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CAR.OQ - Q1 2023 Avis Budget Group Inc Earnings Call

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CORPORATE PARTICIPANTS

Brian J. Choi *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

David T. Calabria *Avis Budget Group, Inc. - Treasurer & Senior Vice President of Corporate Finance*

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

CONFERENCE CALL PARTICIPANTS

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

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

Hans Peter Hoffman *Jefferies LLC, Research Division - Equity Associate*

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

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

PRESENTATION

Operator

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

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

David T. Calabria - *Avis Budget Group, Inc. - Treasurer & 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 Brian Choi, our Chief Financial Officer.

Before we begin, I would like to remind everyone that we will be discussing forward-looking information, including potential future financial performance which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks and assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and any or all of our forward-looking statements may provide to be inaccurate, and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements. On this call, we will discuss certain non-GAAP financial measures. Please refer to our earnings press release, which is available on our website, for how we define these measures and reconciliations to the closest comparable GAAP measures.

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

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

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

Yesterday, we reported our first quarter results, and it's clear that our company is off to a strong start in 2023. We delivered the highest first quarter revenue in company history at $2.6 billion and generated $535 million of adjusted EBITDA. I want to thank all our employees for their hard work and dedication this quarter. We wanted to get off to a great start, and our team did just that. I want to thank them for setting an ambitious pace right at the beginning of our fiscal year.

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On our last call, I spoke about a return to normal seasonality and anyone who's followed the rental car industry knows that the first quarter is our seasonally lowest quarter of the year. We saw terrific growth in rental transactions. As a matter of fact, it was the largest amount of transactions in the first quarter history of our company. Demand was strong, with growth coming from commercial activity as well as international inbound travel. Both these segments started their growth in the middle of last year and the momentum continued to build into 2023. In addition, there was great demand for our used cars and residual values improved throughout the quarter. Lastly, rate per day increased month-to-month as it would do normal in a pre-COVID period.

To be able to generate over $500 million of adjusted EBITDA during this period is an achievement that we're all proud of and I have the pleasure today of telling you how we accomplished that. As usual, let's start with our Americas segment.

In 2022, the first quarter was categorized by a very soft first 6 weeks due to Omicron, followed by a robust period of demand post President's Day weekend in mid-February. With the absence of new COVID variants in 2023, we expected the first quarter demand to be significantly stronger year-over-year led by commercial and international inbound demand and planned accordingly. Commercial transactions were up close to 20% and international inbound transactions were up more than 25% from the first quarter of 2022. It is clear that these two segments will be the drivers of our continued success throughout the year.

We have seen a rise in most of our commercial verticals, but especially in aerospace and defense contracting, technology, and professional and financial services. Cross-border inbound travel continued from EMEA, Latin America, Asia Pacific, and Canada. Unrestricted travel for many countries began mid last year, and we've certainly seen the ramp-up from travel due to this pent-up demand. We expect both of these segments, along with continued growth in our ride-hail business, where we provide drivers convenient access to our vehicles, to fuel our growth in the upcoming quarters and we are already seeing these trends continue into the second quarter.

We've also seen demand for our used cars continue to be strong. As we mentioned on our last call, we began to see improvement in the residual values in the first quarter, and that has continued. Rotation of our fleet is always a paramount importance as getting out of older, more mileage vehicles and replacing them with new vehicles provides a better product to our customers, both commercial and leisure. It minimizes maintenance and in-life costs and ensures our fleet is commercially ideal.

While we did not fully anticipate the significant turnaround and the strength of the used car market in the Americas, we ensured that we reacted appropriately given the opportunity. We obviously follow our vehicle dispositions closely on a market-by-market basis. But as a proxy, let me provide some data from the Manheim Used Vehicle Value Index.

The index saw 7 consecutive months of decline beginning in June of 2022. That reversed in January of 2023, which showed a 1.5% sequential uptick from December of 2022. Now one month does not make a trend, but February 2023 saw a 3.7% sequential increase, and March of 2023 saw another 3.5% sequential increase. This development altered how we approached the quarter, and we pivoted quickly towards disposing of vehicles while refreshing our fleet. The result of this was ensuring our rental days were in line with our fleet size producing increased utilization as we continue to manage supply to be slightly inside of demand. These fleet actions provided a strong gain on sale.

While we pulled forward some of these gains from future quarters, our actions acknowledged the strong demand from consumers for vehicles of our type.

Due to strong travel demand and well-balanced industry vehicle supply, we saw a healthy revenue per day in the low $70, only 2% below the record first quarter revenue per day we saw in 2022 despite the increase in commercial travel. As Brian and I have been stressing on our previous calls, we continue to maintain discipline as asset managers and centered our actions to maximize return on invested capital by selling aged fleet at attractive prices during the quarter.

Additionally, I'd like to point out something that remains consistent with our initial business plan, rigid cost discipline. It is the focus of managing our day-to-day expenses that enabled us to deliver adjusted EBITDA margins of over 25% in the Americas, while making investments that will make us a leaner and more efficient company in the years to come. These strategies encompass investments in our people, designed to ensure our ability to handle the peak summer period seamlessly, and systems, which create stability and better processing and ensuring the required digital customer

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applications to promote the best in customer service. Our touchless experience allows Avis customers to choose their vehicle on their phone or exchange it upon arrival while being sent a digital rental agreement, which can be used to exit our facility through an automated exit gate process.

We are currently rolling out facial recognition technology as well that will allow all our first-time Avis preferred customers to quickly and conveniently bypass our current counter verification process. In addition, after a successful pilot, we are beginning to roll out an improvement to our budget choice application. Customers upon arrival at a budget facility will be able to choose their vehicle from their reserved zone, take a picture of the license plate, which is then uploaded to their digital rental agreement and allows the customer to exit from an unmanned exit gate by use of their phone.

Technology enhancements have always been an important aspect of our strategic plan. We continuously improve our proprietary demand fleet pricing system to produce the most profitable outcome. Our mileage optimization technology allows us to minimize mileage accretion, and connected car technology facilitates automatic customer returns and accurate gas ratings, producing both financial and customer benefits.

Moving on to the income statement results of these metrics. In the Americas, revenue increased $16 million year-over-year. Americas adjusted EBITDA during the same period decreased by approximately $300 million due mostly to the anticipated increase from vehicle depreciation and interest. Last quarter, we called out depreciation and vehicle interest as headwinds we would face in 2023. The gain on sale from vehicle dispositions mitigated this significantly in the first quarter but we do not expect this benefit to continue throughout the year. We'll get into more detail on this during the fleet portion of our prepared remarks.

So in summary, the Americas delivered a strong quarter with increased demand in key segments while improving our fleet rotation and taking advantage of a robust used car market while rate per day increased month-to-month in the quarter.

With that, let's move over to our International segment, which had a record first quarter in adjusted EBITDA. Consistent with prior quarters, we've been seeing a steady recovery in days, combined with a robust rate per day of 14%, excluding exchange rate effects. The International countries started to open up mid-last year and react similarly to what we saw in the Americas in 2022. While rental days in the first quarter was 16% higher than the first quarter of 2022, they were still 20% below the first quarter of 2019, implying we're nowhere near optimal scale in this region. However, revenue per day has continues to remain robust with the International region seeing an 8% year-over-year gain and perhaps more encouragingly, a 2% sequential gain to the fourth quarter of 2022.

Adjusted EBITDA in the first quarter of 2023 was a record $50 million on a reported basis, including a $7 million negative impact from currency exchange rate movements. This is over double the adjusted EBITDA generated in the first quarter of 2022 and a structural departure from the region consistently reporting negative first quarter adjusted EBITDA pre-COVID.

We continue to see strength in transatlantic inbound into EMEA, but also international travel between the European countries. While it's early to comment on the demand pattern for the summer, like the airlines, we see increased inbound travel throughout the international countries and are encouraged by these early trends. We have confidence that our International teams will continue to deliver strong results in the upcoming quarters.

Moving on to fleet, where as usual, we'll focus more on the Americas segment. As I mentioned earlier, our fleet disposition teams were busier than expected this quarter as they exited high-mileage vehicles to capitalize on a strong used car market and in-fleeting newer models to improve our rotation. This means younger and lower mileage cars as well as optimizing the overall vehicle mix of our fleet, which allows for a product portfolio that our renters demand.

Our OEM partners continue to come out with exciting new vehicle designs for both traditional internal combustion and of course, electric. While the selling price of our disposed vehicles remained well above net book value into the peak tax refund season, we do not expect gains at these levels for the balance of the year. The entry of additional model year 2023 vehicles in the quarter continued the upward trend of our straight-line depreciation.

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Despite the gain on sales this quarter, we saw significant pressure on our net monthly depreciation per vehicle. We recorded $128 per unit fleet cost per month in the first quarter of 2023 versus $20 in the first quarter of 2022. We saw a similar pressure on our vehicle interest per month per vehicle, which came in at $83 in the first quarter of 2023, versus $50 in the first quarter of 2022.

As we guided -- as we guided to our last earnings call, we expect our full year 2023 monthly vehicle interest per vehicle to be roughly $100, so there are additional headwinds to overcome on the vehicle interest line.

We also mentioned, we'd rather run out of the incremental vehicle than have an unutilized vehicle on our lot. This quarter, our actions were consistent with that rhetoric. We will continue to be consistent going forward. We run our business to be fleeted just under demand in order to optimize utilization and mitigate the headwinds of vehicle depreciation and interest. This stringent management allowed for an improvement in utilization even with strong fleet rotation and unexpected recalls during the quarter. We expect our fleets to continue to be in line with demand inclusive of our summer peak.

Let me take a moment to talk about our ongoing electric vehicle strategy. As previously stated, we believe the road to electrification rests solidly on the foundation of a robust charging infrastructure. This is a necessary condition to support our electrified fleet. We continue to advance this strategy throughout the quarter by adding additional charging units at our locations through our partnership with EverCharge, an SK Group Company. We can continue to acquire a diverse electric fleet from our numerous OEM partners, which allows customers to reserve and select from various product offerings to meet growing demand. These diverse offerings will help insulate us against residual value and potential recall pressures.

Before I conclude, I would like to make you aware of our new marketing initiative, which centers around a fresh new advertising campaign for Avis called "Plan On Us." Simply said, for 75 years, we've only had one plan, to make sure you keep yours. You can look for our campaign on various platforms as well as signage throughout airports and our facilities in the near future. This slogan is not only a message to our consumers, but a call to action for all of us here at Avis Budget Group.

That concludes my prepared remarks. But before I turn it over to Brian, let me reiterate how proud I am of this start to 2023. It's important to get out of the gate early, and I believe we did just that. We're going to continue this momentum throughout the year and continue to show what a transformed company we are. While travel patterns are normalizing to more pre-COVID seasonal levels, we do anticipate a strong summer peak with continued growth in both our commercial and inbound business.

With that, Brian will now discuss our liquidity and our outlook.

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

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

I'd like to start off by addressing capital allocation. In the fourth quarter of 2022, we deployed over $750 million to purchase nearly 4 million shares of our common stock. But this quarter, we chose to deploy our adjusted free cash flow temporarily in our vehicle programs in the first quarter of 2023. That's a substantial departure, but we've been consistent in saying that we will be nimble with how we allocate capital at Avis. This quarter is an example of that.

In an uncertain macroeconomic environment with rising interest rates, we believe it prudent to be more cautious with capital deployment. We're fortunate to operate a business that generates cash on a daily basis and accumulating that cash in our vehicle programs both lowers our vehicle interest expense, which is adjusted EBITDA accretive, while providing free option value with immediate access to funds in the event we see attractive opportunities. Those opportunities may include retiring high interest rate debt by acquiring blocks in the open market below par, paying down tranches of corporate debt as they come due, contributing additional fleet equity into upcoming AESOP deals, allocating towards additional CapEx investments, tuck-in M&A acquisitions and, of course, share repurchases.

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Everything is on the table, but we're being patient. And while we're being patient, the war chest builds so that when we act, we can do so confidently and aggressively. As always, we will opportunistically allocate capital to those areas that best benefit all stakeholders of Avis Budget Group.

We continue to find ourselves in the privileged position of being in the strongest financial standing in the history of our company. Over the last 12 months, adjusted EBITDA was $3.9 billion. During the quarter, we voluntarily contributed nearly $500 million back into our vehicle programs, deployed over $50 million into investments in our systems, operations, customer experience and electric vehicle capabilities, all while having a net leverage ratio of about 1x. As of March 31, we had available liquidity of approximately $1.4 billion, with additional borrowing capacity of $2.3 billion in our ABS facilities.

Our corporate debt is well laddered with approximately 86% of our corporate debt having maturities in 2026 or beyond, and we are in compliance with all of our secured financing facilities around the world with significant headroom on our maintenance covenant test as the end of March.

Let's move on to outlook. As you know, we've made the decision as a management team to forego giving formal annual guidance to allow ourselves the flexibility to make agile decisions as the business environment changes. However, I do want to provide some color around what we're seeing for the second quarter. As Joe mentioned earlier on the call, we are seeing a return to normal seasonality in the business. For the second quarter that means a sequential increase in both rental days and revenue per day as we start getting into the summer season with Memorial Day.

Vehicle dispositions will slow in anticipation of peak summer demand, which means that there will be a convergence between gross and net depreciation. Finally, our focus around cost control, combined with the increased throughput of rental days, will result in sequential operating leverage and margin expansion.

Historically, from an adjusted EBITDA perspective, these normal trends translate to a sequential increase of $150 million to $200 million in adjusted EBITDA from 1Q to 2Q. We expect sequential adjusted EBITDA growth in that range for our base business in the upcoming quarter. But given the outsized fleet gains we realized in Q1, our best estimate is that reported adjusted EBITDA for 2Q '23 will be roughly $600 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Stephanie Moore with Jefferies.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

This is Hans Hoffman on for Stephanie. And congrats on another strong quarter. Clearly, the demand side of the equation has now been really strong. But could you provide some color on the supply side? Has it been challenging at all to get your hands on new vehicles? And then maybe just frame kind of your best guess on kind of when that sort of normalizes?

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

This is Joe. As you can tell with some of the public documents, the supply side has increased over prior year. But you have to think about what prior year was like. And prior year was the lowest amount of new cars that this industry has seen. Maybe -- I know, definitely in the last 5, certainly a lot longer than that. There were challenges with chips and supply chain issues and things of that nature. So we are seeing more supply this year.

But I have to tell you that there -- we're still not out of the woods on what I would consider to be some cancellations and some delays, there are still supply chain challenges that pertains to parts and logistics. So things aren't really evening in that regard.

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When I think about some of the activities that have been going on of late. If you look at how many cars are being sold new into -- just sold new commercially into our environment, it's really in line with where it was in 2021. So the OEMs aren't overproducing vehicles the way they might have done it in the past. I think there are challenges, as I said, the supply chain, maybe the electrification of some fleets that change their supply chain lines. And also, I think the dealerships over time have learned to sell cars with less inventories. So while I -- while we are getting more cars than we did at probably an all-time low last year, it's not by any chance going back to where it was pre-COVID, in my opinion. And I think that lasts for not only this year but into next...

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

Got it. That's really helpful. And then clearly, you guys are seeing a lot of benefit from increased demand for commercial and international inbound. Maybe comment on sort of how leisure fare relative to your expectations and then kind of any sort of trends you're seeing in Q2?

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

Yes. The trends are changing. What we're seeing here more closely resembles pre-pandemic than during the pandemic. So it appears to us that things are getting back to normally the ever they were, which means that in the commercial months, there's more commercial. And in the leisure months, obviously, there will be more leisure. What we see for us here is the sequential improvement, as Brian said, in rental days from quarter-to-quarter. And even when you look at price, somewhat similar in the same regard. So we will be busier in the second than we were in the first, and we would be busier in the third than we were in the second. That's -- last year, when you looked at what was going on, it was like kind of the second and third, well almost kind of like the same as far as what the demand was looking like for the leisure business and et cetera.

I think what we have seen is a rebound in commercial and that helps to fulfill -- that's helped to fill the first quarter and will help to bridge the activity towards the summer season. We've seen gains in a good number of accounts that we do business with that are traveling more frequently than they had prior year.

And as far as leisure demand, it's being heavily weighted right now towards inbound business. Inbound business, if you think about last year with the closure of a lot of the countries, especially over in Europe, and the fact that you needed to get tested before you came back to the United States up until May, maybe early June, there's just been pent-up demand. And last year, the airlines weren't really ready to take on those route challenges when this -- when everything changed so rapidly. The big planes that we're flying normally flying overseas, were supplying domestically. And so that took a while to -- while to change and people needed to prepare. There were all sorts of disruptions in the European airports. So there's this heavy demand towards inbound.

I heard the other day, that there's a 30% increase in U.S. passport applications this year. And this just goes to show you how people are thinking. So we've seen it on both sides, travel into Europe. And I think when you think about Europe, they're going to be heavily weighted more towards inbound than ever before and certainly travel into the United States coming from the countries that I mentioned in my prepared remarks.

Operator

Our next question comes from the line of Adam Jonas with Morgan Stanley.

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

Thanks for all the great detail. Brian, you might have covered this. I may have missed it. Did you have any -- do you want to call out any hedging gains or any one-off items that might have lowered your interest expense in the quarter, similar to your other publicly traded competitor that might not repeat going forward to quantify that?

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Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Yes, Adam. No, you didn't miss it. There was nothing in the quarter and we don't anticipate anything going forward either.

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

Fantastic. And then just a follow-up. You guys have taken a bit more of a measured approach, I think, to getting into the TNC and EV market, I think, mindful of some of the infrastructure and OpEx, some of the unique qualities there to maintain a great user experience. And of course, your big private competitor who I would assume is on this call or otherwise with listen, is not doing that. And there's different theories as to why they might not be doing it or when they would decide to do it because it just seems kind of inevitable at some point.

But for this audience here, do you want to describe some of the things that could go wrong or that while it's a great business opportunity for you, it helps your utilization and again, electrification, all sorts of benefits, including the tax benefits, some of the things that you would be cautious of, given your experience as to maybe why you wouldn't go full head long into this thing, just so on the OpEx side or otherwise infrastructure side that you're addressing?

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

Thanks, Adam. It's Joe. We look really stringently at per unit economics and everything we do has that in mind. So we've been in the ride-hail business for a number of years now. And I have to say our margins on that business is pretty solid. As you know, we cascade cars into that arena. So it's not the typical car that you would get in an Avis facility. Those cars are cascaded. We find that that's a good use of our vehicles and extends the life and allows us to have good depreciation and benefits in that regard and good drop-throughs for our P&L.

As far as electric, we've been talking a lot about infrastructure being really important to our company. If you think about it right now, it takes 20 minutes to clean and gas a vehicle. And then obviously, is not the case with electric cars. So we had to make sure our investments in our infrastructure are there soundly, so that when we rent cars on Airport, which we will, and I think that's the -- going to be the determining factor on a go-forward basis. Being at the same utilization or just about the same utilization that we're getting on a gas car. So in other words, not having to buy more cars to do -- not having to buy more cars because of utilization drive.

So we've been looking at that very carefully. Right now, our demand is improving on electric cars. We have a varied amount of electric cars in our fleet. We think it's important to get electric vehicles from all the OEMs that are currently producing them. We have orders coming in. But as you said it, we are prudent in that regard because we want to make sure that we have the right amount of vehicles to satisfy the right amount of demand at the right locations. So we'll be continuing to watch that over time.

Operator

Our next question comes from the line of Ryan Brinkman with JP Morgan.

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

With regard to that voluntary cash contribution of nearly $500 million to vehicle programs in the quarter, where does this leave you now in terms of loan to value or the equity component of your fleet? How much could you withdraw from these programs at this point if you wanted to? And do you intend to operate at any different level of equity in the fleet versus prior, including in any future AESOP deals, which could presumably lead to a structurally lower interest rate?

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Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Hi Ryan, we don't typically guide to what we'll do within vehicle programs because from our perspective, the reason why we put that $500 million wasn't to optimize just for vehicle interest in the quarter. We view that as a better place to put our cash instead of cash on the balance sheet because it does temporarily lower vehicle interest expense. But as we've shown during the pandemic, it's easily accessible, nearly overnight, and we can deploy to any aspect of capital deployment that we think is optimal. So I think a question on that would be effectively guiding to kind of what we intend to do with our capital going forward. And as we've shown, we're pretty nimble with that.

In terms of how much cushion is in the fleet, I think that's shown -- I think that -- back of the envelope quickly to do that is just take a look at what -- and we report this every quarter in the press release just what our vehicle debt is and what our vehicle assets is, and you can see how that's been growing over time.

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

Okay. Thanks. And then just lastly, to follow up on some of those comments just there with regard to electric vehicles. Wanted to get your thoughts on the deflation that we've been seeing in new EV pricing and the implications for residual risk, et cetera. Obviously, some pretty unprecedented declines in pricing for new and therefore, use Tesla vehicles. I'm not sure if you see that as a one-off or something that could impact other brands. I suppose you could take the view that this is a good thing for Avis at least given you don't have so many EVs currently and yet intend to ramp your purchases. But does it enter into your thinking at all when it comes to how you buy these vehicles, the types of volume purchase discounts that you need or risk versus program or anything along those lines?

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

As I said earlier, we really look at per unit economics and model, how long we want to keep a car, what we think we're going to get to the vehicle when it's time for sale. Now admittedly, some of those are not -- some of the electric vehicle prices have come into question of late. I think the best way to go about it and the safest way to go about it to insulate ourselves that to have a varied product offering. So -- we don't put all our eggs in one basket at any given time. We spread, we -- all OEMs want to sell us gas cars and they want to sell us electric cars. It's part of what they do, obviously. And we're in the business of accepting them. But we accept them in a way that determines what the price is going to be, what our demand is going to be, how is this car going to matriculate into our system? What are the in light vehicle costs going to be? And what is it going to be when we exit?

So admittedly, everything we do with fleet has this little bit of a cautious outlook towards it. And that's how we run our business. And we're confident that we got into it the way we did. We have enough demand. We're building our infrastructure. We believe the OEMs will start selling more and more of these over time where it has to be incorporated not just in an off-airport environment, but an Airport environment. That's why we're beefing up our infrastructure. But right now, I think the best case that we say is we have various product offerings from many different OEMs, and they seem to be holding.

Operator

Our next question comes from the line of Chris Woronka with Deutsche Bank.

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

Thanks for all the details so far. So as we think about kind of continued normalization on the fleet side, I'm curious as to whether the hold periods are kind of getting back to historical levels. And also on the moving parts around shuttling. I know you guys spend a lot of money on that every year. Is that starting to decline as we get more balanced supply and markets begin to become a little more predictable?

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

Yes. Thanks, Chris. Starting off with the first part on hold periods. Hold periods have changed over time. I'm not sure that the hold periods that we had back in the 2019 or 2018 were exactly the right hold periods to have. I think we learned a lot going through '19 and then going through the pandemic and what's commercially acceptable and what's not. So I think those are going to change over time. And we are certainly looking at that. Obviously, the cars that we had in our fleet after the pandemic, they were a little older in nature. And we did a lot of repositioning and of taking cars out and accepting new cars in, which rotates our fleet to a level that we feel gives us the best in life cost on a go-forward basis. We'll continue to take advantage of that, obviously, over time.

But I think we're getting back to the hold periods, it -- what we had in '19 may not be exactly the hold periods that we have today. And plus we have different use case segments than we had in '19 that we had back in '19.

As far as the shuttling costs and things of that nature, we did see quite a bit of that in the past, largely because the unpredictability of when cars were coming in and where they were coming. As the OEMs start to get more in line with the production process, then that starts to normalize as well. Are we there yet totally? I would say no, but we have seen definite improvement from what we thought were coming in last year and what actually happened in the right cities and the like to compare to this year.

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

And Chris, just to add to that, when we manage our holding periods, we take a look at kind of the vehicles that our customers demand in or we follow our NPS scores closely, and that's kind of higher than it ever was in the 2019 level. So I think that kind of corroborates what Joe is saying in that we can take a different approach to how long we hold the vehicles going forward.

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

Okay. Very helpful. And then the follow-up, is there any way for us to kind of triangulate this International inbound versus international or domestic outbound in terms of there's a few more domestic folks going overseas again? There's also more coming in. I mean we can look at the reported RPDs, but those are blended. Is there any -- how do you guys look at what's the offset of an American going overseas versus someone coming here? And these changes that are underway. Is that -- do you think that's a dramatic impact to RPD either way?

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

I think we will see oversized demand going into Europe which would affect their mix. And if you think about what happened in the first quarter, with rate per day being up, I don't see that changing, right? The mix that's going into Europe being more driven from outside of Europe or like is going to be much bigger than probably we've had in the past. So that might have a mix benefit for you.

On the other side of the coin is, this is the bigger -- the United States is obviously the bigger market. And we've seen growth coming from various different channels, not just Latin America or Europe, but APAC because it opened up a little bit later and things of that nature. So probably a minor effect in the U.S. and larger effect in Europe.

Operator

Our next question comes from the line of John Healy with Northcoast Research.

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

Just wanted to ask a clarification question on the $600 million number for Q2. Could you maybe help us a little bit on the RPD expectation that's embedded in that number? I thought earlier in the call that you guys said that pricing or RPD would be similar in Q2 to Q1. I want to make sure I heard that right and just any sort of framework you can help us with on the RPD side.

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Hi John. Yes, I think when you look at it on the Americas, I think what Joe has said, was that we're getting back to normal seasonality. So I think the increase that you see sequentially in RPD from 1Q to 2Q, the last normal year we had was 2019, and you could look back going forward. It's kind of in the 2% to 3% sequential increase. And I think that's what you can expect out of us on a consolidated basis for 2Q, and that's what's built into the $600 million number.

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

Okay. Great. And then I just would love to get your thoughts on what the business looks like today in terms of a customer mix standpoint? I think we're all trying to figure out who's gained share, who's lost share, what the business looks like. And I think your rental days are -- this is an all-time high this Q1. So would love to think about just leisure, commercial and maybe the TNC business, if you could help us with how much each of those are contributing and maybe leisure and corporate, maybe how those compare to pre-pandemic levels in terms of return to the contribution.

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

I'll start off. We saw growth in commercial business as compared to our total business in the first quarter. So we had a larger amount of commercial business, the first quarter of this year than we did first quarter of last year. We saw that starting last year, John, during probably the third quarter period. It was like October, maybe September, October, and that will continue. So we haven't calendarized that yet. And we do believe that, that is a -- that's a good piece of business for us because it fills in the midweek, which our mid-week business has been pretty strong and also gives us an available vehicle to rent on the weekends and in the leisure periods.

I think when you think about leisure, it's going to be traditionally around the more leisure periods that there are major holidays and the summer, which we think the peak of the summer is going to be pretty large. So we think people who normally travel, who traveled last year, maybe in April and May because it was post Omicron and did it on a leisure basis, are going to travel more in the traditional periods of time, which will be the back end of this quarter and into the third.

Also an outshoot of our commercial business is that you get this blended customer right? A customer who would rent on Tuesday, Wednesday, Thursday, would actually stay in wherever it is they travel to for the weekend to take in a show or an event or something along those lines. So we do see some more traditional periods of travel. Commercial and the commercial months, we've added with this blended leisure, commercial mix and then very high level of leisure as if we pertain around more of the leisure periods.

And I think you're going to see a resurgence of leisure this year, not just in the things that we saw last year, which were beaches and golf and mountains and things of that nature. But come back in cities as well.

Operator

And we have reached the end of the question-and-answer session. I'll now turn the call back over to Joe Ferraro for closing remarks.

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

Okay. So thank you, everyone. To recap, we reported another strong earnings with our best first quarter revenue in our company history, driven by increasing demand from our commercial and international inbound travel in the Americas and strong earnings from our International segment. We continue to invest in our electric vehicle strategy and have diverse fleet with the right infrastructure for ours and our customer benefit. All of this is possible, in my opinion, due to the hard work and dedicated employees who got us off to a great start to the year, and I know they are ready for an anticipated strong summer peak.

Thank you for your time and your interest in our company.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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