REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CAR.OQ - Q3 2020 Avis Budget Group Inc Earnings Call

EVENT DATE/TIME: OCTOBER 30, 2020 / 12:30PM GMT

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

Michael Millman *Millman Research Associates - Research Analyst*

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

PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group Third Quarter 2020 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, David Calabria, Treasurer and SVP of Corporate Finance. Thank you. You may begin.

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

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

Before we begin, I would like to remind everyone that we will be discussing forward-looking information that involves 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. We undertake no obligation to update or revise our forward-looking statements.

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

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

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

Thank you, David, and good morning, everyone, and thank you for joining us today. I also want to introduce and welcome Brian Choi, who has recently joined our executive team as our new Chief Financial Officer, who has been with us for quite some time as an investor and longtime Board member. Brian and I have worked together for the last 10 years, and I'm excited to be able to leverage his experience and depth of knowledge as we grow this business profitably for the years to come.

When we first started to feel the impact of this pandemic, it was impossible to guess how things might play out. While the future revenue environment remains uncertain, what has become increasingly clear is our company's ability to adapt, react and thrive through adversity. In the second quarter, we mitigated the impact of an unprecedented decline in travel. And in the third quarter, we've begun to show what our business is capable of as travel returns.

I'm incredibly proud of our team, not only for their heroic efforts to protect our customers, but also their ability to improve our financial performance, with a lean cost structure, enabling us to profit even with moderate market improvements.

This morning, I'll provide an update on the actions we took in the third quarter to remove costs and rightsize our fleet while improving our revenue since the start of this pandemic. Then, I'll remind you of our commitments to cleanliness and safety through the Avis Safety Pledge and the Budget Worry-Free Promise, including our innovative safety partnerships, and touchless rental experience. Finally, I will discuss business trends and our outlook for October and beyond. After that, Brian will discuss our liquidity and cash position, which illustrates the strength of our company.

In the quarter, as stated on our last call, we achieved both positive adjusted EBITDA of $220 million and generated $100 million in positive adjusted free cash flow. While revenue remained challenged due to the pandemic's effect on travel, our cost removal efforts since March have enabled us to benefit from sequential revenue improvements throughout the summer. This culminated with the Americas generating more adjusted EBITDA this September than September of 2019 on more than 30% less revenue.

During the quarter, we rightsized our fleet and profitably sold 75,000 cars in the United States, most we ever sold in any quarter in this company's history. This included record quarterly sales through our direct-to-consumer channel, which we continue to expand with the recent opening of our largest retail location in Irving, Texas.

Through our increased use of data and analytics, we capitalize on a strong used car market to take advantage of peaked used car prices throughout the summer, with August being the single largest fleet sales month we've ever achieved to date. As you can see in our investor presentation, we have a strong history of aligning our fleet with demand, which we demonstrated again this quarter to achieve peak utilization rates close to 70% in the Americas.

Our cost removal efforts were not limited to our fleet. Globally, we reduced our total expenses in the quarter by approximately another $1 billion, bringing our total cost removal for the year to more than $2 billion. We expect to remove more than $2.5 billion before this year is over as we persistently evaluate every line item of expense and find creative ways to work with suppliers and partners to find efficiencies.

We've been fortunate to have many great partners who have worked with us along the way. We've become a leaner and more efficient organization, which will continue to benefit our bottom line even after the impacts of this pandemic have subsided.

While overall travel demand remains down, revenues in the third quarter continue to show sequential improvement, down 50% from prior year in July, 43% in August and finished down 37% in September. Airport travel has been recovering moderately, and our on-airport volume is still performing better and passing a screening data released by the TSA. Similar to last quarter, nonflying customers are still coming to airports to rent vehicles and flying customers appear to be more comfortable running one of our vehicles than taking alternative forms of transportation.

Our off-airport operations continue to provide stability driven by local market business, like commercial vehicles, ride-hail, package delivery and Zipcar. These areas performed especially well during the quarter. Ride-hail business is up significantly year-over-year with active rentals back above pre-pandemic levels. Additionally, revenue from our local market operations exceeded prior year levels in the quarter.

Of particular note, our package delivery business in the U.S. has nearly doubled, and we have increased our fleet to match further demand as we head into the holiday and peak package delivery season in the fourth quarter.

Zipcar also improved sequentially as urban customers seek private transportation to run errands or vacation outside the city.

The pricing environment has improved dramatically as competitive fleet levels have tightened. In the Americas, revenue per day turned positive by the end of the quarter, driven by strong leisure pricing on the weekends, offsetting drags from the mix shifts to domestic longer-length business. Longer rental lanes tend to have lower rates, however, are accompanied by higher margins due to fewer touch points. Longer rentals mean you move one shuttle or car less, you need to clean the car less, do gas the car less and you have less transactions associated with the vehicle. Ultimately, this means you have less costs associated with these rentals. Due to this increase in mix, renew per transaction has been especially strong, up 14% in the Americas as the pricing environment has improved while customers continue to hold our vehicles for longer lengths of rent.

With improved market conditions, we were able to leverage our prior technology investments in Demand Fleet Pricing and maximize the profitability of our transactions. We also optimized our fleet positioning so that our vehicles were well positioned to capitalize on the most promising demand opportunities.

We achieved similar improvements in the International business, rightsizing the fleet for average utilization in the quarter near 70%, while the lack of cross-border inbound business continues to create a drag on revenue per day due to less ancillary sales opportunities.

We are proud of the way we've been able to navigate through these uncertain times, but even prouder of our industry-leading efforts to protect our employees and our customers. We launched our ABG Medical Advisory Council with 5 well-established medical professionals from leading institutions, charged with reviewing and advising on our COVID-19 protocols. While I won't go into as much detail around the holistic safety efforts as I did last quarter, we have further enhanced our protocols and training. We are also expanding our partnership with RB and are proudly using their well-known Lysol products across our locations to benefit from the proven effectiveness against COVID-19.

We continue to expand our use of technology to deliver contactless mobile experiences. We have been a pioneer for years across our brands. We have an award-winning app and through our Mobile Select offering, our Avis Preferred customers upon arrival can select their specific car on their phone, proceed directly to their vehicle, then utilize a unique QR code to exit via our automated Express Exit for a completely contactless experience. All of our Avis and Budget customers can also take advantage of our digital check-in on our website, reducing their transaction time and 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 available. We continue to innovate with our Zipcar brand. We have streamlined both our back-end platform and front-end enrollment process with Instant Access, enabling new members to access a car with a smartphone and drive within minutes of joining. This allows anyone near our Zipcar vehicles, especially in urban centers, another completely contactless option to get out on the road quickly.

Now we'll provide an update on our current business trends and our outlook for the rest of the year. Rental patterns continue to be driven by higher leisure compared to corporate and skewed towards local versus out-of-town customers. Reservation demand remains closer to the date of travel surrounding weekend checkout days. While we have limited visibility into the future as customers are primarily booking close in, we have more confidence in our current reservations. We no longer have significant pre-pandemic reservations and thus seen cancellation and no show rates come back down to pre-pandemic levels. We are also seeing positive revenue per day on reservations recently booked for travel into the fourth quarter.

Our efforts to protect both the financial health of our company and our customers have put us in a strong, competitive position and appear to be paying off. We have adequate vehicles to service our customer base today and also a strong financial position to give customers confidence in our ability to provide them with the vehicles and service they deserve even into an uncertain future. We have had great success with small business where our longer-length monthly rentals in the Americas grew over 10% in the quarter compared to prior year, and nearly 30% in September.

We were busy in the quarter working with our OEMs on our fleet buy for 2021 to refresh our fleet, get back to a more normal fleet cycle and to ensure our customers have new low miles vehicles that meet their quality expectations as we further align supply with demand.

Given our now proven ability to sell vehicles at scale, we are confident that even if 2021 proves more challenging than anticipated, we have the flexibility to continue to match our fleet levels with demand.

Going into the fourth quarter, while we see a traditional decrease of the seasonal summer peak, we still expect to see steady improvement on our year-over-year revenue declines from the lowest levels of travel demand in April.

Given market uncertainties beyond our control, with customers booking reservations closer to the rental date, it remains difficult to see how revenue will unfold. But with our strong cost position, we continue to anticipate both positive adjusted EBITDA and positive adjusted free cash flow from our operations.

In closing, I'm extremely proud of our team and their performance. I must continue to express my sincere gratitude to our frontline employees for their unrelenting hard work during these uncertain times. Their tireless efforts ensure our locations and vehicles are ready to allow customers around the world to access safe and efficient transportation. Travel demand recovered throughout the quarter, and we met our objectives, achieving positive adjusted EBITDA of $220 million and positive adjusted free cash flow and earned more in adjusted EBITDA this September than the prior in the Americas. We removed more than $2 billion in cost this year so far, and we remain diligent in keeping fixed costs at a minimum while simultaneously finding new ways to be more efficient.

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

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

Thank you, Joe, and good morning, everyone.

Let me begin by saying how proud I am to join the Avis Budget team. It's an uncertain time for the entire travel industry, but what I am certain of is that the actions taken by our employees over the past 2 quarters have positioned us to take full advantage of the opportunities that will arise as the world normalizes. For that, I'm grateful and hope to contribute to their continued efforts.

I will now discuss our third quarter results together with our cash flow, liquidity and outlook. My comments today, discussing changes in revenue per day, pricing and per-unit fleet costs will all refer to changes in constant currency, that is excluding exchange rate effects. My comments will also focus on our adjusted results, which are reconciled from our GAAP numbers in both our press release and earnings call presentation.

While the team faced an unprecedented change in demand late in the first half of the year, the third quarter showcased a remarkable stabilization of our company as we align global fleet levels to demand and continued our cost takeout across all expense lines. On our last call, we stated that we would be adjusted EBITDA and adjusted free cash flow positive for the remainder of the year. We delivered on that with adjusted EBITDA of $220 million despite revenue declines of 44%. Adjusted free cash flow for the quarter was positive $100 million, driven by our record fleet sales and successful cost removal strategies.

As of September 30, we had available liquidity of $2.4 billion, comprised of approximately $1.6 billion in cash and equivalents and approximately $800 million in availability on our revolving credit facility. Our proactive management of our corporate debt ensures that we have no meaningful corporate debt maturities until 2023 and no need to refinance any fleet debt this year.

Next, I'll provide an update on our vehicle securitization debt which is comprised of ABS term debt and bank conduit facilities around the world. We were in compliance with all facilities as of the end of the third quarter and did not require any additional equity injections. Our largest structure, AESOP in the United States, continues to have significant headroom on maintenance covenant tests as of the end of September. I would refer you to our investor presentation for a historical view of our maintenance covenant tests, which shows the strength of our structure.

Additionally, in the quarter, we completed one of the best AESOP transactions at the lowest rates since 2013 showing the strength of our relationships with lending partners and in the ABS structure and their confidence in our business. We believe our current operating environment and liquidity position are now robust enough to return the excess equity that we accessed earlier in the year back into our ABS facilities to allow for growth in 2021.

Finally, I would like to share our latest thinking for the remainder of the year. While we cannot precisely predict the path of the virus, scientific progress or governmental actions, we currently see demand proceeding with its slow recovery, especially where new cases are low and quarantine restrictions are lifted. Our experience throughout this initial recovery period continues to show that as states or countries reopen, vehicle rental activity accelerates. We believe there may be meaningful pent-up travel demand from those feeling cabin fever. However, we believe a full recovery is contingent upon effective therapeutics and a vaccine.

Keep in mind that we are a seasonal business, and we anticipate the normal seasonal declines in demand as we move from the summer to the fall and winter and as business mix shifts from leisure to commercial during this period. With the large portion of our fourth quarter revenue typically earned during the holidays late in the quarter and rental reservations occurring closer to the rental date, there is still significant unknowns to the development of the fourth quarter. Given these uncertainties, we have focused our efforts on areas within our control, and we would like to provide some guidance around costs.

Our cost removal efforts are not yet complete as we continue to look for efficiencies and renegotiate with partners as we are now a sustainably leaner company as this pandemic effectively forced the organization into zero-based budgeting. We will keep fixed costs out with only focused strategic investments throughout the remainder of the year and into the beginning of 2021. Our fleet levels are now back in line with demand, and we fully expect to continue to improve our utilization levels as we believe our most difficult fleet challenges are behind us. We do not plan to bring back overhead costs ahead of demand as we will keep fixed costs at minimum levels and keep variable costs in line with relevant pockets of demand.

What this all means is that despite travel demand remaining challenged and despite the headwinds of normal seasonal shifts, we are reiterating our goal of being adjusted EBITDA and adjusted free cash flow positive, excluding the return of vehicle equity, as discussed previously, in the fourth quarter. Adjusted EBITDA was down roughly 50% in the third quarter, and we hope to narrow that year-over-year decline in the fourth quarter.

In conclusion, We remain focused on building a sustainably stronger organization while continuing to emphasize safety, trust and empathy in all of our actions as we protect our team and our customers.

With that, Joe and I are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Billy Kovanis from Morgan Stanley.

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

Congrats on the strong results. A quick question on your cost profile. So in 3Q, it looks like there were some artificially low costs with respect to SG&A. As we look forward, can you please quantify the extent to which some of these costs will revert back? I'm thinking in categories like labor, advertising, logistics, and therefore rents will have cost rising again? On the other hand, if you could also quantify how much of the $2.5 billion quoted annualized cost savings in 2020 you expect to be permanent cost savings? That would be very helpful. And I have a follow-up.

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

Yes. Billy, this is Joe. As you know, we worked really hard on getting our cost basis in line with our revenues. As the pandemic started, this was the primary objective of our company and our team. And as we move through the second and third quarter, we've seen the fruits of that labor, right?

So we looked at all lines on our P&L, whether they be direct operating, fleet or SG&A. And our approach was fairly simple. We have revenue demand that's going to be X. And granted, as I said in my opening remarks and as Brian said as well, there's some uncertainty about what that revenue line is going to be. But with analytics and things like that make sure we take our best estimate. And we have all our teams looking at that in a diligent way throughout the world. And because of that, we were able to take out an unprecedented amount of cost. right, globally, more cost than we've ever taken out in this company's history. That's a very diligent effort.

And what I could say about going forward, as Brian and I look to forecast our next year's activity, our fourth quarter and next year's activity, we're going to be diligent about what we let back in, right? It's a process. I'm not -- we're not totally there yet. I'd be kidding you if I said we were. We are not. But it was a lot of hard work to get these costs in line with our revenue aspects. And we will be detailed and diligent about how we look about bringing some of that back. That's the best I could say right now. We'd probably give you more color on that on our next quarter earnings call because we'd be more into that. As you know, we just have recently finished our fleet buy. I mentioned that earlier, and we have to take that into consideration as well. I hope that helps.

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

Billy -- sorry, Billy, just to add to that. I wouldn't categorize any of the cost takeout as artificially low. Like right now, to Joe's point, as volume declines, we're moving with that. We all understand that as volume returns, certain costs will return as well. We're in the process right now of evaluating every cost line item we have as kind of fixed or variable. And the goal -- and we'll provide more color on this, as Joe said, on the next earnings call.

But the goal is to make sure that the fixed costs are as low as possible, and that's something that I see sustainable going forward. And to me, fixed costs should be as good as possible because that gives you kind of downside protection in terms of any shocks to the system. And that's something that we work really hard on to get there this quarter.

And in terms of the variable costs, we want to make sure that those stay as low as possible as well so that as volume does return, we're keeping as much kind of incremental contribution margin as profitable -- and be as profitable as possible. So this is something that we're in the process of working through, and we'll provide more color in the future.

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

That makes sense. Yes, it will be a monumental effort to get rid of those fixed costs. So congrats on that. We look for more color in the fourth quarter and beyond. I just wanted to ask a question on the International segment. It seems like the U.S. segment seems to be firing all cylinders. You touched on pricing being a headwind in the International segment. But could you also just touch on what are the other factors that have led to some of the underperformance in International? And what's different in that market versus the U.S. that you -- that has led to some lower performance in adjusted EBITDA?

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

Yes. Okay. This is Joe. I think when you look at the international market, it's operates a bit differently than the U.S., obviously. In the quarter, while there was pent-up in leisure travel demand in the U.S., a big portion of the European business is based on inbound travel, especially in the third quarter. I think if you look at the 3 segments of business that we have in Europe; domestic business, then there is intra-European business, and then there's inbound, say, from North America. Well, the inbound business has been depressed, right? We all know that. I'm encouraged to see that some of our airline partners signing to open up potentially a test out of locations in the U.S. going to the U.K. with COVID test prior and after you land. I think that will aid in some growth there.

But if you think about the pricing, is that kind of what you asked, we -- the overall pricing of what you would sell to a customer is -- was okay. It's the mix shift that caused the decline. And if you think about the mix shift and an international customer coming from, let's say, North America and going to land in Europe, they buy a lot of ancillary products a lot. They don't know the area, they aren't familiar with the road systems, and they tend to want to have that level of protection. In this particular case, that customer wasn't there, right? The mix changed.

So I am particularly proud of the way we took costs out internationally. They're just as diligent as the teams are in the Americas to align costs with revenue country by country. And -- but it was a mix shift that caused that revenue decline.

Operator

Our next question comes from Chris Woronka with Deutsche Bank.

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

I was hoping you guys could talk a little bit about the fleet plan for next year. I know you're making those decisions now and just kind of how do you underwrite given how challenging the visibility is? And then also along with that, can you maybe give us a brief walk-through of kind of the financing aspect of it given that you're going to refill the ABS in the fourth quarter, just how the -- that will work given you're presumably going to be selling fewer cars in 2021?

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

Yes. Okay. Chris, this is Joe. I'll start off, and then I'll turn it over to Brian for your question about the liquidity. So let me say this. We had 2 distinct actions to better align our fleet with our demand this year. And there were a lot of questions going into this quarter as to whether or not we would really be able to align our fleet with demand. But first of all, we had sequential volume improvements, right? As I mentioned earlier, we had pretty significant growth in our off-airport or our local market segment of business and allowed us to fuel some utilization opportunities as they present themselves.

We also, as I told you earlier, we canceled a lot of cars, right? In the last call, we canceled a lot of our existing orders and that gave us a platform of success. And then during this quarter, we had a robust used car market and how we attack that market. I wouldn't say how we move cars in, how we attack that market through data analytics and the timeliness of our deletions gave us an opportunity to get our fleet back to a normalized level. And if you think about it, we were up 15% in the month of February and had fleet aligned to meet that target. And so we've proved in the past that we can get our fleet up to get revenues that are available to us. And we can also, in a very short period of time, downside this fleet to get it in line with the current demand.

As I said, we've just finished our negotiations with our fleet buy. I think the buy is -- I'm very pleased with it. Actually, it's diverse in nature. It's vehicles that our customers will enjoy to rent with the features that our OEMs put in there that make it a beneficial experience. And I also think that it's cars that at the end of the day, whether it be vans or trucks that we could sell profitably.

We've always had a history in this company to align our fleet slightly below what we thought our demand aspects are going to be. Now as Brian and I said earlier, those are challenging, right? But we're looking at all the external data that was available to us, whether they be what airlines are saying or thinking about doing what we see in our own individual markets. And we're going to start getting newer model vehicles into our fleet.

When you think about fleet cost in general and how you prepare that, there are obviously 3 aspects. One is how you buy the cars, which we talk a lot about. One is how you sell the cars. But equally as important is the cycling in of new vehicles to create the rotation that allows you to have a mileage and a monthly holding period that aligns with future profitability. So our fleets will be there. What I can tell you is that we're going to have new cars, and we're going to align that with demand as we've done historically in this company, as you've seen in one of our slides, since about 2008.

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

Chris, just to add to that. When we access the equity in our AESOP facilities in the second quarter, that was never meant to be permanent, right? That was during a period of severe uncertainty, making sure that we end up liquidity to weather the storm. Given where we sit right now and the outlook that we see for the business and given the fact that despite revenues being down 45%, the fact that we're free cash flow positive, we believe that we don't need to be sitting on that excess liquidity at this point.

So the thought is we're going to return that back into our AESOP facilities, which will allow us to fund fleet purchases up to 2019 levels and provide kind of the cars and the quality of cars that our consumers are accustomed to.

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

And Chris, if I could just add. This is David. We issued that AESOP deal that Brian talked about at 2013 levels. It was opportunistic, and it was prefunding maturing debt from next year. And globally, all our facilities are in place at capacities that are sufficient to fund 2019 levels or beyond. So we feel really comfortable and good about our ability to finance whatever fleet we need to get going forward.

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

Okay. I appreciate all that color. Just a quick follow-up. Are you seeing length of rental, I know you talked about how it was still elevated in the third quarter, are you seeing that come down much heading into the fourth quarter? Or would you say it's still pretty elevated?

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

Yes. No, I don't have to say it's pretty elevated. Our customers are keeping the cars longer. So when I say that people are checking out at weekends, it's not like a weekend rental. It's like you think you take out Friday and come back Sunday. It's not that at all. They're using the car over these longer leisure periods. And that bodes well for us in our utilization strategy. It bodes well for us in our cost execution strategy. And that -- we think that's a value add for us currently right now.

I mean what you're missing in that is like the 1 or 2-day daily business that came from a commercial peak that obviously is not as robust as leisure as we currently speak. But we see that continuing. And this quarter, as Brian said, with the holidays, holidays are traditionally a longer-length opportunity for us. So I don't see that changing.

Operator

Our next question comes from Michael Millman with Millman Research Associates.

Michael Millman - *Millman Research Associates - Research Analyst*

Kind of following up on the last topic, a couple of things. Used car prices, as we all know, were record and not sure to what extent we can -- that the stimulus affected that, to what extent is lack of air or concern about air affected that. Maybe talk about how you see used car prices in the near future and maybe...

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

I'm sorry, did you want to continue, Michael?

Michael Millman - *Millman Research Associates - Research Analyst*

Fine. We can start there.

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

Okay. This is Joe. Yes, used car prices were strong. There were obviously reasons for that in the quarter. There was -- it's no secret that the OEMs shut down for a period of time, which created inventory challenges on their retail lots, which [bovied] our business as far as used cars. Used cars, we've -- there was stimulus, as you suggest. And we think that had given us a good advantage as well. And I think there's stuff that we do internally, right, like data analytics, and we have changed our selling strategy since 2017. We're more risk than we ever were as far as risk to program fleet, and we figured out ways along to sell more direct-to-consumer, which increases your prices and more directed deal, which reduces costs that you would normally pay in auctions and things of that nature.

So while there was a robustness in the market, we think we've enhanced that with some of the strategies that we put in, starting many years ago. That being said, as we see that there is still demand for 1-year-old used cars. Now sequentially, that always declines from the summer season to the winter. I mean that's a seasonal decline, and we see that every year. And that's no different than this year. But if you ask me, the demand is still solid. The price in the marketplace is, while maybe challenged from it was in the third quarter, still up quite a bit as compared to prior year. And we anticipate that's a very big positive for us and our company.

Michael Millman - *Millman Research Associates - Research Analyst*

Do you still see a need for another stimulus or a bigger stimulus package going forward to keep used car prices at levels that they've been, these record levels?

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

That would be tough for me to answer. I would say that a stimulus package always would be a help. Someone on a previous call asked me about Cash for Clunkers or something a couple of calls ago. And the stimulus package, we think was -- is just as big as that.

So if there is one, I think that helps. I think there -- whatever the inventory levels are for retail, would probably trigger something about that. But as of right now, there is still demand in the market.

Operator

Our next question comes from Hamzah Mazari with Jefferies.

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

My first question is just on utilization. If you could maybe talk about how utilization played out during the quarter? And the reason I ask is you had this big benefit from monthly fleet cost being down 37%. You sold cars very well. And so just trying to assess how clean the EBITDA number is in the quarter. And whether the lower utilization initially in the quarter kind of offset any of those gains you saw. Just trying to see how going forward, as utilization ramps, does that offset kind of fleet costs coming back to a more normal level?

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

Yes. I think you're right on about that. So our utilization at the start of the quarter was lower than it was towards the end. And there are a couple of things that happened with that, right? We canceled orders upfront to get us in the best possible position to start off at a lower base, which helped. But if you -- at the start of the quarter, our utilization was not as robust as it was at the end.

When you think about the summer season and what transpired, there's a lot of leisure travel, there's a lot of longer length, which we spoke about earlier, which helps in the overall utilization process and then the robustness of the demand for selling cars and our ability to sell them and de-fleet them with the velocity that we did, also helped. But you're absolutely right, the utilization at the start of the quarter was not where it was when we finished for all those reasons. And I think it's probably right to say that as our utilization gets more and more in line, that will help offset any of the big gains that we saw in the used car market.

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

Yes. Just to add to that, Hamzah. In terms of how clean the quarter was, the monthly debt rate for the company was (inaudible). That's completely abnormal, right? But even though those per unit fleet costs were so low, we were paying for a lot of cars that just weren't being used, right? So I'd say you're going to see in the queue what the total gains on sale were to see what that benefit was. But I'd say that nearly 2/3 of that was eaten away just by the fact that we were over fleeted. And there's only so many cars that you can sell through in a month kind of responsibly and keep the market where it should be.

So In terms of how clean the quarter was, I think that yes, of course, the lower depreciation costs were a benefit. But offset nearly like 2/3 of it from the lower utilization. As Joe said, because we're exiting now rightsized in terms of the fleet, we think those -- the quarters would just be a lot more cleaner going forward.

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

Got it. That's very helpful. And then my follow-up question. I just wanted to ask the cost question a bit differently. Avis' prior peak margins were 11-ish percent, Avis in 2016, talked about 13% to 15% aspiration. Given the cost that we've taken out of the system and they're going to come back very slowly, is it fair to say that the company can surpass prior peak margins on just a structurally smaller revenue base, given corporate travel may take a while to come back. Is that sort of a fair thesis?

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

Yes. This is Joe again. It would be unfair for me to comment on where we think that's going to be but -- because I -- Brian and I have to use these next couple of weeks to kind of get our hands around that. But I will say this, the amount of cost that we took out of this company was unprecedented, right? We've never done that in the history, and I've been around for a period now, I never saw that. And we did it, and our teams did it. And we've learned to operate in a leaner environment. It taught us something. As terrible as this pandemic has been, it taught us how to operate in a differentiated way. Maybe that's something that you would get if you went into ZBB budgeting and things of that nature, but theoretically, it is very different than operating. And we were able to operate in a much leaner environment.

So we are going to be diligent about that. Because you're right, the first quarter is uncertain with whether it's going to be therapeutics or a vaccine. I heard people talk about, in the state that we operate in, that they want the population vaccinated by July. No one knows if any of that is true or it's going to happen. I mean those are thesis. We have to be ready for what if it does and what if it doesn't. And I think that's where you would see our cost base aligned with what we believe our revenues projection will be.

Brian, I'll turn it over to you for any other color.

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

Yes. Hamzah, I don't think we're in a position yet to give kind of a range of what we think our margin profile will look like once we reach steady state again. But to your kind of specific question on whether we would be higher than that 11%, given the cost takeouts that we've gone through this year and a lot of those are just structural cost takeouts that we don't ever see coming back, I would be embarrassed if we got to prior revenue levels and we weren't significantly higher in terms of sustainable EBITDA margin.

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

Got it. Very helpful. Congrats, Brian, on your role as well.

Operator

Our next question comes from Brian Johnson with Barclays.

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

Yes, 2 questions. So first, with regard to pricing, I'm sure you look at data for kind of like-for-like transactions. So if you were to look at trends, for example, for kind of midweek, single-day large airport rental versus, say, a weeklong airport rental or a weeklong off-airport rental, what is the pricing trend you're seeing within kind of similar SKUs if you will?

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

Okay. It's Joe. Yes, we see that -- obviously, you guys have pulled the public data, and those are directionally correct. We saw our exit trends in the month of September show higher pricing. On the leisure side, we're dominated by more leisure business. I think the thing that might throw some of that pricing -- those pricing stats off, however, is while there's price out there for a single-digit rentals that are high, the customer base for that activity is not, right? So it's -- while the pricing is performing as we exited the quarter similar to the way it was in September, and I could tell you, Columbus Day was pretty good as well, the -- you got to take into consideration the mix, right?

So the mix effect is we've seen considerably longer length of rental. And I just don't think that's a bad thing, right? When you have longer length of rental, you have less transactional costs and allows us to operate much, much more efficiently. And as I said on an earlier question, we see that length of rental continuing. But to answer your question directly, the pricing environment has improved. The fleets are much more aligned than they were previously.

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

So -- and so that was kind of getting my question. If you take a 1-week off-airport rental, what's the pricing on that versus, say, a year ago?

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

A 1-week airport rental, as it stands right now, is positive.

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

Okay. Can you say how much, or roughly?

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

I mean it's hard to say because you're saying will someone keep the car 5 days, is that a week; 7 days, is that a week, or plus that. So like I said, there is a mix change, right? There's -- people have kept the cars not just for weeks, but we have an incredible amount of people, whether it be commercial or leisure that have kept the cars for months. If you think about what this pandemic has done is great uncertainty and people want certainty and vehicle solutions allow them to have that.

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

Brian, I don't think you want to get into a SKU by SKU kind of what pricing is doing. But generally speaking, across kind of all the different segments we have, we are seeing a positive pricing.

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

Yes. That's what I was just trying to do because the headline, of course, is very mix driven.

Second question on the balance sheet and ABS structures. Just roughly, what is the amount of excess liquidity that you have in mind to put back into the structures? That's one. And then the follow-on to that is, is that in anticipation of expanding the fleet or just going -- maybe not expanding, but going back into the market and having the flexibility to buy new cars when and if you need to?

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

I think that's the right way to think about it, Brian. It has to do more with the flexibility. So we are going to put in, in excess of $700 million back into the AESOP facility, which gives us the option to fleet up to what we need to. It doesn't mean we're going to use every last dollar of it.

To Joe's point, the industry itself just kind of gotten right fleeted right now. It's like we want to go and buy more cars than we need, but we do want the option as we see demand recover. And given that it's kind of uncertain how things will shake out, we just want the ability to be able to buy that fleet when we do need it.

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

Okay. Okay. And congratulations again, Brian.

Operator

The next question comes from Ryan Brinkman with JPMorgan.

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

There have been a number of developments recently with regard to the Hertz bankruptcy. What is the latest in terms of your thinking relative to how that firm's current execution or future capitalization, fleet capacity or brand reputation, et cetera, might impact your operations going forward?

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

Yes. This is Joe. I really can't comment on one of our competitors. We are obviously aware of what's going on publicly and we monitor that. I think when you think about the environment in our industry, it's a very competitive industry. We all try to differentiate ourselves based on products or services or technologies in that regard. And our teams on the ground throughout the world compete with each other every day. I think it would be best to say, what I've always tried to do is, make sure that we understand what's important for our company and what we can do to move our company forward profitably. And that's kind of the way I would leave it.

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

Okay. And I'm curious what the latest is that you're seeing with regard to demand in Europe, which seems to be several weeks ahead of us here in the fourth quarter in terms of virus reemergence. We're starting to see the beginnings of some government lockdowns in various markets. I think it would be interesting and instructive to know how demand for rental cars is tracking in markets where there has been virus reemergence, but not government-mandated lockdowns, just consumers reacting on their own to virus risk versus what has the trend been more recently in those places where governments are reinstituting some more restrictions?

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

Yes. I think the answer to your question is that government lockdowns and restrictions caused people to stay put. Now what we saw in the U.S. was prior to a lockdown, people rented a good number of our cars to shelter in at a different spot. And we see some of that in Europe as well. But in general, government lockdowns or of that magnitude, generally don't bode well, quite frankly.

And then what I would think about also is quarantining, right? If you go somewhere and you have to quarantine 14 days.,, I think that's the single biggest deterrent. But people tend to do, like we saw in the U.S., tend to want to get out, there's pent-up demand, and they do tend to want to get out after a period of time and I'm sure we'll see similar to that. But the usual initial is people escape with a vehicle to go somewhere else, then there's a lockdown situation, which kind of slows it down and then over a period of time, there's no pent-up demand.

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

So just 1 more thing to add to that in terms of the International segment. I think the way that they've been positioning themselves has been for something like this to happen. If you look at what the International team has done in terms of cost takeout, it's pretty incredible. Like the Americas was down 40% in rental days. International was down 50% in rental days in the quarter.

So it's definitely tougher in terms of the day's perspective. But if you look at their RPD, that was down 15%. The fact that they could take that kind of revenue hit and generate a positive EBITDA without nearly the benefit in terms of per-unit fleet costs that we've seen in the Americas is, I think, astonishing, like it's amazing work by the International team. And for them, like they were always focused on that cost takeout to be able to weather a storm like this that we're seeing right now.

Operator

Our next question comes from John Healy with Northcoast Research.

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

I wanted to ask a big picture question for Brian. Kind of wanted to ask 2 parts to that. You've been around the company for a long time, and I kind of want to know where you're spending your time right now? Obviously, costs are a focus, but I was hoping you could kind of dive into aspects of the business where you think that the costs can structurally be different or approached in a different manner.

And then secondly, longer term, how you view the capital structure of this business? Your predecessors have been largely focused on share repurchase. Obviously, the leverage needs probably to be managed a little bit in the next year or so. But was curious to hear your thoughts on capital allocation over the long term.

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

Sure. I'll start with the first question, John. I would say the vast majority of my time right now is spent on kind of what the sustainable margin profile of this business looks like as we return to normal travel trends. Now I don't know when those travel trends are going to return to normal in terms of is it next year, is it the year after. But I want to make sure that all the good work that the team here has done kind of before I joined in terms of the cost takeout. One, payout and that we capture as much of that incremental kind of contribution margin as volume does return. So that is an exercise going line by line, understanding what's in our control, what's out of our control, how do we keep things out, how do we provide visibility throughout the organization, throughout the team to make sure that everyone is marching towards that same end goal. And this is something we're still working through right now. What I can say is that I'm highly encouraged about the long-term prospect of where we will be in a normal basis. There's just a lot of opportunity and kind of seeing it at this level has just given me a lot more confidence.

In terms of your second question, you're right. I think the leverage does need to be managed. I think some of that will occur naturally just by virtue of EBITDA expansion and leveraging return in normals to -- leverage returning to normal levels that way. There are certain tranches of debt that we're going to be opportunistic with in terms of retiring as well. So we're keeping kind of all options open on that front.

Operator

Thank you. We have reached the end of our question-and-answer session. So I would like to pass the floor back over to Mr. Ferraro for any additional closing comments.

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

Great. So thanks for joining us all today. To summarize, I'm incredibly proud of our team's resiliency and ability to navigate our company through these truly unprecedented times. We remain flexible and adjust our actions to respond to future market conditions. Our financial position remains strong, and we'll continue to capitalize on any level of recovery as travel demand returns. I really want to thank you for your interest in our company. I look forward to speaking to you again soon.

Operator

Ladies and gentlemen, this does conclude the teleconference. We thank you for your participation, and you may disconnect your lines at this time.
