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CAR - Q2 2019 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Co. reported 2Q19 revenues of $2.3b. Expects 2019 revenue to be $9.2-9.5b.

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PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group Second Quarter 2019 Earnings Conference Call.(Operator Instructions).

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, David Calabria. Please go ahead, sir.

David T. Calabria - *Avis Budget Group, Inc. - Senior VP & CAO*

Good morning, everyone, and thank you for joining us. On the call me are Larry De Shon, our Chief Executive Officer; and John North, our Chief Financial Officer.

Before we begin, I would like to remind everyone that we will be discussing forward-looking information that involves risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks, assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website. We undertake no obligation to update or revise our 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, which are reconciled from the GAAP numbers in our press release and in the new investor presentation also 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.

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

Thank you, David, and good morning, everyone. Yesterday, we reported a record second quarter revenues of $2.3 billion, driven by a 2% increase in rental days, a 2% increase in U.S. rental car pricing, and a $6 million increase in ancillary revenue year-over-year. Along with higher revenues, we had an 8% reduction in per-unit fleet cost and a 70 basis point improvement in fleet utilization.

We generated an adjusted EBITDA of $175 million, a 9% improvement over the second quarter of last year or a 16% improvement in constant currency. We achieved all of this while still improving our Net Promoter Scores by 990 basis points in the Americas and 650 basis points in International for the quarter compared to prior year.

We continued our strategy to grow profitable revenue, while investing in mobility initiatives to spur innovation and to unlock incremental profit opportunities. This morning, I will provide an overview of our results in the Americas and International segments, discuss some of the progress we have made with innovation and mobility initiatives and then give an update on our outlook for the summer and the remainder of 2019.

Continuing the trend we have experienced for the last several quarters, the Americas delivered strong results with margin expanding more than 250 basis points and adjusted EBITDA growing $45 million compared to the prior year. The biggest contributor to the outperformance was a 10% reduction in per-unit fleet cost due to robust used vehicle values, our growing development and use of alternative disposition channels, and the effectiveness of our proprietary fleet management system that optimizes vehicle purchase and disposal decisions.

We are beginning to operationalize our mileage optimization initiative using technology and vehicle connectivity to more effectively manage vehicle usage, reduce fleet costs and deploy our right car, right customer rental experience. We have finished implementing our revenue management system across all locations in the United States, which resulted in a 2% increase in overall U.S. rental car pricing. Website revenue grew 8% in the quarter compared to last year with prepaid reservations accounting for nearly 40% of reservations.

Our strategy to improve ancillary revenue drove the highest quarterly rates since 2016. Ancillary sales increased approximately $6 million in the quarter due to more small business rentals and our revised rental sales agent incentive program, which is in place at over 100 locations nationwide. This program is a success for both our customers and our employees as we see increased Net Promoter Scores.

In our International business, adjusted EBITDA was $39 million, $21 million lower than prior year in constant currency, with a significant portion of the variance due to lower organic rates. We continue to see rate pressure due to a reduction in intra-European travel and uncertainty around Brexit. Our International team is taking steps to respond by growing our light commercial vehicle operations, which provide more consistent rental demand. The growth of the light commercial vehicle business and the integration of our 2018 acquisitions of Morini and Turiscar contributed to a 3% growth in rental days in the quarter.

Commercial segment rental days showed positive year-over-year growth, with mid-market and small business accounts both up 9%. As we pointed out earlier, we delivered a substantial 650 basis point improvement in Net Promoter Scores for the quarter, ending June with even higher scores exemplifying our continued focus on improving the overall customer experience.

With that, I'd like to update you on the progress we've made on our strategic mobility and innovation initiatives. Regarding our progress on Connected Car, we have 165,000 vehicles connected globally with plans to reach more than 200,000 by year-end. We have expanded our relationship with I.D. Systems and Continental to deploy third party connected car technology, while collaborating with a number of our OEM partners to achieve connectivity using their in-vehicle systems. We've started to see tangible results from our connected fleet, including well over $1 of incremental fuel recovery on each connected car rental, which more than pays for the cost of the technology. Further, we've seen a nearly two day improvement in the recovery of overdue vehicles as connectivity allows us to locate our cars faster.

In addition, connectivity facilitates our mileage optimization initiatives and allows us to explore additional use cases, including self-service and fleet monitoring and management. It has been a multi-year journey for us to reach this proof of concept at scale, but the returns are there and we see a path towards accelerating monetization in 2020. We remain at the forefront of rental car app development to enhance our customer experience. We recently added the industry's first in-rental split billing feature into the Avis app, which allows the customer to utilize more than one payment method during a rental. Since the release of this feature mid-May, we are already seeing more ancillary products being taken on both the Avis app and Avis.com.

This feature is especially useful for our corporate customers looking to extend their travel into a long weekend, allowing them to bill the business portion of the rental to their employer, and the personal portion to their own credit card. We now have over a 2.5 million transactions on our award-winning mobile app and preferred customers who use the app report, on average, 20% higher Net Promoter Scores than those who do not. We'd encourage you to download our app and give it a try.

Earlier this year, we discussed our initial partnership with Lyft. In the second quarter, we expanded our operations to 4 new cities, bringing our weekly rental business to 9 cities. We have over 3,000 vehicles in our Lyft fleet and plan to continue expansion of this partnership this year. We believe there are several benefits in our partnership that can improve our overall economic performance.

First, we have created a dedicated fleet for ride-hail rentals, cascading them out of our fleet of risk cars that have reached the age where they would typically be sold. Extending the life of our fleet allows us to lengthen ownership of our asset base into the flatter portion of the depreciation curve, resulting in lower per-mile fleet costs.

Next, our connected fleet allows us to monitor mileage and vehicle performance in real-time, thus optimizing utilization and maintaining the quality of the vehicles during rental, while ensuring mileage accumulation is managed to protect our asset value.

We have fully integrated with the Lyft driver app, giving drivers a seamless way to digitally reserve, rent and return vehicles. This quarter, we were able to prove our hypothesis that these are profitable rentals and can be part of our growth objectives in 2020 and beyond. We continue to grow our ride-hail business, and are pleased to announce a new partnership with Uber, where we will be providing a dedicated fleet of connected vehicles for weekly rentals to Uber drivers. We plan to begin with initial market launches before the end of the third quarter and we'll provide more details as we move closer to implementation.

Our Zipcar Flex product in London has completed nearly half a million Flex trips this year, nearly as many trips as all of 2018, illustrating the significant demand in the market. Zipcar Flex provides on-demand one-way mobility throughout London as well as to and from Heathrow Airport with a fleet of approximately 1,200 vehicles.

During the quarter, we enhanced our partnership with Heathrow Airport to have designated parking for the Zipcar Flex offering, directly at the terminal to reduce time spent navigating around the airport. The Zipcar Flex product is a great complement to the existing Zipcar round-trip business as we experience continued growth in both product offerings with round-trip increasing 9% in London as well this year.

Our Zipcar Flex fleet of 325 Volkswagen e-Golfs have driven more than 1 million zero emission miles in over 200,000 trips taken by more than 22,000 unique members. Overall, we now have over 270,000 members in London, making it the largest Zipcar market globally.

Also during the second quarter, we expanded our partnership with Via, a leading micro-transit and new mobility company. We are supplying both connected vehicles and fleet management services in Seattle, Washington; Newton, Massachusetts; Fort Worth, Texas; and Milton Keynes, United Kingdom. We are excited by the expansion of our partnership with Via, where drivers are able to digitally rent, securely access and safely return our connected vehicles through their mobile phones, which we believe helps to increase the per vehicle rider utilization of ride-hailing vehicles to reduce road congestion in these markets.

Last week, we announced a partnership with Otonomo, the leading global automotive data services platform, to generate potential new benefits from our growing connected fleet. Otonomo is one of the first to create a new marketplace for this information, and has already gathered a growing number of customers, which will now include anonymized data from our connected cars. Potential customers and partners include companies like J.D. Powers, who would leverage insights to identify customer trends. We look forward to new partnerships and new learnings from this relationship.

In summary, we have started to see real success in our connected car initiatives, the development of our technology and mobile apps and fruitful partnerships with other mobility leaders who are successfully leveraging our vehicles and fleet management capabilities to serve new use cases.

We feel good about our results so far, and feel that our earnings will be consistent with our earlier expectations for the remainder of the year. We continue to see strength in the leisure segment where we have delivered eight straight quarters of year-over-year growth in underlying leisure pricing and July will be our largest leisure rental day month in our history. July will also be our 26th consecutive month of increased dot-com bookings.

Fleet costs continue to be a benefit resulting from strong residual values and through our use of alternative disposition channels. While International pricing is still challenging in the summer months, we are currently seeing pricing up slightly from prior year. We're continuing to offset some of these pressures through our diversification into light commercial vehicles and through acquisitions. Based on these trends, we are reaffirming our full year revenue and EBITDA guidance.

Finally, I would like to comment on the announcement of my departure from Avis Budget Group at the end of this year. During my 13 years at Avis Budget, I have been inspired by the talent, performance and dedication of our team, and their steadfast commitment to delivering a seamless experience to our customers. I am looking forward to the continued success of the strategic initiatives we have put in place as we further our transformation into a mobility solutions provider and believe we are well positioned for success both now and in the years to come. It's been an honor to lead the team for the last 4 years, and I'd like to say thank you to each of our 30,000 employees who have made this all possible.

I would like to turn the call over to John to take you through the financial results.

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

Thanks, Larry, and good morning, everyone. My comments today discussing changes in revenue per day, pricing and per-unit fleet costs will all refer to changes in constant currency or excluding exchange rate effects. My comments will also focus on our adjusted results, which are reconciled from our GAAP numbers in both our press release and investor presentation. I'd like to start with an overview of the second quarter for the total company.

As Larry mentioned, we had a strong quarter. We ended with a record $2.3 billion of revenue, which included a $46 million headwind from currency, and 2% higher volume.

Overall per-unit fleet costs were 8%, while our vehicle interest expense increased by $10 million. This resulted in our adjusted EBITDA increasing by $14 million to $175 million in the quarter, after a $13 million adverse impact from foreign exchange movements.

Moving to the Americas and excluding exchange rate effects, revenue per day was up 1% compared to prior year, with a 2% increase in volume leading to an overall positive revenue impact. As Larry mentioned, ancillary revenue had a $6 million increase, which was attributable to growth in small business rentals and our revised rental sales agent incentive program.

With the eighth straight quarter of year-over-year growth, leisure pricing continues to grow with the help of our revenue management system. Along with strong ancillary performance, leisure pricing helped increase U.S. rental car pricing by 2% in the quarter. We saw [strong] (added by company after the call) growth in both volume and pricing within our marketing and association partner channels, with our major partnerships performing well. Per-unit fleet costs decreased by 10% as we continue to utilize alternative disposition channels to take advantage of strong residual values. We continue to be focused on the growth of our alternative disposition channels, particularly our direct-to-consumer sales. Each vehicle we dispose through alternative channels saves us hundreds of dollars in disposal costs and each vehicle we sell direct-to-consumer generates more than $1,000 of additional benefit.

We disposed of nearly 70,000 vehicles in the quarter and sold 61% of these vehicles through alternative disposition channels. We now have 12 operating car sales locations, including our first in California, and will continue to benefit from this significant opportunity to improve fleet costs through further success in this initiative.

Average days to sell was also reduced by 2.1 days or 19% from prior year, improving utilization and fleet costs. As OEMs increasingly shift new inventory towards sports-utility vehicles, residuals for inexpensive sedans remain strong, but non-core SUV residuals will face pressure. We believe our strategy to beat competitive fleets to market in the third quarter will help to minimize the potential impact.

As we anticipated, vehicle interest continued to be a headwind, increasing by $10 million in the quarter across a similarly sized fleet, and we expect it to continue to be a headwind throughout the year. In total, revenue per day up 1%, combined with significantly lower per-unit fleet costs resulted in the Americas adjusted EBITDA increasing to $152 million in the quarter, with margin expanding by more than 250 basis points.

In our International business, we saw strong volume growth in our segment, growing 3% from both our existing operations and acquisitions completed throughout 2018. Pricing pressures continued as evidenced by 1% lower revenue per day. This resulted in revenue increasing by 2% in constant currency, but decreasing by 4% after foreign exchange movements.

Per-unit fleet costs were flat in constant currency for the quarter, while utilization increased by 60 basis points, which reflects our tight operational control. Second quarter EBITDA of $39 million was $21 million lower than prior year in constant currency. The International team is taking steps to mitigate the softness of revenue per day through further improvements in utilization and per-unit fleet cost.

Our adjusted free cash flow was a $59 million outflow through June 30th compared to a $68 million inflow last year, as the timing benefiting vehicle programs we saw in the prior year end reversed with vehicle programs being about $67 million less year-over-year.

Our financial position remains strong with approximately $2.4 billion of available liquidity. This comprised ending the quarter with $534 million of cash, having $575 million of unused capacity in our revolving credit facility, plus an additional $1.3 billion of availability under our vehicle programs.

Our net corporate leverage of 3.8x is within our targeted range of 3.0 to 4.0x, and 130 basis points lower than it was at the same time last year. In April, we issued $650 million of 5-year term ABS notes at a blended rate of 3.44%. This was on top of our February issuance of $600 million of 3-year [term] (added by company after the call) ABS notes at a blended rate of 3.56%. In late June, with settlement in July, we issued $400 million of 8-year high-yield senior unsecured term notes at a rate of 5.75%, the proceeds of which were used to retire $400 million of our outstanding 5.5% bonds due 2023. We continue to look to opportunistically extend our maturity schedule and ensure our capital structure remains strong with no near-term maturities.

In the second quarter, we entered into an equity derivative contract involving the use of a $16 million capped call option intended to offset dilution from our equity award grants. Additionally, we received an increase of $100 million authorization from our Board in additional share buyback authority, bringing our available capacity to $250 million or approximately 9% of our outstanding shares. We will continue to take an aggressive approach to share repurchases whenever there is an opportunity to allocate capital and take advantage of the highest return possible.

As Larry mentioned, we have reaffirmed our 2019 revenue and EBITDA guidance with revenue expected to be between $9.2 billion and $9.5 billion, and our adjusted EBITDA to remain between $750 million and $850 million.

With the frequency of personal auto claims being lower than prior year per insurance industry statistics, cars that would have been utilized for insurance replacement, we believe are now being put into the rental car fleet. With that slight softening, we narrowed our Americas guidance on revenue per day to a range of flat to up 1.5%. Offsetting this is a strong residual market in the Americas, where we are improving our fleet cost per unit to down 3% to down 7%.

For the additional guidance we provide, I'd refer you to our earnings release published last night.

In summary, the Americas had strong results in the quarter and the International market remains competitive, but we continue to invest to improve our efficiency and target strategic growth opportunities. Underpinning all of this, we are investing in new technologies, mobility solutions, and ways to improve our customers' experience.

With that, Larry and I'd be happy to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Chris Woronka from Deutsche Bank.

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

I was hoping maybe talk a little bit about the opportunities you see on the delivery front using your fleet. I know you still have the Budget Truck fleet and you've done some acquisitions overseas. Can you talk about how big of an opportunity that can be for you?

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

Chris, it's Larry. I think it's actually going to be a pretty significant opportunity for us as we're going forward. As you can see, we're developing a lot of other use cases and new partnerships to take advantage of our fleet, particularly our Connected Car fleet. We have a Fetch pilot going on with Budget Truck, which allows people to rent trucks seamlessly in a self-service mode. We have in a few locations for the pilot test, but it's an indication of how different use cases are developing out there, particularly for this last mile delivery as well. So as we look at some of the partners that we're working with and others that we're discussing opportunities with, I do think that there's a potential for a significant amount of business in the future as it relates to this kind of delivery activity both on the car side as well as the truck side.

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

Okay. That's helpful. And just as a follow-up. As you look at the different possibilities for capital allocation between, I guess, share repurchase, deleveraging, acquisitions and kind of reinvesting in the business or growth initiatives, how do you look at those different buckets right now? What would make you potentially pivot towards one or the other?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

It's John. I think our philosophy to capital allocation has been pretty consistent. It's a balanced approach. Over the past 4 years, we've split our capital allocation between CapEx or investment in the business. We bought back a significant amount of stock, like almost $1.5 billion worth. And then we've done a number of acquisitions, especially internationally and then also picking up a number of our licensees in the Americas.

So we're capitalists at heart. We're looking for the best return at all times and that's where we're going to direct the capital. So I would say that it continues to be in flux. I would also point out that this morning, we increased our share repurchase authorization by $100 million. We now have over $250 million available to repurchase shares and we are prepared to come in and buy stock, and we think that's the highest return or if there's a compelling acquisition, we'll look at that. But I think first and foremost, we're going to continue to invest in the business, and these mobility use cases, we think are just really the tip of the iceberg get started here.

Operator

Our next question today is coming from Brian Johnson from Barclays.

Jason Flynn Stuhldreher - *Barclays Bank PLC, Research Division - Research Analyst*

This is Jason Stuhldreher on for Brian. Just a quick question around the guidance. So vis--à--vis the topline guidance you reiterated, as we lowered the RPD outlook in the Americas, I was just wondering, is there any other offset either in International or maybe that you're seeing in volume that maybe it wasn't implied in the -- in those other revised metrics that might cause an offset to revenue, allowing you to reiterate the range? Or should we just assume maybe the midpoint of that range might be a little lower?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

This is John again. I think we're comfortable that we're within the range. Maybe, I guess, to your point, I don't want to call out anything else specifically. I think the two areas we thought were probably worth adjusting was just a slight decrease in RPD and then, obviously, a pretty significant change in our per-unit fleet cost per month based on what we've seen so far year-to-date.

So I think, we still think we're going to fall revenue range we gave within your own estimates or modeling work. If you wanted to bring down your revenue estimate, I think, that's your call. But I think we don't see anything that indicates we're going to have a big departure from where we expected to be, in overall.

Jason Flynn Stuhldreher - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And just one follow-up, maybe a longer term question. I think it was a very exciting announcement around the Otonomo partnership. Should investors be thinking in the next, call it 2 or 3 years, any material incremental benefits from revenue through data monetization efforts? And if so, is there any way to sort of frame up what the potential revenue benefit could be?

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

Jason, I think, it's early stages yet with our Otonomo partnership. We are getting revenue stream coming in now from them. They have signed with a couple of customers that will be using our data. Obviously, as our Connected Car fleet grows, that will provide even more data opportunities into Otonomo that they can aggregate with other car data that they're getting from other suppliers of this data. So I do believe that there is a lot of upside potential here. How much at this point, I'm not really willing to go out and say, but I think we just need to let the partnership develop, get the cars connected and then, over time, we can see the demand for that kind of data. But I do think it will be over time, it should be fairly significant.

Operator

Our next question today is coming from Derek Glynn from Consumer Edge Research.

Derek J. Glynn - *Consumer Edge Research, LLC - Analyst*

Can you provide additional details around the Uber partnership? Are there any material differences with the Lyft partnership program? And your expectations for how large that ride-hailing fleet and the expected contribution from that program in 2019 are looking out to 2020?

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

This is Larry. First of all, I say that, now that we've had some experience with Lyft and we've got over 3,000 cars now out on rent. We're pleased with what we're seeing, so we have taken some time to take a look at the profitability of this business and how mileage and damage and so forth has been performing. We do use connected fleet so that we do monitor the fleet, and we have the ability to make sure that we can monitor the mileage on it and so forth to protect the asset value of the fleet.

We only do weekly rentals, so we have an opportunity to review it at the end of every week. So I think we put it in the right kind of parameters around it to make sure that we are pleased with the results of it, and so far, we're pleased with the results. We want to continue growing it and we're planning to continue to grow with Lyft on a number of airports and city locations now with Lyft and we'll continue to grow with them.

And the Uber business will be, I think, we'll follow pretty much the same parameters, the same guidelines as we go forward. So over time, between both of them, I don't see any reason why this wouldn't be in the tens of thousands of cars over time as we continue to roll out the network for both companies.

Derek J. Glynn - *Consumer Edge Research, LLC - Analyst*

Okay. Great. And then as it relates to the recent $400 million notes offering and the subsequent redemption of a portion of those 2023s, John, can you just speak to the rationale behind those transactions? And then also how are you thinking about the ideal leverage ratio for the company going forward?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

This is John. I think what we saw was a nice opportunity to take out a piece of the $675 million notes that were due in 2023. One of the things that was most exciting for me when I joined the company about 4 months ago was that we really had a very well-thought-out capital structure and I think the company's historically done a really good job of managing maturities and making sure that we're not sort of sitting there with a gun to our head, having to do something. And then I think this is a great example of us opportunistically paying about 0.25 point more on that $400 million relative to what we retired but getting an additional 4 years of duration, which I think is a pretty good trade, particularly where kind of rate environment is today.

I think the other thing it accomplished is it really knocked down the size of that one tower. So $675 million, I think, frankly, was from David Calabria and my perspective, a little bit higher than we would like. We would like to keep them just a little bit more manageable, and so this gives us the ability to put $400 million out there and then leave the $275 million, which is a much more manageable size for the 2023s.

So overall, I think, the execution was good and we were just able to take advantage of that, a little blip in kind of the rate environment and put together a pretty compelling transaction. And we've been waiting about a month or so to get that done and when rates finally came in, we launched it and did a same day close. So it was all pretty easy.

In terms of your question around leverage, we've talked a lot about our range being kind of 3.0 to 4.0x. I think this goes back to one of the earlier question around capital allocation, which is where do we think is the best utilization of money that's coming in. And the beauty of this is the cash flow and how much cash we regenerate. A reminder, we're going to do between $250 million and $300 million of free cash flow this year. So we've got a wonderful annuity stream, and we're going to put it to work where we think it's best. I think we're really comfortable at 3.8x levered, but if we think there's good opportunity for us to potentially bring that down a bit, due to the other stuff, we'll look at it. But I have to say I'm pretty excited about our opportunities to invest internally and then also the success we're starting to see with the Connected Car with the partnerships with Lyft and Uber, with Otonomo. And then there are some of the mileage optimization and things that we're doing there. So we can accelerate any of that, I think, we're willing to do so. And you probably notice we bumped up our range for capital allocation in terms of CapEx this year just a little bit to kind of reflect some of that. So I think that's how we're thinking about the world.

Operator

Our next question today is coming from David Tamberrino from Goldman Sachs.

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

Great. Utilization looks like it improved pretty nicely year-over-year in Americas and then also within International segment. How much of that can be driven by just improved turning of the vehicles and operations versus the Connected Car fleet?

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

This is Larry De Shon, David. It's a combination of a lot of initiatives that are going on in the business to kind of drive utilization. First of all, there's a number of use cases that we're developing in the business that really go for a longer length of rental type of transaction. So it's a revenue per transaction play versus the revenue per day play.

And as those use cases grow in numbers, that will continue to help utilization. Also the Connected Car fleet is helping us shave time off idle time off of the fleet, and that's whether it's just getting an overdue back faster, a couple days faster than we normally would if it wasn't connected I think really matters. Also our alternative channels is really helping us shorten the length of time to sell for our fleet. And the team has been really aggressive in managing the utilization this past first quarter and into the summer and taking advantage of opportunities to whether it's in the retail market to sell cars where they think it's the right thing to do based on the data analytics that are coming out of the company at this stage.

So there's a number of initiatives going on that continue to really make the fleet work harder and I think Connected Car will be the ongoing technology that will allow us to continue to find opportunities in the business to drive some efficiency that we'll continue to improve that as well. So I'm pretty excited about what Connected Cars enabled yield for us so far in this area.

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

Got it. And then, as a follow-up, I know there has been a couple of questions on ride-hail, want to get your view on the profitability per unit of one of those vehicles being cascaded down versus your typical on-rent to leisure first 18 months vehicle versus, I guess this 18 to 36-month-year-old vehicle that's going to the ride-hail side.

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

This is John. I think a couple of things, and you touched on the key. The first is, that this is really about extending the length of the vehicle that we're going own. So this is taking a car that would be at the point of being de-fleeted and really coming up with an alternative use for it. And it's the flatter part of the depreciation curve. So I think we're pleased with where the rates are. I think we mentioned in the prepared remarks that we've looked at both utilization, mileage accrual and also damage, and everything seems to be within tolerances. And we saw a business case where, you know, this was profitable, and we think, as Larry mentioned, couple of questions ago, we think this can grow into the tens of thousands.

And so I think it's just another opportunity for us to use our fleet in different ways. And really this was the underpinnings of what I saw when I joined the company, which I think that there are multiple use cases and those use cases are changing and this is a great example of how we're going to go and pivot our fleet to unlock new opportunities to grow revenue and I think the financial metrics make sense for us.

Operator

(Operator Instructions) Our inspections coming from John Healy from Northcoast Research.

John Michael Healy - *Northcoast Research Partners, LLC - MD & Equity Research Analyst*

I wanted to ask a little bit more about what about the bright spot was in the quarter on fleet cost. The initiatives that you guys have been working on for a while there. How much more tailwind is there on those initiatives? I think you said 61% of the cars you sold in the quarter were through alternative channels. Where do you think that number can get to ultimately and you'd be comfortable with? And can these tailwinds potentially cause 2020 fleet cost to maybe not that different than what you're experiencing this year in 2019?

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

I think, we've got a lot of runway still in front of us, John, on the alternative disposition channels. So we're at 61% and that's up from 52% same quarter last year. Still a significant amount of that is direct-to-dealer, which is giving us about $450 benefit per car that we sell direct-to-dealer versus auction. And we have grown direct-to-consumer significantly, but we have a long ways to go direct-to-consumer.

So even within that 61% of alternative channels penetration, we can change the balance of how we're selling within those channels, within the alternative channels. So the more that we can continue to sell direct-to-consumer, which we more than doubled what we saw in the quarter where we sold direct-to-consumers last year, and the more that we can continue to grow that, that will give us over $1,500 benefit for the car versus $450. So not only can you take this 61% higher in every single month, we continue to grow the penetration of alternative channels, you can change the mix inside the channels. And so those benefits are still significant that are out in front of us.

So I'm not sure exactly what number the alternative channels could be. I'm sure we're always be in the auction market at some percentage, but I think we have a long ways to go overall for the 61% to grow, and then we have a big opportunity in the mix as we continue to roll out more retail locations and develop each one of those retail lots.

John Michael Healy - *Northcoast Research Partners, LLC - MD & Equity Research Analyst*

Great. And then just any perspective that you might have, Larry, just in terms of how the July season seems in terms of just leisure travel in the U.S. and have the competitive dynamics been more stable or rather unstable?

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

No, I would not characterize it unstable at all. In fact, July will be our largest leisure volume month ever in the history of the company. So we have very strong volume in the month of July, which we're very pleased at. Northeast seems to be a bit weak. So we are seeing just overall the industry revenue to the airports as we've been watching the Northeast pretty much all year, continues to be a little sluggish.

We feel like there's not as many yielding opportunities in the month of July that we would normally want to see, but it's nothing critical, but it is something that we did notice as we went through the month. So volume is really strong, leisure volume is particularly strong. We are seeing corporate volume turnaround. We had good corporate volume month and it's nice to see corporate coming back and particularly small business was up in the second quarter, and we continue to see that from a volume perspective. So I would say yielding opportunity not as much, but overall volumes very strong and leisure, just booming.

John Michael Healy - *Northcoast Research Partners, LLC - MD & Equity Research Analyst*

When you say the yield opportunity was inside of the range you gave for revenue per day for Americas or would it be softer year-over-year?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

This is John. We brought down the RPD as you saw about half a point on the low end. So from up 0.5 to a flat basically and then on the upper end, I think, were up 2.5, we brought it down to 1.5, and we're within the range.

Operator

We reach end of our question-and-answer session. I would like to turn the floor back over to management for any further or closing comments.

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

Thanks. To summarize, I'd say we had a strong second quarter despite the competitive pressures we're facing internationally, continued higher leisure pricing in the Americas, lower per-unit fleet costs, combined with the shift in rentals through our dot-com channel have enabled us to expand our margins by more than 90 basis points in constant currency.

We have made significant progress in key strategic initiatives in the second quarter and remain focused on improving our profitability. With that, I want to thank you for your interest in our company.

Operator

Thank you. We reached end of this teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.