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CAR.OQ - Q3 2022 Avis Budget Group Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Avis Budget Group Third Quarter 2022 Conference Call (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, 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 Vice President of Corporate Finance*

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

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

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and to 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. - Chief Executive Officer & President*

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

Yesterday, we reported our best quarterly results in our company's history, making this our sixth consecutive earnings report where we delivered record high adjusted EBITDA for that given quarter. For over 1.5 years now, our team has shown incredible dedication and drive by continuously setting new benchmarks quarter after quarter.

I want to start off this call as I usually do, by thanking the 25,000 employees of Avis Budget Group, who helped make this possible. Last quarter, I said we were in the busiest summer travel season I've ever seen, with demand materializing in both robust bookings and a healthy rate. But we didn't just rely on strong demand to generate earnings. We acted decisively by selling aged fleet for solid gains and maintaining our stringent cost discipline.

When you combine a favorable travel environment with operational excellence, this is the result, $1.5 billion in adjusted EBITDA for the third quarter. That's over a 20% sequential growth from our second quarter of 2022 adjusted EBITDA and which was the previous record high adjusted EBITDA in any quarter in our company's history. This puts us at $3.5 billion of adjusted EBITDA thus far for 2022, which is already over $1 billion more than our record full year adjusted EBITDA of $2.4 billion in 2021, and we still have the fourth quarter to go.

But before we talk about the fourth, let's go through the highlights of the third quarter results. And as usual, let's begin with the Americas segment. The Americas continue to build up a strong second quarter and the results across all business metrics reflect an operation that is humming. Travel demand was strong for both Commercial and Leisure segments with volume well over 2019 levels. This is the second time that our Americas segment alone was able to generate over $1 billion in adjusted EBITDA in a given quarter.

We're able to meet the strong demand of our customers by servicing over 33 million rental days in the quarter, a record for our company. This wouldn't have been possible without the work of our supply chain team who overcame part shortages and OEM recalls to find a way to get our cars safely back on the road. This resulted in a sequential increase in utilization back to the low 70s where we've been operating historically in the third quarter. RPD of $81.06 was down year-over-year and slightly up from the second quarter, but I don't believe this tells the whole story.

While we don't typically get into the month-to-month results of RPD, I do feel it's important to provide some color on this quarter. On our last call, I mentioned that we started to see a return to normal seasonality, month-to-month in RPD trends. That continued this quarter, with August RPD coming in sequentially lower than July and September RPD coming in sequentially lower than August. That's what happens in a normal summer and implies stabilization in industry supply and demand dynamics. This new normal allows us to compete on operational efficiency, which is welcomed by us.

Commercial business was strong in the quarter, well above the 2019 levels, and especially post-Labor Day with new signings of accounts and partnerships powering robust midweek demand. However, even with more corporate travel in September versus the rest of the summer, pricing in the month was up compared to September of last year, allowing for good exit trends.

Moving on to Fleet. We are executing on the strategy we laid out on our last call. Back in August, I said that given macroeconomic uncertainties and with the arrival of newer fleet, we will rotate out of our older fleet and trim our vehicle size in order to ensure a proper return on invested capital while continuing to align our fleet with customer demand. And that's exactly what we did throughout the summer. We were able to exit high-mileage vehicles at healthy gains relative to the net book value.

Excluding the early part of COVID, this is the most number of vehicles we sold in a normal quarter. I'll get into more detail around this topic during the Fleet section, but I wanted to quickly acknowledge our Americas fleet team for mobilizing quickly and working tirelessly throughout the summer to take advantage of favorable window in the used car market while allowing the business to have enough fleet to handle peak period volume.

Moving on to the income statement results of these metrics. In the Americas, revenue increased by $300 million year-over-year. America's adjusted EBITDA during the same period increased by roughly $233 million for an incremental margin of 78%. If you compare our most recent results to the third quarter of 2019, Americas revenue increased by roughly $835 million, while adjusted EBITDA increased by $864 million for an incremental margin of 103%. Gains on disposed vehicles contributed approximately $360 million to our results reflecting our proactive decision to take advantage of a robust used car market while we saw demand.

However, even excluding fleet gains, it's evident that the earnings power in our Americas segment is still objectively impressive. Consistent with recent prior quarters, our focus around cost allowed all the benefits of the strong revenue and used car environment to fall to the bottom line. This was a historic quarter for the Americas segment, and I believe the results showcase a business that's nimble, lean, and focused. Since exiting the COVID era, we've been saying we're a transformed company, and this quarter reflects what the Americas team is capable of.

With that, let's move over to our International segment, which had a historic quarter as well. I've been consistent in our message that the stringent cost control our International segment sets up for an outside EBITDA recovery as revenue returns. The International team built on a strong second quarter and took full advantage of a robust summer travel season in the third quarter. While we believe rental days were hampered due to airport constraints and flight cancellations, our international team was able to service 22% more rental days versus the third quarter of 2021, with significantly higher RPDs.

The return of inbound travelers our most profitable segment contributed to higher RPDs and with the strength of the USD, we believe that the segment will continue to grow. The strong demand, combined with tight cost control, resulted in over $290 million of international adjusted EBITDA. This means that despite $39 million of headwinds from foreign currency exchange, the international team was almost able to generate as much adjusted EBITDA in one quarter than any prior full year in company's history.

Let me illustrate the magnitude of this transformation in another way. In the first 3 quarters of 2022, our International segment generated roughly $500 million of adjusted EBITDA. In the first 3 quarters of 2019, we generated roughly $500 million of adjusted EBITDA from our Americas segment. We acquired Avis Europe in 2011 because we believe the true global reach would be a sustainable competitive advantage. No other car rental company in the world matches our footprint and the infrastructure investments we've made in our global network ensures that our customers can rely on consistent quality and convenience no matter where they travel. The results this quarter demonstrate how valuable an asset we've built over the past 10 years.

Moving on to Fleet where consistent with last quarter, we'll focus more on the Americas segment. In the Americas, our average fleet size in the quarter was basically flat, moving from 500,000 vehicles in the second quarter to 507,000 vehicles in the third. As mentioned earlier in the call, we aggressively disposed of high-mileage vehicles throughout the summer as we took on delivery of new vehicles. I've always said that fleet management is at the heart of what we do. This quarter demonstrates how agile we can be by quickly taking advantage of the strong used car market while demand was at its highest.

In the first quarter of 2022, our average fleet size was 50% higher than the first quarter of 2021. The second quarter, our average fleet size was 32% higher than the second quarter of 2021. In the third quarter, our average fleet size was 17% higher than the third quarter of 2021. So the growth has slowed from 50% to 32% to 17% during the first 3 quarters this year.

Our objective is to optimize return on invested capital and we match our fleet size to demand in order to achieve that objective. For the past 5 quarters, we've sequentially grown our fleet in the Americas to take advantage of pent-up travel demand. However, given the return of normal seasonality, stabilizing industry supply, and mounting macroeconomic uncertainties, we believe in order to optimize return on invested capital, we will need to manage a sequential decline in Americas fleet consistent with what we've historically done in pre-pandemic years from the third to the fourth quarter.

We had roughly $360 million in gains from dispositions in the quarter by pulling forward sales that we typically would have spread across the third and the fourth quarter. If you adjust for fleet gains, you'll see that our straight-line depreciation has increased from $210 in the second quarter of 2022 to over $230 in the third quarter of 2022. As we deplete older model year vehicles and in fleet current model year vehicles, you'll see the straight-line depreciation continue to increase.

Also, given that we've already harvested the fleet gains we initially expected for the fourth quarter, gains will decrease significantly next quarter. The used car market is currently in flux. But given our marketing strategy, along with our conservative nature of how we account for our fleet assets, we believe the ceiling for monthly per unit fleet cost in the fourth quarter will be similar to where we straight-line monthly depreciation in the third quarter.

Let me wrap up the Fleet section with a few comments on our 2023 fleet buy. While we have many contracts in place at this time, a portion of our fleet buy is still pending. Conversations have been productive with our OEM partners. And while we do have more visibility in terms of availability and allocations of supply, chip, and part shortages along with vehicle delays are still very evident. And we believe the 2023 industry fleet buy will be tight. Fleet purchases are the largest use of our capital in our business, and we realize that optimizing for return on that capital is our responsibility as stewards of this business. Therefore, we are taking a measured approach to our 2023 fleet buy both in terms of number of vehicles and purchase price of those vehicles.

We are taking on a broader mix of makes and models with our OEM partners in order to showcase an exciting new lineup of vehicles to our rental customers around the world. And while we won't get into specific figures, new electric vehicles will make up a growing portion of our 2023 fleet buys.

Next, I want to discuss our progress on our electric vehicle implementation strategies. When I talked about this last year, I said it was very important to make sure we follow consumer demand, maintain targeted utilization and ensure the stability of the economics throughout the life cycle of a vehicle from purchase to vehicle use and maintenance to end-of-life residual values. We've been working hard with our partners to build out the infrastructure required in many of our locations, and I am pleased with our progress to date and our plans going forward.

We have done extensive modeling of anticipated fleet size and rental demand by location, by day of the week to determine the exact number of charging units and laid out an execution plan to get to the levels needed from both airports and city municipalities along with public utilities.

We are confident in our ability to operate, service, and maintain the EVs and we've been working hard with our OEM partners and are pleased with our ability to purchase the diversified portfolio of vehicles this year and the years to follow. It's an exciting time and we will be ready to take on this change in consumer preference.

Moving on to Technology. We increased our Avis QuickPass offering at a majority of our airports. For those unfamiliar with this product, it enables our customers to select from a choice of vehicles on their phone, proceed directly to their car or even exchange their car, if they like and drive to the exit gate utilizing a QR code for an automated exit. Upon return, customers can close out their rental on their own, utilizing our connected car technologies. Our customers are responding favorably to this contactless and stress-free experience. Those that utilize Avis QuickPass score as 10 points higher on a net promoter scores.

As I mentioned last time, we were early adopters of vehicle telematics into our core operating systems. Gas readings in our vehicles are registered before and after each rental and calculate down to the tenth of a gallon, allowing us to neutralize the rising cost of gas.

DFP, our demand fleet pricing system now several years in use is continually getting more intuitive while forecasting supply and demand down to the lowest location levels, allowing for both demand and price optimization. Productivity notification systems are being used to reduce labor and wage pressures, and we've seen good results driving significant improvements in our operating performance. We will continue to integrate both customer and operational systems with our existing processes to further enhance our ability to drive results and exceed our customer expectations.

So I'll pause here and wrap up my prepared remarks by once again saying how proud I am of our team and the results we have been able to achieve. We had a terrific summer season. September was the strongest September on record with demand at double-digit increases over last year. Fall is off to a great start with both our commercial and leisure bookings trending to be greater than last year and 2019. And we remain optimistic around the holiday season.

In conclusion, we reported $3.5 billion of adjusted EBITDA over 9 months in 2022, and our entire organization is operating with intensity to make sure we run through the tape in the fourth quarter.

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

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & 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 capital allocation. As you'll recall, our pace of share repurchases slowed significantly in the second quarter, and that continued into the third quarter as well. Only 590,000 shares were retired in the months of May, June, July and August, reflecting a wait-and-see approach to both summer cash flow dynamics and the trading levels of our stock.

We pivoted quickly from this strategy towards the end of summer and deployed over $1 billion over 45 days to repurchase 6.3 million shares at an average price of $164. That means since we've last reported, we retired an additional 14% of our shares, bringing our current outstanding share count to 41.5 million. We've been consistent in saying that we'll be opportunistic in repurchasing our shares. This quarter was an example of that.

We continue to 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 $2.4 billion in 4Q '21 to $3.2 billion in 1Q '22 to $3.8 billion in 2Q '22 and now as of the third quarter of 2022, we sit at $4.2 billion in LTM adjusted EBITDA, which means that since the pandemic began 11 quarters ago in the first quarter of 2020, we've repurchased $4.4 billion of shares, invested $1.6 billion back into our vehicle programs and brought our net leverage ratio to less than 1x, the lowest in company history.

As of September 30, we had available liquidity of approximately $1.7 billion with additional borrowing capacity of $2.6 billion in our ABS facilities. Our corporate debt is well laddered, with approximately 88% 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 September.

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 currently seeing for the fourth quarter. As Joe mentioned earlier on the call, we're continuing to see normal seasonality in both the Americas and International segments, but travel demand for the fall is robust, and we are optimistic this will continue through the holiday season.

In the Americas, we believe sequential RPD decline from 3Q '22 to 4Q '22 will be similar to the sequential RPD decline we saw in 3Q '21 to 4Q '21. We pulled forward fleet gains, so the benefit will be normalizing with per-unit fleet costs in the Americas expected to be closer to $200 per month on a reported basis.

In our International segment, due to business mix returning and leisure travel slowing, we believe both RPD and per unit fleet costs in 4Q '22 will be relatively flat with 4Q '21.

One notable change from prior year that I'd like to point out will be in our vehicle interest expense line. As you know, our vehicle debt is made up of roughly 2/3 fixed term debt and 1/3 variable floating rate notes. We'll be absorbing the full impact of Fed rate hikes on our variable floating notes in the fourth quarter, which should sequentially increase our vehicle interest expense by $20 million to $30 million versus where we were in the third quarter. We'll give further guidance on full year '23 interest when we next report.

But as we refinanced tranches of our fixed vehicle term debt, the vehicle interest burden will continue to be a headwind going forward. In this rising interest rate environment, we'll have to optimize for what advance rates we use, how deep we go on tranches for our term debt and how much fleet equity we fund into vehicle programs. But the internal operational adjustments alone cannot offset the magnitude of these exogenous interest rate increases.

We believe there are only 2 responsible ways to address this macro headwind. One, we have to factor in this additional cost when evaluating the appropriate return we require for the capital we deploy. Two, if we can't control interest rate hikes from the Federal Reserve, we have to remain hypervigilant around all the costs that are in our control. Fortunately, that's exactly what we've been doing day in and day out since the pandemic began over 2 years ago, so we're ready.

I have full confidence that our team will continue to demonstrate discipline and excellence across both these dimensions. That's what we mean when we say we're a transformed company. I think this gives you a sense of where we see most of the major variables of our business for the fourth quarter.

But what does that all mean for adjusted EBITDA? We've mentioned several times on this call that we're seeing normal seasonality return and we all know that car rental is a seasonal business with the peak being in the third quarter. In a normal pre-COVID year as reflected in fiscal years 2017, 2018 and 2019, the drop-off in adjusted EBITDA from 3Q to 4Q is fairly consistent. In each of those years, the fourth quarter was 70% down from the previous third quarter. That is the floor we've set for ourselves for the upcoming fourth quarter of 2022. So despite the difficult sequential comp in monthly vehicle depreciation, we are targeting to deliver more than $450 million in adjusted EBITDA next quarter, which means that at this point, we believe that we'll generate approximately $4 billion in adjusted EBITDA for full year 2022.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question we have is from Ryan Brinkman from JPMorgan.

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

With regard to the equity investment in the vehicle portfolio, decreasing the fleet leverage. Should we regard this as more of an earnings efficient place to park liquidity, reducing vehicle interest expense? Or do you maybe intend to operate with a different level of fleet equity going forward such as, for example, I think Enterprise has?

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

Yes, Ryan, this is Brian here. We're going to be fairly nimble about this. It is definitely efficient place to park cash because we have a double benefit. One, it reduces our leverage on the vehicle program side, and it also reduces our vehicle interest expense which is -- which we factor into EBITDA. So we've been parking excess cash flow in vehicle programs versus putting it as cash on the balance sheet.

But as we've proven in the -- during the pandemic, that we can pull cash quickly in and out of the vehicle programs. So we're not setting exactly what levels we want to keep over there. We're going to be fairly nimble with how we fund that.

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

Okay. Thanks. I think one of the key questions investors are attempting to get their arms around is what the new normal level of EBITDA may be at the company as we cycle past the current imbalance of supply and demand for rental cars and as used vehicle prices potentially normalize lower, et cetera? I remember it was just last year, I think when you said that the Board of Directors wouldn't accept a plan for the year ahead that would include less than $1 billion of EBITDA. Here, you're doing $4 billion. Do you think the fact that you're doing $4 billion instead of the $2 billion that was expected by analysts at the start of the year, the $2.2 billion, I think that was expected. Is that reason to believe that out-year earnings in 2025 or 2026, maybe higher than was estimated a year ago or so?

And how do you go about thinking what the normalized earnings potential of the business might be? Or when might you think you may be in a position to comment on that?

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

Sure. Ryan, why don't I start and Joe can add his thoughts.

We've made the decision as the management team to forego giving formal guidance for 1 year out. So we're definitely not giving long-term guidance on this call. But I'll reiterate what we said in our prepared remarks. We're seeing normalization in key variables that drive our business, like you said, RPD, rental days, used car values.

But the question is, what does normalization mean? And what does the glide path towards normalization look like? Is it a hard reset back to 2019 levels? Or is it a gentle slope with a longer runway that settles at a level materially higher than 2019? You'll have to make your call. Joe?

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

Yes. Listen Brian nailed it, we're a different company than we were in 2019, as you can see by some of the action we've taken some of the growth that we've seen. And so we'll be prudent on how we manage our cost and be certainly in line with our vehicle demand when it comes to what our fleet sizes should be.

We've taken a lot of action on cost control over the past couple of years. So due to the pandemic and things of that nature, but we managed to operate our business in a different level of capacity. We used a lot of technology to help us administer both the volume credit side of our business as well as the cost side.

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

Great. And then just lastly, I'm curious if you have a view on when you think supply and demand of rental cars may return to a more normal balance say in the United States? I think I heard you say that you expect fleets to remain tight going forward. I don't know if that was a comment for all of 2023, just given the lingering impact of chip shortages and recalls.

On the other hand, I think it does seem like you were able to buy more vehicles during the third quarter. And how should we think about revenue per day tracking? I mean, I would think as you rent any asset. And if that asset were to decline in price, whether we're talking about houses or cars, that the amount which you could rent it for may track in line with the asset value. But of course, it's not so simple, right? There's the supply and demand for the asset itself. So should we think about revenue per day, tracking more in line with the trend of used vehicles or more in line with the trend of consumer prices going forward or the supply and demand for rental cars? I don't expect you to give RPD guidance for '23 but what are the most important factors do you think we'll enter into where it does shake out?

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

Okay. I'll start off with the -- let me start off with the fleet side. So -- as I mentioned on the last call and earlier in my prepared remarks, we've seen a normalization as it pertains to business trends and seasonality. And that's very different than we had leading up to this year, frankly. We aggressively defleeted cars in 2020 due to the nature of demand and we spent all of 2021, increasing our fleet size, not just us, I think, the majority of the industry and some through the early part '22.

But we saw very quickly that things were starting to normalize, a bit at a higher level. I would have to say that at a much higher level than 2019. But the seasonality that we saw in the second quarter existed into the third. And if you think about how we manage our fleet and the fleet dynamics, July is the month that we have the most business, the most rental days and thus the most fleet. And then the fleet sizes start to taper down as you get through the remainder of the year.

You add one other interesting aspect to this year, and that's the fact that we rotated our fleet quite regularly with the arrival of new cars. This allowed us to take advantage of the really strong dynamics in the used car business this past quarter. And we certainly exited a good number of vehicles this quarter, the most that we did probably 1 year in the pandemic here.

And we see that trend continuing. But I have to say demand going out is still very strong. And we see that continuing into a -- at least the early part of next year when we have some pretty seemingly good visibility. So as I said, the month of September was the busiest September on record. Some of the airlines talked about that as well, having seen a differentiated September.

There are a number of factors to that. Our increase in commercial business was pretty significant and there's a leisure business associated with maybe people for working home for a couple of days and maybe remotely from others, help contribute to that level of growth. We've seen a strong influx of leisure business. I don't see those trends disappearing. And that's what we see going forward.

As far as our fleet size, I do believe based on the insights that I get from what we do with our OEM partners and our buy, that fleet allocations will be tight going into next year. Now what happens during the course of the year and as you know, the 24-model year buy stocks mid next year is anyone's guess. But right now, we see that -- those dynamics and those allocations being tight.

With that comes, what happens to price? Price was elevated in September compared to prior year and a month that we had some pretty significant commercial improvement. It looks like price on the rest of the way is certainly going to be elevated for our company on a go-forward basis and demand seems pretty high. So we are -- we're seeing a good deal of demand coming through our doors that fall was great. October, I thought it was really a good precursor to our winter season and we see those dynamics continue.

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

So Ryan, just to add to that, the used car prices is just one factor that we consider. Assets all across our cost structure are getting more expensive. I mentioned vehicle interest in our prepared remarks, labor costs are going up, and we're in just the highest inflationary environment that we've seen. So all assets are getting more expensive, and that's true for -- across our entire industry. So we believe that we're going to require higher prices to maintain an appropriate return on invested capital.

Operator

(Operator Instructions) The next question we have is from Adam Jonas from Morgan Stanley.

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

Thanks, everybody. Can you hear me?

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

Yes.

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

Very impressive work you guys are doing. My first question is on the EVs. I know you're not -- you're going to elaborate on targets, but can you tell us actually right now, roughly what percentage of fleet is EV?

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

I'll take that, Brian. So here's what I'll say, Adam. I will say that we have EVs on our fleet currently. We have EVs that we are scheduled to receive in the fourth quarter, and I'm quite pleased with our EV purchases for next year. I'm not going to go into exact number of cars. We don't do that for the various cars we have in our fleet.

But we've had conversations with all our OEM partners. We're going to get different makes and models and cars from as we normally do in all our OEM partners, which gives us a good variation of fleet to offer to the general public. I believe -- okay.

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

That's okay. Joe. Sorry, I mean to cut you off. Keep going.

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

No, I believe that it's important for us to execute on our EV strategy at the most challenging environment, which is our airports. We believe we get the best return on our investment, the best revenue per day, the best expense control. And as you know, we run a system that we gas up a car, it takes 20 minutes. So we'll be pretty, pretty knowledgeable of how long it will take to do an EV car. So we spent a lot of time investing in our airport businesses, and we have did some incredibly modeling to generate the thought process to say, at any given time in any given week and any given day, what would our inventory be and when will that car be rented.

And with that knowledge, we've started to contract with our EV suppliers and software providers to determine that best cost of action. And as I said, we've implemented a good number this quarter, and we have a good number going into the next quarter and the months to follow.

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

And just as a follow-up, can you confirm your competitor Hertz said that OpEx for EVs is something like 50% or maintenance costs or half in internal combustion car -- I don't know if that's something you and your detailed analysis leading up to the EV strategy could also broadly agree with. And just remind me your program versus risk mix right now. Thanks guys. Great job.

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

Okay. Thank you Program versus mix on EVs is entirely -- entirely risk. As a matter of fact, program versus risk for our total fleet as majority risk if that helps. As far as the net benefits, we're seeing higher rate per day than we put a normal gas car. But I'm going to tell you, Adam, it is very early, right? But we are seeing a higher rate per day than a normal gas car, and it's really early to determine what the overall maintenance trends would be. So I'll talk more about that as time goes on.

Operator

(Operator Instructions) The next question we have is from Chris Woronka from Deutsche Bank.

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

Congratulations on another great quarter. So my question does kind of relate to fleet, not to beat a dead horse and maybe go in a little bit of a different direction. But how quickly -- we know you guys can pivot very quickly if you need to, if economic conditions change, and that's especially true on the sales side, right? But on the purchase commitments, can you give us a little bit of commentary maybe on your macro view for the next year or so? And how quickly can you pivot on the purchase decisions if you need to?

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

Well, I think if you're talking about what happens if volume goes up, we've -- we've certainly proved that this past year as we were able to take advantage of pretty significant demand and have enough cars to do that. So I was quite pleased with our ability to fleet up. As far as insights about what we see from manufacturers and deliveries, I think it's still spotty. There are certainly -- we put orders in for certain months and those orders get delayed or pushed out to other months. So we have to be certainly nimble on how we manage our day-to-day fleet assets. We've proven in the pandemic and probably even during the recession of '08 and '09, that should things turn the other way, we are very quick to defleet as we did in this quarter.

Like I said, we've taken out more cars this quarter as far as fleet sales than we did any time in the third quarter, if you take out the pandemic years. So -- and in this quarter, we had high rental demand. So when you combine high rental demand and thus the logistic challenges associated with de-fleeting cars, we were able to do both. So I feel that we've proven over the years our ability to exercise that. We have a strong leadership team in our field organization and certainly a strong supply chain team that is able to juggle multiple initiatives.

So that being said, I do think the fleet dynamics on a go-forward basis, the allocations that we will be getting for the industry will be tight.

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

Okay. That's helpful. And then my follow-up is I think Brian mentioned the current share count being down around 41.5 million. Obviously, I think if we do the math with your big shareholder, the floats getting -- getting smaller. And I try to triangulate your comments around what fourth quarter might look like and the opportunistic approach to share repurchase.

But my question would be, what is there a level -- is there a point at which it just becomes more difficult to buy stock mechanically from a float perspective even if it's at a level you think is attractive?

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

Yes, Chris, it's Brian here. I don't think so. That's been true for many quarters now, and we've proven that when we want to, we can go get the shares we want. So we've not seen any issue on that front. And we've been consistent in saying we're not going to be formulaic in terms of share repurchases given rising interest rates, like I said, and just general macroeconomic uncertainties.

We're also focused on corporate debt paydown and fleet equity contribution, as you've seen in this quarter as well. But listen, when we see an opportunity to create permanent shareholder value through repurchases, we're not shy about it. So we're going to continue to be nimble with both the timing and the magnitude when it comes to repurchases.

Operator

The next question we have is from Stephanie Moore from Jefferies.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

Hi, good morning. I appreciate the color on 4Q expectation. I wanted to dig in a little bit further about the kind of rebound in business travel and what you're seeing on the commercial side, is there a potential that a return to more business travel could cause normal seasonality from 3Q to 4Q to differ?

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

Yes, that's a great question. This is Joe. Most travel organizations are reporting declines in commercial travel compared to '19. We have not seen that. We've seen terrific growth in government, defense contracting, aerospace, tech companies, logistic companies, and it actually was very robust in the quarter, especially in the month of September. Companies are getting together now more frequently than they had probably in the pandemic and maybe prior. Trade organizations are having meetings, associations are having meetings.

If you think pandemic, everything was centered around beaches and leisure activities. And those states that were involved in that did very well. Well, now there's a resurgent more into the cities. We've seen it in a lot of our city operations that those places are doing quite well in the middle of the week. It used to be like everything was centered around the weekend. I don't see that trend changing in the fourth quarter, even though there are significant holidays of Thanksgiving and Christmas, which tend to dominate the quarter.

And that gives us confidence that in the shoulder periods, which are equally as important in the peaks that we just came out of that we have enough asset utilization and revenue generation to support the business. So I'm quite bullish on our commercial trends I believe.

Stephanie Lynn Benjamin Moore - *Jefferies LLC, Research Division - Equity Analyst*

Great. No, I appreciate that. And then maybe with kind of what you just walked through and more of the seeing a little bit more of a bounce in demand throughout the week and the shoulder season. How does that kind of play into your decisions in the third quarter to maybe take more cars out and de-fleet a little bit more aggressively than you have over the last couple of quarters? I'm just trying to kind of reconcile the kind of the strategy between the 2.

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

Yes. Make no mistake about it, we would wanted to do both -- and both drive our rental volume -- that we had certainly that we saw in the quarter and also trim off fleet size sown. I think the thing that we have to take into consideration is our fleet asset. When you think about fleet costs over a long period of time, it's not just about the buy or the sell. It's how you actually use the car during the course of time, and it's important to rotate that fleet asset out. And we saw a tremendous opportunity to do that in the third quarter. We probably didn't do that in previous normalized years. But the demand for used cars was at an all-time high. The rates were significantly higher than we've probably ever seen and it made a lot of sense to insulate ourselves and our fleet costs over the long haul to do that and exit some higher mileage vehicles.

We will always do that to ensure that we have the right fleet size, take advantage of what opportunities that we see in the marketplace, and put pressure on the infrastructure to drive the same day rental business as well.

Operator

(Operator Instructions) The next question we have is from John Healy from Northcoast.

Drew May - *Northcoast, Research Division - Equity Analyst*

This is [Drew May] on for John Healy.

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

Yes, go ahead.

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Drew May - *Northcoast, Research Division - Equity Analyst*

Apologies, I joined on a little late. I was not sure if you touched on this. But as you guys kind of look at the outlook for residuals, can you help us understand like how much equity you have in your ABS facilities at what time or what decline in the market would cause you to reallocate to more meaningful levels of cash into the ABS structure to service collateral?

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

We're actually in like the best position we've ever been in the vehicle programs since we've gone public, there's more equity in there than ever before. I think the easiest way to do it is look at the press release, you'll see the assets under vehicle programs, and you'll see debt against the vehicle programs to see with that -- what that ratio is. And we did mention earlier on the call that we've been funding excess free cash flow that we haven't deployed in other areas of capital allocation back into vehicle programs because it's just a more efficient place to park cash than on the balance sheet.

Operator

At this time, there are no further questions. I would like to turn the floor back over to Joe Ferraro for closing comments. Please go ahead, sir.

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

Yes. Thank you. So to recap, we reported our best quarterly earnings in our company history. Our team delivered in every business metric, including enhanced revenue generation, diligent fleet management and stringent cost control. These efforts were highlighted by the Americas reporting over $1 billion of adjusted EBITDA in a quarter and the International team achieving the highest ever third quarter adjusted EBITDA.

Most importantly, I want to acknowledge and thank all the employees for their continuous, tireless efforts in helping us achieve these results, and we're not done. We continue to be on track to deliver the highest full year adjusted EBITDA in our company's history, and I want to thank everyone for your time and interest in our company.

Operator

Thank you, sir. This concludes today's conference. Thank you for joining us. You may now disconnect your lines.
