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EDITED TRANSCRIPT

CAR - Q2 2016 Avis Budget Group Inc Earnings Call

EVENT DATE/TIME: AUGUST 03, 2016 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q16 total revenue of $2.2b. Expects 2016 revenues growth to be 3-5% and adjusted EPS to be $2.90-3.30.

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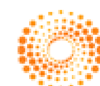

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PRESENTATION

Operator

Good morning, and welcome to the Avis Budget Group second-quarter earnings conference call.

Today's call is being recorded.

At this time, for opening remarks and introductions, I would like to turn the meeting over to Mr. Neal Goldner, Vice President of Investor Relations. Sir, please go ahead.

Neal Goldner - *Avis Budget Group Inc - VP of IR*

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

On the call with me are Larry De Shon, our Chief Executive Officer, and David Wyshner, our President and Chief Financial Officer.

Before we begin, I would like to remind everyone that the Company will be discussing forward-looking information that involves risk, uncertainties and assumptions that could cause actual results to differ materially from those in the forward-looking information. Important risks, assumptions and other factors that could cause future results to differ materially from those expressed in the forward-looking statements are specified in the Company's earnings release, and other periodic filings with the SEC, which are available on the Investor Relations section of our website at AvisBudgetGroup.com. We have provided slides to accompany this morning's conference call, which can be accessed on our website as well.

Our comments will focus on our adjusted results and other non-GAAP financial measures that are reconciled to our GAAP numbers in our press release, and in the earnings call presentation on our website.

Now I would like to turn the call over to Avis Budget Group's Chief Executive officer, Larry De Shon.

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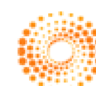

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Larry De Shon - *Avis Budget Group Inc - CEO*

Thank you, Neal, and good morning.

We have been working hard on ways to win customers by investing in technology to enhance the service we provide, while also reducing costs, streamlining processes and driving efficiencies. In the second quarter, we took a meaningful step forward, transforming the car rental experience with the launch of Avis Now. Avis Now is an innovative app-based technology that puts travelers in control of the rental experience, from reservation, to rental, to return. The early feedback from customers has been overwhelmingly positive.

At the same time, we made significant strides on several other key initiatives. We made further progress in our manpower planning and shuttling projects, areas where we spend $1 billion a year, and are working to meaningfully reduce our costs. We expanded Zipcar's one-way solution to more cities. We invested in our brands, with significant advertising campaigns for Avis in the UK and Budget in the United States, with the goal of increasing the rental demand that comes through our most profitable distribution channels such as Avis.com and Budget.com. And we updated our websites in mobile apps across the globe, and driving higher conversion rates.

While we are investing for long-term success, we're also focused on near-term performance. So before I get too far, I wanted to spend some time talking about our second quarter results, including our volume growth, our increased fleet utilization, and the dramatic turnaround in pricing we achieved. We said in early May, that the challenging pricing environment in the first quarter should not be indicative of future periods, and our second quarter results bore that out. Pricing increased 2% year-over-year in the Americas, excluding currency effects.

Several factors contributed to the improvement. First, we aggressively managed our fleet to make sure we had cars in those markets where demand was strong, while reducing our fleet where demand was weaker, or industry fleet levels were elevated. This not only enabled us to yield up, and drive higher pricing, it also allowed us to increase our utilization by nearly a point and 160 basis points over the last two years. Second, we believe the industry took advantage of a stable used-car market to dispose of its excess vehicles, resulting in industry fleet levels that felt tighter then they've been in quite some time, which gives us optimism for the remainder of the year.

Third, we continued to use our demand fleet pricing yield management system to adjust millions of rates several times a day in response to changes and opportunities we see in the marketplace. Finally, these actions and others enabled our revenue management team to focus on higher priced segments and channels, while reducing our reliance on more price-sensitive segments, such as opaque rentals where we succeeded in reducing our volumes considerably.

While we were taking actions that we did, the competitive rate environment improved markedly, likely driven in part by industry fleet tightness, as well as an industrywide fleet cost pressures. The net result was that our year-over-year pricing was a remarkable 650 basis points stronger in the second quarter than it was in the first, which exceeded our expectations. Demand was also pretty good in the quarter, particularly on the leisure side. Leisure volumes grew 3%, benefiting from our increased brand marketing in the quarter, and stabilization in inbound volume.

Our prepaid volumes grew 12%. And last month, we began offering prepaid rentals on our mobile apps, including the ability for customers to provide their credit card information using the camera on their mobile device. Our commercial account retention rate continued to exceed 99%, and we landed some nice small business and mid-sized and large commercial accounts. We intentionally ran our fleet tight, and pushed for pricing in the second quarter, even if doing so suppressed our volume growth a bit. I am also particularly pleased with the work our sales and operations teams did to bring new accounts on board, not only seamlessly, but also in ways that really impressed our new customers.

In our international segment, revenue grew 5% in the second quarter, with growth in both leisure and commercial volumes. We saw 8% growth in leisure rental days, with particular strength in France, Spain and Italy. Commercial volume increased more than 6%, with higher growth in Spain, Italy and particularly in Germany, where we delivered a 14% increase.

Inbound volumes were robust, with both inter-European and non-European inbound volumes increasing more than 6%, and this trend has continued so far this summer. We launched our new Avis brand campaign in April, which drove reservation activity, and had a positive effect on brand awareness. And we expanded our new Avis and Budget websites throughout Europe, and have already begun seeing increased conversion rates.

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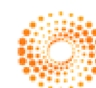

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While there have been a lot of headlines in Europe surrounding the UK's decision to leave the EU, we haven't seen any meaningful impact on volume thus far. The fact is, the UK represents only 3% of our global revenue. Having said that, uncertainty is typically not conducive to travel demand, the economy -- the UK economy bears watching.

We are seeing a modest shift in inbound travelers this summer away from France and Belgium, and towards Spain and Italy. We are paying close attention to commercial travel trends, especially with respect to the fall. And we have built flexibility into our plans in order to be able to adjust fleet and cost levels if demand softens more then we anticipate. At this point, the overall impact on summer travel patterns from the BREXIT vote or other issues in Europe has been minimal, and we continue to be optimistic that the important summer holiday season will live up to our expectations.

In fact, we are encouraged by the global trends we are seeing this summer. Consumers are traveling. And with industry fleet levels somewhat tighter than in quite some time, we are continuing to see positive year-over-year pricing in the Americas. Europeans still seem inclined to travel this summer, and while international pricing will probably continue to be challenged due to competitive dynamics, demand remains strong, and growth in ancillary revenues is mitigating pricing pressures.

Before turning the call over to David, I wanted to highlight how we're investing and innovating to support margin growth, a key component of which is our investment in technology. At the top of the technology list is our Demand-Fleet-Pricing initiative, which we believe is becoming a state-of-the-art pricing and yield management tool. Our expanding and ever-smarter use of the pricing robotic in the Americas, certainly helped us achieve the pricing growth we did in the second quarter.

We continue to refine our demand forecaster, and plan to begin using a fully integrated yield optimization system in select markets in the Americas early next year. We also expect our investments in this technology to pay dividends globally. We have already launched the pricing robotic in Australia and New Zealand, and we will start rolling it out in Europe in the next few months.

Second, we're changing the way look at staffing, with our manpower planning initiative. We've taken considerable strides already by adjusting schedules, more than doubling our use of part-time employees, and repurposing existing staff at various locations, driving a 10% increase in labor productivity in the quarter. And while our largely manual efforts so far are producing benefits, this is clearly another area like pricing and fleet, where sophisticated optimization and planning software can uncover opportunities that manual efforts cannot. In addition, what I like most about this initiative, is the opportunity to save money while improving the customer experience, by actually having more staff available, and in front of our customers at peak times.

Third is our shuttling initiative, where we are seeing benefits from our renewed discipline around this $250 million annual expense line, driving an 8% decline in shuttling costs per transaction in the Americas, without giving up any profitable revenue. We are now piloting optimization technology that has proven to be helpful in other sectors of the transportation industry, and we are enthusiastic about its capabilities.

Fourth, we have ramped up our investment in data visualization technology to help us monitor our business, analyze data, and make decisions, particularly with respect to customer and channel mix. These are just four projects among the more than $100 million of capital expenditures on technology this year. And most of that CapEx is going towards development of new tools and capabilities that impact both customer-facing and non-customer-facing functions. As a result, we see technology enabling us to enhance the customer experience we offer, and to strengthen our margins over time.

Finally, I want to come back to an especially exciting example of our investment in technology and process change in enhancing the customer experience, the new self-service technology that we recently rolled out called, Avis Now. We believe that Avis Now is the future of the car rental experience, and early feedback indicates our customers think so too. Avis Now was created for our customers, by our customers.

The feedback they gave us was clear. They want more control, more time-savings, and less stress while traveling. This new experience will allow our customers to control the entire car rental process through their Avis app in real-time.

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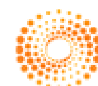

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How it works is simple. When a customer lands at an airports, we send a push notification to their phone showing the exact car we have assigned to them. If a customer would like a different car, he or she has the option to choose from other vehicles. Once the customer has chosen the vehicle, the Avis Now app tells the customer where the car is parked, and the customer can go directly to the car and drive away. And if the customer needs help, we have Avis team members in our lots ready to assist them.

The new process is fast. It's simple, and we believe it is going to completely transform the car rental experience. Avis Now is designed to give our customers control over their experience, including choice of vehicle, so that they come back to us every time. And it looks to be doing exactly that.

Here are some of the early results. Avis Now is currently available at nearly 60 airports. More than 145,000 customers have already enrolled in Avis Now, with thousands more doing so every day. We've had more than 40,000 rentals completed to date using the app, and the vast majority of users saying they are likely to use the app again during future rentals. And the trend I'm most excited about, Avis Now users have told us they expect to rent from Avis more often in the future.

To participate in Avis Now, you just need to sign up to become a Avis preferred member, and download the mobile app. It only takes a couple of minutes to get unprecedented control over your rental experience.

So as you can see, we are focused on the future of our business. We are using technology to fundamentally change the car rental experience through Avis Now, as well as how we operate internally to drive efficiencies, lower costs, and improve margins. We believe there are many opportunities ahead of us, as we continued to connect people, with what is important to them, and as we work to improve our margins.

We're also taking advantage of the opportunities that present themselves today. As you saw in our second quarter results, we had higher volumes globally, higher pricing in the Americas, and higher utilization everywhere. The summer is off to a good start, both in the Americas and internationally, and we've raised the midpoint of our full-year earnings forecast.

With that, I'll turn the call over to David.

David Wyshner - *Avis Budget Group Inc - President and CFO*

Thanks, Larry, and good morning, everyone.

Today I'd like to discuss our second-quarter results, our fleet, Zipcar, our balance sheet and our outlook. My comments will focus on our adjusted results, which are reconciled to our GAAP numbers in our press release, and in the earnings call presentation on our website.

Total revenue grew 3% in the quarter after a 1% negative impact from currency exchange rates to a record $2.2 billion, driven by higher pricing in the Americas, and volume growth throughout the world. Adjusted EBITDA declined $204 million in the quarter, primarily due to higher per unit fleet costs, and the marketing-related investments we are making in our business.

Revenue in our Americas segment grew 2% in the second quarter. Volume was up 2%, driven by 3% growth in leisure rental days, partially offset by a 1% decline in commercial volume. We aggressively managed our fleet during the quarter, and delivered our volume growth, while keeping our fleet levels consistent with last year's.

Pricing in the Americas increased 2% in constant currency, a dramatic improvement from the first quarter. Leisure pricing was up 3 points, while commercial pricing was down 1. EBITDA in the Americas declined 8% due to higher per unit fleet costs, and increased marketing expenses and commissions.

Based on our second quarter results and recent rental and booking trends, we are hopeful that pricing in the Americas in the second half of 2016 will look much more like the second quarter than the first. In particular, we're forecasting 1% to 2% year-over-year pricing growth in the second half, which is why we're once again expecting relatively unchanged full-year pricing in the Americas, measured in constant currency. This is a significant positive change from where we stood three months ago.

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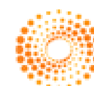

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Our international segment continued its solid start to the year. Revenue grew 6% in constant currency in the second quarter. Growth was driven by an 8% increase in volume, and 14% higher ancillary revenues.

We anniversaried of the acquisition of Maggiore in April, so the growth we reported in the second quarter was primarily organic, not due to acquisitions. The pricing environment remained competitive in the quarter, with our average daily rate declining 3% in constant currency. International adjusted EBITDA declined $4 million, as slightly lower per unit fleet costs and higher volumes were more than offset by lower pricing, and a $6 million increase in brand marketing. We also had some timing differences this year that benefited the first quarter, at the expense of the second. So it's useful to note that our international adjusted EBITDA was up 8% in constant currency in the first half of the year.

Turning to our fleet, per unit fleet costs in the Americas increased 6% in the second quarter, while utilization was up 1%. The used car market continued to stabilize in the quarter, allowing us to sell our risk vehicles at a healthy pace, with no significant gain or loss. As of today, we sold three-quarters of the risk cars we plan on selling this year, which limits our exposure to any movements in residual values during the post- summer deflating season. Still, as you saw in last night's release, we adjusted our full-year per unit fleet cost estimate up a bit, to reflect our experience and our expectations.

Looking forward, we're still working on our model year 2017 fleet buy, but I wanted to give you an early view of some of the dynamics that will impact our fleet costs. For starters, we didn't see as many program car deals that we considered attractive this year. For those model years 2017 program cars we have agreed to buy, we're currently anticipating that depreciation rates will be a few points higher, than they were the prior year. On the other side of our buy, the average purchase price of risk cars is increasing only slightly.

Because we didn't like the cost of some of the program cars we were being offered, the average percentage of risk cars in our US fleet will increase next year to 70% or more, compared to 65% this year. With depreciation rates on risk vehicles typically being lower than on program cars, the shift in our mix towards more risk cars, should help mitigate the effect of somewhat higher program car depreciation rates. Our calendar year 2017 fleet costs will also depend on where the used car market is in 2017 and even 2018, so it's too early for us to provide an estimate of next year's per unit costs. With that being said, I currently expect that the change will be lower than the 5% to 6% increase we're seeing this year.

To help us limit fleet cost pressures, we will continue to increase our use of alternative disposition channels, through which we sold nearly 40% of our risk cars in the second quarter. Our use of alternative channels is up 10% year-over-year, and we sold more cars outside of physical auctions in the second quarter, then in any quarter in our history. We continue to expand our dealer direct network, which now comprises more than 4,000 dealers nationwide. In addition, we are expanding our ability to sell a portion of our used vehicles directly to consumers, through our Ultimate test drive program, our partnership with TrueCar and other D2C channels.

As Larry described, we are keenly focused on using technology to change the way we operate. That's true, not only in our traditional car rental brands, but also for Zipcar. In the second quarter, our Zipcar operations took two of its technology innovations, and significantly expanded their use.

First, we successfully rolled out our Instant Join & Drive product nationwide. Now instead of filling out an online application, and waiting days or weeks for your Zipcard to arrive in the mail, a new customer can sign up using our app in only 2 1/2 minutes, and drive a Zipcar immediately. This is already having a positive impact on membership growth.

We also extended our flexible one-way Zipcar offering to five cities, Baltimore, Boston, Los Angeles, Seattle and Washington, DC. Our customer's mobility needs are evolving, and so are Zipcar service offerings. Whether the ask, is for a round-trip, one-way or floating vehicle, we plan to provide our members with a convenient and economical solution for all of their mobility needs.

Zipcar continues to get closer to the 1 million member milestone, with solid membership growth in the Americas, and double-digit growth internationally. We continue to believe that Zipcar's leadership position in the global car-sharing industry, and Avis Budget's world-class fleet management and travel logistic capabilities, position us well to play a pivotal role as mobility solutions continue to evolve.

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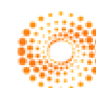

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Moving to our balance sheet, our liquidity position remains strong, with more than $3.5 billion of available liquidity worldwide. We ended the quarter with more than $500 million of cash, no borrowings under our corporate revolver, and more than $600 million of availability under that facility. We had unused capacity of more than $2 billion under various vehicle-backed funding programs. Our ratio of net corporate debt to EBITDA was 3.7 times, but we expect our earnings growth will help bring this number back in the range of 3 to 3.5 times by year end.

Our access to capital to fund our business needs remains solid. In May, we extended the maturity date for $825 million of our corporate term loan borrowings from 2019 to 2022, leaving us with only $400 million of corporate debt maturities over the next 4 1/2 years. Less than 15% of our corporate debt comes due before 2021.

We continued to repurchase our stock in the second quarter, buying back 3.5 million shares, or 4% of our shares outstanding at a cost of $100 million. That brings our year-to-date total through June to 6.5 million shares at a cost of $180 million, a 55% increase from our buybacks in the first half of 2015. Looking forward, while we will continue to look for accretive tuck-in acquisitions where available, I expect the primary use of our free cash flow this year will be for share repurchases. We now expect that we will buy back between $350 million and $400 million of stock this year.

As we think about our full-year 2016 expectations, we've updated a few of our estimates to reflect current conditions. Most importantly, we've increased the midpoint of our expectations for both adjusted EBITDA and adjusted earnings per share.

As we announced last night, we continue to expect our revenues to increase 3% to 5% this year compared with 2015, and we raised our 2016 adjusted EBITDA estimate to $850 million to $900 million. This range implies EBITDA growth of 8% to 17% in the second half of the year. Our forecast reflects our continued plan to invest $50 million through the P&L this year to support various growth, efficiency and innovation initiatives.

We expect adjusted EPS to be $2.90 to $3.30 per share, which includes the benefit of our continued share repurchase activity. Our forecast range implies adjusted EPS growth of 20% or more in the second half of the year. We expect our cash taxes to be $50 million to $60 million, and that our non-fleet capital expenditures will be roughly $210 million this year.

And as a result, we continue to expect our free cash flow to be $450 million to $500 million in 2016, absent any significant timing differences. This works out to roughly $5.00 per share and would be our fifth straight year with free cash flow of more than $450 million.

Finally, we continue to expect that currency will have a roughly $20 million negative effect on adjusted EBITDA this year. We have again, provided a slide that lays out our estimate of the effects that currency movements will have for the year by quarter, based on recent rates.

In closing, the second quarter was exciting. Pricing improved dramatically from the first quarter, and positive year-over-year pricing has continued into the third quarter. We aggressively managed our fleet to drive higher utilization, enabling our revenue management team to focus on those segments and channels that drive higher pricing. We are seeing benefits from process improvements, and from the investments we've made in technology.

We're strengthening our brands with innovation and advertising. Customer satisfaction is increasing across brands and geographies, with support from Avis Now and numerous other initiatives. We are in the middle of the summer travel season, and pricing appears healthy. We raised the midpoint of our original earnings estimates, and are forecasting robust earnings growth in the second half, and we remain focused on enhancing shareholder value.

With that, Larry and I would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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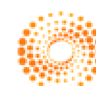

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Chris Agnew, MKM Partners.

Chris Agnew - *MKM Partners - Analyst*

Thanks very much. Good morning. I was wondering if I could dig into, a little bit into commercial pricing trends. I know there are several different buckets in there, and I was wondering if you can give us color on those, or the small business contract renewals, and then maybe the big Fortune 500 companies? And you also mentioned that, I think 99% renewal of contracts, but are you managing to achieve price increases? Thank you.

Larry De Shon - *Avis Budget Group Inc - CEO*

Hi, Chris. Thank you. This is Larry. On the commercial side, we said pricing was down about 1 point in the quarter. And as we take a look at -- the kind of the [mix] you see, what you'll see is the large commercial pricing will continue to be -- kind of under pressure.

It's a highly competitive business segment, so that's always going to be under pressure. And the goal is to continue to try to drive more of the mid market and small business accounts, which come at a higher RPD. So that will be the continued focus of the sales team, is to make sure that we maintain our large commercial accounts, and we continue to grow the mid market and small business side. Canada actually saw a small increase in RPD on the large commercial, not much, but it was an increase year-over-year. So that was positive.

And I'm sorry, the second part of your question? Oh, the renewals, yes. So the renewals have been good, have been steady. We've been seeing about, I think about [62]% of our accounts have been renewed at flat or slightly up as well. So that's been a positive side going forward.

Chris Agnew - *MKM Partners - Analyst*

Great, thanks. And David, I know you touched on this. But the SG&A was up, I think 11% in the quarter, 10% the first half. You mentioned higher marketing costs. Is there anything else driving the increase? How do we think about the second half? And when do you get back to more of a normalized pace? Thanks.

David Wyshner - *Avis Budget Group Inc - President and CFO*

Sure. You are right. We did have additional marketing expenses, and I think they really took two forms. Part of it is the additional brand marketing, the brand advertising that we are doing, both related to Avis in Europe, and Budget here in the United States. And that was -- that was largely contained to the second quarter.

We've also over the last year or so, entered into and expanded some of our marketing partnerships and relationships. And that's a healthy source of good volume for us. So we're seeing some incremental commission expenses associated with that, and that piece will continue. But I think that's helpful to us overall.

And not only in terms of strengthening the brands, but giving us access to some attractive business that helps a little bit from a pricing perspective, and allows us to reduce our use of things like opaques, so that piece will continue. But the big driver of the increase in the second quarter was a little bit of -- a little bit of timing issues in Europe. But principally, the increase in brand advertising.

Operator

Chris Woronka, Deutsche Bank.

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Chris Woronka - *Deutsche Bank - Analyst*

Hey, good morning, guys. On the full year guidance, the decision to bring up the low end of that and thus the mid point, would you characterize that as more confidence in the pricing outlook? Or greater confidence that fleet costs are locked down, or some combination?

Larry De Shon - *Avis Budget Group Inc - CEO*

Hi, Chris. Yes, I think it's a combination. Pricing, we feel better about, after having a good second quarter, and how things are looking as we go through the summer. Fleet costs, we've already sold three-quarters of our fleet. So we're pretty confident about where our fleet costs will be coming out for the year.

We're seeing some improvements in some of the major cost lines that we have been working pretty hard on. So I think it's a combination of a number of things coming together, that kind of gives us the confidence that will get us there. And plus, we've got the benefit of July now behind us, and a good look at how July performed as well.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, very good. And then, as we think about leisure continuing these stronger than commercial, can you maybe tell us how --does that impact kind of the blended RPD at all, in terms of the mix? And maybe even kind of going down to the channels that you're pulling from, is there any positive or negative mix shift there?

David Wyshner - *Avis Budget Group Inc - President and CFO*

Yes, I think the growth in leisure puts, over the course of the year, puts a little bit of pressure on rate, but we don't view that as significant. And certainly, the pricing there has been stronger. What's been helpful to us, is being able to pick our spots on some of the channels, and the types of business that we like.

So one of the things that helped pricing a bit, is that we're able to reduce the number of opaque transactions that we took, and to increase the pricing on those that we did. And we continue to work to optimize segments and channels to help on the pricing side. And I think our optimization efforts were part of the reason why we were able to achieve a 2% constant currency pricing growth in the Americas.

Operator

Jon Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Thank you. Larry, I just wanted to ask a little bit about the trends in July on the leisure pricing side? Are we right in thinking that July trends probably were stronger than what you reported for overall 2Q? Or how should we expect -- how did the cadence of pricing move in 2Q? And maybe if you can tell us how July performed for you, now that it's in the rear-view?

Larry De Shon - *Avis Budget Group Inc - CEO*

July, I think we're pleased with how July has turned out. I think it's a continuation of how we saw the second quarter develop. We don't want to get into a month to month analysis, or talking about how pricing is going month to month. So I'll stay away from that, but we had a good second quarter. And we're expecting the rest of the year, from a pricing perspective, to be similar to what we experienced in the second quarter.

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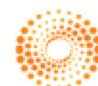

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John Healy - *Northcoast Research - Analyst*

Okay. Fair enough. And then, I wanted to ask just, on the capital allocation. You guys have been fairly active on the buyback front in the first half, and it seems like that pace is going to continue. But on acquisitions, kind of a little bit of pause here. I feel like the last one that you guys did that, at least we know about was Poland. I'm curious to know if acquisitions are something that you would expect to see ramp up as we close 2016, and as we head into 2017?

David Wyshner - *Avis Budget Group Inc - President and CFO*

Yes, I think we have been pretty consistent with -- we are always willing to look at acquisitions that make sense for us, particularly licensees that may border some of our corporate countries, or anything that strategically might make sense for us. But you're right, the last acquisition we did was Poland. And I think that what you'll see is from a capital side, we'll be spending most of our free cash flow on stock repurchases going forward. But we're still open to anything that makes sense, and if the timing is right.

Operator

Adam Jonas, Morgan Stanley.

Neel Mehta - *Morgan Stanley - Analyst*

Thanks, and good morning. This is Neel Mehta on for Adam Jonas. Just a couple questions today. First of all, could you talk a little bit more about your recently announced partnership with TrueCar? How big of a channel do you see this becoming? And can you talk about the potential improvement in residuals, by disposing of vehicles through channels such as this?

Larry De Shon - *Avis Budget Group Inc - CEO*

Sure. It is a pretty exciting opportunity for us. We're at the very beginning stages of it. But TrueCar is a -- it looks like, it's a very good online marketing of used cars sales, of used cars. So we're looking forward to leveraging that.

It's a good partnership. They're great people to work with. We're, as I said, at the very beginning stages of it. So it looks like it's good upside for us.

We've sold 40% of our cars now in the quarter, through alternative disposition channels. So it's a really good quarter for us, and we'll continue to grow that percentage methodically, quarter after quarter after quarter. So we have a lot of room ahead of us, for an opportunity.

And as you know, for each car that we sell through a alternative channel like this, we do get incremental value out of that sale, than what we do through the traditional auctions. So it's an opportunity ahead of us. And we'll continue to grow our percentages, as you will, as we go forward, quarter by quarter.

Neel Mehta - *Morgan Stanley - Analyst*

Great, thanks. And then, one more question. Can you give us more color on your Demand-Fleet-Pricing system, in particular, based on the pilot programs that you have completed so far, is there some baseline expectation on what this can do to fleet efficiency and pricing, once it's fully up and running?

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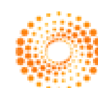

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David Wyshner - *Avis Budget Group Inc - President and CFO*

Sure. We went into Demand-Fleet-Pricing with a hope and an expectation that we would be able to generate somewhere in the range of 1 point of pricing and 1 point of utilization over time as a result of that. And we certainly have achieved some of that already, through the rolling out of the pricing robotic here in the Americas. And I think it was part of what helped us achieve the pricing growth that we did, in the second quarter.

As we move into the second and third phases of it, in terms of finalizing the forecaster, and then really the optimization algorithm that looks at both fleet and pricing to optimize yield, we see the opportunity to get both additional pricing and additional yield going forward, to move up to getting that full point on each side, maybe even more.

In addition, to that opportunity in North America, we're going to be rolling out the pricing robotic internationally. We've already rolled it out in Australia and New Zealand, and I think it's helpful there. And we're looking at the initial markets for Europe being online later this year. So again, we see this as having a global impact for us. And I would describe this us, as still in the relatively early innings, in terms of what this initiative can deliver for us.

Operator

Jordan Hymowitz, Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Hey, guys, thanks, and congratulations on a truly great quarter, a great job turning things around. Two questions. One is, you said commercial revenue per unit reported was down [1%]. To make it to average, does that mean leisure domestic was up [4% to 5%]?

David Wyshner - *Avis Budget Group Inc - President and CFO*

No. The commercial was down [1%]. Leisure was up [3%]. I think they rounded to up [1.8%], in constant currency.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. Second question, is that you guys at $2.90 and $3.30, and that includes a $0.30 loss in the first quarter with very negative pricing. Historically, the first quarter is much closer to breakeven or a slight profit. So if that would be the case next year, and rolling forward just the increased share buyback, you could get to like a $3.80, $3.90 number, with no growth next year at all. Is [there] a reasonable way to think about things?

David Wyshner - *Avis Budget Group Inc - President and CFO*

We're not ready to project numbers for 2017 yet. But certainly, with the share repurchase s that we have done and are forecasting for this year, we would be looking at a decline of -- what probably works out to 5% to 6% in our share count next year, just as a result of having the full year benefit of this year's share repurchases, as opposed to only a part year benefit this year.

So that would certainly have some impact there on the numbers, but beyond that, I'm not ready to get into the 2017 numbers yet. And also Jordan, thanks for your initial comment. We appreciate that.

Operator

Brian Johnson, Barclays.

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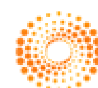

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Brian Johnson - *Barclays Capital - Analyst*

Good afternoon, I mean, good morning. Could you comment a little bit more on the transition from fleet to -- excuse me -- the transition from program cars to risk cars? You mentioned program car pricing was not maybe optimal yet. We see the OEMs kind of fighting each over -- over each other in the sedan marketplace to offer discounts. So why is it you think you're not getting good program pricing? And with the risk cars, they are what they're called -- and what are you -- where are your concerns next year about the resale markets, as well as should demand not materialize, your ability to offload those cars?

Larry De Shon - *Avis Budget Group Inc - CEO*

Yes. I think we feel pretty good about the way the model year 2017 negotiations have gone so far. And while, the program cars weren't quite where we wanted them to be, we see an opportunity to mitigate any pressures there, by moving a little bit more toward risk cars. And so, I think my comments were really intended to provide a little bit of comfort, that if things are going all right, we don't expect to see this sort of increase we have this year, at 5% to 6%. It should be something less than that.

And what we're doing, is taking advantage of the relative pricing of risk to program cars to optimize. And that's what we've said, in the past we would do, and we're doing it as we go through our buy this year. And what that will do, is take our risk number up to a little over 70%. And we're comfortable with that, in light of the way we're looking to optimize our costs, and balance our fleet, meet the demand that's out there, and provide us with some flexibility in how we manage our fleet over the course of the year.

Brian Johnson - *Barclays Capital - Analyst*

Okay. And what about the risk vis-a-vis offloading them, if you need to?

David Wyshner - *Avis Budget Group Inc - President and CFO*

Yes. I think we feel pretty good about that. As you know, we've been working hard to try to expand and extend our alternative channels, as we have added TrueCar, and we're continuing to grow our Ultimate test drive product as well. And we're looking at other ways of which to be able to market, market cars online and in other channels as well.

We're looking to open some lots, to start testing later this third quarter. So I think between all of the different alternative channel options that we already have and that we're looking at going forward, we feel pretty good that we can remarket them next year. We've been adding to our remarketing team as well. And I think all of that's coming together to allow us to start pushing more in those channels than what we have in the past.

Operator

[Anj Singh], Credit Suisse.

Anj Singh - *Credit Suisse - Analyst*

Hi. Thanks for taking my questions. Can you talk about the leisure volumes increasing just 3% this quarter, after increasing marketing expenses? It seems like after a long time of 6% to 7% growth, it just seems a little off. What are the factors that you think are driving this deceleration? I know you commented that you traded some volume for pricing. So perhaps how much volume do you think you gave up for pricing? And then, as it relates to your guidance, could you speak to assumptions embedded for leisure and commercial volumes in the back half?

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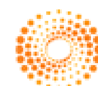

Larry De Shon - *Avis Budget Group Inc - CEO*

Sure. We were actually excited to be closing the gap a little bit between the leisure and commercial volumes. There was a fairly large gap in the first quarter, with how fast leisure grew relative to commercial, and we brought the two back together a little bit. And that -- the stronger performance on the commercial side had a little bit of an impact on the leisure side, particularly since we were very disciplined with respect to our fleet levels.

So I would look at the somewhat lower growth in the second quarter as being the -- [simply] nice positive growth at 3%, but being driven by a couple of other dynamics as well. One, where commercial volume was taking up a little bit more the fleet year-on-year than it did in the first quarter. And also, a lot of discipline around fleet levels, running that fairly tight, and being willing to pass on leisure business that wasn't as attractive.

I don't think the -- I don't think the impact was terribly great. I'd put it at -- maybe even less than 1 point, and almost certainly, no more than 2. And I think as a result, we were able to pretty much hold our share on airport in the second quarter. But we did so, with obviously a better mix of volume and price, than what we were able to achieve in Q1.

Anj Singh - *Credit Suisse - Analyst*

Okay, got you. And as a follow-up, I just wanted to touch on pricing. In light of this being the first pricing [print] of this magnitude in quite some time, could you discuss the factor or factors that you think best promoted this in the industry? Would you attribute this more to the change in behavior, abilities of your competitors? Do think it was more the rising fleet cost environment? I'm just trying to get a sense of factors that can sustain pricing into the back half, as well as say, next year? Thanks.

David Wyshner - *Avis Budget Group Inc - President and CFO*

I think it's the combination of a number of things, a couple of which you've mentioned. So I think fleet cost pressures helped, as well as I think the biggest change is that fleet was aligned to demand. I mean, we saw fleet tightness in the second quarter and going into the third quarter, in a way that we haven't seen it in quite a while. So as I think rental car companies work hard to try to get their fleets aligned with what they're forecasting their demand to be, that proved to be helpful.

And then, in addition to that, we've worked really hard here, to try to make sure that we capitalize on every pricing opportunity that we can, looking at it by segment, by channel, and by acquisition cost, to make sure that we're really maximizing our fleet to the opportunities that are there. And when fleet tightens like this industrywide, that really helps -- our Demand-Fleet-Pricing system really kicks in to help us find those opportunities to yield up, and allows us to be able to change, and to be responsive in the industry, by location multiple times a day.

So the Demand-Fleet-Pricing system is changing rates, literally millions of times each day. And that works real well for us, when fleets start to tighten up by location, and by car class, and we can grab a hold of those opportunities. So with industrywide fleet tightness and fleet cost pressures, as well as DFP working in, and also our revenue management team working hard on a number of pricing initiatives, I think it all came together in a really great way.

Operator

For closing remarks, the call is being turned back to Mr. Larry De Shon. Please go ahead, sir.

Larry De Shon - *Avis Budget Group Inc - CEO*

Okay. Before we close, I think it's important to reiterate the key takeaways from today's call. Pricing has improved dramatically, as fleet levels in the industry are better aligned than I've seen in quite some time. We have launched our new self-service initiative, Avis Now, and are investing in other

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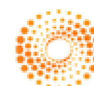

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technologies and innovations to drive our business forward. And we have raised the midpoint of our full-year adjusted EBITDA and adjusted earnings per share estimates. With that, I want to thank you, and for your time and your interest in our Company.

Operator

This concludes today's conference call. You may disconnect at this time.

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