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CAR.OQ - Q2 2025 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Company Summary

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Stephanie Moore *Jefferies LLC - Analyst*

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PRESENTATION

Operator

Greetings, and welcome to Avis Budget Group's second quarter 2025 earnings call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, Mr. David Calabria, Senior Vice President, Corporate Finance and Treasurer for Avis Budget Group. Thank you. You may begin.

David Calabria - Avis Budget Group Inc - 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 are 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 on 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 make no guarantee 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 Choi - Avis Budget Group Inc - Chief Executive Officer

Thanks, David, and thank you to everyone joining us today for our second-quarter earnings call. It's great to be back and to have the opportunity to regularly connect with our investor community. Let me start by introducing Daniel Cunha, our new Chief Financial Officer, who joined us on July

1. Daniel started his career as a management consultant, became an investment professional in private equity, and finally settled in on the operational side as the CFO for two companies prior to joining Avis. He is a strategic thinker with real operating chops, and we're thrilled to have him on the team. Daniel is less than a month in, so to the analysts on this call, please don't scare him off during Q&A. We have high hopes for him here.

We're taking a slightly different approach with these calls going forward. You may have noticed, we issued a financial supplement alongside our usual earnings release yesterday. That document includes the key highlights and financial details we would typically cover during this call. You all know the format we followed in the past. This segment grew this much for an X percent increase. That line item moved slightly from here to there. But let's be honest, you can do the math. You don't need me to go through a roll call of data points. There's a better way for us to use this hour.

So today, I'd like to elevate the conversation. Let's move beyond the myopic month-to-month trends and instead focus on where we're taking Avis Budget Group. What opportunities are we prioritizing? Where are we investing resources? How does this all fit into our broader strategic vision? These are the questions that truly determine whether a company is expanding its moat or simply treading water.

To be clear, we fully recognize the importance of consistent financial execution. Delivering on quarterly results is foundational. The sound of the cash register ringing consistently is what buys you the right to take a long-term vision. So meeting our financial expectations should be table stakes. The results of our operational performance should largely speak for itself with minimal interpretation or story to spin. I believe that's the case this quarter. So let's spend this time instead getting into how we're thinking about growth and opportunities at Avis.

Let's clarify something, though. Cyclical growth and opportunity comes and goes as the macroeconomic winds blow. Structural growth and opportunities, though, that comes from value creating innovation. Avis Budget Group has been around for 75 years. If we want to be an enduring franchise for the next 75 years, we must take on value-creating innovation as a core responsibility today, a responsibility to our customers who deserve better services that aren't just reliable but exceptional, a responsibility to our teams who need new tools and technology that empower their visibility and productivity, and a responsibility to our industry overall, to grow the size of the pie instead of jostling year-to-year for a slightly bigger slice.

These aren't abstract fortune cookie phrases to us. We're putting this commitment to practice, and we're doing it now. Let me provide a tangible example of this by introducing you to Avis First. Avis First is our new premium product offering that defines what first class is for car rental.

What does that mean? Well, picture this. You arrive at the airport, grab your bag, walk out the door, and find an Avis First concierge is already there waiting for you. He comes over to take your bag, hand you a bottle of water, and walk you all of eight steps to get to the car at the curb. It's exactly what you asked for, latest model year and low mileage with that new car smell. It's 90 degrees and humid outside, but it's a crisp 68 degrees in your car because it's been preconditioned with the air on and the seat coolers running.

The concierge make sure that your phone's Bluetooth connects seamlessly and the car play screen pops up on the dash with your map and playlist ready to go. Before you leave, he reminds you to save yourself the hassle of filling up the tank. We only charge for the gas you use at pump rates, so just drop the car off curbside with your concierge and walk into the terminal when your trip is over. You chuckle a bit, remembering the last time you were at this airport and went with the ride hail option, having to meander through a maze of walkways, elevators and parking garages, eventually going halfway back that Odyssey to meet your driver with whom you've been furiously texting.

You realize now there's a better answer. First class doesn't have to end at the gate if you rent Avis First. This isn't just a new business line. It's a category-defining product for the rental car industry. Historically, our sector has leaned solely on brand segmentation. Avis Hertz and National as premium. Budget, Enterprise, and Alamo as mid-tier. Dollar and Thrifty as value. Payless, Fox, and others as low cost.

But within those brands, the actual product experience is highly variable. That's no longer acceptable. Today's traveler is more discerning. Brand alone isn't enough. Customers expect clear differentiated offerings within a brand just like they do when they're flying.

Everyone knows Delta is more premium than EasyJet, but Delta customers also understand the difference between Main cabin, Comfort Plus, First Class, and now Delta One. The airline industry figured out that the post-COVID traveler is happy to pay more for certainty, for quality, and for experience. It's not just about the lowest price. It's about the value received.

Avis First addresses that expectation head on. And while a first-class flight from New York to LA can cost thousands of dollars more than an economy flight, an Avis First upgrade per day cost as much as a couple of Starbucks lattes. That's why I firmly believe that you can fly any class but always drive first class with Avis First.

Our customers are the same customers as the Uniteds and Hiltons of the world. It's already been proven that if you build a premium product, they will come. Airlines have done it. Hotels have done it. Why haven't we? And I don't mean we as an Avis Budget. I mean, why has nobody in the rental car industry tried to offer this first-class experience in terms of both vehicle and service. The short answer is because it's hard. Your fleet has to be connected, and you need to coordinate between workgroups, spread out across acres of an airport. The only way to operationalize this is to enable the field with best-in-class technology that's purpose built for newly structured processes that are tailored airport by airport.

And that's exactly what we did: new workgroups, new technology, new processes. If the consumer is paying for a seamless experience, we can't afford to deliver anything less. The behind the scenes lift to pull this off is substantial. But we've thoughtfully put in the work to bring this to life. I believe this is the single most innovative product our industry has seen in 20 years. And while we're creating and defining this category, I do expect others to follow. And honestly, we welcome it.

Our aim is to set a new standard that elevates the entire industry and increases its overall revenue and profit pools. Car rental is a mission-critical piece of the travel ecosystem, and we need to evolve alongside the airline and hotel participants in the industry to service our shared customer. It's the only way to escape the vicious cycle of solely competing on price. It's also a way to win back some of the share that has been lost to ride hail. How many of you decide to just call a car because you don't want to deal with the bussing or the AirTram? With Avis First, you get all that convenience and more with none of the awkward chit-chat from your Lyft driver.

By further segmenting our customer base beyond the binary Avis or budget, we can service the demand that we know exists. We can provide a higher-value product, and we can grow the overall size of the industry. That's what we're delivering. The price is slightly higher, but you receive so much more in return that it becomes a no-brainer that Avis First is the best value proposition in the rental car industry.

You don't need to take my word for it. Avis First is live in over a dozen locations today. And we're planning on over 50 markets being operational by the end of the year. If you find yourself going to airports like Denver or Palm Beach or if you want to get out of Manhattan in the summer and prefer to have your rental car meet you at your apartment, why not give Avis First a try?

Now to the members of our team who are listening to this, I just want to say: game on. It's out there in the open now, so let's show the world what excellence in our industry means with Avis First.

Let's shift gears now and talk about another example of innovation that we're excited about. I wanted to provide more context around our recently announced partnership with Waymo in Dallas. I've been following the mobility ecosystem closely for nearly two decades, both as an investor and an operator. And while autonomous ride hail may seem a world apart from traditional car rental, I always believe that Avis has the potential to be a central player in this space.

Now I'll admit this isn't immediately obvious to everyone. When you break down the value chain of autonomous vehicles, it's software and hardware that comes to mind. Clearly, Avis is not developing the code base to create a driverless system. And we're also not manufacturing the vehicles to power that technology. But in a world where that software can be licensed and that hardware can be purchased, the asset management aspect of the value chain gains much more importance.

AV ride hail isn't just dealing with the zeros and ones of digital logic. These are heavy assets that need to be professionally deployed and managed at scale. AVs are electric, so they need to be charged daily with the network of L3 stations. AVs require maintenance of cameras, sensors, and fluids, which need to be performed regularly by expert technicians.

In order to minimize rider wait time, AVs need to be positioned at travel optimized nodes, either in city center or at the airport. AVs aren't cheap. Being able to finance billions of dollars of fleet with the best advance rates and the best interest rates, that becomes a competitive advantage.

And lastly, AVs may be everywhere in the coming years, but I can guarantee you that into the future, no matter how advanced the technology gets, it is a mathematical certainty that someone will always leave a half-eaten granola bar in the cup holder. That's why service infrastructure and the human touch still matter. AVs will need to be constantly cleaned by a team of service agents in order to provide an optimal user experience.

At Avis, we do all of those things daily. It is our core competency. In the city of Dallas alone, we manage a fleet of over 15,000 vehicles spread across 50-plus sites maintained by dozens of technicians and service by a field team of over 500 individuals. We've been doing this day in and day out for over 75 years.

The universe of mega-fleet managers is small, but Waymo did have a few choices. Why did they go with us? Well, I can tell you how I positioned what we at Avis uniquely bring to the table. First, we are a truly global network. You can rent an Avis in 180 of the 193 countries around the world. If you're an AV player with global ambitions, we're the only mega fleet manager with that kind of footprint.

Second, instead of buying electric vehicles over the past few years, we've been investing in our EV infrastructure. We've been building out charging capabilities across our real estate portfolio. We've already gone through the brain damage of dealing with the long lead times from municipal authorities both on the airport and utility side.

Third, we have alignment with Waymo on how massive and attractive an opportunity this is. This partnership didn't materialize haphazardly to get a pilot up and running. No. We dedicated some of our best talent on this partnership across transformation, operations, finance, real estate, and legal as a reflection of our commitment to this business line. Fourth, and I think most importantly, is the tech forward way we intend to manage these AV assets, which builds on the newly designed operating system that's foundational to Avis First.

Let me close by telling you why we're so excited about this opportunity. Avis plays in a very specific niche of the mobility ecosystem today. We are a leader in a \$65 billion-ish TAM industry that is dependent on travel. People taking business trips or going on vacations. That's a good place to be. And as I mentioned with Avis First, I think there are substantial opportunities to grow that TAM and capture value.

But in an autonomous world, Avis can participate in the medius part of the mobility ecosystem, where the foremost macro factor isn't passenger deplanements. It's vehicle miles driven. This is an addressable market that is hundreds of billions of dollars. Avis has honed its superpower of mega fleet management by grinding pennies in the rental car industry. But like I said earlier, that core competency of maintaining vehicles, servicing vehicles, repositioning vehicles, purchasing, financing, and disposing of vehicles, all of that is fundamental to fleet management, whether the vehicles are ICE, EV, or now AV.

We have the opportunity today to apply the skillset we've earned over decades to a much larger market with much higher growth potential. We intend to use Dallas to learn together with Waymo and to see how we can succeed in this market and future markets to come. Initial testing is already underway, and we'll update you as milestone developments take place.

But here's what it all comes down to. We're building for what's coming next by launching category-defining products like Avis First and actively shaping the future of the AV landscape with our Waymo partnership. These aren't just headlines. The proof points to show that Avis Budget Group is not content with playing defense in the legacy category.

We're here to win through innovation, carve out our place in the future mobility ecosystem, and by doing so, create durable shareholder value. We're on that journey. We're excited for what lies ahead, and we're going to keep driving forward.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Adam Jonas, Morgan Stanley.

Adam Jonas - Morgan Stanley - Analyst

First, Brian, I love the new format. Great job. I wish more companies did it. I really hope they're listening. Please, please, please do that. Also, I thought the half-eaten granola bar was like a free gift, so I'm going to miss it if you clean it up too much.

Two questions, Brian. First, the Dallas-Waymo agreement, can you confirm whether this was the result of a competitive process, whereby Waymo considered other fleet and fulfillment partners? And I'm curious who came to who first? And I got a follow-up.

Brian Choi - Avis Budget Group Inc - Chief Executive Officer

Adam, thanks for the kind words. I really appreciate it. With the Waymo partnership in Dallas, I can't speak for Waymo. We at Avis have been in discussions with multiple AV parties. I can only imagine that Waymo having had previous partnerships before had been in discussions. So I do think that both parties went into this eyes wide open, considering the playing field.

Adam Jonas - Morgan Stanley - Analyst

Okay. And just, Brian, if you put on your really long-term hat, I'm thinking out 10 to 20 years from now, what's your vision for Avis Budget's business model? How would your revenue and operational model have evolved? And just kind of along those lines, seeing where you see the surface area evolving and expanding with autonomous machines and your ability to service them and maintain them. Thanks.

Brian Choi - Avis Budget Group Inc - Chief Executive Officer

Yeah. Sure. I mean, this is something that we obviously give a lot of thought to. Today, tomorrow, going forward, I really do think that the beating heart of the business is what we do today. It is actually providing a mega fleet management, which is providing the highest utilization, keeping the lowest number of unrentable cars in our fleet, and providing a high-quality service to our customers. That's what we do. We do it today in the rental car space. We're going to continue doing it in the rental car space going forward.

But in the future, in this autonomous world, as we kind of utilize the core skill set that we've built across 75 years, over 75 years of history, we think that we can expand our footprint and our sphere of influence in this mobility ecosystem. So it starts here with kind of autonomous ride hail. Like I said in my prepared remarks, a lot of the core competencies that we do on a day in, day out basis, very transferable to autonomous ride hail. And as we said in our press release, Dallas, like you said, is the start. We expect to expand this to other cities, and we see a good long runway in that.

Over time, like I said, autonomous vehicles is touching, like I said, the medius part of the mobility ecosystem, which is vehicle miles driven. That opens up a lot of other areas that we can play in as well in terms of expanding our horizon. So right now, like I said, core of the business is the rental car business. But as the years progress, I think we can expand our footprint.

Adam Jonas - Morgan Stanley - Analyst

Appreciate it, Brian. Thanks.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - Deutsche Bank AG - Analyst

Brian, welcome to the seat, and also welcome to Daniel. It's a slight follow-up on Adam's question, maybe asked in a slightly different way, which is, if you think about this first partnership with Waymo, and Brian, I just heard your comments about what you -- longer term, how it might evolve. Kind of shorter term, I'll say next three to five years, how do we think about the bandwidth you have to do more partnerships like when you announced with Waymo, but also potentially other things?

And how do you kind of fit your existing infrastructure into that? And what kind of incremental investments are you willing to make? And how do you internally kind of measure the ROI on these businesses? And then I have a follow-up. Thanks.

Brian Choi - Avis Budget Group Inc - Chief Executive Officer

Yeah, sure. Chris, I think we have a lot of bandwidth to take on future partnerships, like I said, with Waymo. This is the first of what I hope is many cities. And in order to do that, we are going to have to put our balance sheet to work. That's something that we're not shy about doing. What I do want to be careful of is that we are not going to take our eye off the core part of our business, which is rental car. We want to make sure that the partnerships that we do are thoughtful, that they're deeply integrated, and that they're long term.

We're not here to just put out a bunch of press releases and partner with a bunch of people. We are in discussions with many people, but who we choose to partner with, we're going to make sure that we do it in a thoughtful way, in a true partnership, we're a 1 plus 1 equals 3. So that's kind of how we're looking at it.

Chris Woronka - Deutsche Bank AG - Analyst

Okay. Thanks, Brian. And then going back to the Avis First division, which I think is really differentiated for now at least, is there any change to how you think about your fleet on that? I mean, I know that one of the tenants (inaudible) you're going to have the newest cars and here. Does that -- in terms of your fleet plan for, say, next year, does that make you do more larger premium vehicles? Or is this just kind of reallocating within what you had planned anyway?

Brian Choi - Avis Budget Group Inc - Chief Executive Officer

Hey, Chris. So with regards to Avis first and the fleet, one thing that I do want to point out that with the difference between Avis first and I think other offerings that have been out there is that it's not just about the car. Yes, the car is an important aspect of it, and we're going to make sure that the right car, a premium car is there for our Avis First customers. But when you think about first class for an airline, it's not all just about the seat. It's about the whole experience, and I think that's what we're building from soup to nuts, just reimagining the whole customer journey through that lens.

But to answer your question, yes, obviously, the car is a big part of that. And how we're in-fleeting cars or how we're participating with in our fleet negotiations this year takes that into mind. We are going to consider kind of more premium vehicles, but we already have a lot of these premium vehicles in our fleet. This isn't about just like luxury where it has to be some German-engineered Porsche or something like that. For us, I think premium in at Avis First can be a Jeep Cherokee. But we want to make sure that it's the newest model year, that it is a very, very low mileage.

Right now, it's kind of been a random distribution at times of who gets that like brand-new car. Right now, we're just trying to segment our business a little better to offer that product to the customers that are willing to pay a little bit more for that premium service.

Chris Woronka - Deutsche Bank AG - Analyst

Okay. Understood. Thanks, Brian.

Operator

Dan Levy, Barclays.

Dan Levy - Barclays Services Corp - Analyst

Brian, congrats on starting the new (inaudible) welcome. If we could just, sorry, go back to perhaps the more myopic part of the results for a second, just to guide in. So maybe we could just unpack some of the different trends. Perhaps, if you could just talk to the implied second half, the puts and takes between DPU and RPD, where it seems like EPU is significantly better, but it seems like there's some offsetting effect in the guidance for the second half, whether it's from RPD or whether it's from cost. So maybe you can just talk about the puts and takes there in the implied second half guidance of \$900 million to \$1 billion.

Brian Choi - Avis Budget Group Inc - Chief Executive Officer

Sure. Dan, let's start -- I'll answer your myopic question with the high level. Let's start with the macro overview here. So kind of what we're seeing in terms of RPD isn't all that different from what other participants in the travel industry are seeing. I think demand is firming up post the passage of the Big Beautiful Bill. For us, leisure is stronger than commercial right now. And pricing is more challenged than volume. And this is true in PRASM for airlines. It's true for like RevPAR for hotels, and RPD for us.

But we do think that there are signs that things are firming up for the summer and then think summer is off to a good start. I think one of the reasons for that and kind of why you're seeing some of these issues on the DPU side, where I think you may have expected slightly stronger DPU maybe this quarter in guidance, is that we're dealing and having to navigate with two big issues here. That's tariffs and recalls.

So let's just start with tariffs. Uncertainty around auto tariffs, of course, that's lifted the used car market. That's been a clear benefit. And when you look at their asset base, the vehicle asset base that we have on our balance sheet, like it is meaningful. But I want to know, we're not changing how we account for gross depreciation at this time. We just took a write-down at the beginning of the year. So Dan, you better believe we're going to stay conservative on this front.

So if you keep that gross depreciation constant, the only way to harvest used car gains is by selling the older model year vehicles. And to do that, you actually have to in-fleet the new model year vehicles, and that's where we're getting hung up. The tariff uncertainty is causing OEMs to delay production and delivery. So our in-fleet schedule is getting pushed. So we're having to hold on to the older model unit cars for longer, certain cars that were programmed that we were going to return that are a little higher priced that we're going to turn back as we were getting in new model year cars we've been having to hold on to. So we're dealing with a fleet rotation dynamic right now. So that's a negative headwind there.

And then again, on top of that with DPU, we have an issue with recalls. And listen, I don't want to make excuses here for recalls on a normal basis because recalls are a part of doing business in the rental car industry. We deal with it every single day. But this one is different. It's massive. It affects 4% of our Americas fleet. And you know that if cars are in recall, we're not allowed to sell them. So we're holding these on our book. And by the way, it's not just any vehicles. It's some of our highest RPD segments. These are transit vans and minivans, so they're actually more expensive to hold as well.

There's also no visibility on when this gets resolved because it's a parts defect, and we've been given no visibility on delivery time for these parts from the OEMs. And lastly, like the cherry on top of this garbage Sunday is that it's hitting us in the heart of summer right now. It's a gut punch. There's no other way to describe it.

So to put this all together, listen, the only silver lining with this recall in the tariffs, it's not unique today. The entire industry is affected. And I think we're seeing that right now lead to some pricing recalibration. So yeah, I hope that answers your question, Dan.

Dan Levy - *Barclays Services Corp - Analyst*

That's very helpful. Thank you. I had a second question, if we could just talk about the AV strategy and specifically, we see you're playing for a very large TAM. But I think what's maybe unclear to some folks is perhaps the type of revenue model here. So maybe you could just give us the parameters roughly, not just now but in the future, of what the revenue type model looks like? Is this on a per vehicle basis? Are there other services involved?

And does this eventually go down the route -- one of your core competencies is acquiring and disposing vehicles. Is that eventually something that gets factored in here? I mean, I realized that's way down the line, but just give us a sense of the type of revenue model here on the AV side.

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

Yeah, sure. Dan, I appreciate the question, and it is exactly what I'd be asking if I were in your shoes. So I'd love to get into more detail, but given how tightly integrated this partnership is, Waymo and Avis have agreed to maintain pretty tight messaging at this stage. So I'm going to give you everything that I can share right now. So some of this was already in the press release, initial mapping, the testing. It's already underway. We're going to start offering rights to the public next year. It is a multiyear agreement. We fully expect to expand into additional cities in the near future.

And to your question, I think like other markets where Waymo operates, the vehicles that we're going to be starting off with in Dallas is the fully electric Jaguar I-Pace. It's powered by their fifth-generation Waymo driver. At this point, those vehicles are on Waymo's balance sheet. As the landscape evolves, as different vehicles are put into place, I don't think it's unreasonable to say that -- how that changes and who holds what on the balance sheet, that can change as well.

So we're not disclosing the financial details of this arrangement, but I do want to say this. It's not like we woke up last month and say, hey, like we need to get into this AV game. Like we've been in serious discussions with Waymo and building towards this since January of '24. So we took the time to structure this thoughtfully. We have full alignment on incentives. So that the big variables that affect profitability for Waymo, that's the exact same variables -- those are the exact same variables that affect profitability for us. So we're going to win together in Dallas, but the framework is built to scale to future cities.

Dan Levy - *Barclays Services Corp - Analyst*

Great. Thank you.

Operator

Chris Stathoulopoulos, Susquehanna International Group.

Christopher Stathoulopoulos - *Susquehanna Financial Group LLLP - Analyst*

Brian, Daniel, welcome. Daniel so -- or Brian, excuse me, I appreciate the unveiling of the vision here. It's refreshing. I guess a lot to unpack. In two or three sentences, maybe if you could encapsulate how we should think about Avis in the future. So is this more of a technology-enabled cleaning rental company with now kind of more discrete pricing around segments bundling, unbundling?

And then also help us think about this move here in this -- and the two initiatives announced, how we should conceptualize that. I guess within the context of normalized earnings here for EBITDA, which has been a core focus for investors since exiting the pandemic. Does this become more

of a mid-single, high single-digit story? Just want to tie those two pieces together. And again, what's the sort of -- I guess, the tag line, if you will, as we move forward with this new plan? Thanks.

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

Yeah. Sure, Chris. I think the way that we're viewing Avis' role in the mobility ecosystem is that we're here to empower mega fleet management. I mean, we've been doing it for ourselves in terms of car rental for like I said, 75 years. We think that this is a core competency that others in the mobility space can use. When you think about, like I said, the value chain of autonomous mobility, there is the software and hardware component. And people are sticking to their core competencies over there. And I think the thing that people haven't paid a lot of attention to is the fleet management aspect of it.

This isn't Shore Internet anymore. It's Internet of Things. It's not an algorithm that you need to maintain with a few software engineers. These are heavy assets that need to be actively managed. And kind of what I said in my prepared remarks, all those aspects of it, yes, cleaning is one of them, but it's one of many. Having a nationwide, having a global footprint of real estate, being able to energize and charge these facilities, having just the employee base to be able to service the vehicles, being able to maintain the vehicles, all of that, I think, goes into mega fleet management, and that's the value that we provide to the value chain.

In terms of kind of your question about where we -- on a steady state run rate earnings that this is, like we don't have any changes there. I think we put out there post-pandemic that \$1 billion is the bare minimum of what we want to do in a normalized year, and that's going to continue going forward. I don't think that this is a particularly normal year, given what we're having to deal with the tariffs and with the recalls.

But our expectation is that's fundamental, like we need to -- whatever investments we make, whatever partnerships we want to do, that's additive. But we need to be a \$1 billion EBITDA business going forward. And like I said in the prepared remarks, I think it's doing that. I think it is by generating substantial free cash flow that we earn the right to go and participate in these other parts of the ecosystem.

Christopher Stathoulopoulos - *Susquehanna Financial Group LLLP - Analyst*

Okay. Thank you. And my second question, so if the secondary or used car market continues to move higher in response to the tariffs, how are you thinking about the 2026 purchases? Is the, I guess, the gain or benefit this year around DPU become a headwind next year? Is the plan at this point, just to kind of hold on to these older cars and I guess, be more opportunistic around the purchases? Just wanted to understand the plans or tactics in place around managing that fleet and DPU, given what is likely to be a volatile 6 to 12 months on the secondary. Thanks.

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

Yeah. Chris, we did this whole situation of holding on to the fleet for longer. It didn't work out for us. We're not going to do that again. I think from a customer service aspect, from a vehicle maintenance aspect, like that's, that's not our game plan here, tariffs or no tariffs. So right now, fleet discussions are ongoing with all of our OEM partners right now. We are in the thick of it.

The recent tariff and uncertainty, it slowed the pace. But now that we have a little more clarity around tariffs, like with Japan and the EU, we do expect things to pick up. And we've actually already signed a few deals already. But to your point, we're being cautious. Like that write-down we took early this year, it is still fresh in my mind, and it was driven largely by purchases made for the model year '23 and model year '24 cycles when we purchased at elevated levels. So despite tariffs coming and that having an impact on used car prices, we can't repeat that same mistake with the model year '26. We have to remain disciplined.

So the approach we've taken with the OEMs, like we're being straightforward and like I said, disciplined. What we're trying to do is provide them full transparency to say this is what the market is right now. This is how we're modeling the residual values on a win-by-win basis. We have a willingness to be flexible, and we need this clear understanding both between us as car rental and the OEMs that these are long-term relationships. The deals have to work for both sides.

So I think this position has been appreciated. And while we're not rushing into volume commitments, we're right now, I think we're in a good place heading into this buying cycle.

Christopher Stathoulopoulos - *Susquehanna Financial Group LLLP - Analyst*

Great. Okay. Thank you.

Operator

Liz Dove, Goldman Sachs.

Lizzie Dove - *Goldman Sachs Group Inc - Analyst*

I appreciate all the color, and welcome, Brian and Daniel. Just wanted to go back to the RPD side, I'm curious kind of what you're kind of seeing there in recent weeks. Sorry to be so myopic but also how -- what's kind of factored into your guidance for this year for the second half in terms of any possible RPD improvement, given some of the factors you called out? Thanks.

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

Hey, Lizzy. Honestly, like I'm a little surprised by the restraint, but it took five questions now get the week-by-week RPD. It is actually -- it's a fair question, though, because the recalls have happened pretty recently, or at least the large we call of scale, the ones with no fixed. We are seeing some green shoots here in terms of RPD because of that. It is not like we're making a call that this is structural at this time. But RPD has been -- you see it in the numbers, pretty challenged all throughout this year.

I do think that supply -- industry supply overall tightening up is having an impact and that RPD is getting better because of it. But from our perspective, I've said it before, I'll say it again, like we at Avis do not set rental car prices. We respond to them, given consumer demand and industry supply. So like I said, industry supply, that's shrinking a little bit. Industry demand, surprisingly, I know there's a lot of uncertainty around there with the economy, but the demand is out there to be got right now. People are still traveling.

So we're doing what we can with our philosophy around RPD, which is we're fleeting slightly inside of demand, making sure that we receive an appropriate ROI on the cars that we do put out there. And from our perspective, we're hoping that has a positive influence on our RPD.

Lizzie Dove - *Goldman Sachs Group Inc - Analyst*

Got it. That's helpful. Thank you. And just one follow-up. I'm curious what you're seeing out there in the competitive environment. Felt like enterprise was pretty competitive last year, then maybe step on the (inaudible) this year. Anything that you're seeing, if things kind of become a little bit more benign? Or how would you kind of characterize that side of things? Thanks.

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

I mean, it is a competitive environment. It always has been, and this year is no different. But like I said earlier on the call, what we're trying to do here is to not compete on a commodity product. I feel like that's what's been happening for decades over here. Avis First is a little bit of our answer to that to say, hey, how do we differentiate the offering? How do we kind of grow as an industry? And from our perspective, we think that this is the way out of that to say we don't want to play a zero-sum game where it's competitive.

So we're trying to take share here and there, like Avis First isn't about taking share, like we want to be growing the size of the revenue and profit pools of the entire car rental industry. So this is our stake in the ground saying that we're going to do that. So yes, competitive. It's competitive. It's always going to be competitive. And you're saying what we're trying to do is compete at a higher level and give a little more value back to the customer.

Lizzie Dove - *Goldman Sachs Group Inc - Analyst*

Thank you.

Operator

Stephanie Moore, Jefferies.

Stephanie Moore - *Jefferies LLC - Analyst*

Brian, you did delineate in your prepared remarks about the difference between cyclical and structural growth, and you clearly highlighted several initiatives that are starting or in place in terms of driving kind of growth going forward. So as you think about these investments as well as I'm sure others that are in the pipeline here, how do you measure the success of these investments? Are you looking for growth to outpace the cyclical aspects or the industry aspects? Are we looking at KPIs like margin, cash flow? How are you measuring the success? And in the same token, as we look at the business going forward, how should we be measuring to fix that from a metric standpoint? Thank you.

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

Yes. It's a great question, and we take a disciplined approach to everything we do in terms of evaluating new investments. I think I want to start off with, like, first, it has to be growing our business. I think we are here to grow as a company. And we think that we're going to pursue opportunities that have a higher structural growth, and that's kind of why we started out with Avis First and Waymo.

We need to combine this with being disciplined on free cash flow. Everything we do, we are a cash flow machine at this company. And I think that's one of the things that attracted needs of this business in the first place. Typically, if you're kind of go and pursue high-growth opportunities, at times, you have to be willing to burn a lot of free cash flow in order to do it. From our perspective, because we have this great base business of car rental, that is very free cash flow generative. We think that we can utilize that to invest in things that we're going to add to that and over the long term, contribute to additional free cash flow. So free cash flow is obviously very important.

And the third framework that is very top of mind is how do we service the customer? Like what does the customer experience going to be? Like what are we investing in to make sure that that is always top of mind because from our perspective, I think, especially given investments, we maybe haven't given that as much as much thought and as much share of kind of our free cash flow as we should have. I think that's going to change going forward.

So across those three dimensions, we want to say, hey, we need to be growing as a company, winning share of wallet, being a more relevant company. That's number one. I think that translates into free cash flow. It's not growth at all cost. For us, we are very, very disciplined around free cash flow, so that revenue growth has to translate into free cash flow. And when we take that free cash flow, are we investing into areas that are benefiting the customer experience, how do we decommoify the business, actually deliver a product that customers are willing to pay more for and earn that pricing power. So it's really across those three dimensions that we're evaluating investments.

Stephanie Moore - *Jefferies LLC - Analyst*

Thank you. And then just a follow-up on Avis First. Maybe you can provide a little bit of color based on the pilot of the test where you've already rolled out the service. But what has been the conversion of customers that are upgrading to Avis First? And then what does this mean in terms of labor costs, I guess, needed to provide this concierge like service just to make sure you can meet the demand? Thank you.

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

Yes. Sure. As I said earlier, this is a category that we expect others to enter. So I want to be pretty thoughtful about what we disclosed. And by the way, this launched two weeks ago at this point. So I think it's early to say. It's in a dozen markets already. We're very excited about the uptake, but I think it's too early to call a trend here in terms of the uptake.

But I'll tell you kind of what our thought process here is around this. I see no reason why Avis First, as a percentage of our total rental days, can't be equal to or even greater than the share of premium seats in the airline industry. We've all seen this happen over the course of the last 10 years, like how premiumization has happened in the airline cabin. And that's gone up just to incredibly high numbers for certain airlines. I think that's what we're seeing as a potential from an uptake perspective.

And in terms of pricing, like you said, there are additional costs associated with this. There's a concierge. There's the delivery. So we need to price appropriately for this. So we are pricing Avis First to be margin accretive from day one. But the incremental cost is low enough that it's accessible to almost every traveler. I think I said a couple of Starbucks lattes in the call, but like an upgrade can be as little as \$10 a day for Avis First.

Now our average length of rental is between four and five days. So we're just talking \$40 to \$50 total for a transaction. And that doesn't sound like a lot when you consider the convenience and experience of Avis First. I think a lot of people will be willing to do that. But \$10 more on a \$70 average RPD, that's a 14% lift. And like I said, that's just the minimum. Depending on the market demand or the time of the year, we think that this premium is going to be meaningfully higher.

So for us, with Avis First, the constraint isn't price or demand. The constraint actually has to be self-imposed, to make sure that we have the right vehicles, we have the right field resources, we have the right concierge capacity to deliver the experience the way that it's meant to be delivered. And like I said two weeks ago -- one week ago was the hard launch. So we're encouraged by what we're seeing. I'm confident that we have product market fit here. But like I said, the challenge is to stay disciplined.

The last thing that I want to do is snatch defeat from the jaws of victory by scaling too fast and compromising the experience. We can't afford to do that. So we're going to take a thoughtful approach to growing this out. Like I said, we think that this is going to be in over 50 markets by the end of the year. We think that the long-term potential of this is going to be a percentage of rental days that's equivalent to where premium is for the airlines, and we talked a little bit about the potential RPD uplift.

So long-winded answer, like the too long, didn't read line is: we think this is going to grow the pie, and we're pricing it to be margin accretive.

Operator

John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Brian, I just wanted to ask a little bit more about the Waymo plan. Obviously, it sounds like this was a competitive win. I think they're in five or six markets right now. How do you see the market for this solution kind of evolving? Do you see yourself going with them in future markets likely? Is this going to be an exclusive to the Dallas market? Like how do you think the business model looks as a service provider to these autonomous companies?

And my sense is that the revenue model here would be probably something that evolves over time. So any way you could kind of talk to us about your use of partnership rather than just a service provider, how you see that as well? Thanks.

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

Yeah. John, I think at the -- let's start with the first part of that question. We are starting in Dallas with Waymo. And with Waymo, we expect to expand to future cities. But from our perspective, Waymo is in discussions with other providers in the past that they've announced other cities that they partnered with. We're in discussions with other people as well.

But it was important for us to start off this business line in terms of like mega fleet management for autonomous. It was important for us to start with Waymo because Waymo -- I mean, Waymo is blazing the trail for autonomous ride hailing for 20 years now. What they've built and what they've delivered to the public, it is just -- there's no other way to describe it. It's [onspiring]. So earning the trust of real passengers at real scale with the safety record that they have, like that is changing the world. And we don't take it lightly that Avis has been asked to participate in this space.

Where I think this can go in the future, obviously, like I said, with Waymo to many other cities, I hope. It took a long time to get to the commercial terms that we've aligned on, and that was built to scale to future cities. We said this earlier on the call, kind of how, when assets are on whose balance sheet, that can always evolve over time. And obviously, that has an impact on the share of profit over the long term. And we're obviously open to those discussions. And like I said, we are not opposed to putting our balance sheet to work. We buy billions of dollars of fleet every single year. We're good at it.

So from that perspective, like yeah, we are open to different models. We're talking to different parties, but it was important for us to start with Waymo. We think that given this is a new line for us, it was important that we did it with people that were philosophically aligned with, and it took the time to do this in a thoughtful way.

And this is not like -- we're not in this to be service providers. We had a stint of that in the past back in 2017, where those just kind of -- they pay you on a per you-clean-the-car basis. Like that's not what's exciting to us. Like a real partnership to me is, like I said, when 1 plus 1 equals 3. It's when risk is shared, when value is co-created. And that's the partnership that we have with Waymo, and that's what we plan to kind of expand to future cities.

John Healy - *Northcoast Research - Analyst*

Thank you. And then just one question on the numbers. The \$900 billion EBITDA number for the year and kind of the fleet cost number that you put out there are helpful. But I was just wondering -- and maybe you mentioned it, I missed it. Was there any sort of gain on the depreciation in this quarter? And when you look at that \$900 million to \$1 billion, are you expecting gains to get to that \$310 million to \$320 million number for the year? Thanks.

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

Yeah. There were gains. I think our Q is going to be posted shortly. The gains are smaller than I think the quarter -- Daniel, is that right? It was smaller than the quarter before. And what we are guiding to is a net depreciation number. So it does include gains. The issue that we're dealing with right now, like I said on a previous question, we're not cycling the fleet fast enough to be able to kind of harvest more of those gains. The delivery of the model year '25 vehicles are being delayed. The model year '26, we're not sure of just yet.

And so while there will be gains, it's not going to be as material as kind of it was in the first quarter.

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

And what I would just add to that, John, is it's an incredibly small percentage of the proceeds of cars that we're selling. So if you think of it from that standpoint, like we're depreciating close to a zero gain or loss, and the gains are minimal.

John Healy - *Northcoast Research - Analyst*

Understood. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session and thus, concludes our call today. We thank you for your interest and participation. You may now disconnect your lines.

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