OVERVIEW:
Co. reported 3Q16 total revenue of $2.7b. Expects 2016 revenue growth to be 3% and adjusted EPS to be around $2.93.
CORPORATE PARTICIPANTS
Neal Goldner  Avis Budget Group, Inc. - VP of IR
Larry De Shon  Avis Budget Group, Inc. - CEO
David Wyshner  Avis Budget Group, Inc. - President and CFO

CONFERENCE CALL PARTICIPANTS
Christopher Agnew  MKM Partners - Analyst
John Healy  Northcoast Research - Analyst
Chris Woronka  Deutsche Bank - Analyst
Michael Millman  Millman Research Associates - Analyst
Anjaneya Singh  Credit Suisse - Analyst
Dan Levy  Barclays Capital - Analyst

PRESENTATION
Operator

Good morning and welcome to the Avis Budget Group's third-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 Goldner - Avis Budget Group, Inc. - VP of IR

Thank you. Good morning, everyone, and thank you for joining us. On the call with me are Larry De Shon, our Chief Executive Officer, and David Wyshner, our President and Chief Financial Officer.

Before we begin I'd 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. Important risks, assumptions and other factors that could cause future results to differ materially from those expressed in the forward-looking statements are specified in the Company's earnings release and other periodic filings with the SEC, which are available on the investor relations section of our website at avisbudgetgroup.com.

We have provided slides to accompany this morning's conference call, which can be accessed on our website, as well. Our comments will focus on our adjusted results and other non-GAAP financial measures that are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

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

Larry De Shon - Avis Budget Group, Inc. - CEO

Thank you, Neal, and good morning. It's always nice to start a call with the phrase -- record results -- and that is exactly what we achieved in the third quarter. In fact, not only did we achieve record revenue this quarter, we also delivered record adjusted EBITDA and margins.
In the Americas, we kept our fleet tight throughout the quarter, which contributed to both higher realized pricing and higher utilization, which in turn contributed to double-digit EBITDA growth in our largest segment. And while we achieved record results and grew total adjusted EBITDA by 9%, the challenge we face is that we had targeted and expected even better numbers.

Demand was a little weaker than we had originally anticipated, particularly in our international segment where security issues and concerns impacted the summer peak. In this context, we took immediate steps to adjust our European fleet size and to respond to the competitive pressures that emerged and negatively impacted our realized pricing in Europe.

As a result, as you saw on last night’s release, we have reduced our full-year earnings estimate to be at approximately the low end of our previous estimate of $850 million to $900 million of EBITDA. In a year that has seen significant negative first-quarter pricing, fleet cost pressures, and an unstable geopolitical climate, this will be a meaningful accomplishment.

To get here we made significant progress on several key initiatives to drive higher margins. We achieved a substantial turnaround in pricing in the Americas. We have made progress in our manpower planning and shuttling initiatives, where we continue to see results in our productivity metrics. We have aggressively mitigated the effects of weaker vehicle residual values through the work of our fleet optimization and fleet management teams. And we have rigorously controlled costs while still investing in the key areas that we targeted earlier this year.

Let’s start today’s conversation talking a little bit more about the quarter. Third-quarter trends in the Americas were healthy. Rate per day increased 2%. And you can’t talk about positive pricing without talking about industry fleet levels, which seem to be reasonably tight relative to demand throughout the quarter, allowing us to capitalize on pricing opportunities.

Several factors contributed to the improvement. First, we continue to aggressively manage our fleet, placing vehicles in markets where demand was strong, increasing our utilization 70 basis points year over year, and more than 280 basis points over the past two years. In fact, our third-quarter utilization was our highest quarterly utilization in at least five years.

Second, our revenue management team was able to focus on higher price segments and customer channels, including an 11% increase in inbound leisure revenue. Third, we continued to use our demand fleet pricing yield management system to adjust millions of rates several times a day in response to changes and opportunities we see in the marketplace. In those markets with high demand and tight fleets, we were able to yield up and capture a higher price close-in business, evidenced by our leisure pricing increasing more than 4% in the quarter. And, finally, our Canadian business had a strong quarter, driven by strong domestic and inbound leisure travel.

On the volume side, our 2% rental day growth reflects our continued push for higher pricing, solid fleet utilization and our decision to walk away from some low-price business. Available data suggests that our US airport market share remains stable or even increased slightly.

Leisure volumes increased more than 2% in the quarter on top of the 6% growth in the prior-year third quarter. We’re still seeing benefit from our travel partnerships and marketing affiliations, as well as strong international inbound demand.

Commercial volume increased slightly. Our commercial account retention rate continued to exceed 99%, and we continue to add new account selectively.

It is important to remember that while increased volume on its own can be beneficial, we intentionally ran our fleet tight where we could this summer. In certain cases, that meant selling a car earlier than we normally would to help manage our fleet cost. This had the effect of helping our pricing and our fleet cost slightly at the expense of a bit of volume.

In our international segment, volumes increased 4%, driven by growth in leisure and commercial volumes in several countries. Leisure volume increased 4% driven by in-country demand in France, Italy and Spain. Commercial volume also grew 4% with higher seen in Germany, the UK and Scandinavia.
However, while our rental volumes were up year over year, demand was weaker than we had anticipated. International inbound volumes in Europe softened significantly as the summer progressed. Industry fleet levels turned out to be loose relative to demand in August and September and pricing was negatively impacted. Whether this was due to security concerns, Brexit, the Olympics, the economy, or some combination of these items, it's hard to tell.

Our international pricing declined 2% in the quarter, with particular weakness in those areas most reliant on international inbound, such as France, which saw pricing decline by more than 6% in the quarter, and Portugal where pricing was down 11%.

Despite this, there are several positives to take away from the quarter, including intra-country volume remains okay, with increases in some of our largest European markets, including Germany, France and Italy. Total revenue per day increased 1% in constant currency driven by a 12% increase in ancillary revenue. Per unit fleet costs remain manageable. And we announced the acquisition of France Cars which will give us an expanded footprint in the important French off-airport market and allow us to compete in the profitable van rental business throughout the country.

So, while the second half of the summer in Europe may not have played out the way we anticipated, our international segment delivered increased volumes, revenues, earnings, and margins. When you include the strong summer in the Americas, it all adds up to the best quarter in our history.

Looking forward, our business is well positioned as it faces some near-term hurdles. In the Americas, we expect that pricing and volume will be positive in the fourth quarter, but we are seeing some softness in demand. Our damage expenses are up amid the toughest year for weather damage since 2012. And we're seeing a delay in realizing the benefits from outsourcing of our vehicle claims process.

And in our international segment, we continue to expect that volume will be positive in the fourth quarter, although the softness in demand we saw in the third quarter is continuing into the fourth quarter. As a result, we’ve revised our EBITDA guidance for the full year to be approximately $850 million, which continues to include $50 million of incremental P&L investment in our business. We believe the softness in demand we're seeing is consistent with what the US travel association is saying about travel demand, with how airlines have been reducing their capacity growth, and commentary from hotel companies.

Despite our guidance revision, we remain enthusiastic. We continue to focus on generating higher margins by winning and retaining profitable customers, sing technology, innovating, managing costs and leveraging our people.

From an efficiency perspective, we have made good progress this quarter in our initiatives to improve manpower planning and shuttling at our locations. In our manpower initiative, we have been going through our locations and changing the way our staff approaches varying demand levels, repurposing resources to where they are the most needed, and adding more part-time staff to help with volume peaks. The impact has been immediate as our year-over-year productivity increased again in the third quarter. Looking forward, the next up is to incorporate technology to further optimize and automate the matching of staffing levels to our demand.

Shuttling has also continued to show significant improvement. We have allocated resources, implemented new processes and created oversight to help us refine our shuttling decisions. Once again the, the significant improvement we saw in shuttling expense per transaction in the second quarter continued into the third quarter. Yet we believe we are in early innings in this initiative.

Driving internal efficiencies is a key ingredient of future margin growth. And we will be speaking more about margin growth at are upcoming investor day on November 15.

On the innovation front, we launched Avis Now over the summer. More than 0.25 million customers have enrolled and over 150,000 rentals have been completed using the app. The initial customer response has been highly positive. Our customers have repeatedly told us how much they appreciate the time they are saving and the freedom they have to control their entire rental experience.

We're also giving them more functionality within the app every few weeks. Now customers have the ability to add satellite radio to their rental at any time during the rental transaction, simply by pressing a button on the app.
If you haven’t had the chance to use the service, I invite you to download the new app and sign up to become a preferred member. It only takes a couple of minutes to get unprecedented control over your rental experience.

So, to reiterate, we had a record third quarter. We have some challenges to overcome, and we are intently focused on tackling them to deliver the strongest possible results. We’re expecting positive fourth quarter pricing and volume in the Americas, and we are managing our fleet carefully.

We are growing internationally and continuing to expand our global footprint with the recently announced acquisition of France Cars, which we expect to close by the end of the year. We continue to invest in the business with further improvements in our manpower planning and shuttling initiatives.

With that I’ll turn the call over to David.

David Wyshner - Avis Budget Group, Inc. - President and CFO

Thanks, Larry, and good morning, everyone. Today I would like to discuss our third-quarter results, our fleet, Zipcar, our balance sheet and our outlook. My comments will focus on our adjusted results, which are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

Total revenue grew 3% in the quarter to a record $2.7 billion, driven by higher pricing in the Americas and volume growth throughout the world. Adjusted EBITDA increased 9% to a record $469 million in the quarter, primarily due to higher pricing in the Americas and increased volumes. Adjusted earnings per share increased 25% year over year.

Revenue in our Americas segment grew 3% in the third quarter. As Larry mentioned, volume was up 2%, driven by 2% growth in leisure rental days while commercial volumes increased slightly year over year. We achieved this volume growth while aggressively managing our fleet, driving more than 70 basis points of utilization improvement.

Pricing in the Americas increased 2%, continuing the positive trends we saw in the second quarter. Leisure pricing was up 4 points, while commercial pricing was down 1%. Adjusted EBITDA in the Americas increased 10% to a record $306 million, and margins expanded by more than 100 basis points.

Based on our results and current booking trends, we remain optimistic, knock wood, that pricing will remain positive for the balance of the year. This means that we expect to enter next year with three consecutive quarters of positive pricing behind us and an easy first-quarter comparison ahead of us.

Our international segment also had record revenue, earnings and margins in the quarter. Revenue grew 5% in constant currency, driven by a 4% increase in volume and 12% growth in higher margin ancillary revenues. The slowdown in demand that began in August did have an impact on our pricing, which declined 2% in constant currency. International adjusted EBITDA grew 7% to $179 million as higher volumes and growth in ancillary revenues were partially offset by lower pricing.

Despite the decline in rate per day, our international segment finished the quarter with margins above 21%, which is the highest quarterly margin for that segment since our acquisition of Avis Europe in 2011. This highlights productivity increases we’ve achieved, our close management of operating expenses, and the progress that our team has made in integrating our acquisitions, all to help drive higher margins.

Per-unit fleet costs in the Americas increased 2% in the third quarter to $310 per month. I want to highlight this number as this is the third quarter in a row where our per-unit fleet costs were between $310 and $315 a month.

Vehicle residual values have been lower than we anticipated at the start of the year, and our teams have been bold in implementing ways to manage and adjust our fleet this year to keep our per-unit fleet costs in this range. In particular, despite the increase in the supply of off-lease vehicles, we’ve
been able to dispose of our risk cars without any significant gain or loss on sale. We have optimized our fleet disposition schedule to be selling cars at the right times throughout the year. And as of today we have completed more than 90% of our planned risk car sales for the year.

And, finally, we continue to increase our use of alternative disposition channels. In the third quarter alone we sold almost 45% of our risk vehicles through alternative channels. This is important because reducing transportation costs and fees by using a non-auction channel can have the same impact as a 1 to 2 point increase in the residual value of a vehicle.

We continue to expand our direct-to-dealer network and are building our direct-to-consumer capabilities, including opening our first retail sales location in Vero Beach, Florida, with more planned in the future. As you saw in our earnings release last night, these actions have allowed us to tweak our full-year fleet cost estimate downward slightly for 2016.

This gives us optimism for next year, as well. Although we are still in the middle of our planning process, I want to give you some color around what we are expecting with respect to fleet costs.

There are several factors which determine our per-unit costs. The first two are the negotiated monthly cost of program cars and the purchase price of risk vehicles. During our model year 2017 negotiations, we saw upward cost pressure on program car costs, but the inflation pressure on risk car purchase prices was muted.

The next factor is our vehicle mix. While the size and type of car we buy won’t change much next year, we are adjusting our risk versus program composition in light of the upward pressure on program vehicle costs. Taking the risk car portion of our US fleet from 67% this year to north of 70% in 2017, will benefit fleet costs.

Another factor is our use of various vehicle disposition channels and our ability to choose the right time, mileage, place and method by which to dispose of a risk car. As I mentioned, we’ve been developing additional capabilities in this area, which will help us in 2017.

And the last factor is a trajectory of residual values. Used car prices have been stable over the last two quarters, even as new car sales have slowed, and we currently anticipate the residual values will remain soft next year by historical standards. Nonetheless, we feel confident that we can mitigate some of the pressures associated with residual values being below the longer-term trend.

We will do that by having thoughtfully optimized our model year 2017 purchases, moving to a higher percentage of risk cars, increasing our use of alternative disposition channels, and leveraging people and technology to routinely adjust our fleet sales plans based on changes in the marketplace. As a result, we expect the changes in our per-unit fleet costs next year will be lower than the 5% increase we estimate for this year.

Moving on to Zipcar, in the third quarter our car sharing brand had several successes, but none bigger than passing the 1 million member milestone. This is a significant achievement for the world’s leading car sharing network.

Certainly one of the key developments to help support past and future membership growth has been the launch of our instant join-and-drive capability, allowing new customers to sign up and enjoy their first Zipcar experience in minutes. Early indications of the benefit of this functionality have exceeded our expectations, as shortening the period from initial interest to first reservation really helps usage. We also expanded Zipcar’s one-way offering into Denver in the quarter, bringing to six the number of US cities in which we provide this service.

And we are excited about the launch of Zipcar in Belgium. Brussels becomes the first city where Zipcar offers a truly floating model we you can pick up a car and drop it off wherever you want within the confines of the city. This is a great example of our continuing to evolve the Zipcar experience in response to what our members want.

Zipcar now offers more products and services to our customers than ever. And the growth of our membership is evidence that we are successfully meeting important urban and campus mobility needs, and that our customers value the service we provide. We believe Zipcar remains a global leader in car sharing and a key part of the future of mobility.
Moving to our balance sheet, our liquidity position remains strong with more than $5 billion of available liquidity worldwide. We ended the quarter with more than $650 million of cash plus $300 million earmarked for corporate debt redemption, no borrowings under our corporate revolver, and nearly $1 billion of availability under that facility. We had unused capacity of more than $3 billion under various vehicle-backed funding programs.

Our ratio of net corporate debt to EBITDA was 3.4 times, consistent with our prior estimate of reducing our net leverage to less than 3.5 times before year end. Our access to capital to fund our business needs remains solid. In September we issued EUR300 million of eight-year notes at an interest rate of 4-1/8%. We used the proceeds from this offering to redeem a portion of our 6% notes due in 2021.

We have actively managed our corporate debt complex to take advantage of the favorable interest rate environment this year. And we have only $400 million of corporate debt coming due before 2021.

We continued to repurchase our stock aggressively in the third quarter, buying back 3.1 million shares or 3% of our shares outstanding at a cost of $110 million. That brings our year-to-date total through September to 9.5 million shares repurchased, or nearly 10% of our shares outstanding at a cost of $290 million. And we now expect to repurchase between $370 million and $400 million of common stock this year.

Our share count is 12% lower than it was a year ago. And to give you a sense as to how our growth and our share repurchases are combining to give each shareholder ownership of more car rental business, our revenues per diluted share in the third quarter were 17% higher than a year ago and our adjusted earnings per share were 25% higher.

As we think about the rest of the year, we’ve updated our estimates to reflect current conditions and the headwinds we’ve already discussed. As we announced last night, we expect our revenues to increase 3% this year compared with 2015, and our 2016 adjusted EBITDA estimate is now approximately $850 million. We updated our estimates primarily due to the softness in demand we’re seeing in various parts of the world and reduced benefits in 2016 from the outsourcing of our vehicle damage claims function.

Our forecast reflects our continued plan to invest $50 million through the P&L this year to support various growth, efficiency and innovation initiatives. Our full-year effective tax rate used to calculate adjusted net income will be approximately 39%. Our year-to-date effective tax rate has been a little lower than that. As a result, and similar to last year, folks who have maintained a detailed model will need to build a fourth-quarter catch up to get the full year to 39%.

We expect our full-year adjusted EPS to be around $2.93 per share, which includes the benefit of our continued share repurchase activity. I should note that the sum of our quarterly per-share earnings will probably be about a nickel higher than our full-year EPS calculation. It is the magnitude of our share repurchases combined with the seasonality of our earnings that is driving this difference.

We expect our cash taxes to be $50 million to $60 million and that our non-fleet capital expenditures will be roughly $200 million this year. As a result, we continue to expect our free cash flow to be $450 million to $500 million in 2016 absent any significant timing differences. This works out to roughly $5 per share and would be our fifth straight year with free cash flow of more than $450 million. It also means that our stock has recently been trading at a free cash flow yield of roughly 16% and that we are returning most of that yield to shareholders through share repurchases.

Finally, we continue to expect that currency will have a roughly $20 million negative effect on adjusted EBITDA this year. We have again provided a slide that lays out our estimate of the effects that currency movements will have for the year by quarter based on recent rates.

In closing, we had a record third quarter. In the Americas, the positive pricing trends we saw in the second quarter continued into the third quarter, while fleet costs stabilize. Internationally, revenue increased due to higher volumes and ancillary revenue growth, and our recent tuck-in acquisitions in Europe delivered incremental benefits.

The early results from Avis Now are encouraging, and we continue to provide more features and functionality through our app. We are seeing benefits from process improvements in our manpower planning and shuttling initiatives.
Zipcar past the significant million member milestone and our car sharing operations continue to grow and expand. We are facing some headwinds, primarily in the form of softer-than-expected demand in many regions of the world that are going to prevent us from reaching the high end of the earnings range that we estimated at the beginning of the year.

At the same time, we have been investing in our brands, our infrastructure and our technology throughout the year. We’re focused on growing our margin substantially over time as we did from 2010 to 2015. And we continue to generate a significant amount of free cash flow and to deploy it primarily for share repurchases.

With that, Larry and I would be happy to take your questions.

**QUESTIONS AND ANSWERS**

Operator

(Operator Instructions)

Christopher Agnew, MKM Partners.

**Christopher Agnew - MKM Partners - Analyst**

Thank you very much. Good morning. The first question I want to ask, could you share some light on the strength of international inbound, which I think, did you say it was up 12% in the third quarter. What are your assumptions going forward? And particularly what you saw last year at the beginning of this year in the first quarter, what are the risks to international inbound, particularly from UK visitors with the collapse in the British pound? Thanks.

**Larry De Shon - Avis Budget Group, Inc. - CEO**

Hi, Chris. It was up 11% in the quarter. As we go into this quarter, fourth quarter and first quarter, international inbound is less of a mix of our total volume. But I think it will continue to be strong.

It may not be up 11%, but I think it will continue to be strong as it goes into the US and also into Canada. Canada has enjoyed very strong inbound business pretty much all year long. I think it’s a little early yet to think about the first quarter of next year, but I would expect it to continue to be a good segment for us as we go through the balance of the year in both the US and Canada.

**Christopher Agnew - MKM Partners - Analyst**

Maybe just a last question, a follow up to that, given what you’ve experienced in the first quarter last year, and given you’re seeing softening demand in incorporate transient, and you are increasing your risk mix, has your ability to flex your fleet diminished in any way with increased risk mix? And how are you thinking about fleeting into the holiday period and into next year? Thanks.

**Larry De Shon - Avis Budget Group, Inc. - CEO**

I will answer the second part of the question first. We’re going to continue to try to keep our fleet under our projected demand. We’ve been trying to do that all year long, which you have seen the improvement in utilization in the quarter. And we’ve been seeing utilization improvement all year long. So, we will continue to keep fleet in demand.
I think when we take a look at the risk mix versus the risk and program mix, it doesn’t do us any good to do that if we don’t have the right flexibility to make sure that we keep our fleet in line. So, the optimization team that we have on our fleet department works really hard to take a look at those opportunities, increase the mix but also make sure that we keep our options open for making sure that we can keep our fleet in line with demand.

That is always going to be the first priority, and then as we look at that, then we’ll take a look at how the risk and program mix works through that. But we are not going to take an overly aggressive risk, making sure that we can keep our fleet where we need it.

Christopher Agnew  
MKM Partners - Analyst

Great, thank you.

Operator

John Healy, Northcoast Research.

John Healy  
Northcoast Research - Analyst

Thank you. Larry and David, I wanted to ask a little bit about the international business. When you look at the shortfall in the results there, is there a way to quantify what the EBITDA shortfall was in 3Q relative to your expectations?

And, additionally, is there a way to talk to how things healed up there? It seems like the issues were a little bit more shorter term and the industry has gotten fleet issues ironed out. Can you talk to how that happened so quickly?

David Wyshner  
Avis Budget Group, Inc. - President and CFO

Sure, John. As I look at our numbers, the midpoint of our prior guidance was $875 million, and our guidance now is approximately $850 million of EBITDA. So, there is a $25 million reduction there. I would say that slightly more than half slightly of that, roughly half of that, is tied to our international business, and that’s split, to an extent, between the third and the fourth quarters.

So, certainly the softness in demand that we saw impacted the third quarter a bit. We offset it by getting our fleet in line as quickly as possible. But I would break the impacts down in that way.

In terms of our fleet and how it lines up in the industry, I think what we have seen in international, particularly in Europe, the adjustment process across the industry tends to be longer and slower than what we often will see here in the United States. And, as a result, as volume softened in the third quarter, we saw industry fleets that were out of line with demand, and it really expressed itself in terms of pricing.

I think it’s taken a little while in Europe for fleets to get in line with demand and that continues to impact pricing there. So, there is a little bit of a delay mechanism in Europe compared to what we would see in the United States.

John Healy  
Northcoast Research - Analyst

Got you. And then I wanted to ask just about the 4% price increase that you saw in the Americas on leisure. Just going through my history with you guys, it seems like that’s probably the highest number that you have had, probably, on the leisure side in a number of years. Could you let us know when the last time leisure pricing was that high?

And then, secondly, I wanted to ask, you look at your 4% performance, do you view that as in line with the market, do you view that as better than the market? I can’t imagine underperforming the market with a 4% number, but just how you would rate your performance in 3Q.
David Wyshner - Avis Budget Group, Inc. - President and CFO

In terms of the leisure performance, certainly it was strong. We will get for you the last time we were at that level. I don’t remember that number off hand.

The issue of how we’re doing in the market, we feel that we are holding our share in the marketplace, and we are doing so by holding our fleet relatively tight compared to demand. And what that does is it probably means we give up a little bit -- not much, but a little bit -- on the volume side, and are getting a bit more on the price side as a result of that. That strategy has worked well for us. And I think you can see it play out in our leisure pricing.

The slide I have here indicates that the second quarter of 2014 -- so, a little over a couple of years ago -- was the last time we were at this level for leisure pricing. And if that is not right, we will double check and get back to you.

Larry De Shon - Avis Budget Group, Inc. - CEO

I would just add to that with inbound being up 11%, that's going to help drive a higher rate per day on leisure. So, with that mix being higher on inbound business, that's helping the rate per day, as well.

John Healy - Northcoast Research - Analyst

Dave, just one clarification. When you talk about the bridging of the $875 million at the mid point of your prior guidance to the $850 million today, $850 million is not the midpoint of your current guidance, that's just where you are expecting the business to be for the year, right?

David Wyshner - Avis Budget Group, Inc. - President and CFO

Yes. Our guidance for the full year is at approximately at the low end of our prior guidance of $850 million to $900 million of EBITDA. I would think of that as being right around $850 million.

John Healy - Northcoast Research - Analyst

Great, thank you.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - Deutsche Bank - Analyst

Good morning, guys. Could you remind us in fourth quarter of 2015 when the pricing began to go downhill so we can think about how the quarter might unfold this year?

David Wyshner - Avis Budget Group, Inc. - President and CFO

Sure. Last year the pricing softened, really, I would say, in the middle of the quarter, and was particularly tough in December. You may remember that December, where Florida and Southern California are particularly important, are where we started to see some of the challenges, both with
inbound business and general levels of demand. And, really, what happened is that as we moved into December, including the holiday period, things got progressively softer, and that really continued into January and February.

We got our fleet in line and we were able to use program car dispositions to keep our fleet in line. But it really took until March or even April before we feel industry fleets came into line with demand. So, there was certainly a four-month period there where we feel industry fleet levels were out of line with demand, and that’s what gives rise to what we hope will be a relatively easy comp for that period in time as we move into this winter.

Chris Woronka  
Deutsche Bank  
Analyst
Okay, great. And then you mentioned a delay in receiving some of the benefits of outsourcing the damage claims process. Is that still going to be a headwind next year or do you think that gets resolved by the beginning of 2017?

David Wyshner  
Avis Budget Group, Inc.  
President and CFO
Our hope is certainly that it gets resolved, and then ideally becomes a tailwind positive for us at some point in 2017. We’re seeing in our maintenance and damage costs some increased expenses this year driven in part by a really tough weather year for us, the worst we’ve had in several years. And the challenge we have is that compares to a forecast we had of doing a little bit better in maintenance and damage costs as a result of outsourcing this function. As a result, we have the gap there between what we had expected in terms of a positive, and then weather damage as a negative is impacting us, and the difference between those two is north of $10 million this year.

Chris Woronka  
Deutsche Bank  
Analyst
Okay. Very good. Thank you.

Operator
Michael Millman, Millman Research Associates.

Michael Millman  
Millman Research Associates  
Analyst
Thank you. Regarding your leisure pricing in the US, can you break that down by different markets, and particularly that part of the market which is market price as opposed to some of the more sticky leisure markets?

Larry De Shon  
Avis Budget Group, Inc.  
CEO
We don’t really break it down by market, Michael. But overall I would say the quarter was strong. It was strongly, really, each month of the quarter. And once again, I think a big part of it relates to the very strong inbound leisure business that came in in the quarter, and particularly in Canada, as well.

And I would suspect that those gateway markets, if I were to go back and look at it, I would expect the gateway markets are probably very strong on the inbound business and driving some of the leisure pricing up. We saw some very strong demand in some key markets like Denver, Salt Lake, Chicago, Southern California, Northern California, Boston, for example, New York. Those were markets over the summer that performed pretty well.
Michael Millman - Millman Research Associates - Analyst

Thank you. Could you also talk about what you’re seeing from competition? Usually if competition is not going along it’s very difficult for one company to go in a different direction. So, what differences have you seen? And can you talk about whether you think that’s going to continue or there’s some short-term effect?

David Wyshner - Avis Budget Group, Inc. - President and CFO

Sure, Mike. What I think we are seeing across the industry is fleets in line with the demand that’s there. And that more than anything else, I think, is the driver of what we had in the third quarter in terms of a reasonably healthy environment for pricing, despite demand that was a little bit softer than we had anticipated. And I think that is the principal driver of what we are seeing in the marketplace and certainly positively impacted our ability to get positive pricing in the quarter.

I think the way pricing is playing out on a day-to-day basis is working well for us. It’s not really about there is a price increase of $5 a day, $25 a week, and some people are matching that or not matching that or not matching that or reacting to it. Rather it is the day-to-day, week-to-week pricing activity where we feel industry fleets are in line. It’s giving us some opportunity, and we are taking advantage of our fleet being in line and our demand fleet pricing yield management system, including our pricing robotic, to be able to realize price increases in that environment. And that’s the way I would think about the pricing and fleet dynamics that you asked about.

Michael Millman - Millman Research Associates - Analyst

Great thank you. Appreciate it.

Operator
Anjaneya Singh, Credit Suisse.

Anjaneya Singh - Credit Suisse - Analyst

Hi. Good morning. Thanks for taking my questions. First off, I was hoping you could touch a little bit on your utilization improvements in the Americas. Could you give us a sense of how much more room for improvement there may be or how far we may be from peak utilization? Clearly, your fleets ran tight, but trying to understand how much more contribution could your demand fleet pricing system yield along with other factors.

Larry De Shon - Avis Budget Group, Inc. - CEO

I think it’s probably a little difficult to put an actual number to it. I know that the team continues to work getting more sophisticated, using more data analytics to get more specific and with more science on how they are placing the fleet to go after the demand opportunities. I think that is what you saw in this quarter where we ran the fleet tight, we put our fleet where we thought the highest revenue per day opportunities were. We probably rejected some demand in some other markets where we pulled fleet from, trying to balance that with our shuttling initiatives.

And then we look back over the quarter and take a look at how well did we do. What really worked in that and what didn’t work in that, and make the adjustments as we go into the next quarter, with the goal of reducing our shuttling cost but continuing to improve our utilization. So, that’s always an important balance that you have to strike, and it’s not easy.

So, I think through better data analytics, more resources on it, I think our fleet optimization guys are doing a really good job. And they learn every month on how to do that a little bit better and a little bit better as we go. So, I would continue to hope that we can grow our utilization while we’re bringing our shuttling costs down and maximizing the revenue per day.
David Wyshner - Avis Budget Group, Inc. - President and CFO

And I would just add to that I would highlight the fact that we increased our pricing and our utilization at the same time. We are not out there solely trying to maximize utilization. We are doing so in the context of trying to take business that is profitable for us and getting price along the way. And I think that dynamic is really important.

So, it's not solely about maximizing utilization. We do want to move it up, but it's in the context of getting price and taking business in which we can generate a healthy margin.

Anjaneya Singh - Credit Suisse - Analyst

Okay, got it. That's helpful. And then for a follow up, I was wondering, how do we think about the opportunity that there may be on the mix of vehicles deleted through alternative disposition channels? I realize you guys have considerably improved your percentage of vehicle deletes through such channels. But you are mentioning that you are developing some additional capabilities there, and I know your mix is south of where some of your peers are. So, perhaps some thoughts on those points? Thanks.

Larry De Shon - Avis Budget Group, Inc. - CEO

Thank you. I think we're pretty much in early innings there. We had the best quarter this past quarter than we have had in the alternatives disposition channels. We continue to take a look at all the different channels among that group of alternatives to see how we can continue to maximize and grow that. Part of our plan as we grow our risk fleet for next year is to make sure that we can maximize that.

So, we've got a team of people taking a look at that. We have been running some tests with partners out there. We're looking at increasing the number of our own retail lots that we are opening. We're increasing our ultimate test drive product.

So, we will continue to work on that every quarter to continue to drive the percentage that we sell through the alternative channels up. I think we are long ways from where we can be. I think we've got a lot of upside potential here. And, as I said, I think we're pretty much in the early innings at this point.

Anjaneya Singh - Credit Suisse - Analyst

Okay, appreciate it. Thanks so much.

Operator

Brian Johnson, Barclays.

Dan Levy - Barclays Capital - Analyst

Hi, this is Dan Levy on. Thanks for taking the question. I wanted to ask, on the strength of margins in Americas, I think 16.8 is a quarterly record in the segment. And I know that you add obviously the big items, better pricing, better utilization, and increase in fleet cost was contained. But were there any other items driving that result, any one-time benefits on costs or otherwise? I'm just trying to get a sense of sustainability on that result.
Larry De Shon - Avis Budget Group, Inc. - CEO

No, there is really no-one time benefits. I think what you also see playing through there is the work that we’ve been doing on driving efficiencies in areas like manpower and shuttling, which has been two big initiatives we’ve been working on all year. And that’s really what we’ve got to continue to do.

We’re going to look for every pricing opportunity that we can on our revenue management. And our fleet teams working together are getting better and better at how they optimize those opportunities.

But what we also have to do is make sure that we are driving efficiencies everywhere that we possibly can. That also plays into the innovations that we’re doing, like Avis Now, which will hopefully give us more productivity opportunities and lower our costs over time. And that’s been a big home run for us as we’ve launched that this year. And we’re seeing the uptake of customers and rolling into Avis Now increasing significantly. And their acceptance of it, and how much they really enjoy and like it has been really terrific for us.

So, you’ll see us just continue to work on those parts of the Company where we can drive efficiencies, bring our costs down, drive our productivity, reduce our shuttling cost, reduce maintenance cost. And I think that is some of what you are seeing play through there.

Dan Levy - Barclays Capital - Analyst

Okay. And one other follow up just on the Americas margin or within that. I think what was unique in the quarter was that you had pricing up solidly, but fleet costs came up lower than expected. Admittedly they were, so, admittedly, implying there was probably a net benefit between the two as it relates to your margins. Usually you have, it seems, the two move in the same direction. You have higher pricing coincide with higher fleet costs so there is an offset on the impact on margin. Can you just comment on that dynamic in the quarter? Was there a timing issue or fleet levels just much tighter than usual?

Larry De Shon - Avis Budget Group, Inc. - CEO

Sure. I think the dynamic in terms of pricing moving with fleet costs is one that tends to play out over a longer period of time and is not as clean or as perfect where the two will move in sync in a given quarter. We saw pricing up 2, fleet costs up 2, so the pricing has a greater impact there, but there’s also a similarity in terms of the percentage increase.

And as we think about this on a broader basis, I still think there is opportunity. When we look at 2016 as a whole, we are looking at pricing that for us is going to be relatively flat, unchanged year over year, while fleet costs are up 5%. And, to me, that creates an opportunity for us to continue to catch up there to the fleet cost pressures that we have seen this year. And I hope that will play out in our favor over time.

So, while the third quarter saw fleet costs and pricing in line with one another, over a longer period of time, I hope we can get a bit more pricing to offset the 5% increase in fleet cost pressure that we are seeing over the course of the year.

Dan Levy - Barclays Capital - Analyst

Understood. Thank you.

Operator

Thank you. For closing remarks the call is being turned back to Mr. Larry De Shon. Please go ahead, sir.
Larry De Shon - Avis Budget Group, Inc. - CEO

Thank you. Before we close, I think it’s important to reiterate the key takeaways from today’s call. The third quarter was the most profitable quarter in our Company’s history. Pricing continues to be positive in the Americas as we deal with a softer-than-expected demand environment in the fourth quarter. And our investment in the business, including Avis Now, and our efficiency initiatives are already providing benefits.

We’ll be hosting an investor day to discuss our plans for the future on November 15 in New York City. The day will include presentations by each of our regional Presidents, our Chief Marketing Officer, as well as David and me. If you haven’t registered for the event, you can do so at our investor relations website, ir.avisbudgetgroup.com. I hope to see many of you there.

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

Operator

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