

Rental Car and Mobility

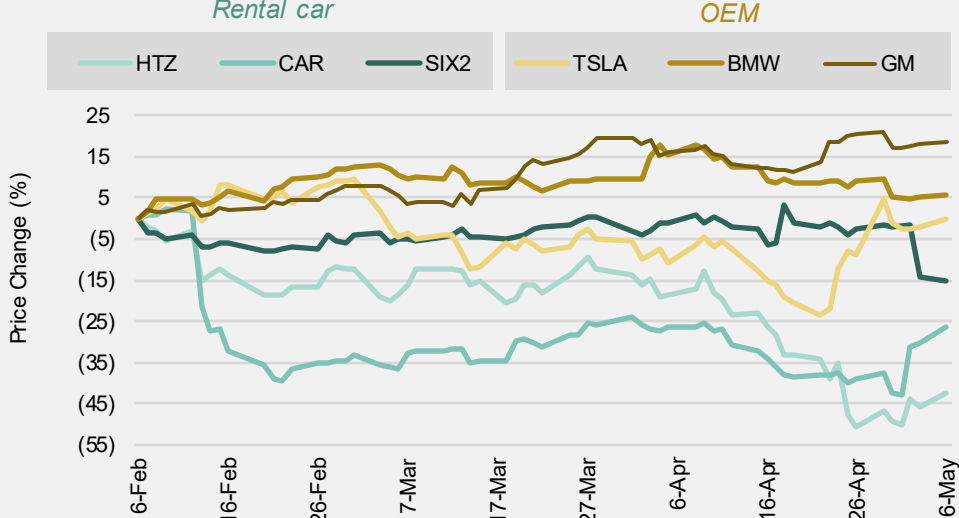
MAY 2024 NEWSLETTER



MARKET UPDATE

Auto Index Performance

The auto index **underperformed** the broader S&P 500 and NASDAQ markets over the past three months posting a gain of 1.3%



Stock	Price Change
HTZ – Hertz Global Holdings	(42.4%)
CAR – Avis Budget Group	(26.5%)
SIX2 – Sixt SE	(15.4%)
TSLA – Tesla Inc.	(0.2%)
BMW – BMW Corp.	5.6%
GM – General Motors	18.5%
Auto Sub Index	1.3%*

*Weighted change of S&P Composite 1500 Automobiles & Components (ASPI500-2510); Source: Capital IQ as of April 17, 2024

State of the Vehicle Market

As the auto industry emerges from Covid environment where inventories declined and prices peaked, capital efficiency is now a focus for auto manufacturers.¹

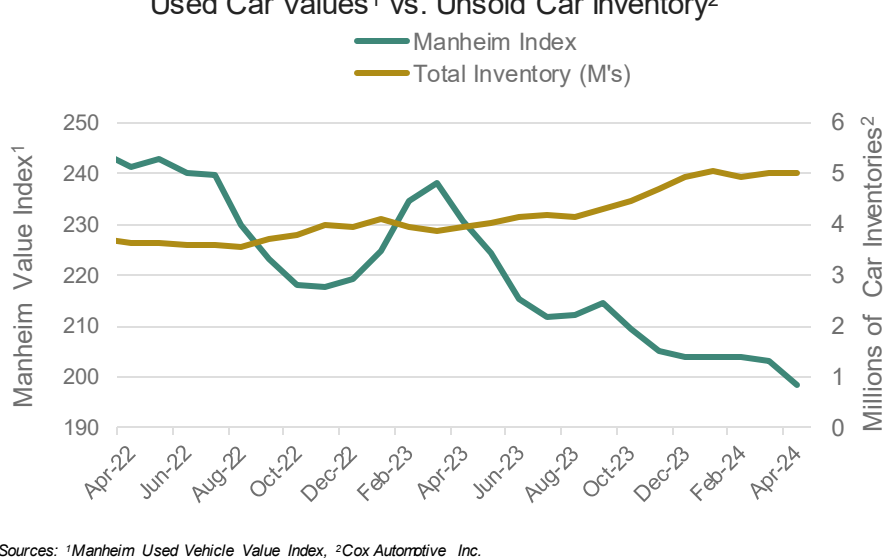
While the Fed Funds rate remains elevated with minimal rate cuts expected in the coming months, the market has begun to normalize. Inventories have remained constant and used car prices continue to decline.

Sources: ¹Morgan Stanley – March 13, 2024

“...incentives and inventory continue to trickle back into the new vehicle market... With demand for near-new vehicles on the decline, used car values are depreciating similarly to the way they did before the pandemic.”

- Ivan Drury, Director of Insights, Edmunds

Used Car Values¹ vs. Unsold Car Inventory²



Edmunds Used Vehicle Report – March 13, 2024

Leading Industry Indicators

Sources: ¹TSA Checkpoint Travel Numbers, ²Ankura Monthly Economic Indicators Overview, & ³Manheim Used Vehicle Value Index

↑ 5.7%
TSA Checkpoint Travel Numbers³

Airline passenger traffic surpassed 73 million in April 2024, an increase of 5.7% compared to one year prior.

↓ 7.1%
Price of Air Travel⁴

As of April 2024, the price of air travel was down 7.1% vs. the previous year and 0.4% from the previous month.

↓ 1.9%
Consumer Sentiment⁵

The initial April reading on **Consumer Sentiment decreased 1.9% to 77.9%** as views of both future expectations and current conditions remain steady.

SPOTLIGHT: ASSET BACKED SECURITIZATIONS (ABS)

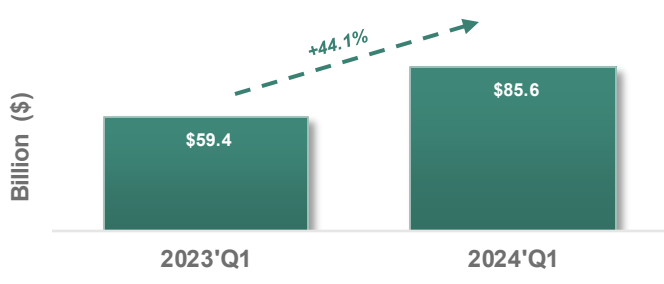
ABS Markets Heating Up

With sticky inflation, relatively steady rates, and decreasing expectations that rates will decline, the ABS market is beginning to heat up, especially for auto ABS. According to JPMorgan⁶, auto ABS volume has surged year-to-date versus the prior year, indicating growing investor interest. Companies like Exeter⁷ are ramping up their issuances, while auto manufacturers, including General Motors⁸, are issuing large Floorplan ABS deals and seeking to upsize.

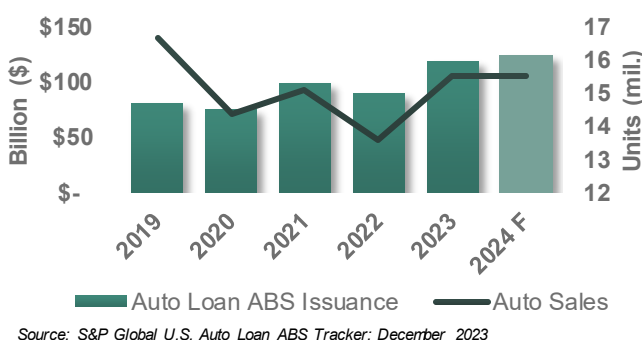
Despite deteriorating credit metrics in the prime and subprime segments, the ABS market continues to defy expectations and forge ahead. This renewed activity underscores the market’s resilience and the evolving dynamics shaping its trajectory.

⁶JPMorgan Securities – Auto Finance News
⁷Exeter Finance – Asset Securitization Report
⁸General Motors Financial – Asset Securitization Report

Total ABS Securitization Volume



Auto ABS and Loan Activity



Common Types of Auto ABS

- Traditional:** Backed by consumer auto loans, typically separated by loan quality (e.g., prime or sub-prime)
- Floorplan:** Backed by loans made to auto dealerships to finance their inventory and manage cash flows
- Mobility:** Backed by large pool of vehicles and cash flows of rental car companies or corporate fleet providers
- Lease:** Backed by fixed stream of revenues from vehicle lease agreements

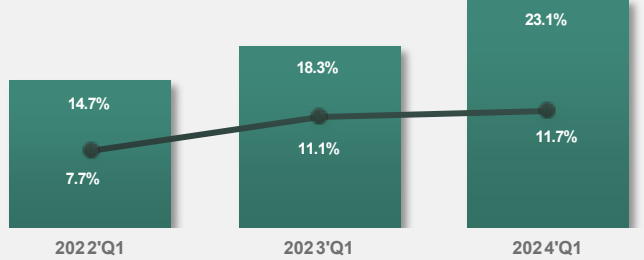
Unique Dynamics of Auto ABS

Quality of underlying collateral is very sensitive to macroeconomic trends

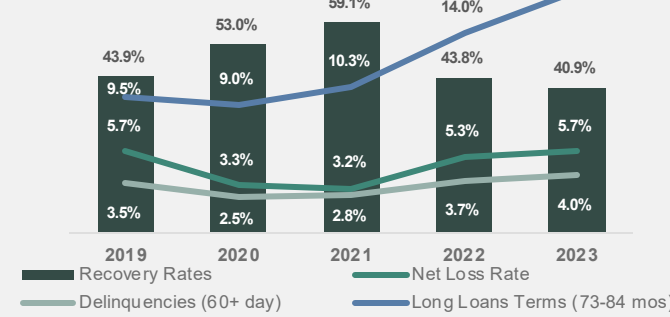
The auto ABS market exhibits unique dynamics, heavily influenced by macroeconomic trends, interest rates, and specific risks related to car pricing and inventories. Unlike other ABS markets with more stable collateral pools, auto ABS is notably volatile due to the depreciating nature of cars.

Recent data suggests that while loan losses have returned to historically normalized levels, recovery rates are at record lows, delinquencies are at all-time highs, and loan terms/duration on collateral are continuing to extend. These factors suggest added credit risk within auto ABS and may be leading indicators of future [potentially significant] losses. Further supporting this hypothesis, more auto loans are entering negative equity territory as rates rise and vehicle values slide. Additionally, broader trends like the growth of electric vehicles (EVs), spotlighted in the [previous newsletter](#), introduce underlying uncertainty to loan portfolios. The financial impacts of all these characteristics are exacerbated in the Mobility ABS space, due to high volumes in vehicle sales and the unique structure of the loan agreements.

Vehicle Equity and Interest Rates



ABS Loan and Collateral Trends



Impacts of ABS on Corporate Fleet Owners

Mark-to-Market Illustrative Example (\$M)

Assuming the LTV requirement (or “advance rate”) is 80%, the above example suggests the company would be out of compliance in Period 3. This asset value maintenance dynamic is not unique to auto ABS. However, what is unique to auto ABS is that the likelihood of this occurring is highly unpredictable. Further, this event would trigger a “mark-to-market” adjustment to the fleet book value and the corporate fleet owner would be required to **inject cash collateral** to the ABS facility – in this example, **\$3 million!**

ABS can be a great way for capital intensive businesses to grow sustainably and increase return on equity. For companies owning and holding thousands of vehicles at any given moment – such as rental car companies, mobility providers, or car dealers – ABS is often the primary way to fund operations.

Finance teams play a crucial role for corporate fleet owners to manage a large fleet asset base (also referred to as “collateral pool” or “borrowing base”) and the associated ABS debt facility. Working capital needs and operational cash flow must be top of mind. And further, they must ensure compliance with requirements of the ABS credit agreements, including mark-to-market.

Key tasks and responsibilities that are top of mind for finance teams of corporate fleet owners:

- Manage detailed weekly cash flow models
- Track SKU/VIN level detail about each vehicle in the fleet that is collateralized by ABS, including book values, market values, mileage, etc.
- Build and maintain detailed reporting of collateral pool
- Ensure compliance with Loan-to-Value (LTV) and other debt covenants
- Engage with lenders to ensure continued funding

“Given the unique mark-to-market features in rental-car-style securitizations, it is very important for rental and mobility issuers to hold adequate corporate liquidity when residual value volatility is elevated. Borrowers must build tools and processes to properly plan for a range of outcomes across both business specific and macro-economic factors.”

- Kirk Shyro, Managing Partner, HRS Partners; ex-Hertz VP & Asst. Treasurer

How We Support Rental Car & Mobility Clients

✓ Liquidity Management

- Build and maintain 13-week cash forecasts to enable awareness of receipts and disbursements, cash position, and expected trends
- Evaluate cash drivers to identify potential sources of liquidity through improved working capital and cash management
- Standardize and streamline forecasting processes and train company on tools to ensure sustainable improvements

✓ Fleet Forecasting & Cost Management

- Construct KPI reporting to analyze margins, detect operational inefficiency, and increase enterprise value
- Build models to maximize Asset Backed Securitization funding availability, minimize funding costs, and maintain compliance with covenants
- Analyze fleet depreciation curves and capitalized costs to maximize defleet residual value capture

