher margin on elevated RPD.

International Inbound business from Latin America is pacing strong. European travel, which is much improved from the troughs of the pandemic, continues to build. It is not yet back to pre-pandemic levels, creating opportunity. And perhaps most significantly, Asian inbound business is only beginning to show improvement. With COVID rules relaxed, we believe inbound travel from Japan, Korea and eventually China will yield positive returns for our business.

Second, on continued strength in used car prices, the team's focus in 2022 to monetize and redeploy excess equity in our fleet is again relevant as residual values rose through Q1. This trend means that we are again presented with the opportunity to harvest gains on the rotation of our fleet to subsidize growth and acquisition.

Of course, there is no certainty of this trend continuing, and it may yet reverse, but this early price action was better than forecasted despite uncertainty in the economy and higher interest rates, which may, in the end, indicate a fundamentally stronger supply-demand balance in the car markets.

With that, let me turn to our strategic priorities with a focus on execution. First, on electrification. At the end of Q1, we had about 50,000 electric vehicles in our fleet, comprising approximately 10% of total cars. We have begun taking delivery of GM and other OEM EVs thereby providing more options for our customers to experience EV models at various price points.

Our fleet acquisition costs are generally aligned with vehicle delivery timing. As a result, we have been benefiting from recent price declines from EV OEMs. We are forecasting nearly 2 million EV rentals in 2023, approximately 5x the number of the prior year.

In terms of charging, our proprietary network of charging stations continues to grow, so as to service our fleet. Through our partnership with bp Pulse, we are accelerating the build-out of EV charging infrastructure at Hertz locations in major U.S. cities to serve both our customers and the driving public.

In addition, through our public private partnership, Hertz Electrifies, we have signed up Denver, Houston and Atlanta and other cities are in process, all with the objective of increasing EV utilization and the targeted build-out of charging stations to serve the public and importantly, our rideshare and other customers across metropolitan areas.

Next, on rideshare. Rental volumes for rideshare drivers for both ICE vehicles and EVs continues to grow. Transaction days and fleet associated with these rentals for Q1 doubled year-over-year with a notable increase in pricing. To promote further growth in this business, we are working to optimize the rental process for these drivers by offering remote renewals and streamline payment processing, all to ensure ease of rent, longer length of keep, lower cost to serve and reduce churn among drivers.

Rideshare drivers renting an EV from Hertz can increase their take-home economics by 10% to 15% relative to an ICE rental. Operationally, I would observe that our growing rideshare business is creating greater volume and the potential to buffer the modulation of quarterly peak to trough typically experienced in the Leisure business.

As I noted on a prior call, we have begun a project to revitalize our value brands, Dollar and Thrifty, and to do so on a cost basis that provides an attractive margin to Hertz. In a departure from the past, we intend to engage customers on a lower-cost digital basis with a dedicated fleet of lower depreciating cars and on an overall cost infrastructure that produces elevated margins.

In that context, we've begun to codevelop a digital forward customer experience, including direct channel, digital properties designed to provide customers with a touchless experience at an affordable value point. We are looking to an early launch of the project in the summer with early select operations at a limited number of airport locations as we hone the operations more generally.

Finally, on Europe. In the second half of 2022 and now entering '23, we reset the priorities of our European operations, which are now under new leadership. As a reminder, in 2022, our European business produced record revenue and adjusted EBITDA, and our performance in Q1 is also up significantly versus a year ago.

In terms of our strategic priorities, we are increasing our EV penetration. We extended our Uber partnership to Europe, and we have taken steps to rightsize our expense base and improve our operational cadence in each of our European markets. With changes in motion, we anticipate considerable growth from here.

As these initiatives continue to mature over the course of 2023, we will be in a position later in the year to share a more specific view on our expectations for their financial contribution to the company.

Before turning the call to Alex, it is important that we acknowledge the uncertainty in the market and the view that near-term strength in consumer demand may be unsustainable in a weakening economy. While we are prepared to meet the opportunity of a strong summer, we are equally positioned defensively to manage against a weaker set of economic conditions.

Our fleet plan is dynamic and can be rightsized to sit inside wherever the demand curve moves. We can alter fleet quickly and without repercussion. What's more, we are not positioned long cars right now as our utilization is running high. So our actions in a slowdown would focus on reducing buys more than accelerating cells. We will not chase unprofitable volume. We are running Hertz differently and believe the industry is transforming as well.

Challenging times, should they arise, we'll evidence this and underscore the importance of Agile Fleet Management as the cornerstone of running the business better than before.

With that, let me turn the call to Alex to provide you added detail on our quarterly financial performance. Alex, over to you.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Senior VP, Interim CFO & CAO*

Thank you, Stephen, and good morning, everyone. The Hertz team delivered another quarter of progress following a record fiscal 2022. Solid rate, continued strength in leisure demand and growth in corporate and international inbounds combined with our dynamic fleet strategy, contributed to year-on-year growth in revenue in both the Americas and International segments.

Importantly, top line momentum continued into the start of Q2, with bookings over the Easter holiday period up year-over-year. In fact, April has seen several days of post-pandemic records in terms of the number of vehicles on rent.

Revenue in Q1 was $2 billion, up 13% versus Q1 2022 as reported. Transaction days were up 10% year-over-year, while pricing remained firm. Over the course of the quarter, utilization improved from 72% in January to 81% in March and has continued to show momentum early into Q2. We believe that the post-pandemic recovery in the Americas is substantially complete for domestic leisure and corporate and international inbounds have progressed to 80% and 60% of 2019 levels, respectively.

Recovery in the International segment, which has lagged the Americas, continues to build momentum, and we expect further growth from here, as Stephen noted earlier. To break this opportunity down further in our International segment, leisure and inbound business are at 50% of 2019 levels, while Corporate is at 75% of 2019 levels.

Adjusted Corporate EBITDA was $237 million for Q1 2023, a 12% margin. Margin in the Americas business in Q1, which is typically lower than the balance of the year, was 15%. For International, adjusted EBITDA nearly doubled year-over-year and produced a 17% margin for the quarter.

On a year-over-year comparison, Q1 EBITDA production reflects a more normalized level of gains on sale of vehicles relative to the prior year period, which carried very elevated gains on sales, as have been discussed.

With regards to fleet, average fleet size grew to 505,000 vehicles in the quarter as we began to gear up for the expected spring and summer demand, always with the intention of maintaining fleet inside the demand curve. Net DPU for the quarter was $252 which was below the low end of the range we quoted on our last earnings call of $300. This differential was primarily driven by residual values, which demonstrated a consistent uptick throughout the quarter, although still lower than their peak in 2022.

Now let me turn to our operating costs. Our DOE per transaction day in Q1 was $36. I should note that in the current quarter, we changed our presentation for damage recoveries to be reflected in revenue rather than an offset to DOE. The change to revenue in DOE was immaterial and resulted in a $2 impact to both RPD and DOE per transaction day with no impact to our earnings or cash flow.

Let me now turn to our capital structure and liquidity. With respect to our balance sheet, net debt at the end of the quarter was $2.1 billion, and net Corporate leverage for Q1 was 1.1x, comfortably below our target of 1.5x. At March 31, our available liquidity was $2.2 billion, including $700 million of unrestricted cash. In March, we increased the aggregate committed amount under our revolving credit facility from $1.9 billion to $2 billion. On our Corporate debt, there are no meaningful maturities until 2026.

With respect to the ABS facility, we issued $760 million of medium-term notes under the HVF 3 ABS facility in March at a combined fixed rate of about 6%. At March 31, we had capacity under our ABS of $3.7 billion in the U.S. and $1.8 billion internationally. Our vehicle debt portfolio remains approximately 75% fixed rate which mitigates the impact of a rising rate environment, and our maturity ladder is well structured, materially commencing mid-2024. We maintained sufficient equity cushion in ABS at quarter end.

Turning to our cash flow and capital allocation for the quarter. Adjusted operating cash flow was $104 million in the first quarter. Fleet CapEx in Q1 was $317 million, and non-fleet CapEx was an inflow of $130 million, impacted by the sale of the property adjacent to LAX, discussed earlier. Adjusted free cash flow was an outflow of $83 million.

As we noted, our cash flows tend to follow a pattern that aligns with our seasonal in-fleeting and de-fleeting. We're continuing to fleet up for peak demand, which translates into additional fleet investments in Q2. In the back half of the year, as we achieve peak earnings and fleet down after the summer surge, we expect to generate the majority of our annual free cash flows.

Our capital priorities of investing in our fleet, funding our strategic initiatives and returning excess cash to shareholders remains unchanged. Despite the cadence of our free cash flow, which reflected our investment in fleet and non-fleet projects, in Q1 2023, we utilized $100 million to repurchase 5.7 million shares. Currently, we have approximately $1 billion remaining under the Board's authorization for share repurchases.

Lastly, let me give some color around our forward-looking expectations. On Q2 revenue, we're expecting sequential growth approaching 20% on strong seasonal demand that is consistent with prior years. On our global fleet, we expect levels to increase from the end of Q1 by approximately 15% into the summer peak. We then expect a corresponding reduction in fleet in the second half of the year. As always, this remains subject to demand materializing as planned with considerable flexibility in the fleet plan to accommodate.

On depreciation, recent residual value strength notwithstanding, we expect net DPU to settle in the range of $260 to $280 in Q2, with depreciation trending higher longer term.

Finally, our fleet interest in our cap rate monetization. We expect quarterly fleet interest expense to approximate $100 million in Q2 and will come down with fleet size and the rate curve in subsequent quarters. We expect the net cash benefit to the company through year-end, inclusive of the upfront monetization proceeds.

In closing, as we head into the spring and summer months, I am pleased with our momentum. As we enter Q2, rate and demand continues to hold across the whole of our business and utilization is improving. Transactional activity related to international inbound is also accelerating. Our dynamic fleet strategy and focus on maximizing returns through the life cycle of a vehicle are working well for our business, as is the extended scrutiny on the ROA hurdles for non-fleet assets.

We expect further improvement in our operating leverage as we continue our focus on productivity and a lean cost structure. With that, let's open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

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

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

Great. Stephen, so thanks for all the comments so far. And you -- I think you spoke of a stable pricing environment. I guess, can you maybe talk a little bit about the underpinnings of that and also, along those same lines, I guess, you've kind of laid out for us what you might do in a downturn. Give us a sense for what your view is on prospects for the balance of 2023?

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

Sure. Thanks, Chris. Appreciate that. So maybe I start with pricing. On pricing, we're obviously well north of where the pricing regime was pre-pandemic, sort of going back to 2019. But of more relevance to this quarter and this environment, in the U.S., we've seen very stable pricing. Pricing has been holding, particularly in the U.S. market, and we have seen a pickup in pricing dynamics particularly in the European market. So very attractive rates coming in and higher utilization that's driving that business.

If you look at what we spoke about in terms of increasing sequential month-over-month performance in the quarter, just looking at RPU because it shows both where rate is going and what's happening with utilization, we saw a 15% increase from January into March, meaning March was 15% higher than where we were in January. And again, that's on the back of utilization running kind of just north of about 80%.

So we're seeing strength in Leisure, strength in Corporate where renewals continue and often at higher negotiated price. And I spoke about TNC kind of doubling in volume, but we're also seeing rate increase there. And so across those 3 elements, if you will, strength is there. So what's driving all this?

I would say that while there are more cars available across the industry this year relative to last, we're certainly not back to sort of more elevated levels. And so I think there's a supply/demand sort of calculus that's playing there.

You hear about demand and volumes across airlines and hotels. Obviously, that plays and feeds into what we experience. And so demand is there against what I would describe as a still kind of more limited supply of cars themselves.

I would just also reflect maybe with a little more specificity that -- 2 things. One, we're seeing cities which are now coming out of season. So think about South Florida, think about a city like Phoenix. And we're not seeing softness commensurate with what you would expect as those cities become off-season and as what we have seen before. And so that's encouraging.

I'd also say that the comments I made about inbound travel will speak well both to rate and support rate, particularly Asian inbound coming into the markets like Hawaii and the West Coast of the United States.

And I would also just finally say that we've been able to see price leadership or demonstrate price leadership and a following in and around markets that have shown higher advanced bookings. And so we've been taking advantage of that kind of in an appropriate way. So that's sort of what's framing out around the underpinnings of price.

Sort of on the forward, I would say that I'm speaking, as I did in the remarks, the kind of 2 things that are playing out, okay? One is, I feel very good about our ability to sort of take advantage of an opportunity this summer to really take the hill, so to speak, which is demand indicators are strong. We're in a position, both with fleet and otherwise to sort of seize that opportunity.

And the second is, while the summer is in front of us and all demand indicators are strong and there's no sensibility of the consumer turning, as I said in my remarks, as a risk manager and running this business differently through a risk prism, I am and we are set up in the event that the view that is in the market should materialize and we see softness.

And if we do, the biggest lever that we will play with is fleet, and we would adjust fleet based on where those demands are. So on one hand, ready to take the opportunity of the summer and seeing no abatement but not blind to the proposition that there could be softness and sort of positioned well to do it.

To my view on the year, I would say, we're not minded to give guidance, but I would just give you directionally that I'm confident by virtue of the exit velocity by which we're leaving the first quarter. So again, month-over-month, better within the first quarter and April playing stronger, and we're seeing that in rate stability, elevated demand and a favorable depreciation outcome by virtue of where residual prices are on cars. And so I think that's important.

Second, I would say our confidence is bolstered a bit in the context of the rideshare business, developments in Europe and our efforts around Dollar Thrifty, which I think will show some signs later in the year of being accretive to the outcome for the year, but most of those will inevitably be more manifest in 2024.

And so again, not giving guidance, but I know of estimates in the marketplace for the year that are in the $1.2 billion to $1.3 billion zone for EBITDA for 2023. And sitting here, obviously, having experienced one quarter with a view into one month in the second quarter, I would say those estimates are lower than the distribution of outcomes that I think about right for the business for this year, and I'm even more optimistic about the projects that we're working on delivering into 2024 from there.

And so that's how I would frame both price on the first part of your question and kind of a general outlook as it were for the balance of the year.

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

Great. Steve. That was super helpful, pretty comprehensive. As a follow-up, you've talked about EVs and your -- I think you're getting the pricing that you hoped for and then some on the rentals, including the rideshare piece of that. And you're also now seeing pricing come down on the purchase side of EVs. Does that make you want to lean harder into that and try to go above your -- you talked about that 25% target by the end of next year. Do you want to accelerate or go further on that?

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

Well, I would say the demand and the pricing dynamics are there, which would lead me to answer your question, yes. But I equally need to be mindful of just the practical implications and limitations of growing. We're currently at about 10% of our fleet EV. Our ambition is to get to 25% by the end of next year. That's a big move.

And it has sort of collateral sort of challenges in that we need to make sure that charging, both on our airport locations and elsewhere, is developing. And I'm quite confident that we are seeing that sort of develop, as I spoke about in the remarks.

I think the drop in price on EVs is an encouraging proposition for us in that if I'm 10% moving to 25%, and I'll get higher from there, I'm obviously a happier and a better buyer at a lower price point than not. And I'm equally pleased that the prospect that while I continue to buy Teslas and Polestars, I'm now taking delivery of the GM EVs, which will be at varied price points and offer our customers greater choice. And I think diversification from a risk point of view is inherently a good thing.

So the drop in price is good. We benefit from that price drop as and when we buy these vehicles. There's a lot more to buy. I'm excited about where rate dynamics are, both in TNC and leisure. I think adoption will sort of continue to take hold. And I would say that in the case of Uber and Lyft and other rideshare, you read about requirements that are on the come in a variety of cities across the country that will require that those networks be all electric by some date in the not-too-distant future. This is 5 or 7 years from now.

And I would say to you that I think Hertz and our EV fleet is the most affordable entry point for drivers to get into those electric vehicles and use them; the driver benefits, the company benefits by meeting the requirements that the cities are putting in place; and needless to say, I'm happy in that we get more of these EVs on rent at attractive rates but maybe most importantly, at attractive margins in terms of what we see happening.

Operator

Our next question comes from the line of Ian Zaffino with Oppenheimer.

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

Can you guys just talk a little bit about what you're seeing in the competitive environment as far as larger players, smaller players, and if you look at -- again, I know you talked about or touched upon a downturn, but -- or what you would do in a downturn. But what do you think about how the competitors would react basically from what you're seeing now? And then maybe what you know about them from the past?

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

Sure. So to be clear, we are not seeing indicators as we sit here today, coming out of Q1 or into Q2 of a downturn. But as I noted in my remarks, I think it's incumbent upon the company and as a point of departure from the way in which we and the industry was managed in the past to sort of think about and contemplate and set yourself up. And for us, fleet is the lever to sort of play to the extent that the market changes.

Look, it's hard for me to know with precision what others are doing, but I can tell you that I watch behavior as it relates to rate, and it's been stable across the board. I think it's worth noting that the supply of cars has been constrained and more limiting for all players in the industry, not just any one player. And that presents sort of a practical governor on any one company's ability to sort of be aggressive to the low side on price, meaning in any given market, if somebody was to take price down, there's a limited number of cars available through which that would happen, and so it would have a more limited impact to the broader market.

And I think that while I commented before that there are more cars now than there were a year ago, we're nowhere near back to the availability of cars, new or used, by the way. And I think that will have a dampening effect on the ability of any one player to sort of play an outsized role or a destructive role in price and I personally think that carries through the end of '23 and into '24.

It's important to remember, I mean, you all know and follow the numbers of the OEMs in terms of new car production, but bear in mind that the used car market is itself being depleted because there are no off-lease cars that are coming into the U.S. into the used market, meaning cars were not in production in the depth of COVID at the end of '20 and the beginning of '21, and that is spilling over because there are no off-lease cars or fewer of them that are coming in.

So that will have, again, a more depressive effect on the availability of cars, and I think that ultimately is going to be the governor.

And so on the part of your question about larger versus smaller, I would say my comments apply to all, but the relevant parties are going to be larger competitors because I think that smaller competitors are of less relevance in the market or maybe relevant to a particular market, but not all and I think equally, those of us that are global and have opportunity for one-way rental and the like.

If you looked at what happened during the Christmas season around travel, we were in, Hertz was in a position like other large rental companies, but unlike the smaller ones to be responsive to the needs of customers and that level of service, I think, is important and sets us apart from some of the smaller niche players that are there.

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

Okay. And then for Alex, just sort of crunching the numbers very quickly. But maybe can you talk about, number one, the cadence of maybe EBITDA as we think about second, third or fourth quarters, it looks like you're kind of imputing a pretty big back half of the year. And then also maybe talk about the recognition and timing of the interest rate cap sale please and that's it.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Senior VP, Interim CFO & CAO*

Yes, sure, Ian. Absolutely. So yes, you're absolutely right in observing the cadence of EBITDA. So Q1 is typically a lower earnings quarter for us. So January and February, we start the year off and then we start to build up over spring break and entering into spring and summer, our summer peak in the June, July and August time frame is when we get most of our earnings.

So as we noted, we're expecting an increase in volume between Q1 to Q2 to the tune of about 20%. So -- and that's pretty consistent with what we've experienced over the longer term in terms of prior year metrics. And that EBITDA cadence is also going to be the cadence with which you'll observe our cash flow. So again, typical in-fleeting early in the year in Q1 and during the first part of Q2 and then the fleet will remain at those elevated levels through the summer peak, and then in Q4 with de-fleeting, we'll have positive cash flow.

So moving to your second question then as it relates to the interest rate cap sale. So as we noted, the adjusted corporate EBITDA in the quarter included an $88 million positive contribution from the monetization of the interest rate cap. And this is related to the floating portion of our ABS facility. So as you'll remember, 75% of the ABS facility is fixed rate and 25% is floating. So this is really related to that 25% of the debt that's floating.

By selling the cap, we essentially brought forward the interest savings that we expected to realize in Q2 through Q4 this year into Q1. And the gain we realized is more than the additional fleet interest that we expect to incur over the remainder of the year to the tune of more than $15 million. So we brought cash into Q1, and we can reinvest that into the business early in the year. So all around, a great transaction.

Operator

Our next question comes from the line of John Healy with Northcoast Research.

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

Just wanted to ask a clarification question on RPD. Could you just dive into a little bit the accounting change that I think you guys have lifted RPD by about $2 and just thinking about the expectations for Q2, I think you said revenue is up 20% on a sequential basis and now (inaudible) 20% transaction growth, just to the previous question.

So does that imply that pricing in terms of RPD is flat in Q2 year-over-year? And is there an RPD benefit just from this accounting change as we flow through the next couple of quarters. So theoretically, I was just hoping to kind of get an apples-to-apples comparison there.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Senior VP, Interim CFO & CAO*

Yes. Sure, John. So let me dive into it. So we changed our presentation as it relates to cash recoveries that comes from customers from damage to vehicles. So because of the cash collection from a customer, we thought it was better represented in the revenue line versus as an offset to DOE, which was previously presented. It's an immaterial change and it's neutral to EBITDA and it's cash neutral.

In terms of its effect, I would think of it as $2 to both RPD and to DOE. So an increase to RPD by $2 and an increase to DOE by about $2, just from changing the geography on the income statement.

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

Makes sense. And then, Stephen, I was hoping you could dive in a little bit more on the Dollar and Thrifty kind of reboot. Curious there in terms of how you think you'll reach the customer with that reboot and will you continue to be on some of the online travel sites with those brands? And then secondly, does the reboot of those brands in your mind bring elevated risk to competition and maybe what might happen at the low end of that pricing structure?

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

Sure. Well, obviously, we took Dollar and Thrifty at a moment in the industry several years ago when there was broad consolidation. And I don't think we did a particularly good job at integrating them because I think that there was kind of a blurring of fleet across all of this, and there wasn't kind of regimen to cost in the way in which it ought to.

And so the revitalization of these brands will put us in a position where we can have a more dedicated fleet of lower depreciating cars. We can be defensive about the brand value of Hertz being our high-end brand with service and loyalty and the like that are not necessarily elements of the product in Dollar and Thrifty that the customer is looking for.

We unquestionably will continue to play through the OTAs, but I think we'll have a more active direct channel with digital properties that are dedicated to Dollar and Thrifty, and the process itself will be more digitally delivered including around VAS products. So this will be lower cost, lower human touch point, experimenting with kiosks and other things. And we're not offering that size of the customer base choice.

So you will get kind of a dedicated spot to which you will go, that will be your car you move and our ability to offer that out to our customers at a lower price point relative to Hertz, but at a very attractive margin based on where the cost input fit, I think, will prove to be an interesting proposition.

And I would say to you that, this is an enormous and growing addressable market and one that I didn't feel confident that we were tapping into. And I think the ability to get at this with a refreshed sort of digital approach, again, at a proper margin level and managed appropriately with cost allocation and so forth, I think, will lead us to kind of an interesting opportunity set. And again, all the while kind of rebasing the value of the Hertz brand where I think it belongs as being at the upper end.

I'd also point out that I think building identity around Dollar and Thrifty will be important in that it will open up other partnership channels that I don't think have been available to us. So there's obvious demand for partnership based on customer segmentation with Hertz. But I would say to you that there are other brands, lower cost mass market retail, travel and other brands where a partnership with Hertz didn't quite fit but a partnership with Dollar and Thrifty will be more in keeping of that particular brand.

And I think the ability to drive sort of volume through that, not necessarily with price or leading with price, if you will, I think, is another encouraging or sort of motivating element to sort of why we're going down this path.

Operator

Our next question comes from the line of Adam Jonas with Morgan Stanley.

Diego Ortega Laya - *Morgan Stanley, Research Division - Research Associate*

This is Diego Ortega Laya on behalf of Adam Jonas. I have a quick one again on the interest rate caps. You already talked to them a little bit, but I still wanted to touch on the $88 million. Should we expect similar monetization in the upcoming quarters or expect to have additional hedge gains this year. And then as a follow-up to that, what should be our assumption for go forward interest rate expense?

Operator

Ladies and gentlemen, one moment, we're experiencing technical difficulties. Our conference will resume momentarily.

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

It's Stephen. Adam, I apologize. We had, for some reason, the line drop. So we're back with you now. Thank you for your patience.

Diego Ortega Laya - *Morgan Stanley, Research Division - Research Associate*

So this is Diego Ortega Laya on behalf of Adam. So I just had a quick one again on the interest rate caps. You already touched on it briefly. But I wanted to see whether we should expect similar monetization in the upcoming quarters or expect to have additional hedge gains this year? And then what should be kind of like our -- or what will be your assumption for the go-forward interest rate expense?

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

Sure. So we monetize the rate caps that we have put on in 2021. And because we're obligated in the ABS to have them, we replaced those rate caps. The maturity of the existing ones were through the end of the second quarter of next year. I don't foresee any expectation that there would be other monetizations as we exhausted the rate caps that were present and put new ones in.

The overall interest rate expense should probably go up to about $100 million, which is about $25 million more per quarter, and that will decline. So it will be the highest in Q2 and then decline from there.

The comments that Alex made earlier is that in the monetization of the rate cap, the EBITDA, if you will, that we took in, in the first quarter, given where rates have moved since we did this monetization would put us in a position where we expect EBITDA to be more than $15 million greater than the incremental cost of the interest expense in the ensuing 3 quarters of the year.

So I wouldn't expect any further monetization. I would expect net gain in EBITDA occasion by this, and this was really advancing those 3 quarters into the first quarter, just given where market dynamics were.

Operator

Our next question comes from the line of Christopher Stathoulopoulos with SIG.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

Stephen, there's some concern from investors around airlines with respect to U.S. domestic travel slowing, not by much, but there is some data out there that would support that. And also with blended travel skewing seasonality, just making it more difficult (inaudible) and the like to plan going forward. So if we look at the airline schedules here, domestic capacity through the second quarter trends are fairly mixed.

So I was wondering -- I know you spoke to a very healthy overall demand outlook into the summer, but if you could give a little bit more of a nuanced view with respect to domestic bookings into the summer? And then also if you're seeing -- if this blended travel phenomenon, if you will, persist, how is that -- is that making it a little bit more challenging to kind of tease out where core demand might be for you?

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

Sure. Thanks for the question. So let me address the last one first, which is on blended travel. We continue to see blended travel, i.e., the blend of both business and leisure playing forward. We see it play forward in the context of corporate customers that are asking us about split billing knowing that an employee may be on a trip and a trip may be one part business and one part leisure.

I think that's a net benefit for us and will continue to be. I say that because if you have a professional that travels from New York to Los Angeles for meetings on a Wednesday and Thursday, that person in all likelihood, pre-pandemic, would fly back Thursday night. The fact that they're staying with the latitude to work Friday remotely in L.A. in my example and then spend the weekend, adds 3 days to the rental.

I suspect the hotel chains are benefiting from that as well, whereas the airline has a round trip no matter the dates on which it plays. So for us, the blended travel is a positive, and I see particular reason for it to sort of fall off.

On the question that you raised about the forward for airlines, domestic travel and the like, look, I think that's a reference marker for us. It has been positive. It therefore bodes well in the context of what we think forward performance would be, but airlines alone are not the basis on which our customers come to us. It is true that they come to us at airports and the like. But I think, quite honestly, to the extent that domestic capacity, particularly around short haul becomes dear, the option to use a railcar and take your vacation or take your business trip within reasonable driving distance becomes a reality.

So in a certain way, I would say that we would benefit from limited capacity on short haul as an alternative means of travel. As to the general proposition of whether there will be a downturn, the comments I made in the script, I think, hold as it relates to your question, which is we don't see evidence of that happening, it's not on the horizon.

We are admittedly a more short booking cycle relative to airlines or hotels. But I would tell you that I find us to be in a good, solid defensive position should that materialize in part because we have an asset base that can move, meaning I can move it from one market to another. I can sell it if it's not sort of yielding the kind of returns I want. It's different than airlines, which need to park planes in the desert. It's different than hotels that don't have an ability to sort of eliminate 3 floors or move a hotel from one city to another.

So I've got a mobile asset base, more versatile and I can defend against the downturn or changes in market dynamics pretty quickly in that regard.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

Okay. And my follow-up. So in your prepared remarks, you talked about what you -- it sounds like you're fairly optimistic that this current supply-demand dynamic is going to persist for at least for near to midterm. And I'm just wondering, as you take apart the moving pieces of the OEMs to the used car market and then what's happening with supply chains, particularly with the semi chips. Are there certain areas? It sounded like you were a little bit really weighing that sort of view on the OEM side.

But if you could give a little bit more nuance here across these 3 different channels. What gives you the confidence that this dynamic is going to persist in the midterm?

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

Well, I think the dynamic persists. I'm not saying it persists kind of without limiting to the future. But in the context of the balance of '23 and into '24, I think it does persist. Now we see more cars and are seeing more opportunity to buy cars this year than last year, but still well below. So just to sort of set that down as a baseline.

I think that the OEMs are dealing with a number of issues, okay? #1, there has been supply chain, which I think has lessened, but nonetheless, sort of persists. #2, they're dealing with the uncertainty of the economic conditions and how much supply they want to put in, assuming they have the capacity to do it. And I think equally, they are in the midst of a transition from combustion engine to electric vehicle, and all of that sort of creates some friction in the production of new cars.

On the used car side, I would reiterate the comment I made before, which is -- look, this is a very deep, very liquid market and so take my comments in that context. But in the narrow segment of that market that is good condition, low mileage off-lease cars, we're now entering the period where the lack of production over the course of 2020 into 2021 will bear out on a more limited number of cars coming off-lease and therefore, entering the used market.

And so I think we're coming into, again, a more limited supply in the used piece, again, having addressed sort of the OEM side. And so I think that supplies dynamic, while it won't last forever, I do think it persists through '23 and I think in through '24.

Operator

This concludes today's question-and-answer session. And I would like to hand the call back over to Stephen Scherr, Chief Executive Officer. Please go ahead.

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

So I want to thank you all for your participation and your patience, just given the small technical delay we had. Before we close the call, I want to thank the more than 20,000 employees of Hertz for their continued service and their attention to our customers, particularly as we enter the busy summer season. We look forward to sharing further updates with all of you on our next call. With that, I'll turn it back to the operator.

Operator

This concludes Hertz Global Holdings First Quarter 2023 Earnings Conference Call. Thank you for participating.