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HTZ.OQ - Q3 2023 Hertz Global Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Hertz Global Holdings Third Quarter 2023 Earnings Call. (Operator Instructions) Following management's commentary, we will conduct a question-and-answer session. (Operator Instructions) I would like to remind you that this morning 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 *- 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, and these can be accessed through the Investor Relations section of our website.

Our slides this quarter represent a new approach and are intended to provide more detail and transparency on our results. We hope you find them useful. 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 third quarter 2023 Form 10-Q filed with the SEC. These documents are 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 and earnings presentation 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 Chief Financial Officer.

I'll now turn the call over to Stephen.

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

Good morning, and thank you for joining our third quarter earnings call. By now, you've likely seen our announcement on the appointment of Justin Keppy as our new Chief Operating Officer, effective November 15th. Justin joins us from Carrier Corporation, where he led a multibillion-dollar division. He's a strong leader with experience in both the private sector and the U.S. military. Justin is a graduate of West Point and Harvard Business School, and I look forward to closely working with him as he leads the day-to-day execution of our business.

With that, I will now turn to our results for the third quarter. Revenue in the quarter was $2.7 billion, representing the highest quarterly reported revenue in the company's history. Revenue grew 8% versus 1 year ago and 11% sequentially. Volume, as measured by transaction days were strong, up 16% versus Q3 of last year and up 9% sequentially. Demand in the quarter was strong across our business with leisure, corporate and rideshare volumes all up year-over-year, demonstrating the continued strength of the traveling consumer.

Of note, our rideshare volume was up 50% year-over-year with sequential growth of 12%. Pricing improved sequentially, but was down year-over-year against elevated levels in 2022. While the sequential move up of just over 2% trailed our expectations from an industry perspective, market shares appeared stable in the quarter amidst relatively stable pricing among our major competitors. We believe that various inflationary factors will continue to support tighter fleets and more elevated rates versus those historically experienced in the industry, all consistent with our ROA focus.

As we move through October, which is showing ongoing strength in leisure across North America as well as Europe, we still maintain that year-over-year declines will moderate from here. In all, leisure bookings remain strong, inbound travel is increasing and rideshare is growing on what we believe are the attractive economics to drivers of renting cars from Hertz. Given the focus on pricing, let me make one additional point on rate to help reconcile RPD being up 2%, while large segments of our business were up higher, as I will speak to in a moment. There are customer channels in our business like leisure, which are subject to more dynamic market pricing. There are also channels like rideshare and insurance replacement where rate is more fixed or contractual in nature.

Just focusing on pricing in our North American leisure business, the largest by transaction days, RPD in that channel was up more than 6% over the prior quarter, excluding the dilutive impact of EVs. By comparison, RPD and our more fixed rate businesses in North America was roughly flat sequentially and therefore, drove the system-wide number lower to plus 2%.

Let me reflect on the cost side of the equation. Our adjusted corporate EBITDA in Q3 was $359 million, reflecting a 13% margin. While this trend trailed our expectations, our performance still reflected strong demand, higher sequential RPD, a stable industry environment and improving operating fundamentals across the company. Our direct operating expenses remained controlled in the quarter as they grew with transaction volume.

On a unit basis, we achieved productivity gains across most categories of our DOE. The exception remained vehicle damage costs, particularly those on our EVs, which we are addressing in a very targeted way. Excluding net collision and damage costs in both periods, DOE per transaction day was down 10% year-over-year, which is consistent with our goals coming into 2023 and reflects our continued focus on our global expense base. We are beginning to benefit from our significant investment in field technology and resulting productivity, including digital check-in, telematics and vehicle inventory tools and from our work to contain SG&A.

We remain confident in our trajectory. We have made considerable progress in the improvement of our technology, migration of systems to the cloud, investment in talent and better control of how we operate our fleet, in addition to improving our customer offering. Nevertheless, we underperformed in Q3 relative to our expectations and must correct the issues that weighed on our results. To better understand these factors and provide additional context on the quarter, I want to talk briefly about each of our premium Hertz brand, our value brands and our rideshare and electric vehicle strategies.

Let me begin with Hertz. This was a bright spot in the quarter. As you know, we have been working hard to increase brand loyalty and recurring business for our premium Hertz brand. We are driving initiatives to improve the customer experience from the shop and book aspects of our digital assets through rental delivery, in addition to building financially attractive partnerships across the travel industry. We are confident that these initiatives strengthen the brand and yield better financial outcomes for the company, including through pricing leverage, particularly in markets that demonstrate some price inelasticity.

To this point, and as I referenced earlier, pricing for the Hertz leisure brand led all other channels in the quarter. This is the product of a very purposeful strategy to identify specific markets by brand, customer type and even car class, where we see the opportunity to realize better pricing. We also continued in Q3 to grow our corporate and insurance replacement business revenues under the Hertz brand. As I noted, rates for these customer channels are knowingly dilutive to headline RPD. However, given better intra-week utilization for corporate and longer length of keep on insurance replacement and therefore, lower cost, they are each important to our total business mix.

Turning next to our value brands, Dollar and Thrifty. Here results validate our strategy. While we have enjoyed a pricing premium to several key competitors in the Hertz leisure channel, we've continued to see a relative discount in our value brands. Our strategy to reinvigorate Dollar Thrifty aims to fix this. We are aggressively at work to deliver the service sought by value-oriented customers to help us close the gap. Enhancements to our customer experience expected to develop throughout 2024 across our system, including improved shop and book on digital channels, advanced check-in, digital offering of value-added services and assign cars with field agents ready to facilitate upgrades.

These products were not sufficiently in evidence during the summer to yield the unit revenue results that we saw at Hertz. As our sequential rate increase for Dollar was up only 3%. We believe as our initiatives mature, Dollar and Thrifty will be better positioned to move closer to pricing parity with more established value brands in the market. We also expect margins for this channel to improve on the back of lower cost of rental delivery and less expensive vehicles. Finally, it is worth pointing out that improvement to the customer experience which enables us to take rate up even absent share gain will alone improve financial performance.

Let me now turn to our rideshare business and EV strategy, which are complementary. Our rideshare business is growing with year-over-year volume up 50%. The business is positioned well for further expansion as new markets open including cities that are working to mandate the deployment of EVs in urban mobility and those like New York City, which just recently announced that it is making more licenses specifically available to EVs for rideshare use. Hertz is proving to be an affordable entry point for drivers and an available source of electric vehicles as mobility companies and their drivers adopt electrification. Rising fuel prices and attractive revenue incentives from shared mobility companies are creating opportunity for us in a customer channel where we continue to build a best-in-class offering.

Our recent progress is reassuring as earlier in 2023 and occasioned by higher incidents of damage among EV rideshare drivers, we took steps to moderate our rideshare growth and re-underwrite the rideshare driver base. This meant purposefully slowing the supply of EVs into rideshare and moving more electric vehicles into the leisure channel to facilitate their ongoing utilization. With hindsight, this left leisure over fleeted with EVs. As a result, RPD for our electric vehicles in leisure dropped, which contributed to the lower RPD performance for the company in the quarter. As you would expect, we have been parsing the data on damage and actively remediating the causals.

Entering Q4, we are more confident in the quality of demand in rideshare, buffeted by enhanced processes to better underwrite drivers and to improve the mix of more experienced higher length of keep drivers. This is enabling us to return confidently to a strategy of growing the level of our existing electric fleet that is allocated to this business. Over the next several quarters, we expect to move an increasing number of our current electric vehicles into the rideshare fleet, supplementing the several thousand EV on rents made in just the last several months.

As we pull these cars from leisure, we are simultaneously tightening the EV supply in that channel and more accurately matching the fleet to demand in effect seeking to reverse the issue that pressured the quarter and adhering to our ROA mentality. We're also continuing to take steps to rectify the issue of elevated EV damage costs broadly, which we had thought would come down more quickly than they have.

Let me share a bit more context on the damage equation. First, while conventional maintenance on electric vehicles remained lower relative to comparable ICE vehicles in Q3, higher collision and damage repairs on EVs continue to weigh on our results and negatively impacted EBITDA. For context, collision and damage repairs on an EV can often run about twice that associated with a comparable combustion engine vehicle.

Second, where a car is salvaged, we must crystallize at once any difference between our carrying value and the market value of that car. The MSRP declines in EVs over the course of 2023, driven primarily by Tesla have driven the fair market value of our EVs lower as compared to last year, such that a salvage creates a larger loss and, therefore, greater burden.

By contrast, market values in portions of our fleet last year exceeded carrying values, resulting in some salvages producing gains. While this had a negative effect in Q3, it is, of course, a VIN-specific phenomenon and should therefore not be thought of as a permanent effect on results. Given these headwinds, we are actioning collision and damage with urgency with particular focus on the aspects we can more readily impact, like incidence, parts procurement and reimbursement.

We have activated a comprehensive end-to-end damage program from underwriting to collections. We're also developing additional easy-to-use educational tools on EV functionality but perhaps most importantly, we are working with the relevant OEMs to improve outcomes based on vehicle performance.

Let me try to put some dimension to the issue. Taking account of the impact on depreciation, collision and damage and RPU relating to our EV fleet, we estimate that had our fleet in Q3 been similarly sized but comprised solely of ICE vehicles our EBITDA margin would have been several margin points higher. This frames our challenge in as much as it reflects on the stability of our underlying business. To that end, we are pulling all controllable levers to bring the incremental cost down. We nonetheless remain committed to our long-term strategy to electrify the fleet. We believe in the value of being a first-mover.

Electric vehicles open the door to our growing presence in rideshare, where electrification is a fast approaching requirement, not merely an option in a channel where we are uniquely positioned. We benefit from our access to partnerships with other players around electrification who are open to an early mover, including those with interest in charging, electric fleet management and autonomous vehicles.

There's also the case of corporate and government demand, which is manifesting quickly as these customers seek to satisfy their own sustainability objectives. Early engagement here is sticky. And as EV ownership grows, we expect rental demand to grow in tandem. By gaining early competitive knowledge on how to manage a profitable EV rental fleet, we believe we are gaining value and positioning Hertz to ramp efficiently and confidently. And finally, the capabilities to manage an EV fleet are not learned overnight and are differentiating. The cadence of repair and maintenance is different as is charging, demand generation, rental fulfillment and fleet management.

Make no mistake, we are developing a clear understanding of the key levers needed to deliver a more profitable EV rental fleet in a world that is moving toward electrification. Transitions of this magnitude are not easy, and there are important factors, including charging infrastructure, the pace of OEM production and the growth of the EV aftermarket that we simply cannot control.

Nonetheless, there's an undeniable transformation underway. The share of new electric vehicle sales in the U.S. is growing and studies of current EV ownership evidence lower incidence of damage and collision than for ICE vehicles, not higher as we are experiencing. We believe these trends will converge.

In sum, our objective is straightforward. We want to offer our customers the widest possible choice of vehicle makes and models, whether gas-powered or electric so that they can travel the way that best suits their needs and preferences. We know the challenges at hand and are working to remedy that, which we can. And will pace ourselves accordingly with an expectation that our in-fleeting of EVs will be slower than our prior expectations, but we will be stronger for having begun the journey when we did.

Looking past our results in Q3, I want to close my remarks with a few comments about our expectations on the forward. 2023 has become a transitional year for the company, where we continue to fix and improve the foundational elements of the business from basic technology and field capability through to product offerings and brand strengthening.

In 2024, we will focus on continuing to execute on our revenue and cost initiatives with an expectation that they will contribute to our financial performance throughout the year and into 2025 as they begin to mature. As I have noted before and as we present on Page 10 of our accompanying material, the initiatives and focus include both operational projects as well as newer business lines, namely harvesting our meaningful investment in IT, both in terms of reduced costs and improved revenue management, all with an eye to increase the margin on our standing businesses. Continuing to elevate our operational efficiency on a global basis through improved productivity and fixed cost leverage, including Europe, where we continue to rationalize our footprint.

Expanding on our vehicle sales results through improved retail operations and our partnership with Carvana and other similar outlets. Learning from our initial engagements with EVs to reduce expenses and improve the margin profile across the whole of the business. Improving the competitiveness of our value brands, Dollar and Thrifty, to enable our business to close the pricing gap to our more established competitors. And finally, growing our rideshare business.

Taken together, these initiatives represent an opportunity to materially enhance our financial performance and add in the range of $500 million in incremental EBITDA at maturity. We also believe these initiatives will render the business more durable to withstand macro pressures. In all, we are setting a course for the company to improve with a new COO set to take his seat, we look forward to the opportunity to host an Investor Day in the quarters ahead to provide greater detail around our initiatives and their expected financial contribution. I continue to believe that the business opportunity ahead of us is significant and achievable. Of course, in the end, we will be measured on the delivery of these initiatives and not their mere mention. That said, the work has begun and much of the capital has been invested. It is on us to execute.

Let me now turn to Alex for more detail on our quarterly results.

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Thank you, Stephen, and good morning, everyone. As we've noted, revenue of $2.7 billion demonstrated growth of 8% versus 1 year ago and 11% sequentially. To give you color on the segments, this reflected year-over-year increases of 6% in the Americas segment and 17% in our International segment.

Volume was up substantially year-over-year in both segments as well as sequentially. Pricing also grew sequentially, up 2% in the Americas and 3% in international. Although down year-over-year, 8% in Americas and 6% in International as compared to exceptionally strong rates in Q3 2022. Our average global fleet size was 590,000 vehicles and utilization of our fleet remained high at 83%, contributing to global monthly revenue per unit for the quarter of $1,596 up 5% sequentially.

Q3 utilization in the Americas was 84%, up 320 basis points year-over-year and up 160 basis points sequentially. International utilization in Q3 was 80%, up 330 basis points year-over-year and 180 basis points sequentially, reflecting continued strength in demand. Strong utilization resulted in healthy RPU of $1,636 in the Americas and $1,440 in international. Net depreciation per unit in Q3 was $282 per month within the range guided on our last call.

As Stephen noted, adjusted corporate EBITDA was $359 million in Q3, a margin of 13%. I would note that SG&A at $209 million for the quarter is within the outlook provided on our last call. As noted earlier, DOE per transaction day continued to reflect elevated collision and damage, mitigated by various cost discipline and productivity initiatives. As we noted, excluding net collision and damage costs in both periods, DOE per transaction day decreased by approximately 10% year-over-year for Q3, largely driven by our efforts to improve field personnel productivity and reduce fleet-related costs like maintenance, transportation, fuel and facilities.

Turning to our capital structure and liquidity. With respect to our balance sheet, net corporate debt at the end of the quarter was $2.3 billion. Net corporate leverage for Q3 was 1.9x, modestly above our target of 1.5x. At September 30th, our available liquidity was $1.7 billion, which includes approximately $600 million of unrestricted cash. During the quarter, we issued $1 billion of fixed rate rental car asset-backed notes under the U.S. ABS facility with a combined average interest rate of approximately 6.5%. $500 million of these notes mature in 2027 and $500 million mature in 2029. We also extended the maturity on the European ABS to March 2026, along with an upsize of EUR 100 million. The blended rate in our U.S. ABS facility remains at approximately 4% and carries rate caps as required under the facility. At September 30, we had capacity under our ABS of $2.1 billion globally, and our vehicle debt portfolio was approximately 70% fixed rate, which serves to mitigate the impact of a rising rate environment. We also maintained sufficient equity cushion in our ABS at quarter end.

That said, with higher potential input costs on vehicles, including the risk of higher interest rate expense, we will continue to remain disciplined on fleet size and believe the broader environment for fleet will be disciplined as well. Overall, we continue to maintain a well-structured debt maturity ladder with no material corporate debt maturities until 2026.

Turning to our cash flow and capital allocation. For the third quarter, adjusted free cash flow was $313 million. Adjusted operating cash flow was $215 million, with fleet CapEx as an inflow of $124 million on the back of the start of our seasonal de-fleeting. Non-fleet CapEx came in at $26 million. Lastly, in the quarter, we repurchased $50 million of our common stock, bringing year-to-date repurchases to $250 million. Finally, let me give some color around our forward-looking expectations.

Looking to Q4, we anticipate our revenue to move in line with historical seasonality as reflected in both RPD and transaction days. We expect depreciation to key off the market and to fall within a range of $280 to $300 per unit with variability to be occasioned by volatility in residual values, which could alter gross and net depreciation and which may cause us to adjust our fleet plans accordingly through the end of the year.

In closing, let me reiterate the strength of our core RAC business, especially as it relates to the premium Hertz brand. We believe there is substantial upside opportunity to grow margins and cash flows as we work through the EV headwinds, reach the end of our elevated technology expenditure and continue to optimize our value brands and European operations. We continue to expect our growth initiatives to meaningfully contribute to both the top and bottom lines.

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

QUESTIONS AND ANSWERS

Operator

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

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

Stephen, I think you said that your margin for the quarter was around 13%, but if you normalize your business for all the ICE vehicles, it would have been, I guess, several basis points -- several hundred basis points higher. So I guess the question is, I would assume that you would kind of only buy EVs if you thought it would be accretive to margin, right? But you're suggesting that the economics of the EVs will improve over time. But I mean how do you get there? I mean are there -- what composition of EVs do you need to make that margin comment come true? And I guess, just why are the economics of the EV is improving over time?

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

Sure. Thanks for the question, Chris. You're right. Our reported margin was 13%. And as I referenced, if you sort of put boundary around the cost challenges associated with EVs, it would have been several points higher, several hundred basis points higher. I would say on the EVs and margin, remember, none of this escapes sort of the regimen of subjecting any asset to an ROA analysis and ensuring that the forward returns are positive in any asset that we bring in.

And equally recall that when we first underwrote the margin potential around EVs, these were priced materially higher than where we are right now. And so on the standing fleet, there was very adequate margin to be embedded. What has eroded that margin on the current portfolio are basically 3 things. One is depreciation, which was occasioned by about a drop of 1/3 in the MSRP of these cars. Obviously, that lowered the residual and elevated depreciation. The second is around damage and salvage. This is a solvable issue and one that we are working on right now. It's both a question of incidence of damage and cost.

In the context of incidence, we are working hard to re-underwrite to the drivers that we're putting into these cars, particularly in our rideshare business. So we're looking for more experienced drivers, longer length of keep, where the incidence of damage goes down. And then equally, on cost, as I mentioned, right now, EVs are costing us about twice in terms of damage cost repair than a conventional ICE vehicle.

Two things are going to happen here. One, our assumption is that the market is going to come our way, meaning the proliferation of aftermarket, the proliferation of parts supply is going to grow and come down in price. But we're not simply waiting for that to happen. We ourselves are negotiating around parts procurement at steeper discounts, doing damage repair ourselves and bringing these expenses down. So damage and salvage is going to come down, both by actions we are taking currently in addition to where the market is moving.

The third piece, so the first being depreciation, the second being damaged and salvage, the third being RPU, that is what are we generating by way of revenue per unit on these cars. And as I said in the -- in my prepared remarks, we went through a re-underwrite to our rideshare business, and moved cars into leisure. We're now quite confident to move them back that's going to have 2 effects. One, it's going to feed a higher RPU in natural demand that's being expressed among Uber and Lyft drivers. And equally, it's going to tighten supply relative to natural demand that exists in leisure, and we will see the premium pricing come back up. Of course, all of those observations relate to the remediation of margin on the current portfolio.

I think the second way to answer your question is on the forward. New buys here are going to come at lower prices. We are better buyers at lower prices. Now we'll pace ourselves to ensure both that the problems that are in front of us are solved and being solved and equally watch what demand looks like. But I can tell you, we remain committed, as I said, to being a first-mover, it's important to us. But now buying these cars, $25,000 or $35,000 or in that range, obviously make margins work and equally will only improve as and to the extent that we resolve the damage and salvage and the RPU component, recognizing depreciation on the extended fleet or the existing fleet will remain fixed.

And I think there, the notion of being a first mover, as I said, is as compelling to us now as it was before. There are learnings that are here and we know how to fix some of these cost initiatives.

The last thing I'll say, just closing out on your question is that I think the one thing to take note of when you put a boundary around the EV cost issue and you look at margin being several points or several hundred basis points higher, is that it does speak to the inherent strength of the core ICE business and that's reflective of pricing strategies we've taken around Hertz and strategy we're developing around our value brands Dollar and Thrifty. And equally, I think it reflects the baseline demand of a relatively strong market that still is seeing need for our product.

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

Super, super helpful. So as a follow-up and realizing this is probably an imperfect question and a little bit theoretical. As we look to next year, because you've talked about a lot of initiatives and a lot of things that went sideways this year that you're working on, I mean, I guess if we took some of the macro out of it and just said, hey, you're going to have flat volume and flat RPD.

What -- Is there a level of offset you can quantify in terms of -- what would it take to get EBITDA growth next year if you had a very small range of top line outcomes. Again, not necessarily a super realistic question, but I'm trying to get a sense for what can actually -- how much do some of these things that impacted you in '23 and some of the initiatives you're still rolling out? Can that -- what does that add up to potentially in '24?

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

Sure. Well, I don't think it's a theoretical question. I mean it's a question that sits right in front of us, and we are minded to execute to it. And I would say it's both on the revenue and the expense side. On the revenue side, we're not waiting to start on the build of the Dollar brand, and we're not waiting to continue to build and improve and benefit from strong growth in our rideshare business.

And on the Dollar side, as I mentioned, let's assume that there's no incremental share pickup. In other words, assumed Dollar is not a share grab, just take it as relatively flat volume. The ability to take price up by offering out a better product such that we see people in greater strength coming to us. The ability to exercise price leverage on the back of a better product on a static book of demand is financially accretive to us.

On the rideshare side, we continue to see extraordinary growth, 50% growth year over year. And I think this is only going to continue to grow because with time, we move closer to deadlines in certain cities where, in fact, this is going to become a requirement.

On the cost side, again, let's not let EV mask progress being made on DOE. DOE was down 10% on a per day basis, per transaction day basis year-over-year. That's not the end of the work that's going on.

And our new COO is going to come in and take this on full bore as we continue to drive meaningful cost reduction out of the business because technology will improve our ability to operate with efficiency. And equally, we're going to look for efficiency in the context of taking costs down that relates to this EV issue around damage and collision, and the like.

And so again, your question is not theoretical. It's a work task that's right in front of us now that we're working on. And again, against a flat market, as you characterize, there are opportunities to take revenue up and there are opportunities to take expense down. And on the revenue side, it's not entirely reliant on growth in days, it's leveraging price based on a better product.

Operator

(Operator Instructions) Our next question comes from Ian Zaffino with Oppenheimer.

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

I just wanted to follow up maybe on that previous question and then really a main question was on the previous question. Can you maybe talk about how much of the dilution or whatever you want to call it, from EVs is specifically, I guess, related to Tesla versus non-Tesla. So if you normalize and as the fleet kind of normalizes throughout various EVs, will you just naturally get a margin uplift from that diversification?

And then, maybe I guess the main question was on the pricing side, I guess we're not pricing, I think you said market shares were relatively stable. Can you maybe just talk about the environment, kind of the willingness of competitors to follow your lead when you try to take up price and what they're kind of generally thinking overall?

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

Sure. Yes, sure. So first, on the EV question, recognize that the total EV fleet is about 11% of the total fleet, and Teslas represent about 80% of that. And so there's quite a bit of the cost element that relates to the Teslas as opposed to others. And so our focus and our work with Tesla is to look at the performance of the car, so as to lower the risk of incidence of damage and we're in very direct engagement with them on parts procurement and labor and the like. So that's working. I would say that over time, to the extent we take on more GM electric vehicles, as an example, again, we'll be buying all of the forward EVs at an appreciably lower price point than where we bought the 80% of our fleet, which is Tesla. So that's obviously a benefit.

And I think that there are elements of those cars that will likely speak to lower incidence of damage. But I think perhaps more importantly, you will speak to a lower cost of parts and labor. Remember, in the likes of GM and other OEMs, there's decades of establishment of a broad national parts supply network. There's an aftermarket of parts that is there, that is less mature, obviously, in the context of Tesla. And so I suspect as implied by your question, that margins will improve and this issue will improve as we look to diversify.

But that's not to say that we don't see improvement happening just on our own workflow both to reduce incident and equally the way in which we incur the cost on this. So I think there's a natural progression of cost reduction, but I think there's work in front of us. We understand what it is, and we're doing it to fix it.

On the second part of your question around pricing. Look, we're dramatically changing the way in which Hertz as a brand behaves. I mean for many, many years, Hertz was known as a brand that sort of played to the low end of price, meaning we played higher to volume, drove price down to find that volume and produce revenue on that basis. It is undeniably the inverse now. We have taken brands and disassembled them. We look at markets, we look at cars, we look at customer sets and we broke down, for example, Hertz into deciles. We clip the lower decile not willing to sort of rent at that particular price. And then we look to find markets, as I said in my prepared remarks, that demonstrate price inelasticity.

And as I said, I think it was at the JPMorgan conference quite publicly in the summer, we were at that point, orchestrating a price increase on Hertz. And we were able to do that in a way where we saw very little in the way of degradation of volume but bringing price up. And remember, price runs about 80% to the EBITDA line. So you're more than willing to sort of sacrifice volume where you can take price up, not to the extreme, but within the boundaries of reason, and we did that.

And we did see some followship, and we continue to show price leadership in and throughout markets where we can make that trade, and we will make that trade all day. The circumstance in Dollar, as I mentioned, is a different one. We're reinvigorating that brand and we're doing that for a reason. We're doing it because a better product will give us greater pricing leverage. And our hope and expectation is that we're on a journey to get to better pricing parity to our competitors, and we will get there.

These are people that rent once or twice in an 18-month period. They are skewed heavily toward price but not if the experience is going to be at a meaningful discount. And so bringing that experience up will give us pricing pressure. And again, as I said, the whole notion around Dollar doesn't depend on share and gaining days. It depends on taking a static number of days and bringing price up, and we're quite confident in our ability to do that.

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

Okay. If I could just squeeze in one quick one for Alex. Can you maybe just talk about some of the productivity initiatives you guys have in place now? And kind of what are the benefits you've attained so far?

Alexandra Dawn Brooks - *Hertz Global Holdings, Inc. - Executive VP & CFO*

Sure, Ian, thanks for the question. When you look at DOE per transaction day, the headwinds on collision and damages are masking the underlying progress we've been making on our core cost initiatives. And as we mentioned in our prepared remarks, we've achieved over $100 million of DOE savings on a year-over-year basis through these productivity improvements. About half of that is related to labor productivity, particularly in the field and about half is in our fleet-related cost savings like maintenance, fuel and transportation costs.

So double-clicking into that, on field labor productivity, we reduced our own staffing over time, and we've also cut back on our third-party labor. And on the theme of third-party labor, we've also reduced it as it relates to our maintenance and vehicle documentation. So by bringing more of this work in-house, we're better able to control our own costs and achieve our productivity objectives.

On fuel, we're using enhanced telematics to improve our accuracy. And on transportation costs, we've employed advanced fleet management tools to streamline our fleet movements and reduce our transportation costs. So we're encouraged by our progress so far, but there's more work to do here, as Stephen mentioned. And we're looking forward to Justin Keppy joining the team as our new COO and driving these initiatives even further.

Operator

(Operator Instructions) Our next question comes from John Healy with Northcoast Research. John, please make sure that your line is unmuted.

Our next question comes from Stephanie Moore with Jefferies.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

This is Hans Hoffman on for Stephanie. I was just curious, did moving more Teslas into your leisure segment, give you any sort of RPD bump in the quarter? And if so, could you maybe quantify that? And I was also just kind of curious I guess do you think that over time that Teslas can kind of maintain their RPD premium kind of given these sort of discounts or if there's maybe some sort of novelty factor that's kind of playing into the RPD premium there?

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

Thanks for the question. So on the electric vehicles in leisure, I think on the forward, our view is that we need to bring supply in line with natural demand that's being expressed. And as we've always said, we want to bring our fleet inside the demand curve. That same holds true in terms of electric vehicles in leisure. And there are a number of sort of parts to the demand equation on the RAC side. Leisure, of course, being one where people have a natural desire and interest in driving an EV.

Equally, our fleet becomes a very interesting proposition around test drive for a lot of these cars for people who are being introduced to this. But equally, we see opportunity for EV deployment in RAC around insurance replacement, around corporate and government, all under the Hertz brand and in those cases, these are Tesla drivers who have an insurance replacement and will want to take on another EV as part of that insurance replacement product.

And we see growth in corporate and in government where in both instances, there's a desire to pick up on sustainability objectives that they have. And so there are a number of pockets of demand that will drive in the RAC side and we need to maintain the supply that's inside that to attain kind of premium RPU.

I would say equally and maybe more impactfully, the electric vehicle in our rideshare business as an interesting and different and very strong level of demand. Again, that demand is on the part of the driver who wants entry into an electric vehicle because the net economics to that driver, both by virtue of renting a car from Hertz around fuel and around incentives that are given to them by the rideshare or mobility companies yields a better economic outcome from them or for them.

And to the extent that these cars are still expensive, new, and there's been no real used market that to come about. We become a natural and most economic entry point for those drivers to come in and the benefit is proving out. And so we're seeing meaningful growth in demand in the rideshare side, and we're equally seeing longer length of keep, and we've been designing incentives and programs and pricing schemes in tandem with Uber to sort of feed that. That is get more experienced drivers in with longer length of keep, that obviously drives down damage costs, but equally, it drives down cost overall because remember, length of keep in that business is key to bringing the ultimate cost down and the margin of that rental high.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

That's helpful. And I guess I just kind of wanted to touch on capital allocation decisions a bit. I think you guys have close to 1 billion sort of left in your buyback authorization. Just curious how you guys were thinking about buyback in Q4 and then into 2024 as well. Just kind of curious if higher fleet funding costs and then potentially lower residuals could be somewhat like a limiting factor here.

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

Well, look, I would say that there's no departure from what we have said repeatedly in terms of priority, which is to invest in fleet and non-fleet in terms of building the business and then looking at buyback as an opportunity, it's obviously an attractive opportunity given where the stock price has moved, but we take all 3 of those in tandem and make a decision on rational deployment of capital against both the near-term and short-term value of that investment.

Operator

Our next question comes from John Healy with Northcoast Research. John, please make sure your line is not muted.

Our next question comes from Ryan Brinkman with JPMorgan.

Ryan Joseph Brinkman - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

I thought to ask on EVs also. I appreciate the comments about EBITDA margin in the quarter pro forma for a purely ICE versus blended portfolio. Have you maybe kept like a running tally of all of the tailwinds to EBITDA since the start-up Hertz' EV strategy in the fall of 2021, such as higher revenue per day, which maybe didn't manifest itself as much this quarter, lower routine maintenance costs and possibly even higher transaction days, although I'm not sure how you can measure that with certainty.

But then also the tailwinds to EBITDA like the higher collision damage repair cost that you cited in 3Q. But then also, of course, the higher depreciation resulting from the Tesla and other EV automaker price cuts impacting residuals. Do you have that net number? And then is there like a targeted date by which EV portfolio that transition might turning into a positive EBITDA contributor relative to the ICE portfolio when it would have similar or higher margins, et cetera?

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

Well, let me start off by saying it is a positive contributor to EBITDA. It's just proving to be not as positive given some of these near-term cost challenges that we both understand and are addressing straight up. And so it's important to sort of understand it that way. I think the way I would try to answer your question is that revenue production as a function of both price stability and demand for product, I think, is clear. And that's being driven across the whole of our fleet. And remember, we're offering electric vehicles out to our customers because they want them, meaning we're offering the widest mix of vehicles to meet the needs and desires of our customer set.

I'd also say that the offering of EVs as a product is an entry point into a rideshare business that would exist purely with ICE. So don't misunderstand me, but I think is accelerated by virtue of the offer of electric vehicles, and they are growing quite considerably inside the fleet by an order of about 50% in growth in EV utilization in rideshare.

And I think in response to the last question, it's clear that there are better economics that get even better just given where fuel costs and other costs sort of go for ultimate drivers. So part of what you see in the revenue is a tailwind. It is a benefit of the offering of the EV product and so there is a contribution to EBITDA that's being made. The reason to call out the several points of margin degradation occasion by this is to really dimensionalize the effect of this, it is not a pervasive issue.

Baseline costs in terms of DOE, as Alex noted, came down 10% year-over-year. And so our ability to address and fix the cost equation where I think the revenue equation is more in focus in terms of how to deploy the EVs. I think you'll start to see this reflect better in ultimate EBITDA production around the EV but equally across the whole of the fleet. If that answers the question you were putting to us.

Ryan Joseph Brinkman - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Yes, that is helpful. And just maybe as a follow-up to it. Beyond addressing the repair cost issue, are there other changes you might be contemplating with regard to the EV strategy such as maybe pivoting away from earlier EV as a percent of fleet targets. Over the last week, GM, for example, has pulled away from some of its EV sales and capacity expansion targets in light of changing demand in order to shore it up or be able to reiterate per unit EV profitability target.

I heard you say you're now a buyer at lower prices of the Tesla vehicles. But how are you thinking about -- and like things are changing, like Elon Musk comment on some of the recent Tesla earnings calls this year where he spoken about being willing to potentially continue to lower prices on new vehicles all the way you said down to where they would make a 0% margin at the time of new vehicle sale because he's hoping to make it up on the back end by monetizing a larger installed base to sell aftermarket RoboTaxi software and other services into. So just curious how that might enter into your calculus if you're still comfortable buying Teslas even at lower prices, given that automakers mindset with regard to new vehicle pricing strategy going forward.

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

Well, let me just say at the start. There's no world in which we're going to buy Teslas to achieve a 0 EBITDA margin. So that may be a strategy among a select number of OEMs, but it's not ours. We're going to hold every purchase to an ROA threshold where we're quite confident that the EBITDA margin to be generated on that car will be positive and will be attractive.

So let me just be very clear about that. The comment that I made about being a better buyer for those cars that meet that threshold, we are, by definition, a better buyer at lower prices than to be a better buyer at higher prices. So price decline will benefit us in the context of forward purchases. I think it's also important to say that I'm not out to achieve a fixed percentage of our fleet being electric by date and time, meaning much as we had initially targeted to get to 25% of our fleet being electric by the end of 2024.

I've said this before, and I'll just repeat it here, that's not hard in stone, meaning we're going to continue to grow our fleet. We believe in the first-mover advantage. We're going to hold ourselves out to a very hard screen on EBITDA margin and return. And so we're not a buyer for the sake of being a buyer. But we will continue to grow. I mean, as I said, the first-mover edge here, I believe, is real. And I think there's no technology change that has happened in the world that operates on a straight line without some sort of challenges that are presented.

But I think in the end, it's our ticket to rideshare, it's our access to partners. We're feeding demand that's growing among corporate and government. We're seeing rental increase commensurate with ownership. And importantly, we're getting an early jump on a set of learn skills that I don't think are easy to learn or gain overnight. And I would tell you that when you look at those rationale, when you look at that rationale as to why we want to be a first-mover, I would say that your engagement with a customer who wants to rent an EV from you starts to get sticky because the rhythm is established.

They understand how to do it, where to do, how your apps work, where they're charging. The engagement with corporates, with whom we have contracts and in conversations we've had with government would suggest that, that too poses a very sticky engagement around this model of car, and we're going to pursue it. The engagement around rideshare involves a whole sort of exercise of engagement with Uber around programs and pricing schemes and technology engagement, all of that is not rippable quickly in the context of what's there. And it's a less competitive market relative to sort of the dynamic price movements you see in RAC.

I'd also point out that the technology engagement that we have with Tesla was cited in the Tesla earning call in the context of us creating unique apps for our customers that enable them to use the car with greater ease than not. All of these are aspects that I think will ultimately prove to be through our great benefit in terms of the value, and we have a plan to sort of address the near-term costs that have produced that delta in margin.

Operator

Our next question comes from Chris Stathoulopoulos with SIG.

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

Stephen, I appreciate all the detail here around the EVs. If we could talk a little bit about the Dollar and Thrifty efforts here. Could you provide a little bit more detail on this initiative, some of the tactics and time line, I'm guessing some of -- a lot of this will be addressed at your Investor Day, but any more detail here, tactics and time line would be helpful.

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

Yes, absolutely. So just for context, Dollar and Thrifty were brands that were bought by Hertz about it, I think, more than a decade ago. And I think that they were not particularly well attended relative to sort of where our competition moved with value brand. And the TAM here is significant. And I think that part of the challenge that we have, and it proved out in the third quarter is that the journey for a customer around our value brand is not yet to the specification that it ought to be.

And as a consequence, we're compelled to price lower than where other value brands price.

So somebody, for example, that cares to use an OTA as opposed to coming to us directly. We'll see a score around the Dollar or Thrifty brand that is appreciably lower than the competition. And they then make a judgment about how much lower will they need to procure a car to justify that experience. We don't want that to happen anymore. So we're improving the journey in order to regain pricing leverage and ultimate pricing parity.

So what are we doing? First of all, the shop and book is better. We have engaged with third parties in the build of a different shop and book proposition. That will yield outcomes where we will communicate much like the airlines do with somebody that's going to rent a car from Dollar in advance, where we'll offer value-added service products, upgrades and the like, again, much like the airlines do. Then you will arrive at the airport with an assigned space where your car will be, there will be people with tablets who are going to sort of show you to an upgraded car should you want it, offer you other services to the extent you want it, you'll be given a QR code, you then move to the exit gate and off you go and we will have captured on the shop and book, driver's license and various other things.

That is a much better process than one that involves long wait times online. Now this is not a hypothetical. This is already happening at 4 airports. So this is a project that has begun already. We're going to look to expand it to 10 then 20, then to the top 30 airports and expand this as and when we test it, validate it, hone any issues that need to be honed and get this out. And again, this is not a share grab much as I'd like to take share. This is a question of can we take price even against the static book of business, which will be meaningfully accretive to us in the context of lower cost, lower depreciated cars, better margin and better pricing.

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

Okay. And then on the demand side, I know that you said fourth quarter is -- it sounds like at least seasonally in line, but we've had some results from several of the airlines today. Some worse than others. It would suggest that leisure demand here in the U.S. is softening. So could you perhaps provide a little bit more detail as it relates to these -- however buckets you see it as it relates to the leisure business and then inbound international.

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

Yes. I mean I think that as I read the airlines, and I listened to the commentary there's a bit of a dichotomy that's breaking between kind of upper end travel, which I would include certain corporate travel and more leisure or value travel. And obviously, the airlines SKU differently as to which component of that they emphasize. I would say in our Hertz brand, which plays to a more premium product, both by way of service offering, loyalty and the like. We continue to see strength in leisure, both in North America and in Europe.

Now it's obviously hard to have conviction as to what's to happen to the consumer and what's to happen to the economy as we get deeper into the fourth quarter or into next year. And obviously, we have a slightly more limited forward booking view then do airlines or hotels. But in the context of what we see and in the SKU that we see around certain of the airlines, I feel quite good about the Hertz brand, our ability to continue to see demand. We're going to do all that we can do to sort of capture as much pricing as we can around that brand.

Obviously, the Dollar value brand is being built, as I've now described several times in response to questions could that get softer? It could, but I think the countervailing view on it is that as we improve, we'll gain some pricing pressure, and we're not looking to that in the earliest sort of phase of that model to see a meaningful pickup in days. We're just looking for pricing leverage around it. So that's how I would sort of parse through this.

Operator

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

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

So thank you all for your participation today. Before we close the call, I want to thank the 25,000 employees of Hertz for their continued service and their attention to our customers. We look forward to sharing further updates with you on our next call. Back to you, Operator.

Operator

This concludes the Hertz Global Holdings Third Quarter 2023 Earnings Conference Call. Thank you for your participation.
