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CAR.OQ - Q2 2026 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings. Welcome to the Avis Budget Group second-quarter 2026 earnings call. Please note that this conference is being recorded.

I will now turn the conference over to David Calabria, Treasurer and Senior Vice President, Corporate Finance. Thank you, David. You may begin.

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

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

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Thanks, David, and thank you all for joining us. I want to start this discussion not with the results themselves, but with the decisions that led to those results. Last quarter, we spoke about fleet reduction and supply discipline. This quarter, we put that operating philosophy into practice. The month of April started with summer bookings in

the outer months holding at mid-single-digit growth. By early May, that momentum began to change. The strength we have been seeing in forward bookings started to erode and that deceleration appeared in the booking data before it fully worked its way into reported volumes. Once we saw it, we did not wait for the trend to become more pronounced. We moved quickly.

We accelerated vehicle dispositions well beyond our original plan, taking advantage of a window in April and early May when the used vehicle market was still seasonally strong. That allowed us to monetize favorable residual values while realigning supply to a different demand environment. The result was a fleet position that looks different from what we would typically expect in the second-quarter.

In a normal year, this is the period when we would be building fleet ahead of the summer peak. Instead, our Americas fleet finished the quarter down 5% year-over-year, the lowest second-quarter fleet size since the COVID environment of 2Q '21. That was a meaningful departure from our original plan, which contemplated growth tied to World Cup activity, America 250 and a more constructive summer travel environment.

But the data changed, against the backdrop of broader consumer uncertainty, higher travel costs and geopolitical volatility, year-over-year TSA check-ins decelerated from flat in April to negative 70 basis points in May to negative 1.3% in June. Overseas visitors to the US based on the CBP I-94 data were down 8% in the second-quarter.

When it became clear that demand was not developing in line with our original plan, we treated that as new information and resized the fleet accordingly. Quarter after quarter, we have said that we would rather run this fleet slightly under demand than slightly over it. This quarter, we did just that. Importantly, a 5% smaller fleet did not translate into a 5% decline in rental days.

Rental days in the Americas were down only 2% due to improved utilization. Vehicle utilization finished the quarter at 73.2% in the Americas, our highest second-quarter utilization level in company history. This improvement was made possible by the technology deployments, operating discipline and asset management mindset we have been building into the network over the past several quarters.

It also reflects a different operating model for the business. We are treating fleet not simply as capacity to meet demand, but as capital at risk. When the data changes, the fleet plan has to change with it. In the second-quarter, given the demand environment and the strength of the used vehicle market, we leaned deliberately into the asset manager side of the business and prioritize profitability and returns over rental days or market share.

We believe this was the right decision, and we made it knowing it would affect the shape of our second-quarter. Most notably, with fleet as a scarce resource this quarter, we made the deliberate choice to optimize for revenue per transaction versus revenue per day. Put simply, we accepted fewer one-day rentals, which carry an RPD premium in order to fulfill more weekly business.

When supply is tight, longer duration rentals create better overall transaction economics because they reduce turns, handling costs and operational complexity. If we had maintained the same length of rental mix as 2Q '25, RPD would have been up nearly 3% year-over-year. Instead, RPD was essentially flat. That was a deliberate trade-off and the economics showed up in revenue per transaction, which was up 6% year-over-year.

Last quarter, we said that our expectation was for the World Cup to be a clear travel tailwind, particularly in host cities. That expectation was broadly shared across the travel industry, but it did not play out the way we expected. That is not in our control. What we can control is how quickly we adapt and our teams did that well this quarter.

Our adjusted EBITDA outcome was in line with our initial expectations, but the path to get there was very different than we anticipated. That has implications for how we will manage the third-quarter and the same principles will apply. We will stay disciplined on fleet, protect utilization and prioritize returns over volume. I'll elaborate on that later in the call.

Before I turn it over to Daniel, I want to briefly touch on three additional items that are important to shareholder value and the strategic direction of the company. First, on Pentwater. You'll recall that last quarter, I spent time addressing the volatility in our stock price and the trading dynamics involving our second largest shareholder. We are pleased to report that Avis and Pentwater have reached a settlement agreement related to short-swing profits under which Pentwater agreed to pay Avis $650 million in cash.

We believe the settlement represents a fair resolution of the dispute and a meaningful recovery for our shareholders. The settlement remains subject to final court approval, but we expect this matter to be resolved by year-end. Second, our partnership with Waymo reached an important milestone with the launch of autonomous ride-hail operations in Dallas.

Our teams assumed operational responsibility on July 1. And since then, we have delivered thousands of trips while steadily scaling both operation and the fleet. I want to recognize our AV team for the work they have done to build this capability the right way with the right people, processes and resources. We are now taking the early lessons from Dallas and applying them to a repeatable operating model, one built around uncompromising safety, world-class customer experience and operational excellence.

Third, Avis First, our premium first-class rental offering, continues to gain traction. Since our last update, we expanded the program to additional major airport locations, including Orlando, Washington Dulles, London Heathrow, and Paris Charles de Gaulle. We also broadened the vehicle portfolio with high-demand models, including select Mercedes and BMW vehicles.

Customer satisfaction remains strong with an average rating of 4.9 out of 5 stars, underscoring the value proposition and the momentum we continue to see in this segment. Each of these items is important in its own way, but they all support the same broader goal, creating better value for shareholders through disciplined execution, stronger customer experiences and new capabilities that can scale over time. With

that, let me turn it over to Daniel, who will provide additional detail on the quarter.

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

Thanks, Brian. Before I discuss the results in detail, I want to highlight a few key takeaways from the quarter. The second-quarter demonstrated the operating leverage of the actions Brian described. Despite a softer-than-expected demand environment and fewer rental days, adjusted EBITDA grew year-over-year, and we delivered our highest second-quarter adjusted EBITDA margin in the last three years.

We also achieved record second-quarter utilization globally with both the Americas and International improving sequentially and year-over-year. Importantly, we delivered two consecutive quarters of positive global RPD growth for the first time in 12 quarters. With that context, let's review each of our segments, starting with the Americas.

In the Americas, adjusted EBITDA grew 7.7% year-over-year on revenue that declined 1.9%, resulting in approximately 100 basis points of margin expansion. That performance underscores the fact that disciplined fleet execution can support profitability even in a softer demand environment. As demand built during the first-quarter, we observed encouraging signals across both RPD and rental days, particularly in World Cup markets. That dynamic changed quickly early in the second-quarter.

As Brian outlined, we made a strategic decision to proactively right size the fleet in response rather than wait for conditions to deteriorate further. The revenue decline was driven primarily by a 2.1% decline in rental days, which reflected our intentional decision to operate with a fleet that was 5.4% smaller year-over-year. Rental day pressure was most pronounced in our inbound segment, which declined 5%. Importantly, the decline in rental days was significantly less than the reduction in fleet.

That gap was driven by a 250 basis point improvement in utilization, reflecting stronger operating execution across the network. Even with continued no-fix recall constraints, Americas utilization reached 73.2%, our highest second-quarter utilization level in company history. The utilization improvement validates the investments we have made in technology and the changes we have made to operating processes.

It also demonstrates that our fleet discipline is delivering measurable operational returns. RPD, excluding exchange rate effects, increased 0.2% year-over-year. While that was more modest than the growth we delivered in the first-quarter, the underlying drivers are important. With fleet as a scarce resource, we deliberately shifted mix toward longer duration, higher contribution transactions.

Absent that length of rental and other shift in mix, Americas RPD would have increased approximately 3% year-over-year. This marks the first time in 12 quarters that the company has delivered two consecutive quarters of positive global RPD growth, and the inflection is even more pronounced in the Americas, where we had not achieved consecutive quarterly RPD growth in 16 quarters.

We view that as significant because it suggests that the RPD erosion experienced since the post-pandemic peak in 2022 has stabilized. The industry appears to have adjusted to the realities of higher interest rates and elevated vehicle costs contributing to more normalized pricing dynamics. At the same time, RPD is only one measure of transaction economics. RPD has long been used as a proxy for profitability.

And all else equal, higher pricing supports higher EBITDA margins. But across segments and channels, all else is not equal. Commission rates, miles driven, accident propensity, transaction length, handling costs and depreciation all affect the ultimate profitability of the transaction. As we continue to evolve our asset management approach, we are increasingly focused on optimizing contribution and return on assets rather than simply maximizing headline RPD.

Ultimately, we are solving for EBITDA, contribution and return on assets, not simply RPD in isolation. This quarter, we also continued to manage through significant recall-related constraints. Like the broader industry, we were impacted by extensive recall campaigns in July 2025, which grounded approximately 4.6% of our fleet at peak impact.

While we expected to have cycled through most of that pressure by the second-quarter, we were notified in April 2026 of additional recalls from three different OEMs, resulting in a total of approximately 18,000 grounded vehicles that exceeded the approximately 15,000 grounded vehicles we exited 2025 with. Year-to-date, recalls have represented more than $50 million of directly attributable costs before considering lost profit.

This was a material headwind in the first half and will continue to affect the business in the second half. That said, utilization improvement we delivered despite those constraints reinforces the strength of the operational execution in the quarter. Our decision to accelerate dispositions early in the quarter also proved important from a residual value perspective.

Rental demand began to soften while we were still in the seasonally strongest period of the used car market. We leaned into that market strength, accelerated disposition and reduced exposure to residual value risk. While that decision affected revenue, we believe it ultimately protected shareholder value. Because of the elevated sales activity in the quarter, per unit depreciation was unusually low at $301 per unit.

Under a more normalized sales pattern, we estimate per unit depreciation would have been approximately $320. Now let's turn to our International segment. Our international segment faced a more challenging operating environment in the first half than the Americas. Revenues, excluding exchange rate effects, declined 2.5% year-over-year and adjusted EBITDA declined 11% year-over-year, further pressured by higher variable costs associated with our mix shift.

Rental days declined 2.9% year-over-year, which was a 100-basis point improvement from the first-quarter, but still below our expectations. We anticipated weakness in commercial segments as we cycled through the structural mix shift actions executed in the second half of 2025. However, the weakness was more pronounced than planned with strategic accounts declining 10% year-over-year.

Geopolitical developments, particularly Middle East tensions also pressured inbound travel to Europe with flight capacity down as much as 38% in April and May. RPD, excluding exchange rate effects, increased 0.4% year-over-year or plus 2.2%, excluding the impact of Zipcar

UK whose operations we suspended. RPD growth decelerated sequentially, reflecting a less constructive rate environment than in the Americas.

Elevated fleet supply in several key international markets created additional industry capacity and placed pressure on pricing. Vehicle registration grew more than 10% in several of our largest European markets. We remain committed to our mix shift strategy toward higher return leisure demand. At the same time, we recognize that leisure demand can carry higher selling costs.

Our focus is to continue improving mix while reducing the cost to acquire that demand over time, which reinforces the importance of further developing our own digital channels. With that, I'll turn to our leverage, liquidity and outlook. As of June 30, we had more than $1 billion in available liquidity and approximately $1.9 billion of fleet funding capacity.

Our net corporate leverage ratio of 7.4 times is down 100 basis points since year-end in 2025. We remain focused on deleveraging towards normalized levels during the balance of the year and expect to reduce leverage by at least a full turn of adjusted EBITDA by the end of 2026. This quarter, we have successfully addressed our near-term debt maturity profile, executing several refinancing transactions that strengthened our financial position and extend our debt maturity ladder.

On May 29, we issued $300 million of senior notes due in 2031. The proceeds were used to partially redeem our senior notes due in 2027, reducing that maturity from $650 million to $350 million and providing meaningful flexibility heading into year-end. On June 29, we extended the maturity of our $2 billion revolving credit facility from December 2028 to June 2031 and added a temporary $200 million facility through June 2028 or upon receipt of the Pentwater settlement proceeds, further strengthening our liquidity position.

Beyond the corporate debt refinancing, -- we also executed tactical refinancings across our vehicle financing programs. In June, we issued $650 million of AESOP term ABS debt, $200 million of Canadian term ABS debt and renewed our CAD 580 million Canadian bank facility. The term transactions were oversubscribed and closed at the tighter spread levels than the next most recent transactions, demonstrating continued capital markets confidence in Avis Budget Group.

Most significantly, we expect to receive $650 million in proceeds from the Pentwater short-swing profit settlement. While this settlement is contingent on court approval, making the timing of payments uncertain, we expect to receive the funds by year-end and plan to deploy a portion of the proceeds towards retiring by year-end the remaining $350 million senior notes due in 2027.

Our debt profile includes several attractively priced tranches maturing in the near and medium term. Rather than retire these low-cost obligations early, which would not be economical given current refinancing rates, we intend to take an opportunistic approach. We may refinance these lower-cost tranches closer to them becoming current, provided we have the liquidity on our balance sheet and a clear path to refinancing.

In summary, we are pleased with how the second-quarter turned out and how our team reacted to the changing market conditions. During the first half of 2026, we exceeded our adjusted EBITDA plan, and we entered Q3 our peak season demand with strong operational fundamentals. As a result, we are reiterating our full year guidance of $850 million to $1 billion in adjusted EBITDA.

With that, I'll turn it back to Brian.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Thanks, Daniel. In summary, the business environment has changed, but our operating principles remain consistent. We are pleased with how our team has navigated the second-quarter, and we are managing the third-quarter with those implications in mind. Because we accelerated fleet dispositions in April and May, our third-quarter availability will also be lower than our original plan.

We expect fleet in the Americas to remain down by a similar amount year-over-year with utilization efficiencies offsetting a portion of that impact on rental days. Given that we are in our peak demand period, we will not have the same opportunity to generate gains from incremental fleet sales that we had in the second-quarter.

And with the fleet remaining tight, we expect to continue prioritizing longer duration, higher-value transactions over shorter rentals that may carry a higher RPD but create less attractive overall economics. As a result, we expect the third-quarter to look similar to the second-quarter in several respects, lower fleet, strong utilization, disciplined transaction mix and an RPD that is roughly flat year-over-year.

Overall, we are entering the quarter with better operating discipline than a year ago. We have a tighter fleet, stronger utilization and a cleaner cost base and sharper focus on returns over volume. Those are the factors that give us confidence in year-over-year adjusted EBITDA growth in the third-quarter and support our full year adjusted EBITDA guidance of $850 million to $1 billion. The environment remains dynamic, and our outlook does not depend on a broad demand recovery.

We are managing the business based on the same principles we demonstrated this quarter. When the facts change, the plans have to change with them. We will stay disciplined on fleet, protect utilization, prioritize profitability and returns and continue building a business that can deliver across different demand environments.

With that, operator, we'd be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank AG - Research Analyst*

So Brian, I think I understand the rationale for cutting fleet. The demand picture clearly changed. But I guess the question is, given that you have a fairly high fixed cost structure on the operating side, is there anything you can do if this is going to -- if this lower demand situation is going to persist, is there anything you can do to start or further attack costs on the DOE side? And then I have a follow-up.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Chris, so from our perspective, cost discipline is foundational to everything we do. We understand the makeup of our business. And as a levered company with a lot of operating leverage around the business as well, we need to control that which we can control, which is cost. So starting from the beginning of the year, that was an area of focus for us.

So from a cost basis, we think that actually is what helped contribute to our profitability growth this quarter despite a lower revenue. We expect that to continue going forward. What I will say is that there are core operating costs, which we have really tightened our belts on. Then there are costs that flow into DOE that have to do with investments into our, kind of, future growth, yes, in terms of technology and new resources for our operations and improved processes.

We are continuing to make those investments. And the way that we think about it is that the cost discipline around our everyday expenses is what helps fund the investments that we're making. So we think we're taking a balanced approach to this while monitoring what's happening in the overall revenue environment.

Chris Woronka - *Deutsche Bank AG - Research Analyst*

Okay. And then shifting gears a little bit on AV. I know you guys have rolled out Dallas. But as we see some of the rideshare companies, at least one of them start to invest in AVs, does it ever reach a point where you guys have to kind of make a decision on in terms of ownership of these and placing orders for autonomous? I mean, does it feel like that decision-making process is being sped up at all for you guys?

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Chris, sorry, before I answer your question, one thing to note. I robbed our AV operators by a month of operations. I think in the prepared remarks, I said that we took over operations for Waymo in Dallas in July, we actually took over in June. So I just wanted to clear that up. In terms of your question about purchasing the fleet, I don't think that anything is being accelerated right now in terms of having to make that decision.

The environment in the ecosystem is still evolving currently. I think what we're trying to do right now is make sure that we develop the relationships directly with both the AV providers and the vehicle providers to give ourselves both options, whether that is kind of just managing a fleet on someone else's balance sheet or purchasing the vehicles ourselves. At this point, it's too early to make a call one way or another, but we are keeping both options open.

Operator

John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Brian, I wanted to ask just a little bit more about the decision to kind of realign fleet in Q2 and kind of how that plays out in Q3. You made a point of calling out the 3% kind of like-for-like pricing that would have been achieved. Now that the fleet is kind of, I would assume, right sized, do we get back to kind of a normal RPD contribution of the company in Q3 relative to like the market?

And I guess my thought process is if the fleet is down and the market is still okay, like, should we expect a positive RPD development here in Q3? Or are investors kind of getting ahead of themselves thinking about that for the quarter?

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

John, from our perspective, listen, the demand environment weakened, let's say, I wouldn't say that the travel demand is weak, though. So what we're seeing in TSA is down roughly 2% month-to-date in terms of emplanements. That's off from what we had expected, but I wouldn't characterize that as, like, a foundational weakness over here, and you're seeing strength in different pockets of the travel ecosystem.

The 2% decline in the TSA emplanements is different from our 5% decline in fleet. So -- and we said that in the prepared remarks that you should expect kind of similar-ish decline year-over-year in fleet. So we expect to be kind of in that mid-single-digit range, which is lower than what we think the overall kind of demand environment is.

Given that, the dynamics of Q3 will still kind of look like the dynamics of Q2 where fleet is constrained. So given that, we are going to prioritize longer duration rentals in the third-quarter as well. We think that this is having a positive contribution to our overall EBITDA margin. And even though the headline RPD number is higher for these shorter duration one-day rentals, given the fact that we are going to be fleet constrained in Q3 and we are managing towards profitability, we need to take some of these longer length rentals.

So I think that the dynamics that you're seeing in Q3 will look like what they see in -- but overall, like I said, if we were not making these shifts in terms of length of rental mix, the overall environment is up 3% for us in terms of like-for-like segmentation. So overall, it does seem like a fairly stable environment. It's just a little bit of noise given the changes that we're making to our fleet mix given the supply.

John Healy - *Northcoast Research - Analyst*

Understood. That's helpful. And then just kind of one financing-related question. You guys are always very active on both the fleet side and the corporate side. And I'm just trying to think about some of the moving parts for 2027. Any way you could kind of think about kind of the headwind or tailwinds of kind of some of these financings just kind of on the interest expense line, both corporate and fleet, maybe hypothetically for next year?

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

John, this is Daniel. A lot of the refinancings are going to come due in the medium term have been put in place quite a while, and they are predominantly fixed rate. So the refinancing cost is likely going to be higher than what we have. It will depend a bit on the tranche, but 100, 125 bps is probably our expectation. And so that's why I was mentioning in prepared remarks that as those come due, we're going to potentially stretch a little bit how long we hold on to them and just delay that transition.

But that's the new environment we operate with. And I think it's not impacting us only. And as I was mentioning, we do think that it's playing to some extent an effect in the price environment in the two quarters of sequential RPD growth that we've had and that we have not seen in a long time as a result of higher interest rates, higher legal costs and so on.

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

John, I would just add that we're very well aware that the next maturity we have after paying down the $350 million is 4.75%. And hence, why we were putting the funds in the fleet for now, right, as Daniel was saying, and taking as long as we can to pay that piece down. So we're managing that interest as best we can. And -- but what's foundational for us is to make sure that our debt maturity ladder does not stack up like, that is something that I think is really important, and we'll make sure that we're doing things at the right time at the right moment at the right cost.

John Healy - *Northcoast Research - Analyst*

Okay. And just a clarification, you said that 125 bps would maybe be an expectation? Or I wasn't sure. I wasn't clear on that.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. It will depend a bit on the tranche, but that's generally what we're seeing for the near term.

Operator

Dan Levy, Barclays.

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

So in this environment where demand is a bit weaker and you've made the strategic move to tighten the fleet. Maybe you can just talk to what your competitors are doing as well as far as operating with certain fleet levels? And maybe if you could just talk to the broader competitive environment that you're seeing, especially given one of your competitors is going through some questions on liquidity.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. Let me answer some of that -- answer what I can at a high level and then Daniel, you jump in. From our perspective, I think if you had told me that international inbound travelers was going to be down 8% in the second-quarter, yes, with the World Cup happening, right? I don't think anyone planned on that. The -- and from our perspective, given that we are a rental car company that does the majority of its business on airports, like the ground truth that we follow is those TSA check-ins and the international travel data, like that can't be argued. So what we saw happening, we were keeping a close eye on.

And I think that we made the call fairly early that demand was not playing out the way that we thought. It was also a situation where like you could choose like the used car market was constructive in the seasonally strong period of April and May. We had a bird in hand over there. And we thought that given the volatility that we've seen in terms of earnings like with the fleet write-downs that have happened over the last two years, playing with a bit of margin of safety was the right decision.

So what we did was, as this was developing, we made the decision that we're going to take fleet down and harvest some of those residual gains. Again, like I said, I think this is something that we caught earlier when we saw this demand shift. Overall, I think some of our competitors have seen this -- have taken a similar approach as the months progressed. And after the 4th of July, we're seeing industry supply begin to rationalize a little as well.

So I think the supply-demand dynamics are better aligned today going into August than they were going into May. For us, there's still several important weeks of summer left. We're focused on optimizing every day of that demand. And what I would imagine -- what I would say is that given the stability we're seeing in the pricing environment, we think that the industry is rationalizing as well.

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

I would just add then a little international perspective where some of the dynamics Brian described are also present, but we saw in some of our key markets, a significant increase in new vehicle registration by rental car companies, something in the order of 10%. We acknowledge that this is not a full picture, we don't have visibility of the deletes, right, that may be offsetting some of that.

But we do see the inflow of new vehicles. That paired with significant declines from inbound travel, especially from the Middle East. I think it's creating a scenario market there that is a little bit more competitive than we have experienced in North America. We also expect that to continue in Q3.

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

Okay. Great. As a follow-up, there's been a lot of questions about one of your technology vendors that I think you had discontinued the relationship with them and then there was a press release last night that there was an agreement. And I think there was -- I think a lot of excitement on the potential profit benefit. I think some people were putting out upwards of $100 million a year.

So maybe you could just talk to -- I mean, now that they have a press release, I don't know if you can comment on the potential benefit that you see on pricing or what approach you're taking? And then more broadly, are you taking a different look at your broader use of vendors and spend and what that could do on the DOE line?

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

I'll take that one. After we submitted a termination notice, management of reengaged, right? We had for conversation. We were able to find a path forward, as you saw in their announcements, right? The position was generally pretty simple, right? We wanted to have control over the customer journey. We wanted to have more flexibility in the operating model. That we had and a better customer experience around tolling and the related products.

With this new management, we're able to reach in terms of preserve those vehicles, allowing vendor to remain a provider of ours. And we think it's a pretty constructive outcome for ABG. It gives us continuity, and it allows us to manage the economics in a way that's aligned with our long-term objectives.

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

Is there something you can talk to as far as that and broader initiatives to streamline spend? Could this lead to material profit benefit?

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

The effort here on tolls, I think, is representative of other efforts that we are undertaking across the P&L. So major programs around vehicle damage, insurance, licensing and registration. I mean those are substantial line items for us. And just like with those, we had a very disciplined approach of reevaluating the entirety of our operations, how we perform those services internally, externally with one vendor, multiple vendors. Those are all conversations we're having across the board.

In terms of expectations here, I would just point out that those are relatively complex parts of our operations. So we intend to chip at them very consistently over the quarters, but those are not simple fixes. Those are not changes that happen overnight.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. And I can just add also that given the new technology that's available to us, we are taking a broad-based look at where we can improve the products that we're delivering to our customers. So yes, cost efficiencies are important, and we want to make sure that we get the best deal possible out there. But ensuring that we are delivering better products for our customer and delivering a better customer experience and being more efficient as a company is also, I think, something that we're evaluating on a regular basis.

Operator

Rajat Gupta, JPMorgan.

Rajat Gupta - *J.P. Morgan - Analyst*

Just had a question on -- just a couple here. But the first one, just on the Waymo partnership, two months into the operation in Dallas. I'm wondering if you could double-click on what role you're playing as a fleet manager and maybe highlight some of key early innings learnings? And are you already making any incremental investments for autonomous vehicle fleet management in other regions ahead of potential contract conversions?

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. So Rajat, I think like what we're -- in terms of taking over as part of operations in Dallas is similar to what we had described when we first announced the partnership. So in terms of revenue generation and the AV technology themselves, acquiring the customers, that's on Waymo. I think everything after that is on us to making sure that the vehicles are properly maintained, that they have optimized uptime.

They're in charge of all the real estate infrastructure. And from our perspective, like we are investing in Dallas, particularly in more efficient kind of real estate footprint to make sure that we're delivering on all the service levels that we have committed to. Dallas is an important milestone because we're learning what it takes to manage an operation of this complexity safely, reliably at scale.

And the near-term focus for us is execution on Dallas. But over time, we want to make sure that we turn this into a repeatable operating model across additional markets, and we're in discussions. And we think that this is going to be a meaningful strategic capability for the company. But we're going to be disciplined about it. We're focused on Dallas today. We're evaluating future markets, and we'll keep you posted as things develop.

Rajat Gupta - *J.P. Morgan - Analyst*

Understood. That's helpful. And just a follow-up on recall, a three-point headwind utilization in the second-quarter. Could you give us any visibility on how you might see this easing through the remainder of the year? And how should we think about any impacts from DPU pricing, et cetera?

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

So maybe a quick comment, right? As I mentioned, we have today or have had in Q2 a bigger impact than we had exiting Q4. The availability of parts hasn't been plentiful, but what we have visibility is right now is that over the second half, we'll probably have slightly over half of the impact that we've had so far, something a little bit north of $50 million year-to-date.

So about half of that for the balance of the year, right, assuming the parts continue to become available at the rates that the OEMs have promised. In terms of DPU, this is a little bit of a drag on the vehicles that are on recall tend to have 20%, 30% or higher DPU than the average. So that has, let's say, slowed down the improvement in DPU that we've had in spite of, as I mentioned in the quarter, we have had unusually low DPU because of the incremental sale activity that Brian described.

Operator

Chris Stathoulopoulos, Susquehanna International Group.

Christopher Stathoulopoulos - *Susquehanna International Group, LLP - Analyst*

Brian or Daniel, where are you in your -- the fleet purchase program for '27? I think conversations typically start around mid-year, perhaps the spring before. And is there anything unique as we think about pressures or not with respect to the OEMs, things like supply chains, et cetera?

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Chris, you're right in terms of timing. Typically, this would start in the spring in earnest with a lot of our OEM partners, especially the manufacturers. After COVID and how dynamic the supply chain became, this has been pushed out throughout the course of the year, and it's kind of stabilized that way. So right now, I would say that we're mid-innings with our OEM partners.

We have a fair number of contracts that are inked already with certain manufacturers, but there's still a lot more to go. We've not been hearing from our OEM partners anything out of the ordinary in terms of supply chain issues. It's been a fairly normal, I think, yes, environment from that perspective. But listen, the topic on everyone's minds is recall and availability of cars.

And so we're evaluating total cost of ownership from our perspective, understanding which OEM partners that we want to lean in more heavily with and that deliver a reliable product, and that's going to be reflected in what we can afford to pay for this product.

Christopher Stathoulopoulos - *Susquehanna International Group, LLP - Analyst*

Okay. And then, Daniel, thank you for the commentary on the supply commentary on the international market. If I heard correct, I think, Brian, you said that the supply-demand dynamic as a whole today or at least where we are in the third-quarter is a bit more balanced. But I took the comments around international to sound perhaps a bit tougher versus domestic.

I want to make sure that I heard that right or if there's anything unique. I heard about excess registrations and things like that. Just wondering if you could give a little bit more color on the international side.

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

Yes. I don't have a ton more to add there. What I think we saw is that in the Americas, maybe just to tease out the contrast, right, we were more actively making tweaks to the mix, right, LRs and channels and so on to increase or maximize EBITDA margins, and that was a result of having fewer vehicles, right? We do not have the same dynamics in international.

So the mix-related changes are not as present with the exception of Zipcar UK that tended to push RPD up because of the nature of the business, right, like short rentals, higher dollars per hour day and that business will continue. So if you compare the about 2 points of RPD growth that we had in the quarter to the about three-ish that we had in the prior quarter, there was a small deceleration in the RPD environment.

And as best we can tell, this is driven a bit by the combination of having a bit more supply in the market, right, as measured by the increasing registrations and at the same time, a lower amount of inbound travelers that were coming into Europe, right? So that I think is what's pressing maybe a little bit the RPD side of the equation in international and making -- capturing the data a little bit more competitive.

Operator

Lizzie Dove, Goldman Sachs.

Lizzie Dove - *Goldman Sachs Group Inc - Analyst*

A lot of helpful commentary here. I guess just to kind of tie it all together, you maintained the guidance range of $850 million to $1 billion. Thinking about your comments that we might see a continuation of Q2 into Q3 on the revenue side that continuing decline. I don't know if that continues for the rest of the year, some of the DPU benefit you've got unwinds. Could you maybe talk about what's embedded elsewhere in the guidance and how you think about what gets you to kind of the low end or the high end of that range?

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. I'll take a first crack and then Daniel can chime in. But Lizzie, what you said is exactly correct. I think about Q3 as a continuation of the same operating posture that we had in Q2. So fleet will still be down, I think, down in the same kind of mid-single-digit range that we saw in Q2. And so we're definitely not planning the business around volume growth.

So because of that, that's going to put some pressure on rental days and revenue. But we showed in the second-quarter that fleet being down does not translate one-to-one to rental days being down. So we're going to continue driving utilization. That's been a focus of ours and especially in the new technology that we've implemented, the new processes that our operating teams have put in there, we think that's a sustainable benefit that we can continue into the third-quarter.

So we're entering the quarter with tighter fleet, better utilization, again, a focus on cost. We're going to make sure that we maintain as efficient cost base as we can and a focus on these higher contribution transactions. So similar kind of length of rental mix dynamics. We think that the overall RPD dynamic is going to be constructive in the third-quarter, but we're planning for roughly flattish pricing in Q3.

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

On the fleet size, Lizzie, I would just add that even though we exited the first half a little bit above plan, there was a little bit of pull forward here on the gains related to fleet rotation, right, which is why this performance year-to-date doesn't necessarily translate into an increase in our expectations for the full year, right? In addition to, as you know, Q3 being a quarter where we make the lion's share of our earnings and small fluctuations in RPD can have a substantial impact in the quarter, right? So we think we're still in the range. But obviously, the next month or two here will definitely tilt the scale one way or the other.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

From our perspective, Lizzie, I think we've done what we feel is the responsible decision to understand what the demand environment looks like and fleet slightly below that. I think the delta between the lower and the higher end of the range is going to be if the industry look at it that way as well.

Lizzie Dove - *Goldman Sachs Group Inc - Analyst*

Makes sense. And then I guess just considering balance sheet cash flow, hopefully, you're going to have this pretty nice settlement from Pentwater coming. I guess with that context in mind, assuming you get it and just where leverage is at right now, I think somewhere in the seven times range. How do you think about kind of the right ratio for you, where kind of capital allocation priorities would be with that settlement or just other cash flow otherwise and how to kind of think about that long term?

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

Lizzie, we exit '25 at 7.5. We're now at 7.4%. I think there's full acknowledgment from us that this on the high end of the spectrum is not where we want to live or stay. We're definitely prioritizing deleveraging, right? We expect during this year, a combination of debt repayment and EBITDA growth to reduce it by more than one turn and we will not be satisfied with that. We will continue to prioritize it as we go forward, right? So that, I think, is the direction.

In terms of the levers, right, we are expecting, as you mentioned, the fund from the settlement, we will allocate this to debt repayment, and that will definitely contribute. Other than this, we're pulling all the other levers that you would expect, right? We're working on cash flow in general, being very tight on CapEx and being very disciplined on where we allocate our capital.

We're working on some working capital levers to improve cash flow generation. And we've been allocating every bit of excess cash flow to debt repayment. So those are the levers we control, obviously, and growing the company also has a big impact on the medium-term deleveraging efforts.

Operator

Stephanie Moore, Jefferies.

Stephanie Moore - *Jefferies LLC - Analyst*

Congrats on the good quarter and certainly the utilization performance. I do have a three-part question, but bear with me because I promise I all work together here. But -- so first, maybe you could give us more specific actions or examples of what technology and other changes you have made in the last several quarters that have enabled you to better respond to the weaker demand environment and keep these utilization returns so robust?

And then how does this just change to the prior actions on the company? I think that color would be helpful. And then the second part of the question is, what is your outlook for the used vehicle market over the next six to nine months? And then third, putting that all together, let's say the demand environment does remain somewhat subdued and used vehicle prices maybe start to moderate or fall, how would Avis respond with your new tech and best practices in place in that scenario? So a lot there, but I think it kind of goes together.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

I'll take a first stab at and Daniel can chime in. In terms of the tech investments, Stephanie, this is a journey that we've been on for several years now actually. It has to do with an overhaul of our entire tech stack within operations, and it focuses around having better visibility around fleet. So I think connected car has been talked about for ages. But if it's not connected to anything on the other end and a platform that allows you to make efficient decisions, like there's not a lot of benefit to that.

So I think what we've been implementing is a brand-new platform that now is in the vast majority of our Americas business, I think over 90% of our Americas fleet is now running on the new platform, just a better way for our operators to manage the fleet that they have. And this has a lot to do with just kind of the asset management side of our business about being efficient with those assets that we manage. Can you sweat your assets? So it has a lot to do with minimizing unrentable days and unrentable vehicles.

So quick turns around the supply chain, making sure there's no leakage around shuttling in order to run the tightest fleet possible while delivering on the rental demand. Again, like I said, we're still rolling this out. Certain markets are more experience with these new tools than others. And we're going to continue to invest in this. The good news is that it's on a SaaS platform.

There's a dedicated team here that's focused to optimizing it, and we're version 1.0 here. As we develop this, this is something that's likely to do a deeper dive on in a future earnings call, but let me leave it there for now.

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

And Brian, maybe just jumping in. The impact of that is massive, right? So we spoke about the 2.5% improvement in utilization. If we adjust here for the recalls that are unrelated and frankly, there are no parts that's not much the operations team can do, utilization would have grown about 5.3 points in the quarter, and we would be at all-time high in any quarter, any period in the Americas here. So the impact here is pretty substantial.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

In terms of the used vehicle outlook, this is the period seasonally, every year where you see kind of a pullback in terms of used vehicle prices. I mean, look at any curve you want in any year for Manheim besides like the weird ones post-COVID. But it's modelable. What you see is an increase April, May and then the curve degrades into the end of the year. And so from our perspective, it seems like a relatively normal year. We had planned for this.

And so what you see is a -- like I think what you see in terms of gross depreciation that you put in the year, the equity that you have in the fleet might change throughout the year, but the gross debt that you're putting into the fleet has to account for the entirety of the curve. You're not switching that quarter-to-quarter depending on, at least from our perspective, on how we model the end residual values. So listen, the used car market seems okay, right? It's what we expected at the beginning of the year.

And month-to-month, we continue to model and reforecast, and we put into the fleet to have that margin of safety to be able to sell vehicles when we need. Stephanie, can you remind me of your third question again that dovetails from that second question?

Stephanie Moore - *Jefferies LLC - Analyst*

Yes. Sorry, I kind of hit you with a lot there. I guess the third one is, let's just assume used vehicle prices start to moderate. What would be the scenario? Or how would you respond based on some of the new investments and actions that you have put into place would help maybe manage that environment. So let's just say used vehicle prices moderate and demand also remains subdued.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. Listen. I think the way that you get around that, kind of, that scenario where if demand is weak, you have to get out of cars. Like there's -- that's the responsible thing to do. In order to be able to get out of cars, even in a weakening demand environment, you have to build a cushion into the fleet. So from our perspective, we're trying to be conservative in terms of how we our vehicles.

Again, even in a declining -- overall declining market, it doesn't decline the same way for all vehicles. I think the technology that we've put in place allows us to better understand what we want to hold today versus sell today, what we want to elongate the length on, what's worth it to put in additional supply chain dollars to lengthen the life of the vehicles. All of that is at our disposal today.

And from our perspective, given what we've seen on the fleet side, on the balance sheet side over the last two years, this is the one thing that we cannot compromise on. We have to make sure that our fleet position and the financial health of our fleet and AESOP are rock solid. And that's what we've been doing all year. That's what we'll continue to do regardless of the demand environment.

Operator

Andrew Percoco, Morgan Stanley.

Andrew Percoco - *Morgan Stanley - Analyst*

Just one on my end. I think you mentioned that RPD was impacted by a longer duration within the transactions in the quarter and that you expect that to continue, I guess, through the balance of the year. I'm just curious like what gives you the confidence that's going to happen? And maybe what are you seeing on the customer side that's ultimately driving that?

Because that to me seems to be like more of a consumer and customer-driven dynamic versus something that maybe you guys can control yourselves. So just curious if you can provide any more kind of color on the dynamics there.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Sure. Andrew, one clarification. We expect that our length of rental mix is going to be impacted in the third-quarter. I wouldn't say that it's going to be for the balance of the year. We don't know what the fourth-quarter yet is going to look like on that front. And I think the biggest thing that gives us confidence, think about it as you look at it in terms of cohort of business. You have one -day rentals. You have two- to four -day rentals. You have 5- to 14-day rentals, whatever it is, the different cohorts we look at.

On a cohort-by-cohort basis, RPD is up across those different cohorts. Now by different magnitude on different cohorts, but they're all universally up. One-day rentals carry a significant premium. two-day rentals carry a significant premium versus a week-long rental versus a monthly rental. And so we don't think that this is something that's structural from our perspective, just given the fact that our fleet is down right now, we took a conservative approach and that our fleet is down more than transient demand is.

We need to be choosy about what demand that we do take in. And in this period where we are constrained, we're choosing to optimize for revenue per transaction versus revenue per day. So listen, RPD, obviously an important metric. This quarter, I don't think it tells the full story. What gives us confidence is we are selecting what business we take, and we're choosing to shape the curve this way for the third-quarter in terms of our business mix. This isn't something that we expect to be consistent over the long term. That's right.

Daniel Cunha - *Avis Budget Group Inc - Executive Vice President & Chief Financial Officer*

And I would just add that you get to do this when we're very busy, right, during the peak of the season. Obviously, in Q4, as demand seasonally slows down, you have a smaller ability to influence the mix and be more choosy.

Brian J. Choi - *Avis Budget Group Inc - Chief Executive Officer*

Yes. I think the takeaway from our perspective is that overall, the underlying pricing environment still fairly constructive. It's similar to what we saw in the first-quarter. It's just not fully reflected in our reported RPD figure because of the mix we choose to manage towards.

Operator

This concludes the question-and-answer session, and this will conclude today's conference. You may disconnect your lines at this time, and we thank you for your participation and be well.
