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CAR.OQ - Q3 2024 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Chris Woronka *Deutsche Bank AG - Analyst*

John Babcock *BofA Securities - Analyst*

Elizabeth Dove *Goldman Sachs Group, Inc. - Analyst*

Ryan Brinkman *JPMorgan Chase & Co - Analyst*

Christopher Stathoulopoulos *Susquehanna Financial Group - Analyst*

John Healy *Northcoast Research Partners - Analyst*

Dan Levy *Barclays Bank - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group third-quarter 2024 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. At this time, it is now my pleasure to introduce David Calabria, Treasurer and Senior Vice President, Corporate Finance. Thank you, sir. 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 Joe Ferraro, our Chief Executive Officer; and Izzy Martins, our Chief Financial Officer. Before we begin, I would like to remind everyone that we will be discussing forward-looking information, including potential future financial performance, which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information.

Such risks and assumptions, uncertainties and other factors are identified in our earnings release and our 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 Ferraro - *Avis Budget Group Inc - President, Chief Executive Officer*

Thank you, David. Good morning, everyone, and thank you for joining us today. Yesterday, we reported our third quarter results which delivered quarterly revenue of nearly $3.5 billion and adjusted EBITDA of $503 million. As we discussed on our last call, we need to bifurcate the impacts of nonrecurring fleet gains, higher vehicle interest and decisions made to improve our utilization.

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Our primary goal has always been to keep fleet inside of demand. We have taken the necessary steps to adjust our fleet size throughout the year, which allowed us to continue to improve utilization with this quarter finishing nearly 2 points above our prior year.

Driving utilization is necessary given the high level of this year's fleet carrying costs. We are also focused on reducing the overall holding costs for the model of the year 2025 buy to drive a more profitable outcome going forward. The fleet buy is continuing to progress with expected holding costs well below what we have achieved in recent years. We'll talk more about this in the Americas segment.

The demand for our business remains robust with global third quarter rental volume in line with third quarter 2023. We have been consistent with electing to focus on higher-margin business, particularly when, as an industry, we are in a higher vehicle cost environment, and we believe it makes more sense to rationalize the fleet than to take a lower priced incremental rental.

Price was down 2% for the quarter overall, with the Americas nearly flat and a 2-point improvement from this year's second quarter. We will continue to execute this strategy as necessary to prioritize higher-margin business.

Before I dive into the results in greater detail, I'd like to thank our employees for continuing to deliver the exceptional service during our summer peak season while driving further operational efficiencies. Through their hard work and efforts, we continue to generate record Net Promoter Scores from our customers.

With that, let's begin as we usually do, with details around our Americas segment. The Americas generated more than $2.6 billion of revenue in the third quarter with $384 million of adjusted EBITDA. Rental days in the Americas were down 2% compared to the third quarter of 2023. As I mentioned earlier, this is where we made the choice to balance both price and demand.

We took the measured approach to volume and focused on higher-margin business. In doing so, we elected to forgo lower-margin business. As I said earlier, in times like this, where fleet costs are outliers to our historic norms, it makes more sense for us to pass on lower priced business, especially from brand-agnostic customers. We believe this demand is discretionary, and we would always be able to attain this volume to meet our target vehicle utilization and scale going forward as fleet costs become more normalized.

Keeping this in mind, we will continue to monitor our industry and make calculated decisions to prioritize price over volume when it makes sense by utilizing our proprietary demand fleet pricing system. Pricing was nearly flat compared to the third quarter of 2023, but up 28% compared to the third quarter of 2019, showing the relative strength of pricing in our industry. Price improved sequentially from the second quarter to the third by 2 points compared to the same period in 2023 as we transitioned into the summer peak.

As a matter of fact, our US business was closer to flat in the quarter. We kept our fleet inside of the demand, which allows for the most optimal price outcome. This strategy has resulted in ongoing improvements in our vehicle utilization. Our utilization in the Americas was nearly 72%, which is more than 1 point higher than the third quarter of 2023.

We will continue to improve as we implement further operational enhancements and remain laser-focused on our fleet discipline. We anticipate strong vehicle utilization in the fourth quarter that surpasses any fourth quarter in our history. We are on track to start 2025 with substantially fewer cars than we started in 2024.

I want to take a moment to talk about our ongoing model year 2025 fleet buy, which is progressing well. While we are not yet fully complete, we are moving closer to our anticipated model year target. As we said in the past, we believe that new cars will become more affordable, and this has proven to be true. We expect purchase prices will be below what we achieved during the pandemic years as OEM supply constraints and production schedules have normalized.

Our OEM partners are fully aware that we are in the market for vehicles. However, we also need to stay disciplined with regards to return on invested capital, and only commit to fleet deals that meet our acceptable rates of return. We will continue to cycle out of older model year cars and make room for the model year 2025 new vehicles.

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Thankfully, there's a wide array of vehicles that meet both this criteria. The OEMs have been strong partners to our company and our collaborative approach and similar goals allow both companies to win when deals are structured appropriately. We appreciate their support and remain committed as ever to the productive partnership we've had over the decades. Overall, I'm happy with our progress on the buy, and we'll share more details on our next call once the buy is fully completed.

So to recap. The Americas had revenue of more than $2.6 billion and adjusted EBITDA of $384 million. We continue to maintain our fleet discipline by taking the necessary steps to align with demand, ensuring our fleet drives higher utilizations and allows us to maximize profitability.

Based on our model year 2025 fleet buy, we are well positioned to have lower holding costs as we rotate in the new fleet. We saw a robust volume in the quarter, and we'll continue to prioritize higher margin business as we remain selective regarding lower-margin brand-agnostic customers.

As we shift into the fourth quarter, October normalized towards the back half of the month after the effects of the hurricane. However, the demand in the Americas surrounding the holiday season looks particularly strong for the Thanksgiving and Christmas holiday periods based on current reservations, and we believe price will transition seasonally as it normally does from the third to the fourth quarter.

Let's shift gears to International. International generated $840 million of revenue and $139 million of adjusted EBITDA in the third quarter. Revenue was up 1% compared to prior year, driven by a 5% increase in rental days. We continue to see robust international inbound and inter-European cross-border travel as we have talked about on our previous calls.

This strategy generates higher-margin business as these customers tend to book more in advance than domestic travelers, keep the cars longer and often take additional ancillary products. This quarter, not only was our domestic travel of 3% in Europe, but our higher-margin inbound and inter- European cross-border volumes grew by approximately 14% as compared to the same period last year.

This drove a year-over-year increase in our leisure business. As we transition to the fourth quarter, advanced reservations are strong and trending positively, with demand stemming from inter-European cross-border and inbound travelers once again.

International's pricing for the quarter was down 5%, excluding currency impacts compared to last year, and up 25% compared to the third quarter of 2019, again showing the relative strength of pricing in our industry. However, on a year-over-year basis, pricing improved sequentially, with September showing the quarter's best improvement.

We anticipate pricing to be nearly flat in the fourth quarter compared to the fourth quarter of 2023. As noted on previous calls, our proprietary demand fleet pricing system is now fully operational in our European business. And as expected, we realized both utilization and price benefits as the system focuses on contribution margin.

Vehicle utilization continues to be a priority as we realize higher utilization in each of the first 3 quarters of 2024 compared to the same periods in 2023. This quarter's utilization was 73.7%, up over 3 points compared to the third quarter of 2023. We continue to believe that our fleet is adequately positioned and ready to meet the fall and winter demand and similar to the Americas, we expect our fleet size at the beginning of 2025 to be under our prior year's level, making room for new model year vehicles.

Europe is a popular destination for cross-border travel, and as I mentioned before, our fourth quarter reservation showed this strength and price improvement.

Technology is an integral part of everything we do and enables us to continue to enhance our customer experience, and I would like to discuss our new customer app that was launched in October.

Our new app has a refreshed look and feel with a more dynamic user experience that adapts to our customers' journey, providing them relevant information at every step. The app features a new rental dashboard that will give customers quick and easy access to book reservations, do their trip details and all of the key actions from the home screen.

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Customers will also be able to continue reservation from previous searches, track their loyalty points progression, continue to choose their vehicles to better enhance their rental experience, exit the gate with the use of their phone and manage their account effortlessly. We have a number of exciting new features that are planned in our pipeline to be released in the future, which we believe will enhance the customer experience further by integrating our touchless rental and other ancillary product offerings.

The new app updates aim to increase app downloads, boost conversion rates and drive revenue growth through our direct channel reservations. We are confident that these enhancements will make our customers' car rental experience smoother and more enjoyable.

I also want to give an update on our progress improving our operational efficiencies. We continue to enhance our process by leveraging our data analytics and on the ground systems to increase throughput and improve productivity.

These systems and processes allow for better forecasting and scheduling needs by location to optimize labor mix. We continue to face wage inflation and focus on labor initiatives helped to offset these pressures. We expect to continue to realize these savings through the remainder of the year.

As I mentioned on our last call, we have set ambitious goals to target sustainable vehicle utilization performance through better understanding of the disposition of every vehicle within our control. We believe task-based analytics delivered to our operations and maintenance teams will allow for better understanding of our vehicle dispositions, drive more timely repairs and improve vehicle movements, all designed to create more available fleet.

We are currently piloting these digital tools in key cities throughout the country and early results are promising. These and other operational efficiency strategies enabled us to maintain operating and SG&A expenses on a per rental day basis, consistent with the third quarter of last year. A great achievement given inflationary pressures.

So to conclude, we generated $503 million of adjusted EBITDA for the third quarter. We continue to maintain fleet discipline, which has allowed us to improve vehicle utilization year-over-year. We expect historically high utilizations in the fourth quarter in the Americas.

Our model year 2025 fleet buy is largely complete. We have seen lower prices closer to pre-pandemic levels, which will position us with sustainably lower holding costs as they enter into our fleet. We will prioritize high-margin business while balancing a certain level of scale. The holiday demand looks strong, and we expect price will transition seasonally in the Americas and flatten out internationally.

Overall, our cost efficiencies help us mitigate inflationary pressures on operating and SG&A expenses on a per rental day basis. The Americas and International teams are well positioned and prepared to close out the year strong.

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

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

Thank you, Joe, and good morning, everyone. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in our press release. As usual, let me start by discussing our third quarter earnings. We earned $503 million of adjusted EBITDA in the quarter. Once again, we need to bifurcate the impact of nonrecurring fleet gains and greater vehicle interest. Last year, we had more than $650 million of fleet gains with $145 million in the third quarter alone.

These oversized fleet gains were a holdover coming out of the pandemic, and as I have previously stated, the gains will not replicate given that these were a byproduct of the post-pandemic supply chain imbalance. Our ongoing priority is to consistently size our fleet in line with demand to maximize higher-margin business and strengthen revenue per day.

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During the quarter, as we focused on these strategies, rental days were slightly less than we originally anticipated. In order to align our fleet demand, we sold more units in the quarter than forecasted. Pulling these sales forward generated a loss of approximately $40 million as compared to $145 million of gains last year. The year-over-year quarterly variance from the disposition of vehicles alone was more than $185 million.

Our straight-line depreciation increased from approximately $292 to $347 per unit per month. The increase in holding costs resulted in more than $100 million in incremental fleet expense year-over-year. As always, we constantly monitor the market and make any adjustments as needed. In the fourth quarter, we expect to have the opportunity to buy late model year vehicles at favorable prices. Assuming we take advantage of these opportunities, we anticipate pulling forward more vehicle sales into the current year.

Therefore, we estimate our total company gross depreciation per unit per month will approximate $350 for the fourth quarter, but could vary based on the opportunities presented in the fourth quarter. We will continue our discipline to have fleet inside of demand, and we will continue to dispose of fleet as required plus remain flexible in adding new cars.

Our model year '25 fleet purchase is more affordable. Since we are largely complete with our negotiations, we can say holding costs should improve. We believe, over time, our depreciation rate will return to historic levels as we rotate out of the older fleet, which we purchased during the supply-constrained pandemic years and in-fleet the model year '25, which represents a more normalized fleet buy. In our year-end call, we will have more to say about the impact our model year '25 buy will have on our earnings.

Now shifting gears to vehicle interest. Last quarter vehicle interest was a $72 million headwind, while this year, it was $33 million as compared to the same period in 2023. We expect our interest per unit per month to be a similar amount in the fourth quarter as compared to the fourth quarter of 2023. In total, our fleet holding costs inclusive of vehicle interest expense account for more than $320 million of our year-over-year decrease in adjusted EBITDA.

When looking at direct operating and SG&A expenses per rental day, our per rental day expense remained flat as compared to the third quarter of 2023 despite inflationary pressures. We continue to invest in our technological improvements to further drive cost efficiencies, generating margin contribution. We reinvested nearly $40 million into our core business or nearly $150 million year-to-date.

The majority of our capital allocation strategy is designed to drive higher contribution through improved revenue and other operational efficiencies in our business. In the quarter, volume was relatively flat, but revenue per day was down 2%. The end result was nearly an $85 million reduction in year-over-year revenue. As a result of these factors, our adjusted EBITDA was $503 million for the quarter. The actions we have taken throughout this year, including reducing our fleet size and cost mitigation strategies has positioned us well going forward.

As we mentioned on our previous calls, we are normally back-half allocators when it comes to share repurchases. We made the conscious decision to repurchase approximately 526,000 shares for nearly $43 million through October 30. As always, we will continue to balance our capital allocation between reinvesting in the company and returning capital to our shareholders.

During the quarter, we issued $700 million of senior notes and used the proceeds in October to repay outstanding borrowings under our secured Term Loan C. This allowed us to reduce our secured borrowings and provide us more flexibility in our ability to refinance in the future. As of September 30, we had available liquidity of over $1.2 billion, including committed and uncommitted facilities, with additional borrowing capacity of approximately $3.2 billion in our ABS facilities.

After giving effect to a reduction in our asset-backed variable funding financing facilities effective November 1, our net corporate leverage ratio was 4.7 times after giving effect to the Term Loan C repayment. We continue to be well laddered with our corporate debt, having no meaningful maturities until 2027. Additionally, we are in compliance with all of our financing facilities.

As you can see in the first nine months and in prior quarters, our priority remains driving operational efficiencies through the appropriate capital investment plus investing in our fleet. The fleet investments are in the form of reducing the amount of debt we issue against our fleet size. In total, we have the ability to issue more than $1 billion of debt out of our AESOP financing structure, which represents further liquidity cushion for our company. This provides us strong ongoing flexibility and we will continue to evaluate the best use of this capital going forward.

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Now let's move on to outlook. As Joe mentioned, our continued focus is to keep fleet in line with demand, which will allow more efficient use of our assets, drive higher utilizations and allow us to start next year with less cars than we did this year. We will maintain our flexibility to acquire new vehicles as well as dispose of others should the opportunity arise.

Our '25 buy is going well and almost complete. We expect lower holding costs as we transition these vehicles into our fleet. Demand around the holiday periods look strong and price will move seasonally in the fourth quarter as it normally does.

As I mentioned earlier in the year, nothing below $1 billion of adjusted EBITDA is acceptable to us. This year, we have experienced unprecedented challenges in fleet costs and vehicle interest as they are the highest in our history and the year started with a broader industry being overfleeted, putting pressure on revenue per day. However, despite these challenges, we have still achieved nearly $730 million of adjusted EBITDA or nearly $850 million, excluding approximately $120 million in uncharacteristic fleet losses. We remain focused on achieving $1 billion in adjusted EBITDA this year, excluding fleet losses. We will give more details regarding fleet costs and our future earnings potential in our next call.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Chris Woronka , Deutsche Bank.

Chris Woronka - *Deutsche Bank AG - Analyst*

So Joe, I know -- I think as you just mentioned that you expect your fleet cost to begin trending back towards historical levels, knowing that won't happen all at once. But when we think about your comments on the '25 fleet buys and what you might do in the fourth quarter, I know in 2019, your Americas DPU is sub-300 per month, I think, closer to 280. I mean is that the benchmark to think about again, not for any one period, not fourth quarter or next year, but is that where it can trend back towards? Is that a fair way to look at it?

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

Chris, I know you directed your question, Joe. So let me take the first half of it. I think you're thinking of things correctly, right? It's all about what we think it may be given we are materially complete with the model year '25 buy. But I still think there's a lot to go through. There's still a lot of math to figure out in the fourth quarter given the opportunities that are presented to us.

But I don't think your analysis of thinking about where we are -- where we were in 2019. I think though the 2019 levels were still a bit too low compared to what we're initially seeing. But anything, call it, significantly better than what we saw, for example, this quarter, right?

This quarter, our gross depreciation was $347. I guided to $350 for next quarter, keeping in mind the most important thing for us is to keep fleet inside of demand. And to give the business the flexibility to sell more than maybe we have forecasted right now. Make room for more to come in sooner rather than later. And last but not least, try to figure out how all that math comes down to the bottom and becomes a more normalized fleet cost. Yes, closer to 2019, but I wouldn't say at the 2019 level.

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Chris Woronka - *Deutsche Bank AG - Analyst*

Okay. Appreciate that. And then as a follow-up, there's obviously a lot of in the industry. We're hearing more about robo taxi and moving a little closer on autonomous. I was hoping that you could maybe comment on what you're monitoring going forward? And is Avis going to be in a position to possibly participate in that? And I guess I would also extend that to ride share. And as the industry landscape evolves a little bit, it's something you guys haven't done as much of, but is that possibly on the table as another avenue for growth?

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

Chris, this is Joe. I'll answer that. So I'll start off with the last point on ride share. We don't talk about it much, but we are active in the ride share business segment. We've been growing that business year-over-year pretty substantially. And like I said a couple of years ago when someone asked -- we look at that on a margin basis.

So we're pretty pleased with our results so far on that. And as that business grows, we are certainly a participant in that. And that does add to rental days for sure as those customers keep the cars for a good period of time. I'm happy to say that as we look on a per unit basis, it is a profitable group of business and growing.

So I'll answer that one that way. As far as other tech-related stuff, we are always monitoring that. And when you think about our company in general, as things start to progress and you talk about autonomous cars and things of that nature, we're perfectly situated to handle something like that because -- we, first of all, we have the cars. We know how to fix cars. We hold them in depots all around the United States, and we have the ability to move them as see fit.

So as that starts to develop and it gets more prevalent, you can all see us probably participating something like that. But right now, we're taking a view of where it is and where it's going to be and also thinking about how we would manage the logistics or something like that, which I said earlier, we are in a perfect position to do because of our infrastructure, because of our knowledge of how to deal with cars, supply and demand and what's the difference about picking up a car in Manhattan at a depot or having it delivered to you from one of our depots all over the New York area to your personal home so. More to come on that, obviously.

Operator

John Babcock with Bank of America.

John Babcock - *BofA Securities - Analyst*

I guess just first of all, on the hurricanes. I know you didn't call it out, but -- and so I assume the impact -- well, actually, sorry, I guess it's going to be more of a 4Q thing. But could you just talk about how the impact of the Florida hurricanes is going to impact Avis, but also how it's also going to impact the dynamics for the broader rental car market, if at all?

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

Yes, sure. I'll take that. Hurricanes, when they happen, especially what happened this quarter, they start off not being very good for anybody because the airports shutdown, the planes, canceled flights and since we're predominantly an airport-related business, that has a challenging effect on us. In this particular case, the sequence of hurricanes was difficult because you had one that hit Florida, the end of September, which we actually took a little bit of a rental day hit in the quarter because of that. And then you have followed it up with another one a week or two later.

And the rhetoric surrounding the second one was going to be historic tidal surges and things of that nature. And based on the first one, which had pretty significant damage through Florida and up into the North Carolinas. I think the municipalities took a very active role in making sure there were evacuations and things of that nature.

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So when something like that happens, you have problems three days or four days before as people start to think about not traveling, and then you have problems during the cancellation of flights and then for a period of time later, where people are unsure whether they want to go into those restricted areas. But what normally happens after that is also positive, right?

As a company, we've rented many cars to people through hurricanes and other related aspects to get them back home, in this particular case, evacuate from certain areas. So you have that benefit, of course, the ability to have cars leave. But we always felt like we were a car rental company. We had an obligation to traveling public. And so we make our vehicles available. And people took them to wherever they thought was safe. The second aspect is that there comes in what normally happens is for relief workers, whether that be Red Cross or FEMA or municipalities who are using cars for various different reasons.

There's a number of those vehicles, which we have on the road right now and will continue for a long period of time, which helps to also mitigate the shutdowns that we've faced early on. And lastly, I think you see a dynamic that the people in those areas tend to rent cars, whether it be off airport or in other places, which changes the dynamic of supply and demand at airports. I will tell you this, after the hurricanes hit, for example, the state of Florida, those places got tight for various different reasons.

And tight fleets in a place like Florida is always helpful. So while you lose initially, it's a matter of time and periods after that, that you tend to make up, whether it be through rentals in other segments or the tightness of fleet that usually occurs. Early to tell how that's going to transition as we go through, but it will be effective throughout the remaining part of the quarter. I hope that helps.

John Babcock - *BofA Securities - Analyst*

That's perfect. And then just last question. As you're thinking about some of the -- kind of moving forward, what gives you confidence that as DPU and other operating costs that you can control come down that ultimately pricing could hold up. And I know you talked about focusing on higher margin volume and so you'll get some mixed benefit from that. But generally, I mean, how would you have us think about pricing in a lower cost environment for the broader rental car space?

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

Yes. Look, we're incredibly focused on our margin, right? And for us, our rental days -- our costs were in line with our rental days, which is, I thought, a pretty good result considering the inflationary impacts that we've been dealing with. We have a number of initiatives that we deal with internally every day to manage our cost lines. For example, just in our vehicle lines, when we look at in-life costs, those are related to parts and supplies. We have efficiency areas going on that deal with how we procure parts and tires and glass and things of that nature.

We look at it down to the location level. We have productivity systems that enabled us to offset wage inflation by being able to have more productivity by having proper scheduling. We go down to scheduling during shifts and by location. So there are a number of things that we're -- that we looked at. We have connected car, which gives us a better performance on gas recovery. So that as gas prices, whether they increase or not, we're able to recover at a level that allows us to improve on our gas vehicle gas vehicle gas cost.

I mentioned that we're working a pretty big initiative on improving our overall utilization through digital aspects that allow us to know the disposition of every vehicle in our fleet. We believe that if we do that and have task-based analytics that go to our location management team, we'll be able to get more cars on the road without having to buy more.

So those are some of the things that I think about in particular how we manage the business and day-to-day. Lucky we have teams of great experienced leaders in our business that allow us to execute on a very, very high level, some of these initiatives that we are putting through. And I do believe that if you think about price, the last point about price in our industry, over the years, it's been pretty stable given the ebbs and flows of what happened pre and post COVID.

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Operator

Lizzy Dove with Goldman Sachs.

Elizabeth Dove - *Goldman Sachs Group, Inc. - Analyst*

I just wanted to talk -- ask about competition in the industry. We've had a couple of quarters where Americas volumes have been lower than kind of what we've seen in terms of like TSA volumes. It feels like just higher competition from your big nonpublic competitor. Could you kind of share the latest of just kind of what you're seeing there and how that impacts how you think about volume trends, particularly in the Americas going forward?

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

Yes. We -- our plan this past quarter was, we wanted to focus on price, target higher-margin business and keep the fleets tight, which drove utilization. I think when you looked at our company over the first couple of quarters, the utilization wasn't exactly where we would have wanted it. So we were able to get to that. And that drives a more certain outcome when it comes to RPD.

And I believe in this environment, and we believe in this environment where our per unit costs were high and rising in our interest costs as well. It would behoove us to pass on maybe a low margin rental or even have an unused car in a lot. We've been talking about that on a number of calls for the quarter. And so running a highly efficient fleet process is critical to our success. And we were able to do that. Our goal was to get our fleet in line with demand and also get our fleet younger, and we transitioned out a lot of vehicles in the early part of this year.

Now if you ask about competitors and things of that nature, if we pass on business, we felt it was brand-agnostic business, business that's discretionary that we could potentially get any time we want. And we are somewhat -- we are protective of our scale, and we know where we stand. And if you look at it compared to 2019, our quarterly business was up double digits. We might have just taken our business different ways over the past couple of years.

And if you think about TSA volumes compared to '19, we're well ahead of that as well. So I think we're in a good spot. We took actions in the quarter because we wanted to minimize our holding cost, keep our fleet in line and going out. And I'll just add one other comment about -- everyone bought cars in '23 and '24 at high prices, and probably went into this year with more cars than they would have liked. And does that put pressure on things?

Of course. But we made a conscious effort to get rid of our cars, and I think everyone else is going to do that as well because the buy -- the '25 buy is materially better, and it behooves us to get cars in at those lower prices and transition out other cars. So if you're asking me my opinion, while we acted this way in the way we saw it in this quarter, I think the industry on a whole kind of normalizes over time.

Elizabeth Dove - *Goldman Sachs Group, Inc. - Analyst*

That's helpful. I appreciate the color. You also gave a lot of helpful commentary around kind of the outlook for pricing, DPU, costs. I guess putting that all together, and I hope I'm not misremembering. I think you've said in the past that 1 billion -- $1.1 billion is kind of the floor of how you see normalized EBITDA going forward. Has anything changed about that outlook?

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

It's Izzy. Just to be clear, nothing has changed on that outlook. I'll just maybe consolidate it in the thoughts we've had in our prepared remarks and some of even the questions that came up today, right? As you can see, fleet and interest costs are at a historic high. So as they normalize, of course, we'll see benefits. Plus the operational efficiencies that we've been talking about that are really -- are well underway that too will provide benefits, not to mention the improved pricing power that Joe just mentioned.

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And last but not least, as we said in our prepared remarks, we intend to keep the fleets tighter than where we started last year. So we'll have less cars starting the new year. So all of those things combined, we are laser focused and have seen no issue in us being a sustainable $1 billion company.

Operator

Ryan Brinkman with JPMorgan.

Ryan Brinkman - *JPMorgan Chase & Co - Analyst*

I just thought to check in on capital allocation, including after -- during the pandemic and the chip shortage, you high inflation and low interest rates, you allocated a considerable amount of your record cash flow towards repurchases, including when your shares were higher. Subsequently, although your share price is lower, given that the interest rates were much higher, you pivoted more towards retaining those costliest detranches of your securitization saving on interest expense.

I'm just curious now, things are changing a bit again, all right, with the share price even lower than when you made the pivot towards the fleet purchasing there. And the interest rates coming back down seemingly? Just curious if you're feeling any differently again about the options available to you, either as a result of your ongoing free cash flow or even the equity cushion that you've built up in those fleet facilities?

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

I think when you think about it, our main theme has always been to remain flexible. So that's not going to change. We want to continue that flexibility when it comes to capital allocation. Investing in our fleet, obviously, was a bigger priority and always was, but continues to be a priority for us. I think the other thing to think about is as you progress through the year, we also mentioned about allocating cash to our operational efficiencies, right?

All of those require some type of investment. I wouldn't say we just started those this year. We were heavy allocators, and call it, investing in ourselves to start reaping those rewards. We continue to do that. And as always, buying back stock will be also on the top of our list. But I think now it's also about how we invest in ourselves and really bring through more and more operational efficiencies in the future.

Ryan Brinkman - *JPMorgan Chase & Co - Analyst*

Okay. And I know you mentioned the hurricane. Obviously, it was a big deal. Is there anything to think about in the fourth quarter with the election? What would impact has that had sort of historically and how might that rate to sort of disruption maybe that could occur in the fourth quarter versus what had occurred in the third?

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

Yes, I'll take that. There has been a lot of talk about the election and travel-related businesses. The way I see it, there's nothing different than this national election than we've seen in the past. I think the one 4 years ago, happened during COVID, so it may not have been relevant, but one 4 years before that was similar to the one I suspect four years from today will be similar. I mean what happens during a national election is that people tend to stay home, either they want to vote and they -- or they want to watch the results and see what happens.

There's nothing abnormal about that. It happens quite frankly, every four years. But I will say about volume in general going out. I like the way the calendar falls in the quarter. And to say that we have Veterans Day, which is on a Monday, you have Thanksgiving, which is the last possible week, it could be in the month of November and Thanksgiving is a big holiday, which by having it the last week, it doesn't disrupt two days -- two weeks' worth of travel. So I think you get an extra week kind of in November. I'm pretty bullish on the Christmas holiday and the fact that it's going to be longer.

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Having a holiday that -- New Year's Day is on a Wednesday. Most people will not come back to work, Thursday or Friday, which -- gives you great length on a period of time where you have usually high demand and some good pricing. So while there has been disruption in the quarter and notable disruption when it comes to hurricanes and a national election, there are some things that are happening that will certainly mitigate some of those activities, as I said just now.

Operator

Chris Stathoulopoulos with Susquehanna International Group.

Christopher Stathoulopoulos - *Susquehanna Financial Group - Analyst*

So Joe, of course, correct me if I'm wrong here, but this fleet buy cycle feels different from those perhaps since 2019 for a lot of reasons. Obviously, we know about the supply chain here and with the OEMs. But at this point, are we at a point, I guess, where you go into these negotiations and outcomes are kind of more predictable or kind of more where you're able to realize better outcomes. And I realize this is a very general question. I'm just trying to understand sort of the dynamics of this buying cycle versus the prior, let's say, four and ultimately, read through for kind of how we should think about holding costs for the fleet in '25 and beyond.

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

I think the abnormality with the fleet buying cycles, as you mentioned, had a lot to do with the past couple of years. And the supply chain imbalances, as you suggest, as long as -- as well as the shortage of vehicles. All of our companies in our industry exited a lot of vehicles during COVID, and that put a lot of pressure on us trying to restock our inventories.

And unfortunately, during a period of time where prices were more expensive than we had in the past. It seems like this year, however, when we went into this year, things have gotten more normally back to where we were historically. Does that mean '26 buy is going to be that way? I'm not sure.

But it seems like the '25 buy is significantly more improved than the previous two and more in line with what we've seen pre-COVID, which I think is great. What I do know is that while we are almost done with our buy, there are still being cars offered as there are cars right now in certain OEMs that have high inventory levels that may be wanting to transition those out before the end of the year. And they're fluid as well on their production and delivery schedules. And we'll be in the market to keep looking at that as we look at our fleet rotation.

So I was pleased with the buy. I like particularly the fact that the vehicles are variable in nature, many different makes and models and trim levels that support the rental car experience. And for me going forward, I think what happens in this particular case and how quickly we can rotate our fleets in and out and get some of these new lower costed cars in will affect our monthly cost very positively.

Christopher Stathoulopoulos - *Susquehanna Financial Group - Analyst*

Okay. And as my follow-up, so I think Brian has been in this role now for about a year or so. And so we've seen all this workaround demand and pricing analytics. You mentioned the app. Where are we in this journey of transformation? And what are some of the initiatives as we look at '25 and beyond that we should think about as it relates to things around revenue or fleet or perhaps apps locations. Just want to understand where we are and some of the highlights of sort of things to come?

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

Sure. It's hasn't been quite a year yet, but you're right, Brian, we did put Brian in that role. I'm very pleased to have him in that role because he has this incredible ability to digest data and come up with innovative ways for us to improve our processes. Think -- if you think about what we concentrate on most critically as a company and how we want to transform, there are three elements. The first is about fleet.

We just talked about that a minute ago. So Brian is very much involved with the team looking at data analytics and residual value curves and things of that nature as well as how it affects our balance sheet, et cetera, on the fleet buy. So I would say that's number one. Number two is about operational efficiency. And someone asked me a question just a minute ago on a number of the things that we are looking at, and I talked about there is no secret.

If we -- we are extremely focused on our variable cost lines and getting them in line with our overall business. And we're working on a number of different initiatives, whether that be productivity at our stores, whether that be in-life vehicle costs on our cars, whether that be damage and salvage recovery, whether that be overall utilization, and I touched on that.

We have a number of initiatives going on right now that is looking at how we can best let our operators know the exact disposition through technology of each of our vehicles because if we do, do that, we believe that we have a better way to get them in from a state of disrepair into a state of repair as well as being moved to the locations that have the best opportunity to put them on the road.

If you think about vehicle utilization, a point of utilization is worth a good deal of operational EBITDA to our company. So that's another area that we're focused on. And the last one does have to do with revenue, right? How we can retool our systems. There are a number of people who are part of that, retool our systems so that we have the best contribution outcome.

We are continually investing in our demand fleet pricing system that will allow us to look at business segments and business opportunities and take reservations into our funnel and then distribute them out to the appropriate locations at the exact best price opportunity and volume opportunity that we can. So you hit on it. Fleet, operational efficiency as well as revenue generation through better contribution margin are the three areas, and you will see significant growth in those three over the years to come.

Operator

John Healy with Northcoast Research.

John Healy - *Northcoast Research Partners - Analyst*

I just wanted to ask you kind of a philosophical question, Joe. I think about what we're hearing on the call from you guys is optimism that the fleet cost number is going to come down next year, and that the buy is going to be better. The benefit of rate, you guys have sold off cars and it tightened up capacity. So I guess as I think about all of those things, I mean it's an encouraging backdrop going into next year.

But would love to just kind of hear how much can that fleet buy rotation truly bring down holding costs in '25 because my thought is you're going to still have a sizable amount of cars that are higher DPU than you'd like in your fleet? And just hoping you could kind of give us some direction on how much the fleet cost number could come down maybe in the 6- to 12-month period just as you rotate out. So that would be helpful.

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

Sure. Yes, we're just completing the buy now. So those exact calculations that you're talking about will be thought about in the next -- as we complete our business plan. You're right. One buy cycle may not tell the totality of the story, but it's a start. And we took out a good number of vehicles early this year. If you think of -- you guys look at our fleet -- our average fleet sizes. So a couple of hundred thousand cars, give or take, a year come out and get rotated out. So there's still a couple -- certainly more to do next year.

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But I think the thing that I look at is how would be as nimble and flexible as we can with both our dispositions as well as spot buys. There are buys that happen more so than we actually think right now, that will enable us to rotate out quicker. But for us, we try to get a head start by getting out of some of those challenges.

You know all of us, at least for us, we bought cars at a higher price. We bought used cars over the pandemic that we needed to get out of. So we did a lot of that flushing out early this year, but it will take us a bit longer to kind of get our hands around that. More to come as we as we give you our expected DPUs for the '25 business plan in next call, John.

John Healy - *Northcoast Research Partners - Analyst*

Sure. And I guess just a follow up kind of in the same kind of direction. When you think about the business, if your fleet costs next year are lower, your financing costs are lower, does that create a situation where maybe investors should be thinking about -- you thinking about the spread in the business on rental as opposed to a metric like pricing is being important next year. So if we're talking about inventory costs going lower, is it misguided for investors that have an expectation that RPD levels should be similar or going higher. It's flat RPD, the new up in a deflating inventory cost model for you guys.

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

I think the way I would think of it is how we measure the business and call it those metrics really shouldn't change. So you're going to have to take everything in totality, right? So obviously, fleet and interest is one important thing. We also have rent expense that increases people cost, although all those operational efficiencies we talk about is supposed to -- is not supposed to, is mitigating and we continue to mitigate it.

And I think it's all the components of the expense lines offset by the revenue. And the most important thing being that revenue per day stabilizes. I think you could see in the actions we took in the quarter that positions us for quarters to come and our discipline around that. It's really always going to come down to all the metrics and not over-indexing on one over the other, but importantly, how they all contribute to more margin on the bottom line.

Operator

Dan Levy with Barclays.

Dan Levy - *Barclays Bank - Analyst*

I wanted to start with a question on your fleet buy. I think we know that the backdrop in the auto industry right now is that there is a few automakers that are heavier on the inventory side, especially amongst the D3, and wondering to what extent there's maybe an extra willingness from some of the OEMs to be a bit more aggressive on the pricing side?

And then just as a follow-up on that, is there any risk that -- you seem to be fairly disciplined on your fleet side, but that maybe some of your competitors are getting exceedingly good deals and could take on extra fleet because you have OEMs that are a little more keen on clearing inventory.

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

I'll take that. We have an extremely diverse portfolio. We deal with all the OEMs, and we have different makes and models that we procure and put into our fleet. And there are deals that are happening. That's why I say we're almost complete because there are deals that are happening as we speak. Here is what I think about the overall industry allocation which I think is important. It's basically, give or take, a certain amount of vehicles going to be the same in '25 as it was in '24.

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And that's my opinion. So it's not going to be like there's this enormous amount of vehicles that are going to be provided to the industry as it seems -- as it stands right to today. There will always be outliers that suggest, hey, I have a couple of cars you guys want to take them or not. If that happens, we'll be participating in that as well. So I do think that there is discipline by the OEMs and what they provide to the rental industry. You can look at the SAAR as an indication of what they believe is going to be sold as internationally.

And for the industry, I see it as relatively unchanged year-over-year, give or take. And so like I said, we are a participant in any and all deals that come as long as they meet our criteria on return on our capital investment is why I see it. And our '25 fleet buy looks to me, started off really well and we're back to historic norms, where deals work that way, work best for both parties.

So I don't see that there's a whole lot of OEMs that are willing to just dump cars, but there have been spot buys. I believe there'll be more as time goes on, I think the fleet sizes will be relatively what they sell to the industry, relatively in line. And like I said earlier, I'm very pleased with our '25 buy. It's -- we got our -- at least the buyback to historic norms, which worked for all of us.

Dan Levy - *Barclays Bank - Analyst*

And as a follow-up, somewhat related, you're clearly committed to having a tight fleet. Maybe you could just talk about what you're seeing from your competitors on fleet tightness. One is facing maybe some questions on liquidity. I don't know to what extent that's impacting the fleet tightness. The other one is just on that is maybe a little heavier on the fleet and it moved some cars from off-airport to on-airport. So just maybe the broader industry fleet tightness, and any color would be appreciated.

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

Yes. Sure. As I said a little bit earlier, everyone bought cars that were highly higher priced in '23 and '24 and probably went in with more cars than they would like, largely due to the challenges of residual values towards the end of last year. We did -- we decided to get out of those cars and get out of them quickly. And that was right for our business.

With the new cars coming in that are more advantageous than they had in the past, it makes sense for everyone to kind of get their hands around that and do that as well. So as I said earlier, I think over time, that starts to rationalize. So -- and I do believe that we have businesses -- just for us, that we have brands that allow us to participate well in all areas of our industry. We have the Avis brand that appeals to both the business and leisure customer.

We have the budget brand that was predominantly leisure. We have brand, people who want to rent more infrequently. So I do think we have the brand and the positioning and the investment in our app and our direct channels plus the relationships that we have with exclusive partners, both airlines and proprietary relationships with big associations.

I think that bodes us well for our ability to allow us to put cars on the road in a meaningful way. So the combination of our book of business, the brands that we have as far as well as I believe the fleets will start to rationalize in our industry, the fact that I don't believe the fleet buys are going to be much different year-over-year. I think that bodes well for all of us.

Operator

At this time, we've reached the end of our question-and-answer session. I'd like to turn the floor back to Joe Ferraro for closing remarks.

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

Yes. Thank you. So to recap, we reported a strong third quarter with improved vehicle utilization through ongoing fleet discipline. Our model year 2025 buy is largely complete, and we expect to have substantially lower holding costs as these vehicles rotate into our fleet.

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We'll continue to prioritize high-margin business while balancing volume. The holiday demand looks strong, and we expect price to transition seasonally. Our teams around the world are well positioned and prepared to close out the year. And as always, I want to thank you for your time and interest in our company.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may now disconnect your lines at this time.

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