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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Aileen Smith *BofA Securities, Research Division - Analyst*

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

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

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

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

Ryan Gunning *Jefferies Group, Research Division - Research Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group Third Quarter 2021 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, David Calabria, Treasurer and SVP of Corporate Finance.

David 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 are 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 Ferraro - *Avis Budget Group, Inc. - CEO & President*

Thank you, David. Good morning everyone, and thank you for joining us today. On our last call, I had the pleasure of reporting that in the second quarter of 2021, we delivered the best revenue, adjusted EBITDA and margin in our company's 75-year history. Today, I get to say that in our third quarter of 2021, surpassed those historic results by achieving over $1 billion in adjusted EBITDA and set a new bar for how we define success at Avis Budget Group.

We've been working towards the $1 billion adjusted EBITDA milestone since 2014 when it was presented for the first time at our Investor Day. Now while I acknowledge certain tailwinds have been in our favor to finally deliver on that promise in a single quarter after the worst crisis our company has ever faced is honestly a bit cathartic. So I just want to take a moment to thank all of our employees for doing their part to collectively get us here. They handled peak period activity and were determined not to let throughput or supply chain challenges get in their way. We've been through a journey here at Avis. When the pandemic began, we realized that we had to transform as a company if we wanted to survive. During the pandemic, we laid the groundwork for cost discipline and operational efficiencies that will enable us to emerge as a structurally improved business. Now as we approach a more normalized demand environment, we are just beginning to show what we're capable of. But while we should celebrate our achievements, I also want to make it clear that this journey is far from over. We've only just begun to implement the systems and processes necessary to operate at full efficiency. And while there's still work to do, seeing the early results of our efforts has energized this team in a way that I have not seen in my 40 years here at Avis.

We clearly realized that one stellar quarter does not a transformed company make. We take it upon ourselves to continuously improve and demonstrate quarter after quarter that we are indeed a different Avis than before, but one quarter at a time. Today, I'll go over the third quarter results. And as usual, let's start with the Americas segment.

As you recall, last quarter, we said that demand for travel in the U.S. showed positive momentum throughout the second quarter. That strength in demand continued into the third quarter so that for the first time since this pandemic, we are down single digits in rental days versus 2019, with September being the best month yet. As with the case in the second quarter, industry fleets were tight and demand outpaced supply again in the third quarter, resulting in strong revenue per day. However, two things to note on this front: One, the sequential growth in RPD in the third quarter of 2021 was 5% versus the second quarter of 2021. Now this is down significantly from the 32% sequential growth we saw in RPD from the second quarter of '21 versus the first quarter of '21. Rate in the marketplace appears to be stabilizing. And two, while the absolute rates are elevated from historic levels, we're now starting to see a return to normal seasonality on a relative basis month-to-month. Rate is clearly one of those tailwinds that I mentioned in our introduction, but allow me to highlight a headwind that's not clearly evident in our numbers.

Utilization for the quarter in the Americas was 72%, roughly flat with both the prior quarter and the third quarter of 2019. But the fact that our teams are able to maintain this level of utilization is truly impressive when you consider both labor and parts were challenging to come by in commercial business while improving is not yet back to pre-pandemic levels. It's a testament to how we can operate through tough environments, keep our available fleet high and keep it balanced as business segments change. In the Americas, revenue increased by $1.3 billion year-over-year. Americas adjusted EBITDA during the same period increased by nearly $750 million for an incremental margin of 58%. On a 2-year basis, if you compare our most recent results to the third quarter of 2019, Americas revenue increased by $535 million, while adjusted EBITDA increased by $631 million. Favorable residual values that pertains to used cars and a strong rate environment clearly assisted by a proprietary demand fleet pricing system helped to achieve these remarkable incremental margins. but our focus on cost discipline enabled these benefits to fall to the bottom line. It's the same story as previous quarter, and it will be the same story in quarters to come. We're focused around investing in and implementing the resources necessary to continuously lower our cost base so that we maximize our contribution margin as rental days rebound.

And speaking of a rebound in rental days, while not getting into specific guidance on this call, I will tell you that the Americas booking patterns for the fourth quarter and holiday seasons appear robust and are currently outpacing 2019 levels. It's a narrow window, and we saw last year how quickly the winds can change depending on the state of COVID transmissions. But as of today, demand for Thanksgiving and Christmas appear as strong as in 2019.

Throughout the course of the year, Americas quarterly rental days compared to 2019 has gone from being down 27% in quarter 1 to down 15% in quarter 2, now down 8% in quarter 3 with September being in low single digits, representing the best volume performance versus 2019 to date. We believe Americas rental days will continue this trend of improvement and finish down low single digits in quarter 4 compared to 2019. However, the fact that the holiday season appears strong, allows us to be cautiously optimistic about how we enter 2022.

With that, let's move over to our International segment. It was a tale of two regions this quarter for International. While we do not break out specific figures for EMEA versus APAC, I wanted to provide some color given the disparity in the macroeconomic environments between the two regions. APAC, which saw improving demand trends in the first half of the year, was hit with very strict lockdowns in the third quarter due to rising virus transmissions in Australia and New Zealand. As a result, rental days in that region have gone back to levels similar to what we saw in the height of the pandemic in 2020. Yet despite this headwind, the region was able to deliver positive adjusted EBITDA in the quarter due to stringent cost control and nimble fleet management. They're still in for a fight, but our APAC team is already gearing up to take full advantage of the loosening of restrictions.

EMEA, on the other hand, started to see the green shoots in demand this quarter. I don't want to get carried away here. Europe has not come close to reaching the inflection point that we've seen in the Americas. For context, rental days in EMEA, on a percentage basis, were down in the high 40s compared to 2019 in the second quarter. In the third quarter, this improved to being down in the very high 30s, not a big change. But just that trickle of demand resulted in dramatically improved results due to the cost discipline ingrained in the international team. On a total international basis, adjusted EBITDA has gone from a $6 million in quarter 3, 2020, to $128 million in the most recent quarter. That's over $120 million of improvement in adjusted EBITDA on $170 million of revenue gain, representing a contribution margin of 70%. When compared to the third quarter of 2019, the International segment was able to mitigate nearly $290 million in lower revenue to just $41 million of negative adjusted EBITDA impact. We believe that as restrictions ease, International see latent consumer travel demand materialize and strengthening rental days. When that happens, the international team will execute the same strategy we deployed in the Americas by holding firm on cost to capture the full adjusted EBITDA benefit of strengthening revenue.

Moving on to fleet. We're consistent with last quarter. We'll focus more on the Americas segment. Let's again look at the sequential growth in average fleet size for the Americas. During the second quarter of 2021, we had an average fleet size of 378,000 vehicles. In the third quarter, we had an average fleet size of over 434,000 vehicles. that reflects a 56,000 increase in vehicles on an absolute basis and a 15% increase on a percentage basis from the second quarter of 2021 average fleet size. By comparison, in the sequential period of second quarter '19, the third quarter '19, we had a 15,000 increase in vehicles on an absolute basis and a 3% increase on a percentage basis. We knew there was strengthening travel demands. We employed the same game plan that we did in the second quarter. We worked through supply chain issues with our OEM partners and kept the fleet at the most optimum levels to help service peak period consumer demand. As I mentioned during our Americas section, we also work to keep utilization high by investing in reconditioning of our vehicles and being proactive with preventive maintenance. In short, we did everything in our power to maximize the use of our fleet. It was not easy, but through the efforts of our supply chain teams and service agents, we are able to actually post a higher customer satisfaction score this quarter than the second quarter of 2021.

I would like to take a minute and address the model year 2022 buys. Last quarter, I stated that negotiations with our OEM partners will continue late into the third quarter. Unfortunately, given chip shortages and choke points throughout the global supply chain, many OEMs are still working through their 2022 planning, and we are working with them on solutions. The relationships we've developed with our OEM partners over decades allow us to iterate quickly with the goal of mutually optimizing 2022 fleet delivery. We are continuing our strategy of growing our relationships 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, including connected cars to deliver superior mobility experiences, and we have been a pioneer for years across our brands. Enabled by our award-winning Avis app and through our Avis QuickPass offering, our Avis Preferred customers upon arrival can select from a choice of vehicles on their phone, even while sitting on the plane when they land, proceed directly to their car and then utilize a unique QR code to exit via our automated Avis 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. These industry-leading capabilities completely puts our customers in control of their rental. And while we've seen cost efficiencies from these added technologies, more importantly, customer feedback has been overwhelmingly positive with customers using Avis QuickPass. This ability will be at at all major airports by the end of the year.

All our Avis and Budget customers can also take advantage of our digital check-in on our websites, reducing their transaction time at our counters to quickly and safely get on the road. Given the differentiated experience we provide, we are not surprised that many of those currently traveling are choosing our vehicles over other mobility options.

Finally, I'd like to close with Avis commitment to safety on our latest views around the industry disruptions caused by COVID-19. Avis has been focused around the safety of our customers and our employees since the beginning of this pandemic. The Avis Safety Pledge and Budget Worry-Free Promise, we established then, are still in full effect today. While the travel industry is still recovering from the effects of this pandemic, we are encouraged by recent trends. As I said before, we are seeing normal seasonality in the start of the fourth quarter with forward-looking demand looking strong towards the end of November and into December. We're also particularly encouraged by the recent decisions to allow vaccinated travelers from Europe to enter the U.S., beginning November 8. Although COVID clearly still remains a headwind, we are cautiously optimistic that the worst is behind us.

Let me wrap up this by taking a step back. It's taken Avis 75 years to cross the $1 billion annual adjusted EBITDA threshold. And in 2021, we generated over $1.7 billion in adjusted EBITDA in just the first 9 months. Clearly, certain macroeconomic factors have gone away to help facilitate this. But on the flip side of things, there are also many unforeseen challenges that we had to overcome. We had to adapt quickly, find new solutions to old problems and most importantly, come together as one global team in order to get here. I want to verbalize something that's not guidance, but more of a mindset that's shared by every member of our organization, which is, now that we've broken the $1 billion annual adjusted EBITDA barrier, we're never going back. We will continue to challenge ourselves to be a leaner and more efficient organization. We work with purpose and urgency that was required over the past 18 months even when this pandemic is behind us. We will manage every factor within our control to mitigate challenging macroeconomic environments and capitalize on favorable ones. We're setting a new foundation to target higher goals and taking full advantage of this positive momentum to create a transformed Avis Budget Group.

It's an exciting time to be here. And I look forward to demonstrating as quarters progress, what this team energized and unified by this mindset will be able to achieve. With that, I'll turn the call over to Brian to discuss our liquidity and outlook.

Brian 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 capital allocation. On the last call, I stated that it is important to address and benefit all stakeholders of Avis Budget Group when considering capital allocation. That includes our debt investors, our equity investors and the overall company. With regards to our debt investors, obviously, we've delevered substantially given our growth in adjusted EBITDA.

Currently, our net debt to LTM adjusted EBITDA is below 2x, substantially lower than the 3 to 4x we've targeted historically. Despite this, we took the opportunity this quarter to retire the $235 million that was outstanding on our 5.25% senior notes due 2025 with cash on hand. With regards to our equity investors, we took advantage of a period where we believe that our stock was undervalued and deployed $994 million to retire 11.6 million shares at an average price of $86. This represented a 16% reduction in our outstanding share count in just the third quarter alone. With regards to our company, we invested a $180 million of cash back into our vehicle programs. As you recall, we released equity from our fleet in order to bolster our balance sheet during the peak of the pandemic. However, with this most recent contribution into vehicle programs this quarter, the net inflow and outflow of cash in our vehicle programs is relatively flat across the period of beginning 1Q'20 and ending 3Q'21. That reinvestment of cash into vehicle programs, combined with proactive measures taken by our treasury team over the past few quarters gives me confidence that we have the proceeds available to reinvest and replenish our fleet responsibly going forward.

The total cash used this quarter across the capital allocation areas previously outlined was $1.4 billion. And yet, as of September 30, we were holding cash and cash equivalents of nearly $900 million, a balance roughly $300 million higher than the average cash we held throughout 2019. I said it on our last call, but it's worth saying again. I've been following Avis closely for well over a decade. And in my opinion, our capital structure is in the strongest position I've ever seen it. This balance sheet strength, combined with our robust earnings trajectory, leave us in the privileged position of considering how best to deploy our free cash flow. Our capital allocation strategy going forward will continue to benefit all stakeholders to maximize value creation.

Let's move on to liquidity and financings. As of September 30, we had available liquidity of $1.3 billion comprised of $900 million in cash and cash equivalents I mentioned previously and a $400 million in availability on our revolving credit facility. Additionally, we had cash and available borrowing capacity of $2.7 billion in our ABS facilities. In July, we renewed our credit facility with a maturity date of 2026 and eliminated our relief period. Our corporate debt is well laddered with no meaningful corporate debt maturities until 2024 and no need to refinance any of our ABS term debt this year. 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 September. Lastly, this morning, we announced a new share repurchase authorization of $1 billion that will be used opportunistically to return value to shareholders.

Moving on to outlook. Consistent with the recent prior quarters, we did not offer formal outlook on our press release. However, I do want to provide some thoughts on what we're currently seeing in the fourth quarter. In the Americas, as Joe mentioned, the holiday booking demand is looking strong. We're expecting normal RPD seasonality, so RPD in the fourth quarter will be lower than the third quarter of 2021, but obviously higher on an absolute basis year-over-year as industry fleets continue to be tight. In International, we're seeing strengthening demand trends in Europe and stabilization in APAC. And as an overall company, we will continue to demonstrate the cost discipline we've shown quarter after quarter. Given these trends, we currently expect to deliver over $2 billion in EBITDA for the full year 2021.

Now going forward, we will continue to provide our views and color around the near-term state of our business. So we've made the decision as a management team to forgo giving formal annual guidance even after the pandemic is behind us. We've been entrusted as stewards of this franchise and every decision we make should be with the goal of maximizing long-term shareholder value. I never want to be in a position where we are compelled to compromise what's best for the business for the sake of making good on near-term forecasts. Of course, we build our plans annually, but I ask our investors to give us the trust and flexibility to make agile decisions as the business environment changes. That being said, I hope you take comfort in Joe's comments earlier. While we have much more to do, this is a new chapter at Avis, where an annual plan below $1 billion in EBITDA is no longer acceptable. With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Aileen Smith with Bank of America.

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

I wanted to ask a first one as a follow-up to one that I posed last quarter, specifically, it was really encouraging to see Americas fleet size increased from 378,000 to 434,000 in the quarter. And I want to confirm that similar to the second quarter, this increase in fleet size was attributable primarily to new vehicles. And I referenced this in a broader dialogue that automakers are prioritizing retail sales over fleet sales. But based on your results, you still clearly have a strong relationship with your automakers. So as we think about production pressures, persisting well into next year and the fact that automakers may or may not prioritize certain segments over others, How do you think about your ability to increase your fleet size into next year?

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

Yes. This is Joe. Yes, we were able to grow our fleet size substantially in the third quarter. I mean we had seen, based on what we were coming out of the second quarter, really peak period consumer demand much greater than probably we saw in the early part of the second. And we had to get prepared for that, and we were talking with our OEM partners, as you know. We have 16 or so OEMs that we have relationships with. And we called on all of them, frankly, to help us with our production. And for the most part, as I said in previous quarters, the majority of cars that we've got in were all new. Yes, to answer the question that's behind the scenes, we do buy used cars. And they have a part of our overall fleet strategy, but the predominant amount of cars we got in the quarter was certainly new. As a matter of fact, I think we spent about $8 billion in new cars this year. I thought we made great progress on our 2022 model year buy during this past quarter. I thought in the past that we might be getting done in the third quarter. But as I said, previously, it's a very fluid situation, whether it be semiconductors or COVID-related challenges on supply chain or vehicle parts or as you mentioned, the heavy demand for new cars in a retail environment with inventories, quite frankly, at dealership lot on a historic low. But that being said, we have decades worth of experience with our OEM partners. And I have to say it is a partnership, and they respect the flexibility that we were able to offer them during this last quarter. And I suspect that's going to go on for the better part of 2022 as well. So not totally there on our new car buy yet, but getting close. And quite frankly, I'm very pleased with our process so far.

Operator

Our next question is from Hamzah Mazari with Jefferies.

Ryan Gunning - *Jefferies Group, Research Division - Research Analyst*

It's actually Ryan filling in for Hamzah. I guess, I know you touched on technology a little bit, but maybe could you talk about what inning you're in on that journey. And specifically, are you seeing margin benefits or incremental growth from those initiatives?

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

Yes. This is Joe. We spent a lot of time over the past number of years developing our technology solution platform. If you think about what I mentioned in our prepared remarks about Avis QuickPass, I mean that's a seamlessly contactless transaction. Customer reserves a car, we get the car ready, put it on our ready saline systems. And then the customer can choose it or make a choice on their cell phone even while on an airplane, come to our lot and leave versus an automatic exit gate. I mean when you do that, it's less labor-intensive, certainly reduces the overall manpower and it actually provides a pretty seamless transaction, one which our customers have evaluated us very strongly. So from a customer service standpoint, we're kind of engaged in that. And you will see in the future us develop similar type of processes based on technology. From an efficiency standpoint, we have our proprietary demand fleet pricing system, which enables us to look at and input many thousands and thousands of rate changes that got done automatically without the use of a lot of manpower and get us the opportunity to understand better supply and demand, which has helped us tremendously as we manage the day-to-day process of our fleet. When I think about mileage accretion and mileage we came out with, we have technology called mileage optimization, which evenly distributes mileage around our fleet. And especially in a period like this, it becomes very, very important. Thus reducing those outliers that cause fleet cost issues. So that was another aspect. I mentioned connected car. I think connected car has a two-pronged benefit. One, service, of course, customers get gas and mileage that they are accurate. So the billing is correct. So there's no calls to our call center or questioning us about accuracy of bills, which helps reduce the overall manpower issues. We have the ability to find a car in an ERS situation that helps service. But on an efficiency standpoint, it helps us with inventories and inventory knowledge, which better utilizes our available fleet and gives us better utilization on a day-to-day basis at a majority of our stores. We get gas readings to the 1/10 of a gallon, which helps us on our -- with our gas recovery efforts. And lastly, we can recover cars at a much quicker rate than we ever had in the past if they go unaccounted for.

And the last thing I would say is that selling cars, especially in the future when the residual values may not be as robust as they are today, is going to be highly dependent on our ability to sell cars direct to consumer, and we worked tirelessly on getting a platform that enables us to do that in a much more integrated fashion. So those are some of the things that we've looked at from a technology basis, and we'll be developing more over time.

Ryan Gunning - *Jefferies Group, Research Division - Research Analyst*

Great. And then for my follow-up, could we -- could you just walk us through how you're thinking about your electric vehicle strategy for your fleet? And if that's a focus? And why or why haven't you moved there earlier?

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

Yes, sure. Ryan, it's Brian here. I'll start and Joe can add color. So we at Avis realized that the electrification of vehicles is where not just our industry, but the entire mobility ecosystem is eventually headed. And I think the bold move made by one of our competitors and that announcement is good for the overall rental car industry. It pushes pace and draws attention to what needs to be done to absorb electric vehicles at scale. I don't think it's fair to characterize that we haven't moved on this. Like we've spent a lot of time over the past 12 months with both our OEM partners to optimize a product line for electric vehicles and also our infrastructure partners to tackle logistical hurdles about, like I said, absorbing these vehicles at scale. So we are definitely moving forward on this front. But the reason you haven't heard from us publicly on this is like because of competitive reasons, we'd like to execute on our strategy before announcing it. Joe, anything you want to add?

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

Yes. Look, we've said publicly with our ESG submissions that we are looking to reduce greenhouse gas effects by over 30% over the next 10 years. I mean having hybrids and electric vehicles is a large part of that. And we've had electric vehicles in our fleet in the past, and we will have more of them in our fleet going forward. We've been in conversations with all our OEM partners, and I would say that because one of the things that we would want to see with electric vehicles, especially early on in their build cycle is a vast diversity of fleet. It helps us in consumer demand and also insulates us from maybe parts challenges or even a recall. So you'll see us getting more and more involved in that as time goes on. If you look now 2% or thereabouts of all cars manufactured in the U.S. are electric, that number will go to about 10% in 2025 and maybe north of 30% in 2030. And we'll play a big role in that. And our manufacturers, our OEM partners are very interested in talking to us about that as time goes on. I would just say this generally about how we evaluate fleet, so we all are kind of grounded. I think the principles of how we buy gas and electric cars remain kind of the same. The first is, is there consumer demand? In other words, as they had demand enough across all our segments to provide our ability to get these cars on rent and at the price points that we want. So we look at that, is there asset utilization? Are they -- where can we rent them? What segments are they available throughout our business. And lastly, what are the per unit economics, right? What do they cost you to buy? How much does it cost you to hold in maintenance and things of that nature? And what's the opportunity for sales? I think electric vehicles and gas vehicles will all fall into those categories. And you'll see us going forward be much more active in the electric scenarios as the situation develops over time.

Operator

Our next question is from Billy Kovanis with Morgan Stanley.

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

Team, exceptional result here in the third quarter. I saw you increased your share repurchase program by $1 billion. I was looking to get an update on your capital management strategy going forward. And I wanted to get your take on whether buying back your stock still remains the most prudent use of capital, given the appreciation in the stock? Are there other plans to reinvest in the business in terms of technology and CapEx build out put you in a better position to partake in fleet management?

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

Billy, I'll take this one. So as we said in our prepared remarks, we want to take a balanced approach to our capital allocation. That's looking at our debt investors, our equity investors and our company. I think some of the things you mentioned in terms of investing in technology the new systems and processes we need to operate as a more efficient company, and that is absolutely something that's high on our priority. But you'll see on the cover of our 10-Q when that gets filed. Our shares outstanding as of October 29, was 56.5 million. Our shares outstanding as of the second quarter was 70.6 million, so we've retired 20% of our float in the past 4 months. We've been really busy on that front. And also given the share price as of the close yesterday versus the VWAP of our shares retired. This represents over $1 billion of value created for shareholders. Two things I want to mention on that front. One, we were in the market yesterday. So even at today's prices, we believe our shares represent a compelling investment opportunity given our future trajectory. And two, I think the quantum and pace of buyback we've demonstrated this quarter shows we're not shy about acting aggressively when we see an opening. We're going to be nimble about this. This will not be a set it and forget it like kind of formulaic buyback. Retiring shares is a great use of free cash flow today. But as you mentioned, Billy, we have other areas where we can deploy capital to maximize long-term shareholder value. We may choose to prioritize those alternatives if we see fit. We could go a year or two not buying shares and then deplete the entire $1 billion authorization we had in a quarter, if that's the best use. It will be a management decision. And like I said, we'll be nimble. We'll be opportunistic with regards to share buyback going forward.

Operator

Our next question is from Brian Johnson with Barclays.

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

Yes. Just want to talk about kind of model year '22. You've touched upon it here and there, but I just want to kind of wrap it up. Can you give us some sense of what's going to go on with the capital costs of acquiring those units? How you're going to think about depreciation schedules as you put those in the fleet because if you're going to sell them next fall, the used car market may not be where they are. And just to put on the table, I think a fear investors have is that rental car companies will need to pay up for model year '22 because supplies are still tight. And then when they turn -- push them out of the fleet, the used car markets could normalize. So if you could just maybe comment on model year '22 and how it's likely to flow through in terms of depreciation per vehicle per month.

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

Yes, sure. Brian, I'll start and Joe will add his thoughts. Listen, I think the way that you're describing it right now is absolutely what we're saying. On an absolute basis, the price that we pay for these cars will be higher than what we paid in 2020 or 2021 model years. But that's not the way that we view depreciation. What we look at is kind of the price at which we buy the car, like minus the price at which we can eventually sell the car divided by how long we hold the car. So there are different variables at play over here. And when we think about what cushion we have in terms of about being able to make these decisions and how we optimize our fleet, what we actually look at is not just like the price that we're buying the car at, but where that price sits relative to where the transaction price is. And this is clearing price of the retail customer because that's eventually what we're going to be competing with. So it's something that we monitor very closely. And as we build our fleets and as we partner with our OEM partners, like that's constantly on our mind and we're building out the unit economics of each make and model in that same rigorous fashion that we always have. We're not getting into specific guidance around what we think depreciation could be, but you'll see in our 10-Q when it gets filed. We're still deping our cars at a -- in the mid-200s rate. I think we had a gain of $150-ish million from the sale of vehicles this quarter and that's versus $109 million of gain in the third quarter. So if you back that out, we're still deping our fleet at roughly [240 per month], and we only realize gains when these vehicles are sold. Going forward, like where we understand like how our -- how the unit economics of our business work and how sensitive it is to depreciation. So we're still using the same kind of rigorous kind of make model build up when it comes to our fleet purchases for '22.

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

Yes, I'd just echo Brian's comments, we have a pretty established process to evaluate depreciation and depreciation rates that goes back a number of years, that entails our own data and outside data of what we think we'll be selling cars out in the months and years to come. I will just say this about the near term. In model year 2020 and 2021, the industry -- our rental car industry, sports certainly a lot less cars. That means that go forward, there's going to be -- there's not going to be enough supply to deal with the enhanced demand that we see on a go-forward basis. Now granted, over time, things will change. And my comments about how we sell cars directly to consumers, which we talked about maybe last year before the pandemic is going to be increasingly important. And that really is how you would be able to set your depreciation rates. And we're confident in our processes that will allow us to look at this, what we would call alternative channel selling that can enhance our fleet costs.

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

Which is my follow-on question. So as you kind of think about next fall, are there remarketing channels that you can lean more on? Are there certainly where what a competitor did with a well-known online power sales app. Just what -- how do you think remarketing is going to evolve over the next year?

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

As I kind of just alluded to, anything that we do ourselves is -- has a benefit, right? Because you -- while we will continue to sell cars at various different channels, if you take ownership or control of that selling process, you then have -- you don't have the costs associated with sending them to a standard auction or auction fees for that matter. But if you sell it yourselves, to a direct-to-dealer customer, you not only enjoy less fees, but you also enjoy the back-end benefits of whether it be financing, or any of the other back-end products that you could sell consumers, which, on average, can be somewhere in the area of like $1,500 to $2,000 per unit.

Operator

Our next question is from Ryan Brinkman with JPMorgan.

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

How are you thinking about the potential impact to either transaction days or revenue per day by the removal in the fourth quarter of restrictions on travelers into the U.S. from certain overseas countries? I'm curious what insight your booking system might provide relative to travel into the U.S. from Asia, for example, or from Europe? And are you able to quantify how important this international inbound business was historically as a percentage of your transaction days prior to the pandemic? Or how the pricing had historically differed with these bookings versus more traditional domestic bookings?

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

Yes, sure. Since the announcement, we've definitely seen an increase in our booking patterns for those international businesses -- international countries, sorry, coming in to do business here in the U.S. As a matter of fact, booking patterns are above 2019 levels. So we see the same thing that the airlines reported during their time a week or so ago that there is this demand. I would say it's more from Europe than APAC. As Brian said in his opening remarks, and as I said earlier, there have been restrictions in Australia and New Zealand and especially coming in from Far East. So I think the majority of what we've seen coming in from Europe and frankly, Canada, on what we consider our inbound business. And is especially prevalent around the holidays. As you know, it opens up November 8. So you're not going to see an immediate because people who come in from elsewhere, they have a little bit of a further booking curve than those domestically, but we'll see that. And the inbound business, just to give you some thoughts around it, they keep the car for a longer period of time, and they buy quite a few ancillaries, which enhances our revenue per day. So we think it will be a value-add. Is it the biggest book of business that we have? The answer to that is no, but it's certainly something that's more gen accretive.

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

Yes, Ryan, just add to that, that we don't comment on kind of the different customer segments and we, at Avis, love all of our customers. But if you think about it from a margin perspective, that international inbound is going to be our highest margin business.

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

Very helpful. And then just my last question is what you're seeing in terms of the mix between business and leisure and how you're thinking about the eventual recovery in business travel impacting results going forward? I think it's fairly widely acknowledged that leisure tends to be more profitable. But just thinking on how your mix has changed since the start of the pandemic. I'm curious if -- as bookings -- as business bookings get layered back in, if they might carry a stronger than typical contribution margin because -- either because it improves your utilization, which I imagine is probably higher on the weekends and lower during the week relative to prior to the pandemic or perhaps because fleets are just so tight right now that maybe volume purchase discounts that big accounts typically get might track less? How are you thinking about that?

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

Yes. Well, I think you're pretty much spot on in some of your commentary. We have seen sequential growth in our commercial business coming back. Is it back to our 2019 levels; the answer to that is no. What we have seen from our commercial segment is that keeping the cars longer, which helps, as you mentioned, that utilization curve that you -- that we see during the course of a week. So on average, the commercial customer in 2019 kept the cars a certain amount of time, we're seeing about 30-or-so percent increase in the amount of time they're keeping the cars, which does help even out utilization across a week. So you start off -- it's very hard to maintain utilization over a peak period if the peak is just the weekend, right? What we love in this business is a double peak, which you get the car used on a Wednesday and then you get the car used on a Saturday. It's very much profitable that way than it would be to have a slow Monday, Tuesday. So we've seen that, and we've seen some sequential growth. I will also tell you that there's -- some of the growth that we've seen is in our mid-market and small business, they seem to have got a little quicker. And those come with a higher rate per day factor. So listen, I fully expect commercial business to start moving back as restrictions ease and people go back to their offices and there's actually the ability to travel and see someone that someone's going to accept them into their locations. We haven't seen it to the degree that we had in 2019. But as I said before, it helps scale tremendously.

Operator

Our next question is from Chris Woronka with Deutsche Bank.

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

Congratulations on the quarter. Wanted to ask about kind of the negotiations you have with some of your commercial accounts, not specifically, but higher level what kind of pricing expectations you're setting with or attempting to negotiate with them for 2022, given where we are on kind of spot pricing.

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

I'm not going to get into the -- Chris, I'm sorry, the -- how we negotiate and settle our contracts. I will say this, we have a really high retention rate amongst our corporate accounts, and that has not changed pre-pandemic or post-pandemic. I think we quoted somewhere in the air of 98% or 99% and we believe all aspects of our business are important, especially that midweek commercial segment. It adds scale. It allows us to hold on to cars for more rental transactions that we might have had if we didn't have that. So like I said, we see rising rates right now and the mix being mid and small business. And I think we'll continue to see that going forward.

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

And just one thing to add to that, Chris. As we've had conversations with our kind of our large commercial accounts, what we've noticed right now is it's not all about rate. People are talking about like what differentiates you as a company and I think kind of our app and all the flexibility that provides this whole idea of having a more seamless customer experience, that's been at the forefront. And now we're actually -- we're seeing a lot of questions around, hey, do you have fleet availability? And what is the condition of your fleet? And because people is large corporate accounts. Everyone wants to put their employees in a car that's well maintained and safe, obviously. So I think a lot of discussions around that. It's not just about rate. And I think we feel very good about the health of our fleet relative to the overall industry.

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

Okay. Very helpful. And then, Brian, kind of a follow-up for you on the depreciation, the step down from Q2 to Q3 in the Americas. Is that mostly a function of you extended the life of certain cars you might have had last year they didn't accumulate mileage. I'm just trying to get a sense going forward for -- I think you mentioned the [240] number for depreciation. And I think what -- I think you're referring to what the stuff you're bringing in, that's kind of the run rate depreciation per month. But with the [143], you obviously had probably some zeros mixed in there. Just trying to get a sense for how that might pace going forward?

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

Yes, sure. The [240] is actually not what we're bringing in new cars at, the 240 is a blend of our third quarter depreciation rate, like what we're straight-lining the cars at. So the way that it works is you make an assumption in term -- you know what you bought the cars at, you make an assumption on where you sell the cars at and you make an assumption on like how long you hold the cars. And then you have a straight-line depreciation throughout. As you sell cars, you realize whatever gain is above the net book value that you were straight lining, deping that car at or in the event that you sell it for less, the loss. What you'll see in the Q is, we had a gain of $150 million-ish from vehicles this quarter. If you back that out, what we're straight-lining deping our cars at is still the 240 number. Is that helpful?

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

Yes. Yes. That's helpful. I guess I was really trying to get a sense for what percentage of the fleet you have today was also in the fleet kind of pre-COVID, that's probably going to roll off in the next -- certainly next year.

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

Yes. I appreciate where you're getting at. We're just not giving color kind of on a model year basis.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back to Joe Ferraro for any closing remarks.

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

Yes. Thank you. So to recap, the momentum we saw during the second quarter continued into the third quarter as we surpassed our annual goal of $1 billion in adjusted EBITDA in this quarter alone. The Americas delivered another record breaking quarter, and International showed strong improvement along with continued cost discipline. This quarter performance puts us on track to reach over $2 billion in adjusted EBITDA by year-end. And finally, I would like to say thank you to all our employees for the hard work they've put in over this past year. With their dedication and believing in the Avis Budget way that we're able to achieve these results as a team. Thank you all. Thank you for your interest in our company.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you very much for your participation, and have a great day.
