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CAR.OQ - Q4 2021 Avis Budget Group Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Avis Budget Group Fourth Quarter 2021 Earnings Call. (Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. David Calabria, Treasurer and Senior Vice President of Corporate Finance for Avis Budget Group. Thank you. You may begin.

David T. Calabria - *Avis Budget Group, Inc. - Treasurer & Senior VP of Corporate Finance*

Good morning, everyone, and thank you for joining us. On the call with me are Joe Ferraro, our Chief Executive Officer; and Brian Choi, our Chief Financial Officer.

Before we begin, I would like to remind everyone that we will be discussing forward-looking information, including potential future financial performance, which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks and assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results, and any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements.

On this call, we will discuss certain non-GAAP financial measures. Please refer to our earnings press release, which is available on our website, for how we define these measures and reconciliations to the closest comparable GAAP measures.

With that, I'd like to turn the call over to Joe.

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

Thank you, David. Good morning, everyone, and thank you for joining us today. Yesterday, we released results that reflect our continued operational transformation and the benefits this brings to our bottom line.

Back in August, we reported our best-ever second quarter revenue, adjusted EBITDA and margin in our company's 75-year history. In November, we reported our best-ever third quarter along those same metrics. Today, we report our best-ever fourth quarter and full fiscal year in our company's history.

I'd like to start this call by thanking all of our employees for doing their part day in and day out to help make 2021 such a historic year for Avis Budget Group. Each quarter of 2021 presented new challenges for us to overcome. This most recent fourth quarter was no exception given the disruption caused by the Omicron variant beginning late November.

October started off with terrific commercial and leisure demand and elevated price. November continued with much of the same through Thanksgiving. And then the variant started to impact travel and our business. Obviously, the pullback in rental demand was an unwelcome sight, but the silver lining of Omicron was seeing how our team responded to it. We've dealt with COVID variants before and know, through the education of hard experience, that stringent cost discipline combined with operational excellence can surmount even the most daunting macroeconomic challenges.

We've been through periods in our recent past where we've had to quickly pivot from defense to offense or offense to defense. What I found remarkable about December was how we were able to play offense from a position of defense. We found pockets of opportunity and leaned into them. We deployed resources where there was a turn to be made and practiced austerity otherwise. To put it simply, we're getting better. We're becoming better operators, a better management team and a better organization.

I firmly believe that companies, like people, only grow when truly tested. How do you know what you're capable of if you're not pushed? We were tested in 2020, and I feel we've grown tremendously as an organization throughout 2021.

How our team responded in December shows that we are only just hitting our stride. We entered 2022 ready to challenge ourselves, grow as an organization and continue to build on the transformation of Avis Budget Group. In the quarters to come, our team will show through our results what I just outlined in rhetoric. But until then, let me recap our historic fourth quarter results. And as usual, let's start with the Americas segment.

As you'll recall, last quarter, we said that demand for travel in the U.S. showed positive momentum through the third quarter. That strength in demand continued into the fourth quarter until December. However, despite the effect that Omicron had to overall demand in December, we were able to redistribute fleet to those regions where travel remained robust such as warmer climate leisure destinations as well as the mountain areas where vacations were plentiful and Christmas holiday was surprisingly strong.

By optimizing our fleet supply to demand, the Americas segment was able to achieved more than a 5% growth in rental days this quarter versus the fourth quarter of 2019. We're able to achieve this while maintaining robust RPD given the tightened overall industry supply of rental cars.

Speaking of RPD, this is the first quarter in over a year where we saw a sequential decline. RPD in the fourth quarter of 2021 was down 10% from the previous quarter but up 30% versus the same period in 2019. This increase was achieved despite the RPD headwinds from our commercial rental days being higher this quarter than the fourth quarter of 2019.

On our last call, I mentioned that rate in the marketplace appeared to be returning to normal seasonality. Unfortunately, this statement was made prior to Omicron. And due to the new variant, we did not experience the normal seasonality trends this fourth quarter. In normal years, December is the month with the highest RPD in the fourth quarter given the peakiness of Christmas. However, in 2021, December represented our lowest RPD in the fourth quarter. We believe rate should normalize once we move past Omicron and turn to normal seasonal trends.

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Utilization for the quarter in the Americas was 70%, slightly below the 72% we achieved in the third quarter but above where we were in the fourth quarter of 2019. As with the case last quarter, our supply chain teams were able to handle labor and parts challenges extremely well. The fact that our fleet teams were able to achieved a utilization rate higher than the fourth quarter of 2019 despite these hurdles is truly impressive.

In the Americas, revenue increased by $1.1 billion year-over-year. Americas adjusted EBITDA during the same period increased by over $550 million for an incremental margin of 52%. On a 2-year basis, if you compare our most recent results in the fourth quarter of 2019, Americas revenue increased by $570 million, while adjusted EBITDA increased by $526 million or an incremental margin of 92%.

As was the case in the second quarter and the third quarter of 2021, favorable residual values as it pertains to used cars and a strong rate environment optimized by our proprietary demand fleet pricing system helped achieve these results. But it was our focus on cost discipline that enabled these benefits to fall directly to adjusted EBITDA.

There's not much more to say about the fourth quarter in the Americas. The numbers speak for themselves. So instead, let me spend some time on what we're currently seeing in the Americas.

In a normal year, January has a noticeable drop-off from December in both rental days and RPD. This is understandable given that December has a major holiday geared towards leisure and January is primarily commercial-heavy month.

With many companies reintroducing work-from-home policies for the start of this year, we recognized declines in rental days similar to the seasonal declines from December of 2019 to January of 2020. However, RPD in January was sequentially down from December, but it's not down nearly as much as we see in a year with normal seasonality. Some of this is a benefit mix with leisure typically holding a higher RPD than commercial. But some of it also speaks to the fact that despite Omicron and its effect on commercial demand and despite there being no major holidays to spur leisure, the overall rent-a-car industry still has more demand than supply.

For competitive reasons, that's about as much detail as we're comfortable getting into. But given the current trends, we are cautiously optimistic about what a rebound in demand could mean once COVID is behind us.

With that, let's move to our International segment, where we're seeing a very different story. I mentioned on our last call that APAC was hit with very strict lockdowns in the third quarter due to rising virus transmissions in Australia and New Zealand. However, on the positive side, I stated on our last call that EMEA was starting to see the green shoots in demand. Unfortunately, the APAC lockdown story continued during the fourth quarter, and those green shoots in EMEA never blossomed.

Given the importance of Christmas and the ski season in December for Europe, the restrictions implemented due to Omicron capped any sort of potential upside. And yet, once again, despite these headwinds, our International segment was able to achieve positive adjusted EBITDA of $32 million.

On a total International basis, adjusted EBITDA has gone from negative $28 million in the fourth quarter of 2020 to positive $32 million in this most recent quarter. That is over $60 million improvement in adjusted EBITDA on $143 million of revenue gains, representing a contribution margin of 42% despite there being a headwind of depreciation costs.

That's impressive. But their achievement is much more notable when compared to the fourth quarter of 2019. Despite having over $160 million in lower revenue, adjusted EBITDA in the fourth quarter of 2021 was actually $16 million higher than the fourth quarter of 2019.

Yes, rate contributed but not enough to overcome the volume declines. This was made possible entirely by cost mitigation. Our International team based out of the U.K. perfectly embodies the keep-calm-and-carry-on spirit. They never complain about those factors out of their control and instead spend all their energy fighting for every last penny of cost savings.

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I have no doubt that eventually, International will see latent consumer travel demand materialize, strengthening rental days. Their focus on cost mitigation and operational excellence to survive these lean times will translate to outside adjusted EBITDA drop-throughs when better days arrive. Until then, they'll keep executing the same playbook that enabled them to get through this pandemic.

Moving on to fleet. Where consistent in the last quarter, we'll focus more on the Americas segment.

In the Americas, our average fleet size in the quarter was 435,000 vehicles, the largest amount of vehicles since the pandemic and higher than 2019. We have a solid history of aligning fleet with demand, and this year was no different, achieving higher utilization in the fourth quarter of 2021 than we did in the fourth quarter of 2019 with more cars.

Unfortunately, much like the 2021, there is some degree of uncertainty when it comes to receiving new vehicles these days. Our OEM partners are doing everything they can do to hit production schedules. But supply chain issues, labor shortages due to Omicron and pressure on new car inventories are making that difficult and visibility has become closer in a way.

In terms of our model year 2022 fleet buy, there haven't been many new developments. Consistent with my commentary last quarter, given chip shortages and choke points throughout the global supply chain, many OEMs are still working through their 2022 planning and delivery schedules, and we are working with them on solutions. The relationships we developed with our OEM partners over decades allows us to iterate quickly with the goal of mutually optimizing 2022 fleet delivery. We're continuing our strategy of growing our relations with key OEM partners while maintaining a disciplined fleet buy relative to consumer demand.

Next, I would like to discuss the continued improvements with our technology and customer experience.

We continue to expand our use of technology with our Avis Quickpass offering. For those unfamiliar with the product, this enables our preferred customers upon arrival to select from a choice of vehicles on their phone, proceed directly to their car and then utilize a unique QR code to exit via our automated Express Exit for a completely contactless experience. Additionally, upon vehicle return, customers can close out their rental themselves, enabled by our connected car technology for an expedited and automated completion of their rental. We are working towards deploying Quickpass at all of our major airports.

Next, let me comment on Avis' commitment to safety and our latest views around industry disruptions caused by COVID-19.

Our Avis Safety Pledge and Budget Worry-Free Promise remain in full effect and provides both our customers and our employees industry-leading protocols to keep everyone safe. The disruption from Omicron that I mentioned earlier is obviously not unique to Avis. The entire travel sector has seen a pullback to start this year as Omicron has had a negative effect on early quarter demand. Forward bookings, however, are strengthening and leisure demand increasing. Reservation booking patterns, those seen in at the start of the quarter, are changed to be more further out as consumer confidence grows, suggesting a strong underlying travel demand through the end of the quarter and beyond.

2021 is a historic and banner for Avis. We overcame certain macroeconomic headwinds and capitalized on other macroeconomic tailwinds. But underpinning the puts and takes of the macroeconomic environment was our internal ability to optimize those factors within our control such as cost savings, fleet management and distribution and supply chain optimization. These core competencies are pillars of strength in any environment, both good and bad. We've learned so much about ourselves through these past 2 years that I can confidently say that we as a company are forever changed.

2021 showed us what's possible. It's now on us to prove that structurally higher earnings are repeatable year after year. We begin with the first quarter of 2022, which I believe will be the most profitable first quarter in the history of the company despite the disruption of Omicron. There are challenges ahead of us. But as we've shown throughout 2021, we at Avis work to find a way.

With that, I'll turn it over to Brian to discuss liquidity and our outlook.

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Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Thank you, Joe, and good morning, everyone. I will now discuss our liquidity and near-term outlook. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in both our press release and earnings call presentation.

I'd like to start off by talking about our capital allocation in 2021. For the full year '21, Avis generated $2.4 billion in free cash flow, excluding vehicle programs. Roughly $250 million of that was spent retiring our 5.25% senior notes. Another $630 million was invested into our vehicle programs.

For context, during the first year of the pandemic, we pulled around $800 million in cash from our vehicle programs to survive between the first quarter of '20 and third quarter of '20. Since then, we've plowed over $1.2 billion back into vehicle programs, representing a net cash inflow of $400 million since year-end 2019. This additional cash infusion, combined with the market value of our fleet, means our vehicle programs are in the strongest position they've ever been in.

The bulk of our capital allocation, $1.4 billion, was spent on share repurchases in the back half of 2021. In the past 2 quarters, we retired 14.2 million shares, over 20% of the company's shares outstanding, as of the end of the second quarter. Our volume-weighted average price of these repurchased shares was $101, representing a 44% discount to the closing price of February 11.

We believe our stock was undervalued and moved aggressively to take advantage of an opportunity to create permanent value for our shareholders. But I'd like to remind investors of what I said on our last call. We will be nimble with how we deploy capital at Avis. Just because we viewed share repurchase as the best use of capital in 2021 does not mean we will formulaically allocate a similar amount of capital to this area in 2022. We will opportunistically allocate capital to those areas that best benefit all stakeholders of Avis Budget Group.

So to take a step back, after executing on our capital allocation strategy throughout the year, we find ourselves beginning 2022 with our balance sheet in the strongest position it's ever been in. Our net debt-to-full year adjusted EBITDA is our lowest in company history at less than 1.5x. That's less than half of the low range of our 3 to 4x historical target.

As of December 31, we had available liquidity of more than $750 million with additional borrowing capacity of $2.6 billion in our ABS facilities. Our corporate debt is well laddered with 83% of our corporate debt having maturities in 2026 or beyond. And we are in compliance with all of our secured financing facilities around the world with significant headroom on our maintenance covenant tests as of the end of December.

Let's move on to outlook. On our last call, we announced that we've made the decision as a management team to forego giving formal annual guidance to allow ourselves the flexibility to make agile decisions as the business environment changes. But I do want to provide a bit of color on what we're currently seeing.

As mentioned earlier on the call, year-to-date, Omicron had a noticeable impact to travel demand during the start of the quarter, which dampened rental days. Given the dearth of commercial travel throughout January and the beginning of February, midweek utilization has been challenged. And due to chip shortages and choke points throughout the global supply chain, many OEMs are still working through their 2022 planning and delivery schedules, and we are working with them on solutions. That's what we've had going against us thus far, and it hasn't been the start of the year which we would have chosen.

But here's what we have going for us. Underlying travel demand remains robust. Omicron infections appear to be receding, the used car market is still strong and we at Avis are running on all cylinders when it comes to managing operating costs and improving productivity.

Early indications suggest that beginning with Presidents' Day, demand should strengthen. Our hope is that the first quarter of 2022 is similar to what we experienced in the first quarter of 2021, which was a challenging beginning of the quarter followed by recovery in the back half.

Obviously, we can't predict how Omicron declines or how other variants could materialize. But as of now, we believe that despite the macro challenges caused by Omicron to the start of the year, our cost mitigation and revenue optimization strategy will enable us to deliver the best first quarter adjusted EBITDA in our company's history.

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With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Aileen Smith with Bank of America.

Aileen Elizabeth Smith - *BofA Securities, Research Division - Analyst*

Great results. First question on some of the fleeting dynamics in the fourth quarter. We had certainly been anticipating that you would hold on to more vehicles in the quarter despite seasonal patterns of defleeting due to the production environment that was probably going to remain under pressure through this year. But a 70% utilization rate in the Americas in a quarter is not indicative of being overfleeted even on a temporary basis.

So were you still feeling the pressure of getting enough vehicles on hand in the quarter? And is there a way to triangulate perhaps what your optimal fleet size and optimal rental days would have been in the quarter if some of the supply constraints were not present, meaning would you have gone out and acquired perhaps more vehicles in the quarter if possible to meet demand?

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

This is Joe. I've been saying for the last couple of quarters, including in my prepared remarks today, that the fleet situation is certainly a very fluid one. It has not been normalized from 2019, and it's not going to be normalized as we see going forward.

We are working with the OEMs on their distribution schedules. But as we went through 2021, we had cars that were canceled for chip shortages and Omicron issues, et cetera. And we had cars that were delayed.

What I think you found in the fourth quarter was some cars that were probably going to come maybe in the mid-third arrived late, and we took them. And important for us was the fact that we can maintain a young-age fleet with normalized mileage accretion.

I think one of the hidden benefits of what we do, one of our core competencies, is not just how we buy cars and sell them but how we rotate the fleet. And getting the new cars in whenever that happens allows us to do just that, and we are very sensitive towards that.

As far as getting cars going forward, we are working with our OEM partners. As I said in the past, we deal with virtually all of them. And there are certain things that happened during the course of the quarter or the course of the month, and we have to react towards that. And they react with us. And so I was pretty pleased with receiving those new cars.

I also think the utilization was indicative of the demand of the apparent demand that was in the business during that last quarter.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Aileen, just to touch on the second part of your question in terms of like what would we have gotten to if supply hasn't been a constraint. We don't manage to a target rental days in a year. And especially given what we've been through in the last 2 years, we fully realized that competing based on price, and that's how you get there if you want to target days, is you compete on price. We realized that that's not how you maximize profit. So we choose instead to compete based on the quality of our product and our service. And our team works every day to ensure that we earn the rate that we have out there and provide a strong value proposition to our customers.

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Aileen Elizabeth Smith - *BofA Securities, Research Division - Analyst*

Okay. Great. That's helpful. And then a second question on the pricing dynamics in the Americas. I understand there are a lot of puts and takes to pricing in any given quarter, and you cited some of the dynamic of Omicron in December. But I think there's a concern that pricing may be starting to perhaps roll over.

In the quarter, is it possible to identify what you think were the main factors for the sequential decline in revenue per day, whether it's the typical seasonality or the supply versus demand environment or maybe even perhaps the return of commercial business, which typically comes on at lower revenue per day, and what you think is more important than others?

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

Yes. So maybe I can unpack the quarter a bit for you. October started off with very high volume and increased demand, both commercially and leisure. The Columbus Day holiday was very good. We saw that continuing throughout the month of November, both positive commercial and positive leisure.

And then towards the end of November, the announcement came out about the variant like coming into the United States and the case count started to go up. And everyone saw that, and that had a material effect on travel.

We got through the beginnings of the quarter, and then towards the end of the quarter was the Christmas holiday. And normally, as we said, our December is usually higher than October and November. We did see some downward pressure largely due to that variant.

I will say this, too. If you just look at the holiday adjusted for -- as a stand-alone, holiday was later this year. And think about what happened early on in the month of January. You had this Omicron variant that was pretty apparent. What happened in October was people went back to their work offices. And in January, they again most likely worked from home, which, given, wherever they were, the opportunity to keep the car out on rent. So we saw like some of that December holiday bleed into, certainly bleed into January.

What we've seen going forward is an underlying strength in price. And that's pretty evident.

Operator

Our next question comes from the line of Hamzah Mazari with Jefferies.

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Just following up on the pricing commentary. Do you have a sense of how much corporate kind of impacts revenue per day? And then just reading into your comments, you think pricing is going to be stronger in February versus January versus December and March will be stronger versus February? I know your guide is only to Q1, but should we be thinking about pricing in Q1 higher RPD versus Q4? Just parsing out some of the pricing comments you made both in your prepared remarks and kind of just in the last call color.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

I'll take the first part of that question on the corporate and leisure dynamic and Joe can take kind of the second part of your question.

But due to competitive reasons, I don't think we're getting into any more detail than like, as you know, our contracted commercial rates are typically lower than our spot leisure rates that you see out in the market. So when we have more commercial business, as we did in the fourth quarter than previously, than in previous quarters in '21, like that has a slight impact to rate. But, I mean, that's about as much as, as much detail as we're comfortable giving.

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In terms of how the cadence of rate evolved throughout the first quarter, I'm not going to get into much. Joe can provide a little bit of color.

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

Yes. Seasonality certainly is seen here. The Christmas peak holiday has very high leisure rates, and then you come off this into January. I think if you look at it on an absolute basis, you're going to definitely see that. But what we have seen early on is an improvement compared to what you would normally see in seasonality.

And there is this underbelly of demand in our industry right now. There is this, it started off slow with the variant. But if you take a look at what we're about to go through, Presidents' Day, it was actually a week sooner last year. But Presidents' Day this week and then the month of March, both of those look to be periods of increased demand and improved price.

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Got it. Very helpful. And just my follow-up question is just around International supply/demand dynamics versus the U.S. market. I know you mentioned in your prepared remarks a strong cost performance internationally. But anything you would sort of call out in terms of International supply/demand dynamics that you expect this year or Q1? And maybe longer term, if there's anything structurally going on there that's different than what we saw in the U.S.

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

International, well the U.S. came out with its sequentially improved activity, International we've seen a lot of restrictions. And that story has yet to be told about what would happen when the restrictions start to dissipate.

I think if you look back to last year, we saw a definite pricing power in the third quarter and a tremendous amount of increased demand. Is it back to normalized levels? No, not by a long shot. That's why I think we continue to concentrate on our cost removal strategies, which were very much apparent in the third and the fourth quarter when we had improved EBITDA over 2019 and less than like $150 million or $160 million less revenue.

We manage supply and demand the same way we do in International as here. We set our fleet strategy slightly below what we believe our demand is and deal with it that way. But I do believe that once demand does come back in International, we will see that same, maybe not to the degree that we saw early on here, but that same ability of getting improved price.

Operator

Our next question comes from the line of Billy Kovanis with Morgan Stanley.

Billy Kovanis - *Morgan Stanley, Research Division - Research Associate*

Joe and Brian, solid results here. It looks like travel is returning in a strong fashion. Question is on cost structure. Given the strong demand, can you update us on the incremental spend you expect from hiring more workers, especially given this tight labor market?

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

Yes. We experienced that just like everybody else did during the, a good time, a good portion of last year, and we will experience that. What I've seen, however, is our ability to improve productivity and do it in a way that doesn't jeopardize any service levels.

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We came out with our touchless product last year. And to a large degree, that's more or less a self-service type of product, which enables us to do a good deal of demand without having to have all that labor to kind of support that. And we were able to implement that at a good number of our locations throughout the U.S.

So yes, we've seen some of that pressure that you might talk about, hiring or inflation, but we have a number of strategies that we've been working on since 2020 to kind of deal with that level of pressure, one of which is certainly efficiency and how we manage productivity, or in the field.

We've taken out a lot of costs in the back office. We have accounting monetization technology that allows us to be more efficient there. We have our in-car technology that gives us a better return on gasoline than we had seeing as the rise in gas prices. That has certainly helped us. And we have our proprietary demand for the pricing system that enables us to get cars in the right spots in an efficient manner. So while we have seen some of that pressure, we certainly have programs aligned to combat that.

Billy Kovanis - *Morgan Stanley, Research Division - Research Associate*

Got it. And just a quick follow-up there. I think Brian talked to the market about, in early 2020, around $200 million in sort of permanent cost savings. Just wondering if you're willing to update the market now on sort of what you see as permanently removed

(technical difficulty)

just naturally come back as demand comes back. Is there a number you can share at this point?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Yes, Billy, we're not comfortable sharing a number on that at this moment. But to Joe's point, things like you said in terms of labor inflation, that's not something that's unique to this year. We dealt with that all of last year, and we're going to be dealing with that with like minimum wage increases and things like that going forward.

So from our perspective, we, throughout last year and this year, have been investing in giving our field the technology and resources that they need in order to maximize productivity in order to offset those increases.

Going back to your question, I know we gave a bogey in terms of where we expect to be, but no update to that at this time other than we think that there's actually more to be had.

Operator

Our next question comes from the line of Brian Johnson with Barclays.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

I have two questions. First, you talk about the sequential decline in pricing from December to January being better-than-normal seasonality. On the other hand, you did note that December was a weaker RPD than uplift versus the rest of the quarter due to the travel hesitation on Omicron. So could you give us a sense of how January pricing shaped up against all of 4Q? And in my second question, I want to kind of go into the corporate travel trends.

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Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure, Brian. Let me start off with that. And I know we gave some color in the prepared remarks, but the reason why we gave that color was that's kind of what we were comfortable giving. We don't want to get into this, and this isn't just for you but for any other follow-up questions on the call. We're not going to be getting into like month-by-month detail of RPD buildup.

Joe can get into some of the unique dynamics around December and January in terms of why we've been seeing that, but we won't be giving kind of monthly RPD updates either in these calls or going forward.

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

Yes, I think you had it right. The travel disruption based on Omicron certainly spoiled the tail end of November and the beginning certainly of December. We did see strong Christmas demand, and we did see strong Christmas price. So that was very much evident. And there was a lot, there was a good buildup of demand.

If you think about it, last year, virtually Thanksgiving was a washout because of travel restrictions and things of that nature. And to a large degree, so was Christmas. I do think Christmas was a bit later. If you think about the calendar, people took off after the holiday instead of before, which has a material effect on what you see as that happens in the pure month. So we did see, in the month of January, some dynamics that would say that we performed better than seasonality as far as price.

There was a comment, a part of your question about what we're seeing about commercial.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Yes.

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

In the quarter were a big pent-up demand about commercial. If you think about it, people weren't back in their offices to a large degree during the 2021 period, but there were many return-to-work dates out there that started after the summer. Summer ended August. We were dealing with the Delta variant at the time and probably that through some part of September.

But then people did return to work. And when they returned to work, what we've been seeing and were saying is that there would be more travel. And we saw that when it, I think there was a lot of pent-up demand. And Brian talked about there was contract, commercial, but there was also demand in the mid-space and small business, which reacts more to leisure pricing, which was certainly helpful.

Again, with the variant that started out in January, we have seen -- so Brian talked about in his remarks about midweek softness as it pertains to utilization. That was very much apparent early on in January because, as you know, commercial supports a lot of that midweek activity. But I see some of that coming out going forward.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Just a quick follow-on. The leisure corporates, what's their volume? Can you talk about can you give an actual number for 4Q and expectations for 1Q?

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

The only thing I will say about what I recall about the fourth quarter is the fourth quarter, we did experience a mix shift of more commercial than certainly the third quarter. But as I, it's hard to say what it will actually turn out to be because we have the month of March yet to come, and March tends to be, in a normalized year, highly commercial. I don't see that, that being as evident this March as it was in March of 2019.

Operator

Our next question comes from the line of Chris Woronka with Deutsche Bank.

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

Congratulations on a great quarter and year. I wanted to go back to that kind of corporate commercial segment and try it a slightly different way. I don't know if you're willing to share with us what percentage of your corporate commercial accounts are on a contracted rate, but really just trying to get a sense. The core of the question is, is there a way we can get comfortable with an expectation that those accounts are going to be paying a higher rate this year and going forward than they did in, say, 2019?

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

I think if you want to just look at commercial and its segments, the large commercial accounts that have been contracted throughout many years, those have all been negotiated a while back. So those rates are what those rates are.

I will, it's the mid-market and the small business that allow us, as you know, to have a higher rate that we charge for that type of consumer. And those two segments have been growing. So I can't go into right now like what do we think the percentages are. Do I, do we believe that commercial business will start to come back more in 2022 versus what it was maybe in early parts of '21? Yes, probably so. There's probably going to be some pent-up demand as accounts get back, as people get back to the office and they want to get together and they start looking at their revenue and top line earnings to see if there's a need to run more sales calls. So I do see that happening as long as the virus transmissions and people feel safe traveling.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Chris, you've been covering us for a while and you know that for many years, large contracted business has just kind of always had headwinds to it in terms of rate.

Now what we've noticed during the pandemic and even now going forward is that our large commercial accounts, especially those coming up for renewals or even new accounts, are much more interested in the service we provide in terms of fleet availability, what kind of ancillary benefits we could offer due to kind of our different brands and really the quality of the fleet as well in terms of age and odometer.

And I think given that we've seen corporate customers focus more on those qualities rather than just competing on price, and we're doing everything we can in order to make that the focus going forward.

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

Okay. That is helpful. Appreciate that. And then, Brian, I know you mentioned earlier on share repurchase no promises for 2022. There's an element of being opportunistic. But the question is, if share buybacks were substantially less or significantly less hypothetically, what are some of the other uses for that? Is it, where does it go? Is it cash build? Is it fleet? Is it CapEx? EV? Acquisitions? Just trying to get a sense for what's on the radar.

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Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Yes, sure. I mean we take a pretty holistic approach when it comes to kind of deploying our capital. And like you said, last year, yes, we saw an, given where our share price was, an incredibly favorable opportunity for us to allocate shares, or allocate capital to share repurchases.

What I would say is that like we still view that as a very compelling use of free cash flow at these levels. I think you'll see on the cover of our 10-K our shares outstanding was 53.7 million as of February 11. So that's 2 million shares lower than where we ended the year.

But listen, we're also looking at kind of our balance sheet and understanding how to best bulletproof our business to survive shocks to the system going forward. So we'll look at kind of repaying down debt.

In terms of M&A activities, we've always been pretty active in terms of acquiring licensees. I don't think that there's anything out there right now in terms of core rent-a-car that we're able to acquire, but there are areas, kind of adjacencies to our core business that we can take a look at. So we're evaluating all three fronts.

Operator

Our next question comes from the line of Ryan Brinkman with JPMorgan.

Ryan J. Brinkman - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Congrats on the higher fleet size. Can you talk about how you've been able to achieve this with the very well-known bottlenecks in the new vehicle industry? Are you able to say like what percentage of your vehicles are maybe used versus new when you buy them or how the average age of the fleet has tracked and what your outlook may be for some of these metrics moving forward and what impact these changes to the composition of the fleet may have had or may have in the future on metrics such as RPD or depreciation per unit, et cetera?

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

Yes. Okay. Like I said, these past couple of years have certainly not been normal. But what it has done for us is, in my opinion, straightened our relationships with our OEM partners.

We have relationships that go back decades, and those relationships were certainly tested in 2020 and 2021. But we speak to them often, very often as a matter of fact, and get insight into what they are thinking. And they have been terrific partners to work with, even during the ups and downs of Omicron.

We understand their business and understand what they're trying to do. So whether it be chip shortages or pressure on labor or supply chain or even dealing with their retail inventories that fortunately have been at historic lows for some of our partners, we've been able to continually get the fleet that we need.

As far as new versus used, our position and what we've gotten is certainly much more new than used. It's not that we don't buy used cars, because we will and we do, but they fit a certain geographic area of the country maybe, and they are at a certain amount of age and a certain amount of miles and a certain amount of price point. So we're not going to buy a used car or a new car for that matter of fact that doesn't contribute to the per unit economics that we've been accustomed to here.

We spend a good deal of time analyzing how we're going to buy the cars or trim levels and where we're going to place them. We spend a good deal of time talking about how we're going to exit the vehicles through alternative channels versus selling at auctions and things of that nature.

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But I think the key component through this whole thing as part of our core competency here is how we manage the rotation of the fleet because that's one of the hidden aspects of fleet management that sometimes you see materialized in per unit depreciation or et cetera. So we manage our age and our mileage pretty stringently.

And we've had over the years a strategy here where we have Avis and we have Budget and we also cascade cars to Payless, we also cascade cars to ride-hail. And then we have a useful life that we believe can get us the best return on our investment, and you will continue to see us do that throughout 2022. I do believe that the fleet size, as based on what the manufacturers are able to produce, will be constricted at least through the model year 2022.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Ryan, I think Joe mentioned this earlier on the call, but some of that, the fleet number being higher than maybe you had expected in the fourth quarter had to do with deliveries that were scheduled for the third that came into the fourth. So that contributed a bit.

And then as Joe said, the health of our fleet is incredibly important in terms of making sure that we deliver to our customers a product that they are accustomed to both in terms of age and mileage. So there will be fleet sales going throughout the quarter, going throughout this year. But just given, like Joe said, in terms of times of uncertainty, to hold a little bit right now kind of made more sense.

Ryan J. Brinkman - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. Great. And I got one question on capital allocation already. I do wanted to sort of probe on any appetite you might have for measures other than share repurchase, which I'm sure will remain the focus. But you mentioned debt paydown, balance sheet. But you also mentioned M&A.

So now, obviously, the rental car industry itself, very highly consolidated. But what about these adjacencies? Maybe just a follow-up on that. Could you speak to some of the types of adjacencies you might be interested in? Or whether you might be interested in acquiring some of the more start-up-type companies with alternative business models, for example, like you did with Zipcar, right?

I don't know if you have any thoughts on Turo or maybe some of the other kind of peer-to-peer or car sharing models, whether you might be interested in acquisitions not just to sort of generate revenue in other ways but maybe to also like creatively obtain cars or dispose of cars. Just how are you kind of thinking about adjacencies?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Yes. Listen, and we're not going to comment kind of on where we're looking, but we're in active discussions in all of those areas that you had mentioned. We're actively looking in all of those areas you mentioned.

What I would say is that we're not here to just kind of invest or acquire a company that's out of our core competency and core knitting right now. We're looking for things that are going to help us optimize the strategy and the path that we've been on these past 2 years. So that would be more towards core competencies such as, say, supply chain management or disposal of vehicles versus kind of new business models or things on the electric vehicle side in terms of acquisitions at least.

Operator

Our next question comes from the line of John Healy with Northcoast Research.

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

I wanted to spend a little time talking on fleet costs. Brian, when you look at kind of your depreciation for the year, largely at a higher level than what your public peer has been doing. So if you look at the fleet, and I'm sure you guys have an estimate of fair market value of the fleet versus what's on the balance sheet, would just love to kind of get your thoughts on just the spread between the two of those? And kind of what's kind of your view of kind of go-forward depreciation maybe without any gains or losses in the business as we look to '23 and maybe longer term?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure, John. So Joe mentioned fleet management. It's a core, at the heart of what we do. And we at Avis have always taken a conservative approach to that. We've never taken a write-down in terms of our fleet.

We're not going to be commenting on what we think fair market value is versus what's listed at book. But you do understand kind of how we depreciate our cars is our best guess as to what we think the true kind of curve of that car looks like.

If you'll see in our 10-K, if you back out, I think we had $120 million of gains on sale from vehicles this quarter. If you back that out, our depreciation and lease charges are still over $250 per month per vehicle. So that's our best guess as of now.

Now listen, for the past few quarters, we've been proven wrong. But we understand that a used car market like this may not last forever. So we, like we do take a conservative approach. And right now, our best guess is kind of what we're straight-lining the cars at, which is roughly that $250 a month.

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

Okay. So when you look at that $120 million of gains this quarter, is there a way to think about how many cars you actually sold? And I know we got the average number. But in terms of the actual units that you cycle through your marketing strategy, is there a way to think about how many units that $120 million created, created that $120 million gain?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. I mean, John, we know exactly what that is, right, because we know how many vehicles we sold, but we don't get into like the kind of the beginning adds, ending because, I mean, then you can, for competitive reasons, we're, it's just not numbers that we disclose, and none of our competitors disclose that either.

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

Understood. And then just a final question for me. You've had a couple of months to kind of maybe digest some of the last year announcements regarding electric vehicles, and it sounds like some of those cars are starting to come into the market recently. Any updated thoughts on how you look at EV, how bold you want to be as it relates to entering that niche of the market and just openness really for you guys to find cars in that channel?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Yes, sure. Let me start with a few high-level thoughts and then Joe can add color.

So you mentioned EVs as a niche of the market, and we understand it's a niche today. But we firmly believe that, that is not going to be a niche going forward. That's where the entire mobility ecosystem is headed. So we're spending and dedicating a lot of time to our EV strategy. And we've

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been working with both our OEM and infrastructure partners to make sure we're ready to deliver electric vehicles when our consumers demand them.

That means having the EVs themselves, and we're taking deliveries of, right now from several different OEMs as we speak. But it also means thoughtfully constructing out like what a buildout of infrastructure means to complement our workflow. This is a site-by-site exercise to address potential constraints, and our goal is to maximize vehicle uptime while minimizing charging costs. We're moving quickly on both these fronts, but you'll hear more from us as we develop them. But for competitive reasons, we're not getting into more detail than that at this time.

Joe, anything you want to add?

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

Listen, I think, Brian, you hit it on the head. What I will say, John, is that the OEMs, of which we partner with all of them, are making them certainly more available to fleets than they had in the past. So we think that's good news as we now operationalize how we will get them to the consumer and the consumer use cases. So yes, we're starting to see more and more of that, well, and you will see more and more of that from us over time.

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

Congrats on a great year, guys.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Ferraro for any final comments.

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

Great. So to recap, we reported our best annual performance in our company's 75-year history, the Americas delivered a record year and we were able to beat all our key prepandemic metrics this quarter. International improved throughout the year and their fourth quarter adjusted EBITDA exceeded 2019.

I want to take this time to thank the hard work and tireless efforts of all our employees this past year. We look forward to working together again in 2022.

Thank you all for your time and interest in our company.

Operator

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

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