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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings. Welcome to the Avis Budget Group Fourth Quarter 2023 Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to 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; Izzy Martins, our Chief Financial Officer; and Brian Choi, our Chief Transformation 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 of our forward-looking statements may prove to be inaccurate, and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements.

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

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

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

Thank you, David. Good morning, everyone, and thank you for joining us today. I want to welcome Izzy Martins, who has recently moved from a prior role as Head of the Americas, and is now our new Chief Financial Officer. Izzy has been instrumental in delivering the record-setting performance in the Americas over these last 3 years and a prior experience as the VP of Tax, Chief Accounting Officer and CFO of the Americas sets us up well for a new role. She and I have worked together for nearly 20 years, and I'm excited to leverage her experience and depth of knowledge as we grow this business profitably for the years to come.

Before I get into our results, I'm happy to be talking to everyone on this conference call from our new world headquarters. Although just a few miles from our previous building, our new state-of-the-art facility features advanced technologies as well as great opportunities for increased collaboration and thought development between the teams, and we believe this allows for increased productivity and performance benefits. We have been located in New Jersey for over 20 years, and we purposely stayed close to retain what I consider to be world-class talent while giving us a place we can be proud of and call home. I would like to thank our team that worked on finding this new home as it is an impressive headquarters.

Yesterday, we reported our fourth quarter and full year results. For the quarter, we delivered approximately $2.8 billion of revenue and $311 million of adjusted EBITDA. And for the full year, we achieved an all-time annual revenue record for a company of over $12 billion and our second highest adjusted EBITDA ever of approximately $2.5 billion.

Looking at our fourth quarter results, our expectations were to continue to see seasonality return to the industry and our business. As I've been stating on previous calls, it is apparent that the pre-pandemic seasonality as it relates to each of the quarters are now the norm again but just at a much higher level of volume and price than previously. The transition from the third quarter to the fourth quarter is in line with this thinking and very much in line with last year. We believe this continues into this year as well with the months and quarters trending with historic seasonality.

Volume was extremely strong with October having the most vehicles rented in any month in the history of our company in the Americas, which led to increased activity and a strong holiday season with Thanksgiving and Christmas being the largest we've experienced. And in Europe, we saw a volume increase year-over-year, and more importantly, an improvement in the decline as compared to 2019 more so than we did in the third quarter. All in all, our team performed extremely well in 2023, despite the challenges of inflationary and interest rate pressures producing the most revenue generated in the history of our company and the second highest adjusted EBITDA.

I want to thank the entire team for their hard work in getting us to this level of achievement. They took care of our customers, producing record service level results, maintained terrific cost discipline and ultimately produced earning results that we are all incredibly proud of.

Now moving on to the Americas results. As I mentioned earlier, the demand in the Americas was strong with October being the strongest month of vehicles rented in any month in the history of our company in the United States with a combination in improved commercial and leisure as travelers went on both business trips, [fall] getaways and at times, a combination of both as business trips to see a client turned into a weekend getaway.

We kicked off the winter season with increased activity and the strongest holiday season of Thanksgiving and Christmas we've ever experienced with terrific growth in leisure demand as people travel to see family or enjoy vacations away from home. Volume for the quarter was up 6% year-over-year and up over 17% versus 2019. We saw growth from our partnerships in both airline and associations as well as on our own dot coms. Our strategic marketing initiative and Plan on Us campaign announced early in the year of 2023 was again deployed and drove record reservations.

You may recall our taglines, "At Avis, for 75 years, we've only had one plan to make sure you keep yours." This is more than a slogan, but a call to action for all of us, and it seems to resonate well with our customers as this performed well again this quarter. My last point on demand. As I stated on our last call, we had a summer season for the record books. And when you have a significant peak, you can sometimes see a drop that follows but this has not been the case as October and Christmas were the busiest on record as well. It is apparent to us that consumers are traveling and choosing our brands, and there is no reason to expect this to change.

As expected, pricing adjusted seasonally as we transitioned out of the summer peak. Pricing in the fourth quarter was down 7% year-over-year, but still up more than 20% from 2019. If you recall, there were a significant number of flight cancellations due to weather and system issues last year in December. This helped volume this year but hurt RPD as we do not have the higher-priced runways that typically come from flight disruptions like we did last year.

Pricing from a sequential change from the third quarter to the fourth quarter is in line with 2021, 2022 with 2023 being down 9% quarter-to-quarter. Americas pricing for the full year was nearly 30%, up over 2019.

On our last call, I mentioned how headwinds from vehicle depreciation and vehicle interest would factor into the fourth quarter results. But as usual, our team did not abdicate responsibilities due to these factors. Instead, we continue to focus on cost discipline and delivered results that showcase the streamlined and lean operating structure we built during the pandemic.

As we said before, we're keenly aware of the inflationary pressures we are seeing and will continue to combat rising costs with sustainable productivity gains driven by technology and data. Despite the headwinds, we achieved record rental days with revenues of $2.2 billion, adjusted EBITDA of $309 million and adjusted EBITDA margins over 14%, while navigating through the seasonal transition from the summer peak.

Looking at our operating costs. Team was met once again with significant challenges across several market dynamics. Vehicle depreciation, which was still benefited by the supply chain shortages in the fourth quarter of 2022 showed more normalization in 2023, and we have faced with nearly $180 million of headwind this quarter. Interests continue to climb as well with another $80 million of vehicle interest costs versus the fourth quarter of 2022. The utilization was negatively impacted due to the timing of vehicle deliveries slated for earlier in the year that came later and into the fourth quarter.

We have set this timing difference by selling more cars this quarter than in our fourth quarter history, but it was not quite enough to completely offset the new vehicle increases, which were delayed from prior periods. And while the utilization was challenged, the full year utilization is still in line with prior year, demonstrating our approach to supply and demand, and you should expect to see this stringent discipline to continue in the new year.

Overall, the Americas had a great quarter, generating $309 million in adjusted EBITDA with record-setting fall and holiday periods, resulting in demand up 6% above last year and 17% over 2019 with seasonally adjusted pricing from quarter-to-quarter and up over 20% versus 2019.

Team ended with another great year with close to $2.2 billion in adjusted EBITDA. Going forward, as I mentioned, travel in general is strong, and we are expecting demand to grow as well with the course of this year. As we move from January to the remaining months in the quarter, we'll take advantage of both business and leisure activity, warm vacation destinations and early Easter with improved inbound activity continuing into the spring and summer with elevated travel. Pricing for the first quarter, while expected to be down versus prior year, will still be up a similar amount versus 2019 as we were in the fourth quarter and well above 2019 throughout the year while peaking in the third quarter and close to prior year.

Let's shift gears to international. As we mentioned on our last call, our view was that while post recovery in Europe started later than the Americas, would eventually follow a similar trajectory with continued recovery in days building through 2023 and into 2024.

While we still believe this is the overall macro cost the industry will take, this quarter continues to show that it won't be a straight line. And while this still holds true, we did see an improvement this quarter with volume up 3% versus prior year and only down 20% compared to the fourth quarter of 2019. This is after being down in the 30% range in the third quarter as compared to 2019. While Europe continued to have a slow return from domestic and cross-border segments, we saw a 12% increase compared to the fourth quarter of 2022 from international inbound travellers'. Again, instead of chasing volume, we have made the conscious business decision to forego a low RPD business to concentrate on those transactions that meet our return on invested capital hurdles.

RPD was only down 2%, excluding exchange rate effects compared to the fourth quarter of 2022 and up almost 20% versus 2019 on a reported basis. Overall and including exchange rate effects, International saw revenue up 5%. Our international team is also focused on the cost they could control. This focus resulted in our international direct operating expenses and SG&A to be down 3% compared to the fourth quarter 2022.

In an environment where monthly per unit fleet costs were up 52% and monthly interest costs, a multiple of that, we remain disciplined, focused on margin-accretive business and kept cost out in an inflationary environment. Full year adjusted EBITDA came in at $400 million with a 15% margin.

While early, reservations going into 2024 are showing growth in both inbound from North America as well as into Europe with pricing slightly better than the first quarter of 2023. We continue to believe that there is substantial opportunity for recovery in this region and the team is ready to capture it as it returns.

Moving on to fleet where, as usual, we focus more on the Americas segment. We said last quarter that we expected our monthly depreciation to increase towards gross depreciation of roughly $300 per vehicle. Our gains on sale of vehicles in the quarter were approximately $50 million, which led to net depreciation, $272 million per vehicle and gross depreciation of $306 per vehicle, a difference of 34 per vehicle. As I mentioned earlier, we sold a record number of vehicles in the fourth quarter compared to other fourth quarters. This was driven in part by our forecast of a normalizing used car market, and we wanted to harvest gains on older model year fleets while the opportunity was still there.

But another factor that contributed to our outsized defleeting in the quarter was delayed deliveries of new fleet by several of our OEM partners. Given that new model year vehicles were delivered after the summer peak, it was necessary to exit older vehicles to rightsize our fleet size to demand. We worked through most of that throughout the fourth quarter, but we'll continue to rightsize into the first quarter of this year.

As I stated in past earnings calls, fleet rotation and cycling of fleet is a critical element of fleet management. This addresses mileage and age as we bring in new vehicles while disposing of older units and creating a stabilization of cost and utilization over time. We did this throughout this past year and into the fourth quarter, and we'll continue to do this throughout the first quarter and balance of this year as we ensure our fleets are in line with demand, creating stability in our fleet management. There continues to be demand for vehicles of our type as used cars still represent a value to consumers as a price point of some $20,000 less than a new vehicle.

Let's shift gears now to monthly vehicle interest. Our total company's monthly per unit interest costs were $106 per vehicle in the fourth quarter of 2023 compared to $62 per vehicle in the fourth quarter of 2022, a 70% increase. On a total company fleet size, more than $700,000, that equates to more than $90 million of additional cash outflow from interest expense from the fourth quarter of 2022. I said this the last time, but I feel it important to reiterate, an environment where our core input costs are rising, both the cost of vehicles and the cost of finance, we must be hypervigilant in matching our vehicle supply to just under demand. And this year, it's more important than ever.

Before I leave the fleet section, let me take a moment and talk about EVs. We have always taken a prudent approach to fleet in general, and EVs are no exception. Our goal was to have a fleet size that is in line with demand and allows for flexibility and growth if required. Our strategy was to first develop the infrastructure to properly charge vehicles of this type in a way that allows for a seamless rental and efficient use of this asset. We have been on this for over a year now, we are just about complete with most of our facility upgrades.

As with ICE vehicles, we ensured we purchased vehicle types from a varied group of manufacturers. Having a varied inventory insulates us from maintenance-related concerns and recalls in general and protects us from any residual value pressures that may be associated with vehicles of 1 make or model type. Our goal has been to have customers experience our product, primarily at our airports because this allows for a more certain profit outcome and additionally create consistency for the staff to be trained on the rental logistics and readiness criteria while keeping per unit economics in line with our expectations. We are quite comfortable with our EV strategy and supply-demand relationships, and we will continue to monitor this ever-changing environment should it be required.

Turning to technology, which is a key aspect of our day-to-day performance and creates efficiency in the business and allows for an improved customer experience as we continue to iterate and redefine our systems and processes.

We are incredibly focused on driving efficiency in our business, so much so that I asked Brian to head up our business transformation process, a much-needed step in our business evolution as we utilize data, technology and machine learning to inform operational improvements and decision-making, allowing for sustainable outcomes.

In addition, over the past several years, we have continued to improve our proprietary demand fleet pricing system, which gives us tremendous insight on demand down to the vehicle location and prices our cars accordingly. The combination of great strategy, forecast accuracy and vehicle inventories produces an optimization that has been a large part of our revenue success and contribution margin. We believe this technology, combined with our pricing team and field experience, generates a significant advantage in managing supply and demand.

Data analytics, combined with our own on-the-ground productivity system, has created efficiency in our location level throughput, increasing our performance well above levels experienced in 2019. This is one of the many reasons why our direct operating and SG&A expenses have stayed relatively consistent as a percent of revenue, in an environment that is challenged by inflationary wage pressures.

The modernization of our IT systems have provided benefits and system stability, producing record uptimes, allowing our partners to seamlessly create reservations, generating real-time demand and increased revenue. As you know, we have been early adopters of in-car telematics, which has improved our gas collections, provided asset control improvements and provide an improved customer experience due to automated check-in upon return.

On the customer experience side, our touchless process allows customers to choose their vehicles on their phone or exchange it upon arrival creating a digital rental agreement, which can be used to exit our facility through an automated exit gate process. Customers using this level of technology score us up to 10 points higher in NPS than traditional rentals. Facial technology rolled out at a majority of our airport locations quickly transfer first-time Avis preferred customers to their vehicles, thus bypassing our current counter verification process.

During the year, we have rolled out an improved budget Fastbreak choice application; customers upon arrival at a budget facility, use their vehicle from the reserve zone, take a picture of the license plate allowing the rental agreement to be sent to them digitally for a quick exit and an unmanned gate. These technologies have improved our customer experience and enhance our overall NPS scores to the record highs they are currently at.

So to conclude, we had another great quarter, culminating with record-setting full year revenue and the second highest adjusted EBITDA on record. Both the Americas and International employed stringent cost discipline, continuing to drive towards margin attainment with profitable revenue and cost efficiencies. The demand environment is strong, with pricing dynamics have leveled out to normal seasonality, and our team is focused and driven to once again deliver another strong year in 2024. The expectation is that the quarters perform with the same seasonality we have seen in the past with the second quarter larger than the first and the third quarter representing another terrific summer peak finishing with a strong fall and winter season. We expect price to continue to moderate in the first half and adjust seasonally throughout the year, while peaking in the third quarter, maintaining high elevated levels compared to 2019.

And while fleet costs will present challenges, we will continue to deplete our vehicles to keep them in line with the demand, and our team is focused and driven to once again deliver another strong year.

Before I turn it over to Izzy, I would like to take a minute and thank Brian for the last 3 years in his role as CFO and his great work helping us develop into the company we are today. And while I'm thankful for his past work, I'm even more excited about what he's going to bring in the future as our new Chief Transformation Officer, partnering with stakeholders, both in our headquarters and in the field operations. Brian and his team are off to a running start as many of these opportunities were identified during his time as CFO. I look forward to seeing the transformation group now operationalize these efficiencies across our business and throughout the year.

With that, let me turn it over to Brian.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & Chief Transformation Officer*

Thank you Joe for the kind words and for entrusting me to be your CFO during such a tumultuous period of our Company's history. It's been an incredible learning experience and I'm going to continue to lean on your guidance in this new role. I'm only comfortable taking on this position because I know the finance team here is left in very capable hands. Let me now turn it over to our new CFO Izzy, so she can introduce herself and take you through our liquidity and outlook.

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

Thank you, Brian and Joe, for your kind introduction. Good morning, everyone. I look forward to getting to know you more, our investing community, in the coming months. Before I get into my prepared remarks, I want to take a minute to say how excited I am to assume the CFO role. I am also truly honoured to lead our talented finance team that I have worked with for many years. Brian has done an exceptional job since he joined our team 3 years ago, and we will continue to support each other to drive sustainable margins for our company.

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 our press release. Let me start off by addressing capital allocation. Once again, we were quite active. We deployed nearly $260 million in the fourth quarter alone, repurchasing 1.4 million shares that brings our total share buybacks throughout 2023 to nearly $900 million or 4.3 million shares. We also paid a special dividend of $10 per share to our shareholders. This is the first cash dividend in our company's history.

In addition, we've reinvested $330 million throughout the year into our core business to drive long-term efficiencies and overall profitability. Examples of these investments include enhancing several operational facilities, the continual migration of data to the cloud, promoting speed, reliability and a more certain cost outcome, developing and enhancing technology to track and increase productivity. And lastly, but just as important, introduced and refined several technological solutions to streamline our customers' journey, enhance their experience and allow increased throughput.

Actually, we have reinvested nearly $800 million over the last 3 years in these areas, including our new state-of-the-art headquarters in Parsippany, New Jersey. We intend in 2024 to continually invest in our operational facilities and further implement technological improvement to continuously improve our customer experience and overall efficiencies in our business to drive margin contribution. To be clear, our capital allocation strategy is not changing. And as always, we will continue to look for best ways to allocate our capital on a continued balanced approach in 2024. We continue to find ourselves in the privileged position of being in the strongest financial standing in the history of our company.

As of December 31, we had available liquidity of approximately $800 million with additional borrowing capacity of approximately $900 million in our ABS facilities. Our net corporate leverage ratio was 1.7x, that continues to be well laddered with our corporate debt having maturities in 2026 or beyond. And as expected, we are in compliance with all of our secured financing facilities around the world.

Let's move on to outlook. As you know, we've made the decision as a management team to forego giving formal guidance to allow ourselves the flexibility to make agile decisions as the business environment changes. However, I wanted to give you insights for what we are seeing for the first quarter. We expect rental demand will continue to be strong with mid-single-digit growth compared to last year. We expect total company depreciation per unit will be about $325 per car. And as Joe mentioned earlier, we will continue to deeply throughout the quarter to rationalize our fleet, from the delayed deliveries of the fourth quarter. Currently, there is a considerable amount of volatility in the used car market. However, we believe that it is prudent for our operations and healthy for the overall industry to exit vehicles despite the used car market conditions.

As we've stated in the past, in an environment where our core input costs are rising, both the cost of vehicles and the cost to finance them, we must be hypervigilant in matching our vehicle supply to just under demand. We prefer to run out of the incremental vehicle than have an unutilized vehicle on the lot. You will continue to see us to put this into practice as we defleet throughout the first quarter and the earlier part of the second quarter to maintain fleet to under demand throughout 2024.

In closing, let me reiterate that we anticipate our revenue to be in line with normal seasonality, price to be well above 2019, peaking in the third quarter and anticipating a strong summer. And we will continue to defleet despite fleet cost challenges driven by the uncertainty or volatility of residual values.

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

QUESTIONS AND ANSWERS

Operator

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

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

And Brian, congrats on the transition here and Izzy as well. Just wanted to ask a question about the plans to kind of defleet in Q1. The $325 in depreciation expense, is that a global number? And how do you see that number kind of faring compared to what you expect as we roll throughout the year? Are there some step-ups because maybe you're selling cars sooner? I'm just trying to understand that $325 number because it just seems like a big step-up from where we were in Q4.

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

Okay. This is Izzy. Thank you for the warm welcome. So you're right. When you went through the prepared remarks, actually, Joe mentioned that the Americas per-unit fleet costs were $306 at the end of the fourth quarter. I mentioned that on a total company basis, I expect us to be closer to $325 per unit. We also said that our fourth quarter gains were around $50 million, which is about $180 million or 60% reduction despite the fact that we sold a lot more vehicles in the fourth quarter.

So the way I would think about it for 2024 is that our gross depreciation and our net depreciation should align. Now your question about, is that a huge step-up? I don't expect as the exit trend being closer, call it, the lower $300s, but in excess of the $300 that we had been saying over time, I expect it to get to $325 and may not get to that $325 level by the end of the first quarter. But I think the more important thing is I do expect the gross and net depreciation to be more in alignment.

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

And John, let me just jump in here. Let me just jump in here for 1 second and just give you some strategies behind it. When you think about managing fleet in the long term, fleet rotation is extremely important. How you buy cars and deliver them into your business and then exit cars out at the proper time at the right place is extremely critical.

And I think over the long haul, when you think about buying and selling, one of the more important and overlooked aspects is how you rotate your fleet because it allows you to have or maintain a certain age level or mileage level that is both operationally prudent from an efficiency standpoint as it turns out to be in light vehicle costs as well as from a customer acceptance.

And we've been doing that. I mentioned that throughout the entirety of last year, how we were rotating our fleet, thinking about how -- where we came from in post pandemic where the cars, there were shortages of vehicles and the aging and mileage was getting up there. It was important to rightsize, and we will continue to do that even into the first quarter. And frankly, the way I look at it right now, we are going to get our fleet levels down as we continue to go from the first quarter, potentially into the second until we get to the peak.

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

Got it. Makes sense. And then a question for Brian. Just I was hoping, Brian, if you could give us maybe some color on kind of early day learnings about some of the initiatives or efforts that you're trying to execute upon any way to maybe conceptualize the areas of the business that are the first set of priorities for you? And any way to think about the totality of maybe cost savings potential?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & Chief Transformation Officer*

Sure. John. So Joe highlighted a bit about the role during his prepared remarks, and I don't have too much more to add at this time. At a high level though, let me describe it this way. I firmly believe that our teams are best at what they do given the resources that they have available. And I think our results have reflected that over time. But if we've modernize the tools at their disposal, if we rearchitect the key functions of the business from a first principles perspective, that fully leverage technology and data available to us today, I think our operators would deliver a step function improvement in productivity and efficiency.

And that's what the group here is going to be focused on providing resources to our teams that are embedded in the day-to-day workflow processes to make them even better at what they do. Let me pre-empt kind of future questions on this. For competitive reasons, we won't be providing regular updates on this going forward. We're going to take the same communication approach to this function as we did with our EV group a few years ago. I would just say we'll let our actions and outcomes speak for themselves.

Operator

Our next questions come from the line of Adam Jonas with Morgan Stanley.

Adam Michael Jonas - *Morgan Stanley, Research Division - MD*

Congrats Izzy and Brian. So your net vehicle suite is around $30,000 per unit, then I'm using your average 4Q fleet. So just -- I'm using the 700,000 number on that versus $19,000 in 2019. So carrying costs divided by fleet size, and that might not be the perfect metric, but just bear with me. It's up 60% from 2019 to 2023. But yet your fleet cost guide is up less than half that kind of into the low $300s. So why wouldn't depreciation per unit fleet cost per unit mean revert closer to $400 and $300 or continue to err on the side higher, given just the massive growth in the carrying cost per unit on your books. I have a follow-up.

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

Adam, it's Izzy. Thank you for that question. I think what we see right now, given the increase to the $325 that we're seeing, I don't disagree that as time progresses, as you know, we evaluate our monthly depreciation, actually depreciation rates on a monthly basis. So if things change, we will be changing. But based on our -- what we're seeing right now, the $325 is what we expect in the near term for 2024.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & Chief Transformation Officer*

Adam, just to add to that, sorry, this is Brian. Yes, the carrying cost is up 60% higher. So what we're buying the cars is more expensive. But what we're selling the cars is higher as well. And depreciation reflects kind of that total carrying cost. So you won't see a one-for-one step up that way.

Adam Michael Jonas - *Morgan Stanley, Research Division - MD*

Okay. Thanks, Brian. Just a follow-up. Hertz has really struggled with collision and repair challenges with their EV fleet. Now obviously, there -- I know you don't disclose the EV fleet and you're not going to do that on this call. And I respect that they are a multiple higher than you in terms of the intensity of that fleet particularly relative to the infrastructure. But how much of that would you -- are you kind of, let's say, confronting some of the similar challenges on collision and repair? And if so, how much of a headwind has that been for you? And how are you mitigating it?

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

Thanks, Adam. This is Joe. Let me just say this. We haven't experienced any out-of-the-norm headwinds as associated with our EV supply chain or maintenance-related issues. I think if you think about what we tried to do with EVs, when I was visiting and talking to our OEM partners, back in

2021, they all talked about how there was going to be a larger portion of EVs coming in our -- on our future buys. And I left those meetings thinking that we had to first and foremost, figure out how we were going to charge them. If you think about providing a vehicle to a consumer, you can't provide a vehicle without gas and you certainly can't provide a vehicle in this time without a charge. So we spent a lot of time doing that.

And then we dealt with a lot of OEMs. So we wanted a varied approach to fleet like we do with ICE cars. We think it has a material benefit on supply chain or maintenance and damage related expenses over the long haul. It insulates us from recalls that may pop up from time to time, and it gives customers a more diverse product offering. We were watching what the demand curves were like from buying new car EVs versus gas cars. And there was uncertainty from us and from a rental standpoint about what demand would really be like in the rental environment because it was clear that people were buying them and charging them at their homes, but what was it going to be like when they took a car out on the road.

And part of our strategy was to align them and try to get as many of these rented at our airports in the places that would develop like the West Coast and more of the sunshine states. So we went in a -- like we do regular cars, more of a conservative approach on how we wanted to buy them, how many we wanted to have, while learning the logistics around what happens with them, how long it takes to charge them and get them ready for rental, the maintenance and damage associated with products and tried to rent them in segments that had the best possible drop through. I hope that helps. And you're right about your earlier comment. It's not a meaningful part of our fleet size.

Adam Michael Jonas - *Morgan Stanley, Research Division - MD*

Our next questions come from the line of Chris Stathoulopoulos with SIG.

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

So the Americas RPD get the comp issue last year with the operational challenges experienced by some of the U.S. airlines here. But could you perhaps expand or give a finer detail on how core pricing tracks through 4Q and how it's tracking into 1Q so far?

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

Sure. I think there's the strong demand that we're seeing mostly coming out of the Americas in the last year and the year prior to that. So there is this demand curve that we are seeing, which causes us to have a lot of cars that we put on the road. And once you have a lot of demand, we have these -- we have our system, which is DFP. It's our proprietary system, which kind of measures forecasting and prices in the marketplace and the amount of inventory that we have and gives us our best optimal price.

One thing that I'm pretty pleased with is the fact that for the past 11 quarters, our pricing has maintained at a level above 2019. Now that's a long period of time. And during that period of time, obviously, whether there was the supply imbalances in the early years, post-COVID that created enormous rate generation. That is normalized and seasonality is certainly more apparent. I think as we go forward, you're going to see those elevated prices compared to 2019, I look at our advanced reservations going out, that hasn't seemed to change, certainly from a leisure standpoint.

And if you think about our sometimes not spoken about our commercial book of business, which has grown since 2019. I know a lot of travel companies are talking about that getting back to 2019, but our commercial business has grown since 2019. And especially on the strategic ones, which are long-term larger commercial business have all come with a relative price increase. So the way I see it, the first quarter kind of be like a little more of the same as how we were compared to 2019. I fully expect the prices compared to '19 to be elevated. And I do believe that once we get into the peak, we continue to do what I said earlier about rationalizing and rotating our fleet out that it gets close to the 2023 levels.

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

Okay. And as a follow-up, for you, Joe, or perhaps Brian or both. There's a lot of moving parts here around these various enterprise-level initiatives. If you could perhaps just size those for the top 3 or 5 projects rank order and KPIs and more importantly, how do we -- where and sort of how should we think about those ultimately flowing through RPD and your direct operating costs.

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

Yes. I'll start and Brian can add a little color. We've been talking about using the word transforming over the past number of calls. We've been heavily involved in generating efficiency in our business through an operational drop-throughs through cost efficiencies. We spent an inordinate amount of time looking at our productivity systems and how we develop and improve the amount of rate of efficiency, especially as it pertains to cleaning and renting cars. If you look at our overall performance, our productivity is better than where we were in 2019 with many more rentals. So I think we've established the framework of that level of activity.

When you think about our [in-life] vehicle maintenance-related costs just in general. As we defleeted as I talked earlier about rotating some of our fleet out, as we defleeted some of our aged and mileage cars, we've seen a definite improvement in how we organize around our in-life maintenance-related costs, also with differentiators and processes and procedures to organize around particular spend as it pertains to tires and glass, vehicle parts and things of that nature.

So we've done that. We've improved our overall operating efficiency of our systems. And I think what gets me excited about the Brian's role, and I'll turn it over to him, is that we no longer, what do we believe is our people need to be data miner. And Brian talked about earlier, getting the information, the technology, the data in front of them makes all boats rise at the same level and allows them to do what they do best, and that's operationally execute. So you'll see a continuation of that and a more normalization around our business. while we get into some of the other things that deal with revenue generation through advanced segmentation or fleet dynamics on how we buy and purchase and sell cars. I hope that helps. Brian?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & Chief Transformation Officer*

Yes. I think Joe touched on all of it. Just maybe a little color. I would think of the big towers that we have on our operational cost funds as being the initial focus of the group. So think of supply chain, workforce planning and our real estate portfolio. And these are big buckets of cost that you see inflationary pressures. And what we need to do is have 100% visibility and have that disseminate across our organization so that our operators can make timely business decisions. And you'll see our focus around that kind of dovetail with the revenue side of things as the year progresses. But right now, we're focused more on the cost side of things. And in terms of sizing it, we're not getting into putting out numbers out there right now.

Operator

Our next questions come from the line of Ryan Brinkman with JPMorgan.

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

I wanted to start on some questions around the typically negative income tax rate in the quarter and any benefits you might have received from the Inflation Reduction Act that could have contributed to that. What is the potential do you think to maybe continue to generate such credits in the future? How does the timing of the credits work? I think when consumers buy EVs under the IRA, it is essentially like a refundable credit extended at the time of the purchase, but for corporates, maybe it's more of a traditional credit. And so maybe results initially to increase deferred tax assets rather than immediately convert to cash, but would be interested if you have any of the details around how the mechanics of that works? And then how should this inform our modeling of tax rate do you think going forward?

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

Ryan, it's Izzy. Thank you for the question. I think there's a lot there to unpack. So let me just start with what happened in the fourth quarter. So as you mentioned, the Inflation Reduction Act does allow us to take credits on hybrids and EVs. And the other piece that's happening that's kind of not as one-for-one is the fact that full expensing is phasing out as of right now, right? There's still a chance that the government reassesses that and brings back just full expensing. But in 2023, it starts phasing out. So as we were going through the years, not only the current year, but the future years, we felt it was prudent to actually record that credit.

Now you hit the nail on the head. It is a deferred tax asset. So it has an indefinite life. We won't use it in the current year, most likely, but we have the ability to use it in future years. When it comes from a modeling perspective, I think the best way to look at it and when we file our K, you'll see it. But I think the best way to model would be around 26% for '23, and I would say for '24, it should hover around that maybe up 1 or 2 points. I hope that was helpful.

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

Very helpful. And then just as a somewhat related follow-up. Do the benefits that you're receiving relate more to the purchase of plug-in hybrid electric vehicles rather than battery electric vehicles with no internal combustion engines. What is the split there in your EV fleet now between BEVs and PHEVs? And what kind of residual trend are you seeing out there for PHEVs versus BEVs? Because there's been a lot of discussion about growing demand for hybrids amidst decelerating demand for EVs. And I just wonder if maybe you sidestep some of that EV depreciation exposure that your competitors have seen benefiting from the IRA but not being hurt by the depreciation via your BEV strategy? What could you say there?

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

I'll just start and then I'll throw it over to Izzy for more of the depreciation aspect. I will tell you that we have vehicle makes and models of all types and especially around the hybrid PHEV. So we -- it's really early on those. We've gotten those in late during this past year. I can tell you the customer acceptance on them is pretty strong. But I think it's early for us to kind of give a feel of how they are doing, whether it be from a residual value effect because we haven't sold many or a supply chain effect as far as maintenance of damage.

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

And Ryan, none of those, call it, mix or anything of that nature would have any impact as to how we calculate the credit under the IRA.

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

That's helpful. Maybe just very finally, I wanted to get your thoughts on budget trucks as it might relate to electrification. Obviously, very early days there, too. But with vehicles like the E-Transit and BrightDrop beginning to enter, there's been more discussion about those being in commercial fleets that operate in the same paths or routes every day. Just curious what -- any implications, maybe it makes more sense to proceed slowly there after some of the depreciation we've seen on the past car side. But I do think the commercial side might be a little bit different. Just curious how you're thinking about electrification as it relates to budget trucks.

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

Great question. We normally get a question about that. But our budget truck business has -- a large part of it is last-mile delivery. And you're very right about, is there a business aspect to having some electrification of vehicles in that business. To answer your question, we have explored it. We have some in our fleet currently today. And like we explored the EVs in the rental fleet, it's a little -- this is a little bit different because you actually know the consumer who's renting it for you. It's a large package companies that go around and have skill at managing their productivity and their teams. The only thing that we always look for in scenarios like that, they do operate in somewhat urban settings. So we are prudent about that. But we have some in our fleet now, and we have explored that. And so far, the acceptances from a consumer -- from a business standpoint, people are renting is pretty popular. Again, early on outside cost, but we haven't really seen anything materialize that I would be apprehensive about currently.

Operator

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

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

Congratulations to Brian and Izzy on the new roles. I was hoping we could talk a little bit about, I guess, mix, Joe. You mentioned normalization a lot. Clearly, we're kind of seeing it throughout the business. Can you give us any sense kind of on where you trended through the fourth quarter, where you're at now or where you expect to be in '24 on kind of commercial versus leisure broadly? I know it's something I think you normally put in a cave, which isn't out yet. So maybe any commentary you can give us there? And kind of what you see like-for-like pricing if we took all this mix adjustment away.

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

Yes. Okay. So like I said, I think the underlying business economics as it pertains to the consumer, I think, are strong. And we will continue to see that throughout 2024 as it pertains to crystalable demand and price. So let's start off with demand. Demand we saw in 2023, we had the best summer on record, yet we come out of it, and we have the strongest October and a good holiday season. I think the fourth quarter depicts like that segmentation of travel. October, you would say, well, why would that be the business? Well, the busiest? Well, it has the biggest impact of both commercial and leisure in any given month. Commercial, because there's a lot of business travel, a lot of conventions; leisure because fall getaways and like I said, some combination of both, which I think is incredibly powerful. You have a person who goes on a business trip to a city. And we saw the cities start to develop bigger and bigger books of business last year than we had in the past. So it goes on a business trip to a city and then takes a weekend football game or something. I mean we've seen that combination of commercial that leads to leisure.

And I do think that's pretty powerful when it comes to rental and rental demand. And we have a good number of commercial accounts. We have, like I said, more business than we did in 2019. I think you'll start seeing that kind of normalize from the big jumps that we had -- what we saw in previous years, the commercial and leisure spread. But price, as I said, we signed a lot of our -- in 2023, our larger commercial accounts at a price improvement, which is helpful and it's the first time we could say that, probably in many years prior, that was not the case. So we have done that on a go-forward basis.

And I think the overall demand, my last comment, the macro stuff surrounding demand. TSA volume has been up. As you look at the last -- if you look at TSA volume for the whole year, it was kind of flat to '19 until you got to the fourth quarter. And then it came up.

And then what are the airlines talking about now or in travel in general. Well, the amount of seats that are going to be available in the first quarter and the second quarter that they're showing going to various destinations are up between 4% and 5%. So the demand economics are good. Now you say, well, how is price? I think we took advantage of the supply-demand challenges that were faced in the industry in those post-COVID years. The person who had most cars in the places that matter most and had the best price seemingly could win in that environment. And we did that.

And now prices coming down and more normalizing. But fleets are not the same as they were back then. But I think extremely rational right? You hear what I'm trying to do in the first quarter. Had a little bit of a delivery issue. We're rightsizing that and doing it immediately. I think as fleets kind of getting more in line as you go to the traditional peaks, which I believe will be elevated. The holiday periods and the summer season, those traditional peaks, people want to get out, and I believe those to be elevated. And that's going to support price. Now you say, well, it's going to be well over '19. I could tell you that. And I believe as you get closer to these peaks, it more normalizes to what we saw back in 2023. I hope that helps.

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

Yes, yes. Super helpful. Just as a follow-up, it's pretty clear you guys gained market share. And I don't know if it's possible to look at it by segment. But how durable do you think those gains are, Joe? I mean there's reasons for it, most of which are -- you guys are terrific operators and have been, like you said, had the right cars and things like that. But do you think it's sustainable if one or more of your competitors maybe optimizes their fleet a little differently.

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

Yes. We don't really ever talk about market share as a company strategy or is something that we're driving. It's an outcome of how you perform in business is really that. And I think over the years, what we've tried to do is insulate ourselves by how we look at our segments and how we manage our business. Right now, inbound business is very, very strong, right? And it wasn't apparent in the prior years. And I believe that, that certainly will continue.

What other people do with their fleets and their -- and how they go about is not something that I would suggest that we do here. We look at our own business, our own internal metrics, how we believe we need to grow it. We set our strategies. We have the performance metrics that we manage and look at, and market share for me is kind of an outcome.

Operator

Our final questions will come from the line of Stephanie Moore with Jefferies.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

So I appreciate the color provided on the [DPU] expectations in 2024. I think there's understandably a lot of moving pieces that go into net DPU. But can you talk about the levers that can be pulled to help mitigate outsized increases on DPU going forward? Or maybe ask another way, how can investors get comfortable that there's not incremental pressure to earnings from here as the year progresses?

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

I think it's -- Hi Stephanie, it's Izzy. I think it's one of those things that as we were preparing for this is how we're thinking about how the first quarter, the second quarter and the third quarter kind of progress. So your question about the $325 that we're saying for the total company. As you can imagine, there's many -- not many, but there are levers that we think about. We think about the mix of the fleet, how long we're going to hold on to the fleet, how many mileage are we putting in it, as Brian stated in the prior in the prior question, right? It has a lot to do also how the used car market is performing. So there are times, there's ups and downs of the used car market. But of course, we're always trying to, as I said earlier, trying to actually depreciate to no gain or loss.

So really, as the coming months progress, as we see what happens in the first quarter and we're not just only going to defleet in the first quarter, we're going to defleet as well in the second quarter. We'll continue to evaluate it, but our assumptions right now is that our total company depreciation per unit will be in the range of $325.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And then just as a quick follow-up on RPD. So just a clarification. So it sounds like you expect normal seasonality in RPD throughout the year. and continuing to use 2019 as that benchmark from, so to say, a spread standpoint. So -- is -- are you saying that the spread should remain pretty consistent as we move throughout 2019 -- we move throughout 2024 versus 2019 levels just following normal seasonality.

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

Yes. That's what I would suggest. It would be -- second quarter being better than the first and the third quarter being the pinnacle. That's not going to change. It's just going to be a certainly a more elevated level than it was pre-pandemic.

Operator

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

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

Thank you. So to recap, we reported our best full year revenue in our company's history and our second highest adjusted EBITDA ever. We believe demand to continue to be strong and price elevated well above the 2019 levels as we manage efficiency improvements while keeping our vehicle supply tight. I want to take this time to thank all of our employees around the world for their tireless efforts in helping us achieve these results, and I'm excited to see what we can accomplish in 2024. As always, thank you for your time and interest in our company and be safe with this weather.

Operator

Thank you. That does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.