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PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group First Quarter 2021 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce David Calabria, Treasurer and Senior Vice President 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, including potential future financial performance, which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks and assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and any or all forward-looking statements may prove to be inaccurate, and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements.

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

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

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

Thank you, David. Good morning, everyone, and thank you for joining us today.

For the past 2 earnings calls, we've been consistent with our message that Avis Budget Group would not be content with simply surviving this crisis. Our entire organization rallied around a mission to do the hard things necessary during the adversity of 2020 to best position ourselves for a potential recovery in 2021. While the full recovery in rental days is still further off, with commercial and air travel still not back to historic levels, our first quarter results illustrate what could be when that day occurs.

In the Americas, rental days were down 23% year-over-year and down 27% versus 2019. For context, this level of decline is still significantly higher than the disruption we faced during the Great Recession of 2009. Yet despite that headwind, due to the structural cost reductions we've implemented, all the benefits of a healthy pricing environment and improved vehicle costs through our fleet disposition strategy, all fell directly to the bottom line. The results being that for the first time since this pandemic, I can tell you that the Americas segment achieved a higher adjusted EBITDA this quarter than in the first quarter of 2019 and their best first quarter adjusted EBITDA margin in our company's history. Today, I'll review how we delivered those results and why I believe this is just the beginning of our recovery.

Let's start with the Americas segment. As you recall, in the third quarter of 2020, we saw the green shoots of demand recovery and sequential revenue improvement during the summer travel season. Conversely, in the fourth quarter of 2020, we saw a sharp pullback in demand with the emergence of a second wave. Now in the first quarter of 2021, we confronted both these demand scenarios in the span of just 3 months. When we last spoke in the middle of February, the Americas had just gone through one of the worst Januaries, which frankly was more like what we saw in November and December. Revenue was obviously down year-over-year, but with no major holiday like Thanksgiving or Christmas, revenue in January of 2021 was significantly lower than any month in the previous 2 quarters. Booking windows were incredibly short and we had little visibility going forward. So that's the bad news.

The good news is that our entire team was ready for this. We concentrated our efforts around what we could control, which was cost. We continued our game plan of offsetting revenue declines by staying as lean as possible and the rallying cry throughout the organization was stringent cost control. It wasn't easy, and it definitely wasn't fun, but our teams fought tirelessly against the macro headwinds we faced. As an aside, I got on an internal call with some of our key leaders after the earnings call in February. I acknowledge how exhausting this has been and how difficult it is when you don't see an end in sight. But I said, hold the line because things are going to change. Now maybe not next month, maybe not the month after. But one of these months, demand will come back, and you'll see what all this hard work was for.

Starting at the end of February. Now that's exactly what happened. Then March started to see the convergence of pent-up demand, tight fleet and stronger pricing. It was sudden and with the velocity across the U.S., seemingly overnight with a transition from defense to offense. We invested in our people and our fleet, and our organization reacted quickly to do what we do best, which is getting cars to consumers who need them. And I have to say, it feels good to be back to doing this. However, I want to be clear that despite this change in demand, we do not forget the hard learned lessons around cost. That discipline around staying efficient is now etched into the foundation of our company, which is why despite revenue in the first quarter being down nearly 20% versus 2019 in the Americas, the adjusted EBITDA of the first quarter of 2021 was triple that of the first quarter of 2019, and delivered their best first quarter adjusted EBITDA margin in our history. One and incredible way to close out what started an extremely challenging quarter.

And while we're not getting into specific guidance on this call, I will tell you that the momentum we saw in the back half of the first quarter in the Americas has carried over into the start of the second in both rental day demand and RPD.

Now let's shift gears now to our International segment. While the narrative abroad is certainly different from the Americas, my opinion on the results they delivered are just the same. I am incredibly proud of what our International team has been able to accomplish in the face of unrelenting headwinds. I'll get into more detail, but let me start with the high level takeaway.

Our International segment has not yet seen the pickup in demand that our Americas segment has. The lockdowns of the fourth quarter continued throughout the first quarter and cross-border travel is effectively nonexistent. Due to COVID and country restrictions, they are still very much living in a COVID world. International first quarter revenues in 2021 are down over 40% year-over-year. Yet despite a revenue decline above $200 million, adjusted EBITDA for the International segment was down less than $10 million versus the first quarter of 2020 on a reported basis and essentially flat on a constant currency basis. Tremendous cost discipline was required to deliver those results. It's still early to predict when that uptick will occur, but we will be ready.

Moving on to a topic relevant to both our operating segments. Fleet. Fleet management is at the heart of what we do. How we acquire, maintain and dispose of our vehicles is critical to discussion of our business in any given quarter. However, due to recent macroeconomic events, we realize that optimizing fleet will have an outsized impact on our business over the coming months. On our last call, we mentioned that semiconductor shortages would affect our company and our industry. And while those challenges have not yet been resolved and are having an impact on fleet deliveries and the availability of fleet throughout our entire industry, we've been working hard to make sure our fleet is properly maintained and effectively utilized.

So what are we doing about it? First off, we are working hand-in-hand with our OEM partners and have daily conversations around how to manage this situation. We have deep relationships with our key manufacturers that have been built over decades through both highs and lows. We haven't forgotten how helpful they were when we faced challenges last year, and we will do everything we can to be as helpful as ever as they face the semiconductor challenge this year. Because that's what the real partnership is about. It's not about optimizing this year or that year, it's about making each other better year after year. We have full confidence that our OEM partners will be able to navigate these disruptions and we'll work with them to maximize our deliveries while being flexible with their production schedules.

Availability of new fleet is clearly something we're laser-focused on, but I want to assure you that we, at Avis, have a long history of being able to navigate through tight fleets. We are getting in new cars daily and we've seen our current expected schedule being satisfied. As we saw demand pick up in the Americas, we became surgical with our fleet dispositions.

Additionally, one of the silver linings of this pandemic is that our vehicles just didn't have as many miles put on them, allowing us the flexibility to hold them slightly longer. We're also taking proactive measures to invest heavily in preventive maintenance to ensure we get the most out of our usable fleet.

And lastly, our connected fleet is paying dividends by alerting us to potential issues real-time so they can be addressed and we keep our out-of-service vehicles to our minimum. I know you all have questions about fleet. I wish I had all the answers, but it's a very fluid situation we're dealing with right now. What I can guarantee you is that we are doing everything within our power to ensure we have the available fleet to meet both current and future demand.

Finally, I'd like to close with Avis commitment to safety. Even prior to the pandemic, our customers wanted a contactless experience, but what was a nice to have pre-pandemic has become a real differentiating factor in this post-pandemic world with our Mobile Select product. Our Avis Preferred customers upon arrival can select their specific car on their phone, proceed directly to their vehicle and then utilize a unique QR code to exit via our automated express exit for a completely contactless experience. [Adoption](corrected by company after the call) of this customer journey spiked during the pandemic and has been extremely well received. It's a process that's not only safer but more convenient as well. I would strongly encourage all of our members to sign up for Avis Preferred. But if you're not an Avis Preferred member, you can still take advantage of our digital check-in on our websites, reducing transaction times to quickly and safely get you on the road.

In addition to our Mobile Select product, our exclusive partnership with RB enables our industry-leading efforts to protect our employees and our customers through the Avis Safety Pledge and the Budget Worry-Free Promise. We'll continue to invest in these safety measures even as the world normalizes.

So where do we go from here? Our strategy around cost discipline worked during the pandemic and will continue to work during a recovery. We're not done here, not by a long shot. Every day, our organization challenge itself to find ways to increase productivity, drive efficiency and capture opportunities. The grit and determination we demonstrated in 2020 proved how resilient this team is. Throughout 2021, we'll now prove what this team is capable of as this recovery continues.

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

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

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

I'd like to start off by addressing domestic revenue per day. A topic has received increased attention from the media recently. Let me be very clear. We, at Avis, do not set rental car prices. We discover price as determined by consumer demand and the availability of supply in the industry. At this time, what we are seeing is increased consumer demand due to people sheltering in place for a year and tight inventory across the industry. Due to, one, the deep leading necessary to survive the pandemic; and two, delayed access to new vehicles due to the semiconductor shortage. Put those 2 themes together and it's understandable that prices will be impacted upwards.

So let me put this in some context, at least from the Avis Budget Group's perspective, we're a seasonal business, so instead of picking 1 quarter or another, let's look at things annually. Also, we're currently in a very unusual period where outside macroeconomic influences are affecting our business.

So let's look at the normalized period. We went back and looked at what America's RPD has done across the span of the last normalized economic cycle. We define this as the 9-year period from 2010 to 2019, post-Great Recession and pre-pandemic. For the full year of 2010, the Americas segment achieved an RPD of $57. For the full year 2019, the Americas segment achieved an RPD of roughly $57, an increase of 0% over the past 9 years. In the same 2010 to 2019 period, the average hotel room night, as measured by Bloomberg and STR, is up over 30%. [PRASM] in this period, as measured by reported metrics of the public airline carriers, is up 40%. The fact that the price of an Avis rental day is flat over all these years is even more remarkable given the significant increase we've seen in the price of new cars, our largest input cost.

Now for competitive reasons, we're not going to disclose how much that's gone up for Avis specifically, but as a proxy for the magnitude of increase, look at what's happened to the average transaction price of new cars as measured by TrueCar. ATP, which is an MSRP, this is where consumers actually clear a purchase, has gone from roughly $29,000 to over $35,000 in this period, an increase of over 20%. Given all of this data, I firmly believe that a rental car from Avis is one of the best value propositions offered to the American consumer in the travel sector. So yes, we are seeing some upward movement in price today but this is a bit of catch-up given the previous decade. And even at higher levels, this is an amazing bargain for the consumer.

Let's move on to liquidity and financings. As of March 31, we had available liquidity of $1.2 billion, comprised of approximately $600 million in cash and cash equivalents and approximately $600 million in availability on our revolving credit facility.

Additionally, we had cash and available borrowing capacity of $4.8 billion in our ABS facilities. We issued $600 million of 5 3/8 senior notes due March 2029 to redeem all of our outstanding 10 1/2 senior notes due 2025. We also issued $500 million of 4 3/4 senior notes due March [20 28], used to redeem all of our outstanding 6 3/8 senior notes due 2024 and a portion of our 5 1/4 senior notes due 2025. We took advantage of historically low interest rates. In fact, our 4 3/4 issuance is the best interest rate on any senior notes offering we have made in our company's history.

Our corporate debt is well-laddered with no meaningful corporate debt maturities until 2023 and no need to refinance any of our ABS conduit facilities this year. We are in compliance with all of our secured financing facilities around the world with significant headroom on our maintenance covenants tests as of the end of March.

Moving on to outlook. As we mentioned in our press release, due to the continued macro uncertainties around vaccine rollout and the semiconductor shortage, we are not providing annual guidance at this time. What I will say is that we expect the trends we saw in the back half of the first quarter to continue into the second quarter. So despite overall rental days being down significantly versus 2019, we expect our focus on cost to capture the benefits of a stronger rate environment in the Americas.

International adjusted EBITDA for the second quarter will continue to be lower than the second quarter of 2019, but we believe the Americas will be able to offset this. Therefore, at this point, we believe on a consolidated basis, we will deliver a higher adjusted EBITDA in the second quarter of 2021 versus the second quarter of 2019.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question has come from the line of John Healy with Northcoast Research.

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

And congratulations on truly a fast and amazing turnaround that you guys have been able to put together over the last 12 months. I wanted to ask just a little bit about the summer. I know qualitatively, you've described the fleet situation. But quantitatively, I mean what are the realistic scenarios in terms of what the fleet could get to kind of at peak, especially in the Americas? And really, what sort of utilization level can the business max out at largely? So would love color on those items.

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

Yes. John, this is Joe. Listen, the first thing I want to say about fleet, it's a very fluid situation, as you know. When you take a look at our overall fleet, where we finished the quarter here, it's about averages. And sometimes those averages can be misleading. So if you think about last quarter, we had a pretty good October, then the challenges came in November and December. So we held on to cars in the early part of the quarter, got rid of them late. And this quarter was about the same, started off kind of down and then finish with -- as I said with the velocity that was just really terrific in the month of March.

If you would look at our overall fleet situation right now, we have more cars than we did at the end of last quarter and more cars than those averages show. I would say this, our deliveries were what we expected in the month of March. We got most of our deliveries in the quarter during that period of time. And April is pretty much where we thought -- what we thought back then. If you think about where we were last year, we were sitting on this call last year during the pandemic, and there were questions from all of you as well as investors, like how are you going to get out of the cars. And we did just that. We got out of our fleet and we rightsized our business that enabled us to be in this position that we are today. So I'm not apologizing for the fact that we sold some cars at the end of last year and maybe even earlier in January when things weren't looking so great. But we believe that we have the ability to flex our fleet.

As far as utilization goes, we invest very much in the last quarter in our fleet. And gun our out-of-service down to really truly historic levels for our company. We believe that, that will give us the ability to have significant improvements in utilization. You saw some of that in -- certainly in March, and we'll see that as we go forward.

So I will say it's very fluid. And -- but we're working hard with the OEMs every day to understand where we are and what they could do, whether that means, what's getting canceled or what's getting delayed or what's getting substituted. And we'll deal with that, we'll deal with those situations as they develop.

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

Great. And then just one kind of capital allocation question. This isn't a question I thought I'd be asking for another 2 years. But given how you started the year, what you guys did in Q4 and how you're talking about Q2, I would think this business should be able to generate some decent free cash flow this year. And as you kind of look out to that $1 billion target that you guys have put out there, obviously, that's at some point in the future. But how should we think about cash flow usage? And maybe how you would earmark kind of maybe how you likely utilize some of that cash flow that comes through the doors over the next 4 to 6 quarters.

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

Yes. John, it's Brian here. I'll take that one. So I think we've historically said that 3 to 4x leverage is what we're comfortable with, and I think that makes sense today. We're going to get there primarily by expanding our EBITDA. But we'll also use free cash flow opportunistically to pay down stub tranches of debt where it makes sense.

I also believe that despite the recent stock movement upwards, Avis remains a great investment. And you'll see during this relief period, we were only allowed to purchase $10 million of stock under our restricted payments basket, and we took advantage of that this quarter. So I think we're undervalued. And I'd like to resume our share buyback program, funded by free cash flow, obviously, when permitted. So kind of going back to what we had done historically.

Operator

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

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

This is Mario Cortellacci filling in for Hamzah. I just wanted to talk about pricing. And I guess the question is just how sustainable do you think these prices are going forward? And do you think the pricing dynamic in the industry now has structurally changed post-COVID as some of the industry has learnt some lessons throughout the past year?

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

Mario, let me start off with this one and Joe will add his comments. So I was an investor during the last co-round of this pricing scrutiny. And I don't want the discussions to devolve into what's pricing doing this quarter or this month and then this week and then so on. That's really not the focus of this team. So obviously, our pricing team optimizes our demand fleet pricing model. We do the hand-to-hand combat necessary to capture what's out there in terms of price. But we, as a team, we're focused around cost discipline and executing operationally, like that's the meat and potatoes of this business, the price is gravy. So we're not going to be providing percentage commentary on pricing dynamics outside of what we normally state in our reported financials.

But listen, like, I understand where you're coming from. What you're reading out there isn't wrong. In technical terms, I'd categorize the price environment right now as strong to quite strong. But I'm going to let Joe fill in.

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

Yes. Thanks, Mario. So if you take a look at where we were, and we finished the fourth quarter with price, I think, in the Americas, up 3. And this month, we -- and this quarter, we finished up 12. If you dissect the quarter, not going month by month, we started off at a much lower base and finished off, frankly, higher. We've seen that translate as we move forward into the early signs of the second quarter. I think what you're seeing now is a lot of pent-up demand, right? And what we saw in March, in particular, with some of the key destinations, travel destinations that people wanted to go to, whether those would be beach vacations or mountain vacations has been very, very strong. And that hasn't changed. There are -- there's still demand out there.

I will say this about the Easter holiday. It happened -- this year was kind of the tail end of March. And if you think about Easter, in general, it happened in 2019, like in the second week of March, maybe even later. And Easter in -- I'm sorry, second week of April. And Easter in April is always much better than Easter in March because you have more states that will be active in that as people plan around it. And Easter in March is really about traveling to a specific destination. I will say this, we were really pleased with our results over Easter. That's in the indication of holidays. As a matter of fact, it was not only better than prior year, obviously, but better than 2019. So we think that there's still significant demand surrounding vacation destinations and vacation periods and the summer breaks, that will certainly continue.

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

Great. And just one follow-up on the cost takeout. And I guess, could you just update us on how much of the cost takeout you think will be permanent and how much will come back? Or maybe asked a different way, you guys have talked about the $1 billion in EBITDA as we reached pre-COVID revenue levels. How much permanent cost takeout does that apply?

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

Yes, Mario, like we're not going to get into specifics around that. And as Joe mentioned in the prepared remarks, we're continuing our efforts around cost rationalization. But this isn't something where we run some numbers and then say, okay, here it is, we're done. Like this is now just a continuous ongoing exercise. It's just how we live now. So the entire team, both operations and finance, we're aligned in getting more visibility around costs so that we can manage and optimize the results. But instead of like telling you what we're going to do, I would rather deliver on our initiatives and show you with the quarterly numbers we print. It's what we've done during the pandemic, and we'll continue to do that going forward.

Operator

Our next question has come from the line of Michael Millman with Millman Research Associates.

Michael Millman - *Millman Research Associates - Research Analyst*

So to touch on something you didn't want to touch on. But enterprises, I'm sure you remember, was I think reputed to have margins in the 17%, even 18% area in the days before there are a lot of cost takeouts. So looking at that and looking at where you are would kind of suggest there is a lot more upside than you're hinting at, I think. And I don't know if you want to comment on that or not or say that the enterprise numbers are wrong?

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

No. Sorry, it's Brian here. I'll comment on that by not commenting on that. But what I'll say is that, listen, the upside that you're seeing right now is based on a stronger RPD that we're seeing, right? And when we gave that $1 billion target, that outlook was given under the assumption that revenue was back to 2019 levels, not just in absolute dollars of the roughly $9.2 billion but the construction of that revenue in terms of days and rate. So I still stand by that previous comment, and we're not offering updated targets based on new assumptions to RPD at this time.

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

Yes. I'm just going to jump in here and just say this, Michael. I think what we've tried to show both you and our investment community is that over the last 3 quarters, now all 3 have been kind of COVID-related quarters. But if you look at the last 3, the Americas segment has had record margin, both in the third, the fourth and now the first. And that doesn't happen by chance. So there are things that we've done internally with our business and on our processes to gain some efficiency. And we're pretty proud of that.

Michael Millman - *Millman Research Associates - Research Analyst*

I have a somewhat related question. If indeed, production -- oil production increases, presumably, if this will have an adverse effect on used car prices, is there some direct relationship between what happens with new autos and what happens with used car prices, which are setting all kinds of records, as you're aware?

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

Yes. You're right. Used car values are really high right now. Last year, if you just think about what's going on with -- in general, there's -- the manufacturers had, rightfully so, issues as it related to supply chain and COVID in building and manufacturing vehicles. And that continued pretty much throughout -- and this is new cars throughout 2020. And then early on in '21, got hit with semiconductor issues and inclement weather in Texas, which builds a lot of parts. And unfortunately, they -- new car inventories have been challenged. Same thing goes for used cars, right? Used cars are also in high demand. When you think about our industry in general, what we do, we really provide a 1-year-old used car to a consumer. And the fact that the industry bought less cars in 2020, and we'll see what shakes out in '21, we think the values that we've seen in the used car arena will continue.

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

And just to add to that, of course, there's a relationship between new car production and used car values, but I'd just like to remind you that all throughout 2011 to 2019 before the pandemic, there was a very healthy SAAR environment and still record used car prices.

Operator

Our next questions come from the line of Billy Kovanis with Morgan Stanley.

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

Congrats on the strong quarter. Just wondering if you could provide any more color around some of the demand trends, especially in some of those high leisure vacation destinations like Florida, Hawaii and anything on sort of forward bookings here? And any commentary around how the trends have sort of changed from early Q1 into sort of May now?

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

Yes. Thanks, Billy. This is Joe. You're right on about that. The trends that we've seen have changed a bit. When you think about us in the scheme of things, car rental in general, the first thing people book are airlines, followed by hotels and then cars. So we're always kind of last on that chain, which is the reason why our bookings are historically predominantly closer in. And that was much more evident during the pandemic, the height of it, because people were uncertain about what was going to be open and what was not going to be open as far as states and travel. That still is the case. I mean you could still see our closing bookings, especially around those travel destinations being closed in.

But what I will say is this, over the last month, probably towards like maybe middle of March and some part of April, we've seen a definite shift in the booking patterns in that people are now booking further out. So in other words, if someone was going to rent-a-car on a Friday, they might book it on a Wednesday, et cetera. We're seeing people now book. If you look at over 30 days out into the future, at a much greater clip than obviously they did last year and a greater clip than they did in 2019, which just kind of shows you that the demand curves are starting to change a bit. And it's -- you can see it just about everywhere.

Operator

Our next questions come from the line of Brian Johnson with Barclays.

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

One quick question to follow-up on that last comment and then kind of midterm industry dynamics question prompted by Brian's history, which I agreed with. Just short term, do you have any metrics around how much of your summer capacity is already booked, looking at kind of the July, August period versus a -- not 2020, obviously, but a typical summer?

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

It's not really as meaningful right now since we sit here in the beginning of May. What I will tell you is that what we've seen is an improvement in bookings around -- further out around the holiday season, which gives you -- those are always a precursor to what normally happens in June and July and August. So I will say that, but not as meaningful right now, as you would imagine, but definitely some improvement and we've seen around those traditional travel periods and traditional travel destinations.

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

Okay. And then following up, Brian, on your comment about car rental prices being stuck forever around $42 per day, depending which RPD, very little CPI over time compared to other travel categories. Let's -- obviously, the summer is a unique supply/demand imbalance. But when we go out a year or 2 and things perhaps normalize, at least from the automaker supply, so do you see the industry just going back to its old ways of sporadic price wars, OEMs dumping on [love] -- sedans on to whichever car rental company is desperate enough to take it. Travel shopping apps pushing price down in a very efficient market? Or is there some kind of meaningful change that could come out of this period, back to one of the earlier questions, would make this a more industry with a better return and more consistent return on capital?

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

Sure. Well, Brian, I can't speak for the entire industry, but I'll tell you kind of how we're looking at it and what we're -- at least what we're hoping for. I do think that -- well, actually, let's go back to the -- when you said the OEMs were using this kind of the rental car industry as a dumping ground. I think maybe that was true like more than 10 years ago, maybe more than 5 years ago, but there's been a real concentrated effort by the OEM to be more rational around kind of their fleet sales, and we feel like that's gotten to a much, much better place. In fact, you'll see even from the prior years kind of the allocated inventory towards the rental car industry, the fleet industry has been kind of structurally shrinking over the last few years, even pre-pandemic.

For us, at least, what we've realized, at Avis, is that you can do a lot more with less. And so we want to be disciplined going forward around the things we can control, which is, like I said, around price and operating efficiently in terms of how we use our fleet to capture some of those, maybe those rate benefits that we're seeing today.

I would like to think that the industry, as a whole, which has gone through a near death experience, some more than others, have realized this overall. So I'm hopeful. I think that's what's going to happen. That's what we see right now. But like you said, only time will tell.

Operator

Our next questions come from the line of Aileen Smith with Bank of America.

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

I think some of us on the call have seen the headlines yesterday with comments from someone close to the industry talking about how rental car companies are actually going into the auction market and purchasing used vehicles in an effort to match supply to demand. From my understanding, this is something that you guys have done in the past to manage appropriate fleet levels. So from your perspective, would you say that you're being more aggressive on that front than you've been in the past? Or does it appear to be more so coming from your competitors? And can you walk us through how you get comfortable on purchasing and using and depreciating used vehicles in your fleet, particularly in comparison to how disciplined you guys are in doing that for new vehicles?

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

Yes. I'll take that, Aileen. Thank you. Yes, there's been a lot written of late about used car purchases. Let me say this historically, at our company, we've always purchased used cars. I think our strategy is -- in general, our strategy has been can we use them in a specific area? Do they make sense on a certain make model basis? Can they cover over maybe a peak period that we weren't -- that we saw some close in demand?

But in general, it's not a large part of our purchase by any stretch. And I think the reason why is we always look at the fundamentals of what is it going to cost us? How many mileage? What the kind of -- what's the mileages on the vehicles, et cetera. So we've used them more or less as a filling. They're not a big part of our strategic purchase by any stretch, but there's a place for them. If we could take a car in, let's say, has a certain amount of miles on it and we can extend the life by a couple of months and take it over a peak period of time or in a certain area, yes, it's going to be something that we would do. But very mindful of what the residual value of that vehicle is going to be when we exit it. And that's very important to us. And if you looked at our per-unit fleet cost over the years, we think we've shown you that, that's how we would operate in that regard.

I'm just going to take one other step further because there's always -- there's a lot of questions on fleet, and certainly, there's uncertainty here. But I just want to say this, we've been operating fleet and supply and demand for a long period of time. We have decades worth of experience doing this, both in our headquarters building and in the field itself. We have great systems and our demand fleet pricing, that gives us the ability to anticipate where demand is going to be in cities and states, and we use that -- and we put that in a number of years ago. We've had some great success in doing that. And I think you asked me this on the last one, we deal with 15 or so manufacturers and over 100 make models. And we do that for a couple of reasons. The first is, it gives us the opportunity to supply cars to customers that actually want to rent them and potentially buy them. And just as important, it insulates us against changes in the dynamics of supply whether that be recalls that we saw in 2014 and '15, when the 1/3 of our fleet was put on hold, we were able to get through that. And additionally for something like this where there's uncertainty around semiconductors.

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

Aileen, I'll add to that just a bit just going back to that article that you had mentioned. So the way that I read the article is that there's a lot of demand out there for rental cars and certain of our -- certain players in the industry are kind of going to the option to match supply to demand, right? And of course, that's what we try and do. But the overarching principle and whether we in-fleet a vehicle is the cash-on-cash unit economic returns. If that makes sense, we will in-fleet the vehicle. So when it does, we do, but we see like what's happening in the used car market, that's increased dramatically as well.

So like Joe says, this isn't something that we're going to be cavalier about in terms of like going out and purchasing a bunch of used cars, we will do it like in pockets where it makes sense on like more of a one-off basis, I'd say.

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

That's right.

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

Great. That's very helpful commentary. And then as a follow-up question to that, around fleet cost per unit. One of the dynamics that clearly helped fleet cost per unit over the past several quarters has been significant gains on vehicles that you're selling into the auction channel as you've made efforts to de fleet. I'm sure we'll get some of this detail in the Q. But if we think about the dynamic in the first quarter, and future quarters for this year where you are de fleeting less aggressively or actually increasing the size of your fleet, are you still recording meaningful gain on sale of vehicles and capitalizing on record used vehicle pricing? Or is what we're seeing in the fleet cost per unit more a structural depreciation number?

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

Yes, Aileen, I think if you look at the Q, we separate that out between what our like kind of book depreciation is and then a gain. What you'll notice is that we haven't made any significant changes at all in terms of like how we're depreciating the vehicles. The swings that you're seeing is basically just the realized price on the vehicles that we sell. So you're right. As we start kind of decreasing the volume of fleet sales because we need those vehicles to rent, you'll see that normalize. I wouldn't say back to kind of historic levels where we were at 2019 and before, but maybe slightly higher than what you're seeing right now.

Operator

Our next questions come from the line of Chris Woronka with Deutsche Bank.

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

Maybe we could talk a little bit about buckets of demand. I mean, leisure has obviously been well covered, but as you think about post-summer and you're thinking about fleet decisions for the fall and even into early next year, do you have a view on what happens some of the various buckets of commercial demand, mainly on the corporate side? And then the related question to that is kind of maybe on ride share, obviously, we read about a shortage of drivers. That was a segment that I think you were beginning to tap more into pre-COVID. Where do you see opportunities on that shaking out, on the ride share rentals?

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

Yes. You're right. We've seen pockets of demand, quite frankly, in the month of March and it surrounded, as I said, most of the leisure locations that you would think of, that being Florida and Arizona and the Carolinas as well as ski destinations of Utah and Denver. And then Hawaii kind of opened up kind of tail end of the quarter, and we saw that there as well. Those places are still very popular going out as leisure demand has been very, very strong. You're right. As we exit the summer season, what is demand going to be like, and that involves some of the other segments, which most likely is commercial. And what's the -- what do we anticipate there? That's really hard to read right now.

I will say this, our commercial business has sequentially improved month-over-month as more people get back to their offices and start traveling a bit. The length of rental that we have on commercial business has -- is seemingly still pretty high. So that's been a positive. I think it's really much predicated on when will our commercial clients get back to their offices. And then how do they feel about travel in the back half. We do our own internal polling of the accounts that we do business with, and they're all kind of in that range. After the summer, we think we're getting people back to the buildings and the offices, and then we'll start thinking about travel maybe in the latter part of the year. So there is probably some anticipation of that. As far as inbound business, which is from long length business, pretty good as far as our profitability. That's been all but basically shut down.

We've seen some growth in some of the South American countries coming up. But the European inbound, Canadian inbound because they're virtually shut down, has been kind of stagnant. When that happens is anyone's guess. There was talk the other day about the EU opening up, the Americans being able to fly there and hopefully vice versa. But that's kind of a wait and see for us as far as we could tell.

And lastly, on your ride-hail question, we have grown our ride-hail business significantly over the past couple of years. We have a terrific partner who we work with daily. And that business, we continue to -- we see as an opportunity to grow. I think lastly, the truck business or the truck segment, terrific growth in overall our commercial business for truck. And the e-commerce business, as we said many times on the calls previously, has grown tremendously with van utilization, et cetera. And that hasn't stopped. So we think that will continue throughout the rest of the year.

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

Okay. Terrific. I appreciate all that color. And the follow-up question is on unit labor costs. We read about a lot of headlines about that impacting various consumer-facing businesses. Can you talk a little bit about what you're seeing at the ground level and are you confident that the -- any increase in hourly wages is not going to significantly derail the margin progress?

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

Yes, it's a great question. Yes, we've -- yes, we read about that as well. And obviously, it's something that we're thinking about, right? Just to give you some context. We've been dealing with cost of living adjustments and minimum wage increases over the past number of years. And especially in certain states out West, et cetera. And we've been able to deal with that. We work on -- have been on productivity level evaluations of all our business. We've continually looked at how to make our processes cleaner and smoother, which allow us to deal with higher levels of productivity than we had in the past. So yes, we are certainly aware of that. We will monitor that as time goes on. But it's something that as it stands right now, isn't a giant watch out for me.

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

Yes. Chris, we've been spending a lot of time, like Joe said, during the pandemic when this wasn't an issue at all. Investing in the systems, the processes, the technology in order to kind of maximize productivity to be able to do more with less. So yes, it is something we're monitoring, but something that we feel good about.

Operator

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

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

Yes. Thank you, and thank you for joining us today. So to summarize, we delivered an outstanding performance this [quarter] (corrected by company after the call) and with the Americas delivering the highest adjusted EBITDA margins in the company's first quarter history and International showing extreme resiliency through stringent cost control. Our financial position remains strong, and we'll continue to capitalize on the continued recovery as travel and demand returns.

I want to thank all of you for your interest in our company, and I look forward to speaking with you again shortly. Thank you.

Operator

Thank you for your participation. This does conclude today's teleconference. You may disconnect your lines at this time. Have a great day.
