Good morning, and welcome to the Avis Budget Group Third Quarter Earnings Conference Call. Today's call is being recorded.

At this time, for opening remarks and introduction, I'd like to turn over the meeting to Mr. Neal Goldner, Vice President of Investor Relations. Please go ahead, sir.

Thank you, Angela. Good morning, everyone, and thank you for joining us. On the call with me are Larry De Shon, our Chief Executive Officer; and Martyn Smith, our Interim Chief Financial Officer.

Before we begin, I would like to remind everyone that the company will be discussing forward-looking information that involves risks, uncertainties and assumptions that could cause actual results to differ materially from the forward-looking information. Risks, assumptions and other factors that could cause future results to differ materially from those expressed in the forward-looking statements are identified in the company's earnings release and other periodic filings with the SEC. They can also be found on the Investor Relations section of the company's website. Except as required by law, the company undertakes no obligation to update or revise its forward-looking statements.

Our comments today will focus on our adjusted results. We believe that our financial performance is better demonstrated using these non-GAAP financial measures. All non-GAAP financial measures are reconciled from the GAAP numbers in our press release and in the earnings call presentation, which is available on our website.

With that, I'd like to turn the call over to Avis Budget Group's Chief Executive Officer, Larry De Shon.

Thank you, Neal, and good morning. As you saw last night, we had a solid third quarter, and I'm strongly encouraged by the fundamentals of our business and excited by the positioning we have with our strategic initiatives underpinning and contributing to our results.

Pricing in the Americas increased under our historic T&M per day metric for the fifth consecutive quarter and was up 1.5 points in constant currency, excluding the effect of loyalty accounting in Brazil. In fact, revenue per day in the U.S. was a quarterly record, reinforcing our strong fundamentals.

Volume in the Americas increased 1 point, and we saw growth from both our leisure and our commercial customers despite record recalls, which had us grounding more than 50,000 vehicles in our key third quarter.
Americas per-unit fleet costs were down 10% in the quarter, reflecting strong demand for the well-maintained, late-model vehicles we sell. As a result, our Americas segment delivered record profits this quarter. We also continued to develop and strengthen our business by investing in Connected Cars, new app functionality and our new revenue management system and signing a letter of intent with Movida for them to become the master franchisor for our Avis and Budget brands in Brazil.

Unfortunately, the environment in Europe was challenged. Summer demand was impacted by the World Cup and the heatwave in Northern Europe, which had people staying home to enjoy the weather, negatively impacting the very profitable outbound business. We also saw European travelers return to North Africa and the Middle East, further dampening leisure demand in the all-important summer months. With fleets being largely set for the summer, pricing eroded, leading to lower International profits in the third quarter.

I'll let Martyn go through the details, but first, I'd like to spend a few minutes discussing our strategic initiatives, starting with our focus on profitable revenue growth. In July, we announced an agreement to reward Amazon customers with special perks when they rent a car through Avis. Under this agreement, Amazon customers who book an Avis vehicle can save money on the rental and receive an Amazon gift card valued at 10% of the rental price. We've been very happy with the enthusiasm we've seen from Amazon customers since we began in August, and we just recently extended our agreement to include our Budget brand as well.

We also announced an exciting new partnership with Norwegian Air, one of Europe's largest low-cost airlines, making Avis the exclusive car rental partner for the rewards program.

We made further progress in our strategic initiatives to drive more bookings through our low-cost proprietary channels. Conversion rates on websites in the Americas increased 45 basis points year-over-year and prepaid reservations grew double digits, with prepaid bookings representing nearly 40% of the reservations made on our digital channel this quarter.

We expanded our integrated revenue management system to more markets in the third quarter, helping us drive strong underlying pricing. By the end of September, the system that we call DFP, Demand Fleet Pricing, was supporting approximately 70% of our U.S. revenue, a substantial jump from only a few months ago. The system is providing us more visibility and granularity into forward demand trends, and since it optimizes for profit, we find it pushing for higher revenue transactions through a mix of higher price and longer-length rentals. It is also helping us optimize our fleet by suggesting where to position our vehicles to get the best profit outcome.

The benefits from this new revenue management system are evident. U.S. revenue per day was a record in the third quarter, with leisure T&M per day up 3% and up 10% since 2015 when the pricing robotic was still being rolled out. And with the fourth quarter pricing starting strong and the remaining U.S. market expected to come online by the end of the month, pricing should be up again in the fourth quarter.

We also made substantial strides in improving our ancillary revenue. The strategies we've employed, including new ancillary revenue leadership, additional products and service offerings, better product placement, simplified language and bundling on our websites, are all paying off with ancillary revenue on avis.com up 7% in the quarter and budget.com up 15%. In fact, the percentage of customers purchasing our coverage products increased this quarter, illustrating our success in turning around our ancillary revenue trends.

We just recently added curbside dropoff to the Avis mobile app, rolled out discounted bundling to our counter sales agents and are developing new and innovative products, including counter bypass for Budget customers which will be launched this month, continuing our ancillary revenue momentum.

We also continue to find new and innovative ways to get customers where they want to go in the way they want to get there. A great example of this is Zipcar Flex. As we discussed in the past, Flex allows customers to pick up a vehicle in one location and drop it off in another. At a price point substantially lower than ride-hailing, Flex continues to grow nicely each month and has contributed to our international membership growth.

We have doubled our fleet of fully electric Volkswagen Golfs in London since the last time we spoke, with the remaining EVs due to be
delivered and deployed by the end of the year. In only a few short months since launch, more than 6,000 unique Zipsters have utilized these electric vehicles, contributing to more than 400,000 trips Flex customers have taken since we launched this service. And with many Flex customers also using the round-trip product, this is a win-win for Zipcar and its members.

In North America, Zipcar's commuter product continues to grow double digits month-over-month with revenue doubling since the first quarter. Zipcar's commuter product is the perfect solution for people who live in the city that reverse commute, providing members of exclusive access to a vehicle from Monday morning to Friday evening, including parking, eliminating the need to own a car.

We announced the partnership with Lyft in August to add thousands of vehicles to the Lyft Express Drive program in multiple cities across North America, making it easier for people who want to drive with Lyft to gain access to a well-maintained vehicle. Our teams have been working very closely since the announcement, and we are looking forward to launching our first market with Lyft later this year.

Zipcar even joined with Lyft to challenge car owners to ditch their car for 30 days, getting people out of their personal vehicles and into alternative modes of transportation.

We announced the mobility partnership with Brightline, the only privately owned passenger rail service in the United States, expanding our footprint in Florida to offer Brightline passengers in those living or working near Brightline stations access to Avis and Zipcar vehicles.

We've also been investing to develop a new technology platform for Zipcar, and I'm happy to say that we began piloting our first market this quarter. The new platform better enables us to scale our business going forward, allows for rapid development of member experience improvements and new services to delight our customers. This new platform includes new capabilities to enable us to more efficiently manage Zipcar's distributed global fleet. It is also openly more resilient and supports multiple product lines of business, providing the foundation for a world-class member experience globally.

Just yesterday, we announced an agreement to provide fleet management services to ViaVan, a leading provider of on-demand van-pooling services in Europe, as it expands in the U.K.

Switching to Connected Cars. Earlier in the year, we announced the multiyear strategic partnership with Toyota to add 10,000 vehicles to our Connected Car fleet. We recently teamed up with Ford to add another 35,000 connected vehicles by next summer as we move towards 100% global connectivity.

And just last week, we announced an agreement to use Amazon Web Services Connected Vehicle Solution, leveraging their capabilities for artificial intelligence, machine learning and data management to develop a wide variety of innovative connected applications and mobility solutions as we move towards a fully connected fleet by 2020.

As you know, we launched our first Mobility Lab in Kansas City last year, comprising more than 20 locations, including 3 airports and 5,000 connected vehicles. We believe that having a fully connected fleet would lead to increased customer satisfaction and reduced operating costs, and this lab is proving that out. Some of the benefits we are already seeing include incremental gas revenue collection, optimum tire pressure management and faster vehicle recovery.

We continue testing and evaluating vehicle diagnostic codes and telematics for preventative maintenance opportunities to lower our cost and improve customer experience. We recently took a few analysts to Kansas City to demonstrate our progress, and we hope to bring more of you there in the future.

To summarize, our Americas segment delivered record profits and a 50 basis point margin improvement in the third quarter, driven by increased volume, higher T&M per day and substantially lower per-unit fleet cost, partially offset by a challenging European environment. We are seeing good traction from our agreement with Amazon, and we just launched Budget providing Amazon customers with more options when renting. We signed a letter of intent with Movida for them to become the master franchisor for our Avis and
Budget brands in Brazil. And we teamed up with Ford to add more than 35,000 connected vehicles to our fleet by next summer.

As we enter the fourth quarter, industry fleet levels in the Americas are tight, leading to the best pricing environment we've seen in some time, and our strategic initiatives are delivering. As a result, we currently anticipate Americas total revenue per day to increase in the fourth quarter.

Looking forward, initial expectations for 2019 are good. The OEMs continue to reduce the number of vehicles they allocate to the car-rental industry, which should be supportive of healthy pricing. Our pricing will be further helped by our new revenue management system, improving ancillary revenues and the absence of the impact of loyalty accounting.

On the cost side, we're encouraged by our fleet cost experience this year and believe it has the possibility of continuing into next year. The recent trend of the OEMs reporting higher average transaction prices for new vehicles, along with reduced spending on incentives, clearly supports stable if not higher used car prices. And with us expecting to drive a higher portion of our used car sales through alternative channels again next year, this will further help our results.

With that, I'll turn the call over to Martyn.

Martyn Smith  
Avis Budget Group, Inc. - Interim CFO

Thanks, Larry, and good morning, everyone. I'm now going to discuss our third quarter results together with our cash flow, liquidity and outlook. My comments will focus on our adjusted results, which are reconciled from our GAAP numbers, both in our press release and earnings call presentation.

Beginning with an overview. A combination of volume growth in both of our regions and higher underlying pricing in the Americas enabled us to increase revenue to a record $2.8 billion. This was achieved despite the difficult leisure market in Europe this summer. Our overall per-unit fleet cost was 7% lower.

Total company adjusted EBITDA was essentially unchanged in constant currency, while we increased adjusted earnings per share by 7% in the quarter, benefiting from both a lower effective tax rate and reduced average share count.

Moving now to a review of our segment results, beginning with the Americas. 1% revenue growth in the quarter in constant currency was driven by both on- and off-airport demand. Pricing under our historical T&M per day metric was up 1% in the quarter. However, due to the impact from the change in loyalty accounting, revenue per day on new pricing metric remained in line with last year.

Leisure volume was up 0.5 point year-over-year in the quarter, while we increased T&M per day by 2% due in part to the success of our new revenue management system. We achieved good international inbound growth and increases in our marketing and association partner channels, including the commencement of the Amazon agreement, which Larry has mentioned. But the impact of record manufacturer recalls and our decision to sell cars early to take advantage of the strong used car market reduced our capacity.

We increased commercial volume by 1% in the quarter with good growth in our more profitable small business segment as well as our contracted commercial business. We increased length of rental, this being an important initiative to drive more profitable revenue, but it also contributed to commercial T&M per day being 2% lower in the quarter.

We also made substantial strides in improving our ancillary revenue trends, as Larry talked you through, with September being our best month this year, and we expect that momentum to continue.

Moving to costs in the Americas segment, starting with fleet. The used car market was strong in the quarter with the late-model, low-mileage vehicles we sell being in high demand, and we took advantage of that strength by selling more cars than we had originally planned.

Furthermore, in a strong used car market, we achieved a third quarter 62% risk-car disposals through alternative channels, with
significant opportunities still ahead of us in future years to both increase the number of cars we sell through these other channels as well as enriching the mix through more retail direct.

In addition, we are employing sophisticated data analytics to optimize our fleet cost, leveraging our in-house data scientists to better inform both our fleet buying and selling decisions. The benefit of this was also evident this quarter. As a result of our actions in a strong market, third quarter per-unit fleet costs were 10% lower compared to last year.

By the end of October, nearly 95% of the risk cars we plan to dispose this year in the U.S. have been sold, limiting our exposure to changes in the used car market for the remainder of the year. For the full year, we now expect to reduce our Americas per-unit fleet cost by 5.5% to 6.5%, reflecting this strong performance.

Our negotiations for next year’s buy in the U.S. are now substantially complete, and we expect model year ’19 purchase prices to be slightly lower than the prior model year on a like-for-like basis. We currently anticipate our risk percentage will be in the 75% range in 2019, which will be similar to this year.

Regarding utilization, this was lower in the quarter, largely due to the record number of manufacturer vehicle recalls, but we expect further improvement going forward. Our strategy to grow our fleet slowed, and demand continues to be a success with utilization up 40 basis points year-to-date, and we intend to adopt a similar approach for 2019.

Vehicle interest expense increased $7 million in the quarter versus last year, due largely to the effects of rising interest rates on our U.S. variables rate conduit facility, which is primarily used for our peak summer fleet needs. Operating costs were up year-on-year due to higher salary and wages, largely as a result of the reset incentive accrual and increased gasoline expense due to the higher oil price.

Summarizing, volume growth and lower per-unit fleet cost, partially offset by the impact of the substantial number of manufacturer vehicle recalls and higher interest expense, led to Americas segment delivering a 50 basis point margin improvement and record adjusted EBITDA in the quarter.

But while the Americas had a record quarter, our International segment struggled due to a shift in tourist travel patterns towards destinations in the Middle East and North Africa, negatively affecting leisure demand in Europe this summer. This was compounded by a prolonged heat wave in the Northern European outbound markets. Consequently, excess capacity resulted in an aggressive industry pricing behavior. In contrast, we achieved strong growth in commercial volume in Europe in the third quarter, driven by demand in the U.K., Germany and France.

Our Asia Pacific region had a good quarter. The volume growth was driven by strong leisure and commercial demand in Australia with both the number of transactions and length of rental contributing to this performance. As a result, overall revenue in our International segment improved 4% in constant currency, with strong volume growth being partially offset by 2% lower revenue per day.

International per-unit fleet costs were 3% higher in constant currency in the quarter, mainly due to us updating our Apex fleet at low residual values, both in Asia Pacific. We also faced regularity-led wage increases in Europe as well as inflationary pressures in the U.K. and higher marketing spend.

To summarize, adjusted EBITDA in our International business was 6% lower in constant currency, with our strong volume performance being offset by lower pricing in a tough European summer peak and higher cost.

Moving now to our cash flow and funding position. Adjusted free cash flow was $232 million in the quarter, in contrast to $76 million last year, benefiting from better working capital management and timing. For the full year, we continue to expect our adjusted free cash flow to be between $325 million and $375 million. This is after investing around $225 million of non-fleet CapEx compared to $198 million in 2017, including investments in the new revenue management system, Connected Cars, the new Zipcar platform and accounting modernization.
Our financial position remains strong with approximately $3.3 billion of available liquidity. This comprised ending the quarter with $605 million of cash, having $716 million of unused capacity in our revolving credit facility, plus $2 billion of availability under our vehicle programs.

In October, we issued EUR 350 million senior notes, providing useful earnings and asset hedge. These notes are due in 2026 at an interest cost of 4.75%. And we used the proceeds to redeem all $400 million of our outstanding 5.125% senior notes due 2022. As a result, we now have no corporate debt maturities until 2023.

Further, with approximately 90% of our corporate debt either at fixed rates or swap-to-fix, our exposure to rising interest rates on our corporate debt is limited. Based on October, we also issued $550 million of 5-year term asset-backed notes at a rate of 4.1%, refinancing maturing notes with an average cost of 2.5%. Demand for this offering was oversubscribed, illustrating strong investor interest.

At the end of September, nearly 60% of the average of our fleet debt was at fixed rate because of our funding structure comprising approximately 80% in the U.S. and 20% overseas. Our net corporate leverage at 3.8x improved from year-end, being within our targeted range of 3 to 4x.

On the acquisition front, we have spent $108 million on tuck-in acquisitions and investments through September 30, including rolling up our licensee network in Germany and taking a 40% interest on a licensee increase. For the full year, we expect our overall acquisition spend to be around $135 million.

We bought back 2% of our outstanding shares in the third quarter at a cost of $61 million and have repurchased 3.5 million shares year-to-date at a cost of $129 million, with average weighted diluted shares 5% lower than a year ago.

Regarding our full year 2018 expectations, we are updating our guidance as follows. We now expect our overall revenue to grow between 3% and 4% this year. We expect Americas volume to increase between 1.5% and 2% and International volume growth to be between 6% and 7%.

Revenue per day in the Americas is expected to be in the range of unchanged to up 0.5 point after the roughly 100 basis points impact related to the change in loyalty accounting and the softness in Brazil, but with ancillary revenue improving nicely in recent months and with us now benefiting from good pricing in quarter 4.

We now expect International revenue per day in constant currency to be lower by 2% to 3%. As I mentioned, we now expect our per-unit fleet cost in the Americas to be 5.5% to 6.5% lower, and International per-unit fleet costs are now expected to be -- to increase 1% to 2% in constant currency.

We continue to expect around $20 million higher vehicle interest expense this year due to rising U.S. benchmark interest rates. Just a note, for 2019, we are still going through our annual planning process, but we currently expect vehicle interest expense to increase by at least a further $35 million to $40 million from high U.S. rates, this being before any fleet growth.

We now expect net currency translation this year to contribute a $16 million to $21 million benefit to adjusted EBITDA, which is lower than our previous guidance due to the strength of the U.S. dollar. Again, just a note, all else being equal, for 2019, we presently expect currency to be a $25 million to $35 million EBITDA headwind, although we still will have a better sense of this early next year.

We expect our adjusted EBITDA to be between $760 million and $800 million this year. Non-vehicle D&A, excluding acquisition-related amortization, is expected to be approximately $200 million. Our non-vehicle interest expense is now expected to be $190 million, with 2019 anticipated to be a similar amount.

As a result, adjusted pretax income is now expected to increase between $370 million and $410 million in 2018. We now expect our effective tax rate to be in the range of 27% to 28%, increasing slightly from our previous guidance due to country mix effects. And adjusted diluted earnings per share to be between $3.30 and $3.70 per share.
Finally, as I mentioned, we expect our free cash flow to be between $325 million and $375 million, which means our stock is currently trading at a free cash flow yield of around 14%, at the midpoint of our guidance.

In summary, we delivered a good year -- good year-over-year volume growth in the third quarter despite record manufacturer vehicle recalls. We expanded margins in the Americas by 50 basis points, improving EBITDA 3% through a combination of volume growth and substantially lower per-unit fleet cost. Americas year-to-date EBITDA is now 15% ahead of last year.

However, this growth in the Americas was offset by the difficult leisure environment in Europe this summer, resulting in total company adjusted EBITDA being essentially unchanged in constant currency.

Finally, our funding position is strong. And following our recent euro senior notes issuance, we have no corporate debt maturities until 2023.

With that, Larry and I will be happy to answer your questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from Ryan Brinkman with JPMorgan.

**Ryan J. Brinkman JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst**

Just regarding the softer results in Europe during the quarter. Are you able to speak to the degree to which it was driven by the factors unique to the quarter, such as the weather that was mentioned, relative to other factors, such as maybe a softer macroeconomic condition, et cetera, that we should think about as perhaps modeling extending beyond the quarter?

**Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director**

Sure. We went into the summer with lower bookings coming out of the World Cup, a little slower than what we expected. And then with the heat that happened in the Northern European part of the region, it really did impact the important outbound business, particularly out of the U.K. and Germany. Then the movement of vacation travelers back into parts of North Africa and the Middle East that they used to go to a few years back, that was a surprise as people kind of went back to Morocco and Tunisia and Istanbul and places like that. And that came out of Italy, Portugal and Spain, which is where that traffic had migrated to when terrorist activity happened in that region before. So that, I think, is -- we'll have to now assume that the traffic into that part of the world is going to continue on in future years. The heatwave was the heatwave, and the outbound business that really came down out of the Northern region, we wouldn't expect that to happen again next year. And of course, we wouldn't expect the World Cup soft bookings to happen either. The other issue is that the other pressure point that we have on pricing is that there are a lot of third-tier players and growing the number of third-tier players in kind of the Southern region countries in particular. So as the industry really fleted up for the -- what they thought was a summer like last summer, the fleets were pretty well set for the summer, and then that -- those volumes didn't really materialize in the Southern region part of Europe. So some of these factors shouldn't repeat next year. But the shift to North Africa and Middle East, I would expect would continue next year. And Italy, Spain, Portugal would kind of go back to the volumes that they had prior to a few years ago when that business shifted into those countries.

**Ryan J. Brinkman JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst**

I see. That's very helpful. And you are present in those other countries in Northern Africa, just you're not like corporate there. Are you more franchise? Is that how we should think about it?

**Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director**

Yes, those are all franchise operations. And so although we do get an increase in royalty income, it doesn't nearly come close to offsetting the profitability of that business that we would get at corporate countries like Italy and Spain in the summer months.
Okay, got it. And then just finally, regarding the 10% lower Americas fleet cost. Can you speak to the degree to which these 2 were driven by more temporal factors such as a very strong increase in auction prices during the quarter? I'm trying to determine how much of the progress here might be driven by more structural issues, such as you're buying efforts or your greater use of alternative remarketing channels. And then do you have any updated thoughts on the outlook for auction prices going forward in light of the economy, off-lease trends, et cetera?

Yes, the residual value markets is for sure is strong over the summer. But as I have mentioned in the past, we've done a lot of work to bring a lot more data analytics into the company; third-party data as well as really triangulating several different data sources to really help us make better buying decisions around what cars we are buying, what trim levels we're buying them with; when we in-fleet them, where we in-fleet them, where we exit them to sell them, what time of the year we sell them. So there's a lot more science going into that now, which I think is helping us improve our residual values. Our alternative channels are growing, and so we're up to 60% of our vehicles sold through alternative channels. That will continue to grow as we go through next year. And as Martyn mentioned, the mix shifts between selling direct to dealers and selling direct to consumers will also start to shift as we open more retail lots and we further develop our own capabilities to sell direct to consumers, which we are just at the beginning stages of doing. And so those factors also improved on top of what was already a strong residual value market over the summer. But I do think that our -- that we kind of outperformed the market based on what we're doing with our alternative channels and what we're doing with the data around our acquisitions and our selling strategy. As we go into the fourth quarter, majority of our fleet is sold at this point. But as we continue to sell in the marketplace, residual values continue to be pretty healthy for this time of the year. You'll see the normal kind of decline after the summer months when you get into this quarter, but I would say that year-over-year, they're still positive. And we're -- as we look into next year -- it's still early, yet. But as we look into next year, we think the conditions are right for stronger used car values for next year as well as you take a look at what's coming off lease next year, which is coming down from previous years, as you look at the number -- the quantity of cars that are being sold, incentives that OEMs have been reducing their offering, the acquisition price of vehicles going up. So those are all conditions that I would think would support stronger residual values next year.
John Michael Healy Northcoast Research Partners, LLC - MD & Equity Research Analyst

Makes sense. And I wanted to ask about the Brazil opportunity. As you guys kind of transition that business to a master franchisee, how might the profits of that business change and impact you in 2019?

Martyn Smith Avis Budget Group, Inc. - Interim CFO

John, we're still at letter of intent stage, so we still got to finalize everything, assuming we're on track. The EBITDA loss that we took this year is of the order of $9 million, and it's about a $27 million revenue business. So assuming we're successful, we turn that -- we'll eliminate that loss, then turn that into a royalty income stream going forward as well. It's pretty attractive. And then we still keep the outbound and the inbound relationships going with the franchise.

Operator

Our next question comes from Adam Jonas with Morgan Stanley.

Adam Michael Jonas Morgan Stanley, Research Division - MD

First question is the relationship between fleet costs, which have been moving in a favorable direction for you the last couple quarters, and pricing. I think some of the -- one of the rules of thumb or wisdom in this industry was that when fleet costs rise, that, that kind of creates better or a bit more disciplined behavior on pricing. And I'm just wondering the other way around, as fleet costs have been providing some relief, whether that might be contributing to a bit more challenging pricing environment, just isolating that by itself. How much you've seen that?

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

No. Actually, we're seeing a pricing opportunity. As we said, our underlying T&M was up about 1.5 points if you exclude Brazil and the accounting loyalty -- accounting for loyalty points. It was up about 1.5% on T&M. As we go into the fourth quarter, it's been so far in the fourth quarter very strong pricing environment, probably one of the best environments I've ever seen. So right now, we're seeing both improvement in in-fleet cost and also improvement in pricing going forward. Internationally, we're not seeing the pricing improvement. We've got, I think, too much -- too many cars in supply there. We've got a lot of third-tier players there. And then, of course, we had the summer pressure where the volume didn't materialize like we have when fleets were pretty much fixed for the summer. So we've got to get our fleet right there. We've got to change our expectations around the volume and fleets to that so that we have a better outcome next year.

Operator

Our next question comes from Chris Woronka with Deutsche Bank.

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

Larry, I want to ask you -- I appreciate the commentary about October or fourth quarter to date pricing. And I guess we usually think about that as being more driven by corporate and commercial, than leisure with a seasonal shift. Is that right? Are you seeing better pricing on the commercial business as well? And if you are, what do you think is driving that? And is it sustainable?

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

As you know, commercial pricing has been a challenge here for some time. What I'm encouraged by is that number one, volume is starting to turn positive now in commercial. So we are seeing a positive volume now for a few months, and we are now starting to see some positive pricing come through in specific months as well. Maybe too early to call that a trend, but I'm excited as we hadn't seen that environment for some time. Our small business is doing better. Our mid-market is doing better, and even large commercial is also doing better from both the volume and pricing. In some months, we're starting to improve year-over-year. So we hope, as we turn the year, that the volume will continue to build. Whether we'll have positive pricing overall in commercial for the year, I don't know. But if it's negative, it will be not near as negative as it has been in previous years. And I'm hoping in some of the segments of commercial, it will turn -- stay positive through 2019. So I'm more upbeat about where commercial is headed than we have been really in the last couple of years that we've been facing the declines that we saw both in volume and price. I think we're starting to turn the corner on that now.
Great. And then just maybe a follow-up on the increased competition in Southern Europe. You talked about smaller players. I think over time, in the U.S., a lot of the smaller players have kind of come and gone. Do you foresee a similar result in Europe? Or do you think something is more structurally different there? Is that going to be more of an ongoing issue going forward?

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

One of the benefits in the U.S. is the supply of vehicles to the industry has really tightened down, and I think that's a really positive set of circumstances. In Europe, that isn't the case. And I'm -- there are too many cars really in the industry there. There has been some consolidation of some of the bigger independents, if you will. We've been in that market as other rental car companies have as well, and a number of those have been acquired. But there's a lot of little, little companies in Spain, Portugal, in Italy that can get access to fleet. And you're right, they do come and go. There's no question that many of these fold up and other ones open up. But I think what needs to happen is a tightening of the amount of fleet available to the marketplace over there, and we haven't really seen that happen yet.

Operator

Our next question comes from David Tamberrino with Goldman Sachs.

David J. Tamberrino Goldman Sachs Group Inc., Research Division - Equity Analyst

First question is on your Connected Car effort. I want to understand what you've seen so far from your K.C. Mobility Lab from a cost perspective. When do you think, as you bring the next level of your fleet into the connected world, you're going to be able to hit those fleet optimization and operational efficiency targets that you laid out for us about 2 years ago?

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

Yes, we had some really good learnings in Kansas City so far. When you think about fleet asset control, knowing where the vehicles are at all times, being able to recover vehicles quickly, that's been a big benefit on the fleet. Also, gas collection down to 1/10 of a gallon. We're seeing more gas revenue per Connected Car. We need to get a higher percentage of the Connected Cars communicating the gas appropriately, and so we're working on getting that percentage higher. We should be able to get it closer to 100% at some point. We're not there yet, but we're growing that percentage. And there will be customer benefits as well as we look at how Connected Car can help facilitate the entire rental transaction. Already, customers are using the app. They're able to go directly to the car. They were able to choose the car that they want. We're looking at other aspects of what connectivity can provide for the customer during the rental experience, which will also help improve the experience overall. People that use the app and use that kind of self-service mode, their Net Promoter Scores are significantly higher than customers who do not use that service. So what we need to do is build out the ability to take the data from Connected Car and actually operationalize the data. And that's why we announced the partnership with AWS is to leverage their data analytics, their machine learning capabilities, their artificial intelligence, the cloud that we'll be able to migrate this information through this data, too, and then actually operationalize the data, meaning take the data and actually work -- and form the locations of what to do next, for example. Diagnostic codes, we're reading diagnostic codes, and now we've been able to reduce the number of incidents customers have with low tire pressure because we're on top of it before the light goes off in the car. So there are other diagnostic codes that we're now looking at using and using the data from them to help us do preventative maintenance on the vehicle, so the customer never experiences an issue when it's out on rent. That saves a lot of customer dissatisfaction, improves Net Promoter Score, reduces our roadside assistance expenses and so forth. So there's a lot of learnings going on by the team that's on the ground there. What we need to do is we roll out more connected vehicles and then migrate those learnings to the next city that we outfit 100% of their fleet with connectivity, and then the next city and then the next city as we roll it out. So next year, as we go from 100,000 cars up significantly to hopefully a couple hundred thousand cars next year, we'll be able to turn more markets on fully connected. Using the AWS system, being able to start automating and consuming the data and driving direction to the locations of how to manage the fleet in a different way, in a more automated way than some of the manual interventions that we have today. So there'll be savings and utilization -- by improving utilization, by having more cars on rent in more days because you don't have the idle days of trying to get the cars back and get them where you need to get them because you've got more automated ways of which to manage the fleet, and improvement in gas collection and improvement in customer experience and so forth.
David J. Tamberrino Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it. I understand all the potential applications. But today, from these efforts, are you seeing any tangible quantifiable benefit to the bottom line that you can call out? Or is that still all ahead of you?

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

We're seeing it in Kansas City, but obviously, it's a 5,000-car fleet. So what we have to do is roll it out into more markets so that we actually change the way which they operate in the locations once their cars are fully automated with connectivity. So I'd say that it's out -- it's still out in front of us. But we have seen, in Kansas City itself, we've seen the improvement in getting cars back faster, being able to get them back on rent faster and we're seeing the gas collection improvement. But as I said, that will just continue to build as we open more and more markets and also learn more and more about what connectivity can provide for us.

Operator

Our next question comes from Wayne Cooperman with Cobalt Capital.

Wayne Manning Cooperman Cobalt Capital Management, Inc. - President

Other than asking for guidance for EBITDA for '19 -- EBITDA, what -- can you tell us what the bigger spends are going to be to get from EBITDA to free cash flow and what the uses of free cash flow might be for next year?

Martyn Smith Avis Budget Group, Inc. - Interim CFO

So the capital allocation policy we'll kind of set, as obviously, we'll finish our planning process. But we've been pretty consistent. You've heard me talk about that we've increased our acquisition spend and investment spend. And also, in discretionary cash flow, we've also increased our monthly CapEx because a lot of the IT that Larry is describing, the CapEx was supporting that with the CapEx spend as well. So it's likely we're going to continue in the same vein, but we will go through our own planning cycle and then kind of set that, and we'll talk about that in February. But I don't think there's a radical change.

Wayne Manning Cooperman Cobalt Capital Management, Inc. - President

Is there any bigger things that we should know about now?

Martyn Smith Avis Budget Group, Inc. - Interim CFO

Well, I called out the interest effect in the EBITDA, which is quite marked and the FX effect as we kind of wrap around for next year as well, but I called those out specifically. There's nothing else really we'd like to comment on until we've done our detailed financial planning for next year.

Operator

Our next question comes from Brian Johnson with Barclays Capital.

Brian Arthur Johnson Barclays Bank PLC, Research Division - MD & Senior Equity Analyst

I just want to follow up 2 kind of more strategic questions about the 2 major geographies. So in the U.S., you've kind of commented about the better OEM behavior, which we've seen as well, sort of accepting that sedans are less important and, hence, reducing incentives. You described a lot of the better sophistication you're doing around pricing. We have one of your publicly traded competitors trying to catch up on technology as well. But I called those out specifically. There's nothing else really we'd like to comment on until we've done our detailed financial planning for next year.

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

I would start with what I'm just seeing overall competitively with fleet and because I think it always starts with fleet. And I would say that the fleet position in this quarter that we're in now and the fourth quarter is about as best as I've seen in a really long time, which is contributing to the pricing that we're currently seeing, the healthy pricing environment that I mentioned that we're seeing in the fourth quarter. So it appears that competitors have worked hard to improve their forecasting, to align their fleet, to optimize their fleet rotations to kind of come out the summer peak in the best position that they possibly can, knowing you have a big peak in the summer and then
you got to bring it down for the fall. As we said, we sold more cars in August than what we had intended to do to try to take advantage of the residual value market and then also ease the transition into the fourth quarter. And so we're seeing a good environment here. I would say that as competitors improve their revenue management systems, their pricing robotics, I would think that, that would help lift the entire industry's pricing, would be my view and my hope. I know that our Demand Fleet Pricing system, the markets that are turned on to that system is improving revenue by a couple of points. And I'm hoping that, that is, based on how DFP works and some of the decisions that DFP helps us make at each location, helps us drive for opportunities kind of earlier in the process. It allows us to yield for opportunities because it has a better view, a better view of forecasted volumes further out than we used to have. Therefore, we have more confidence to take yielding opportunities earlier than what we would have done in the past. To a degree competitors look at that and match or how their pricing robotics work off of that is up to how they want to accept that, but I would hope that, that would end up raising the overall industry's pricing.

Brian Arthur Johnson Barclays Bank PLC, Research Division - MD & Senior Equity Analyst

Okay. And follow-up question is Europe, both -- I guess, 2 questions. One -- or 3 questions, all related. One, is there a potential for this technology in Europe? And do you see it being used by competitors? Is it well on that? Would that structurally improve the environment? Two, assuming the OEMs don't get any more disciplined, certainly, our forecast is that they don't. And it's, of course, difficult to eliminate capacity in Europe. Would you be open to, at the extreme, doing a Brazilian type of deal for your entire European franchise? Recognizing, of course, that prior management had bought it in, but you really need the volatility in Europe as part of the current infrastructure. Is that even a debate the board would have?

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

We do plan on rolling out our Demand Fleet Pricing system in Europe. As we've already rolled out the first phase, they're pretty much done with the first phase, we can get to the second phase towards the end of last -- end of next year. Some more development work has to be done for them before we can roll that out. Whether other competitors will match that kind of system, I don't know. Obviously, there are -- there's a global competitor that they're working on their revenue management system, so I assume that that's a global solution for them. So that will also help. But I can't comment on whether other rental car companies in Europe would match that kind of system or not. And as far as franchising out all of Europe, what we always do is take a look at each individual country and look at whether -- what makes the most sense, whether to run it corporately or to run it through a franchise model, and we're always open to always looking at that. But no, we don't have any plans right now to franchise out all of Europe. We would look at kind of each country individually to make sure that we really understand what makes the most sense for us.

Operator

Our next question comes from Michael Millman with Millman Research Associates.

Michael Millman Millman Research Associates - Research Analyst

So looking at used car prices, to what extent do you think that interest rates -- concern about interest rates, concern about tariffs and maybe the potential reduced refunds are affecting short-term pricing? And also, on the -- I think with the 3% leisure price increase, I'm actually surprised it didn't go up more considering the shortages of cars and the strength in the market. So I was hoping you could comment on those 2 topics.

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

Michael, hard to tell how all these things will really impact fleet next year. I mean, I can't comment really on the tariffs at this point. Lots of speculation about what those will mean, and I think we just have to kind of wait and see how that unfolds. We talked about the impact of interest rate, and we've talked about what that will mean for next year. I would say, once again, our leisure pricing continues to be strong. We're up, and I think the third quarter was up. If you take a look at it over the last few years, leisure pricing was up 10%, I think, since 2015. So we are seeing improved leisure pricing as we go into this quarter. We're seeing strong leisure pricing in the fourth quarter as well. So I think -- and we're hopeful that, that will continue to build as we go forward. Commercial has been a drag, but as I mentioned, that's starting to improve overall. So, yes, it's hard to tell overall what some of these factors that you mentioned will really have on pricing next year, but we'll have to see as we go into the year.
Our next question comes from Hamzah Mazari with Macquarie.

Hamzah Mazari  
Macquarie Research - Senior Analyst

My first question is just on commercial, Larry, your comment seemed pretty upbeat. It seems like that business is beginning to turn. Maybe you could just touch on what do you think the catalysts are driving that turnaround. Is it just less structural headwinds from ridesharing and business travel, comps getting easier, the economy? Just any color on what you think is going on there.

Larry D. De Shon  
Avis Budget Group, Inc. - CEO, President, COO & Director

Yes. We've been doing a lot of work in the -- particularly in the mid-market and small business segments to kind of improve in that area. We've been taking out a lot of accounts, increasing our volume in those areas. And as I said, the pricing is starting to improve year-over-year as well. I think on the large commercial side, I think you're right that the ride-hailing impact that it's had, not that it won't, it still impact it some, but I think we're through the worst of that. I think the economy being strong as well is also helping, so I think those factors are starting to turn. We've not -- we're not losing any large accounts. We've been able to keep our account portfolio. If we do have a loss, we make it up with probably 3 to 4x with wins. So our revenue -- our book of business for our corporate -- our commercial book of business has been strong and continues -- portfolio continues to round out and continues to be strong. We just want to see them traveling more and renting more. So they're starting to do that. And as I said, seeing volume growth now on the commercial side is pretty exciting as it's been a long time since we've seen that and now to see some months where we're seeing positive price as well. Although little, it's still positive, and that's a place for us to build upon going forward. So I think the initiatives around some of the segments that we put in place and just probably kind of getting over the worst of the events, I think, is all starting to build some momentum going into next year.

Hamzah Mazari  
Macquarie Research - Senior Analyst

Great, very helpful. Just a follow-up question. On ancillary revenue, you mentioned better product placement, new leadership. Any sense of what the headline impact of ancillary was on pricing? You may have mentioned it, we may have missed it, on just ancillary pricing impact.

Larry D. De Shon  
Avis Budget Group, Inc. - CEO, President, COO & Director

We've been doing -- this has been a really good story for us. I mean, obviously, it was disappointing at the beginning of the year. And we've been working really hard this year on a lot of initiatives to improve this area. As you listed some of them, I mean, obviously, we've been working really hard on selling on our dot-coms and that has been growing significantly, particularly by customers that bypass the counter to begin with, so weren't really buying ancillary products before and now buying ancillary products online. So there's been a lot of initiatives around how we bundle products and how we clean up the language so people are more clear what the products are and so forth. And I would say overall, on pricing, it's probably had about 2.5 point impact.

Our final question comes from David Tamberrino with Goldman Sachs.

David J. Tamberrino  
Goldman Sachs Group Inc., Research Division - Equity Analyst

I just -- I was following along the line of questions and I got cut off. My last question for you, Larry, was thinking about the long-term margins that you outlaid a couple of years ago and where we've gone for the past 2 years, which is about 120 bps backward at the midpoint of your guidance range, is it still achievable to get to that 13% to 15% adjusted corporate EBITDA level with everything you have in front of you? Or is it some point you need to come back to us and reevaluate that goal?

Larry D. De Shon  
Avis Budget Group, Inc. - CEO, President, COO & Director

We said back when we said that goal that we could achieve it if pricing offset fleet cost. And we're working really hard this year on a lot of initiatives to improve this area. As you listed some of them, I mean, obviously, we've been working really hard on selling on our dot-coms and that has been growing significantly, particularly by customers that bypass the counter to begin with, so weren't really buying ancillary products before and now buying ancillary products online. So there's been a lot of initiatives around how we bundle products and how we clean up the language so people are more clear what the products are and so forth. And I would say overall, on pricing, it's probably had about 2.5 point impact.

We said back when we said that goal that we could achieve it if pricing offset fleet cost. And we're starting to see, obviously, that environment kind of turn to that environment. For the year, though, we will still be off of kind of our best years fleet cost. We're still going to be higher fleet cost this year than 2015's fleet cost. So I think if you take a look at ancillary revenue decline from that year and fleet cost decline from that year, we still got some making up to do in both of those areas. And I think if we can do that, the other initiatives that we put in place that we've been running now for a couple of years really start to show themselves in how they can improve our profit.
margins going forward. So we're not, at this point, willing to say that we can't get there. We think that we can get there if fleet cost and pricing continues to improve, and we get our ancillary revenue back on where it used to be and, hopefully, above that. So if those things come together, yes, I do think we can get to 13% margins. So we've got a ways to go. Our initiatives that we're working are helping. They are delivering. And I do believe Connected Cars, as we roll it out across the fleet, will also really help us kind of find opportunities to find efficiencies and improve utilization ways that you just can't do manually without it. So we're staying focused on that. And hopefully, the pricing and fleet cost trends that we're now seeing will continue into next year.

Operator

For closing remarks, the call is being turned back to Mr. Larry De Shon. Please go ahead, sir.

Larry D. De Shon Avis Budget Group, Inc. - CEO, President, COO & Director

Thank you. So in summary, our Americas segment delivered record adjusted EBITDA and the highest U.S. pricing ever. We're seeing strong demand from Amazon customers and just recently added our Budget brand. We continue to invest for growth through acquisitions and strategic investment, while also returning cash to shareholders. We have a solid funding position with no corporate debt maturities until 2023, and we reiterated the midpoint of our full year guidance despite the tough European summer.

Looking forward, we continue to see good demand for our services around the world. Industry fleet levels in the Americas are tight. Americas pricing has started strong in the fourth quarter, and fleet costs are all well contained. We have a busy calendar this quarter with participation of the Northcoast, Barclays and Deutsche Bank conferences, and we hope to see many of you there.

With that, I want to thank you for your time and your interest in our company.

Operator

This concludes today's conference call. You may disconnect at this time.