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CORPORATE PARTICIPANTS

Brian J. Choi *Avis Budget Group, Inc. - Executive VP & CFO*

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

Joseph A. Ferraro *Avis Budget Group, Inc. - CEO & President*

CONFERENCE CALL PARTICIPANTS

Brian Arthur Johnson *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

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

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

Mario J. Cortellacci *Jefferies LLC, Research Division - Equity Analyst*

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

PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group First Quarter 2022 Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn this conference over to Mr. David Calabria, Treasurer and Senior Vice President of Corporate Finance. Thank you, sir. You may begin.

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

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

Before we begin, I would like to remind everyone that we will be discussing forward-looking information, including potential future financial performance, which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks and assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and any or all of our forward-looking statements may 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 A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

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

Yesterday, we reported our best ever first quarter results in our company's history. This now marks our fourth consecutive earnings report where we delivered record high adjusted EBITDA for that given quarter. I'd like to start this call, as I usually do, by thanking all our employees for giving their best so that we, as a team, could achieve these results.

In January, I stated that we, as a company, are getting better, that we would become better operators, a better management team and a better organization. I think the proof of that improvement is reflected in how we managed the business this quarter.

You'll recall that during the first 6 weeks of 2022, the entire travel industry is still navigating through the effects of Omicron. Travel demand was challenged and we saw the negative effects of this in rental days, rate and utilization. However, instead of shutting down to ride out the variant, we got to work and mobilized our organization.

We took this opportunity to dispose of our highest mileage vehicles at optimum prices to crystallize significant gains while refreshing the age of our fleet. We repositioned vehicles to locations where we believe the recovery would happen earliest and strongest. We went into overdrive on preventive maintenance to bring our out-of-service vehicles to some of the lowest levels we've ever seen.

In short, we were getting ready for the outsized demand we believe could occur once Omicron subsided. And that turned out to be right decision. By the time we reached President's Day, strong demand returned and continued to build sequentially throughout the quarter. By March, in the Americas, we had more cars on rent than the highest peak in the summer of 2021.

If you follow the reports of other sectors in the travel and leisure space, this will come as no surprise. Consumer demand for travel is the highest we've ever seen. After 2 years of quarantine, video conference calls and home improvement projects, consumers have now decided enthusiastically to dedicate their share of wallet towards seeing the world and reconnecting with loved ones. We at Avis are ready to help our customers do just that.

2022 is off to a remarkable start. We generated $810 million of adjusted EBITDA in the first quarter. Now as a frame of reference, that's higher than the full year adjusted EBITDA of 2019, and we delivered this in what is typically the seasonally lowest quarter of the year. We're ready to build on this momentum and achieve even greater heights. But before we do that, let me recap our historic first quarter results and, as usual, let's start with the Americas segment.

In the Americas, there was a tale of 2 quarters. Omicron hit hard in January, and we saw the effects immediately. Leisure rental car demand softened significantly and commercial demand was non-existent. Just to illustrate how sharp and severe this was, Americas utilization in January was lower than any month of 2021. This includes the pre-vaccine rollout for the first quarter of 2021, the peak of the Delta variance.

However, on a positive side, January was also when the used car market was at its strongest. We capitalized on this dynamic and sold high-mileage vehicles at attractive gains. I've always said that the fleet we exit makes up some of the best used inventory in the market. It has one owner. It's well maintained throughout its life and is attractively priced. That was validated through January and February as consumers aggressively purchased our vehicles, and there was no shortage of demand.

The capital pruning and harvesting of our rental fleet dominated our activities for the first 6 weeks and gains on sale contributed significantly to adjusted EBITDA during this period. Because we were so quick to act on this, by the time the Omicron cases subsided in mid-February, we were largely complete with our targeted age fleet disposition schedule. This allowed us to focus 100% of our efforts in getting cars into the hands of consumers back on rent.

During the second half of the quarter, we saw a tremendous rebound in utilization, RPD and rental days, where we delivered over 10% more days versus the first quarter of 2019 despite the soft start to the quarter. What reflected in our reported quarterly metrics is the blend of these 2 opposite market conditions and not reflective on how we're trending into the second quarter of 2021.

RPD, for instance, was down sequentially in the first quarter of 2022 for the second quarter in a row. However, February RPD saw a marked improvement from January and March RPD saw improvement from February. So the average RPD of $72.76, which we printed in the quarter, doesn't indicate the strength of the exit trend.

The same holds true for utilization. For the quarter, utilization was 69%, which is roughly in line where utilization was in the first quarter of 2019. However, utilization in the month of March of 2022 was near peak summer of 2021 levels. We're operating on all cylinders when it comes to positioning our fleet to squeeze out the most rental days, drive RPD and maximize revenue improvement. Our demand fleet pricing system, combined with field experience, allows us to consistently execute on operations, no matter the demand environment.

Moving on to the income statement results of these metrics. In the Americas, revenue increased by over $900 million year-over-year. Americas adjusted EBITDA during the same period increased by $702 million for an incremental margin of 76%. If you compare our most recent results to the first quarter of 2019, Americas revenue increased by $673 million, while adjusted EBITDA increased by $775 million for an incremental margin of 115%.

Obviously, gains on disposed vehicles contributed significantly to these results, but so did our relentless focus on cost control and operational efficiency. It's the same story we told all throughout last year. By maintaining stringent discipline around cost, we're able to maximize the revenue and depreciation benefits that we bring to the bottom line. The results are eye-popping.

$810 million of adjusted EBITDA generated from the Americas this quarter. The previous record was $115 million in 2015. As you can see, it's almost if you're comparing 2 completely different businesses between now and then. And that's what we mean when we said we're on a transformational journey here. It's not about getting slightly better and calling it a win. We're focused on pressing every last macroeconomic advantage and running it through our battle-tested, Lean efficient operations to sustainably get to a structurally different profitability play.

I closed the first quarter results of the Americas, but before I move on, let me provide a bit of color around April and what we're seeing in early May. The strength in demand that we saw materialize in March has continued into the early part of the second quarter. The Easter season was strong and early indications for May are promising as well. While we're not getting into specific guidance on this call, I will say that in the Americas, at this point, it appears that both rental days and RPD will be higher in the second quarter of 2022 than it was in the second quarter of 2021.

With that, let's move over to our International segment, which posted a record and historic quarter as well. Consistent with our prior quarters, our EMEA and APAC business have yet to see the robust recovery we're experiencing in the U.S. in terms of travel demand. However, throughout the quarter, we saw a moderate but noticeable improvement in rental car demand, which led to sequentially improving rental days and RPD throughout the months in the first quarter.

This, combined with the maniacal cost control our International team has exhibited throughout the pandemic, resulted in $23 million of adjusted EBITDA in the quarter. On an absolute basis, that may seem modest compared to the adjusted EBITDA generated in the Americas. However, when you consider that this is the highest first quarter adjusted EBITDA that our International segment has ever achieved, you begin to appreciate the step function change made in the sustainable profitability of this business.

To put it differently, on a total international basis, adjusted EBITDA has gone from a negative $50 million in the first quarter of 2021 to a positive $23 million in this most reason quarter. That's over $73 million of improvement in adjusted EBITDA on $140 million of revenue gains, representing a contribution margin of 52%. More impressively, if you compare the most recent quarter's results to the first quarter of 2019, you notice that despite having over $160 million in lower revenue, adjusted EBITDA in the first quarter of 2022 was actually $44 million higher than the first quarter of 2019 when they posted a negative $21 million in adjusted EBITDA.

The dynamics that allow for such impressive adjusted EBITDA drop downs in the Americas are not unique to this region. We believe that latent travel demand in Europe is just as strong as it was in the U.S. a few quarters ago. Like the Americas, the industry fleet situation internationally is severely constrained as well. I've said in previous calls that our International team will be ready when demand materializes. And that due to the structural cost improvements made to our operations, the drop through to adjusted EBITDA will be sizable when we see top line recovery in that region. I know it's still early. But from where I sit today, it appears that this is the year where our teams internationally will get to show you just that.

Moving on to fleet. Where consistent with last quarter, we'll focus on the Americas segment. In the Americas, our average fleet size in the quarter was sequentially higher at 443,000 vehicles. Consistent with last quarter, this was a management decision taken to address the uncertainty around receiving new vehicles these days. We've been in daily contact with our OEM partners to ensure that deliveries of our vehicles orders remain intact.

However, due to labor shortages caused by Omicron early in the year, lack of semiconductor availability and ongoing supply chain issues aggravated by the conflict in Ukraine, receiving new vehicles on schedule is far from a sure thing. The rental car industry will be faced with delays and cancellation throughout 2022. That's the reality of the rental car industry supply. However, as we made it clear earlier, consumer demand for rental cars is at all-time highs.

We want to do everything we can to ensure our customers have a vehicle available to make that business trip or take that vacation. In order to service that demand in the coming peak, we're currently forced to carry a larger fleet than we normally would in a shoulder period. This is a temporary strategy for wanting to get us through the uncertainty around fleet availability as our OEM supply chain normalizes, so will our fleet rotation.

Related to fleet, let me address our unusual fleet depreciation for this quarter. You'll notice that our consolidated monthly depreciation cost per vehicle in the first quarter of '22 was $62, down from $185 in the fourth quarter of 2021. This was due to roughly $300 million of gains from dispositions in the quarter. If you adjust for those gains, you'll see that our straight-line depreciation is set at over $230 per month per vehicle.

We've always taken a conservative approach on how we account for depreciation at Avis, but it's this measured approach and strong residual environments can result in significant gains in the quarter when dispositions are high. This quarter was an example of that. We're not changing how we account for fleet costs at this time, and our fleet refresh was largely completed by the end of February. Therefore, you will see a normalization of consolidated monthly per unit fleet costs starting next quarter.

Lastly, with regards to fleet, let me touch briefly on our current volume. While certain OEMs have begun discussions around the model year 2023 buy, we're still working through how we receive our model year 2022 orders. It's a fluid situation, and it has been for the past 2 years now. Luckily, we have decades working together with our OEM partners to deal with this uncertainty.

We believe this is one of the true advantages. There's a level of trust that can only be developed by fighting the same fight together for years. The understanding that comes from shared hardships is what allows you to ask for a favor when you need it and freely give one in return. That's the difference between a true partnership and a customer/supplier relationship.

So yes, it's a challenging time right now with chip shortage, supply chain issues and labor uncertainties. But we are here to invest and work with our OEM partners to get through this. And by the way, we've seen some of the product portfolio that's coming down the pipe from our strategic OEM partners over the next few years, and we couldn't be more excited about what's coming, both with traditional and electric vehicles.

Moving on to our continued improvements around technology and the customer experience. Due to strong consumer feedback and efficiencies we've seen in our workflow, we are dedicating additional resources to expand our Avis QuickPass offering. For those unfamiliar with this product, it enables our preferred customers upon arrival to select from a choice of vehicles on their phone, proceed directly to their car and then utilize a unique QR code to exit via our automated express exit for a completely contactless experience.

Additionally, upon vehicle return, customers can close out their rental themselves, enabled by our Connected Car technology for an expedited and automated completion of their rental. Our goal is to have QuickPass deployed at the majority of our key airports by this summer travel season.

Next, let me comment briefly on Avis' commitment to safety and our latest views on the industry disruptions caused by COVID-19. Our Avis Safety Pledge and Budget Worry-Free Promise made a full effect and provides both our customers and our employees industry-leading protocols to keep everyone safe. Thankfully, at this time, it appears the effects of COVID and the Omicron variants are subsiding. While there has been an increase in cases over the past few weeks, we have not seen any impact to our booking demand.

Our belief is that as long as hospitalizations remain low, consumers will be comfortable traveling, which provides a good segue to how I'd like to wrap up my prepared remarks. I love seeing our customers traveling again. There's a buzz around the airport, and it feels great to be getting back to normal after so many starts and stops. From what I see out in the field and from the conversations I've had with our operators, it seems like we're already in the peak of summer.

I have to keep reminding myself that we're just in May. There's a wave of demand headed our way in the coming months, and I'll tell you exactly what I tell our field ops on this front. That's exactly what we've been preparing for. All the hardship and sacrifice, the cost cutting, the retooling of operations, learning how to maximize throughput and minimize leakage, those lessons learned the hard way through the depths of this pandemic prepared us for this moment.

If you're a true operator, being tested like this is what you live for. Thankfully, at Avis, we pride ourselves on our operational ability and I can tell you unequivocally that we're ready for the summer. If we're able to execute at the level I know we're capable of, I believe that 2022 will fully showcase how transformed the company we really are.

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

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Thank you, Joe, and good morning, everyone. I will now discuss our liquidity and near-term outlook. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in our press release. I'd like to start off by addressing domestic revenue per day.

As Joe mentioned in his prepared remarks, the first quarter of 2022 saw another sequential decline in Americas RPD. We went from a peak of $83.33 in the third quarter of '21, down to $75.02 in the fourth quarter of '21 and finished this most recent quarter at $72.76, 12.7% lower than the RPD 2 quarters ago. That's a substantial change inside a 6-month period and we're likely to see changes, both through the upside and downside going forward. That's because, as I've stated in the past, we, at Avis, do not set rental car prices. We discover price as determined by consumer demand and the availability of supply in the industry. Both industry demand and industry supply change daily. So it's natural that we're going to see fluctuations in price from quarter to quarter.

But if you look at it over an extended period, you'll see that rental car prices across the industry have been modest over the past 10 years. From the years 2011 to 2021, industry rental car prices had increased at roughly a 2% CAGR. That's basically in line with the 1.9% CPI inflation CAGR over the same period and comparable to pricing CAGRs in other sectors of the travel and leisure space such as airlines and hotels. Every industry goes through its cycles, and we happen to be in an upward cycle for rental cars. But I'd like to point out 4 things when considering this.

One, we came off a near-death experience in 2020 with no federal bailout; two, we honored all of our financial obligations to our business and financial counterparties throughout the pandemic by withstanding substantial losses; three, this upward cycle in RPD only brings us in line with inflation without taking into account the substantial inflation we're seeing in 2022; and lastly, four, over the past 10 years, every major input cost of our industry from the price of new vehicles to labor, to real estate, to parts, to insurance, et cetera, has all seen price increases well in excess of what we've passed along to the consumer.

Given these facts, I remain confident that we provide an excellent value proposition for customers. Where else can you get a $20,000 asset simply handed to you for unsupervised use nationwide whenever you need it for less than the cost of a tuxedo rental? Every booking we receive is proof that our customers feel the same way.

Let's move on to capital allocation, where it's been a very active year thus far. As you'll recall, share repurchases made up the majority of our free cash flow usage in 2021. In the second half of 2021, we retired over 14 million shares, representing 20% of our diluted shares outstanding at the beginning of the period, at an average price of slightly over $100 per share.

Year-to-date, in 2022, we've retired an additional 8 million shares, representing nearly 15% of our diluted shares outstanding at the beginning of the year, at an average price of roughly $215. In aggregate, during this most recent share repurchase program, we've been able to retire 22 million shares, representing nearly 1/3 of beginning shares outstanding, in less than a year at an average price of $140, a 48% discount to the closing price as of April 29.

But that only takes into account our buybacks since July of last year. Our share repurchase program has been an active part of Avis' capital allocation strategy since 2013. Since we launched the program then, Avis has retired 87 million shares and converts at an average price of less than $60. That's nearly 2/3 of the diluted shares outstanding retired at a 78% discount to the closing price as of April 29.

We've demonstrated that as capital allocators, we're willing to take a long-term view and step in aggressively when opportunities arise, which is why, yesterday, our Board approved an additional $2 billion of authorization to our share repurchase program, bringing total authorized funds to $2.3 billion.

But as I said on the last call, we will be nimble with how we deploy capital with Avis. Just because we viewed share repurchase as the best use of capital for the past year does not mean we will formulaically allocate a similar amount of capital to this area throughout the balance of this year. We will opportunistically allocate capital to those areas that benefit all stakeholders of Avis Budget Group.

We find ourselves in the privileged position of being in the strongest financial standing in the history of our company. In the past 4 quarters, our LTM adjusted EBITDA has grown from $965 million in 2Q '21 to $1.8 billion in 3Q '21, to $2.4 billion in 4Q '21. And now, as of the first quarter of 2022, we sit at $3.2 billion in LTM adjusted EBITDA.

So despite our taking on additional term loan C this quarter, our net leverage ratio remains the lowest in our company's history at less than 1.3x. That's less than half of the low range of our 3 to 4x historical target.

As of March 31, we had available liquidity of more than $900 million with additional borrowing capacity of $1.7 billion in our ABS facilities. Our corporate debt is well laddered with 87% of our corporate debt having maturities in 2026 or beyond and we are in compliance with all of our secured financing facilities around the world with significant headroom on our maintenance covenant tests as of the end of March.

Let's move on to outlook. As you know, we've made the decision as a management team to forgo giving formal annual guidance to allow ourselves the flexibility to make agile decisions as the business environment changes, but I do want to provide a bit of color on what we're seeing currently for the second quarter.

As Joe mentioned earlier on the call, the underlying demand environment is strong, both in the Americas and internationally. For the second quarter of 2022, we believe Americas' rental days will be above the second quarter of 2019 and that RPD will be above the second quarter of 2021. Depreciation costs in the coming quarter will see sequential increase due to lower fleet dispositions, but we believe consolidated monthly depreciation costs will still be lower than where we're currently straight-lining. As always, we are keenly focused on managing operating costs and using productivity tools to work around a tight labor market.

Things are humming, and we feel prepared, which is why Joe has challenged the entire team to keep the streak alive and deliver a fifth consecutive record earnings report for the next quarter by surpassing the adjusted EBITDA we posted in the second quarter of 2021. And it's still early, but if these trends hold through summer, we believe we'll be able to outdo our record full year adjusted EBITDA in 2021 and deliver the highest full year adjusted EBITDA in our company's history in 2022.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Brian Johnson with Barclays.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

I want to go a little different direction just thinking about the use of your balance sheet. I'm just pointing people are going to talk about the RPD and depreciation strength.

First, and this is the first time I've even thought about this since the mid-2000s. You have $4 billion of floating rate debt. Have you swapped a significant amount of that? And what is the sensitivity of your interest expense on your ABS structures that included to, say, a 100 basis point increase in pricing -- excuse me, in interest rates, not pricing?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. Brian, I'll take that question. So we're definitely in a rising rate environment. But we have a few mitigating factors on our end. One, we've been very proactive about refinancing our debt and extending maturity dates. So we feel really good about the visibility we have going forward.

And number two, 75% of our outstanding corporate debt is fixed at a weighted average interest rate of less than 4.5%. And the weighted average maturity of that debt is actually 5 years. So managing our capital structure has always been a core competency at Avis. Our treasury team and our financing counterparties, they've proven this over the years. So we're going to continue doing that.

In terms of what you're asking about in the sensitivity towards the ABS structure, I think that 65% roughly, you'll have to double check with David, of our AESOP debt is also fixed -- or sorry, not AESOP debt, our overall vehicle debt is fixed. So we have a lot of stability there as well. But we are going to consider what to do in terms of capital allocation with regards to debt, that will be evaluating callable bonds for refinancing to just overall debt paydown as part of our capital allocation strategy and also reinvesting equity into our ABS structures.

All of that is on the table. We're going to be proactive. We're going to make sure that our balance sheet is bulletproof, whatever the rate environment may be.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Okay. So -- and at the corporate level, you added $725 million new corporate debt. How should we model the corporate interest expense going forward?

And then my final question will be around your target leverage ratio and how much room do you think you have when get to that? How much room do you think you have at the corporate level to continue to lever up kind of in sight of eventually some downturn in EBITDA as things normalize?

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. In terms of how to model it going forward, I think your best bet is what we're -- like where we stand today, which I said, you can take a look at our corporate capital structure. 75% of that debt is fixed. Actually, if you take into account our $1.2 billion term loan, I think, actually, we state in our 10-Q, roughly $700 million of that has been hedged out floating to fixed.

So a good chunk of it is stable. What's uncertain is what debt we choose to call and pay down and what that looks like. And I can't really give you guidance on that because -- like I said in the past, we're going to be nimble about what we do with our free cash flow and how we allocate that to our balance sheet.

With regards to what the target ratio is, I don't think we've given any guidance since the historic 3 to 4x net debt-to-EBITDA levels we've been at the past. Clearly, we're well underneath that right now. We're at 1.3x net debt to LTM EBITDA. So there is some room, but we're being prudent with kind of how we address that.

Brian Arthur Johnson - *Barclays Bank PLC, Research Division - MD & Senior Equity Analyst*

Okay. And just one final question. Just -- you talked about the monthly straight-line depreciation. Is that a new accounting policy? Or did you just look at the likely residuals, 16 to 24 months, whatever your disposal period is? And on the new vehicles you're putting -- reduce the spread a bit.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

No. This isn't new at all. I think that there hasn't been a lot of -- there hasn't been a lot of question or focus around it because typically, what we try to do is maintain our gains and losses to 0. We're in a period where that's not happening right now given like the changes that have happened in the used car market since we purchased the vehicle and started straight-lining them. But it's in the 10-Q every quarter. I forget exactly what note, Note 8, Note 7, something like that. It's in there. But what you'll see is you'll see our overall gross depreciation costs, then you'll see like a small portion of leases and then you'll see our gain and loss per vehicle.

So if you look at our 10-Q, which was filed earlier this morning, you'll see that the takeaway is that gain on sales -- if you take away the gain on sales in vehicles this quarter, which Joe mentioned at $300 million, we're still depreciating our vehicle -- gross depreciating our vehicles at over $230 a month. That's roughly 10% below where we were in 2019. And that's due to 2 major factors. One, our vehicles are older. So we're at a flatter part of the depreciation curve. And two, we're getting more efficient around both disposition timing and channels.

So I do believe we'll continue to see gains on vehicles we disposed throughout the balance of the year. But as Joe said, we'll have fewer of those vehicles to work through in the coming quarters. So you'll see depreciation levels normalize to where we're straight-lining, which is around that $230 as the year progresses, but we probably won't get all the way there due to the built-in gains we have in our model year '20 and '21 vehicles.

Operator

Our next question comes from the line of Hamzah Mazari with Jefferies.

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

This is Mario Cortellacci on for Hamzah. I guess maybe just kind of going into the per unit fleet cost, I guess the expectation for Q2, should we be modeling or should we be thinking about that returning to kind of maybe our original expectations or our original path and trajectory for the rest of the year of getting to, call it, $250 exiting the year or beginning in 2023? Should we expect something with a 2 handle on it starting in Q2? Just maybe kind of help us with some of the modeling there.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. Look, as I said in the question before, we're straight-lining at the $230. So I think that's closer to where we'll be exiting in 4Q. So you can take your view on kind of how we normalize to that. But let's say that we'll be around the $200 level next quarter, maybe something slightly lower. And it's dependent on kind of how many cars we end up selling in the second quarter and throughout the balance of the year. But I do think that, that $230 level is where we'll be kind of exiting the year.

Mario J. Cortellacci - *Jefferies LLC, Research Division - Equity Analyst*

Got you. And then on fleet growth, I guess, how are you guys thinking about that? I know that you had your demand fleet pricing system and you're doing your best to maintain high pricing. But maybe just comment on what your visibility is into demand as of today? And if that's changed at all over the past, call it, few months, versus what you saw in 2021. Are people booking further out than they have over the past year? Or has it been pretty consistent with what you've seen?

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

I'll take that. This is Joe. I think when you look at demand, let's start with what happened in the first quarter. We saw a basic step change in what the demand was actually materialized in the end of February, as Brian, I think on the last earnings call, talked about. We saw a pretty good demand for the President's Day holiday and that continued into March, right? And that was a -- coming off of where we were when things were kind of stagnant.

You saw the TSA volume or passengers who went through the airports, down like 25% in January, it was kind of in the mid-20s in February, and all of a sudden that started to show promise and improving, and it has been improving throughout the month of April. So when you have that type of step change, you have to anticipate what's going on based on what you see closer in.

I think what you -- to get to your point about demand going out, if you look at the reservations that are being booked, they're booked -- we have a greater degree of reservations booked over 30 days in advance than we had actually in 2019. And what that shows me or shows us is the fact that consumers have confidence in their ability to travel as well as preparing for a season where they want to take vacations.

As we talked earlier -- as I said earlier, back in last year between video conferencing and staying at home and entertaining at home, people have certainly gotten out on the road, and we see that in our forward-looking demand. So demand going out as we see it today looks quite impressive.

If you look at the month of March, just to give you an indication. I mentioned earlier in my remarks that we had more cars on rent in the peak of March than we did at any time during the summer of 2021. So that should give you some indication of where we feel demand is going to be.

Operator

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

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

Congratulations, and thanks for the data points thus far. I was hoping maybe you could give us a little bit of color on the different buckets of demand between leisure and corporate. And just kind of maybe where they trended through the first quarter and what you're seeing seasonally because Q2 can be a little bit different than Q3, right? And then just directionally, what the pricing behavior is for those buckets?

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

Sure, Chris. This is Joe. In the early part of the first quarter, there was really no commercial or leisure business to talk about. As you remember, in the fourth quarter, we talked about the fact that commercial business made a rebound, especially in the months of October and into early November before Omicron materialized.

We see strong leisure demand and strong leisure activity on a go-forward basis. And I have to say in the latter part of the first quarter, we've seen the commercial demand improve as well to points above 2019 level during the same period that quarter. I think going forward, you're going to see a good mix, especially in the second of both commercial and leisure. We said earlier on the last call that I believe strongly that commercial business is good for our company. It gives you a midweek peak as far as how to utilize the fleet more effectively, and that will allow you to have that car available for rental for a leisure period that comes more on the weekends.

The commercial business that we have seen has come from the companies that you might think about, defense contracting and health care and travel and entertainment, logistics. And we see a lot of that travel. And lastly, what I -- what we see is that the commercial consumer is keeping the cars longer. They've -- I think they've augmented the safety service and the fact that do you have a car or not to make that choice for us, and prices have become elevated for commercial business.

And the last thing I will say about commercial is we've seen a tremendous growth in what we call leisure. Person rents the car for a couple of days and then keeps it on the weekend. Think of a business traveler going to Las Vegas for a conference and then sticks around for a concert on the weekend. We've seen a good deal of that. And with our split bill technology that we did a number of years ago, that will allow us to have a consumer to use their corporate card for midweek and then put it on their private card for the weekend.

So we've seen that. And then what we've shown on the leisure side is especially around holidays, when the Easter holiday or President's Week or even Martin Luther King early in the month. Tremendous activity and growth centered around those as well.

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

Okay. Very helpful. And then just as a follow-up, I don't know if it's maybe too early to tell, but do you think there's any structural change in kind of the hold period for your vehicles? I mean, obviously, mileage is going to be a gating factor at some point. But you guys have been able to stretch, I think, the whole period to meet the increased demand and take care of the availability issues. So just going forward, do you think there's a structural change or does the whole period revert back?

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

Listen, when you think about how we operate our fleet, there are 3 aspects of it that we certainly concentrate. Obviously, how you buy it and how you sell it. But in the middle is a key component of how you use it. And obviously, we've -- based on this very fluid situation of buying and generating new car from the OEMs has caused us to rethink that a little bit. And so we refreshed our fleet in the first quarter. We've done a lot to take out higher mileage vehicles that, in my opinion, wouldn't have lasted throughout the summer peak. And we've augmented some of our fleets in other areas with both new and some used vehicles.

But as I see it right now, the residual values are really high. We've had no issue with selling cars. The demand has been strong and the residual values are strong. I think we take a measured approach going forward to see exactly what the new car situation looks like as we get into the peak of our season, and we'll make decisions accordingly as we go out. I'm always very apparent of both mileage and age and the residual values that the cars hold and react accordingly based on those metrics.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Chris, just to add to that, some of this is the fact that we've been talking about all last year, the constraints that we're having around buying new vehicles this year. As we're into our 2023 model year discussions, like that constraint is going to continue on into next year as well. So just industry supply is going to be challenged. And because industry rental car demand is at peak, that's just going to lead to slightly older vehicles.

But what I would say is that we're getting better about managing these vehicles. We're noticing the benefits it has being on the flatter part of the depreciation curve. We're able to keep our out-of-service levels at historic lows, and our NPS scores from our customers are higher than it was in 2019. So I think it's something that kind of we think is sustainable going forward.

Operator

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

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

I wanted to ask a question about capital allocation. Brian, you guys have been really bold and thoughtful and smart with the buyback over the last couple of years. Kind of on your comments about future allocation, interesting. And we've seen some transformational M&A in the kind of remarketing sector recently. Just kind of curious to get your thoughts about M&A and if you could potentially look to M&A as a way to innovate this business even further in terms of either retailing on the auto side or even deeper into the mobility landscape. Just wanted to get your thoughts on appetite and interest level there.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. Well, John, look, we take a holistic view when it comes to capital allocation. So yes, we consider share repurchases. We also look at debt paydown, and we do look at the M&A landscape, which, like you said, is becoming more and more attractive out there. But the reason why we've been so aggressive around repurchases is that we've gotten a chance to repurchase at levels that we feel that our shares were undervalued relative to fundamentals around our current and future earnings trajectory.

So yes, we've been active around that front. We've retired 22 million shares since July of last year, and that was at an average price of $140, which is a 50% discount to where we closed yesterday. So I think you can make the case that our shares were undervalued.

Now where we allocate capital going forward is going to be a function of how attractive each of those 3 buckets are. And to be clear, we were active all throughout April as well in terms of our share repurchases. We acquired 1.5 million shares last month at an average price of $270. So obviously, we still view share repurchases as an extremely compelling use of free cash flow at these levels.

Now depending on where that share price goes forward, that will kind of move our decision in terms of where we look towards debt paydown, which is something that we're looking -- closely monitoring right now, especially in a rising rate environment and M&A possibilities out there.

We've said this before in the past in previous calls that we're not going to go and pursue M&A for M&A's sake. We're going to be thoughtful about where we add on. You'll probably see more things that are closer to like bolt-on acquisitions to core competencies and like we are monitoring that landscape actively.

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

Great. And I just want to get a big picture question. Your fleet was up, I want to say, 10% over 2019 levels, and the unit economics were, again, just amazing this quarter. But would just love to know like where do you think you've gained share in the industry? Are there any channels, verticals? And with that share position that you've gained, how durable do you think that is for the company?

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

I'll take a shot at that. When you think about our company, we offer various different brands and various different segments that attract consumer to our company. We have 3 brands; Avis, Budget and Payless. All attract a different type of consumer. Avis, obviously, more commercially orientated, people who expect a little more excellence in service. Budget, which appeals to the leisure traveler, which was certainly very big this past quarter. And you have Payless to someone who's maybe a little bit more in line with value proposition.

Then you take what are the other things that we do here. We don't talk about as much, but we have a growing ride hail segment of our business, where we've been doing that for a number of years. We have a rideshare business that -- where we have cars located within walking distance of urban centers and college campuses. And we have a last mile delivery business that's been growing pretty rapidly over the past number of years with our budget truck business. And combine that with things that we do, we offer one-way products for people and short-term leases.

So I think we cover the gamut of full range on mobility. And you'll see us moving, as time goes on, into more electrification of our fleet. I think with that, we have -- we offer a variety of products that attract consumers to our company.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

John, just to add to that, we don't manage to market share at this company. We manage to meeting the demands of our customer base. And it's still fresh in our mind that environment in 2020 when our volumes were down 80%. That kind of trauma, believe me, it leaves a mark. So we, at Avis, like we firmly believe that a return on assets is more important than the absolute size of the asset base. So it's not market share that we're solving for, it's meeting the demands of our customer in a thoughtful way that maximizes our return on capital deployed.

Operator

Our last question comes from the line of Ryan Brinkman with JPMorgan.

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

With regard to capital allocation, I think you've been pretty clear in your communications, including on the call just now and in your actions, that you're laser focused on share repurchase while also entertaining other opportunities with the shares proving maybe especially attractive right now, just given valuation.

I just want to follow up on the other opportunities, including I heard you say in answer to, I think it was Joe's question, bolt-on acquisitions to complement core competencies. And -- so I guess, in addition to buyback and inorganic expansion, the other bucket really is the incremental organic investments you could push on.

So just wanted to get your appetite around like bolstering core competencies via more organic or like step change, maybe pulling ahead changes via inorganic, So for example, like with direct-to-consumer. What's the math or the strategy on? Okay, we've got all this cash. We could deploy it on building out stores or do you go out and you buy somebody who's already selling cars to consumers? Maybe we can start there.

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

Okay. I'll start and then I'll throw it over to Brian. When we look at deploying capital, we obviously look at how to make our operations more efficient. We're working on process and procedures to do just that, make the productivity systems and things to make our businesses certainly more reflective of the operating environment.

We spent a ton of time in the past talking about our Avis app and our -- I spent -- I talked a little bit about on our QuickPass where we allow a customer to come in really in a self-service mode and transact with our company. We'll be rolling that out in a more aggressive fashion as the year goes on. So you'll see us deploying and things like with the customer experience because we do believe that, that's a differentiator with our company.

You talked a little bit about how we sell cars, that's on our list as well as how we will sell cars in a differentiated way. We talked in the past about growing our sale lots and things of that nature. We do believe that if we find a way to sell more cars dynamically to the consumer, that will certainly benefit our company.

And lastly, and it's how do we prepare ourselves for the electrification of vehicles. As we talk to our OEMs going forward, electric vehicles will be part of their fleet portfolio. And one thing we love about working with our OEM partners is, gives us this tremendous diversification of fleet and electric vehicles will be part of that. We need to be prepared for that.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. Listen, I think you hit on all of the points. There's a third option as well, like when it comes to bolt-on kind of -- and bolstering our core competencies, we can build ourselves organically, right, dedicate more resources to building it ourselves. We can go out and acquire through M&A,

which you're asking about inorganically, or we can partner as well, that's the third option, with best-in-class people whose core competency it is to do just that.

So we're evaluating all 3. And yes, direct-to-consumer is important. That's something we're focusing a lot of time right now and looking at all 3 of those options. But we're also looking at things around the supply chain and around electrification, as Joe said. So yes, we're looking at all areas.

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

Okay. Very helpful. And then just the last question is big picture, how you're thinking about travel in the middle part of the year, you did help us on the second quarter. But just how big of a catalyst is it -- do you think to be taking masks off on the planes in the U.S.?

And then what are you seeing in terms of some of those international within Europe sort of restrictions on travel and those being lifted and sort of the disproportionate impact that, that can have on leisure in Europe? International into the U.S., I should say, sorry.

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

Yes. No, I understood your question. We see our travel in the first quarter have a step change and we believe there is a robust user travel, certainly as it pertains to the summer season yet to come. If you think about the things that were not apparent last year, in the 2021 season, one of which you mentioned was inbound international traffic. We've definitely seen a change in the booking patterns once those countries lifted their restrictions.

So whether that be from Canada recently or Europe, that has made a material impact. So international business, which has been down quarter-to-quarter, we've seen that in the first quarter rise, but the bookings holding going out, at least for the first 4 weeks of March are positive compared to 2019. And I think it has a lot to do with those lifting of restrictions and mask mandates.

Brian J. Choi - *Avis Budget Group, Inc. - Executive VP & CFO*

Yes. We're not getting into kind of guidance outside of the second quarter. But as Joe said in his prepared remarks, like things are very, very robust for this coming quarter, every leading indicator that we typically follow. That's prepaid leisure bookings, corporate travel, cancellation rates, like you name it, all of it points to the most robust demand environment we've ever seen. Most robust by a significant margin, I would say.

So I think that coming off of 2 years of a pandemic, like Joe said, there's just so much latent demand around travel right now that we feel really good about where we stand, but we're not going to comment right now on the third quarter.

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

The airlines are talking about it exactly the same, so...

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Joe Ferraro for closing remarks.

Joseph A. Ferraro - *Avis Budget Group, Inc. - CEO & President*

Thank you. So to recap, we reported our best first quarter earnings in our company history. The Americas and International teams delivered record quarters from increased volume and improved pricing. We continue to expand our Avis QuickPass offering for Avis preferred customers utilizing our technology for a well-received contactless rental experience.

And most importantly, I want to acknowledge and thank all the employees for their continued tireless efforts in helping us achieve these results, and we're not done. As I continue to challenge the entire team to keep this streak alive, I believe we can deliver the highest full year adjusted EBITDA in our company's history.

With that, thank you for your time and interest in our company.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.
