THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CAR - Avis Budget Group Inc at JPMorgan Auto Conference

EVENT DATE/TIME: AUGUST 09, 2017 / 6:20PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Larry D. De Shon *Avis Budget Group, Inc. - C.E.O., President & Director*

Martyn Smith *Avis Budget Group, Inc. - Interim CFO*

CONFERENCE CALL PARTICIPANTS

Samik Chatterjee *JP Morgan Chase & Co, Research Division - Analyst*

PRESENTATION

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. We'll get started with the next company which is Avis Budget, and from the company, we have Larry De Shon, the CEO; as well as Martyn, the CFO. And in the audience, we have Neal Goldner, the Vice President of Investor Relations as well to take questions. So we'll do more of a fireside chat format for this, and basically we'll just dive right into questions. And maybe I'll ask first few ones and then go into the audience, because I'm sure after the 3Q -- 2Q results, et cetera, there a lot of questions on your mind.

QUESTIONS AND ANSWERS

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

So first question, Larry, that I had, I guess, it comes back to the U.S. industry, where we've seen challenges over the last couple of years that the rental companies have had, Hertz more so than anybody else, right? When we look at it from the outside, the industry seems fairly consolidated with the 3 big players, Enterprise being private, but the 3 big players have quite a lot of market share at the fairly consolidated market. So if you could share your views as to what's been sort of ailing this industry for the last couple of years? And obviously, there's a lot of spare pieces out there about what's on investor's minds. But what in your view is really playing out? And when do we start sort of see that being passed out? And when do we get to a more normalized level of industry dynamics?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. It's a really good question. Can you hear me okay? Okay, good. Really, since the consolidation in the industry has happened about 4, 5 years ago, we've had a problem in the industry with at least 1 competitor where we just haven't been able to get the fleet right. And with the consolidation happened, the thesis for us is that pricing would improve, because 97%, 98% of the market now is made up of just really 3 players: the Enterprise Group, Hertz and us. And -- but since then, the fleet rotations by certain mistakes that have happened over time by primarily Hertz just caused an imbalance of fleet to be against the demand. And in our business, whether fleet isn't really right sized to demand, it really puts pressure on pricing. And so in the last couple of years, what you've seen is as Hertz has worked through their iterations and evolution of trying to fix their fleet issues and you're seeing -- and fleet costs have started to really increase, you've not seen the normal offset of price improvement. And normally over the many, many years of history in our industry when fleet prices move up -- when fleet cost moves up, pricing moves up along with it and basically offsets it, maybe a lag effect in there, but overall it offsets it. What's happened over the last few years is that it first started with Hertz fleet when they kept their fleet, aged their fleet too long and were unable to get out of their fleet and then finally had to sell it all at one time and get out of it and then replenish it. That's their kind of whole rotation. Then kind of out of whack, then they end up buying too many small cars, not the bigger cars, that rotation got out of whack.

And then last year, they decided to fix that problem, and then we went into just a big in fleet -- a big overfleeting in the fourth, first and second quarter of this year. And when we've always got along, anytime anyone is asking those questions, pricing will come into this industry when fleets get tight. And we have a lot of seasonality in our business. But if you could finally get your rotations right by market, you can kind of kick off your fleet and de-fleet your fleet and keep it tight with demand all the way throughout the year. And that's been the battle that we've been up against.

Hertz said that they will get their fleet rightsized by June. And sure enough, they did. When we started about middle of June, we really started to see fleet tightness across the country. What we do is we lot shop freights and so forth and see what the competitors are offering. And that's when you start to see what we call length of rental restrictions go in place, where airports are getting tight and rental companies are starting to deny a 1-day rental or 2-day rental, because they're trying to push their fleet towards a 3-, 4-, or 5-day rentals when they get shorter fleet. So we saw that kind of normal summer tightness start to happen in the back half of June. Normally, maybe we would have seen it in a normal year or a little early, but this year, finally, they were able to get out of fleet. But that caused a lot of cars to be pushed out and sold in the auctions and through all the other channels of disposition in the first and second quarter of this year, tons and tons of cars were being pushed through to the sold. They try to help them get to that kind of right fleet to go into the summer.

So the good news is the fleets are finally now tightening up, and we're starting to see it translate into price, because price is starting to improve in the back half of June and going into July. The bad news is, they had a big impact over residual values in the quarter as there was just so much inventory in the second quarter out there to be sold. Now we're past that now, so the impact it's had on us and them and everyone else. It's in the market selling cars has now happened. And now we're going forward where we're now seeing pricing improved in July, and that trend has continued into August. And as long as fleet has been going out now, stay closer to demand, then hopefully, that's a good picture of full pricing going forward.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Good. So as we then sort of think about the next couple of quarters and so going to the summer, you obviously have seen -- started seeing the tightness in sort of the fleet supply. But as we get into sort of end of summer, the -- you and Hertz will have to start to de-fleet again. Is there any concern from your side on the demand that you're seeing for rental car transactions that might lead you to think that going into sort of the de-fleeting season, you again start to see some challenges? Or you think right now the demand level is where you wanted and really more view -- are at a normalized fleet and things should be smooth sailing from here on?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. The demand looking out looks fine. There's nothing about the demand that got us concerned looking out. But the industry does have to come off of its summer peak fleet levels and come back down as you go into the fall. So we would want -- we would hope or want to see that they're able to de-fleet like we used to do years ago. And this is not -- this is nothing new, right? We always come up with summer peaks go into the fall. And the industry always finds a way to come off of that and go into the quarter. So to a degree that, that we're back to that routine and there's nothing about the demand that has to be concerned. And I think the data point that's helpful here is taking a look at new car registrations by the rental car industry so far this year. So if you take a look at model 17-year vehicle registered by the rental car industry, January through May, they're down 15% year-over-year. So that's helping. That everyone overall are buying a lot of fleet as the 17's registering less fleet during this period, which should help as we come out of summer and going into fall.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Great. So as we now then sort of move into next year and try to sort of size up what next year would look like is once we get over the overfleeting situation, there's this obvious headwind from declining used car prices. And at least in the data that we're looking at in terms of off-lease volume, you don't really see any turnaround any time soon in these car prices. So what are the levels as a company you can pull, so when you go into next year U.S. pricing starting to improve, but what are the other levels you can pull to sort of still have EBITDA growing even when used vehicle prices are going down?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. Well, first of all, pricing will hopefully help offset some of that. So pricing will be once again a function of how much fleet is out there. If fleet remains tight to manage as you go through the different successful periods, then we should have a better pricing event next year than what we did this year, that's one. Two, we're pushing hard to grow our alternative channels on how we dispose the cars. And every time we can sell our car direct to dealer or through our website or direct to consumer, we get more residual value for that car than we do when we sell at the auction, so that go a long way to help offset in these sort of big cars that we have. We've grown our alternative channels in the first half of the year by 13% over the last year, so it's [half] point. So we're at about 47%, 48% in the first half of the year. So we have a lot of (inaudible) opportunity. And most of that's been selling direct to dealer, where we get maybe $250 to $400 benefit. Every time, we can sell to direct to consumer, which right now we sell a very little direct to consumer, so we have that runway ahead of us as well. We can get over $1,000 or more benefit on the car. So we're continuing to grow those channels, which is a good way to kind of help offset in these sort of fleet costs. So we're using a lot of new data now to allow us to look at our acquisitions and say if we need to buy these mix of models, we need to rotate them into these markets 3x of the year. We have data now on all the derivatives ever sold that tells us that if you're going to buy this make a model, here's the color you should buy it in, here's the terminal where you should buy in. This is the best time of the year to bring it in. This is the best time of the year to dispose of it. These are the markets that sell out at the highest residual value. So you start moving your fleet and informing your buy through your acquisition time to actually buy smarter to be able to maximize the residual value from the other end. So that's a lot of new data that we're bringing into the acquisition models. And we have an optimization model that runs all the time that constantly telling us how we move fleet around to make sure we keep it tight to the demand by market and expedite it to places that we really want to sell at the end of year.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

So maybe -- while that sort of a quick view about how things can be offset next year, if you can just do a small recap of 2Q? And Martyn, if you can -- if maybe you want to take this which is, you cut prices (inaudible) we used to follow up -- sort of follow the Manheim and used vehicle index and that's down roughly 3% to 4% in the Europe. I think based on your updated guidance, the fleet cost, I suppose, increased in North America was 7% to 8%?

Martyn Smith - *Avis Budget Group, Inc. - Interim CFO*

Yes.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

So what are you seeing there? What's driving that higher increase over the -- what the industry is seeing? And how do you -- I know you haven't really given guidance about next year, but any way to think about what it would look like next year?

Martyn Smith - *Avis Budget Group, Inc. - Interim CFO*

Yes, of course, but Larry may even have to come in as well. In the second quarter, we saw the trends you're aware of in terms of the leased fleet costs are increasing and manufacture with new car incentives are being very active. And we -- sort of Hertz fleeting up their fleet as Larry described as well, really exacerbated that fleet position. So the second quarter was quite difficult. Late March was better. April was reasonably okay. We had a very, very tough May and June. We didn't do is we retest our residual values and our models for our records on the own fleet for the rest of the year -- and as they run into 2018. And so our increase in fleet costs, 2 things really there, lock on sales in the quarter and then recapping our favorable costs going forward as well. So we got a very good line of sight into the second half of the year in terms of the fleet costs. It's unlikely, we'll see anything much worse that they can be improved and our disposals in the second half are pretty full. We sold about 78% of our vehicles -- our risk vehicles already and we're selling full amounts of cars in the second half and we often try to get ahead of the market. So we've been selling a few cars in August and drive the market is quite strong as well. 2018 model year (inaudible) with our purchases will be around to 72% lower in cost than the model year equivalent of '17, but it's a long way to go for us through our 2018 fleet cost as we work throughout rotation and work through the whole different holding period and different -- types of different (inaudible) where and when that we'll be (inaudible). We think we're first out there in terms of visibility in the second half and we will work through for the '18 to get through (inaudible). Larry, you may want to...

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

No, I think you're actually right. The only thing I would add is because we don't have that many cars to sell for August through the rest of the year, it allows us to be able to be choosier about when we sell them what vehicle and what channels you're talking through. So you get a chance to kind of drive alternative channels even harder in terms of what to sell. (inaudible).

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

In the press release, there was also a big additional $25 million of cost savings you were pulling through after back filling those cost savings. What sort of the -- is that more of a pull forward? Or is that more sort of updating that you see that you have opportunity -- there's opportunity there in 2018 as well?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. We always look. I mean, every year, we build into our plan more opportunities around our initiatives to drive cost savings on operational efficiencies in the plan. So the additional $25 million this year was basically a voluntary separation program that we did with employees that are more than 15 years, where we could get volunteers and then we enhance retirements and then we chose whether that was a position we're going to lose. And you end up getting kind of more senior paid people who volunteered to go out and then we've replaced them with lower-paid salary employees (inaudible) estimates and all we're able to reorganize around it. That was primarily that incremental $25 million that got us to $75 million this year. So we'll annualize that next year and then we'll also be pushing a lot of our other strategic initiatives that we talked about in the investor presentation last year around kind of growing our profit margins going forward, so it's more around operational efficiencies, using technology, (inaudible) rental cars, fleet optimization, revenue management really focusing on those channels that come at a higher rate today. We're working really hard on kind of reorienting ourselves to really focus on this embarking small business at high rates per day, still protecting our large commercial and focusing on those channels as well. So there's a lot of initiatives that will play out in 2018 that are all driving efficiencies (inaudible).

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Good. So a couple of questions on more like the strategy as well as the outlook for the business. There's a confession in the industry that the rental car industry really competes on price. And I know you don't really breakout margins or profitability by big brands, but just give us brand that goes premium and that is perceived value brands as well are accompanying that. But is there a feasibility strategy here where you get really the market competing for price in more cases? Is there a feasibility of going with just a premium for price, brands and not having a full portfolio of brands, because most of the industry seems to have come to the approach. So you and as well as Enterprise is having a full portfolio of brands that's full from premium to the deep value as well, but is there more profitability? Or is there more margins to be had as a company if you were to focus on one segment and some of the premium segments?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

No. I mean, we've got -- we've taken a lot of synergies by merging all the brands in the back office and how we operate the brands. We have a separate fleet from Payless we're able to budget, but their synergy is being able to use the same fleet across (inaudible) budget, rental and a lot of places that we can leverage employees across the brands. We leverage all the back office across the brands. So it's just exiting the mid-tier and low-tier brands, low-tier markets. I don't think it's the right strategy. We really shrink the business, and the leverage (inaudible) really suffering (inaudible) that I think it makes it really hard to be able to (inaudible). So -- and those markets are important markets. There's a lot of volume in those markets. And there's certain times in the year that just because of fleet tightness, the budget brand rates were there and are quite similar to the premium brands. That's very, very close. What really comes back to fleet and our business starts with fleet, you get the fleet numbers right, keep a tightened demand across the different tiers on this -- of the different customer segments and you can get price in the industry and life moves on. But what you've seen just really is a disruption that's causing all these questions to be asked. They're all fair questions to be asked. We're just seeing a disruption of fleet level (inaudible). But no, I don't think it would be a wise decision to walk away from number of fleets here (inaudible).

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

And just to my outlook question, you -- at the Investor Day, you sort of communicated margins of 13% to 15% as sort of the long-term target. And how does -- what transpired in 2017 with the fleet? Does it really not change your expectations where long-term margins can be? Does it change anything in terms of the time line on getting to those margins? And what are still the big block drivers to getting to those margin improvement? Because when we go back and look at some of the historical margins, I think barring a period [increase] well and you saw prices were quite favorable, your margins were largely being sort of around that 10% level. So what's helping you think about making you confident of getting to that 13% to 15%?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. So when we set that target, what we said was that the target assumes that fleet costs would be offset by pricing. We weren't expecting anything toward (inaudible) pricing, but pricing would offset those costs. So now if you put those 2 factors aside, then we said there's -- these are all the other towers we can do to try to drive the profit margins higher, which come around fleet optimization, operational efficiencies, connected car, the technology, revenue, more profitable revenue channels and so forth. We've identified a numbers of initiatives, and they're kind of each one of those towers. So these are all things that are within our control. These are all things that we can go out through technology. We're actually fairly new in the industry. Revenue management, technology that the industry hasn't had that we've now got. These are all things that we can drive higher margins through these initiatives. All assuming that pricing will offset those costs. So this year and last year, pricing has not offset those costs so that is kind of backwards from a margin perspective. But as that corrects itself, as long as we stay in demand, that will correct itself and that will determine how fast we kind of get to the 13% to 15%. In the meantime, we're working on the initiatives we said we were going to work. So we have 2 big ones this past year. It was manpower and shoveling. And we spent a lot of money shoveling cars to get them repositioned, and we've put a lot more rigor into the (inaudible) metrics in place to manage that because we spent (inaudible) million here doing that. So we've been able to bring our shoveling cost per transaction down quite significantly. Our manpower plan is getting exactly the right manpower at the right 15-minute increments due to demand that's coming through the airport. We had no systems to manage that. We just left (inaudible) on spreadsheet. And now we're actually dictating -- these are manpower plants. We want you to execute in the sales. We're just rolling that new technology out now, which allows us not the manpower we don't need it, make sure the shifts are balanced right. Part-time, full-time, all those kinds of things are balanced correctly. We spent $750 million a year on that kind of manpower in the field that if you can make a few points improvement, it really kicks off. Those 2 initiatives have actually done quite well this year. So those are just 2 examples of a whole host of initiatives we've identified either through technology or focus or rebalancing the organization that we know are within our control to go to, all assuming that fleet costs have to be offset by price.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Great. We check if anybody in the audience has questions.

Unidentified Analyst

How much of your business, fleet price is the immediate (inaudible) your business starts? But how much of the total volume is on contract and fleet prices work slowly? And how long will it take for your pricing initiatives to be reflected in revenue?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. On the whole book of business, I would say about 25% of the book of business is contracted, because about 60% of our commercial business is contracted, 40% is not. And then of all the rest of the business, whether it's our own spot retail rates or other airline partnerships that we have, that moves all up and down by just the regular retail rates. So I'd say about 25%, 30% of the business is kind of contracted. That's not going to change. The balance of it can move with price changes.

Unidentified Analyst

And how long do these contractors contract take the rollover? Are they annual? Or...

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Commercial corporate accounts, commercial contracts are usually 3 years.

Unidentified Analyst

3 years.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes.

Unidentified Analyst

So the 25 is basically big break...

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes, that's the way to think about it. Yes.

Unidentified Analyst

Okay. But the rest will move (inaudible) one example is the industry like this probably going to move with underlying costs?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Right. So even if you take a look at July, our corporate book of business improved from a pricing perspective from the second quarter quite a bit, because 40% of it moves with retail rates. And because retail rates moves up quite a bit in the month of July, it brought the whole group up. It's still negative 0.7, but it was down 4 in the second quarter, so move from down 4, to down 0.7 July.

Unidentified Analyst

Now if the spread between new and used car prices were to narrow again, would that hurt pricing, because some in the industry might see the cost of growing their fleet as coming down? I got a feeling that the way you talked about will have a big financial player as well, thought they were basically getting almost 3 cars when the spread between new and used got very narrow.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. I think the industry has learned painfully that the way to actually grow EBITDA margins is to get the fleet right to demand and raise prices. Pricing has the biggest leverage of anything, any metric we have in our business. To grow fleet above demand is not a good position to be in. I always tell our guys when spot deals come along the way or we got an offer from such and such manufacturer for a good deal, again it's not a good deal if we don't need the cars. And so again, let's not take them up on their good deal if we don't need the cars.

Unidentified Analyst

I tell my wife that when things are on sale.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. My wife tells me how money she saved me by what she buys, and I never be able to figure out that math. So I think the industry is through that. And through all of these and all the chaos that's happened over the last 4 years with the fleets being off balance with one of our competitors, I just haven't seen anybody else, including us, do anything that says, oh, this is the time to actually ramp up our fleet really high to go after market share. Our market share has been basically big, stayed the same for the last 4, 5 years. So I think that -- I think from that perspective, I think people will get it and I think we have an opportunity now that a fleet stay like they are as they finally got at the end of June, I think we have an opportunity for the thesis of the (inaudible) they kind of play through. We just never had a chance to play through.

(technical difficulty)

Unidentified Analyst

It was very specific -- I think it was Phoenix. It Phoenix, it's priced for minivans. It seems a bit random. Can you maybe just talk more to why Phoenix and how are you leveraging that deal to maybe service more Waymo business? Or are you going to other parties that kind of leverage that or do something similar? Just talk to that a little bit. And then second, your relationship with the rise sharing companies, so I know it's sort of an outlet for used cars. What else are you doing with them and maybe talk to the traction there. I mean, is that outlet growing for you, how does that go?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Sure. The Waymo deal, which we're really excited about, it may sound random, but it's Chrysler minivans is the only fleet they have in Phoenix. They're using all Chrysler minivans for this test that they're doing in Phoenix. And specifically Phoenix, because this is the test where they're actually saving by the families and consumers to actually participate in the test. So they're sending autonomous vehicles out. The folks that have registered for this and accepted into program can call any of these cars when they want them to take them wherever they want them basically for free. And so they have drivers in the cars, that these cars will pick up families and move them around. And so this is the -- Phoenix is the place where this is happening. So this is the first test of kind of this -- this kind of scale and actually involving consumers. But we're certainly -- and what we're doing for them is we're using our facilities, all of our supply chain, our maintenance programs. We're cleaning the fleet, exterior, interior, repairing the cars, all those types of things that a supply chain will do as a fleet management as a service kind of company. Which allows Waymo, the focus on the things they want to really focus on, which is the technology. So we've got a really good partnership going with them. They're talking to us about the other things that we can possibly think about in the future. And of course, we're certainly open to more markets as they look to expand that outside of Phoenix into other markets in the country. So we're pretty pleased with that program, and I think they're a great partner and hopefully that will go a longs way for us. It does allow us to also look at other kinds of mobility companies, and we're talking to tons and tons of them. Right now, people that are kind of getting into the mobility space in different kinds of use cases for consumers. We're talking to a lot of people about how we can help them from a fleet management perspective. There are a lot of folks that want to offer different solutions for mobility, but don't necessarily want to own the fleet or actually operate the fleet in that. And that's what we have 70 years of experience in all the systems and locations to do. So I think there is more opportunity from a fleet management and mobility as a service opportunity as the mobility kind of landscape expand. And I think this is all good for us. More technology that comes in, more kinds of solutions for consumers for more used cases makes the mobility pie get bigger. More people are going to be willing to give up their second car, even their primary car, if they know there's solutions for them no matter how they need to travel. As it relates to the car-hailing companies, there is an outlet to sell cars too, but we've also been -- with Uber, for example, we've been testing, letting Uber drivers -- making cars available to Uber drivers through our Zipcar brand. So in Boston, Uber drivers can become members and actually rent by the hour our Zipcar cars to go out and work as Uber drivers. So there's a lot of Uber drivers that don't want to have a car for the whole month. They may have another job. They just want to pick up some extra hours in the evening and perhaps do the bar and dinner crowd or the rush hour home crowd. And so they just want to take a car for 3, 4, 5, or 6 hours in the evening, but they don't want the responsibility of owning a car or leasing a car on a month basis. So we've been doing that, and that test has gone actually pretty well. And so we're talking to Uber about how do we expand that test to be take it to more markets and so forth. So there's other ways to work with these folks that I think are beneficial to people that are used to buying, registering, in-fleeting, maintaining, fixing, repairing, recall, refixing, repairing and selling cars that a lot of companies don't do and only a few in the world do at our scale.

Unidentified Analyst

Larry or Martyn, as you look at Hertz through fleet level, how are you measuring the impact of their fleet level has had on pricing? And I guess related to that, what are you seeing in terms of enterprises doing comparatively?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

If you look at -- when you say when you look at their fleet levels, what impact it's had on used cars sales?

Unidentified Analyst

No. I was thinking you said sort of the highest fleet levels in industry are driven by Hertz has been sort of one of the key drivers for the weak pricing in the marketplace. How exactly are you measuring the impact Hertz has had versus other competitive behaviors including enterprise? And I guess maybe related -- if you can comment on what Enterprise is doing?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes, I come back to fleet levels to try to understand that. And I will say that it's been primarily Hertz where they -- under their own admission have this fleet issue that they've been trying to resolve that they announced fourth quarter last year that they had to fix. I haven't seen fleet level issues be a problem on the Enterprise side. I mean, there's always going to be those anomalies where Florida -- at last couple of seasons, Florida did not materialize like the whole industry did, so the whole industry was overfleeted in Florida. It wasn't anyone's mistake. The volumes just didn't materialize. The year before, it's because of Zika, because of inbound business from Latin America and Canada, the weakness of the Canadian dollar, all sorts of things happened where Florida just didn't show up for a whole season. So you're going to have those kinds of situations that you just have to work through and people just have to work through selling those cars and getting out of them. But overall, if you just take a look at through the year, we've not seen really many fleet issues outside the ones we've been talking about. And then in our industry when someone is in that situation, it's just really hard no matter -- if somebody puts a price increase in and so forth, that just doesn't work, because if they've got that fleet sitting, they want to put it on rent and trying to raise -- in their view, raising rates is not -- is going to get in the way of that. So I don't necessarily agree with that view, because I don't think that we actually generate demand by lowering rates. I think rental car demand is going to be rental car demand. I think you can generate demand if you're going to lower airline tickets a lot, but I'm not sure by moving a daily rate $1, $2 or $3 is going to make that much of a difference, but other people have different views. So whatever. So it's -- now that we are where we are and we're starting to see the pricing flow through and it's the yielding opportunities for the most part that are happening, it's not so much stated price increases, somebody goes out and raises all the rates across the country. These are really yielding opportunities. Location by location saying, I have an opportunity to raise my rates because my fleet levels are now getting to this level, my demand is strong, I'm going to probably end up putting restrictions in place, I'll probably start with 1 day next week, I'm going to probably then move to 2-day restrictions after that. And that's when you start to see the rates really yield up, which is the way life used to be 4 years ago every summer, every Easter, every Christmas, every Thanksgiving. You will see these yielding opportunities as demand kind of hits this peak periods. And then the key is how fast you get out of those when you go back into a valley and how low can you stay in the valley with your fleet to build back up again, and that's the eloquence of the rotations that you have to put in by market. And so it's highly complex. We have lots of big models and optimization models that manage all this for us, make sure we try to move and keep our fleet in sync with the demand across the country. Every Friday, we go through and we literally go through fleet owner by fleet owner across the country and understand exactly the position on their fleet, what's happening with the competition, what's happening with your demand, how does it look for the next several weeks and we make decisions on how to flow the fleet across the country, get it all repositioned right and then eventually until we dispose of it. So there's a lot of science and art that goes into this, but what you have to have for any of this to work is the industry to be rightsized fleet and then you can manage these little pieces on the end. But when something's way overfleeted, it just takes a long time to work that out.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

[Gean]?

Unidentified Analyst

If I can ask a further derivative question on the competition and the notion of the oligopoly. If you've got enterprise in the room and you have a company that traditionally was off airport and everyone wants to do that today because of the efficiencies with logistics. You want to do that everyone stood, but they also grew in a model where their capture on what they saw on the used fleet is much larger -- their fleet is much larger. How do you think about a world with apps, more pricing transparency, more rental efficiency from the end user, particularly at the North American airport part of the business, which is big? What if you're faced with an environment where Enterprise simply can do things cheaper because of these advantages or believed advantages they have, where they may not need to play the game and you survive once the fleet virtualization is done, but you're simply not going to have the environment to get the pricing that you're anticipating given their operational metrics?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. Well, we've been operating for many, many years with Enterprise having an advantage from a margin perspective. Their margins are larger than ours. And we've been competing against that for a very long time. I think what you have to take a look at is, for example, if you just take a look at what the OEMs have been saying about fleets available for the rental car industry, they've been bringing this -- that fleet level down over the last couple of years, actually quite significantly. We've not had an issue on buying cars. We buy across a big diverse group of OEMs, probably 16 different OEMs, probably a couple hundred different makes of models. But overall, there's less cars available for the rental car industry than there used to be in the years past. I think that's good for us. It's actually something I welcome very much. So when you take a look at buying power of Enterprise against us and so forth, I think what you're going to find is that normalizing more over time as less cars are being offered into the industry and, of course, the OEM is wanting to sell at the best value that they possibly can the cars they are going to sell into the industry. So that may balance the 3 players across the cars that they're going to buy, which could improve that situation. That's another reason why we set the targets that we set last year to the 13% to 15% margin improvement -- to get to 13% to 15% margins is because we know that imbalance isn't healthy for us. And all those initiatives I -- examples I gave are always which we can improve our margins. Assuming price will offset fleet costs, we can grow our margins through self-help by initiating a lot of these initiatives and using technology in a different way going forward. Just connected car alone is teaching us a lot of things by how we can manage our fleet more efficiently and drive more fleet -- drive more cost out of the fleet. So that will help us get closer to where we need to be to compete. But I would say that there just hasn't been anything that -- that's happened in the industry that would tell me that there's anything different that's going to go on that what used to go on when fleets are aligned to demand. I just haven't seen it. When fleets are tied to demand, the industry overall together gets pricing. And don't forget, Enterprise is 100% risk. And so the risk issue that's been going on this year and last year, they're feeling it just like we're feeling it at 75% risk or 77% risk and Hertz is feeling at whatever level they are at risk. We're all feeling that same pressure across the board. So these are all things that people are going probably want to offset, and the biggest lever in our business to offset it is price.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Great. That's all we have time for. Larry, thank you. Thanks, Martin.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Thank you.