Co. reported 2017 revenues of $8.8b. Expects 2018 revenue growth to be 4-7% and adjusted EPS to be $2.90-3.75.
CORPORATE PARTICIPANTS

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Martyn Smith  Avis Budget Group, Inc. - Interim CFO
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PRESENTATION

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

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

Neal H. Goldner  Avis Budget Group, Inc. - VP of IR

Thank you, Jill. 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. It 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 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.

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

Thanks, Neal, and good morning. As I’m sure you saw SRS Investment Management has indicated that they intend to nominate 5 candidates at our upcoming annual meeting. We have had a constructive relationship with SRS and its 2 board representatives, and obviously, we are disappointed
to find ourselves in this situation. We will address these matters in more detail at a later date and plan to keep the Q&A portion of today’s call focused on our financial results and our strategy.

Now turning to the quarter. As I look back at 2017, despite operating in an extremely challenging environment in the first half of the year, we made significant and substantial strides that will solidify our position in the vehicle rental and mobility industry, enabling us to provide better products and services to our customers, while also increasing shareholder value. Steps such as, significantly increasing our fleet of connected cars; launching the industry’s first mobility lab; partnering with Waymo to support its fleet of autonomous vehicles; launching our fully integrated Demand Fleet Pricing system; making strategic investments in our business that will lower our costs and further our leading position in the rapidly changing mobility landscape; and generating $354 million of adjusted free cash flow; and repurchasing $200 million of our own shares. And we ended the year on a very positive note. We had a strong fourth quarter driven by good global volume growth, increased pricing, including our second consecutive quarter of positive pricing in the Americas and stable fleet costs. Our emphasis on driving manpower and shuttling efficiencies continued to yield positive results and our commitment to cost management was also effective in the quarter with our adjusted EBITDA margin improving year-over-year.

But before getting ahead of myself, I would like to now turn the call over to Martyn to discuss our results for the fourth quarter as well as our outlook for 2018.

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Martyn Smith - Avis Budget Group, Inc. - Interim CFO

Thanks, Larry, and good morning, everyone. I’m now going to discuss our fourth quarter results together with our fleet, cash flow, liquidity and outlook for the full year, together with an update on the effects of U.S. tax reform and of the new revenue recognition accounting standard. My comments will largely focus on our adjusted results, which, as Neal mentioned, are reconciled from our GAAP numbers both in our press release and earnings call presentation.

Firstly, starting with an overview of our fourth quarter. Strong volume growth and positive pricing led to total company revenue increasing by 7%. Fleet costs in the Americas were unchanged year-on-year, a significant improvement to the first half, while International fleet costs were 5% lower in local currency. This, in conjunction with our cost mitigating actions and the $5 million benefit from foreign exchange, led to a 16% improvement in our adjusted EBITDA to $140 million for the quarter with a 50 basis point improvement in margin.

For the whole of 2017, we increased total company revenue by 2% to $8.8 billion, driven by strong 5% volume growth and 2% lower local currency pricing. Company-wide per-unit fleet costs increased by 3% in local currency, partially offset by the cost mitigating actions implemented throughout the year. As a result, our adjusted EBITDA was $735 million.

Now to go into further detail on the results, starting first with the Americas. Our focus on driving the most profitable transactions through improved channel and customer mix were evident in this quarter. Leisure volume and pricing each increased 5%, achieving a particularly strong Christmas season. Commercial volume and pricing were both unchanged in the quarter, the second consecutive quarter of flat rate per day, as we focused on the most profitable commercial customers. This performance resulted in a 3% improvement on Americas revenue for the quarter, with overall pricing increasing by more than 2% in local currency. Across all of 2017, we grew Americas volume by 2%, while pricing was 1% lower, but rate per day improving in the second half of the year.

Now turning to Americas costs, particularly fleet. Per-unit fleet costs increased 6% for the full year, but were flat in quarter 4 with used car prices continuing their recovery from the first half of 2017, helped by small benefit from post-hurricane effects, and, and you will hear more in detail shortly, a great performance in alternative disposition channels. Despite a difficult start to the year and hurricane-related disruptions, utilization still improved by 13 basis points in 2017. With our strategy to keep our fleet tight relative to demand, we plan to further improve utilization this year, assisted by the approach to our model year ‘18 buy, where we consciously contracted for fewer vehicles compared to model year ‘17. We continue to see benefits from our strategic initiative to sell more of our risk fleet through alternative disposition channels. In the quarter, alternative channels accounted for 54% of our risk car sales compared to 42% in the prior year. For the full year, 50% of our risk cars were sold outside of traditional auction channels compared to 37% in 2016, and we have plans in place to further increase that percentage again in 2018.
As a reminder, the benefit from selling through these alternate channels is substantial, which is why I’m so excited about the progress we made in 2017 and the opportunities still ahead of us. I’m also pleased with the way our teams pulled together in the quarter to drive savings for our cost mitigation efforts. And as you will hear from Larry shortly, we made further progress to improve productivity in the quarter, both for our manpower planning and shuttling strategic initiatives. Consequently, Americas adjusted EBITDA increased 6% in the quarter to $107 million, driven by revenue growth as well as from the benefits of greater efficiencies and our cost saving measures.

Now turning to our International segment. We grew revenue substantially at 12% in local currency for the quarter. Pricing improved 1% in local currency year-over-year. Rental days increased 15%, including an 8% benefit from the France Cars business, which was acquired in December 2016, and benefiting from a particularly strong Christmas break in Europe and a good summer in Australia. This performance was evenly spread with our EMEA and APAC businesses benefiting from robust organic volume growth increasing 7% and 8% respectively. We drove volume — sorry, we drove commercial volume growth in the quarter up 10% year-over-year with particularly strong demand in Australia, Germany and Italy. We also achieved good leisure volume growth, increasing 5% year-on-year with robust demand in France, Spain and Australia; and inbound volume was healthy, up 6% for the quarter. International per-unit fleet costs were 5% lower in quarter 4 in local currency. This, combined with a strong revenue growth, a good overall cost performance and a $4 million currency exchange benefit led to adjusted EBITDA increasing 25% in the quarter or 13% in local currency. For the full year, International revenue increased 6% in local currency and 8% reported, with a 12% increase in volume, partially offset by 3% lower local currency pricing.

Combined with international per-unit fleet costs of 1% lower in local currency, benefits from our cost mitigating actions and a $24 million benefit from currency, full year International adjusted EBITDA increased by 12% to a record $305 million.

Now to move on to our cash flow and funding position, plus an overview of the material effects from U.S. tax reform and the new revenue recognition standard.

Starting with cash flow. In spite of the challenges faced in 2017, we generated $354 million of adjusted free cash flow. Non-fleet CapEx was $198 million, which was in line with our non-vehicle depreciation. For 2018, we expect to spend around $220 million on non-fleet CapEx as we increase investment in certain growth initiatives, particularly connected cars. We also have a pipeline of strategically attractive tuck-in acquisitions, some of which we expect to close over the next few months, including license fees in the U.S., Germany and France, as well as taking an initial 20% stake in our Avis Budget licensee in Greece.

We bought back 1.9 million shares at the cost of $73 million in the fourth quarter at an average price of $39.59 per share. For the full year, our share repurchases totaled 6.1 million shares at the cost of $200 million or $32.87 per share. Repurchases for the year represent approximately 6% of our current market cap. Our financial position remains strong with approximately $5.7 billion of available liquidity. It comprised ending the quarter with $611 million of cash and having $1 billion of available capacity on our revolving credit facility, plus $4.1 billion capacity under our vehicle programs at the end of 2017, reflecting the seasonality of our business.

Our net corporate leverage of 4.06x continues to hover around the top of our targeted range of 3 to 4x. However, our leverage ratio for covenant purposes at year-end was 3.92x, almost a turn below the maximum ratio of 4.75x as then defined. As we announced last week, amidst strong credit market conditions, we extended both components of our senior credit facility with favorable terms and with no change to interest rate charged. The revolving portion of the facility was extended 2 years to 2023, and the term loan component was extended by 3 years to 2025. In addition, as part of the amendment, the financial covenant would change from a consolidated leverage ratio to instead what is called a first lien leverage ratio. Under the amendment, the total amount now borrowed only under the senior credit facility cannot exceed 2.5x consolidated EBITDA.

Based on our 2017 consolidated EBITDA and term loan balance at year-end, leverage under our new covenant would pro forma have been 1.4x at December 31. These amendments, therefore, provide significant additional headroom and improve on our already robust liquidity profile.

Before moving to our 2018 guidance, I want to briefly discuss the impact of U.S. tax reform and some changes we are making for financial reporting going forward. First, the passage of the recent tax act resulted in us reporting an initial estimated net benefit of $213 million in the quarter, resulting from the $317 million revaluation of our net deferred tax liabilities from the change in corporate tax rate, partially offset by $104 million one-time tax charge on cumulative foreign earnings. These initial estimates will be trued up later in the year.
We presently intend to use existing NOLs to settle the tax due on foreign earnings, rather than paying cash over the 8-year period. In addition, as a result of that tax act, we anticipate our effective tax rate will be lower going forward, and currently expect it to be between 25% and 27%.

Second, we are making some changes on our reporting. As you saw the outlook section and the tables earnings of our release last night, along with the implementation of the new revenue recognition accounting standard on January 20, 2018, and in anticipation of adopting the new leasing standard in January ’19, we have reviewed our relevant key reported metrics. As a result of that review, going forward, to ensure comparability to our metrics period-over-period, we will now begin to measure and report pricing using total revenue per day, defined as total revenue including all of our brands divided by rental days. We will focus on this metric expressed in local currency, and will also show separately the FX impact and reported currency metrics as well. We believe this is helpful to both management and investors as it represents the meaningful measure of overall pricing, including the effects of bundling. This definition is also more comparable to others in the industry.

We have provided in Table 6 of last night’s earnings release our prior years’ revenue per day to show the last 8 quarters calculated under our new pricing metric definition so that you can update your model. Just to note that, in addition, we’ve also provided in Table 7 per-unit fleet costs, which now, to ensure consistency with our revenue metric comprises all brands, so now includes our U.S. truck business which was previously excluded from this metric.

Back to revenue and moving to our loyalty program. As a result of the adoption of the new revenue recognition accounting standards, each transaction that generates customer loyalty points will now result in a deferral of revenue and that revenue being subsequently recognized on customer redemption or forfeiture. Previously, we did not defer revenue, but instead recorded an operating expense associated with the costs of providing the future rentals under the then-prevailing accounting rules. We expect this revenue deferral related to loyalty will negatively impact Americas reported pricing by around 50 to 75 basis points in 2018, including an approximate 1 point impact in the first quarter of the year with the effects progressively decreasing as the year goes on. This change is broadly profit neutral across the year, primarily impacting where the cost is recorded on the income statement. To confirm, there is no cash impact from this change.

With those considerations in mind, now to turn to our 2018 outlook. We expect our revenues to grow between 4% and 7%, including an approximate $160 million to $180 million currency benefit. Americas volume is expected to be between 1% and 3% and International volume growth to be between 5% and 7%. We expect pricing for the Americas to be in the range between unchanged to up 2% versus prior year, and International local currency pricing to be flat to down 2%. Our guidance is based on new revenue per day metric and includes the approximately 50 to 75 basis point effect we are anticipating in 2018 related to the accounting change for our loyalty program on our Americas pricing, which I discussed earlier. Guidance under the previous time and mileage metrics would have been broadly similar. We expect our per-unit fleet costs in Americas to be in the range down 1% to up 1%. This is partially a result of our model year ’18 buy, which had prices coming in a couple of percentage points lower than the prior year. Implicit in our guidance is the expectation that market values of late model used cars will be lower this year, and we expect International per-unit fleet costs to be flat to up 2% in local currency.

And as we noted previously, we face a number of cost headwinds in 2018 which will impact our results. These include the resetting in marketing budgets and incentive compensation as well as the approximately $20 billion higher vehicle interest expense resulting from rising U.S. interest rates, plus the effects of volume growth on our vehicle interest cost. These effects are partially offset by high utilization, which I discussed earlier, and the annualization of our 2017 mitigating actions, as well as an approximate $25 million to $30 million currency benefit to adjusted EBITDA. As a consequence, we expect our adjusted EBITDA to increase to between $740 million and $820 million.

It is also important for me to point out that the effects of the increased marketing spending this year should be most pronounced as a percentage of revenue in the first quarter. This effect will be exacerbated by the timing of loyalty accounting, being broadly neutral across the whole year, however, with a negative impact on adoption in the first quarter. In addition, given the faster leisure growth we have seen in the past few years, our profits now skew even more towards the middle 2 quarters. These factors are expected to limit our first quarter profit improvement. We expect -- we estimate our non-vehicle depreciation and amortization, excluding acquisition-related amortization, to be approximately $210 million. We expect our adjusted EPS to be between $2.90 and $3.75 per share, benefiting from both pretax profit growth and the now lower expected tax rate. We expect our free cash flow to be between $325 million and $375 million.
Lastly, we currently plan to deploy around $100 million of this free cash flow for the strategic tuck-in acquisitions, which I discussed earlier. In line with our practice in recent years, we also intend to continue to return capital to shareholders. This will likely be in the second half of 2018, broadly matching off-seasonal cash flow.

In summary, we saw a strong fourth quarter driven by global volume growth and increased pricing in the Americas. We made marked improvements in our ability to dispose through lower cost channels in 2017, an initiative we will continue in 2018. We recently modified the terms of our senior credit facility both extending its maturity and gaining greater covenant headroom. We have an attractive pipeline of both growth CapEx and strategic tuck-in acquisitions, both in the Americas and International regions. And we remain highly positive about our business and are projecting both revenue and profits to grow this year despite facing a number of headwinds.

With that, I'd like to turn the call back to Larry.

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

Thank you, Martyn. Before we take questions, I wanted to discuss some of our strategic initiatives that we believe have the ability to drive meaningful and sustainable margin expansion over time as we demonstrated in the fourth quarter, while also enabling us to succeed in the growing market for mobility services.

Starting with profitable revenue growth. Our fully integrated Demand Fleet Pricing yield management system which makes recommendations about both pricing and fleet based on the forecasted demand is now live in 12 markets. We are finding that the improvements in our length of rental and utilization that we saw in our smaller pilot markets are applicable to larger markets as well. This gives me great confidence as we roll the full system out across the rest of the United States. And in Europe, the first phase of the system, the Pricing Robotic, is now live in over 50 markets, allowing us to be far more responsive to changes in the marketplace with full market coverage expected ahead of this year's summer peak.

Our initiatives to drive incremental bookings through our direct channels are also producing great results. Conversion rates in the Americas increased by 120 basis points in the quarter, while prepaid reservations increased 600 basis points year-over-year, and now represent over 35% of reservations made on our proprietary platform. Ancillary revenue continued to be a challenge in the fourth quarter, but the bundling initiative we launched at the end of last year is showing promise, particularly on the Avis brand. We have also made ancillaries easier to select for customers that book on our website and I'm excited about the early results. Americas' ancillary sales grew 4% on avis.com in the quarter, including an 8% improvement for the month of December.

Our Avis mobile app also continues to be a big success story. The app gives customers the ability to not only make a reservation, but to instantly exchange and upgrade their vehicle at any time, even as they stand in front of the car in the lot. The app has now been used in more than 1 million rentals since its launch and 55% of users have used the app multiple times. The success of the app is clear with Net Promoter Scores 25% higher for preferred customers who use the app than those who do not. The progress we have made with the Avis app which was developed with insights from our customers is yet another way we are exceeding their expectations and differentiating ourselves from our competitors.

We have great travel partners around the world and we recently added to those ranks. In November, we entered into a multi-year agreement with Choice Hotels under the agreement the Avis and Budget brands were named preferred car rental partners for Choice Hotels and their Choice Privileges rewards program, enabling us to drive incremental volume as we market our products and services to their 33 million members worldwide. In December, we further strengthened our ranks as strategically important partners by entering into a multi-year agreement with Hawaiian Airlines, making Avis Budget Group their exclusive rental car partner. Hawaii continues to be a popular destination for not only American travelers, but among travelers from other countries as well. With enplane growth of 5% in 2017 and continued growth forecasted for 2018, we grew our Hawaiian revenue double digits in 2017 and this agreement puts us in a premier position to further capitalize on this growth going forward. And we extended our exclusive partnership with American Airlines, the world's largest airline, earlier this year for an additional 4 years.

In addition to great partners, we also have strong licensees around the world, which is why I'm so excited that our licensee for the Budget brand in Japan recently signed an agreement to take on the Avis brand as well. The Avis brand has been absent from Japan for over 14 years. So to
reintroduce our iconic premium brand into a market as large as Japan is great news for us as well as Japanese consumers. And with Japan hosting the Rugby World Cup 2019 and the Olympics in 2020, the timing couldn’t have been better.

Moving now to our initiatives to drive cost savings and efficiencies across our organization. Our new manpower planning technology has now been completely rolled out across all United States cities, allowing us to move – to most effectively match our staffing levels to our business peaks, driving a 5% improvement in year-over-year productivity in the quarter. We expect this initiative to drive further savings in 2018 as we achieve a full year benefit from our technology investment.

We also continue to see nice improvement in our shuttling initiatives leading to a 9% year-over-year reduction in shuttling per transaction in the quarter with additional benefits expected in 2018. We’ve also been making investments in technology to strengthen our underlying core systems while driving further costs out of our business. These include a major rebuild of our main reservation and rental system which will be completed this year. The implementation of Workday, a cloud-based human resource system, to which all our employees are now connected. As well as modernizing our financial systems on to a new cloud-based, globally unified application, a journey we embarked on last year. Each of these investments is strategic to running the business and provides enormous flexibility to enable us to take advantage of future technological changes.

Turning now to Mobility. We continued to innovate in new ways to cater to our customers’ needs with our Zipcar brand. Zipcar Flex, our floating product offering in the United Kingdom, which allows members to drop their car off at any permitted location, continued its expansion in London in the fourth quarter with additional boroughs slated for 2018. With more and more municipalities in Continental Europe now requiring car-sharing companies to offer a floating product in order to compete in the market, Flex is an important addition to Zipcar’s product lineup. And in the U.S., our Zipcar commuter service is now available to 90% of our Zipcar customer base. This monthly service, which offers our customers recurrent weekly use of a car including insurance and a designated parking spot, provides a cost-effective alternative to car ownership. We substantially expanded this offering since the end of Q3 and have seen a healthy month-over-month demand growth for this service. In November, we announced Kansas City as our market for the Connected City pilot. And after only a few short months, I’m even more convinced that connected cars will enhance our business, both from an operational standpoint and from a customer experience perspective. Vehicles in the Kansas City area are able to tell us when they need to be serviced and when they are ready to be put back on rent. A connected car’s ability to measure fuel consumption allows a clearer billing process for our customers. And our teams have identified additional opportunities to drive productivity and improve customer satisfaction. We’ve also partnered with Continental to integrate keyless functionality into our connected cars. With this technology, a customer can lock, unlock and start their rental car from their Avis mobile app. We successfully demonstrated this new technology at last month’s Consumer Electronics Show in Las Vegas, and are excited to bring this technology to our customers. Moving forward, we are partnering with OEMs and other third parties to expand our connected car capabilities with the goal of more than doubling our connected car fleet in 2018.

Our partnership with Waymo, the autonomous driving division of Alphabet, also continues to move forward with expanded services. As a reminder, our company entered into a partnership with Waymo to provide fleet services for their self-driving car program in Phoenix in June. We have locations that are in full operation and servicing the Waymo fleet of autonomous cars. Waymo has moved into their deployment phase, operating vehicles on public roads without a test driver, and we’re excited about their plans to add thousands more vehicles to their fleet. We remain committed to expanding our operations to accommodate Waymo’s growth and are enthusiastically about the opportunities to learn and benefit from this partnership.

To summarize, despite a difficult first half, our business rebounded nicely in the second half of the year with pricing and fleet costs in the Americas improving significantly, and we reached 50% alternative disposition channels sales in the Americas for the first time since we started this initiative. We also drove further improvement in our manpower and shuttling efficiency initiatives and took aggressive cost saving actions leading to margin improvement in the fourth quarter. We also drove meaningful improvement in our mobile conversion. Our Avis app has now been used in more than 1 million rentals and the fully integrated Demand Fleet Pricing system was launched and is delivering on its promise. Our mobility efforts are also bearing fruit as evidenced by our partnership with Waymo, the launch of Zipcar’s commuter product and the expansions of Zipcar to Taiwan and Costa Rica, and our work with RocketSpace to accelerate innovation and mobility. We signed new and exciting partnerships in 2017, including Choice Hotels and Hawaiian Airlines. We’re investing in long-term growth initiatives such as connected car. And as Martyn discussed, we extended our term loan and amended our credit agreement without any increase in our interest rates. And while we continue to face some cost headwinds going into this year, the initiatives we implemented in 2017 to strengthen our operations are providing tangible benefits and leave us well positioned in 2018.
With that, we'd be happy to take your questions.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Our first question comes from Chris Woronka with Deutsche Bank.

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

I wanted to ask you as you think about how pricing unfolded in the fourth quarter, how do you bucket that between maybe industry-wide supply, some of your own revenue initiatives and demand growth? Is there a way to parse that out if you can?

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

Well, what I'd say is that we've been working really hard on the commercial side of the business to really start targeting segments of the business that produced a higher rate per day. So we've been really zoning in on our mid-market accounts and our small business accounts to try to bring more higher-rated per-day business into the segment. You couple that with we had just a really robust Thanksgiving and Christmas season. A very, very strong robust Christmas season. And I think also DFP, the Demand Fleet Pricing system, continues to yield benefit for us when we get into those really peak periods where we're able to really yield our pricing up and that's what it was really designed to help us do. And we're seeing that play through as well as we looked at Thanksgiving and Christmas.

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

Okay, great. I guess the follow-up is on some of the mobility initiatives and specifically Waymo, but maybe some others that you haven't announced yet. How do you generically see that unfolding over the next several years? Is there -- is '18 a much bigger year than '17? Or is '19 more -- I'm just curious as to your thoughts as to how maybe your involvement evolves over time.

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

Well, definitely we'll continue to expand our operations with Waymo as they continue to expand and add thousands of new cars to their program. We are talking to other mobility solution providers as far as how we might be able to partner with them and I think we'll start to see some of those unfold as well over '18 and into '19. And then I think as you look at our connected car initiative and the opportunities to partner with people as we expand our connected car program into more fleet, it is definitely a longer-term approach to how we can drive more efficiencies into the business and drive revenue opportunities through partnerships, through connectivity, as well as the service improvements that we can offer our customers as well. So I think there is a number of steps that will unfold over a number of years. And I think you'll continue to see us move down the mobility path each year, year-after-year, as it continues to grow as an important part of how we're going to develop our business over time.

Operator

Our next question comes from John Healy with Northcoast Research.
Larry, I was hoping you could talk just a little bit about maybe the trends that you’ve seen in the first quarter as it relates to kind of pricing in the U.S. with 2 months almost in to the quarter. Have you seen that momentum that you saw on the leisure side in the fourth quarter continue on? Or have you seen any sort of breakdown there?

Well, we’re not really commenting on what actual pricing has been going on in the quarter. What I would say is that a couple of things. One is that the dynamic — the industry are what you would normally expect in the first quarter. The times of the week and the weeks of the quarter that you would expect for the industry to be tight on fleet, the industry has been, and on the times of the quarter where you would expect it not to be, it hasn’t been. The first quarter is more of a commercial quarter. There’s not much activity other than the spring break, but they don’t drive the volume of business that causes the industry to really run out of cars, as like Thanksgiving and like Christmas does. So the first quarter is typically a more commercial quarter. So you’re not going to find as many opportunities for things like DFP to work and really be able to yield up your pricing. But what I would say is that the first quarter is not at all like we’ve been experiencing in the last few years. It’s back to what you would normally expect first quarter fleet to be behaving like. And with the Easter kind of the 1st of April, you might get a couple days of benefits in the end of March. But there’s just not a lot of peak activity happening in the first quarter.

Understood. And then I wanted to ask just a little bit about fleet interest cost. I’ve gotten a lot of questions about how you guys may be impacted by rising rates and the amount of maturities that you have on the fleet size coming up the next couple of years. When you guys look at the pieces of debt that will fall off, say in ’18 and ’19, and what you might be able to replace those pieces at, how do you see fleet interest expense trending maybe over the next 2 to 3 years given the current rate environment that we are in today?

Yes, it’s Martyn. So I called out a likely extra cost in 2018 of about $20 million. That is simply the U.S. interest rate, or the point you’re picking up on the variable fleet debt. The Eurozone, we’re expecting to be flat for 2018 and a little bit of pick up in Australia and New Zealand. But really, it’s the U.S. story at the moment. And then probably 2019 onwards, further U.S. increases and then the Eurozone then picking up. So we’ve got about $1.5 billion naturally coming off next year and then we’re replacing. So our $20 million reflects essentially our anticipation of those maturities come through as the renewal as well. So there will be quite an increase progressively coming up over the next couple of years. But it’s obviously industry-wide, not just ourselves.

Larry, I’m wondering how the industry-wide fleet is in the U.S. Looking at the fourth quarter, your fleet continued to grow in the same lines as where volume was, so utilization was flat. And I think from your comments, you planning to undergrow your expected volume increase for the year to drive utilization up. Curious to what you’re seeing from a discipline standpoint from your major competitors.
Larry D. De Shon - Avis Budget Group, Inc. - CEO, President & Director

Yes. Just first of all, about our fourth quarter fleet coming in at about flat on the utilization perspective. What really drove that -- I mean, our intent is to build a fleet to underdemand. We’re going to continue to drive utilization, and we have that built into our plan for 2018. What happened really in the fourth quarter is when the hurricane -- the first hurricane hit, we actually pulled forward deliveries that were going to be delivered late in the quarter, beginning of the first quarter this year, to help meet that demand of relief work demand, plus where we just thought fleets were going to tighten up for insurance replacement business that other car rental companies might take. We pulled some fleet forward into the quarter. And when the relief business didn’t materialize, or at least didn’t stay the length that we had plans for it and how it has really occurred in previous hurricanes as we discussed in the last quarter call, we had that fleet then in the quarter earlier and longer than we had really needed it. So the team worked really hard as they went through the rest of the quarter to try to disperse that fleet, get it on rent and to delete fleet where possible, to get ourselves back to kind of a flat position and also to be able to ensure that we have the right fleet for the opportunities for Thanksgiving and Christmas. So they did a really good job. Looking back now would we have pulled as many cars forward as we did? No. But we expected the relief business to be stronger and longer than it was. As far as the industry fleet levels, I would say, they were pretty typically normal. I think other people also brought fleet forward, so the hurricane does kind of throw a little bit of difficulty into looking at the quarter. But once you get past that and you just take a look at how the rest of the quarter unfolded and how we turned into the year, I would say fleet levels are back to what you would consider a normal year and a normal turn into the new year.

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

Okay, understood. And just a little bit in line of question earlier. I know you don’t want to talk about what you’re seeing so far for the first couple of months. But it would seem as if the fourth quarter pretty strong from a pricing perspective, but your full year even when we adjust for the accounting change still implies slightly down from what the 4Q ’17 levels were. Is that just an abundance of caution? Or is that indicative of what you’re seeing so far in the first quarter understanding it’s seasonally weak?

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

Well, I don’t think you want to plan the full year pricing based on how you perform at Thanksgiving and Christmas. So we’ve had some difficult years in pricing the last few years. And so we are looking at our year-over-year trends, we’re looking at how we exited the year. We’re taking all that into consideration. As we take -- we build our volume coming from the ground up. We don’t just take the volume that we did last year and lap on an increase. We literally built it up account by account by account and our partnerships so forth and we get to where we really think our volume is going to be. And so we -- the pricing reflects what we think will really happen as we transition out of what’s been a very difficult period for the last few years and some more normalized periods. And I hope we’re wrong. I hope that pricing would be even stronger than that. We do have the loyalty impact that is impacting the year and will definitely impact more the first quarter the rest of the year. But no, I don’t -- I wouldn’t say it’s a conservative approach. What I’m saying is that we just -- we need more than just at Thanksgiving and a Christmas to be more aggressive than what we’re seeing.

Operator

Our next question comes from Hamzah Mazari with Macquarie.

Mario Cortellacci - Macquarie Research - Associate

This is Mario filling in for Hamza. Could you give us an update on what you’re seeing in business travel and whether you believe tax reform could lead to more of a pickup? And also, could you update us on your current market share in business travel?
Larry D. De Shon - Avis Budget Group, Inc. - CEO, President & Director

Well, as I said earlier, we've been working really hard on trying to grow some of the other segments in the corporate channel business. The large commercial accounts continue to be very competitive from everyone trying to win those accounts to the pricing that's offered in those accounts. We're -- we're not losing those accounts. We're hanging onto those accounts. We're hanging on to our share of those accounts. So we've been really focusing more of our attention on our mid-market and small business accounts, trying to win more of that business. It's a longer haul to do that, but if we stay focused on it as we were all last year, we'll continue to drive more volume and commercial at a higher rate than what you're going to get with the large commercial accounts. And we're starting to see that pay off. As Martyn said, we've had kind of 2 months -- or 2 quarters in a row where we've been able to improve -- keep our pricing flat on commercial and we've seen volume growth in the fourth quarter as well, small volume uptake in the fourth quarter as well in the Commercial business. So that's far better than where we had been in the beginning part of last year and the year before. So we're staying focused on building that, but now from a share perspective, we're holding onto our share, we're holding onto our account and we're trying to build those other segments that come at a higher profitability.

Mario Cortellacci - Macquarie Research - Associate

Okay. And just one more and I'll turn it over. Could you give us a sense of whether or not, in infrastructure build, it goes through, will it have any impact on the car rental industry? Or maybe you could frame how we should be thinking about that.

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

Well, I think it does because I think anytime that you kind of invest in airports and create a better environment for consumers to transit to the airport to create better facilities, better traffic flows, those all help the rental car industry. So we're a big component of the infrastructure bill. We want to see the investments made to modernize our airports and modernize our road and I think all of those play well to someone that's in the mobility business like we are to have roads that are up to date and to have the latest technology in the airports that we serve.

Operator

Our next question comes from Derek Glynn with Consumer Edge Research.

Derek J. Glynn - Consumer Edge Research, LLC - Associate

This is Derek on for Jamie. I'm wondering if you could elaborate more on the International environment, what you're seeing from competitors and whether you think fleet size is more rational now versus prior quarters.

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

The pricing environment internationally continues to be really tough. We're -- we've been really fighting this fight now for the last couple of years and it doesn't really seem to be getting -- there doesn't seem to be strategic changes in the competition that's going to change anytime soon. That's why we're rolling out our pricing robotic and then eventually we'll get to the final phases of DFP there as well so that it can have the benefit, our International team can have the benefit of being able to forecast further out, be able to take advantage of more yielding opportunities, have the confidence that fleet will tighten up in periods so that they can make decisions further out to drive more length of rental, improve their utilization. So those things are all actions that we're taking to improve pricing from our own perspective, but the industry dynamic really aren't changing. We are seeing a growth of the third tier segment, providers allowed people getting into kind of the lower tier offering. It really started and kind of worked to go in Spain and expanded into Italy and now starting to expand into some other countries as well. And that's something that we're going to need to contend with as far as how we compete in that the third tier. So yes, things are -- we're managing through it. And as we said, they had a really good year last year overall. But they did -- they weren't helped by pricing. They had to do it for a lot of other hard work, driving volume, cost cutting, being more efficient, and we would, we would really want to see pricing improve there.
Derek J. Glynn - Consumer Edge Research, LLC - Associate
Okay, got it. And then just a point of clarification. Did you guidance for 2018 include any assumptions around buybacks?

Martyn Smith - Avis Budget Group, Inc. - Interim CFO
Sorry, within the interest cost? Yes, the corporate interest rate, but it's net of that, yes.

Operator
Our next question comes from Dan Levy with Barclays.

Dan Meir Levy - Barclays PLC, Research Division - Research Analyst
So I want to start by asking about your pricing guide. Within your expectation for total RPD flat, I think it's really more like up half a point to 2.5 points x the headwind from the accounting change you mentioned. Could you just break out your underlying assumptions for core time and mileage versus ancillary? And I have asked this because, last year, on a total RPD basis, it was down roughly 2 points, ancillary down I think low-single digits as well. Just what's -- what are the broad strokes or what's driving the turnaround in ancillaries because I know it's been under pressure in the past?

Larry D. De Shon - Avis Budget Group, Inc. - CEO, President & Director
Yes. I think if you were to put our guidance in context of our old metric, it would be pretty much the same. Our ancillary revenue has been under pressure. And as we've said, and we are working hard to kind of turn that around, we're pretty excited about what we're seeing online. Our online team has been working really hard on how to present ancillary products in a more clear, concise and understandable way on the website so people will really clearly understand what their options are. And also in the bundling initiative that we launched for the end of last year where we're putting products together so it makes it easier for customers to be able to click on a bundled product. And we're seeing nice uptake on that, particularly on Avis.com. So we've got some work to do. It's more and more people move to mobile apps and website, and we're seeing improvement in conversion of customers on our site. More and more bookings are coming from that channel, more and more people buying -- using the prepaid option as well. We've got to find more ways to be able to offer those products to consumers kind of no matter which device they're going to. So we've got some more work to do on the mobile app as well. We're excited by the usage of the mobile app, but we got to make sure that we can offer ancillary products in a way that people can clearly take advantage of them and do it timely.

Dan Meir Levy - Barclays PLC, Research Division - Research Analyst
And then within the core time and mileage piece, does that assume it to be positive as well? Assumed modestly?

Larry D. De Shon - Avis Budget Group, Inc. - CEO, President & Director
Yes. That was assumed that time and mileage would be positive. Yes.

Dan Meir Levy - Barclays PLC, Research Division - Research Analyst
Got it. And then just one follow-up. If I take the midpoint of your guide for EBITDA price and fleet costs, it implies that while the net of your fleet cost and price should be positive, you're still guiding to margin roughly flat versus '17. I think typically what we've seen in the past is when the net
of fleet cost and price is positive it implies margin expansion. So why is it that you're not looking for margin expansion in '18 despite you seem to view that the net of this variable is positive?

Martyn Smith - Avis Budget Group, Inc. - Interim CFO

We'd like to achieve that. I called out headwinds earlier, so we've got things we're stepping back into, particularly marketing expense and incentive comp coming through as well and the U.S. interest rate I discussed earlier. The headwinds are essentially holding back some expansion in 2018.

Operator

(Operator Instructions) Our next question is from Michael Millman with Millman Research Associates.

Michael Millman - Millman Research Associates - Research Analyst

Not to be particularly picky, but you mentioned -- or you characterized fleet as being normal. I'm not sure if normal means what we saw in the first half or the second half kind of related to that, we're seeing OEMs always talking about, again, reducing sales to other car rental business. Does this suggests that fleets may have -- may well be tighter in 2018 than they were at least in the second half of 2017? Yes, '17.

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

Michael, this is Larry. Yes, I certainly hope so. The OEMs have been decreased -- some of the OEMs have been decreasing sales to the fleet industry. We saw that in the '18 buy, and we saw that in the '17 buy as well. When I talked about kind of back to normal, I really mean, I refer back a few years ago prior to industry issues that some competitors had in the industry as far as over-fleeting or having the wrong mix, which has caused over-fleeting to occur. So we're kind of back to prior to those types of problems in the industry. I feel like we're kind of back to the period before that. Can they always get tighter? Sure. And I'm sure every rental car company is working on trying to find those times when they can have their cars during the valleys as low as they possibly can and the cars during the peak as high as they possibly can to meet that peak. So through our fleet optimization team, through the data that we're now being able to integrate into the optimization models. We're just getting more and more sophisticated about how we buy our cars, using data and third party data to help us figure out how to buy our cars, when to buy our cars, where to infleet them and where to exit them at what -- kind of what stage of their lives to really maximize residual values, you can also be able to have the cars in the market that we need them at the time those market peak. As you can imagine, the markets we serve across the United States, that's a very complicated model to work and our guys run these models every day, all day long, to make sure that we're constantly tweaking and changing our fleet to make sure that we try to drive that utilization benefit. We had flat utilization really for the year. And that was actually remarkable. When you think about us switching, transitioning in 2017 to go up 10 points in risk-cars over program car. What that means is that you have a lot fewer short-term cars that you could turn back quickly to bring your fleet levels down and to be able to make that transition and be able to drive flat utilization when the majority -- when a much bigger part of your fleet is a longer-term fleet hold. We took a lot of effort by optimization teams and the guys in the field to really be able to deliver on that. So we're kind of through that end point improvement transition and risk. And now we can go into next year with, I'd say we're going into '18 with a risk fleet that is similar to our '17 risk fleet. And that allows us to continue to find us opportunities to try to drive utilization up and the team is very focused on that in '18.

Michael Millman - Millman Research Associates - Research Analyst

So, I guess, related to bit. When you talk about 0 to 2% U.S. -- Americas increase in pricing, should we look at that as similar to the fourth quarter where it was more like 5% on leisure and flat on commercial? Or do you see that mix shifting in some way?
Larry D. De Shon - Avis Budget Group, Inc. - CEO, President & Director

Well, I think what you’ll find is that we’re continuing to shift more of our business towards leisure. It will cost more fleet speaking, if you will, in the third quarter and at the end of the second quarter and third quarter, beginning of the fourth quarter. So that’s just kind of how the business shifting. As I said, we’re not losing share in the corporate business, that we are starting to see more leisure business coming through. Our leisure -- in those periods, our fleets are tight, which they now have -- fleets are more normal when they get tight or peak periods of leisure travel, we’re seeing leisure rates move up fairly significantly. I think the large commercial accounts, as I said, will continue to be very competitive. And so I wouldn’t expect big price improvement in that segment.

Operator

That was our final question. For closing remarks, I will now turn the call back over to Mr. Larry De Shon. Please go ahead, sir.

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

Thank you very much. I think that’s pretty much it for us today. We appreciate everyone calling into the call, and we appreciate your continued interest in our company. Have a great day.

Operator

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