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CAR.OQ - Q4 2024 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group's fourth-quarter and full-year 2024 conference call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce David Calabria, Treasurer and Senior Vice President of Corporate Finance. Thank you, David. You may now begin.

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

Good morning, everyone, and thank you for joining us. On the call with me are Joe Ferraro, our Chief Executive Officer; Izzy Martins, our Chief Financial Officer; and Brian Choi, our Chief Transformation 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 of our website.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results, and any or all of our forward-looking statements may prove to be inaccurate, and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements.

On this call, we will discuss certain non-GAAP financial measures. Please refer to our earnings press release, which is available on our website, for how we define these measures and reconciliations to the closest comparable GAAP measures.

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

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

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

Yesterday, we reported our fourth-quarter and full-year results. For the quarter, we delivered revenue of \$2.7 billion and adjusted EBITDA loss of \$101 million. And for the full year, we achieved \$11.8 billion of revenue and adjusted EBITDA of \$628 million.

Let me start by providing additional color around the \$2.5 billion non-cash asset impairment and other related charges we disclosed in our earnings release. Izzy will go into the accounting implications surrounding the charge, but I want to explain the business rationale for recently accelerating our fleet rotation strategy, which resulted in this impairment.

As you are aware, the auto industry has seen significant movement in price on both new and used vehicles over the post-COVID period in the past few years. The strong retail market for model years '23 and '24 forced us to purchase these vehicles at higher prices than historic norms. Our strategy to address this challenge was to hold these vehicles for a longer period of time. This would have allowed us to depreciate vehicles across a flatter portion of the residual value curve and manage our fleet purchase to an appropriate return on invested capital.

However, when we saw prices for model year '25 vehicles return to normalized levels, we had a new decision to make. One option was to hold the course with a fleet largely comprised of model year '23 and '24 vehicles. This would have kept depreciation levels closer to our original assumptions, but we would not be taking the opportunity to continue to acquire new vehicles at lower cost base.

The other option was to pivot strategies and refresh our Americas fleet by exiting model year '23 and '24 vehicles aggressively and replacing them with new cars purchased at sustainably better prices. We believe accelerating our fleet rotation is the right strategy for our company, creating greater certainty on our fleet costs back to normalized levels and positioning us to increase utilization and reduce maintenance and repair costs, provide enhanced customer experience while sustainably growing adjusted EBITDA in 2025 and beyond.

Now, none of us took this situation lightly and for those of you who have followed Avis for some time and are familiar with our company's culture, you can probably surmise that there was only one acceptable option for us. We are not happy taking this impairment, but accelerating our fleet rotation now allows us to position ourselves to better manage our fleet costs and maximize our earnings this year and the years to come.

Now, let's move to our segment results, beginning with the Americas segment. The Americas generated more than \$2.1 billion of revenue in the fourth quarter with an adjusted EBITDA loss of \$63 million, or an adjusted EBITDA of \$156 million if you exclude the year-over-year increase in fleet costs. Rental days in the Americas were consistent with the fourth quarter of 2023.

We did see some volume impacts during the week surrounding the hurricanes and the national election. However, our strategy for the quarter was to maximize revenue over the peak leisure periods of the holiday season. The Thanksgiving and December holidays were strong, with Christmas in the US being a record for our company. Pricing was down 2% compared to the fourth quarter of 2023, but improved sequentially throughout the quarter, with December finishing flat the prior year period, showing improving exit trends. In January, we saw a continuation of strong leisure demand associated with the longer holiday season, as well as a robust MLK weekend.

As we look further into the first quarter, there are year-over-year comparisons to take into account with the loss of a day due to leap year and Easter falling in April. However, we view a later Easter season as an overall positive because Easter is traditionally much stronger in April due to warmer weather that opens up more destinations for our rental customers to travel than you would have in March.

As always, we strive to keep our fleet inside of demand, which allows for the most optimal price outcome. This strategy has resulted in ongoing improvements in our vehicle utilization. For the quarter, our utilization in the Americas was over 67%, which is more than 2 points higher than the fourth quarter of 2023, with December finishing at the high end of our historic norms.

For the Christmas holiday period, vehicle utilization averaged 4 percentage points higher than last year in our US rental business. Transactions for Christmas far exceeded last year's Christmas peak, which I had mentioned was a record in the US.

We believe we can continue to improve our vehicle utilization as we implement further transformational enhancements to better understand vehicle dispositions and actions to support more available fleet to optimize supply and demand opportunities. We expect the first quarter of 2025 to continue to show strong vehicle utilization as we started the year with substantially fewer cars than we started in 2024, and we will continue to aggressively exit vehicles while rotating in newer, more cost-effective units.

Earlier, I discussed the recent change in our fleet strategy, but I want to take this time to discuss our model year '25 buy in greater detail. The 2025 buy is virtually complete, although we believe we could still take advantage of some attractive spot buys throughout the year, which will also help us cycle in new cars faster. The use of data analytics and enhanced residual value modeling have benefited us in our fleet negotiations.

The new '25 model year vehicles are more affordable than in recent years, allowing us to reach more normalized vehicle costs as they rotate into our fleet throughout the year. As we discussed, we will aggressively accelerate our disposal plans on our 2023 and 2024 higher-cost vehicles to make room for the new model year 2025 vehicles in our rental fleet, and by year-end, we expect the average age and miles of our Americas fleet to be back to pre-pandemic levels.

So to recap, the travel environment demand is robust, the leisure holiday of Thanksgiving and Christmas was strong, and we saw this continue into January with the MLK holiday weekend. The extra day last year and the calendar switch of Easter will impact the quarter, but we believe will be more than made up next quarter with Easter falling in April. And while the results of this quarter were negatively impacted by the non-cash charges we recorded in connection with the recent change in our fleet strategy, we believe these actions create more certainty surrounding future fleet costs and position us for sustainable growth going forward.

Our model year 2025 fleet buy is well positioned with lower holding costs and will continue to accelerate our fleet rotations as we transition through the first quarter and beyond. As always, our goal is to be disciplined in aligning our fleet size with demand driving higher utilizations in the first quarter and throughout the year. The Americas is well positioned to take advantage of what we believe to be a strong travel environment and an enhanced summer peak.

Let's shift gears to International. International generated over \$590 million of revenue and a loss of \$11 million for adjusted EBITDA in the fourth quarter, largely due to non-recurring higher vehicle-related operating costs as we accelerated rotating out of fleet in the region. As a result, vehicle utilization was over 68%, up nearly 3 points compared to prior year. This allowed us to start 2025 with fewer cars than we did in 2024.

Revenue was down 1% compared to prior year, driven by a 1% decrease in rental days. Price was flat in the fourth quarter as compared to the same period last year, which is an improvement from the negative 4% year over year in the third quarter of '24. We continued our strategy that we discussed on previous calls to build on the robust international inbound and inter-European cross-border leisure travel, as it generates higher margin business while exiting lower price volume. This drove a year-over-year increase in our leisure business, which helped propel our overall revenue per day.

As noted on our previous call, our proprietary demand fleet pricing system is fully operation in our European business, which allows for improved contribution margin by generating increased vehicle utilization and improved revenue per day. We're in the process of implementing this system in our Pacific region and expect to see similar benefits there as well. Our international regions continue to be a popular destination for cross-border travel, and I believe we are well positioned here to capture this demand.

Moving on to technology and marketing. As I mentioned on our last call, we launched a new customer app in October. This new app offers a more dynamic user experience, providing our customers with a new rental dashboard, as well as quick and easy access to their trip details on their travel journey.

We're getting a lot of great customer feedback so far and are planning further app enhancements in the first half of 2025, which will integrate with our touchless rental and ancillary product offerings. We're confident this new app makes our customers' car rental experience smoother and more enjoyable and will continue to differentiate our company in the market by delivering exceptional customer service. With that, I'm also proud to mention we finished the full year with record Net Promoter Scores.

In addition, following Xander Schauffele's successful 2024 season, where he won two major PGA championships as an Avis ambassador, we're expanding our partnership with the launch of Xander Embedded, an exclusive content series presented by Avis. This monthly series premiered in December 2024 and will air throughout the 2025 PGA season, offering a behind-the-scenes look at Xander's life and the planning and preparation that fuels his success, aligning with our Avis Plan on Us brand campaign.

We've also continued the development of proprietary in-life fleet technologies, which will drive operational efficiencies. As I've discussed before, we've been piloting digital tools in key cities throughout the US that we believe will drive better vehicle utilization. These pilots have gone well, and we are operationalizing these tools with the intent to continue to scale across the US. These tools will allow for a better understanding of vehicle dispositions, drive more timely repairs, and improve vehicle movements, all designed to create more available fleet.

So to conclude, we took the necessary actions to create more certainty around future fleet-related expenses and best position us for sustainable growth going forward. Our 2025 model year buy came in much closer to pre-pandemic levels. Leisure peak period travel was especially strong around the holidays with the US record at Christmas, and we saw this strength continue over the MLK holiday weekend. Overall, travel is strong, and we expect this to continue into the summer peak, and our brands are well positioned to take advantage of this.

Year-over-year pricing in the fourth quarter sequentially improved for the Americas, allowing us to exit December flat the prior year. We will continue to aggressively rotate our fleet by adding lower-priced new model year vehicles while exiting older, more expensive fleet. We expect utilization to be well over prior year in the first quarter, and we expect to continue to see improved utilization throughout the remainder of the year. Izzy will address more about our future outlook, but I want to affirm that based on our strategy and current line of sight, we expect to generate no less than \$1 billion of adjusted EBITDA in 2025.

Now, before I turn it over to Izzy, I want to comment on a succession plan announcement of last evening. I've had the privilege to work at this company for the past 45 years and the honor of being the CEO for the last five. After careful consideration and conversations with our Board, I will be transitioning out of my current role on June 30 and stay on as an advisor to the Board.

Brian Choi, the company's Chief Transformation Officer and previous CFO, who I've worked with for many years now, will take over as CEO effective July 1. Jagdeep Pahwa, who served as Board member since 2018 and Chairman since 2024, will become the Executive Chairman. I will continue to run the company as CEO through June and will ensure an orderly transition to Brian as he takes over, effective July 1. These succession planning actions will position us well, drive performance throughout 2025 and beyond.

I'll now turn it over to Brian for a few words.

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

Thank you, Joe. Everyone at Avis owes you a debt of gratitude for the contributions you've made to the company throughout your 45-year career here. You've always led from the front and personified our motto of trying harder. It's a legacy I hope to continue.

I'm very grateful for the opportunity to serve as Avis' next CEO and fully appreciate the responsibility that comes with stewarding the global brands we've built over decades. The next leg of our journey holds tremendous potential, and I'm certain that Avis' role in the evolving mobility ecosystem will translate to significant value creation for all of our stakeholders.

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

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

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

Thank you, Joe, and good morning, everyone. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in our press release.

As Joe mentioned, the results in the fourth quarter were impacted by a non-cash impairment and other related charges of \$2.5 billion. The impairment charge was due to a recent operational change in strategy implemented in the fourth quarter to significantly accelerate our fleet rotation in the Americas. This affected the vast majority of our Americas fleet, and the size of the impairment reflects that.

Let me provide a bit more color on how we came to this decision. If you recall, coming out of COVID, there was a shortage of fleet supply and the vehicles we obtained over the past few model years were purchased at elevated prices. In order to achieve an appropriate return on invested capital on these higher-cost vehicles, we intended to elongate the holding period to capture a flatter part of the depreciation curve.

However, as the competitive landscape shifted and new vehicle incentives returned closer to pre-pandemic levels, we came to the conclusion that aggressively rotating out of these higher-priced vehicles was the optimal long-term economic decision for our company. This ultimately required us to reassess the valuation of our fleet from an accounting perspective. Since we are depreciating the vehicles over a shorter period of time, the straight-line depreciation curve is steeper than we initially modeled.

We adjusted our fleet valuation to their current fair market value to reflect this recent change. The impact consisted of a \$2.5 billion impairment for our rental fleet and other related charges recorded in the fourth quarter. We expect an additional non-cash charge in the first quarter related to the disposition of vehicles as part of our accelerated rotation strategy. To avoid any confusion, let me be clear, we expect no further fleet charges beyond the first quarter of 2025.

While this non-cash impairment and related charges fully reflect current market prices, our go-forward depreciation will be impacted by this shortened holding period until these higher-priced vehicles are disposed of. This created noise in our fourth-quarter results, and we expect some residual impacts in our first quarter, where we will also see elevated monthly depreciation levels in the first quarter. Once we are past the peak vehicle selling season in April, we should see depreciation levels normalizing beginning in the second quarter of 2025.

The decision to accelerate our fleet rotation was not taken lightly. Even though this resulted in an impairment, we are confident that this strategy puts us in the best position for adjusted EBITDA growth in 2025 and beyond. We will provide more guidance around this in our outlook section.

Overall, our adjusted EBITDA for the quarter was a loss of \$101 million, or adjusted EBITDA of \$118 million excluding the fleet cost variance, as compared to \$311 million in the fourth quarter of 2023. It is challenging to compare these results to last year due to one-time impacts and uncharacteristic expenses associated with the impairment.

Our full-year reported adjusted EBITDA was \$628 million. However, if you exclude our losses on sale and additional incremental depreciation associated with our change in fleet strategy, our adjusted EBITDA would have been approximately \$850 million. We feel confident that with the actions we have taken and the impacts that occurred this quarter that we are set up for a much stronger 2025.

Let's move on to capital allocation. We made the decision to repurchase approximately 450,000 shares of common stock for \$37 million in the fourth quarter. As always, we will continue to balance our capital allocation between reinvesting in the company and returning capital to our shareholders.

As we mentioned on the last call, we issued \$700 million of senior notes in the third quarter and used the proceeds in the fourth quarter to repay outstanding borrowings under our secured Term Loan C. This allowed us to reduce our secured borrowings and provide us more flexibility in our ability to refinance in the future.

In February, we issued \$500 million of a secured term loan A and used the proceeds to pay down fleet indebtedness. We view this as a temporary issuance and as such structured a maturity for this Term Loan A to be repaid no later than December 2025. We wanted this Term Loan A to ensure

we were in a position to opportunistically evaluate model year '25 spot buys in the first half of the year, giving us the flexibility to further accelerate our fleet rotation.

As of December 31, we had available liquidity of over \$1.1 billion, including committed and uncommitted facilities with additional borrowing capacity of approximately \$2.8 billion in our ABS facilities. Our net corporate leverage ratio was 7.8 times. This is temporarily elevated given the effects of the impairment discussed earlier.

By the end of 2025, we expect our net corporate leverage ratio to be back closer to normalized levels. When you look at our total net debt leverage, the ratio remains relatively unchanged at under 5 times as our corporate debt issuances were used to pay down fleet debt. Additionally, we are in compliance with all of our financing facilities. We will continue to evaluate the best use of our capital and we anticipate being more balanced capital allocators going forward as we look to repay debt and return capital to our shareholders.

Let's move on to outlook. As we mentioned earlier, we did not take the change to our fleet rotation strategy lightly, but the biggest benefit going forward is more certain outcomes for our fleet costs. That, along with infleeting more cost-effective model year '25 fleet during the year, gives us confidence that the fleet cost per unit per month will significantly reduce throughout the year.

Due to the fleet rotation we previously spoke about, the first quarter will still show lingering effects on our fleet costs. In the first quarter of 2025, we expect all-in fleet costs per unit per month to be approximately \$400 for the total company. However, as we stated, we expect this to significantly drop and our second quarter all-in fleet costs per unit per month will be under \$350. This will continue to optimize throughout the year as we rotate our fleet and anticipate our fleet costs as we exit the year to be around \$300 per vehicle per month.

In the first month of 2025, as Joe stated, we saw a continuation of leisure holiday travel, as well as strength in the MLK holiday weekend. We expect this strength to continue, but it will be offset by one less day in the quarter and Easter shifting into mid-April. As we mentioned, we anticipate that having Easter in April will more than offset the loss of Easter in March as the warmer weather allows for more robust travel. Although we expect revenue per day in the first quarter to be down slightly year over year, we anticipate pricing trends to improve compared to prior years as we move into April.

For the first quarter, we expect an adjusted EBITDA to be approximately a loss of \$100 million, largely due to the elevated fleet costs and the calendar shifts previously discussed. However, we expect the healthy demand we are seeing around travel, combined with fleet actions and improved operational efficiencies, will more than make up for the slow start to the year and gives us confidence that we will generate no less than \$1 billion in adjusted EBITDA in 2025 and beyond.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Babcock, Bank of America.

John Babcock - BofA Global Research - Analyst

Good morning. And first, congratulations to Brian on his new role, and for Joe, best of luck in your next endeavors. Then in terms of my first question here, I guess what I wanted to talk about, I guess, is cash flow. You did share some guidance on DPU and EBITDA, but I wanted to get a sense for how we should think about cash flow from quarter to quarter as we go through the year.

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

Hi, John. Thank you for the question. I think the first point in cash flow is really starting with what our earnings are expected to be. As I said, we're confident in being able to generate no less than \$1 billion. So when you keep that in mind, really the only things taken away from cash flow will be our interest expense, our investments in capital, and obviously our tax payments. And actually, this year, we expect our working capital to be positive. So I would expect our free cash flow to be really, really solid in 2025.

John Babcock - *BofA Global Research - Analyst*

Okay, thank you. And then I guess just my follow-on question here. With the fleet rotation, have you had any change in mix? And then also, if you have, will this have any notable impact on our RPD earnings, or will this be more on the margin?

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

Yeah. Hi, this is Joe. No, we've had no change in mix. So the fleet rotation is going to be purely taking out the higher-priced vehicles, and as said earlier, very aggressively as we change our hold periods and our rotation strategy. So there will be no change.

So it's not like we're buying smaller cars because they're less expensive. Our fleet size has always looked at what our demand is, what our customer demand is, what the reservations are like. And over the years, we've managed to increase the size of our vehicles because they bring us a better price even with a maybe lower utilization. So no, there's no change in how we look at our fleet size.

John Babcock - *BofA Global Research - Analyst*

Thank you. Appreciate it.

Operator

Chris Stathoulopoulos, Susquehanna International.

Chris Stathoulopoulos - *Susquehanna Financial Group, LLLP - Analyst*

Good morning, everyone. Izzy, I want to understand here -- so the firm guide for 1Q with, I guess, some residual or smaller impairments, the timing of Easter, so \$100 million loss. We have a soft guide for the full year of no less than \$1 billion. So I want to understand how you're thinking about the quarterly cadence of adjusted EBITDA. It would seem that the guide is perhaps more second-half weighted and want to better understand that versus what I've understood to be typically a shorter booking window for rentals normally 30 to 40 days. Thanks.

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

Hi, Chris. Thank you for the question. I'll take the first half of your question.

So talking about DPU and our expectations for the first quarter, I think the way to think of it is based on our change in our strategy to accelerate the fleet rotation, you should think of the depreciation costs in the first quarter actually very similarly to our exit trends. So where we landed in the fourth, which was very close to the \$400 million mark, that's how I would think about it in the first quarter.

As for charges, as we said in our press release, we have a one-time impairment charge. We had other related charges, and we expect another related charge in the first quarter, once again, to do with the fact that we are accelerating this fleet rotation.

But past the first quarter, there will be no further charges related to this strategy. I think it's also important to think about, even though we'll have a little bit of a slower start, but compared to prior year, that slow start, and when we normalize the fleet costs going out, there's absolutely no challenge in achieving the \$1 billion.

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

Yeah. I'll jump in here if you want to just talk about the business case going forward. The first quarter is traditionally not our biggest quarter. It's the winter season. Only certain states play in that, and that we continue to see.

But like I said earlier, I was really pleased with the leisure demand over the holiday periods. It was very robust. As a matter of fact, our December Christmas was a record in the US, and we saw positive rental days, really over TSA volume, quite frankly, and we saw good price, positive price over the holiday, which we then see transition into MLK. Now, we have a problem in the first quarter because we've got one day less, and Easter is migrating into April, which will make the second quarter certainly better than maybe we had thought of earlier in the year.

And then we're really bold about our summer season. Every year, the summer is the peak season. We feel we operate on a very high level during that period of time. So our operating performance will be biggest in the summer as it traditionally is through seasonality, and then we transition out into the fourth quarter. This past year, those hurricanes were a challenge for us in Florida because Florida's busiest month is October, and it came back a little later than we thought.

But yeah, I think to answer your question, you'll see this kind of a seasonality approach as we go through. Big summer, better quarter in the second because of the holiday flip, and then finish strong at the end.

Chris Stathoulopoulos - *Susquehanna Financial Group, LLLP - Analyst*

So if I put that all together, as I think about volumes, pricing, and DPU relief after we exit, 1Q, it would seem that it's more on the cost side and the pricing now is your better size in spite of demand. Are you baking in any sort of seasonal plus on volumes or the base case sort of seasonally in line as we work through the year?

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

Yeah. As I would say, what we're seeing, and you're right about reservation demand kind of close in on our industry, but basically, what we're seeing is we're seeing reservation demand. We've got President's Week coming up next week, seemingly is pretty good, and like I said, the Easter holiday, but the summer we believe will be strong. And yeah, that's where the majority of our volume and our rate differential will be and our EBITDA. And that's been the case for as far back as I can recall.

But yeah, I see us transitioning, and we're going to have RPD kind of a little down in this quarter, but transitioning up as we get to the peak periods. And the thing about our fleet and what we've done, even with this accelerated fleet rotation, is keeping it well inside of demand. So we think that offers us the best price opportunity, and you'll see that as we go forward as well because we're saying that our utilizations are going to be strong going out.

Chris Stathoulopoulos - *Susquehanna Financial Group, LLLP - Analyst*

Okay. Joe, if I could get one more in. How are you thinking about the tariff's potential impact? So there was a comment, I believe, from Ford or one of the OEMs yesterday that the tariffs are wreaking havoc on the industry. It would seem at first blush that higher new vehicle prices would stir demand or spur demand for used car markets, and typically that would be good as we think about residual values in DPU. I realize it's still early, but initially, how are you thinking about pluses and minuses around the tariffs should these move forward? Thanks.

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

Yeah, that's a good question. We've been thinking about that quite a bit lately because it certainly has been a very fluid situation and ever-changing. And I think our job is to understand what could potentially happen, and then as we do, be flexible enough to react. We have cars that are being produced in those places that are talked about as tariffs, but they're all coming in imminently, and I don't see that as a big problem for us in the near term about if something happens, having elevated prices where all the deals are done with the OEMs.

It's -- going forward, what could potentially happen? I mean, I think there's a go-forward, and then there's like maybe a longer term. I think what you said is right. Used car prices -- if new car prices get elevated, used car prices should benefit from that. And that's normally what happens in an environment like this.

And secondly, what's going to happen with new car production as a guess. Will OEMs continue to produce at the levels they're producing? If they can't pass on those costs to consumers, will they produce less? I think both those last two points have a near-term positive effect for us.

And then as we go out, we'll have to see. We have -- the beauty of how we manage our fleet, obviously, you see it today. We are extremely flexible, and what we've learned throughout the years, even during the COVID years, is that we can respond very quickly to changes in macroeconomics. And I'm pretty confident we'll do just that.

Operator

Stephanie Moore, Jefferies.

Harold Antor - Jefferies - Analyst

Hello. This is Harold Antor on for Stephanie Moore. So I guess on DOE, I know you took on some charges in the quarter, but I guess could you provide us a sense in 2025 how we should expect that to improve? And is there anything that you could provide that would give us confidence that you could see material improvement in DOE in 2025? Thank you.

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

Good morning, Harold. Thank you for the question.

As you could see, in the fourth quarter, the operating expense did increase a bit. I think what we didn't mention was the fact that although we had a lot of changes in our fleet costs, given our strategy that we implemented in the fourth quarter, that also had lingering effects in our operating expense line. It had actually lingering effects in both regions, both in the Americas and international. Even if we only took a charge in the Americas, we did have an acceleration of fleet, or call it the rotation, worldwide. So those, call it, impacts relating to getting the cars up to snuff to sell them, dealing with some salvages here and there, that's really what caused the, call it, inflection point in the operating expense.

Now, going forward, you heard many of the things that Joe mentioned as what we're working on. So not only have we seen the benefits of our operational efficiencies, we expect that to be at a greater magnitude in 2025. So we expect our operating expense to be back to normalized levels and really the fourth quarter being about non-recurring items. I hope that was helpful.

Harold Antor - Jefferies - Analyst

Yes, thank you for the color there. And I guess, can you comment -- because the whole industry is going through this fleet refresh. So I wonder if you're seeing anything that you think is worth calling out from the competitive landscape in the industry. And I guess the last thing is, congrats on the transition, Brian. What will be your focus or agenda as the new CEO starting later this year?

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

Okay. Yeah, I'll take that. I can only comment on what we're trying to do as far as our fleet rotation. None of us took that impairment lightly, and we thought long and hard about it. But the 2025 model year by came in better than we thought. If you can recall my comments, over the last couple of months, basically said it was more affordable, then I said it was better than '24 and '25. When we finally finished the fleet negotiations, we're saying it's back to pre-pandemic levels.

And I think based on that, it required us to accelerate our fleet rotation in a greater way. Because I think it not only has fleet cost benefits for us, but it has downstream effects on variable vehicle costs and the cost of parts and things of that nature because the cars are certainly less aged. So we believe it has benefits in utilization and the customer experience, as well as the EBITDA benefit.

If you think back in time, we're a bigger company than we were back in 2019, and we potentially have a cost of fleet that's the same back then. So that's why we think there's a benefit. And our actions over the next certainly few months and majority of the year is to rotate these cars in quickly. What other people do, up to them. But I do believe that us doing this gives us a competitive advantage, in my opinion.

As far as -- I'll comment on the CEO transition. I think when you look at our company over the years, we develop our own. Now granted, we hire from outside as well, but we develop our own, which is a uniqueness which creates stability in our organization. I was here 45 years. Brian worked for me for five years.

The common goals, we'll look at things similarly. Will the actions be different? Of course. But I think what you have here in our company is a sustainable transition that benefits not only the people that we work with, the customer base that we serve, but more importantly the shareholders we provide equity to.

Harold Antor - *Jefferies - Analyst*

Thank you for the color.

Operator

Ryan Brinkman, JPMorgan.

Jash Patwa - *JPMorgan - Analyst*

Hi. Good morning. This is Jash Patwa on for Ryan Brinkman. Thanks for taking our questions.

I just wanted to start with a question on your disposition mix and how that has changed over the past few years. As you accelerate fleet creation initiatives, is there potential to incrementally lean into direct-to-retail or direct-to-dealer channels? It would also be great if you could remind us on the difference in remarketing outcomes between the direct-to-retail and direct-to-dealer channels as opposed to the auction channels. Thanks, and I have a follow-up.

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

Sure. Over the past number of years, we've always talked about alternate channel as a differentiating factor for us because of the cost base it entails. I think 70% of our cars, give or take, go through non-auction-related channels, some of which are retail. It's arguably a smaller portion.

We announced that we have this online brand called RubyCar, which we're starting to generate some activity for us. But the majority of our sales are done through non-auction-related activity. The auction provides you a way to get out of course quicker, but we look at how we do and compare to MMR very seriously, and that's always a KPI that we manage closely.

Jash Patwa - *JPMorgan - Analyst*

Understood. That's helpful. And I think you alluded to this in your response to the prior question, but I would imagine that the certainty around fleet costs also yield incremental benefits with regards to revenue optimization, especially in terms of pricing management and volume optimization. Curious if you could speak to how this increased certainty around fleet costs could potentially drive efficiencies across the different operational aspects within your business model. Thank you.

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

Sure. I think first thing, when you change your rotation and you get new cars in, you have an immediate impact on utilization. More available cars, they -- the frequency of repair isn't quite as neat as necessary. So I think that adds to the revenue lines. More available fleet, we have our demand fleet pricing system, which allows us to understand supply and demand. And it really focuses on contribution. One of those contributions is utilization. And this allows for a high propensity of car use.

As far as some of the downstream effects, which I talked about earlier, there is going to be a lot because, again, newer cars, less parts, less maintenance, less turnover. And I think that position us well from a variable vehicle point of view, in that you have cars that are not in need of oil changes and repairs quite as frequently, as the cars that we had in our fleet. I think it leads to productivity improvements overall for operationally because, again, the less downtime. And as far as revenue goes, having more available cars at the point of sale to take reservations will certainly allow us to benefit in the revenue streams.

Jash Patwa - *JPMorgan - Analyst*

Very helpful. Thank you so much, and good luck.

Operator

Dan Levy, Barclays.

Dan Levy - *Barclays Capital Inc. - Analyst*

Hi. Good morning. Thank you for taking questions. And congratulations to both Joe and Brian. I wanted to first just follow up on the fleet rotation, and really, what I want to try to get to is the rationale because I think I'm hearing two things. You're talking about the opportunity to normalize your DPU and DOE. But you're also giving some comments about sort of ancillary benefits to RPD.

So I'm trying to understand, is more of the rationale on this to normalize those expenses? Or was this really more a reaction to the competitive environment that we saw her refreshing their fleet and potentially enterprise going out there and refreshing fleet, or this is just what's required given the competitive environment to have a much fresher fleet?

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

I think our goal here is to have the best possible fleet that our company could have. And because of the cost basis of what we saw, the '25s coming in, it made this decision for us one that we wanted to do and do very quickly. Because when you think about it, we're going to change the course of our trajectory. I told you we're going to be no less than \$1 billion company early on in my commentary, actually in my quote.

And I believe that wholeheartedly because of two things. One is we see the cost of this fleet going down. And we don't have to deal with the fact that these higher age vehicles are going to -- higher-price vehicles are going to impact us going forward. So that's a big benefit for our company.

The second is there's going to be a good deal of benefits on an operational standpoint because the cars are newer. And I talked a little bit about the holding cost of vehicles. You see that. We're going to benefit from that. Our utilization is going to be a lot better. There will be less downtime, so we'll have more improved productivity. And we're going to be able to provide a better customer experience.

Those elements breed well for our success. And we wanted to do it. So we saw those in 2025 and not stretch it out to '26 and beyond. So we believe we see median impact in the current year and then use that as a springboard to future years.

As far as competitive, we pride ourselves on providing the best possible mobility alternatives to our customers. And that's one of the forefronts of how we manage our business. So I think it's -- yeah, we had to take this impairment. No one liked it. But on a go-forward, there's a lot of benefits.

Dan Levy - Barclays Capital Inc. - Analyst

Great. Thank you. As a follow-up, I wanted to double-click on one of the earlier questions that was asked on cash flow. And maybe, Izzy, if you could just talk about the vehicle programs line in the cash flow bridge. In the last few years, it's been anywhere from \$500 million to \$800 million drag. Pre-COVID, it was actually more sort of neutral. So as you are doing this fleet transition, what should we expect on that piece of the cash flow bridge in '25, and at what point does it normalize to being more of a neutral?

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

I think the first thing that I would mention is, on that line, the vehicle programs and related that you see that we report on Table 4, remember, that is all discretionary. That's not required. So as we continue to determine how to allocate our cash, we will make the decision as to how to best utilize it. And so for your modeling purposes, I think for now, you could just assume what we've traditionally done to continue. But once again, I think the most important point is the fact that it's discretionary.

Dan Levy - Barclays Capital Inc. - Analyst

Okay. But the transition of the fleet -- sorry, go ahead.

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

No, I was just going to say earlier there was a free cash flow question. I think I want to make it clear as well that we're expecting our free cash flow to be, by year-end, no less than \$500 million.

Dan Levy - Barclays Capital Inc. - Analyst

Okay. Thank you. That's helpful.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - Deutsche Bank - Analyst

Hey. Good morning, guys. And Joe, congratulations on the heck of a run at Avis, and congratulations also to Brian. We're happy to have you taking over mid-year.

So I guess first question -- the gist of the question is going to be, what's the normalized hold period going forward? But if I can lengthen it out a little bit, if you get the fleet refresh mostly done by April, we know you fleet up into summer. We think we know where you're buying cars. Your exit rate DPU, I think you said, would be around 300.

So if the hold period is at least 18 months still, is there any reason what would cause fleet costs to be above DPU to be above 300 next year, just at a high level? I mean, it just seems like that run rate would have to be in that range or lower. Is that a good way to think about it?

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

Yeah. Hi, Chris. Thank you. Yeah, you're spot on. It's about that hold period, as you articulated, is pretty much kind of where we've been historically. And I think that's where we will tend to be. We're going to get our age and mileage back to those levels. And yeah, I think that hold period and the DPU that you talked about is a good proxy to say what life will be going forward.

Chris Woronka - Deutsche Bank - Analyst

Okay. Thanks, Joe. And then follow-up, this might be a little bit for Brian. Maybe, is the CTO role, is that something that's going to be refilled after Brian takes over as CEO?

And then along those lines, Brian, I know you've worked on a lot of stuff in the role. Is there any high-level thoughts going forward? Any targets you guys are looking at on DOE, whether it's an index to inflation or just an absolute number you'd like to get below per transaction basis, or anything like that that we can think about?

Brian J. Choi - Avis Budget Group, Inc. - Chief Transformation Officer, Executive Vice President

Hey, Chris. Thanks for the good wishes. In terms of the transformation role, I don't think that that's something that we see immediately filling right now because our whole company is in a transformation mode right now. I think there are a lot of initiatives that we've put in place that we'll be executing on throughout the year. And I totally appreciate where you're coming from with your question, but I don't think it's time to dive into that yet. Joe is the CEO through June. We have a thoughtful transition laid out, and I think it will be more appropriate to address priorities and initiatives when we report our second-quarter earnings.

Chris Woronka - Deutsche Bank - Analyst

Okay. Thanks, Brian.

Operator

Thank you. At this time, we've reached the end of our question-and-answer session, and I'll hand the floor back to Mr. Ferraro for closing remarks.

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

Okay, thank you. So to recap, the travel environment demand is robust. We finished 2024 with record December holidays, and we saw continued strength in January with the MLK holiday weekend.

We took the necessary actions to create more certainty around our future fleet-related expenses and to best position us for sustainable growth going forward. The new '25 model year by is more affordable, allowing us to reach more normalized vehicle costs, and we'll continue to accelerate our fleet rotations as we transition through the first quarter and beyond. Our ongoing goal is to be disciplined in aligning our fleet size with demand, driving higher utilizations, allowing for the most positive price outcome.

And I want to thank all our employees for their continued dedication to our organization. We are positioned well for a very successful 2025. And as always, thank you for your time and interest in our company.

Operator

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

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