OverView:

Co. reported 4Q19 revenue of approx. $2.2b. Expects 2020 revenue to be $9.4-9.6b.
Good morning, and thank you for joining us. On the call with me are Joe Ferraro, our interim 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 our other periodic filings with the SEC, as well as the Investor Relations section of our website. We undertake no obligation to update or revise our forward-looking statements.

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

With that, I’d like to turn the call over to Avis Budget Group’s Interim Chief Executive Officer, Joe Ferraro.

Thank you, David, and good morning everyone. It has been an invigorating 7 weeks since I stepped into the role of Interim CEO. There were 3 things I wanted to accomplish early in my tenure. First, I wanted to finish 2019 strong, and we did just that. Second, I wanted a solid 2020 financial plan...
in place, along with clear and strategic initiatives to push improved performance. And finally, I wanted to minimize any distractions for our operations during this transition, so that we were all used on the required targets.

I am pleased to say that we finished the year strong, with another record quarter in the Americas and stabilization in the International segment. We have a plan in place that will continue the momentum we ended in 2019, and I am excited by our results so far this year.

We closed the year on another high note, reporting record revenues for both the quarter and the year. 2019 now marks a decade of consecutive annual revenue growth. A combination of increased volume and improved pricing helped deliver $9.2 billion in revenues for the year. Our Adjusted EBITDA was $788 million or $800 million when adjusting for currency exchange rate movements and at the high end of the range we provided in October of last year. The Americas delivered $94 million more of Adjusted EBITDA than prior year, while the International team was able to drive year-over-year pricing growth for the second consecutive quarter to help achieve higher revenue than last year, excluding currency exchange effects.

I’m also pleased to announce, in December we were awarded the 2019 top rental car travel app, receiving the highest score in the J.D. Power 2019 U.S. Travel App Satisfaction Study. If you haven’t tried it yet, I would encourage you to download the app and see what thousands of our customers have been excited about.

On the call this morning, I will provide an overview of the quarter for the Americas and International segments and discuss ongoing progress with our innovation and strategic initiatives.

The Americas had an exceptional fourth quarter, delivering record revenues of $1.5 billion, and generating a 9% or $21 million more in Adjusted EBITDA than prior year. We utilized our proprietary demand fleet pricing technologies to optimize our fleet to take advantage of yielding opportunities during the peak holiday season. As a result, revenue grew 9% in the quarter. Ancillary revenues continues to show extraordinary benefits with an increase of 11.5% over the prior year, marking the third consecutive quarter with positive year-over-year pricing, and higher revenue than prior year.

The outstanding revenue and EBITDA generated in December was the best in our company’s history, with the holiday seasons delivering higher rate, significantly higher utilization, and increased rental length. Utilization increased by 140 basis points in the fourth quarter, due to the strategic optimization of our fleet as well as from our Budget Truck package delivery and our ride-hail business. For the quarter, leisure volume was up 6.5% over prior year, with overall rental day growth of 8%, driven by 6% growth in rental car, 1% in ride-hail and 1% in Budget Truck. Our Budget Truck package delivery business was exceptionally strong this quarter, generating a 39% increase from prior year, demonstrating the growing marketplace for last-mile delivery.

Revenue per day for the Americas rental car grew sharply by 2.8% in the fourth quarter, showing the healthy state of the market. Ride-hail, Budget Truck package delivery and Zipcar drive a longer length of rental, but have a natural trade-off with revenue per day, each accounting for approximately 0.5 point drag. The average length of rental also increased more than 3% in the quarter from prior year, reducing the frequency of manual process, such as vehicle check-ins, cleaning, and preparation, resulting in more profitable rentals and increased margins.

One of our strategies during the quarter was to grow our off-airport business. This business grew approximately 11% in volume and 3% in revenue per day, delivering revenues approximately 14% higher than prior year. In addition to the off-airport organic rental car growth, our ride-hail strategy continues to deliver as well. We exclusively use connected cars in our ride-hail fleet, which provides visibility into the use of our assets helping us maintain the vehicle’s residual values and our ride-hail business continues to deliver positive results. We are continuing our strategy of future expansion in ride-hail with the goal of ensuring maximum profit potential.

The commercial business was strong in the fourth quarter with a 4% increase in volume. And while pricing remains competitive, options like our prepaid fuel, Split My Bill, and e-Toll continue to show strong penetration with our commercial customers. Split My Bill is an essential feature for our business customers that are looking to extend their travel into a long weekend, add ancillary products, or even upgrade to a larger car, allowing them to bill the business portion of the rental to their employer, and the personal portion to their own credit card. In addition, we now have 3
Additionally, Connected Cars are allowing us to implement new and automated business processes, streamline operations, improve the overall mobile app, improving asset control, like faster vehicle recoveries, and improvements in fuel billings, which we have discussed in previous calls.

To connect our fleet magnifies the numerous early benefits we’re seeing, which include enhancing the renters’ experience through our award-winning...
level of service delivered to our customers and help maximize management of our fleet. Linking in our mileage optimization initiative, fleet connectivity will allow us to balance mileage consumption across the fleet, lowering fleet cost through higher residual values.

Additionally, our Kansas City mobility lab allows us to test and roll out new mobility products, like our new Mobile Select product, which allows our Avis preferred customers upon landing to select their car on their phone via the Avis app, go directly to their vehicle, bypassing the counter, then drive through a new automated gate exit simply by using your phone without ever interfacing with an agent. It’s fast. It’s simple. And we’re getting great initial reviews. Our NPS scores are almost 40% higher in Kansas City as compared to the rest of the company since rolling out Mobile Select. We expect to expand the rollout of this new service in 2020, starting with our top 40 rental locations.

Overall, both the Americas and International teams have done a fantastic job delivering results, maintaining focus, finishing the year strong and we’ve seen the significant momentum in the Americas continue from the fourth quarter into 2020. January and February to date have seen a continuation of our fourth quarter trends, which leads me to believe we will have another strong quarter to kick off the year.

I’ll let John take you through some of the numbers we are forecasting, but from an operational standpoint, we're expecting another strong year for revenue growth and improved performance. I’ve challenged the team to define their success by how much they overachieve on their goals, which will help drive overall performance and better customer experience.

With that, I'll hand the call over to John to take you through the financial results and our outlook.

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

Thanks, Joe, and good morning, everyone. My comments today discussing changes in revenue per day and per-unit fleet costs will refer to changes excluding exchange rate effects. My comments will also focus on our adjusted results, which are reconciled from our GAAP numbers in both our press release and investor presentation.

As Joe said, we had a great quarter in the Americas, International tracked in line with our expectations, and we finished the year at the high end of the guidance we provided in October. We finished the quarter with a record revenue of approximately $2.2 billion, up $112 million from prior year on 5% higher volume, 1% higher rate and a 100 basis point increase in utilization. Despite facing tougher year-over-year comparisons in our fleet costs and used vehicle markets normalizing, per-unit fleet cost still improved 3% year-over-year in the quarter. This resulted in our adjusted EBITDA being $143 million for the quarter and $788 million for the year. Excluding $12 million of currency exchange rate movements, adjusted EBITDA was $800 million for the full year, a $19 million improvement from the prior year.

Net income and diluted earnings per share for the quarter was up 32% and 38%, respectively, due to the outstanding earnings performance. As part of our programmatic approach to our share repurchase program, for the full year of 2019, we repurchased just over 2.2 million shares at an average price of $27.38, returning over $62 million to our shareholders. We continue to take an aggressive approach to share repurchases whenever we view it as an attractive opportunity. Overall, we remain committed to allocate capital to drive the highest return possible.

Our adjusted free cash flow was $277 million for the full year, primarily due to the timing of vehicle programs that occurred at the end of 2018. Our 2019 free cash flow was impacted by approximately $36 million in higher cash taxes due to the accelerated state income tax payments and impacts associated with tax reform. Our financial position remains strong with approximately $4.3 billion of available liquidity. We ended the quarter with $686 million of cash, $719 million of unused cash in our revolving credit facility and $2.9 billion of availability under our vehicle programs.

Our treasury team has done a fantastic job optimizing our debt profile by laddering our maturities to ensure we do not have significant debt due in any particular year by refinancing at opportunistic times. In January, we increased the size of our term loan B by $100 million to $1.2 billion, extended its maturity by 2.5 years and reduced the rate by 25 basis points. We are using the $100 million to pay down higher-rate debt, generating further savings. We also issued a new 5-year AESOP term transaction at 2.42%, which is slightly inside of the maturing debt it’s replacing.

We are committed to keeping our corporate net leverage ratio in the range of 3 to 4x, with a preference over time for being in the lower half of that range. As we continue to execute our capital allocation plan accordingly, we will look for ways to reduce our net corporate leverage, such as...
EBITDA growth or debt repayment. At the end of the year, our net corporate leverage was 3.5x the midpoint of our target range. It is also approximately 3 tenths of the turn lower than the 3.8x it was at the same time last year.

As we begin the 2020 year with positive trends, we are optimistic about our performance, resulting in us raising our revenue guidance from last year to be between $9.4 billion and $9.6 billion. Driving the top line revenue target for the Americas will be a combination of volume growth between 2% and 5% as well as pricing growth between flat to up 2%. Comparing to an exceptional used car market in 2019, we forecasted per-unit fleet costs to rise slightly for the Americas, in line with market expectations, but not enough to offset last year’s performance. Our direct-to-consumer efforts will help us offset a portion of the increase, bringing us to our guidance range of flat to up 3%.

Our International team has done a great job in the past 2 quarters turning the corner on negative pricing trends. We are expecting a continuation of recent trends with pricing growth between flat and up 2%, with volume up between flat and 3%. We are also expecting per-unit fleet cost to be up 1% to 4% year-over-year due to more stringent emission regulations around WLTP. As a result, we believe we'll be able to deliver adjusted EBITDA between $750 million and $850 million. Finally, we believe we can generate an adjusted free cash flow to be between $275 million and $325 million for the year. For the rest of our guidance, we'd refer you to the outlook section of the press release we have simplified from prior years.

To summarize, the Americas had an exceptional year, delivering 17% growth in adjusted EBITDA while our International team continues to show resilience in a challenging environment. The company is in a healthy state of consistent growth, generating significant cash flows, enabling us to invest in ourselves for the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today comes from John Healy of Northcoast Research.

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

Joe, I wanted to talk a little bit more about the ride-hailing opportunities for you guys. I apologize if I missed some of it, but could you maybe talk to how much of your fleet in 2019 domestically is in the ride-hail and where you think that number might go in 2020? And as you guys build the business case for that offering, how do you think the margins of that business compare to kind of the corporate levels today?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

John, this is Joe. If you -- the first part of your question was how many cars we would have in it, I'd say it's probably -- we finished '19 with probably 1% of the fleet associated with ride-hail. I know there's been a lot of questions about ride-hail and ride-hail profitability. And I'd tell you, we proforma-ed this for a good period of time. We're probably the last group in on this ride-hail business because we did test it for a bit. Right now -- and I'll tell you this, honestly, we won't participate in anything that we don't think is accretive to earnings, and right now, it is. A core competency of ours is renting cars. And renting cars, whether it be at the airport or in the local market is what we do well. Things that we looked into and the questions that we all had were what the residual value is going to be like, what are the mileage going to be on the cars, how is its maintenance and damage going to run, what's the rate, liability, et cetera. And like I said, our early finding is that it's accretive to earnings, and we're pretty pleased with that.

And we have great partners, and there's certainly a significant amount of demand in this book of business. We accelerated the fleet. So we know what cars we have and you guys know, we also have devices in them that can -- that are connected and we get readings on mileage, so we know outliers. And quite frankly, we're pretty pleased with the mileage that we've seen. It's on target to what we anticipated. We've sold some cars so
far. To be honest, we’re testing mileage bands, when is the best time to sell the car through its residual value life and curve. And so are all of them, every one of them that we sold, whether they be north of 30,000 or in the 70-plus, have been pretty much right on what we anticipated. We’re selling them through many different channels, retail, direct to dealer, et cetera. And so far, it’s been successful, and we look to grow this going forward.

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

Great. And then just a follow-up question. I thought it was a rather encouraging statement you guys had in the press release about your comments, Joe, about the month of December and your history in the business. And then on the call today, you guys indicating that, that momentum is carried forward into January or February. Could you explain why it’s happened? I know this business is always one that’s a little bit uneven and unpredictable. But maybe what are the tenets that are taking place right now that you think have caused the business to make a turn for the better?

And how sustainable do you think that is as we move into the big part of the year, the middle part of the year for you guys?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes. This is Joe. I think in order to understand where we are, it’s best to look backward a minute and see what happened in the quarter in December. Volume was up significantly for us. And when you unpack it, it was a combination of both commercial and leisure, and it was both at the airport and the local market. We saw good growth in commercial, as we said, rental days were up in the range of 4%. And that was on our exclusive accounts and our shared accounts as well and really strong business in the -- in our small business segment.

On the leisure side, the holidays were terrific. We saw early -- I think, on the last call, we commented that the holidays look good. We saw it early that the holidays looked favorable. Though, as you know, in our industry, the closer you get, the better understanding that you have of it. But further out, they looked pretty good, encouraging enough for us to start thinking about fleet situations by city. And that was important to us to understand where the demand was, and not only where it was, but where it was best suited for us to participate in. And that demand, whether it be longer length of rental or, quite frankly, better rate, and we did just that. The -- I think the Christmas holiday, we talked about it being 1 day later, but that 1 day later changed the whole dynamic and created a holiday that influenced January a little bit because many people didn’t return in December. They kept the cars out into January, especially international travelers. So we thought that was interesting, and it gave us a good start to the quarter.

In local market, I talked about it in the prepared commentary, it was really strong, right? We rolled out our DFP, our demand fleet pricing, technology to our local market stores, and it has a meaningful effect on revenue and contribution rate. And then add to it, the package delivery business that we had, which this last mile delivery and our business largely on our cargo vans, et cetera, was really strong. The beautiful thing about that business is it’s partners that we currently have on the car side as well as new ones, and that worked out really well for us. And like I said -- I talked about in your first question, ride-hail started to matriculate.

So I think when you think about all those things, that’s what led us to where we are in the first quarter. And the only other insight I’ll give you into the quarter, outside of Christmas being late, which helped January, quite frankly, we -- the weather has been better than prior year. Last year, we had that polar vortex, and there was a government shutdown and things like that, that really, I think, influenced travel. And my early reads on the holidays in the quarter was similar to what we saw in the former.

Operator

The next question is from Adam Jonas of Morgan Stanley.
Billy Kovanis - Morgan Stanley, Research Division - Research Associate

This is Billy Kovanis dialing in for Adam Jonas. Congrats on the solid quarter. Just following up on the earlier question on TNC, I have a 2-part question. So first, what is the plan for the TNC business in the long term? And do you see the TNC business becoming more incrementally margin accretive? And second, can you please describe how the cars that cycle out of the TNC fleet high mileage at 80,000 miles are disposed of in terms of the channel mix? And if there are any risks disposing these vehicles?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes, this is Joe. As I mentioned earlier, we are starting to sell cars out of our TNC fleet. Now they are fully connected, and we do operate them isolated from the regular cars, so there's no intermingling of fleet. Our process of selling them, both in open retail channels and all our channels, actually, we tested in and as I said earlier, we've seen no change in what we anticipated in the residual value. So they're actually holding to what we thought. And we've checked many different mileage bands to just ensure that we were making the right choices. So, so far, we're comfortable with that.

As far as margin, it's been accretive for us. We wouldn't participate in something that we didn't believe that would be nonaccretive. And I happen to believe, after a number of different tests, that this is a good book of business to get involved in. There's plenty of demand, as you are well aware, and we have good partners which we are participating with. And like I said, it's a core competency of ours to rent cars, right? We've been doing it for 70 years, and we're good at it, quite frankly. So our guys look at it by month. If there are any changes to the trends or abnormalities, we act on them. And so far, so good.

Operator

The next question is from Michael Millman of Millman Research Associates.

Michael Millman - Millman Research Associates - Research Analyst

Can you talk about what you're seeing in the marketplace from [UN] and your competition regarding re-fleeting, given the strengths that presumably others enjoyed at the end of the year and into this year?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes, this is Joe. I can tell you that, from where I sit, there is a rationalization of the fleet, right? I think it appears to me, at least early on, that the basic principles of supply and demand are solid.

Michael Millman - Millman Research Associates - Research Analyst

When you say solid, I'm not sure how to define that. Meaning that there's not been too much of an increase in fleet? Or fleet has been moving along with just demand?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Well, I mean, I guess the way I would say it is that I don't see any over-fleeting in the industry right now. I think that you have to think about how the quarter ended, right? There was an OEM disruption, right? There was a strike. And so that pushed orders back. So it's it's hard to say what the future looks like. But from where I sit today, it looks rational.
The next question is from Hamzah Mazari of Jefferies.

Mario Cortellacci
This is Mario Cortellacci on for Hamzah. Just regarding the volume guide in the Americas, you guys are guiding up 2% to 5%. Just I guess -- wondering what kind of confidence -- or what gives you confidence in that guide? Is it just being that there's longer length of rentals? And I think you might have given some breakdown on what the contributions were from a volume perspective from traditional rack and then from TNC and then from budget. But I guess, what are your expectations for the year in terms of the breakdown of that 2% to 5% from each of those contributors?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO
Yes, I think we said in -- this is Joe, again, sorry. I think we said in the fourth quarter and in the prepared remarks, the breakdown was, if we were at -- if number was 8%, it was 6% car rental, 1% ride-hail, 1% the last mile delivery stuff. I would think -- I would kind of use -- utilize that as a proxy. We -- in the release, we talked a lot about the off-airport and the local market. We think there's a lot of growth in that opportunity. So -- and there is longer length. Our proprietary demand fleet pricing system really allows us to grow contribution. And you could tell our length of rental was up in the quarter as well, and we see that trend moving forward.

Mario Cortellacci
Great. And then maybe you could also comment on why pricing in this sector just seems to always be in this 2% to -- 0% to 2% range? The space is highly consolidated 90% or so, if not more. I mean is there a price ceiling here? Or are there any other variables that we're not seeing? Or something that has to do with the supply-demand balance that you just mentioned?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO
Yes, I think that's where I would lean towards. It's about supply and demand, right? We had -- in the fourth quarter -- and it's about travel trends, right? In the fourth quarter, we had a 2.8% improvement in rate per day, and it was highly leveraged towards the leisure side. And that was on top of a 2.8% improvement in the prior December. So in the fourth quarter, which is highly leveraged towards leisure, there was a, for us, almost 6% improvement in rate per day.

I think the other thing that we think about or we talk about that influences rate per day outside of supply and demand is really our ancillary products. We mentioned that in our remarks. We've had a good run of ancillary revenue in the last 3 quarters. We see that continuing. That's accretive to the overall rate that you would charge on our rental agreement. And that's been improving with a lot of great initiatives and a lot of products that we've been selling of late. Not just the traditional insurance-related products, but we came out with a Split My Bill product, which has had some pretty good early success, which allows our corporate customer to pay for their contracted business and price. And then if they want, they can extend their rental, even rent a larger car or maybe add a service like XM Radio on their own credit card. And we think that could be -- that's taken -- can take advantage of that and be accretive to our overall rate per day.

So it's our ancillary products that we have a lot of confidence in that we've been growing of late. We have a great team who runs that for us. We created a new incentive program that helps our agents better understand what and how to sell. And we've done a terrific job in selling some of these products online before the customer even arrives at our counters.

The next question is from Brian Johnson of Barclays. We'll move on to the next question. It's from Derek Glynn of Consumer Edge Research.
Derek J. Glynn - Consumer Edge Research, LLC - Senior Research Analyst, Vice President

Can you speak to the strength you’re seeing in ancillary? I think you mentioned up 11.5% during the quarter. What are the drivers there? And how sustainable do you think that momentum is as you think about 2020?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes, as I mentioned -- this is Joe, we've had 3 solid quarters of ancillary revenue performance, and the last quarter being up pretty significantly at north of 11%. So we feel pretty good about it, right? It’s not just the traditional products that we’re selling, like the insurance-related products, that still are growing, quite frankly, but it’s the other ones that we put out that have a lot of interest. We have this new toll product that we have developed, where in the past, we would charge a usage day for every day that you've had the vehicles and gone through tolls. And now we have a -- it’s probably an all-in package that we've rolled out to 2 states, I think, with 3 or so more to come in the first quarter and then throughout the rest of the business this year. And customers like it, especially if you think about commercial customers who have an all-in 1 bill now that they can expense.

We have our Split My Bill that I just talked about that allows a traveler to pay a corporate way on their own on their corporate card and then maybe take a larger car or a car they drive at home and take it for the 4 or 5 days they have it on the road, which has created some excitement as well as maybe XM Radio or something along those lines that that people seem to enjoy.

We have Curbside Delivery, where if you want to get dropped off at the terminal, you can do that. And we have counter bypass, which is kind of like a -- for international travelers, which usually buy packages and are all-in, that we're testing that allows them to bypass the counter for a nominal fee. So there are a number of initiatives, there are many more that we're working on, that we're thinking through. And the beauty of ancillary revenue, it has terrific drop-throughs.

Derek J. Glynn - Consumer Edge Research, LLC - Senior Research Analyst, Vice President

Okay. Great. And Joe, I think you touched on this as well and there's a slide in the deck. But what kind of opportunity do you see to get more efficient and optimize the cost structure on the International side? Can you speak to any initiatives underway? Or what does the time frame look like on that potential opportunity?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes. Listen, I've just started to get involved with the International team, and they're a good group. They want to win in the worst way. They've had some challenges. And I think all the companies have had challenges with maybe a bit of over-fleeting, the pan-European travel hasn't been so great, the economy in Brexit, there's price -- pressure on price. And that's the environment that we're in. And so what are we going to do about it? And I think there are some things that we do in the Americas that we can move over there. Our demand fleet pricing strategy, I think, is one. There's no way that someone can come up with the algorithms required to suggest what's the right car to rent at this time to this customer. And we have that in the U.S., and it's worked very favorably for us. We need to continue to roll that out. That'll go through this year and then some maybe.

This whole supply and demand -- there's a rigor around supply and demand. In the U.S., we look at our fleets virtually every week, 52 weeks a year by city to determine where the needs are and what the strength is. And we do that in International, but a little more rigor, I think, would certainly help us as far as making the right decisions. And there are a number of things that we're looking at with the footprint and country profitability and then integrating our new businesses that we've put in.

So we believe we have a path, and I'm excited to work with the gang. I'm going to be going out there in a couple of weeks. And the great part is that both the President of International, Keith Rankin, and I are completely aligned. So more to come.
Derek J. Glynn - Consumer Edge Research, LLC - Senior Research Analyst, Vice President

Okay. Great. And if I could just squeeze one more in. Just on the fleet cost guidance in the Americas. What’s the underlying residual value assumption there? Just trying to parse that out from potentially some expected impact from other initiatives like direct-to-consumer and whatnot.

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes, this is Joe. We’ve had great success in our per-unit fleet costs over the last 2 years, right? We’ve -- I think if you add them both together, it’s probably somewhere in the range of about 15% improvement in the last 2 years. So yes, we came out with guidance at 0% to 3%. There’s some used car industry experts that are suggesting residual values due to the pressures of the return of maybe small or midsized SUVs and put pressure on residual values, I’ve heard, in some cases, 1 point, 1.5 points. For us, we’ve taken that into consideration a bit. And I think when I think about fleet costs in general, to me, it’s always a 3-part solution: it’s how you buy the cars; how do you utilize the cars; and then really how you dispose of the cars. So I think all 3 of them, we’ve gotten efficient in, over the years. Our -- we do a lot of data analytics to suggest what cars to buy, where to buy them, with what trim levels and what the percent should be of risk and program. So we think we have that down and to utilize them, we came out with a mileage optimization activity, which is basically smoothing mileage out along all the cars in the fleet, so we don’t have really any out layers there. We think that’s an opportunity for us.

And lastly, it’s how we dispose of cars, and we had 73% of our vehicles disposed in the fourth quarter through alternate channels. December was probably a record for us at 83%. We’re going to continue to do those things to help offset whatever residual value headwinds we may see. And so we had a good run of it, and we think that, that will continue for us.

Operator

The next question is from Rajat Gupta of JPMorgan.


This is Rajat on for Ryan Brinkman. I just had a question on the 2020 EBITDA guidance, which is up only slightly at the midpoint. Based on the comments on the call and how 1Q started, albeit seasonally light, but then U.S. seems to be holding steady, International pricing is getting better, you have the TNC opportunity expanding, there’s also the B2C opportunity. And you also highlighted some International integration and organizational efficiency opportunities. So I’m just getting -- just trying to get a sense of what -- why wouldn’t the guidance be higher for 2020? What are the puts and takes there in terms of what are the headwinds that you might see to offset some of the benefits that are ongoing here? And then I have a follow-up.

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Okay. Great. This is Joe. I think we're going to tag team this one. I'll start off, and then I'll turn it over to John. We talked a lot about our -- about this subject. Here’s what I would say. We generated $788 million worth of EBITDA last year, right, on a reported basis. In the first quarter, we generated, I think, 0 or negative 1. So the road is long. While I am excited about the first quarter, the large portion of our profit opportunity comes really back half of the second and into the third. And I think it would be prudent for us to to get out of the box quickly -- which I think we will, in the quarter, but get a better read what business looks like as we get closer into the next earnings call -- which will be closer into the back end of the second and into the third. I think that’s really the underlying assumption of what we looked at.

So I'll turn it over to John. But the way I see it is, yes, I think the trends we saw in the fourth will continue, but the height of the -- of our business cycle occurs in the last part of the second and the third.
John F. North - Avis Budget Group, Inc. - Executive VP & CFO

Yes, this is John. I think it was great to finish the year as strong as we did. Obviously, we had a road to navigate to get there and it went well. We’ve got a great plan in place for 2020. I think one other thing I’d point out is we do have headwinds that exist outside of our operations and things like currency. The euro is down, that has an effect. Where that ends and where the volatility is, is up in the air. So to Joe’s point, the first quarter is traditionally the smallest. I think we’re excited about what we’re seeing. We think that there’s opportunity to hopefully continue to find areas where we can outperform, but we do want to make sure that we do that incrementally and continue the momentum that we finished 2019 with as we continue the path forward.


Got it. That’s helpful. And just on the capital allocation plans going forward based on where leverage is and what you’re targeting, could we expect some pickup in activity there here in 2020? What’s your thought process on buyback and some potential M&A, probably internationally?

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

Yes, this is John. The beauty of this business is the cash flow. It’s something that I appreciated before I came here, and I’ve come to appreciate even more since I’ve spent more time in the business. I’m coming up on about a year with the company. And I think we’ve got a great team. Our goal is always to prioritize capital allocation to the best return. If you look at last year, we did buy back some stock, we retired a little bit of debt, and we did some acquisitions as well as invest in the core business. Those are the 4 pillars. I think we, obviously, believe that directing to the highest returning category is the most important thing, and so I think we’re going to be somewhat flexible in terms of that. But I think Joe and I certainly see a path for the company to do better over time, and I think 2020 is a great foundational start to that. So I think that you’ll continue to see us take a balanced approach, but certainly, there’s opportunities for us to look to repurchase shares.

Operator

The next question is from Chris Woronka of Deutsche Bank.

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

I wanted to ask you about the -- your comments about growing the off-airport business. And also the retail operation -- retail resale operation, which I think you said doubled in the quarter. I guess the question is, what kind of -- are there a lot of upfront or ongoing investments you need to make associated with those? What’s kind of the -- if there is one, what’s kind of the algo or the step function of profitability for those outlets?

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

Yes, this is John. In terms of the off-airport, one of the things that Joe really pointed out to me is that this is an area where we can grow in excess of what you’re going to see on-airport. On-airport is growing GDPs because it’s a function of planes and runways. Off-airport is a place where our network has opportunity to expand. And we’ve done some really interesting things. We have a partnership with Loews, the hotel company, where we’ve been able to go into some of their locations, which minimizes our Capex. It’s not a significant amount of money if we’re going to do our own facility. Historically, we’ve looked for leases that don’t require a lot of upfront investment. And so I don’t think there’s a big step function there. We’re going to look at that. We have plans to open a number of locations. And I think we’re excited about it, but I don’t think it’s going to be a significant amount of capital.

In terms of the retail business, we doubled our vehicle sales last year, we’re up over 100%. And I think the operational team has done a phenomenal job of really getting some good positive traction in our business. We have big plans for next year. Historically, we’ve used existing locations where we have excess capacity, extra lots, those kind of things as we kind of try this and get our feet wet. I think more recently, we’re up to 15 locations...
now. The last few have been really a dedicated sort of off-site location that’s more of a retail-specific opportunity for us and nearby, close proximity with other retail stores that are selling vehicles. And we’ve seen better results, I think, initially out of the gate there.

We’ve talked a little bit about the profitability of the vehicles, they’re about $1,000 a unit better. And that’s a fully loaded cost. So while there would be potentially some facility costs and some investment there, we’re factoring that into the uplift that we expect to see from retail vehicle sales, which is kind of how I think about it and the company thinks about vehicle profitability is a loaded cost with your facility. So I don’t think you’ll see significant investment there, and I don’t think that, that, over time, is going to change the algorithm of the incremental unit profitability that exists if we can grow the retail operations. So there’ll be some investment, but I don’t think significant enough that we feel like we need to call anything out. And both of those are totally within our control. So we have the ability to modulate them based on how they’re going, and we can accelerate or we can slow down as appropriate. So I think it should be pretty manageable.

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

Okay. [That’s great color, John. Just a follow-up is on the ride share fleet. As you -- I hear what you said you’re going to expand it judiciously as you see profitability that meets their requirements. But as you do that, I guess, with some of the truck delivery vehicles, does that change in any way the way that you’re buying vehicles in terms of -- are you -- do you dip into the used car market to actually buy cars for those fleets? Or do you plan to do that? Or are you just going to keep everything kind of on the same way that you’ve been for the core fleet?

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

This is Joe. No, I think as -- just as a general business, we buy our cars to serve 2 purposes. One is to the rental car customer, certainly, but also with an eye on sales. So that could be different trim levels, different packages in different parts of the country, et cetera. I think the beauty of the 2 businesses that you talk about, whether the ride-hail or the last mile delivery, it’s a different car. It’s not a car that we utilize in the regular fleet, but we can utilize the channels that we have in our businesses to remote them. So cargo vans with very big package delivery, you’re not going to get a commercial customer, per se, renting them the same way, but you will get a commercial customer who rent them at their facilities and things of that nature.

So we think that while they’re in different businesses and different objectives, we can have dual-purpose if there’s a need, and it doesn’t take away from the core competency of the core day-to-day rental. So that’s why I like it, right? It’s accretive. So when you think about what the question is, is it airport or off-airport? John talked about it, you’re encumbered by runways and employments. These [are / other businesses don’t have any of that.

Operator

The next question is from John Healy of Northcoast Research.

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

Just wanted to ask a follow-up to you guys about some of the changes at the Board level. Just maybe some comments there in terms of where you would stand with SRS as well as where you guys might be at in terms of the finalizing the CEO appointment.

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Thanks, John. This is Joe. So I don’t really want to speculate on the timing of the outcome of the search. The Board is conducting, I think we’ve said this last time, a diligent process to select a suitable candidate. What I will say this is we have a terrific strategy to grow our business, both near and long term. And we have some really good well thought-out initiatives, I have to say, driven by experienced and skillful leaders. And the good news is there’s a lot of big energy within our company. So while there’s talk about Board and other things, there’s a lot of energy in our company. People
are really proud of 2019, especially how we finished. And I have to say, really excited about 2020. So I try to keep this stuff separate. We are focused -- laser-focused on driving our initiatives and our performance. And I happened to meet the new Chairman, Bernardo, last week. I spent 2 days with him. It was a great meeting. He asked a lot of questions, he is very engaging, and I think very insightful. And he could help us -- will help us, and I look forward to working with him in the weeks and months to come. So thank you.

Operator

There are no additional questions at this time. I would like to turn the call back over to Joe Ferraro for closing remarks.

Joseph A. Ferraro - Avis Budget Group, Inc. - Interim President & CEO

Yes. So thank you. Just to summarize, we had a strong fourth quarter with record earnings in the Americas and positive price in International, achieving the first goal we set. In addition, we developed a business plan with goals and targets in 2020, that in my opinion, are entirely achievable. Thank you for your interest in our company, and I look forward to speaking to you again soon. Thank you, and have a nice day.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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