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Hertz Global Holdings, Inc. (HTZ)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Hertz Global Holdings Fourth Quarter and Full Year 2019 Earnings Call. Currently, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. I would like to remind you that today's call is being recorded by the company.

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

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 the information to reflect changed circumstances.

Additional information concerning these statements is contained in our earnings press release and in the risk factors and forward-looking statements section of our 2019 Form 10-K when filed. A copy of this filing will be 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 metrics.

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

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

Kathryn V. Marinello

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

Thank you, Leslie, and good morning, everyone. Three years ago, we embarked on a critical journey to reestablish Hertz as a market leader, create a portfolio of revenue opportunities, transform our culture to one based shared values, and transition to mobile- and cloud-based technologies, all to deliver sustainable long-term earnings growth. It was a tall order and we had a lot of work to do.

As you know, we've invested in our fleet, our brands, our people and our systems, while making a unified commitment to productivity and customer service excellence. As we exited 2019, it was clear we had the right strategies in place and that they're working. In the fourth quarter, we delivered our 10th consecutive quarter of year-over-year top-line improvement and our 9th consecutive quarter of earnings growth.

Worldwide adjusted corporate EBITDA increased 11% in the latest three-month period and helped drive full-year EBITDA 50% higher over 2018. We also reduced our leverage by more than 3 turns based on earnings growth and effective capital market strategies.

Our success has been validated all along the way. Just last year, we won the J.D. Power award for Service Excellence, the Women's Choice Award for Most Recommended Car Rental Brand for Women. We're ranked number one by FlyerTalk for the eighth straight year for our best-in-class loyalty program, and we're named among the 2020 World's Most Ethical Companies for improving communities, building capable and empowered workforces, and fostering corporate cultures focused on ethics and a strong sense of purpose. But that's not all, our preferred fleet is cited as best-in-class by our customers. Our brand awareness is climbing as Hertz, Dollar and Thrifty, all delivered higher price and volume in the US in 2019.

Our digital direct channels are growing and our revenue management and customer relationship management systems today are examples of leading-edge technologies. For the full-year 2019, total consolidated revenue, excluding Donlen adjustments and FX, increased by more than 5% over 2018. US Rental Cars' 7% revenue growth significantly outpaced economic growth as a result of contributions from both incremental volume and strong pricing.

When it comes to pricing, our revenue management and demand forecasting systems get more effective every quarter as artificial intelligence insights and our data scientists' oversight converge seamlessly. Our revenue management teams with the help of sales and marketing were the model of discipline when it comes to leading pricing last year.

In the fourth quarter US RPD was up 4% year-over-year and up 2% for all of 2019. On a two-year stack, US RPD is 4% higher. In addition to the consolidated revenue growth, we improved DOE and SG&A expenses as a percent of sales last year and reduced 2019 global fleet depreciation as a result of better buying strategies, stronger US market residuals, opportunistic selling, and the expansion of our high-return domestic retail car sales channel.

The bottom line is that our hard work is paying off. Total consolidated adjusted EBITDA margin improved 200 basis points in 2019 to 7%. Today, we are looking forward. Our strategic plan is focused on innovation, adjacent market opportunities and enhancing and leveraging our core capabilities. For the core business, we are continuing to update to modern cloud-based system and expanding vehicle connectivity to support long-term operational efficiencies. At the same time, effectively utilizing revenue management data, elevating brand segmentation, and enhancing service excellence will be of our revenue priorities for the core business in 2020.

On the International front, we've had some macro and micro challenges. The Eurozone economy was relatively flat last year with geopolitical issues impeding some travel demand across our largest regions. And the fragmented rental car margin heightens the competitive environment, so brand differentiation is essential. Against that backdrop, we have opportunities to improve the customer experience through our product and service enhancements and marketing and revenue management initiatives.

In the third quarter, we went live with our AI platform for revenue management in Europe and already captured some early benefits in the fourth quarter. On the cost side, our global productivity initiative is the priority of our core 2020 International strategy.

Finally, we recently named Angela Brav as President of Hertz's International Division. Angela brings 25 years of executive experience with InterContinental Hotels Group, most recently as CEO of its European region, where she led the successful turnaround of that business. Angela has proven track record of shaping growth strategy, demonstrating multi-brand capabilities, developing franchise portfolios, and exhibiting innovative thought leadership, all of which are central to our continued success.

In addition to leveraging global foundational competencies, we continue to find ways to connect with new customer segments in a rapidly evolving marketplace. In the US, TNC, delivery rentals and car sales are three areas for continued growth. We're applying the experience and expertise developed in our core business to make an impact and succeed in adjacent markets. The overall opportunity for TNC is expanding. Our Donlen corporate fleet management business provides maintenance and service – maintenance services and telematics connectivity for our TNC vehicles, driving efficiencies and cost savings.

For delivery rentals, we're in pilots with big box retailers, like Walmart, to offer convenient rentals to their customers needing a truck or van to transport large item purchases. We're also growing rapidly with last-mile delivery service providers. Donlen's telematics and analytics are installed across our delivery fleet.

In car sales, our focus is on the retail channel. We're optimizing our consumer website to enable online trade appraisals, digital documentation and online ancillary products. We'll also be expanding our car sales delivery option nationwide this year. And we expect to open new sales lots in markets where used car demand has outpaced our expectations.

At Hertz, we're constantly paying attention to the evolving needs of our customers and testing new product, technology and service concepts to discover how we can better serve existing customers and reach new markets. Our strategy for 2020 is to leverage our fleet management expertise, provide outstanding rental experiences rooted in deep customer insights, further evolve our value brands, and continue to layer in off-airport initiatives like delivery rentals, TNC and lease products to accelerate and sustain growth. All the while we'll drive ongoing improvement in our cost structure through vehicle connectivity, increased throughput of our digital direct channels, and by optimizing operational efficiencies.

As we enter 2020, we do so from a position of strength with an unwavering commitment to our growth plan, the accelerators driving it and the incredible people and partners who keep us focused, yet agile, and open to new innovations and new possibilities.

Our consistently improving operating performance reinforces confidence in our ability to deliver long-term sustainable growth. And in 2020, it will be another positive stepping stone in that journey. I'm proud of the work we've done and grateful for our employees' commitment as we begin a new year.

With that, I'll turn it over to Jamere to take you through the fourth quarter details and provide some of the high-level financial drivers for this year. Jamere.

Jamere Jackson

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

Thank you, Kathy, and good morning, everyone. Overall, we had a solid fourth quarter to finish out a strong 2019. In the quarter, we saw year-over-year improvement in revenue and double-digit improvement in adjusted corporate EBITDA. Once again, we saw revenue strength across all of our brands in the US. And the investments in our TNC and delivery rental initiatives are producing solid returns.

We continue to drive significant productivity across the businesses as direct operating expenses and SG&A grow slower than revenue, providing strong operating leverage and improved profitability, as measured by our adjusted EBITDA results. The combination of our expanded product offerings, industry-leading customer service, brand-building marketing, and intense focus on productivity position us well as we look to drive growth and margin expansion in 2020.

First, let me provide an overview of our total company results. Slide 7 shows our consolidated results on a US GAAP basis and our non-GAAP measures for the quarter. Total revenue of $2.3 billion was up 1% on a reported basis and up 2% on a constant currency basis, driven by another quarter of strong 6% growth in our US RAC segment.

Our underlying revenue results were much stronger, as our total company growth rates were dampened by a change in presentation for certain leases in 2019 and significantly higher capital lease revenue in Q4 2018, both of which impacted our Donlen comparables for the quarter. Excluding these items, total company revenue increased more than 5% on a constant currency basis. GAAP net loss for Hertz Global was $118 million for the quarter compared to a loss of $101 million in the fourth quarter of 2018. And net loss per diluted share was $0.83 compared to a loss per share of $1.05.

On a non-GAAP basis, adjusted corporate EBITDA improved 11% to $54 million and our adjusted corporate EBITDA margin expanded by 20 basis points. The improvement in our results was driven by increased pricing, higher volume and the impact of our productivity initiatives, which caused our direct operating expenses and SG&A to remain flat, while growing revenue. These results were partially offset by higher per unit depreciation in the fourth quarter.

Adjusted net loss for the quarter was $34 million or $0.24 loss per share compared to an adjusted net loss of $46 million or $0.48 loss per share in the prior-year quarter. For the full year, total revenues for the company were $9.8 billion, up 3% on a reported basis and up 4% on a constant currency basis, led by exceptionally strong growth in our US RAC segment, partially offset by a drag in International and lower Donlen revenues. Excluding the Donlen items I just described, consolidated revenues for the year grew more than 5% on a constant currency basis.

Net loss attributable to Hertz Global was $58 million for the year versus a net loss of $225 million in 2018, and loss per share was $0.49 compared with loss per share of $2.35 in 2018. Adjusted corporate EBITDA for 2019 was $649 million, up 50% driven by strong revenue growth, productivity, and lower vehicle depreciation.

Adjusted corporate EBITDA margin expanded by 210 basis points, as solid top line growth, combined with productivity and cost reduction efforts in direct operating expenses and SG&A, created operating leverage. Adjusted net income for the full year 2019 was $168 million or $1.44 per share compared to an adjusted net loss of $14 million or $0.15 loss per share in 2018.

Now, let me provide some additional color on the fourth quarter, starting with our US RAC segment and let me start with revenue. Our US RAC revenue grew an exceptionally strong 6% to $1.7 billion versus the fourth quarter of 2018. Growth was broad based as we saw strong revenue results in the Hertz, Dollar and Thrifty brands and both on- and off-airport.

Time and milage rate and total RPD were both up 4% driven by strong pricing in both leisure and business, and an increase in value-added services revenue during the quarter. Volume was up 2% driven by solid demand from our growth initiatives in TNC and delivery rentals.

Adjusted corporate EBITDA of $48 million was flat versus the fourth quarter of 2018. These results were driven by strong revenue growth and a combined 270 basis points improvement in operating expenses and SG&A as a percentage of revenue, which offset higher depreciation per unit. The tremendous improvements in our US RAC segment have been driven by solid execution on our growth initiatives, disciplined fleet management, service excellence, brand-building marketing, and productivity, and we're well positioned heading into 2020.

Now turning to fleet, monthly vehicle depreciation expense of $283 per unit increased 11% versus the fourth quarter of 2018, largely driven by residual values of certain make and models during the peak de-fleeting in October and November of 2019. The company continues to benefit from disciplined fleet acquisitions and dispositions through its retail car sales channel.

Average vehicles were up 4% driven by TNC fleet growth and the ramp-up in cargo vans and trucks to support future demand. Our core rental fleet remains tight, enabling us to drive price and margin expansion. Vehicle utilization was negatively impacted by a significant number of units on safety recall compared to a year ago and a continued ramp-up of trucks and vans to meet future demand for delivery rentals.

Moving to our fleet sales initiatives, overall retail dispositions grew 11% for the quarter and same-store sales grew 4%. Retail dispositions for the full year 2018 were also up 11% and nearly 104,000 vehicles. We've grown to 89 stores in the US and Canada and we remain committed to growing the retail car sales operations through additional customer convenience options, technology advancements and expansion of our retail footprint.

Moving to our International RAC segment, total revenues for the fourth quarter were $474 million, down 3% or were flat on a constant currency basis. Total RPD were up 1% driven by improved pricing in Asia PAC and Europe, offset by a volume decline of 1% due to continued softness in Europe. The International RAC segment reported adjusted EBITDA of negative $10 million versus positive $8 million for the prior year, driven by lower revenue and higher per unit depreciation versus the fourth quarter of 2018.

We are implementing revenue and fleet management capabilities, and investment in growth and service initiatives to improve top- and bottom-line results in the segment. And we remain confident in our ability to execute and deliver results internationally as we've achieved in the US market.

Now, let me provide an update on our financing activities, corporate liquidity and free cash flow. In November, we issued $900 million of 6% senior notes due 2028 and used the proceeds to repay $900 million of our second lien notes due in 2022. We ended the fourth quarter with no drawings under our corporate senior revolving credit facility and $1.4 billion in corporate liquidity. Net corporate leverage, as measured by adjusted corporate EBITDA to net corporate debt, improved by more than 3 turns from 7.7 times at the end of 2018 to 4.5 times at the end of 2019. We have no significant maturities on our corporate debt until June 2021.

Now, turning to cash flow. On our last call, I said we expected free cash flow to be positive based on seasonal de-fleeting, improved operating cash flow, and favorable ABS fair market value marks that were consistent with the strong residual market we had experienced through the third quarter. Despite significant improvement in operating cash flow, we ended 2019 with negative adjusted free cash flow. This was attributable to the shift in timing of de-fleeting, i.e. we held cars longer, from safety recall activity and the GM strike, and unfavorable ABS fair market value marks at the end of the year.

Moving to 2020 dynamics, while we are not providing detailed guidance for 2020, let me provide a little color on a few key metrics that helped shape our expectations for 2020. On revenue, we expect the US market to grow low- to mid-single digits in 2020 and we expect to capture our fair share of this growth. We have tailwinds from our improvements in revenue management, marketing, customer service and our growth initiatives in TNC and delivery that give us confidence in our ability to grow both volume and price again in 2020. Our results early in the first quarter indicate that we're off to a strong start.

We expect international markets to be flat to up slightly and we expect to grow in line with the overall market. On depreciation, we are conservatively planning for a low-single digit decline in residual values that will impact vehicle carrying costs. On the flip side, we expect that our improved operating results and stronger balance sheet will enable us to continue to improve our vehicle interest rates relative to our recent history.

We will manage costs to ensure that DOE and SG&A grow at a slower pace than revenue, which will enable us to expand our EBITDA margins. We're running the productivity play with intensity inside the company and we have a robust pipeline of initiatives that will enable us to deliver on our margin expansion objectives. And finally, free cash flow should be positively impacted from reduced interest expense on our corporate debt and improved cash flow from operating activities.

So to wrap up, I'm proud of the efforts of our team to create a faster-growing higher-margin business. We still have work to do; however, the tremendous progress we've made in reigniting top-line growth and driving margin expansions through productivity improvement give me confidence in our future. The growth initiatives are delivering and we are winning in the marketplace. And as we move forward into 2020, our focus areas remain unchanged in four key areas.

Number one, growing the top line with investments in our brand, fleet, products and services; number two, driving margin expansion through productivity initiatives; number three, disciplined fleet management to drive asset utilization; and four, innovation that will enable growth, expansion into new markets, and further improvements in cost and productivity.

These focus areas will enable us to improve shareholder returns in 2020 and beyond. And I look forward to updating you on our progress as we move through the year.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And first, we'll go to the line of Brian Johnson with Barclays. Please go ahead.

Brian A. Johnson
Analyst, Barclays Capital, Inc.

Q

Yeah. Two questions, some housekeeping on fleet costs and an update on just your IT transformation. On the fleet costs, so 11% in 4Q increase was kind of very different from what we saw in the overall residuals as well as from your competitor. Could you – I think the most important question is kind of what's the right level going forward and is 4Q an aberration or is this a new dollar per unit per month that we need to extrapolate going forward?

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

A

Yeah. So on fleet costs, a couple of dynamics happened in the quarter. As we said, we saw some recall activities across the fleet that impacted sort of the timing with which we would – we normally deplete. And so, in the October and November timeframe, we did see a little bit of dip in residuals that sort of impacted our results. And the second dynamic I'll remind you of is that we had pretty favorable depreciation on our model year 2018s. And as we worked our way through disposing of those model year 2018s, some of the benefits that were associated with those model year 2018s you wouldn't expect to carry forward as we move into the future.

Overall, on depreciation, I would say that we expect residuals to decline low-single digits next year. That should inform how you think about depreciation in the fleet. But all the things that we've been doing to maximize our outcomes on depreciation, being disciplined on our fleet acquisitions, moving a significant chunk of our dispositions through the retail sales channel, the work that we've done on fleet management, all of those things are helping us to maximize our outcomes on depreciation. So, we did have some mix issues in the quarter. But overall, the things that we've been working our way through to maximize the outcomes, those things are still capabilities that we have inside the portfolio.

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

A

And additionally, the productivity initiatives that we have continued to bring down our DOE and SG&A as a percent of revenue, which again is one way to manage through any kind of increase in expenses.

Brian, you had a second question?

Operator: Your line is now open.

Brian A. Johnson
Analyst, Barclays Capital, Inc.

Q

Yes, thank you. My follow-up question, Kathy, is around the IT transformation program. Can you update us on the pace of spend? I know some of it, in which [indiscernible] (23:54) is excluded out of adjusted. But just kind of the overall spend, what's in the adjusted P&L, what isn't, how that ramps down? I think the original plan was in 2020? And then when do we see, to your point about DOE, SG&A coming down a couple hundred basis points, further impact either on expenses or in revenue generation [ph] from that (24:15)?

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

A

Well, I would say, we've had a lot of success in certain areas, like our financial systems upgrades as well as our CRM systems upgrades. And that has had an impact on both productivity as well as our top line. We're continuing to progress through the other facets of our transformation. And we do expect that the development spending is starting to ramp down. And we are starting to appreciate and recognize some of the benefits from an operating efficiency perspective. I'll let Jamere go into a little bit more detail on expectations of when that would actually ramp off.

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

A

Yeah. So, as Kathy mentioned, I mean, we're going to continue to invest in a disciplined way in 2020. And the way to shape the year is, given that the financial systems and CRM work are largely complete, we expect the investment to be less, but by how much will depend on the rollout time and then timing for the US – in the US and International.

Our productivity efforts are offsetting the OpEx impacts right now and that enable us to grow DOE and SG&A at a slower pace than revenue. And then, as I think about the investments, specifically, in technology, we've been very disciplined about the way that we've rolled out the tech plans. We've made sure that we have productivity to offset those impacts in our DOE and SG&A.

And as we get a critical mass of the new systems up and running in reservation and rental systems and fleet management, the benefits of that productivity will roll through the numbers. We'll decommission some of the old systems. And we expect our forward-looking DOE and SG&A to have some pretty significant improvements associated with it. But our pace is measured. We're disciplined and we're using productivity to be the bill-payer for the impacts that we see in OpEx.

Operator: Thank you. And next, we'll go to the line of Hamzah Mazari with Jefferies. Please go ahead.

Mario Cortellacci
Analyst, Jefferies LLC

Q

Hi. This Mario Cortellacci filling in for Hamzah. Maybe I missed this earlier on the call, but did you size up the TNC fleet and what that currently is? And then, maybe you can run some of the economics of the business. We get a lot of questions on the margins of that business and what that looks like longer term. And maybe you can also just give us an idea of how big that business can get over time.

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

A

So as things have gotten a little bit more competitive in this space and we look at all the different segments that we're managing, I'm hesitant to continue to report actual numbers we have in the past. I guess what I would say is, we continue to grow that business. We continue to see solid returns on it as well. We have been involved in that business for about four years and we continue to grow with the partners that we started off with. And we are leveraging a lot of the fleet management capabilities we have in our corporate fleet business as well as leveraging our rental car business to deliver connectivity, deliver great maintenance support. And we have found this to be one of the contributors to our growth.

However, at the same time, we won't over-leverage that from a future perspective, but we think there will continue to be more than enough demand to go around, and we're going to take advantage of that demand. It's a segment we like, but we will grow it in metered way and we will continue to leverage our capabilities in that regard.

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

A

And in terms of the profitability, as I've said often times before on the call, we're pleased with the profitability of our TNC business. It's a strong contributor to growth and profitability of our US RAC business. Our operating costs continue to improve and we're benefiting from the lower cost of cars. As you think about the P&L dynamics, the maintenance costs are higher, but EBITDA is accretive when you factor in the benefits of length of keep and lower vehicle costs. And the continued operational efficiencies that we're driving allow us to grow faster on both the top and the bottom line. And for example, we're leveraging our Donlen fleet maintenance expertise and telematics technology, which help us drive lower costs.

So, we still believe there is growth available from ride-hailing based on the underlying demand in the marketplace that Kathy talked about. And we're well positioned relative to our competition in the space just based on our scale, fleet management capabilities and our experience over the past few years. And as I think about things from a competitive standpoint, you started to see some of the smaller competitors start to wobble in this space and that bodes well for our businesses as we're having an opportunity to pick up some share.

Mario Cortellacci
Analyst, Jefferies LLC

Q

Great. And just one more and I'll turn it over. So, I just want to know what you're more focused on in 2020. Is it more volume, is it more pricing? A competitor of yours is focused more on the longer length of rental, which is giving them higher volumes, and they're willing to sacrifice some on price. And in your Q4, it kind of looks the opposite of that and which is kind of a shift from what you guys saw earlier in the year. So, just want to get an idea of what that competitive dynamic looks like going into next year. Is it more focused on the volume or pricing and how you expect to manage that?

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

A

Well, I would say – and walking around the halls, we absolutely talk about both price and volume. But I do – at this point, one of the things this industry has struggled with over the years is getting price. And cars have become more expensive, people salaries have become more expensive. And as an industry, I think one of the most important things we need to start focusing on is getting price for the value that we provide.

We get people cars where they need them, whenever they need them across the world. And that is a tough challenge. If you look at what our business is, it is signing tens of millions of contracts every year with tens of millions of consumers to create $10 billion worth of business. So to that regard, first and foremost, it's getting price for the value and not to – we won't sacrifice price to get the volume, I'll put it that way.

But I think given what we've done from a branding perspective, particularly in our value brands, we got both volume increases and price in all of our brands last year. And frankly, we've really just started investing in the Dollar and the Thrifty brands, and we see a very strong promise of growth and price in those brands as well. So, we think we're going to win across both the volume and the price range. But if there is low-single digit increases in depreciation, we have to make sure we get price to cover those costs.

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

A

Yeah. And as we look at our 2020 plans, I mean we're pretty confident there is volume and price opportunities in the marketplace today. We are laser focused on driving price, as you've seen in our results this year and you saw results in the fourth quarter. And the reason that we're focused there, for the obvious reasons, we get more margin calories when we get another buck of RPD relative to another day of transactions. But the work that we've done inside the company to make sure that we have the right fleet in the right place at the right time for our customers is yielding positive results for us, and we're doing both. We're winning by growing our volume and we're winning by growing our price and we'll continue to be focused on driving price, as we move forward.

Operator: Thank you. And next, we'll go to the line of Chris Woronka with Deutsche Bank. Please go ahead.

Chris Woronka
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning, everyone. Wanted to ask in terms of what you saw on the residual values in the fourth quarter, which sounds like maybe it was a little bit different than what you thought heading into the quarter. Does that change any of your fleet plans for 2020 in terms of make or model or mix or anything like that?

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

A

No, I would say that we're focused on driving the right fundamentals as it relates – through sort of the cycles as it relates to residual values. We did see some softness in October and early part of November. But quite frankly, November, from a residual value standpoint, had a little bit of a snapback and we're seeing pretty good results in January and February. So, no change in terms of our strategy moving forward.

Our strategy around fleet acquisition starts by where the consumer demand is. So, we're putting cars in the fleets that consumers want to drive. We think about the long-term impact from a residual value standpoint and how we're going to perform when we dispose of those cars. And we also have an eye towards what cars makes sense for us to then layer into our TNC fleet. And we've been very disciplined as it relates to making sure that we operate with those fundamentals in mind really through the cycles.

And as you saw our results over the course of the year, we're down year-over-year and we're pretty pleased with the capabilities that we have inside the company. And as you well know, you go through pockets or windows where residual values may move on you in a very short period of time, but if you maintain the fundamentals around discipline in fleet acquisition and discipline in how we manage the fleet, we'll be fine.

And specifically, as you look forward, we've seen some movement in SUVs, for example, and particularly some of the SUVs that were in the model year 2018 timeframe. Our results were impacted by that in the fourth quarter. But as we look long term, we feel pretty good about the portfolio that we have and we fully good about our execution in the marketplace

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

A

Yeah. And the best thing that we can do is to control how we buy cars and how we dispose of them and pricing in between. And we're constantly improving all aspects of that challenge. And we have, I think, world-class acquisition strategies here. We're pretty good at opportunistic selling. We're constantly looking at the make-up of the fleet and adjusting it based on where we see residual values as well as consumer demand. And then, we've been expanding our retail car sales business and improving those capabilities. So, overall, I think we have world-class acquisition and disposition capabilities in managing the fleet, and continued focus on price, if there is any changes, is the best way to really manage through any kind of increase or decrease around residual values.

Chris Woronka
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. It's very helpful. And then just kind of a follow-up question on the package delivery, is there any way to maybe calibrate the size of the opportunity that you all are looking at versus TNC when you first started looking at that? And then kind of secondarily, as we think about how the profitability steps up, is it more of a step function or is this going to be just kind of a constant source of steady growth for you?

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

A

I think we have just really started expanding into delivery. And I think the approach we took with TNC has worked very effectively. So, we're looking at how do we leverage our large corporate fleet business in Donlen and our rental capabilities to best service customers like Walmart. So, we're focusing in on some really big players who are the best in the industry and looking at how can we help them meet the demands of last-mile delivery and provide that type of capability and improvement for their consumers and create a win for them, a win for us, and a win for their customers. So, we are focused on it. We think we'll have a very similar success that we've had with TNC with last-mile delivery. Clearly, it's just a monster opportunity and it's a huge problem for many retailers, and we look to be providing solutions in that area.

The brands – we have a great brand that stands for mobility and is recognizable. And you may have already seen Hertz Vans out there delivering goods and services in this space. And we will continue to expand it.

Operator: Thank you. And next, we'll go to the line of Adam Jonas with Morgan Stanley. Please go ahead.

Adam Michael Jonas
Analyst, Morgan Stanley & Co. LLC

Q

Hey, everybody. Hi, Kathy. So, you have about 700,000 or 800,000 vehicles in your global fleet. I think in the markets you participate, roughly one out of 1,000 vehicles on the road are a Hertz vehicle. And on our calculations, about one out of 300 miles is a Hertz rental car mile. So, you're in a really unique position to kind of make a big change, make a big progress, impacts on reducing carbon footprints. I'd be curious – and I know this doesn't come up yet in conference calls, but I think you might agree, given all the focus from investors in ESG, this is going to keep coming up. So, how do you think – what's your strategy for Hertz to reduce their CO2 footprint of the vehicles in your fleet?

I haven't seen a sustainability report since the – or the corporate responsibility report since 2017. Correct me if I'm wrong, maybe you have one coming out. But you mentioned a few thousand hybrids, I think it's established that nobody has EVs in the fleet of any significant volumes. So, be curious for just anything you could kind of help enlighten the audience here as ESG is becoming a real existential issue for all companies, not just rental car companies. And you certainly have an opportunity to do something great about it.

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

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Well, in Europe, this is an area that Europe is much more advanced than we are in the US. The challenge we have in the US is the infrastructure to support charging of vehicles. And until the government steps up in that area, particularly when it comes to consumers renting cars, we struggle with people taking electric vehicles for fear of where will they charge it, when they're traveling to a place that they don't have familiarity with, versus their own homes where they could plug it in or the local areas that they live in.

So, right now, if we look at where we think the greatest growth is going to be and advancement is going to be, it's going to be in Europe. And so, we are working with some of the cities, for example, Paris, to potentially provide in our location charging stations. We will be buying and meeting all of the fleet standards that the European countries are demanding. We're looking at, at least 1,000 electric vehicles in our fleet over in Europe to start.

And so, our approach is to work in those municipalities and areas where the government and the infrastructure will support it. But we need to see the airports stepping up in that regard, consumer preference that they will actually rent these cars that when we put them into the fleet. And then from an OEM perspective, they've eliminated the incentives. Will they start putting back in these incentives so people will actually buy these cars?

We do have partnerships with the OEMs. And we have been in discussions with them, particularly in the delivery area, how could we work with them to provide electric vehicles for delivery and be charging locations for these vehicles, along with any kind of maintenance. Now, the good news in electric vehicles, they have lower maintenance requirements.

Adam Michael Jonas
Analyst, Morgan Stanley & Co. LLC

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Yeah.

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

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So, that's an upside. So from an electrification perspective, it is part of our strategic plan. We have a focus on it. We will grow and develop, first and foremost, in Europe where the governments and the infrastructure are supportive, and then work with OEMs and the government here to make some progress as well. But the good news is, is we turn our cars every 18 months. And so as the infrastructure advances here, hopefully, we'll be able to put more electric cars in the fleets and maybe consumers will start wanting to rent them.

Adam Michael Jonas
Analyst, Morgan Stanley & Co. LLC

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That's great color. Thanks, Kathy.

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

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Thanks, Adam.

Operator: Thank you. And next, we'll go to the line of Michael Millman with Millman Research & Associates. Please go ahead.

Michael Millman
Analyst, Millman Research

Q

Thank you. A few. One, as Avis – when they reported, said quote – sort of quote – that it's the best market, US pricing market, they've seen in 30 years and that seems to be continuing. So, I wanted to get your take on that. Secondly, you mentioned price [ph] – competitive (42:45) pricings have been moving up. Does that include large corporate as well in terms of pricing?

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

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Well – and I guess I'm going to turn it over to Jamere, but I think if you read most of the industry reports last year, we were consistently leading price up. And as I stated earlier, we provide value to consumers and that value has increased in expense, both in labor as well as in the cost of cars. And we are going to continue to lead the charge in driving pricing. And that is our priority. We are not having to sacrifice volume. And we grew every single quarter in volume last year in the US. So, we continue to manage both to get volume, but we will put price always over volume in that regard. But Jamere, if you want to take it.

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

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Yeah. So, a couple of things from a pricing standpoint. December was a pretty strong month for us as well, and the whole quarterly really, if you look at our US business, our US business was up 4% in RPD. That's indicated of the kind of pricing environment that we saw. And as I said earlier, we're off to a strong start in the first quarter.

As I look at sort of business, if you will, we are being rewarded for the investments that we've made, in our fleet, in our brands, in our products, in our services. And we're seeing volume growth and pricing growth in business. And so, the work that we've done to improve our fleet, the fact that we won J.D. Power number-one from a customer service standpoint, those are all things that – when Bob Stuart and the sales team have an opportunity to go in to either win or renew a contract, those are things that give us a competitive advantage in the marketplace.

And so, we like our performance there. As you know, corporate is very, very competitive, probably one of the most competitive segments, if you will, of the marketplace. But we've improved our operating performance, improved our service capabilities. We've put numbers on the scoreboard in terms of J.D. Power number one. And those are the things that are helping us drive price and volume in that environment.

Michael Millman
Analyst, Millman Research

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And in terms of your sort of catch-up over the last several years, can you quantify how much was additional cost last year and what additional cost you expect this year from the catch-up?

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

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Yeah. So, I would say, overall, we've invested in our business in a disciplined way. And you've seen us invest in our technology, you've seen us invest in our service capabilities. You've heard us talk about the things that we needed to do to sort of point the business in the right direction. But what you saw in 2019 is that we were able to grow direct operating expenses and SG&A at a slower rate than revenue. And that is our focus going forward to help us drive margin expansion. So, it is a journey that will continue. As I've mentioned on the call, we're running a productivity play with intensity inside the company. And every area of our business, whether it's in the direct operating expenses or it's SG&A, have a productivity target that we need to deliver upon. And this is going to help us create both a faster growing and a higher margin business going forward.

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