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CAR.OQ - Q1 2025 Avis Budget Group Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**David Calabria** *Avis Budget Group Inc - Treasurer and Senior Vice President of Corporate Finance*

**Joseph Ferraro** *Avis Budget Group Inc - President, Chief Executive Officer*

**Izilda Martins** *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

## CONFERENCE CALL PARTICIPANTS

**John Babcock** *Bank of America - Analyst*

**Stephanie Moore** *Jefferies LLC - Analyst*

**Christopher Stathoulopoulos** *Susquehanna International - Analyst*

**Jash Patwa** *JPMorgan Chase & Co - Analyst*

**Dan Levy** *Barclays Capital Inc - Analyst*

**Lizzie Dove** *Goldman Sachs & Co. LLC - Analyst*

**Chris Woronka** *Deutsche Bank - Analyst*

## PRESENTATION

### Operator

Greetings. Welcome to the Avis Budget Group's First-Quarter 2025 earnings conference call. At this time, all participants will be in listen-only mode.

(Operator Instructions) Please note that today's conference is being recorded and a question answer session will follow the formal presentation.

I'll now turn the conference over to David Calabria, Treasurer and Senior Vice President, corporate finance. Mr. Calabria, you may now begin.

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### David Calabria - Avis Budget Group Inc - Treasurer and Senior Vice President 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 releases and our periodic filings with the SEC, as well as the investors relations section of our website. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results, and any or all of our forward-looking statements may prove to be inaccurate, and we 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-gap financial measures. Please refer to our earnings press release, which is available on our website for how we define these measures and reconciliations to the closest comparable GAAP measures. With that, I'd like to turn the call over to Joe.

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**Joseph Ferraro** - Avis Budget Group Inc - President, Chief Executive Officer

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 \$2.4 billion and adjusted our loss of \$93 million.

Overall, travel demand played out largely as we expected in the first quarter. Taking into account calendar shifts, demand remained solid, primarily due to leisure activity. Total company pricing, while down 2% year over year on a constant currency basis, showed improvement compared to the decline experience in the fourth quarter.

In February, we discussed our accelerated fleet rotation strategy. During the first quarter, we were laser focused on executing our fleet refresh, laying the foundation for lower fleet costs, and improved operating expenses through newer lower mileage vehicles while also enhancing the customer experience.

We aggressively disposed of higher cost, older model year vehicles. In fact, I'm proud to say that the number of risk vehicles we disposed of this quarter was a company record. This was not only a first quarter record, but a record for any quarter in our company's history. These disposals had made room for newer and more affordable vehicles in our fleet.

As we mentioned on our last earnings call, we expected an additional non-cash charge in the first quarter related to the disposition of vehicles as part of our accelerated rotation strategy. Izzy will provide more details later on this call.

We remain committed to our fleet discipline as a core part of our operating strategy by carefully managing the fleet just inside of demand. We've consistently achieved year over year improvements in utilization, and this trend has continued into the first quarter, with total company utilization of nearly 4 points compared to the first quarter of 2024.

We're continuing to invest meaningfully in technology to transform key parts of our business, focusing on enhancing our customer experience, revenue generation, and operational efficiencies. These investments are all aimed at driving incremental adjusted EBITDA.

As a result of these actions and our close management of cost, our adjusted EBITDA. Exceeded the first quarter adjusted EBITDA guidance we provided on our last call.

With that, let's discuss our segment results beginning as always with the Americas. The Americas generated over \$1.9 billion of revenue in the first quarter with an adjusted EBITDA loss of \$67 million.

As we mentioned on our last call, December's record Christmas season carried strong momentum into January with a robust MLK holiday weekend. However, as we moved into February and March, there are year-over-year comparisons to take into account with the loss of a day in February due to leap year and Easter shifting from March to April. Holidays are key events for our business and we capture higher volume and higher pricing from leisure travel.

With these calendar shifts in mind, revenues on a constant currency basis decreased 4% this quarter compared to the same period in 2024, driven by 3% lower pricing and 1% decline in volume. This largely drove the year over year decline in our first quarter revenue. If you adjust for these calendar shifts, our revenue this quarter would have been relatively flat till last year.

Despite the calendar shifts in the first quarter, we still saw a stable demand trends. Overall, our rental days were in line with TSA activity year over year. We did, however, see a pullback in commercial demand as we transitioned through the quarter. This was mitigated by improved leisure demand and meaningful year-over-year volume growth with our valued partners, a trend that continued in April and will remain an area of emphasis for us moving forward.

We maintained our discipline to keep fleet inside of demand, which allows for the most efficient use of our assets and optimal price outcomes in any environment. Vehicle utilization improved both on a year-over-year basis and sequentially throughout the quarter. Utilization in the Americas reached nearly 70% for the quarter, representing a 4 point increase year over year.

Looking forward, we believe the transformational enhancements we are making around fleet management will continue to put us in the best position to capitalize on supply and demand opportunities. We've touched on some of these enhancements on our previous calls, and I will provide an update on our efforts later. We expect to continue to show year over year improvements in vehicle utilization throughout the year as we plan to continue to run a fleet size inside of demand.

I'm beyond impressed with the progress we have made to date on our accelerated fleet rotation. In the Americas, the demand for our used cars was strong, and we sold a record number of risk vehicles. In fact, the number of risk vehicles we sold was the most in any quarter in our company's history.

The used car residual market has performed well this quarter, partially due to the annual spring bounces and both new and used vehicle inventories being down, but also due to early reactions following the announced automotive tariffs. Residual values improved throughout the quarter, and this is still continuing today.

I also want to give an update on new vehicles we have added to our fleet.

To date, we have accepted delivery of approximately 70% of our anticipated model year 25 vehicles. We expect our accelerated fleet rotation to help the overall fleet health and reduce our average age, which is currently less than 12 months, and overall mileage, which would possibly affect our in-life costs.

In terms of both speed and scale, this has been the most impressive fleet refresh during my tenure. This progress has laid the groundwork for more normalized fleet costs as we transition through the remainder of the year and beyond.

I now want to briefly touch on ongoing developments around automotive tariffs. This is a very fluid and ever-changing environment, and there's still quite a bit of uncertainty regarding the impacts as it pertains to both our OEM partners and the rental car industry as a whole.

As always, we focus on what we can control.

First off, we're working closely with our OEM partners and have been in frequent discussions on how to best navigate the situation with the overarching objective to allow for maximum flexibility in our overall fleet planning.

As it stands now, new car deliveries for the most part are arriving as planned and at previously agreed upon prices. The used car residual value index for cars of our type is currently well ahead of prior year highs, and we plan to continue to capitalize on this favorable environment.

It's too early to know what impacts these tariffs may or may not have on our model year '26 buy. We'll be in a better position to give an update as the year progresses.

From a volume standpoint, forward bookings are up over a prior year with continued growth and leisure and a pullback in commercial demand similar to what we saw in the first quarter. As mentioned previously, our goal is to maintain fleet flexibility in order to ensure we have enough cars to handle the summer peak and beyond and to be ready to take advantage of any positive outcomes in the residual value markets.

Over the longer term, we will remain disciplined in adjusting our fleet strategy, pivoting if demand improves or adjusting as necessary. We have a history of reacting quickly and decisively based on internal or external challenges to ensure we stay inside of demand while providing a strong return on invested capital in any environment.

So to recap, the first quarter, the American segment delivered \$1.9 billion of revenue and adjusted even our loss of \$67 million. These results reflect expected softer year over year performance driven by calendar shifts, including one less day due to leap year in 2024 and Easter moving into April.

Despite these differences, fleet discipline remained a top priority, enabling year over year improvements in vehicle utilization. We made significant progress executing the accelerated fleet rotation strategy with a record number of vehicle sales and successfully accepting the majority of our model year 2025 vehicle deliveries at previously agreed upon prices.

These accelerated actions have set the stage for improved year over year fleet costs beginning in the 2nd quarter with normalized levels starting as early as the third quarter. We're optimistic that the used car residual values plan to support favorable outcomes on vehicle sales, and we will take advantage of this as the opportunities present themselves.

As always, our goal is to be disciplined in aligning our fleet size with demand, driving higher utilizations throughout the remaining part of the year. As a result of our strategic actions, the Americas is well positioned to capitalize on the upcoming peak travel season.

Let's shift gears to international. International generated revenues of \$523 million and adjusted EBITDA loss of \$3 million. The first quarter adjusted EBITDA loss year over year improved by \$12 million, which was largely due to improved pricing, lower fleet costs, and strong cost discipline to keep operating expenses in line with volume.

Excluding exchange rate effects, first quarter revenue was down 2% compared to prior year, with volume down 3% and pricing up 1%. Similar to the Americas, volume was down in the quarter due to calendar shifts with growth in leisure travel, helping to offset a strategic reduction in lower margin business.

We remain focused on building international inbound and inter-European travel, which grew nearly 7% in the first quarter compared to the same period, 2024. This segment mix generates higher margins and allows us to exit out of lower priced volume.

Despite the calendar shifts, there was still an overall year over year increase in our leisure business in the first quarter. Our demand fleet pricing system is now fully deployed across Europe and is currently being implemented in our Pacific region. Early results show benefits in price optimization, vehicle utilization, and margin contribution.

We remain disciplined and keeping fleet inside of demand to drive higher vehicle utilization. This quarter utilization was 69%, up more than 2 points compared to the first quarter of 2024. Similar to the Americas, we are maintaining our flexibility in our fleet position as we prepare for the summer peak.

So far in the second quarter, we've seen benefits from Easter shifting into April. We'll continue to prioritize higher margin business to drive improved pricing outcomes throughout the remainder of the spring season and leading into the summer peak. Our international regions continue to be popular destinations for cross-border travel, and I believe we are well positioned to capture this demand.

Moving on to marketing and technology. Our Avis brand launched the Plan On Us campaign in 2023 to reinforce our more than 75 year legacy of reliability and commitment to delivering seamless customer service. The campaign positions Avis as a trusted partner for travelers, a message that continues to resonate strongly with those customers and employees.

Building on its success, we relaunched the campaign in April, ahead of the summer peak season. In a world of change and uncertainty, we want our customers to know that they can plan on us. Because for over 75 years, Avis has had only one plan to make sure you keep yours. This marketing campaign is just one example of the targeted investments aimed at driving incremental adjusted EBITDA growth.

Now, let's discuss ongoing developments with technology, starting with an update to our customer mobile app. We launched a new app last fall, which continues to build momentum as our fastest growing digital channel and enhance overall customer experience.

We recently rolled out a new feature aimed at improving the online customer experience through real-time on-demand assistance. With just a few taps, customers can request assistance directly from the line. And an associate will come to help them wherever they may be. You've launched the experience at 12 locations, and early customer response has been positive. This is another example of how we're leveraging technology to deliver faster, more personalized service and drive greater customer satisfaction.

We're also making meaningful improvements to our operational efficiencies by leveraging technology and machine learning across key areas of our business. These activities will assist us in revenue generation, productivity enhancements, and utilization efficiencies. These advancements support our broader goal of enhancing overall margin contribution.

As I mentioned on our last call, we remain laser-focused on driving sustainably higher vehicle utilization performance by leveraging new digital in-life fleet tools to provide better understanding of the disposition of every vehicle within our control.

We are continuing to optimize the digital fleet tools in our pilot locations. With the success of the pilots, we have begun rolling out these digital tools to several new key locations to further operationalize and scale this technology across the US.

These tools are designed to improve vehicle movements, enable more timely repairs, and enhance visibility in our vehicle dispositions, all contributing to increased fleet availability. This and other operational efficiency strategies have enabled us to maintain operating and SG&A expenses on a per rental day basis consistent with the first quarter of last year.

So to conclude, we had a terrific start to our accelerated fleet rotation strategy with first quarter disposals well above historic norms, and we will aim to continue to optimize this strategy throughout the remainder of the year.

Improved year-over-year fleet costs are expected to begin in the second quarter with normalized levels starting as early as the third quarter. Utilization was up in the first quarter and year over year improvements are expected to continue throughout the year.

While tariffs have created some level of uncertainty, we feel we have developed a flexible fleet plan to take advantage of the summer peak and any positive outcomes in the used car market. The demand for our used cars is very strong, and residual values are currently well above prior year.

As previously mentioned, early summer bookings show increased growth with leisure offsetting a pullback in commercial travel, and as always, we expect pricing to improve seasonally.

Before I close, I want to take a brief moment on a personal note. As I will be transitioning out of my current role as CEO on June 30th and continuing as an advisor to the board.

It has been my honor and privilege to lead Avis Budget Group, and I'm incredibly proud of everything our team has accomplished throughout my 45 year tenure.

In both good times and challenging environments, we've always found a way to enhance our company's performance. We have a tremendous culture of success and an incredible will to win, and I have full confidence in Brian and the entire leadership team to continue building on this foundation.

Thank you to our employees who I've worked with throughout the years and whose dedication has inspired me, to our partners who have shared our vision, to our shareholders for their trust and support, and most importantly, to our customers. It's truly been an honor for me to serve you. I look forward to watching the company continue to thrive in the years ahead.

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

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**Izilda Martins** - *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

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 always, let me begin with our first quarter results. We've reported an adjusted EBITDA loss of \$93 million compared to a positive \$12 million in Q1 '24.

I will now walk through the key factors behind this \$105 million year-over-year change. Total company revenue was \$2.4 billion for the quarter, down from \$2.5 billion in the first quarter of '24.

As Joe noted, the decline was expected, driven by calendar shifts, stronger leisure demand partially offset by softer commercial volume, and a 2% decrease in pricing, excluding exchange rate effects. Altogether, these factors contributed to \$120 million year-over-year revenue decrease.

Now turning to fleet costs. As noted on our last call, we anticipated a non-cash charge in Q1 related to vehicle dispositions as part of our accelerated rotation strategy. We finalized our fleet-related charges and recorded a \$390 million charge this quarter. This charge is excluded from our adjusted EBITDA, and to be clear, we do not expect any further fleet-related charges from this change in strategy.

We also guided Q1 fleet costs to be around \$400 per unit per month. Thanks to the successful execution of the rotation strategy in the first quarter and continued trends in the used car market. Actual per unit fleet costs came in lower at \$351.

While better than expected, this was up from \$318 last year, resulting in a \$29 million year-over-year increase driven by elevated vehicle depreciation on our prior model year vehicles offset by aggressive fleet rotation and improved vehicle utilization.

This improved vehicle utilization also contributed to lower vehicle interest expense. In the first quarter. Vehicle interest was a \$29 million benefit compared to the same period in '24, driven by a smaller fleet and reduced vehicle debt needs. Lastly, we saw a \$15 million year over year improvement in operating and SG&A expenses while maintaining consistency on a per rental day basis compared to Q1 last year.

Although we incurred some additional costs as part of the accelerated fleet rotation, the transformational enhancements outlined are already delivering savings. We will continue piloting and refining these operational initiatives, and we'll optimize our investments accordingly.

As a result of these factors, our year over year adjusted EBITDA decreased by \$105 million. However, the results were in line with expectations with our \$93 million adjusted EBITDA loss coming in better than the \$100 million loss we had previously guided to.

As expected, our capital allocation strategy remains unchanged. We expect a balanced approach to allocate capital in '25. We will focus on debt repayments and capital expenditures that will drive operational efficiencies, reduce costs, and support margin expansion.

And as always, we will look to opportunistically return capital to our shareholders. As noted on our last call in February, we issued \$500 million of secured debt and used the proceeds to pay down fleet-related obligations. This is a temporary indebtedness structured to mature before year end. It provides us the flexibility to continue to rotate our fleet and pursue opportunistic spot buys.

As of March 31, we had approximately \$1.1 billion in available liquidity, including both committed and uncommitted facilities, along with about \$3 billion in additional borrowing capacity under our ABS facilities. Effective April 30, we extended our asset-backed variable funding facilities, increasing borrowing capacity by \$640 million.

Given our accelerated fleet rotation strategy, we believe it is more meaningful to focus on our total net debt leverage, which includes both corporate and vehicle-related debt over a more traditional EBITDA definition that also adds back vehicle depreciation and interest.

Our total net debt leverage ratio remains stable at around 5 times, as the proceeds from our \$500 million our recent \$500 million secured corporate debt issuances were used to reduce fleet debt. As expected, we continue to remain in compliance with all our financing facilities.

As we move through the second quarter, we are seeing clear year-over-year improvements in per unit fleet costs driven by stronger residual values, disciplined fleet management, and the introduction of lower cost model year 25 vehicles. On our last call, we guided Q2 fleet costs to be around \$350 per unit per month. We exceeded that goal by the end of Q1.

And now expect Q2 per unit to be approximately \$325 per month. Looking ahead, we anticipate further improvement with total company per unit fleet cost to be approximately \$300 per month by the start of Q4.

These expected improvements reflect our ongoing focus on fleet optimization and utilization, along with continued strength in used vehicle demand and residual values. On the revenue side, momentum remains strong. As Joe noted, leisure demand grew year over year in Q1, and that strength has extended into April.

Forward bookings are up and leisure bookings continue to trend above prior year levels. Our flexible fleet strategy enables us to scale up to meet rising demand or right size quickly as needed. Pricing is also showing positive sequential trends consistent with seasonal patterns. Rates are strengthening from Q1 into Q2, and current exit trends suggest continued pricing momentum heading into the peak summer season.

As a result of these combined efforts, both on the cost and revenue side, we expect adjusted EBITDA in Q2 to exceed \$200 million.

Our business is built to perform in dynamic environments. We have demonstrated that consistently with a track record of navigating uncertainty through operational agility and a highly variable cost structure where the majority of our expenses flex with fleet levels and revenue performance.

We remain committed to the long-term target we have set for ourselves as a company to generate above a billion of adjusted EBITDA annually. That has not changed. And while we continue to strive towards that goal today, we are mindful of the uncertain macroeconomic environment we are currently in.

As of now, we are still working through the positive impacts of tariffs on used car prices against the negative impacts of an unclear travel demand environment in the back half of the year, and we will provide updates in the coming quarters.

In closing, we remain focused on executing our strategic priorities, driving operational efficiency, optimizing fleet and revenue, and strengthening our overall financial position. The progress we have made in reducing fleet costs, improving utilization, and growing leisure despite softer commercial demand, gives us confidence as we move through the remainder of the year.

With that, we will now open the line up for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We'll now be conducting a question-and-answer session. (Operator Instructions)

John Babcock, Bank of America.

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### John Babcock - Bank of America - Analyst

Hi Good morning and thank you for taking my questions. First one just on utilization, I know you talked about fleeting levels, and that's obviously a huge driver of utilization, but I was also wondering what you need to do operationally to continue running at higher utilization rates, while still meeting demand. And then also if you could talk about, if there's a level of utilization where it gets incrementally more difficult to run the fleet.

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### Joseph Ferraro - Avis Budget Group Inc - President, Chief Executive Officer

Yes, hi, good morning, John. So, yes, we ran at utilizations that we felt were optimal in the first quarter for us. We had a strategic initiative to rotate our fleet aggressively because it paid, certainly paid dividends for us going forward as far as we talked about our per unit fleet cost better in the first quarter, and the goal was to make sure that they got better sooner, and we certainly did that.

Admittedly last year, we had a fleet situation where we, maybe we're a bit larger than we would have liked, so we started off in a better place this year, which was by design. And we found that, our modeling that we look at to determine where the car should be to have the best optimal outcome is, works in our favor. And as I said, many other time on a number of other calls. We're piloting, utilization strategies around our division with by allowing people to have better understanding of, the cars in their control and how they can better operationalize to get them to be more rentable.

So we were happy. And if you look at our overall utilization, when I look back historically through the years, a lot better than last year, kind of in line with where we were previously. So I didn't see that as a big challenge.

As we go forward to answer the second part of your question, we see those. Same opportunities arriving for us and we have fleet planning that we do daily and weekly by city, by station that enable us to get a better understanding of the supply of the demand side so we can acclimate the supply side.

One other thing that that happened, this happened, we've had some efficiencies in our supply chain operation. Whereby we've been able to improve on our overall non-rentable fleet that I talked about earlier and get them through our system.

We deleted a lot of cars in the first quarter and usually when you do stuff like that, you come up with a challenge because cars stay idle before you sell them. But due to lane efficiency we saw at the auctions and our relationship with our dealers who bought our cars, we were able to execute at a very high level and I do see that continuing.

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**John Babcock** - *Bank of America - Analyst*

Okay, thank you. And then just my follow on question here, I know you, talked about tariffs still an evolving target, obviously, out of curiosity though, I mean, with some of the signs that vehicle prices are starting to move higher, could you just talk about how that might impact your fleet plans for all the year 26 vehicles and also if you could just remind us when those negotiations start, that would be helpful.

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**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Yes, I, the, I think the OEMs are kind of getting them, an understanding of how they want to proceed with negotiations, and it's certainly a very fluid environment.

We're still involved getting our 25s and, any available fleet that might come through that. We have gotten a good deal of our cars in so far. We still expect more to come in. Deliveries have been the most part have been on time. I think that's kind of one thing we need to look at when we talk about our fleet is how flexible can we be.

One of the areas that that is that was apparent to us when we accelerated our fleet rotation is that it gave us outside of the cost benefit that I talked about, it gave us optionality, and that optionality is we have flexibility in our fleet size that we can either increase the fleet size this year.

Or decrease it if there's some level of uncertainty, and we got younger, both in age and mileage, which will allow us to not be so dependent if 26s are somewhat challenged. The last comment that I would make is that we have intensive modeling on how we look at how we buy our fleet.

Taking into consideration various makes and models, with the tariff situation, cars are going to be built in the United States, others are going to be brought in from elsewhere. We have the ability to pick and choose cars based on our needs, and we look pretty significantly at those opportunities as well as what residual values may be when we exit them.

So we don't have definitives yet on 2026 that's coming, but I feel that we have flexibility enough to determine the size of our fleet, based on make models and where they're going to be built and delivered from, as well as, good modeling that gets us insights on how we want to proceed.

Lastly, we're a volume buyer. Our industry buys cars in a volume and we expect those incentives to be, at levels that allow us to generate the activity that we need.

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**John Babcock** - *Bank of America - Analyst*

Okay, thank you, Joe.

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**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Thank you.

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**Operator**

Stephanie Moore, Jefferies.

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**Stephanie Moore** - *Jefferies LLC - Analyst*

Hi, good morning. Thank you. I wanted to touch a little bit on what you're seeing from a competitive standpoint if you feel like there has been any major change in the competitive landscape across the Americas and particularly. Thank you.

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**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Like, we operate in a highly competitive environment and I haven't seen anything that would suggest there's any different level of intensity as it surrounds, how we manage our business. I think the thing that I wanted to, that I always think about, we want to understand, where our competitors are coming from and any challenges that might be presented, but for the most part, I think if you look at the basics of our industry.

Everyone wanted to get, 25s in because they were less expensive and everyone has probably done a good job trying to augment their fleet with demand. I think with those that that principle is still in effect. And that gives, all of us, the clarity on, industry-related fleet size and how it affects our volume and our price.

I think I've learned over the years that, if we concentrate on what we do and how we do and execute at a very high level, that's the thing I want to make sure that we certainly concentrate on because that gives us the best possible outcome.

So to answer your question, no, I haven't seen anything that would suggest any difference, but we're always, mindful of how we operate and how we execute and get to the levels that we need to.

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**Stephanie Moore** - *Jefferies LLC - Analyst*

Got it. Appreciate that, appreciate the color and then maybe just one follow up to the prior question. If, maybe you could provide a little bit of insight. Joe, clearly you've been with Avis for some time and we will certainly miss you on these calls, but if you go back and think about other periods or maybe we've seen rising new vehicle pricing or higher acquisition costs and what levers you have at your disposal to potentially offset those higher costs. Thank you.

**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Yes, well, I talked, I talked a lot about the utilization lever. We believe that we have developed. A game plan and good insight on how to create more rentable vehicles. And if you do that, the dependency to buy vehicles becomes a lot less.

And I'm not saying utilization to deter volume. I'm saying utilization that will allow us to be more efficient and have more cars available to drive more rental days. I think that's the benefit we have today that we're utilizing that we didn't have probably in the past.

The other thing is, like, the rotation that we did set us up, in a really good spot that we have this, we have flexibility to grow our fleet, which would put a dependency on new cars maybe a little bit less than what we've had in the past.

And, I think overall, the way we have executed, from, not just as reliant on, auctions give us the ability to leverage our ability to deeply to a greater level than we had, probably in the past. And look at, I said this earlier, we look at our buying very differently than we've had.

We deal with all the all only partners. We have terrific relationships with all of them. And we have modeling that would allow us to look at cars, maybe like cars from different manufacturers in a way and have an understanding of what residual values are better than we've had in the past, which gives us insight and informed decisions to make our buy as beneficial to us as possible.

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**Stephanie Moore** - *Jefferies LLC - Analyst*

Thank you, really appreciate the time.

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**Operator**

Chris Stathoulopoulos, Susquehanna.

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**Christopher Stathoulopoulos** - *Susquehanna International - Analyst*

Good Morning everyone. Joe, so, a lot of the companies are actually most of the companies here within travel and leisure from. Airlines lodging cruise lines have had a bit of a bit more cautious view on the year.

You sound a little bit more optimistic. So the soft guide of no less than a billion dollars, that you're still holding to, what gives you the confidence, that you can hit that? Is it the work that you've done?

On the fleet renewal procurement technology, and then, what are you seeing, just what are you seeing with respect to demand and, could you remind us of your booking window? I think typically the way I think about it is, 30 days or in, I just want to understand how you're looking at demand into the second quarter and summer travel season. Thanks.

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**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Yes, first of all, I'll start off that we are, certainly mindful of, the economic, uncertainty that's out there. We're not, I'm not going to sit here and say that we're saying that that is something that, potentially wouldn't cause a problem. I think for us, we have to be ready for both. And what I've seen, compared to, maybe in the past.

And I look at, leading indicators for travel, our advanced reservations are up, right? And that's with a slight pullback in commercial. So our advanced reservations are up and getting to what you saw about booking curve, when we look at, is there confidence in people going to go on a vacation or take a trip.

We look further out, and when you look further out, 22 days, 30 days, the reservation demand and those are up. And if you look back at the pandemic or even during the recessionary periods of '08 and 9, those were down.

So that's kind of one reason why I see some level of confidence in, consumer travel. As far as, how we execute, there is, the, there is The used car market is operating at a very high level right now, right? Residual values are a lot higher. If you look historically, we're at, last year, the spring bounce ended, residual values of cars of our type started to go down. That hasn't changed.

So yes, that gives us, give us a different, level of opportunity as pertains to a fleet. And I like the amount of cars that we took out, right? We took out higher priced vehicles, we substituted them with less expensive cars. And so it gives the fleet, it gives us fleet certainty going out as well.

So, like I said, for those reasons, we got off, first quarter got off to the place that we thought we guided you, last time, and we came in on that, the second quarter seemingly, at least near term looks okay, and the summer, reservations are seemingly up right now.

And I have confidence in the way we execute. We execute at a very high level in our organization, both in our, people here in Parsippany, and throughout the world. And that's why, I may be -- I may be saying, yes, what, the -- we're still on track.

That being said, we're not blind to the fact that, the Fed just came out yesterday and talked about maybe unemployment issues or maybe inflation. And I think from where we sit, we have to be ready for both, and we are.

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**Christopher Stathoulopoulos** - *Susquehanna International - Analyst*

Okay, and then along those lines on free cash flow, do you think that you can realize positive free cash flow for the year, first quarter you were at a loss of just around half a -- around \$500 million, I realized there was about \$400 million of that in the financing side for the vehicles. Given all the work that you've done with respect to the fleet and the turn and the residual, values, your thoughts around free cash flow for the year.

Thank you.

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**Izilda Martins** - *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

Good morning, Chris. Yes, you hit the highlight, right. Thank you for acknowledging the fact that if you really look at starting from the top, the free cash flow in the first quarter is really equivalent to where adjusted IIA landed, given that you have to add back that that \$400 million.

What I would say going forward and piggybacking off of what Joe said, obviously, if things go as we see them today, we do expect, positive free cash flow in the later quarters.

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**Christopher Stathoulopoulos** - *Susquehanna International - Analyst*

Okay, thank you.

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**Operator**

Ryan Brinkman, JPMorgan Chase.

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**Jash Patwa** - *JPMorgan Chase & Co - Analyst*

Hi, good morning. This is Jash Patwa, on for Ryan Brinkman. Thanks for taking our questions. Joe, congratulations on an exceptional career and best wishes for the next chapter of your life.

I just wanted to start off, on tariffs. Could you maybe give us a sense of tariffs implications from a DOE standpoint? Any insights helping us find the sensitivity of DOE to tariff-induced inflation and vehicle parts and perhaps any other areas outside of fleet values that may be impacted due to tariffs. Thanks and have a follow up.

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**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Sure, the fleet obviously is the biggest one, but I am, there's an expectation that there's going to be other related costs due to tariffs that have to deal with, vehicle parts and things of that nature. I think that's why it was important for us to get our rotation right, to mitigate and minimize that level of activity because we'll have younger fleet, and as younger fleet will allow us to have in-life costs that are a little bit more controllable.

So that would be a mitigating factor. The things that we do in productivity as far as, if you're talking about wage and labor inflation, especially as it pertains to, any level of insource or outsourcing. We have technology now that we utilize to look at how, our productivity levels down to the individuals that will give us the opportunity to know where we should put, where we should have, a certain amount of manpower versus not.

So I think that has been We've always been trying to keep, productivity to, outperform wage inflation. So that's one. I talked a lot about vehicle utilization and how we look at that to minimize the, or mitigate some of the other direct operating expense lines.

We have a lot of initiatives that have to deal with, [bad debt] and stolen vehicles and registrations and inspections and a litany of things that we look at to ensure that we are in compliance with whatever our targeting is.

So to answer your question, yeah, we do expect there's going to be some level of tariff related expenses, and our goal is to ensure that we do like everybody else, mitigate them in a way that gets us, margins that we're trying to achieve.

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**Jash Patwa** - *JPMorgan Chase & Co - Analyst*

But that's very helpful. Thank you for that. And just as a follow on, I'd like to explore how you're balancing buybacks versus deleveraging. On one hand, there's the opportunity to capitalize on the current share price and acquire shares ahead of any potential rally and used car prices, which might occur in response to tariff related new vehicle price hikes.

On the other hand, there's the potential to secure favorable pricing on debt refinancing expected by 2026. Which could be facilitated by debt deleveraging and might alleviate pressure on your earnings multiple as well. Just curious how you weighing these considerations in your capital allocation strategy. Thank you.

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**Izilda Martins** - *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

Good morning, Jash. I would kind of echo what I said in my prepared remarks. As always, we always take a balanced approach, which has obviously involves some, opportunistic approach, through this year, our focus, I would say, I wouldn't say it's shifted a bit, but maybe there's a different focus in the fact that we do want to prioritize delevering our company, that's very important to us.

But also as important, we don't want to sacrifice our capital investments that we're making and that as you see, are driving the efficiencies in the near term, but plus they're going to drive even, greater multiples in the long term.

And lastly, kind of going in hand in hand with what you were asking about. We always will opportunistically look to return capital to our shareholders. So those are always going to be the three key things that we're going to be focusing on. And depending on what it presents itself, we want to be flexible and we want to, look at everything on a balance in a balanced way and in in an opportunistic way.

**Jash Patwa** - *JPMorgan Chase & Co - Analyst*

Got it. Thank you and good luck.

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**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Thank you.

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**Operator**

Dan Levy, Barclays.

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**Dan Levy** - *Barclays Capital Inc - Analyst*

Hi, good morning. Thanks for taking the questions. Want to start first with a question on the DPU maybe you could give us a sense of how much your DPU in the first quarter benefited from the one-time charge of just under \$400 million and then maybe you can give us a sense the assumptions you've laid out for \$325 in the second quarter and \$300 million by the start of the fourth quarter, what you are assuming within that for residuals, how much of that is residuals versus how much of that is just getting the better economics on your new vehicles.

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**Izilda Martins** - *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

Good morning, Dan. Thanks for the question. I think it was the way we look at it is you have to start with the fact that our strategy was really to accelerate this rotation. As Joe mentioned in the prepared remarks, we kind of exceeded that rotation.

So that part that we even when we knew our team could execute, as Joe said that they even. Executed beyond our expectations and that actually drove the fact that given the fact that we were able to take more cars out, you took out more of the older fleet and that you know that the refreshed fleet or the new fleet, the Model year '25, came in at a different price point.

So that to me would really be the main reason as to why the DPU. Is actually better than what we expected, right? Now, clearly there are residual value. There is strength in the used car market that we see in the residual values, but I still would say that the main reason for the improvement is the fact that we executed even beyond what we thought in our rotation strategy.

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**Dan Levy** - *Barclays Capital Inc - Analyst*

Any expectations on residuals within the 325 and 300? That assumes some strength continuing.

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**Izilda Martins** - *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

I mean, the way we, you have to think of DPU, right? We're always anticipating or trying to anticipate what the sales proceeds will be at the date of disposition. So that really goes into, what do we think the future will be. So yes, we're still obviously deleting. As we and inflating for the summer peak, but those will come through as to how the market reacts. But really what we see in the 325, we're not really, we didn't build in, an excessive improvement in residual values in the coming quarter.

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**Dan Levy** - Barclays Capital Inc - Analyst

Okay, thank you. And then, as a follow up, The playbook for the summer peak, given some of the macro uncertainty and, maybe seeming lack of visibility, it is the plan that given if assuming residuals continue, that if the strength just isn't there in the rental market that you will quickly given you can take advantage of good residuals, and so in a way it's almost like a natural hedge.

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**Joseph Ferraro** - Avis Budget Group Inc - President, Chief Executive Officer

Yes, let me just start off by, in any environment, we are positioned to keep fleet in line with demand. We were mindful of the fact of some level of uncertainty, so we accelerated our rotation strategy to put us in a position to give us options.

I think going into any environment, the key word for is flexibility, right? How flexible can we have with our fleet to flex up if there's more demand, which we have that ability now, or flex down very rapidly if there's a challenge.

And we are, we, because of what we did in quarter one, we have that. And I think that's the most important aspect when you think about fleet management. And, so if demand goes up and the summer is bigger than maybe any of us anticipated.

We can handle it, and if there's a challenge, we're at a point with our fleet size that we can execute quickly and reduce the dependency or reduce the amount of months it would take for us to get right.

As I said earlier, the used car market, it hasn't, if you look at where it was last year, it reached a high in right around the Easter April area, and then it went down, and we haven't seen that yet. And, as time goes on, we'll determine how resilient the residual market is, but, there's indicators that we look at that would determine like used car, used car, demand and used car prices.

One of them is key is that new cars went from 90 day supply on the ground in January to like something in the 60s right now. It's unknown what the OEMs are going to do and how they repopulate, inventories for new cars, but there's certainly a benefit.

Used car prices are \$25,000 versus a \$48,000 new car, and there has been some improved demand. And, being a fleet manager for, in our, as far as our company is concerned, it's always prudent to take advantage of that when the opportunity presents itself.

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**Dan Levy** - Barclays Capital Inc - Analyst

Great. Thank you.

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**Operator**

Lizzie Dove, Goldman Sachs.

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**Lizzie Dove** - Goldman Sachs & Co. LLC - Analyst

Hi there. I just wanted to ask about RPD in America to start off. I think you said positive sequential trends consistent with seasonal patterns. I think usually it's somewhere in the like 4% to 5% range sequentially, which would put RPD down 4% year on year in the Americas. Is that the right way to think about things, or, yeah, the 2Q.

**Joseph Ferraro** - *Avis Budget Group Inc - President, Chief Executive Officer*

Yes, I'll take price. So, let me start by unpacking the first quarter so this way we can understand what happened. When you think about, down three in the Americas, which you're looking for to go forward. So when you're down three in the Americas, the way I looked at it, January and February were kind of below that.

So January, with the strength of the Christmas season, we talked about earlier, and February had a good holiday, performance there. So January and February, the outlier was March. And when you think about what happened in March, and it was a bit worse off than maybe any of us, expected early on. It what happened in March is you lose the Easter holiday, you had that you know Eclipse thing that happened last year that was a high performance, RPD generator for us, and that kind of moved a little bit.

What I believe happens in the, in these quarters is the fleet, the fleet, the fleeting up that occurs in our industry that happens in these transitional months starts to wane as you get towards the back end of the spring season, so the back end of June.

And I think what I would say about the second quarter is the exit trend in June should be better than the, normalized runway rate, which sets us up for a seasonally improved price point in the summer, that kind of the way I look at it.

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**Lizzie Dove** - *Goldman Sachs & Co. LLC - Analyst*

Got it. And then just a couple of clarifying points on the guidance. So I might have just missed it. I didn't hear you reiterate the at least \$500 million of cash flow for this year. So I just want to make sure if that's still the case. And then on the at least a billion dollars which you did reiterate for this year on EBITDA.

I know this kind of questions and kind of asked but just to put a finer point on it. I know it's hard to look at tariffs in a vacuum because there's obviously a lot of, secondary impacts there, but just what exactly you kind of factoring in there from like gains on sale, RPD, the kind of consumer environment that gives you confidence in that billion or like I guess like how to think about a normalized EBITDA run rate if without the kind of tariff piece of things.

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**Izilda Martins** - *Avis Budget Group Inc - Chief Financial Officer, Executive Vice President*

Hi Lizzie, thank you for the question.

I think maybe I'll clarify a little bit of how we started with the billion dollars. First and foremost, the billion dollars is our target. It always was our target, still remains our target. I wouldn't go as far as saying I'm reiterating that target.

What I'm saying is, given the macroeconomic environment and how things are in the news and everything that's going on, I think it's important for us to say our goal is to hit that billion dollars. Now obviously, as I'm stating that if I'm not, I also can't be in call it the same position to say what the adjusted free cash flow would be, because yes, if we hit the billion, I would say it's probably less than \$500 million, but if we hit the billion, it's probably in the in the mid 3s to 4s. So I just want to be clear about that.

In terms of your second part of your question, if this, if that, et cetera. I think as you've seen us navigate. Different scenarios in the past, we never really move off of that target. How we get to that target may differ, right? If fleet costs are going our way and something isn't, or vice versa, we have a very variable cost structure so that we were we would always be achieving, call it the target of a billion of no less than a billion, as well as generating a healthy amount of adjusted free cash flow.

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**Lizzie Dove** - *Goldman Sachs & Co. LLC - Analyst*

Got it thank you.

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**Operator**

Chris Woronka, Deutsche Bank.

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**Chris Woronka - Deutsche Bank - Analyst**

Hey, good morning everyone. Joe, I know it's your last call, so, just again wanted to wish you all the best and, appreciate all the insights over the years.

I guess my first question, I know you've covered a lot of ground on, scenarios for 2026 fleet, and I know it's very early, but yeah, I want to drill down a little bit on your thoughts if there would be opportunities to lock in model 26s at some point at a price that's let's just say comparable to '25. Yes, how hard, how hard would you look at leaning into that, from a, just from a commitment and capital standpoint again, I know it's a hypothetical scenario, but any thoughts would be great. Thanks.

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**Joseph Ferraro - Avis Budget Group Inc - President, Chief Executive Officer**

Well, thanks, Chris, and nice speaking to you. Yes, of course. If there's an opportunity to lock in 26s at a price point that we believe, is important to our business, we absolutely will. As it stands right now, as I said earlier, we're still talking about 25s in cer in certain cases, and I don't believe, that.

The OEMs have formalized their individual plans yet. I do believe that's coming, and it probably will come sooner than later, but as it stands right now, they haven't. And, we'd be ready and willing to get involved and negotiate on any potential '26 deals that's available to us, that makes sense.

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**Chris Woronka - Deutsche Bank - Analyst**

Okay, fair enough. And just as a follow up, I obviously a lot of questions about RPD and, direction of demand and all that, but, I was hoping we could drill down maybe a little bit of the mix and. I know there's historically been a spread between leisure and commercial pricing, and I'm curious as to whether, mix had a big impact for you either in Q1 or whether you expected to in Q2, and then, kind of secondarily to that, are you doing anything differently with respect to, channels of demand and might include rideshare, third party, etc. Thanks.

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**Joseph Ferraro - Avis Budget Group Inc - President, Chief Executive Officer**

Yes, I think when you think about it, Chris, we always try to optimize on the best segment mix available to us. And I, as you go forward into the year, the dependency on commercial obviously gets reduced and it becomes more about leisure. Leisure customers tend to buy more ancillary products which help us, from a RPD standpoint as well.

So I think when you think about it, leisure, it's, it could be larger cars, it could be product offerings, it could be generally, demand and supply in certain travel environments. So, yes, we certainly look at that and we will capitalize on that going forward, airports versus off airports, leisure demand versus ride hails, et cetera. Things of that nature. And, that's how we optimize and get the best outcome that we could potentially have for our company.

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**Chris Woronka - Deutsche Bank - Analyst**

Okay, very good. Thanks, Joe.

**Operator**

Thank you. At this time, I've turned the floor back over to Joe Ferraro, CEO for closing remarks.

**Joseph Ferraro - Avis Budget Group Inc - President, Chief Executive Officer**

Thank you. So to recap, we've made tremendous progress to date on our accelerated fleet rotation strategy with a record number of risk vehicle sales and accepted delivery on a good portion of our '25 model year vehicles. Used car residual market continues to improve, and our flexible fleet strategy will enable us to capitalize on favorable market conditions.

And as I said earlier, advanced reservations for us are ahead of where we were prior year, largely due to leisure. I want to thank all of our employees for our ongoing commitment and performance. I look forward to watching our company thrive throughout the rest, throughout the years, and as always, thank you for your interest in our company.

**Operator**

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

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