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Q1 2024 Avis Budget Group Inc Earnings Call

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PRESENTATION

Operator

Greetings. Welcome to the Avis Budget Group First Quarter Earnings Release Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

At this time, I'll turn the conference over to David Calabria, Treasurer and Senior Vice President of Corporate Finance. Mr. Calabria, you may begin your presentation.

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 Izzy Martins, 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 in 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.

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

Thank you, David. Good morning, everyone, and thank you for joining us today. Yesterday, we reported our first quarter results, which delivered quarterly revenue of more than $2.5 billion and adjusted EBITDA of $12 million. This is a substantial decline from our first quarter of 2023 adjusted EBITDA of $535 million, and we will spend time on this call discussing the underlying impacts and takeaways.

At a high level though, to accurately portray the business this quarter and beyond, we need to bifurcate the impacts of nonrecurring fleet gains, higher vehicle interest and decisions made to rightsize our fleet, as we discussed on our last call, versus comparisons with a healthy overall revenue environment and our ongoing earnings potential.

We took the necessary steps to rightsize our fleet this past quarter by selling a record amount of vehicles to allow for increased utilization and flexibility. Conversely, the demand environment for our business remains robust as demonstrated by a record first quarter rental volume, and we saw sequential improvements to our RPD throughout the months in the first quarter, with March finishing down 3% with stronger exit trends, which we believe is a positive sign of future pricing.

We'll get into greater detail on this later in the call. But right now, I'd like to take a moment to thank our employees across the world for their efforts thus far in 2024. We worked hard to manage both our fleet size and our operating costs in order to appropriately position ourselves for the second quarter and summer peak.

But thanks to their efforts, I believe we are now ready to move forward and capture what I believe will be a strong peak season, both domestically and internationally. Let's begin, as we usually do, with the details around our Americas segment. The Americas earned nearly $2 billion of revenue in the first quarter with $44 million of adjusted EBITDA.

As I mentioned earlier, the demand in the Americas was strong with a record amount of transaction days even in our off-peak season. We've said on previous calls, when people get on planes, they get in cars. And for the quarter, PSA volumes were consistently higher than the first quarter of 2023. This showed in our volume being up 5% year-over-year.

Our sales team has been busy with renewing key partnerships that continue to add to the rental day growth while contributing to improved margins. In general, we have seen growth in the aerospace, professional and tech industries as well as our commercial customers continuing to support leisure activity, a combination of a business trip with all the leisure activity.

Our commercial customer retention rate is nearly 100%, demonstrating the trust and loyalty our partners have in our company. We also saw a continued improvement for pricing throughout the quarter. Pricing was down 6% compared to the first quarter of 2023 and up 25% compared to the first quarter of 2019.

When looking sequentially, we ended the past fourth quarter down 7% in pricing, which is what we saw in January but as the quarter progressed, we saw a continued improvement with March finishing down less than 4%. This has continued into April, and we believe this trend will continue, allowing us to exit the second quarter roughly flat year-over-year, which is a good starting point as we begin the third quarter, our busiest of the year.

We have said in the past when industry fleet is inside of demand, pricing benefits and currently, we see this happening in the market. We made the conscious decision to accelerate our fleet dispositions so that we can maintain a more normalized utilization closer to historical norms. Our plan was to attack it quickly and get our fleet size issue mostly behind us while keeping costs in control.

In the U.S., we sold a historic record number of vehicles in the first quarter and with April's dispositions, we will have disposed of over 50% of our anticipated annual sales. We believe this was a critical step in driving both near- and longer-term utilization. Demand for our vehicles of this -- of our type persists and used cars still represent a value to consumers at a price point that can be more than $20,000 less than a new vehicle. We are used car generators and help build this consumer need.

Our disposition strategy in the first 4 months of the year sets the base foundation for our fleet while allowing the flexibility to optimize the transition into the spring and summer seasons.

Our utilization for the quarter was approximately 66%, but that does not give the full picture of the quarter. As we dispose of cars, our utilization continued to improve. Our March utilization was approximately 70%, bringing us closer to the goal of being at historic norms and exiting the first quarter in line with where we started the second quarter last year.

We expect to be finished with our deep leading action this month and are hyper focused to keep our utilization around seasonally historic levels. In fact, we anticipate our quarterly utilization to improve as the quarter progresses and ultimately eclipse last year's summer peak. Before I leave the fleet, let me take a moment and talk about our upcoming fleet negotiations.

They're just beginning, but there are signs that the fleet buy will be more affordable. As the OEMs continue to make more cost-effective vehicles for consumers, we expect to benefit from that as well. As always, discussions with our OEM partners are focused around getting the right vehicles for our business at the most affordable prices.

It's early stages, but we'll have more information in future calls regarding our 2025 model year purchases. So to recap, the Americas had revenue of nearly $2 billion and adjusted EBITDA of $44 million. We took the necessary actions to align the fleet by exiting a record number of vehicles in the quarter, allowing for increased utilization and flexibility.

On a year-over-year basis, price improved sequentially from the fourth quarter down 7% to down 6% in the first quarter, which -- with March better than that. These strong exit trends allow us to anticipate ending the second quarter about flat.

And as I said earlier, that's a good place to start the summer and our busiest quarter of the year. We expect that the third quarter pricing could improve over the prior year, given that travel demand continues to be robust.

Let's shift gears to international. We continue to see a slow but steady improvement in volumes post pandemic. Rental days were up 4% compared to the first quarter of 2023, only down 17% compared to the first quarter of 2019. This is an improvement from down 20% in the fourth quarter of 2023.

Last year, we said travel from country to country has been returning at a slower pace. However, we are seeing improvements with inter-European cross-border travel being up 11% compared to last year. Additionally, our international inbound volume was up 17% compared to last year.

As we stated in the Americas, our sales team was busy utilizing the power of our brands to generate higher-margin volume as customers of this type, especially from North America, keep the cars longer and have a propensity to take additional ancillary products. With the increased volume growth, we generated revenues of $558 million or a 3% increase compared to last year and initial bookings for the second quarter of 2024 and into early summer in Europe are trending positively as well compared to last year as we see volumes continuing to improve from rebounding inbound and cross-border demand heading into our peak.

Pricing for the quarter was down less than 1% compared to last year. But just like in the Americas, there's a greater story behind the number. January pricing started off being down 3% compared to prior year and improved to being slightly positive in March as we took advantage of the improved volume and higher-priced cross-border activity.

Additionally, our rollout of our proprietary demand fleet pricing system in international will be completed in June, and we expect to start seeing benefits with this rollout. Our system, which has been utilized in the Americas for many years now, is designed to improve contribution margin as it aligns demand with inventory and prices cars down to specific locations, both maximizing utilization and price.

Fleet utilization was also positive in the quarter, and this will continue into the second quarter as well as into the summer season. We continue to believe that there is substantial opportunity for recovery in this region and the team is ready to capture it as it returns.

Turning to technology, where we believe we are leaders in our industry and consistently looking for and executing ways to enhance our productivity and efficiency. Last call, we talked about projects that could improve our operating expenses. While we have many, I wanted to highlight a few of these on this call.

We have been using data analytics and on the ground systems to increase throughput and enhance productivity. These systems and processes allow for better forecasting and scheduling needs down to the location and by day to optimize labor mix such as full-time, part time and outsourced opportunities for jobs like shuttling our vehicles to and from locations.

In the first quarter, we faced wage inflation of nearly 3% compared to the first quarter of 2023. However, our labor initiatives improved productivity by nearly 10%. We expect these savings to flow through the balance of the year. We're also using analytics when looking at in-line vehicle costs such as tires, glass and parts.

In fact, we now have more visibility to leverage purchase power with our vendors, ensuring we use the most cost-effective part for each service. This better insight on purchasing and parts enables us to better manage these variable costs.

The actions we took against these analytics decreased parts costs by over 20% this quarter, and we expect these savings to continue throughout the year. We're also continuing to optimize our connected car capability. In the past, we've talked about improved gas collection from customers, but it also improves our asset control on vehicles.

We have an automated process for our shared service center that assists with vehicle loss prevention and the improved recovery of our vehicles. The system provides improved insights designed to reduce the downtime of our vehicles, provide better reporting as well as reducing costs associated with these types of incidents.

We're also piloting new functionality, where we have cameras capture the vehicle from multiple angles at both the exit and return of rental. Our system reviews each video feed to access any incremental damage to our asset. When the new damage is identified, the system submits recommendations to our damage management portal, showing video events of the damage.

The solution will increase the amount of damage we are detecting, shortens the length of time necessary to move the damage through our collection process, reduces dependencies on our supply chain to provide estimated repair costs and shortens the downtime after damage is discovered to improve vehicle utilization and overall customer recoveries.

On each of our calls, I typically talk about our success with Avis QuickPass process and our customers' ability to check in and check out on their rental using a unique QR code at our exit gates. We are continually adding new features and are currently testing a new form of assistance where a customer can utilize their smartphone to have an associate quickly attend to their needs while on the line.

We look to roll this out throughout the remainder of the year. Our Avis QuickPass service has been the preferred customer experience over the last few years, and we'll continue to invest in this product.

I'm also excited to say our team has now rolled out more than 60 European locations with self-service kiosks allowing a customer to bypass the counter in an unsecured lot environment and obtain their keys by using biometrics to identify who they are. These initiatives will help to reduce costs while enhancing the overall customer experience.

So to conclude, we disposed of the most vehicles in our first quarter history to better align supply with demand and give us flexibility as we move into the summer peak. We achieved our second highest first quarter revenue in our history, all while maintaining strong cost discipline.

Travel demand continues to be strong. Our utilization is aligned with historic norms. Our price continues to stabilize, and we expect to exit the second quarter with price flat to prior year, and we continue to believe that the spring and summer seasons will be strong. And I know that our team is focused to drive our performance, especially as we head into the busiest seasons of the year.

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

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

Thank you, Joe, and good morning, everyone. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in our press release. As reflected in our earnings release, we earned $12 million of adjusted EBITDA in the quarter.

Let me start by detailing the year-over-year variances in fleet and interest costs. Last year, we had more than $600 million of fleet gains, of which $250 million was in the first quarter. These oversized fleet gains were a holdover coming out of the pandemic, and the gains will not replicate in 2024 given that these were a byproduct of the post-pandemic supply chain imbalance.

One of our priorities was to rightsize our fleet as soon as possible by driving record vehicle sales. These sales generated a small loss of approximately $40 million in the quarter as compared to $250 million gain last year. So nearly $300 million of our year-over-year quarterly decline was from this line item alone.

In addition, our straight-line depreciation moved from $276 to $298, resulting in a year-over-year negative impact of $80 million. The primary driver of this increase is the additional absorption of model year 2024 vehicles into our fleet mix and declining residual values.

We expect the straight-line depreciation to increase throughout the second and third quarters to roughly $350 per month before stabilizing and potentially decreasing in the fourth quarter as we start to in-fleet model year '25 vehicles at more attractive CAP costs. While it is early, and we have seen in Europe on the model year 2024, which have been less expensive, conversations with our OEM partners in the U.S. appear to suggest that vehicles may be more affordable on a go-forward basis.

Now shifting gears to vehicle interest. The full year impact on all of last year's vehicle financing is reflected in this first quarter as our vehicle debt was refinanced at a higher interest rates throughout 2023.

In addition, we completed 3 AESOP term issuances, renewed our AESOP variable funding notes and renewed our EMEA securitization for financings totaling more than $9 billion during the first quarter. As expected, all these financings came at higher rates. These financings and higher base rates drove the $106 million interest increase in the quarter.

Our treasury team has been busy and put us in this strong position where our funding needs for the year are materially complete. We expect our quarterly interest costs to be similar to what we experienced in the first quarter and any other fleet financings we evaluate during the year would be opportunistic, which gives us ultimate flexibility.

Our direct operating and SG&A expenses as a percentage of revenue grew by less than 2 percentage points in the quarter compared to prior year, largely due to our record dispositions and yet well below our 5% volume growth as our mitigating actions surrounding productivity and other cost removal activities enabled by technology Joe mentioned earlier, improved this outcome and limited our cost increase year-over-year to $38 million.

As a result of these factors, our adjusted EBITDA was $12 million for the quarter. However, we believe the actions we took during the quarter, including our fleet reductions and cost mitigation strategies, have positioned us for a more successful remainder of the year.

When it comes to capital allocation, our strategy is not changing. We continually invest in our operational facilities and technological improvements to continuously enhance our customer experience, while implementing cost efficiencies to drive margin contribution.

This quarter, we've reinvested more than $55 million into our core business, the same amount we invested in the first quarter of 2023. We issued a EUR 600 million senior note in the quarter and used the proceeds to redeem our 2026 EUR 350 million senior note maturing in April, with the remainder utilized to pay down vehicle debt.

As of March 31, we had available liquidity of over $700 million with additional borrowing capacity of approximately $3.8 billion in our ABS facilities. Our net corporate leverage ratio was 2.3x, including the Eurobond redemption, and continues to be well laddered with our corporate debt, having no maturities until 2027. Additionally, we are in compliance with all of our secured financing facilities.

Let's move on to outlook. I wanted to give you insights into what we are seeing for the second quarter. As Joe mentioned earlier, we expect rental demand to be strong with the Americas up low single digits and international being up in the high single digits.

We do expect pricing to be sequentially better each month and to exit the second quarter about flat to prior year, which is a good place to start the summer season and our busiest quarter of the year. As we have said in the past, when we keep fleet inside of demand, pricing should improve.

In closing, we navigated through a quarter that had challenges with inflationary pressures, higher fleet costs and more interest expense. We took the appropriate actions necessary to reduce our fleet size by exiting the largest amount of cars in the first quarter in company history, putting us in a more optimal position as we head into the spring and summer peak seasons.

We achieved our highest first quarter volume, which gives us confidence for the remainder of the year, while maintaining strong cost discipline. Travel demand continues to be strong, our price continues to stabilize while being well above 2019 levels, and we continue to expect the quarters to perform with the seasonality we have seen in the past with the second quarter being larger than the first and the third quarter representing another great summer peak.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Ryan Brinkman with JPMorgan.

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

With regard to capital allocation over the balance of the year, how would you rate the relative attractiveness of using cash from operations to either pay down corporate debt or fleet debt or to buy back shares?

And what about the operating environment, your own performance or the price at which the market is valuing different parts of your capital structure makes one option or the other more attractive to you at this time? And how do you see that maybe evolving as the year progresses or into next year and beyond?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

We still believe that our shares are undervalued relative to the fundamentals around current and future earnings trajectory. However, we needed to take care of our fleet disposition strategy, invest in our technological improvements and offset rising interest rates. So I would think about it in the first half of the year that's what we would be taking care of.

As for the second half of the year, of course, we will continue to monitor all opportunities that are available to us and our shareholders. We will always evaluate the full spectrum of options, including M&A, CapEx, be it debt repayment, dividend onetime or regular and, of course, share repurchases, as I mentioned earlier. So we will always opportunistically allocate capital to those areas that best benefit all of the stakeholders of our company.

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

Okay. Great. And then just maybe I also wanted to check in. It's been some time since the commentary back in 2021, I believe that with regards to normalized EBITDA that no plan submitted by the management to the Board would be deemed acceptable for EBITDA in the upcoming year, if you call for earning less than $1 billion, because then you went under $4 billion and haven't really opined or updated on what you think normalized earnings are.

They're obviously a lot closer to the $1 billion now than to $4 billion. But just having done that round trip and trying to think about what maybe has structurally changed relative to the $800 million or so you were doing pre-pandemic. Curious if you have any updated thoughts here in 2024 about what normalized earnings for the company might be and in what year maybe you'd be expected to earn a normalized amount?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

Thanks for the follow-up question. I think I'll make it quite simple. I mean nothing really has changed. I would just simply say that there's nothing below $1 billion is going to be acceptable to us. So that's really where I would leave it. So although I wasn't in this role back then, the strategy hasn't changed.

Operator

Our next question comes from the line of John Babcock, Bank of America.

John Plimpton Babcock ***BofA Securities, Research Division - VP***

I have a couple of questions here. I guess just starting out, could you talk about what you're seeing on residual values? If you could just kind of go through a little bit, both on newer cars and also some of the older cars in your fleet. I was just kind of curious what you're seeing in terms of trends there?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

I think so the best way to think of it is, although residual values were relatively stable during the quarter, and also the Manheim continues to be much higher than pre-pandemic levels. We do think though -- I don't know if you think about what I said about our depreciation, I think the holding cost of the cars really relates to the fact that the cap costs are a little bit higher.

So as residual values persist throughout the year, we're behind, call it, the highest point of the curve. So we do expect that residual values will continue to potentially decline as the year progresses. And obviously, there are certain cohorts that may still be challenged within our fleet.

Actually, as you may not have seen yet, because we are filing with our -- with the SEC probably after this call, but we'll certainly be filing today, we did experience about $40 million of losses in the quarter. It's really a nominal amount, as you heard Joe say, we disposed of a record amount of vehicles in the first quarter, and that will continue probably through mid-May.

The other thing is, I know there's a lot of noise in the marketplace surrounding EVs. We don't have many EVs as you know. However, the EVs are challenged from a residual value perspective, so irrespective of that, you still do need to take that into consideration. But I hope that was helpful.

John Plimpton Babcock ***BofA Securities, Research Division - VP***

Yes, it was. And then also just last quarter, I think you provided guidance for depreciation per unit of around $325 for 2024. Are you sticking to that guidance? Or are there any reasons to think that, that may have been adjusted upwards or downwards?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

You can tell from my prepared comments, in the first quarter, we came within that guidance of -- and I think we came in at about $318. And in my prepared remarks, I told you about the $298 and the $40 million loss.

I would say what we're seeing now is that, that $318 is going to ramp up. I said in the prepared remarks that it's going up to $350, most likely by the tail end of the second quarter. But I think what's more important on how the quarters progress is that we do expect it, as I said, to tail up in the second and the third.

But given that it's still early in our negotiation process, we do believe that the model year '25 will be more affordable as we in-fleet those in the fourth quarter, and into calendar year of '25, we should see that, that straight line depreciation should normalize.

John Plimpton Babcock ***BofA Securities, Research Division - VP***

Okay. And then sorry, I just have one more follow-up here before I pass it on. But just curious, with the OEMs indicating that -- or at least providing some indication that the prices on the '25s will become more affordable. Are they offering those discounts to you this year? Or is that something that probably will come more into play next year as you enter those negotiations?

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

Yes, I'll take that. It's -- when we buy the 2025 model year buy is we'll buy it this year, we'll commit this year, and those prices will be afforded on cars as they arrive throughout the back half of this year and into next year.

And the question about affordability, let me just add a little color to that. I mean it's been reported in various public sources that new cars are being priced the lowest level in the past 2 years. And we certainly expect to get our fair share of that.

So like I said in my remarks, it's early but what we saw in Europe, for example, because they buy the 2024s, they have to come in a little bit later. Those prices have come down quite a bit.

Operator

Our next question is from the line of Chris Stathoulopoulos with Susquehanna.

Christopher Nicholas Stathoulopoulos ***Susquehanna Financial Group, LLLP, Research Division - Associate***

Izzy, I just want to go back to this -- the per unit per fleet cost. So I think in February, you had said full year around $325, 1Q is going to be a little higher than that, but you did better at $317, and we're looking at, I think now you're saying towards -- trail towards $350 for 2 and 3Q and depending on how these negotiations shape out, that could taper off in 4Q and perhaps move lower. So just for next year, I want to understand kind of the moving parts here and what's changed in the -- since you last updated around that item?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

Well, you certainly summarized exactly what I said. So I agree with that. I think the only thing that's changed is as we continue -- one is we accelerated the dispositions a little bit sooner than we anticipated. The next thing that maybe -- may have changed is the fact that as we do this on a monthly basis, we're always evaluating what our residual values would be.

And also last but not least, there was always that hope that the interest rates would come down a bit. And as you know, yes, our cars are attractive in the used car market. We still believe that, and we still see that. I think what's a little bit different as for the consumer to purchase a used car is where interest rates are.

So given that interest -- consumer interest rates are still very high, moving those sales proceeds on the cars is just becoming a little bit more challenging. So I'd say there's a combination of things that changed since I gave you the guidance of $325. I would say in the first quarter, it was well below it. And I think it's prudent to anticipate that it would be going up in the second and the third.

Christopher Nicholas Stathoulopoulos ***Susquehanna Financial Group, LLLP, Research Division - Associate***

Okay. And Joe, a follow-up. So your prepared remarks, about 1/3 of that was around technology. There's the system rollout in Europe, you spoke to enhancing contribution margins. There sounds like there's some enterprise-level initiatives here, frictionless technology with these kiosks. Could you put a finer point or detail on how you ultimately see this benefiting revenue costs and margins and kind of are we in the early stages with respect to anticipated benefits?

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

Yes. Yes. We -- I talked a lot about on the last call, how we created this cost transformation group headed up by a previous CFO. And we've -- I would say, yes, we're probably in the early stages of it, but we have some things that have brought some meaningful benefit for us in the first quarter.

I've talked a little bit about them. But for review, we have technology improvements that enhance our scheduling for like our frontline staff. And we're seeing particularly good productivity improvement. So when I say productivity, you get more clean cars, you get more customers you can process through with less staff.

And we have technology that enables us to have a different level of full-time and part-time. There's more people coming into the workforce, so that's different than the last couple of years. So that certainly helped deter wage inflation, which we had wage inflation in the first quarter of 3%, but we have productivity up 10%. So that's a definite add-on to margin for sure.

In light vehicle maintenance around technology and in procurement to deal with rising cost of inventory, we have systems in place. So I'll give you an example. A tire went up from $50 to call it something closer to $100. We now have procurement involved to get us the best cost. But we also have systems to tell us which tire is the most optimal to put on, whether it be by manufacturer or by product, whether it's use an existing tire or repair a tire.

So there's a whole lot of effort. I think when you think about our process is to take a look at what we want to solve, create the energy around it through actions, provide technology to give us insights and then differentiate the outcome is kind of the way I see it.

We have damage detection that we're deploying. If you think about like what does damage cost us, a one point improvement in damage collections is like a $4 million benefit. You can do the math, that sounds small, but as you start multiplying it by cars. Utilization, to have an idea, not just on utilization of the overall fleet compared to rental volume, but utilization of a car at various stages of its life. It's downtime, why it's down, down to the bin level.

If you improve utilization by 1 point, right, just a point of utilization, it's between $30 million and $40 million. So those are things that I think are very attractive. We have others that are modeling loss prevention.

And then you get to the revenue side, which you started off with, I believe our demand fleet pricing system is something we've built in the United States many, many years ago, gives us a decided advantage on how we price vehicles based on demand and inventory levels and allows us to put the best optimal price out there.

And we saw that when we rolled it out in the United States, the early indications were use went up and price went up as well. And we think we're going to get that benefit in Europe. But as far as the U.S., we continue to iterate that price, that model of ours. Last year, we put segments of business on it that we hadn't had in the past. We put airport versus off airport and it all designed to drive a differentiated outcome.

Operator

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

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

The first one, and this might be for Izzy. There's been some noise in the market recently, and I think investors are just trying to gain a better understanding of kind of where you are in terms of your ABS coverage and things like that. I don't know, can you maybe give us a quick overview and talk about whether you see any funding requirements coming and things like that, just to provide a little color to the market? And then I have a follow-up.

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

I'm just going to -- Chris, thanks for the question. I think I'm just going to answer it right off the bat that we don't have any issues on that front. I mean if you look at, well, report on the first table of the earnings release, we have a cushion of about $2.8 billion.

And actually, that cushion, that's how we have to report it for GAAP purposes. The true cushion is $3.6 billion just because of the way AESOP is treated as a nonconsolidated entity. So you really need to add back about $840 million.

So if you think about that, that makes our net advance rate in, call it, the low 80s and we can go into the high 80s.

I mean I hope that answers your question, but I mean the simple answer is we have plenty of headroom there.

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

Yes. No, that's great. And then second question is, if I've done the math correctly, I think you reduced your DOE on a reported basis globally by about 1.8% per transaction in the quarter. That's going to be a pretty impressive number. What's your outlook for that? And if it's not a number, it's just directionally, can that continue to decline as you build volume and work on some of these initiatives that Joe was talking about?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

You're spot on. It's exactly what Joe just went through. And as you know, we just made that transition as I'm new to this, and Brian is leading that team. And in the initial stages, we're already seeing benefits. I don't have an exact number for you.

But as you stated, as you multiply it, as you take it to more locations, whatever it may be, it should continue to give us that advantage. And as you saw at this particular quarter, right? Even though we had a tremendous amount of vehicles going out in the quarter, all-time record, you would expect the DOE to go up because that's where we incur the cost to prepare the cars for disposition.

But instead, you saw volume going up by 5, record dispositions and our DOE only went up by 2, and we're just getting started in scaling up all these improvements enabled by technology that Joe took you through.

Operator

Our next question comes from the line of Harold Antor with Jefferies.

Harold Antor ***Jefferies LLC, Research Division - Equity Associate***

This is Harold Antor on for Stephanie Moore. Just, so I guess on the fleet, with high demand levels right now, is there any expectation for fleet additions this year? And just how does the company plan to manage that?

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

I think you think of it this way, although we accelerated plenty of the dispositions into the first half or, say, the first 4 months, every single month, we'll be continuing to add new fleet and dispose the fleet. So it's just always a continuous cycle.

So I wouldn't say that anything has significantly changed. I would just simply say that maybe what it may create is actually even more efficiencies in the peak season given that we accelerated the deletes a little bit earlier this year.

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

Yes, I think I'll jump in here. Look, utilization was important for us, so we got our utilization back to historic norms. And I think that's a tremendous opportunity. Some of the things that I mentioned early on about some of the cost initiatives and things and productivity improvements and how we manage, I think is going to benefit us this year.

Price of vehicles are high, and you're going to see us manage our fleet to a more efficient level. I believe that we can get utilizations up over prior year levels in the third quarter and not deter volume.

Harold Antor ***Jefferies LLC, Research Division - Equity Associate***

Got it. Got it. And I guess -- and I'm sorry if I missed this, but just on managing capital costs, given, I guess, what appears to be a higher interest rate environment than we expected a few months ago, how are you guys seeing the interest rate expectations throughout the year? If you could comment on that, that would be great.

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

Yes, that's exactly why we had to adjust our depreciation to be a little bit higher than what we guided last time. So I think if you use this revised, call it, numbers that we gave today, I think that addresses that issue.

Operator

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

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

First, I wanted to just talk a little bit about the summer expectations. Joe, I don't know if you'd be willing to do this, but could you talk to maybe what you think your fleet might grow in Q2 and Q3? And I think in the last statement you just said, potentially, we could get utilization in Q3 above previous levels. Is there a reason to think and have some hope that if that's the case, we could have potentially positive pricing for you guys on an RPD basis in Q3?

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

Yeah. Look, I mean it gives us our best chance there, John. That's the way I would say. We took a concerted effort to get our fleet sizes in line, right? And we did it quickly. I wanted -- we wanted to get it behind us. That's taking into consideration new cars that may be coming in and cars that we exited. And the fact that we removed 50% of our annual sales in the first 4 months, I think, is pretty remarkable to get us to that level.

I like -- I'm a little more optimistic on the pricing trends, quite frankly. And I know everybody does scrapes and that's the initial price that you see in the marketplace. But I think when you think about price, you have to think about it in a couple of ways.

For us, what is the segmentation of price and what's the strategy behind what price you actually achieve? There's many different factors, whether it's commercial or leisure, whether it's exclusive partners or not or whether it's car size based on mix. I think all those affect how we see it.

And if you think about the trends, just in general, we started -- last year, we were down in the Americas at least, down 7% exiting the fourth quarter. We came in down 6% with March better than that. I mean the year before that didn't happen. The fourth quarter to the first quarter was the other way. And I like the way that we exit.

And you say, well, maybe it was because Easter was in March, and there was probably a little bit more demand, possibly. But I think in order to understand pricing trends, it would be helpful to go back to the COVID years. Like in 2022, which is when you compare everything that happened in 2023, there was just an acceleration of demand and there was a short supply of vehicles.

So you got 2, the demand increase and then the short supply. That really didn't end until February of -- we didn't actually go over it until this past February because you had Omicron kind of like in 2022. So I think all of that accelerated is behind us. And I think we took a lot of that price decline last year and in the early months of the fourth quarter.

If you think about in 2023 and 2024, the biggest decline comparisons that we had compared to prior year were in the second and third quarter. That's why I'm kind of saying that you know what we have a shot to get to flat and potentially up. And I don't believe the fleet is going to be inhibiting factor for us.

We have systems in place that enable us to put cards in the places that matter the most, and our DFP system allows us to price cars the way we think it needs to be priced before we get to that event. So yes, I'm pretty encouraged with the pricing trends there, John.

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

Great. Good to hear. And then just maybe for Izzy, I wanted to talk a little bit on the car side of things. But maybe on the back end of side of things, on the marketing side, any sort of kind of progress that maybe you can point to on those initiatives that maybe change the way you're selling cars after they run through the fleet and potentially get you a higher "residual value" or disposition price and maybe where we're at in terms of kind of those being outlaid and kind of rolling out through the system?

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

I think I'll take that, John. So yes, we've been looking at our disposition strategy for a number of years here now and whether we sell direct to dealers or market connect, and we have a certain number of retail lots. And since you asked, I'll say, we are really in the early phases of a direct-to-consumer platform that will allow us to sell cars digitally on some e-commerce in an e-commerce way.

And like I said, very early on, I think you might even wrote about it in one of your releases. It's called RubyCar by Avis, it's our way that we believe that we can get higher residual values and better aftermarket by selling direct to consumer, you know that, if we sell a car direct to consumer, you always have that available to you.

And the reason why I say like we're looking at that is because we think we have the right to participate in that. First of all, we manufacture a lot of used cars, right? We buy all these cars new, we differentiate ourselves. We have a lot of used cars. So we have inventory.

Second, we have locations to deploy. We have a lot of locations around our airport and supply chain locations, fixed vehicles that we can deploy and deliver, things of that nature. Third is, like I said, we have supply chain, we have mechanics who've been fixing cars for a long period of time, both for rental operations and for car sales, both retail and wholesale.

And we have customers, right? We have corporate accounts that could use it towards an HR benefit and we have partners who can use it as a membership perk. And we've established over the past year some technology that allows us to sell cars direct to consumers. And like I said, very early innings, but we've sold hundreds of cars. And hopefully, we can capture the higher disposition costs as we start giving this more meaningful volume.

Operator

Our last question is from the line of Lizzie Dove with Goldman Sachs.

Elizabeth Dove ***Goldman Sachs Group, Inc., Research Division - Research Analyst***

I thought the color on DPU is incredibly helpful. It's just great to hear what you think kind of normal DPU is in 2025 in terms of the improvements that you think you might be able to see there. And I'll ask my follow-up now also just any kind of help you can give in terms of international versus U.S.

Izilda P. Martins ***Avis Budget Group, Inc. - Executive VP & CFO***

Lizzie, thank you for the question. I think unfortunately, it's just way too early to really give you any insights as to what we expect to see in model year -- I mean, for calendar year 2025. As I said in my discussions, we expect it to improve from where we're at. But as I said, we're still in the very, very early stages of the negotiations for the model year '25.

And I hope what I tried to do in my remarks was to give you kind of a walk down of what's changing year-over-year. And really, what it comes down to is the fleet cost. So it's -- you're spot on, on trying to figure out, okay, which is the same thing we're trying to do is what is that cost. But as I said, it's a little bit too early to really try to anticipate what that could be in the next year other than it should be better than where we're at today.

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

And I'll take the international part of your question. Look, we've been talking about volume not being back to 2019 levels for a number of calls now. I was pleased, however, with the transition from the fourth quarter to the third, we've seen volume improve a bit.

And I think it's largely due to our -- how the segments are reacting. We've commissioned our sales team to drive business out of the United States. We think that's an opportunity for us. We have tremendous amount of partners in our corporate business that we have flown through our system here that we can utilize in a greater way.

And this cross-border business comes at particularly better pricing and also buys a lot of ancillary, actually keeps the cars longer. So it has a material effect on utilization, price improvement and volume. And as the quarters progress, it becomes a much bigger part of the international book of business.

And that business books early, right? If you're going to go to Europe and you're leaving from the United States, you either made a reservation or you're looking to make one right now, if you're looking to book into the summer. And we've seen some pretty impressive reservation improvements compared to prior year.

And I think the bigger thing for us in international is it's countries -- it's definitely segmented by countries, and we're developing the system called our demand plead pricing system, which centrally manages all our pricing. I think that's going to be a big benefit for us.

We'll be able to initiate price in various different countries based on price segments and strategies, looking at demand and inventory, and it's something that we haven't used over there, and we've deployed it this year, and I think it's going to have a meaningful benefit to the overall margin of the business.

Operator

Thank you. At this time, we've reached the end of our question-and-answer session. I'll turn the call back to Joe Ferraro for closing remarks.

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

Thank you. So to recap, we reported a strong first quarter demand with record volume in the Americas. We took the necessary actions to reduce our fleet, setting us up for better utilization and improved flexibility as we move through the summer peak.

We saw our pricing stabilize throughout the quarter. We believe travel demand will continue to be strong, and we will continue to mitigate costs with technology and actions in our field locations.

All this sets us up for what we believe are another successful spring and summer season. And I want to thank all our employees around the world for their tireless efforts and as always I want to thank you all for your time and interest in our company.

Operator

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

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