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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Avis Budget Group First Quarter Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the meeting over to Mr. Matthew Flaherty, Director of Investor Relations. Please go ahead, sir.

Matthew Flaherty  
Director - Global Financial Planning, Avis Budget Group, Inc.

Thank you, Cathy. Good morning, everyone, and thank you for joining us. On the call with 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 company 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. 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, Matt, and good morning. In February, we discussed our overall strategy to grow profitable revenue while investing in the future to unlock incremental profit opportunities. During the first quarter of 2019, we continued to execute on that strategy and delivered strong results, despite feeling the effects of a government shutdown, severe weather and Easter shifting into the second quarter. Overall, we responded well and delivered a small adjusted EBITDA loss of $1 million down only $3 million compared to last year.

In addition, we executed on our initiatives throughout the quarter as we build a future where all mobility is connected, integrated, digital and on demand. We continue to add features and functionality to our Avis app, expand our connected fleet and enhance relationships with our valued partners.

As we move into the second quarter, we see several signs that point towards a strong summer. Fleet levels appear to be appropriately sized in the United States, which allows us to leverage our technology and use our state-of-the-art revenue management system to drive yielding opportunities during the peak demand months. These opportunities are most evident in our leisure segment where we've just delivered the seventh straight quarter of year-over-year growth in underlying leisure pricing.

Residual values have stayed strong and we've seen additional benefits to fleet costs through our use of alternative disposition channels, which increased 8 percentage points over the prior year. In addition, our Lyft partnership is off to a strong start with approximately 1,500 cars on rent in our pilot cities.

Finally, as you saw in our release last night, we reaffirmed our full year guidance and key metrics. While John will go through the details in a few minutes, our first quarter results and accomplishments provide confidence in our full year expectations.

With that, I'd like to provide some specific comments by region. Continuing the trend we experienced in the back half of last year, our results were strong in the Americas with margin expanding and adjusted EBITDA growing $20 million compared to the prior year. These results benefited from an 8% reduction in per-unit fleet costs in conjunction with flat overall pricing while underlying leisure pricing increased 1 point, despite the higher priced Easter rentals moving into the second quarter.

Fleet costs were a tailwind in the quarter improving 8% compared to last year. We continue to use our fleet management systems to optimize our purchases and dispositions. We had a first quarter record of 63% of our sales through alternative channels in the quarter, up 8 points from prior year.

Internationally, we continue to see rate pressure from oversupply of fleet resulting in pricing decreasing 4 points in constant currency. Adjusted EBITDA in the region was $23 million lower than prior year in constant currency with some of the variance anticipated due to the Easter shift. In addition, there remains some uncertainty around travel demand in the region due to extension of Brexit until October.

Our international team is taking steps to respond to these challenges. One of these strategic actions include growing our light commercial vehicle operations, which provided diversified rental demand. The growth of this
segment and the integration of our 2018 acquisitions of Morini and Turiscar contributed to an 8% rental day growth in the quarter.

On the corporate development front, we continuously evaluate and optimize our global asset base to deliver the highest returns. As such, we entered into an agreement in the quarter to monetize an equity investment. In April, we divested our joint venture in China and redeployed the proceeds from the sale to acquire operations that generate higher returns including the acquisition of Vancouver Canada licensee.

Now, I'd like to update you on the progress we've made on our key strategic initiatives. The first initiative is driving profitable revenue growth while enhancing the customer experience. Our customers expect a convenient, personalized and seamless experience, and we've designed our Avis mobile app to exceed their expectations.

Customers have been able to use their device to make, modify and cancel a reservation as well as choose the exact car they want before getting to the lot. To further their mobile experience, this month, we are launching the ability for a customer to remotely split their bill between two credit cards. For example, a commercial customer can upgrade their car, add an ancillary product or extend their rental on their personal credit card straight from the app.

We are also enhancing the customer experience while on rent by giving our app users a seamless parking-on-demand service provided by our new partner, Arrive. Now, our customers can quickly and easily find, reserve, pay for, and be directed to secure parking at every major U.S. city, solving one of the biggest pain points in driving while saving time and money.

Arrive took advantage of our new API platform to deliver a quick and seamless integration of our two systems. Investments we have made in our technology platform unlock the ability for many innovative digital features and enhancements from Arrive and other partners to drive an ever-improving customer experience and enhanced loyalty among our guests.

We now have over 2 million transactions on our award-winning mobile app and customers who use the app reported an average 25% higher Net Promoter Scores than those who do not. We would encourage you to download the app so that you can see for yourself how our technology can improve your experience through convenience and flexibility.

In that spirit, we launched a redesign of our Budget app in March using the best practices learned from the development of our Avis app. In addition to being able to make, modify or cancel reservation right from the app, users can also signup to access Fastbreak features, which allows them to skip the line, make quick vehicle returns and manage the rental in real-time.

And for customers who choose to transact at the rental counter, we are enhancing their experience as well. This year, we are implementing a new associate incentive program that puts more emphasis on customer satisfaction. While we've only installed this revised program in 30 locations so far, the early results have been extremely positive with both higher customer satisfaction levels and additional ancillary revenue sales.

Regarding our connected car initiatives, we implemented 100,000 vehicles last year and plan to more than double the amount this year as we move towards full connectivity. We have expanded our relationships with I.D. Systems and Continental to deploy connected car technology in conjunction with agreements with our OEM partners to achieve our targets. As these devices are ready during the seasonal in-fleeting occurring now, it will allow us to have a vastly expanded connected fleet during our summer peak.
In addition to the multitude of ways that connected car can improve the customer experience, it also opens up multiple paths to margin improvement. One example is mileage optimization. Mileage optimization prioritizes cars based on usage ensuring we balance mileage accumulation across the vehicle pool. By balancing utilization, we eliminate variations and value due to excess mileage increasing residual values and lowering our per-unit fleet costs. We began to pilot this program in two cities in March and will expand it to other key locations over the remainder of the year as we collect data and refine the program.

Last quarter, we launched our partnership with Lyft and we now provide weekly rentals to drivers in Chicago, Atlanta and Los Angeles. 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 connective fleet allows us to monitor location, 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.

Additionally, thanks to the investments we made into our next generation mobility software platform, we fully integrated with the Lyft driver app, allowing drivers to seamlessly and digitally reserve, rent and return vehicles and allowing full back office integration between Avis and Lyft for maximum efficiency and automation. While still early, we are pleased with our initial results and will expand to several more markets in the second quarter.

Another example of innovation we are driving every day is our Zipcar Flex product in London, which has completed over a quarter of a million Flex trips. This service allows on-demand one-way mobility throughout London and to and from Heathrow Airport. Our Zipcar Flex fleet includes 325 Volkswagen e-Golfs that in their first six months of operation have been driven more than 650,000 zero-emission miles and over 125,000 trips taken by more than 16,000 unique members. Overall, we now have over 250,000 members in London making it the largest Zipcar market globally.

In the first quarter, we also expanded our relationship with Via, a leading microtransit and new mobility company. We are supplying both connected fleet and fleet management services for King County, Washington, providing public transit rights to residents in the City of Seattle. This is an exciting deployment of a self-service model where Via drivers are able to digitally rent, securely access and safely return our connected fleet vehicles through their mobile phones. We are also looking to expand our initial launch with Via in the UK, which we announced last year.

One last example of how we look towards innovation is our partnership with Waymo, a global leader in self-driving technology. Our partnership provides them with maintenance and fleet management services in the markets where they are testing and operating. Our best experience has been the Phoenix market where we provide specially enhanced services to the Waymo fleet at several of our locations.

We believe that autonomous vehicles will play a part in the future of global mobility and lessons learned from our early involvement will prove a key differentiator over time. Success in these areas furthers the foundation of us to innovate with future digital products and services, take advantage of our APIs, our connected fleet, our operational assets and our expertise as a global fleet manager.
Before I turn the call over to John, I wanted to provide you some color about future trends. In April, we experienced a strong Easter with solid demand and higher pricing in the Americas. The used car market remains healthy and our focus on pricing outpacing volume leaves me very optimistic for the summer in the Americas.

As I mentioned earlier, we remain cautious in our international region due to the current climate of uncertainty in Europe, including issues in France as well as the impact of Brexit on travel. Overall, we remain in line with our original expectations for the year and continue to focus on executing our strategic initiatives to drive higher profitability in 2019 and beyond.

Finally, I'd like to introduce you to our new Chief Financial Officer, John North. John brings to the role a strong auto retail background having spent 17 years at Lithia Motors, one of the largest dealership groups in the country. In just a few short weeks he's been with us, he's had an immediate impact by applying his perspective to our industry and our company. This is a unique opportunity for both our company and John as we move together into a future of mobility while growing our alternative channels for fleet dispositions and ultimately improving our profitability.

And so, with that, I'd like to officially welcome John to our company and wish him the best of luck in his new role.

John F. North
Chief Financial Officer, Avis Budget Group, Inc.

Thanks, Larry. Good morning, everyone. I appreciate the warm welcome. I really enjoyed my brief time here and I'm energized by all of the opportunity I see as we continue our transformation into a global mobility leader.

I'm now going to discuss our first quarter results together with our cash flow, liquidity and outlook. My comments today discussing changes in revenue per day, pricing and per-unit fleet costs will all refer to changes in constant currency that is 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 earnings call presentation.

First, starting with an overview of the first quarter for the total company. As Larry mentioned, we had a strong first quarter. We ended the quarter with $1.9 billion of revenue, down 2% due to a $56 million headwind from currency, with 2% higher volume and 2% lower revenue per day. Overall, per-unit fleet costs were 5% lower while vehicle interest expense increased by $9 million. This resulted in our adjusted EBITDA decreasing by $3 million to a $1 million loss in the quarter after a $1 million adverse impact from foreign exchange movements.

Moving now to a review of our results for the first quarter, beginning with the Americas. In the quarter, revenue was 2% lower, which was driven by a 1% decrease in rental days combined with flat revenue per day. We started the quarter with softness in January in rental days as industry fleet levels normalized from the holiday period along with some impact from the U.S. government shutdown.

However, we continued to push pricing over volume in the peaks of the seasonally weaker quarter and we started to see our metrics turn around in February. By March, revenue per day was positive and rental days were flat despite the Easter shift. Our revenue per day ended flat. We grow our website sales by 7% and increased our length of rental by 2%, both of which created revenue that was more profitable. We continue to see leisure pricing grow with the help of our revenue management system. Despite the shift of higher priced leisure Easter rentals into the second quarter, leisure pricing increased 1% in the quarter.

We saw strong growth in both volume and pricing within our marketing and association partner channels with our major partnerships performing well. Our commercial and small business segments had flat volume and a 2%
decline in pricing. We attribute some of the impact to the government shutdown and extreme weather in the Midwest and Northeast that caused more than 20,000 flight cancellations.

Now, moving to costs for the quarter, starting with fleet. We saw softness in the used car market at the start of the year, which we partially attribute it to the government shutdown and delayed tax returns. This caused us to have a slow start to selling cars, but as the quarter progressed, we saw the market rebound.

In addition, we continue to leverage our data analytics to take advantage of the market to drive higher residual values. Total vehicle sales were up 18% compared to last year and 63% of sales were through alternative disposition channels, an 8 point improvement over prior year. Our actions resulted in 8% lower per-unit fleet costs compared to 2018.

Looking forward, one of the key initiatives that we are focused on is the growth of alternative disposition channels, particularly our direct-to-consumer sales. Each vehicle we dispose through alternative channels saves us hundreds of dollars and disposal costs and each vehicle we sell direct to consumer generates more than a thousand dollars of additional benefit. We now have nine retail sales locations opened nationwide with more planned later this year.

Vehicle utilization decreased by 30 basis points, partly due to the challenges I mentioned earlier as well as the delay in selling cars. Much like volume and rate, this metric was negative in January, started to turn around in February, and was up by 40 basis points in March. As we anticipated, vehicle interest continued to be a headwind increasing by $9 million in the quarter across a similarly sized fleet, and we expect it to continue to be a headwind throughout the year. Summarizing, flat revenue per day combined with significantly lower per-unit fleet cost resulted in the Americas adjusted EBITDA more than doubling to $35 million in the quarter with margin expanding 150 basis points.

Turning now to our international business, we continue to see strong volume growth in our international segment growing 8% from both our existing operations and acquisitions completed throughout 2018. Pricing pressure continued from the end of last year as evidenced by 4% lower revenue per day. This resulted in total revenue growing by 4% in constant currency, but decreasing by 4% after foreign exchange movements.

We saw strong growth from our light commercial vehicle business in France, Italy and the UK, and we saw positive volume growth in all three of our commercial segments. In addition to the competitive environment, revenue per day was impacted by the Easter shift, fewer outbound travelers from the UK and adverse weather conditions in the Pacific region.

Per-unit fleet costs increased 3% in the quarter due in part to higher costs from Brexit and our Apex fleet refresh in New Zealand, but we expect this to improve throughout the year. Utilization increased by 80 basis points which reflects our Apex fleet modernization as well as our tight operational control. International adjusted EBITDA was a $21 million loss for the quarter as the combination of higher per-unit fleet costs and lower revenue per day offset our improvements to volume utilization.

Moving now to our cash flow and funding position. Adjusted free cash flow was a $46 million outflow in the quarter compared to a $6 million outflow last year as the timing benefiting new vehicle programs we saw in the fourth quarter has reversed. Our financial position remains strong with approximately $3.3 billion of available liquidity. This comprised ending the quarter with $540 million of cash, having $637 million of unused capacity in our revolving credit facility, plus an additional $2.1 billion of availability under our vehicle programs.
In the first quarter, we issued $600 million of three-year term ABS notes at a blended rate of 3.56% and in April, we issued $650 million of five-year term ABS notes at a blended rate of 3.44%. Both of these offerings were oversubscribed, illustrating strong demand and investor interest.

Our net corporate leverage of 3.8 times is within our targeted range of 3 to 4 times, two-tenths of a turn lower than it was at the same time last year. We expect this ratio to continue to come down over the course of the year as we expect our earnings to increase. Overall, our funding position remains strong and we have no corporate debt maturities until 2023.

Regarding our full year 2019 expectations, these remain unchanged and are as follows: We expect our overall revenue to be between $9.2 billion and $9.5 billion this year. We expect Americas volume to be between unchanged and up 2% and international volume to grow between 3% and 6% including the annualization benefit of acquisitions closed last year. Revenue per day in the Americas is expected to be up between a 0.5% and 2.5%.

We expect international revenue per day in constant currency to be lower by between 1% and 4%, partially due to annualization of acquisitions and further increases in length of rental. We expect our per-unit fleet costs in the Americas to be between 1% and 3% higher and international per-unit fleet costs are expected to be in a range of unchanged to up 2% in constant currency.

We expect vehicle interest expense to increase this year by $25 million to $35 million due to higher North American benchmark interest rates. We expect net currency translation this year to be a headwind of $15 million to $25 million due to the strength of the U.S. dollar. As a result, we expect our adjusted EBITDA to remain between $750 million and $850 million for 2019.

Non-vehicle depreciation and amortization excluding acquisition related amortization is expected to be approximately $215 and non-vehicle interest expense is expected to be around $185 million. As a result, adjusted pre-tax income is expected to be between $350 million and $450 million this year. We expect our effective tax rate to be estimated in the range of 27% to 29% and adjusted diluted earnings per share of between $3.35 and $4.20 per share. Finally, we expect our free cash flow to be between $250 million and $300 million. This has our total free cash generation in 2018 [and 2019] combined averaging around $350 million per year.

In summary, the Americas had strong results even with the unique circumstances of the quarter and point toward a positive outlook. 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 always improve our customers' experience.

With that, Larry and I would be happy to answer your questions.
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from John Healy of Northcoast Research. You may now ask your question.

John Healy
Analyst, Northcoast Research Partners LLC

Q

Thank you. Good morning, guys. I wanted to ask a little bit more about the transportation network business. I appreciate the details about the cars with Lyft. And Larry, I wondered maybe if you could dive in a little bit more about what are the assumptions that you're kind of baking into how you're assessing the economics of this business? Just in terms of how you think about the type of vehicle that goes into this program, the mileage levels you'd like to see – max those cars out to and kind of how you operationally are building the business and planning for the business? And then ultimately, any sort of big picture thoughts in terms of how the profits of this business might compare to the current margins in the business today?

Larry D. De Shon
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.

A

Thanks, John. Sure. So, the partnership we have with Lyft so far has been really terrific. They've been great to work with. We only have about three cities up and running. We're going to launch our fourth city here in a few weeks. So, we're at the very early stages of this with just about 1,500 cars out on rent.

I think the difference here with us is that we have fully integrated onto the Lyft drivers app and the entire back office is all integrated with them as well. So, it's a very easy transaction for the Lyft driver. The types of vehicles or types of vehicles that they're actually looking for, they select the models that make the most sense for them. So, we're offering both sedans and SUVs as well. And we're cascading these vehicles out of our rental fleet at around 30,000, 35,000 miles.

So, we have run a number of different simulations and models as far as what vehicle types we sell at what mileage range. We pretty much feel like every derivative should kind of have a different mission of how long it lives its life with us. And so, we're trying to optimize the perfect time to take it out of the fleet at the right types of mileage and the right age. So, that will defer by the type of car it is. But you can, for assumptions, assume that we'll probably run those cars 80,000 miles, perhaps a little bit higher. Well, it just depends on what our experience will show us as we go to market and start to sell them.

And, we will continue to grow this. We have a number of cities that we have teed up in our plan to deploy through the balance of this year. It's a little hard to know at this point kind of what the overall demand will be for this. We expect to be really robust as we end this year going into next year, but I think it's too early yet to really know kind of what sort of revenue levels we think that this might reach for us, but it could be a significant amount of business for us.

So far, what we're seeing, as you know, these cars are connected, so we're actually watching the performance of these vehicles. We can see the mileage accumulation live. We can see how the cars are performing and make sure that we make any adjustments that we need to make as these are weekly rentals. So, our biggest exposure is one week. At the end of that week, we can put them in a different car or choose not to re-rent or whatever we may want to do. So, we're monitoring these cars very closely.
There's nothing that we're seeing so far that has us concerned around how the cars are being used or the mileage accumulation, you always have exceptions, but we manage through with those. But overall, I'd say that we're pleased with what we're seeing so far with the cars we have out on rent.

Operator: Our next question comes from Chris Woronka from Deutsche Bank. You may now ask your question.

Chris J. Woronka
Analyst, Deutsche Bank Securities, Inc.

Hey. Good morning, guys. I noticed that your kind of core operating expenses were down year-over-year and I know a little bit of that would relate to FX as well. But, can you maybe talk a little bit about directionally some of the initiatives you've undertaken and whether it's actually possible to, going forward, keep expense growth below revenue growth?

Larry D. De Shon
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.

We have, Chris, as you know, a number of initiatives that are running across the company globally. Many of the – there are several revenue initiatives that we're running, but there are many cost savings initiatives as well that we will continue to look at. Every year, we've got to fight off inflation and wage increases and so forth that we see throughout the operations. And so, we have to constantly find ways and innovate to find ways to offset that and continue to try to shrink our operating costs as a percent of revenue.

There are many, way many more than I could ever try to cover on this call. One of the things though that we are looking at is how we use connected fleet to really help us automate some of the processes that we do today, which are fairly manual or labor intensive, to try to find ways to offset that through automating through the technology, and we'll continue to explore that avenue as I think that has a lot of promise for us over the long run.

In the other areas, we continue to streamline organizations, take a look at opportunities to streamline and to expand responsibilities of key folks in the organization to be able to bring down overall S&W costs. And so, we had a big initiative around that this year and we will continue to do that.

So, it's a constant focus of every expense line of working hard to try to find out where we can, through data, through dashboards, through better data analytics, find ways to continue to reduce our costs. There's really nothing in our business we don't have a dashboard for and that we don't have the key leaders of the team really focused on how do we continually drive that metric lower. So, it's an overall focus that we've had for a number of years. We will continue to focus on it and I think that there's opportunity just to continue to bring the cost down over time.

Chris J. Woronka
Analyst, Deutsche Bank Securities, Inc.

Okay, Great. And just one for John, if I could. John, welcome onboard. Just given your background, do you see making any kind of wholesale changes in how you guys acquire and resell fleet? I mean, I know some of your peers have gotten a little bit more into the horse-trading or flipping business. Is there any changes you see that could be helpful to margins?
Hey, Chris. Thanks for the welcome, and good morning. What I would say is I've been here six weeks, so I'd love to tell you that I've had the opportunity to do a deep dive and really get into where opportunity may lie, but frankly, it's still pretty early. What I am impressed by is that these initiatives are already in place. As we mentioned, we've got nine locations that are open. Very clearly, there's about a $1,000 benefit in terms of direct-to-consumer. So I think those are well understood. We've been buying fleet here for decades, I think the team does a really good job of that.

So, I think there's always probably incremental opportunity, but the good news is everyone is aligned in understanding kind of big picture where those opportunities are and I think a number of those initiatives are in place and already starting to see some traction, and hopefully, I can lean into those and help accelerate them, which is a big part I think with what Larry and I are excited about.

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Chris J. Woronka
Analyst, Deutsche Bank Securities, Inc.

Great. Thanks.

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Michael Millman
Research Analyst, Millman Research Associates

Thank you. Regarding technology, can you give us some help in how we incorporate this into our models?

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Larry D. De Shon
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.

Michael, as you know, we've been on a journey to modernize all of our systems to bring them all up to current code and functionality. We modernized our core rental reservation system, we modernized our fleet systems, we modernized our revenue management system and on top of that then we're building out our next generation platform to be able to find ways to operationalize connected car data that we're now collecting and to be able to build out API so that we can connect to partnerships in a lot easier way.

So, the technology improvements are kind of across the business, if you will, which allows us to integrate with Lyft on their app, on their drivers app, and to be able to make that a seamless to full integration process for the drivers. All the technology that we put onto the Avis app, for example, to allow a customer to rent the car completely; from booking all the way through the actual renting the car and returning the car through the app, to be able to do everything on the app that a rental agent could do for them. We're seeing Net Promoter Score is up 25% of those people that use the app and that continues to grow. Now, we're launching – we just re-launched the Budget app.

So, the websites have all been modernized. We're now selling ancillary revenue on our websites that we could never really do before. We're doing that globally. We're seeing very strong take rates of people buying ancillary revenue products and also packages of products online. So it's across the business and it should help every – all of those things I just said, should all help with repeat customers and loyalty and continue to drive ancillary sales and continue to drive satisfaction overall.
So, as we get further along the line of connected car and we implement mileage optimization and other things, over time, we'll be able to start feeling really confident about at a global scale what does that actually look like for the business. But all the connected car initiatives are all in kind of the testing stages of the Mobility Lab in Kansas City. And we still have a ways to go to start looking at how we can expand those and start to monetize those benefits.

Michael Millman  
Research Analyst, Millman Research Associates

Q: Just to keep on, should we expect an acceleration in some of these savings in the next couple of years? I guess another way to look at is in operating costs. Should we expect continuing to something you've discussed, that to growth to decline driven by technology, driven by other savings?

Larry D. De Shon  
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.

A: Yeah. I mean, over time, we should expect that. I mean, we have certain initiatives, for example, mileage optimization, which we've now got running in two cities. If our assumptions are correct and our thesis is correct on that, that will deliver results next year, and we'll be able to help understand what those might look like when we get kind of towards the end of this year. So, there will be specific ones that will gain traction and we can kind of deploy more easily over the years. There'll be others that will just take a little bit longer. But as we learn about each one and as we feel like they're ready for primetime and we're able to roll them out into markets, we'll try to help you understand what those kinds of benefits might be.

Michael Millman  
Research Analyst, Millman Research Associates

Q: And just a quick question on corporate. Can you talk about what changes you're seeing in LOR for corporate and how that may be affecting the bottom line, helping the bottom line for corporate?

Larry D. De Shon  
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.

A: Yeah. Actually, corporate, as we said these last kind of couple of quarters, volume is finally now flattened out or starting to get a little bit better. Pricing is still under pressure particularly in the large commercial segments, but we are growing length. And particularly, this last quarter, we grew length fairly significantly in the small business segment. And of course, that doesn't help pricing, but it does help profitability of the business overall. So, we're all for that when we can grow length and grow into that more profitable rentals.

So, we need to continue working on growing the volume back now that we've kind of plateaued on the volume decline that we've had previous and we've got to start kind of growing our rate per day. But the length of rental has been strong, in international, it's been extremely strong. Commercial volume is up significantly and length of rental is up significantly as well. So, we are seeing good volume growth there and we're seeing a plateau of the decline here and turning the corner on volume, but we are starting to see length of rental grow as well.

Operator: Our next question comes from Derek Glynn of Consumer Edge Research. You may now ask your question.
Derek J. Glynn  
**Analyst, Consumer Edge Research LLC**

Good morning. Thanks for taking the questions. Regarding the Waymo partnership, I realize it's still a relatively new partnership, but can you give us a sense of the economics of that fleet management service and if this presumably grows over time, what sort of margins do you think you could see on that relative to your corporate average?

Larry D. De Shon  
**Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.**

It really depends on how fast Waymo fleets up for their markets that they're in. So, our plan is to grow with Waymo as they grow. We've been handling their business in Phoenix now and in San Francisco for a while. It works extremely well. We have a great partnership relationship with them. We meet with them every single month to review how we're performing and to get ready for any growth plans that they have. So, as they grow, obviously, we'll grow that business and start to grow it to scale.

Right now, it's a very small piece of our business, but an important one is we're learning a lot about how to kind of manage these types of vehicles and our business and our operations at our facilities. So, our people are excited about it. They learn a lot about managing the fleet. And as Waymo continues to grow down the path and we'll be able to kind of really get a sense for at a bigger operation what sort of contribution that business is going to be able to make. But I think it's just still really early on at this point.

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

Okay. Great. And then, just secondly, how would you characterize the competitive environment today and the size of the industry fleet today? And as we approach the more seasonally important quarters, do you feel like you have the optimal fleet size and mix at this point to meet that increase in demand?

Larry D. De Shon  
**Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.**

Yeah. I would say fleet sizes for the industry in the U.S. are very good. As you looked at the first quarter, of course, the first month of the quarter, you're always as an industry going to be over-fleeted because you've come out of the biggest peak of the year and then you go into a slow period. So, but as the quarter progressed, fleets tightened down and then you started seeing all the other metrics start to improve month by month by month as you go through the three months of the quarter.

I was pretty pleased with how the business overall performed in the quarter with Easter moving out of it and with the disruption we have with the weather events that we have with over 20,000 flight cancellations. Even with that and we had a really good quarter and that can't happen if fleets aren't positioned right.

So, I would say that fleets look good in the industry in the United States and that helps me be more optimistic as we think about summer. There should be no reason why fleets won't be right sized as we go through the summer months.

Operator: Next question comes from Adam Jonas of Morgan Stanley. You may now ask your question.
Hey, Larry. Hey, John, and John also add to my welcome. Couple more questions on the TNC rideshare fleet, did you disclose how many cars are in that fleet right now?

I just mentioned that we have 1,500 cars approximately on rent at the three locations that we're piloting the program.

I'm sorry, I missed that. How many by the end of the year?

We haven't disclosed that. So, but we are working with them on the deployment plan, but...

...expect to be really robust and we're very excited about it and we're energized by what they think that they can commit in volumes. So, but we haven't disclosed the number yet.

No problems. And what experience does your company have in maintaining and selling cars with 80,000 miles? I mean, I just want to – I don't know if there was – this is like unchartered territory or whether you kind of had a part of the business where you really had a lot of experience doing that in that commercial side?

We do sell Payless cars, which we keep a lot longer than our Avis Budget fleet, we run those to a lot higher mileage. And our Apex brand, we'll hang on to those cars gosh three to five years. And we run the...

...mileage fairly high on our Apex brand. So, yes, we do have experience selling cars at that level.
Adam Michael Jonas  
Analyst, Morgan Stanley & Co. LLC  

Thanks, Larry. And just last one. What is Enterprise doing in rideshare? Because Hertz obviously had really committed quite a lot to this, you're starting now, and my understanding is Enterprise started to do something and kind of wound it up, but really to-date hasn't done jack on this particular opportunity and it just makes me think when the giant in the room isn't doing something kind of, well, are they doing anything and I guess if they're not, why do you suspect they're not?

Larry D. De Shon  
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.  

You'd have to ask Enterprise. I can just...

Adam Michael Jonas  
Analyst, Morgan Stanley & Co. LLC  

Yeah.

Larry D. De Shon  
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.  

...talk in what we're doing. I think we've approached this in a very different way. Once again, these cars are all connected. So, we have total visibility into the fleet and how it's being used. We can watch the miles dynamically. We have a one-week exposure to the car, to the rental...

Adam Michael Jonas  
Analyst, Morgan Stanley & Co. LLC  

But, you do confirm that you don't see Enterprise doing anything right now, at this point?

Larry D. De Shon  
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.  

I don't see anything. But, like I said, you'd have to ask Enterprise...

Adam Michael Jonas  
Analyst, Morgan Stanley & Co. LLC  

Understood.

Larry D. De Shon  
Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.  

...But, once again, we're fully integrated on the drivers app. We're using a lot of technology in this area, which is different and the connectivity allows us to have a better visibility in actually how the cars are being used and run.

Operator: Our next question comes from Rajat Gupta from JPMorgan. You may now ask your question.

Rajat Gupta  
Analyst, JPMorgan India Pvt Ltd.
Hi. Good morning. Thanks for taking my questions. I just wanted to touch a little bit on the full year guidance range. It looks like international started off a little bit weaker here, you raised your FX headwind guidance for the year, but you're still maintaining the midpoint of your full year guide and including the high end. I'm just trying to understand, are there any offsets from your better trends in Americas or including some contingency in your fleet cost assumptions for the year? And I have a follow-up.

John F. North  
Chief Financial Officer, Avis Budget Group, Inc.

Good morning, Rajat. This is John. I think you're right, what we saw in the first quarter was probably slightly better-than-expected performance in the Americas segment and maybe slightly lower performance in the international segment. But these are pretty marginal moves and in aggregate, we sort of came right in where we expected. So, as we roll that forward, I think our outlook for the year is unchanged because we do expect the momentum to continue as we saw in the first quarter for the remainder of the year.

You mentioned fleet costs and you're correct, we had a great performance in fleet costs, particularly in the Americas. Overall, we were down 5% and in the Americas, we were down 8%. But, we're expecting that number to tick up slightly in the back half of the year, where we're making some assumptions I think around maybe the used vehicle market not being quite as strong as it has been, which we think is just pretty prudent given how early we are in the year and particularly as we see kind of how the retail SAR and the overall SAR unfolds in the U.S. in 2019, which we obviously saw a 16.4 million unit print yesterday for April. So, we're monitoring all of that closely. I think it's very controllable and that's sort of how we see things.

Rajat Gupta  
Analyst, JPMorgan India Pvt Ltd.

Understood. I just also wanted to follow up on the second quarter. I know the numbers have bounced around a bit here in the past, you also have the Easter shift from 1Q to 2Q, would it be possible to frame or bracket the 2Q EBITDA range a little bit, just so consensus is fairly calibrated, something like what percentage of full year EBITDA it could range and just to make sure we have that correctly baked in? Thanks.

John F. North  
Chief Financial Officer, Avis Budget Group, Inc.

Yeah. This is John, again. I mean, we haven't typically given directionally specific guidance. The first quarter was basically flat. We're not expecting big changes. But I think, in terms of specific range, it's probably not something that we're going to share at this time, but I think, we're expecting marginally probably a bit stronger 2Q than we saw last year in terms of contribution overall. So, hopefully, that's directionally helpful.

Operator: And, our last question comes from John Healy of Northcoast Research. You may now ask your question.

John Healy  
Analyst, Northcoast Research Partners LLC

Thanks. I just want to ask a follow-up question to John. This might not be fair, since you've only been in this company just a few weeks now. But, when you take your experience at Lithia and you think about some of the investments they've made, most recently in shifts, do you think there's any reason why an opportunity like that or even development of your own kind of e-commerce direct platform potentially under another umbrella might not be something that might make sense for the company to look at, maybe over the next couple of years?
John F. North  
*Chief Financial Officer, Avis Budget Group, Inc.*

Yeah, John. This is John, again. The thing I'd point out, first and foremost, is that we have the ultimate test drive with Avis, which in a way is a direct-to-consumer. So, people have the ability to, for a very marginal amount, rent a car, try it for a number of days, if they like it, they actually get the rental credited back. And I think, almost half of cars we sold direct to consumer last year were in that channel. So, I would say, we're already experimenting with that.

I think more specifically to my background, I think my belief is that people still want to test drive a car. It's one of the most expensive things that people buy outside of a home usually. They're in it usually every day for five, six, seven years on average. And so, I think people are investing a little bit of time to go drive it and make sure they like it in that they see it, and especially when it's a used car because everyone is a little bit different. I think that people still want that opportunity to sample what they're going to purchase.

And so, I think that there's lots of things we can explore. I do think there's a segment of population that wants a very frictionless process, and we can deliver that a number of ways. But I think, we're off to a good start with retail locations. Our view when I was at Lithia was kind of similar, that the test drive is still really important and that people certainly are doing a lot more work online to prepare to know what they want, how much it should cost, that kind of thing. But there's still a point where the transaction needs to sort of move into the physical world, and I'm glad that we've got a number of retail locations we're starting to make that happen.

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John Healy  
*Analyst, Northcoast Research Partners LLC*

Excellent. Thank you.

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

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Larry D. De Shon  
*Chief Executive Officer, President, Chief Operating Officer & Director, Avis Budget Group, Inc.*

Thanks. So, to summarize, we had a strong first quarter despite several macro related challenges, higher leisure pricing in the Americas and lower per-unit fleet costs were offset by continued challenges in international. We just finished a strong Easter period and we're optimistic for the summer in the Americas and we're taking decisive action to respond to the marketplace dynamics in Europe. We have made significant progress on key strategic initiatives in the first quarter and remain focused on improving our profitability.

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

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