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# Hertz Global Holdings, Inc. (HTZ)

Q1 2020 Earnings Call

## CORPORATE PARTICIPANTS

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**Kathryn V. Marinello**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to the Hertz Global Holdings First Quarter 2020 Earnings Call. Currently, all lines are in a listen-only mode. I would like to remind you that today's call is being recorded by the company.

I would now like to turn the conference over to our host, Leslie Hunziker. Please go ahead.

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**Leslie M. Hunziker**

*Senior Vice President of Investor Relations, Corporate Communications and Corporate Responsibility, Hertz Global Holdings, Inc.*

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

I want to remind you that certain statements made on this call contain forward-looking information. Forward-looking statements are not guarantees of performance and by their nature, are subject to inherent uncertainties. Actual results may differ materially. Any forward-looking information relayed on this call speaks only as of this date and the company undertakes no obligation to update that information to reflect changed circumstances.

Additional information concerning these statements is contained in our earnings press release and in the risk factors and forward-looking statements section of our 2019 Form 10-K and our first quarter 2020 Form 10-Q. Copies of these filings are available from the SEC and on the Hertz's website. Today, we'll use certain non-GAAP financial measures, all of which are reconciled with GAAP numbers in our press release, which is posted on our website. We believe that our profitability and performance is better-demonstrated using these non-GAAP measures.

Our call today focuses on Hertz Global Holdings, Inc., the publicly-traded company. Results for the Hertz Corporation are materially the same as Hertz Global Holdings. On the call this morning, we have Kathy Marinello, our CEO; and Jamere Jackson, Hertz's Chief Financial Officer.

Now, I'll turn the call over to Kathy.

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**Kathryn V. Marinello**

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

Thank you, Leslie, and good morning everyone.

It goes without saying that we are operating in a dramatically different environment since our last earnings call. While my senior team and I have weathered economic downturn throughout our careers, the severe toll that COVID-19 has taken on our customers' lives and on the travel industry has been unlike anything we've experienced and the speed with which it occurred is astounding.

We came into this year with consistently strong revenue and earnings momentum, reflecting both price and volume growth, productivity initiatives and best-in-class fleet management. At the same time, we've made significant progress, de-leveraging our balance sheet. Yet, in just two months, the outbreak of the Coronavirus created a major business disruption as global travel demand and the used car market effectively shut down.

We immediately shifted our business priorities to focus on employee and customer health and safety, expense mitigation and preserving liquidity. As you would expect, when dealing with the challenge of this magnitude, the entire team has been working tirelessly, taking an all-hands-on-deck approach to swiftly address the difficult issues we're facing.

Our first order of business was to protect the health and safety of our employees and customers. For our corporate employees, we successfully transitioned to a remote work structure, while implementing stringent measures in line with CDC guidelines to safeguard personnel at our field locations.

And as an essential service, we were able to ensure seamless business continuity for our customers. In addition to following social distancing, best practices, at our locations, we're raising the bar on our high standards for safety and cleanliness. Every vehicle is being sealed and certified Hertz Gold Standard Clean after undergoing a 15-point cleaning and sanitization process that follows U.S. CDC guidelines and uses EPA approved products.

I'm proud of our team, from the back office to the frontline, everyone's been working hard providing the same J.D. Power award-winning service and reliability to ensure essential workers get where they're needed. Employees have embraced an entrepreneurial and caring spirit in finding solutions to make our customers feel in control of their well-being [ph] when in transportation (4:13). We have the best team in the industry, and I thank them for the incredible work they're doing for our Hertz, Dollar, Thrifty, Firefly and Donlen customers.

While taking care of our customers, we've also been aggressively managing costs. As Europe began to report its first cases of the virus in late February, we immediately started reducing fleet levels in anticipation of contracting global reservations. With three strong used car channel – sales channels, we were de-fleeting at a good pace.

During March, we took 41,000 vehicles and 13,000 vehicles out of our U.S. and European fleets respectively, which was approximately 30% more dispositions than our original plan. But in the second week of March, when the U.S. government suspended international air travel, forward bookings began to drop off and rental car cancellations were rising. By the end of the month, more than 25 states have been locked down, one-third of our retail used car locations were closed, and the resale auctions sent their employees home.

As a result, the revenue trend went into a free fall in April as the uncertainty of the situation weighed on consumers and nearly all travel ceased. At the U.S. auctions, the quantity of used vehicles being sold was at unprecedented historic lows, skewing through resale valuations. However, our seasoned car sales team judiciously managed pricing with a longer-term view while continuing to leverage dealer relationships.

Over the course of March and April, we negotiated with U.S. automotive partners to cancel approximately 90% of remaining model year 2020 fleet orders. Today, we have no material incremental capital committed to purchase new rental vehicles for our U.S. fleet. In addition to de-fleeting, we've also eliminated all non-essential spending

and deferred everything but critical investments. And yet, the continued decline in bookings caused us to take more drastic measures to manage the short- and long-term financial impact on our company.

On March 30th, we began North American furloughs affecting roughly 16,000 corporate and field employees. But with no way to predict when the crisis will end, we are forced to transition 12,000 of those into permanent separation. In our international business, we have roughly 4,000 employees on furlough under various countries' government payroll programs. While these were not easy decisions, they were necessary given the unprecedented challenges we were faced with, as reservations were trending down substantially compared with the prior year.

All of these expense actions should deliver \$2.5 billion in annualized savings and help extend our cash runway. Because of the uncertainty of when revenue will return, and when the used car market will fully reopen for sales, we've had to be prudent in protecting our long-term cash position. With that in mind, we applied for [ph] government (7:14) assistance and reached out to our lenders to discuss temporarily reducing the required payments on our vehicle operating lease. This would allow us to have the funding to support operations in what could be a very prolonged travel interruption. Last week, we were granted a waiver on our April lease payment, and we'll continue discussions with our lenders about expectations for travel trends as well as longer-term capital structure solutions.

As a responsible management team, we have to be pragmatic about the timing of an economic rebound, including the possibility of a second wave of the virus in the fall. No business is built for zero revenue. There's only so long that company's reserves will carry them, so we are focusing on safeguarding current liquidity and increasing cash through efficiencies and deferred investments. At the same time, from an operating perspective, we're continuing to service customers at the highest levels [ph] with the safely (8:10) in the manner they've come to trust from our iconic brand.

Hertz is an exceptionally resilient company with a great management team and thousands of talented and dedicated employees who are going above and beyond in this very difficult time to support our customers, including government officials, healthcare personnel, and first responders as they work to mitigate the spread of this virus. Now more than ever, our communities need us and we want to help.

Hertz is proud to have provided more than 2,000 complimentary month-long rentals to healthcare workers in New York City. We also provided free rental vehicles to our veteran-led disaster relief partner, Team Rubicon, to support delivery of food, healthcare supplies and essential government services in cities throughout the U.S., and we provided nearly 1,000 complimentary rental vehicles to support Red Cross efforts in France, food banks in Germany, and frontline medical workers and hospital needs across multiple countries.

Our employees around the world continued to show incredible commitment, patience and selflessness during these trying times. Their dedication to our company and our mission is unwavering and we couldn't be more proud of them.

With that, I'll hand it over to Jamere to give you a couple of highlights from the first quarter and update you on our liquidity position.

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## Jamere Jackson

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

Thank you, Kathy and good morning everyone. By now you've seen our 10-Q and earnings release, which discloses information about our results.

As with many other companies in the travel industry, the COVID-19 pandemic has had a significant impact on our business, and this is not limited to our first quarter. Given the severity of the shock, we have had an intense focus on rightsizing our operations to reflect the current market realities. And, as Kathy mentioned, we've taken aggressive action to preserve liquidity. As we noted in our press release, we will conclude today's calls following our prepared remarks. We will not be taking questions as we are in active discussions with several parties, and therefore we do not have more to share beyond what I will discuss here and what is contained in our 10-Q.

First, let me provide an overview of our total company results. Slide 10 shows our consolidated results on a U.S. GAAP basis and our non-GAAP measures for the quarter. Total revenue of \$1.9 billion was down 9% on a reported basis and down 8% on a constant currency basis, led by 9% decline in our U.S. RAC segment. GAAP net loss for Hertz Global was \$356 million for the quarter compared to a loss of \$147 million in the first quarter of 2019, and loss per diluted share was \$2.50 compared to a loss per share of \$1.54.

On a non-GAAP basis, adjusted corporate EBITDA declined to negative \$243 million versus negative \$4 million in the prior-year quarter. Adjusted net loss for the quarter was \$253 million or \$1.78 loss per share compared to an adjusted net loss of \$83 million or \$0.87 loss per share in the prior-year quarter.

These results reflect the dramatic decline in revenue and the resulting impact on our earnings from the global economic slowdown, and governments severely restricting travel to slow down the spread of the COVID-19 virus. To mitigate the impact on our business, we took extraordinary measures to adjust fleet levels by working with OEMs to cancel new car orders, selling existing fleet, and turning back program cars at an accelerated level. Our efforts to reduce fleet further was severely limited by the closing of auctions, reduced dealer demand and the closures of our retail car lots in key markets to complying with government stay-at-home orders and social distancing efforts.

In addition, we permanently lowered staffing levels, reduced discretionary spending, renegotiated key contracts and commitments, and slashed capital expenditures. All of these efforts will result in approximately \$2.5 billion of annualized expense reductions.

Let me provide some color on our U.S. RAC and International segments. [ph] Although they were (12:06) off to a strong start, as Kathy mentioned, our year-to-date February total company revenue increased 6% on 8% higher U.S. RAC segment revenue, which reflected both price and volume growth. We were on track to achieving our 11th consecutive quarter of year-over-year revenue growth before the unprecedented free fall in rental demand in March. As a result, our U.S. RAC revenue declined 9% on a 11% fewer transaction days versus the first quarter of 2019 with airport volume down 13% and off-airport volume down 8%. Pricing for leisure rentals across all brands drove a 2% increase in total RPD, which partially offset the decline in volume.

In International, total revenues for the first quarter were \$368 million, down 15%, or down 12% on a constant currency basis, driven by a decline in transaction days across the segment as a result of the COVID-19 pandemic. Adjusted corporate EBITDA was negative \$199 million in the U.S. and negative \$45 million in International as the sharp declines in revenue outpaced our ability to take cost out in the near-term. In addition, our vehicle depreciation results were impacted by residual values on certain models as well as the impact of lower retail car sales as a result of the COVID-19 shutdown of retail car lots where our fixed expenses were not fully offset by car sales gains. Lastly, our total company revenue was down approximately 73% in April, and May is trending in a similar fashion.

Now let me provide a brief update on our cash and liquidity. We ended the quarter with approximately \$1 billion in liquidity, substantially all of which was unrestricted cash and cash equivalents. During the quarter, we drew down \$595 million in our corporate revolver. At this time, neither the duration nor magnitude of the market disruption of COVID-19 can be predicted. Therefore, we are unable to reasonably estimate the ultimate impact of the business.

As such, in addition to the aggressive measures I mentioned previously, in April, we did not make certain operating lease payments for our U.S. rental car fleet. We subsequently negotiated certain waivers and forbearance agreements until May 22nd, 2020, as referenced in our 10-Q. We are reviewing all available options to preserve liquidity. However, there can be no assurance that we will be successful in arranging additional sources of financing or that there will be a significant recovery in the economic conditions in our major markets in the current environment.

So, to wrap up, the current environment is extraordinarily challenging, and extremely dynamic. This is an unprecedented time for our industry and, in fact, the entire world. And while there's significant uncertainty in the demand forecasts, know that we have taken aggressive actions and are reviewing several options to preserve the company's liquidity during this unprecedented period.

With that, I'll turn it back to Kathy.

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### Kathryn V. Marinello

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

Thanks, Jamere.

Two months ago, none of us could possibly have anticipated the speed with which COVID-19 has impacted economies across the globe, especially across the travel industry. I'm proud of what our team has accomplished in just a short period of time to elevate cleanliness and safety standards for our customers, and to reduce operating expenses in the face of declining revenue. We're regularly assessing the environment to ensure we're being pragmatic about scenario planning for both the near- and long-term. As such, we'll continue to take the appropriate and necessary actions to support our operations, while making sure that the Hertz brands are positioned with the right products, services and technologies, so that when our customers are ready to travel again, we will be there to get them where they need to be, safely and confidently. Thanks for your time this morning. Have a good day.

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

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