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CAR.OQ - Q3 2025 Avis Budget Group Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

**Brian Choi** Avis Budget Group Inc - Chief Executive Officer

**Daniel Cunha** Avis Budget Group Inc - Chief Financial Officer

## CONFERENCE CALL PARTICIPANTS

**John Healy** Northcoast Research - Analyst

**Chris Woronka** Deutsche Bank AG - Analyst

**Lizzie Dove** Goldman Sachs Group Inc - Analyst

**Christopher Stathoulopoulos** Susquehanna Financial Group LLLP - Analyst

**Ryan Brinkman** JPMorgan Chase & Co - Analyst

**Dan Levy** Barclays - Analyst

## PRESENTATION

### Operator

Greetings, and welcome to the Avis Budget Group third-quarter 2025 earnings call. (Operator Instructions) Reminder this conference is being recorded. I would now like to turn the conference over to your host, David Calabria, Treasurer and Senior Vice President, Corporate Finance. Please go ahead.

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

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

These risks, uncertainties and other factors are identified in our earnings release or periodic filings with the SEC and on the Investor Relations section of our website. Accordingly, forward-looking statements should not be relied upon as predictions of actual results.

Any or all of these statements may prove to be inaccurate and we make no guarantees about our future performance. We undertake no obligation to update or revise any forward-looking statements. On this call, we will also discuss certain non-GAAP financial measures. Please refer to our earnings press release, which is available on our website for definitions of these measures and reconciliations to the most comparable GAAP measures.

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

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Thanks, David, and thank you to everyone joining us today for our third-quarter earnings call. Last quarter, we took a different approach, less about line items, more about where this company is headed. The response was encouraging. Many of you appreciated the more strategic forward-looking discussion. We plan to keep building on that.

That said, a few participants pointed out that we didn't actually talk about our quarterly earnings on our quarterly earnings call. Fair point. The good news is that we now have a seasoned CFO nearly four months in, who will walk you through some of the numbers and trends. But before Daniel gets into that, I want to highlight something that I'm proud of our revenue growth this quarter. We delivered \$3.51 billion in revenue this quarter, up from \$3.48 billion a year ago, a \$39 million increase.

Modest, yes, but meaningful. This is the first earnings call in eight quarters where we get to say that our revenue was higher than last year's. The question you're all asking is, what's normalized EBITDA? Well, that's tough to answer until you have some stabilization on the top line and we haven't had that post-pandemic. I believe that normalized EBITDA and more importantly, sustainable EBITDA growth cannot come from just cost-cutting alone, especially in this type of environment.

You have to grow both volume and price by delivering a product that wins the customer's share of wallet. That's what makes you a relevant, viable company. Just to state the obvious, growth at any cost doesn't work for us. Cost discipline is a necessary condition. In our business, it's foundational to survival to be lean.

But we can't afford to forego investments that drive productivity, elevate the customer journey, and differentiate us from the competition. It's a simple flywheel and not unique to Avis, be operationally excellent and stay disciplined on cost. That affords you the right to invest in improvements to both the customer and the employee experience, which eventually drives greater revenue and results in operating leverage if you remain disciplined on cost and on and on it spins.

This quarter marks the first time in quite a while that we've seen all of those elements working together at Avis. Will it be a straight line to the moon from here? No. There will be bumps along the way. But simply put, this is our game plan going forward, cost discipline to afford reinvesting in our product and people to earn revenue growth through a better customer experience. We will be consistent and disciplined in executing that model. And in the quarters ahead, I'll share more about how we're putting these words into action.

But for now, I'd like to focus on that better customer experience portion and explain what that means for us today at Avis Budget Group. During my time at Avis, I've noticed that when we talk about customer experience, it often gets reduced to a handful of metrics, percentage of app bookings, number of counter bypasses or express exits and NPS scores, all important things but that's not customer experience.

Customer experience is not a number. It's the overall perception a consumer has of a brand shaped by every interaction. When done exceptionally, it creates preference, loyalty and ultimately value creation. Here's the reality. Our industry hasn't done nearly enough on this front. We at Avis intend to change that. One of the core initiatives of this leadership team is a hard reset on customer experience. "We try harder" is in our DNA.

But during the survival years of COVID, we drifted from that bedrock principle. Now it's time to return to it with intent. And here's the message we're evangelizing. We are not just a rental car company. We are a service company, delivering a dependable product at the best value proposition.

Let me break that down. First, we have to fully embrace that we're in the service business. We don't sell merchandise you can hold in your hand. Our product is a rental day and experience. And if our product is an experience, customers need to know what that experience will be.

It has to be dependable. Think about McDonald's. Nobody would return if the drive-through sometimes took 3 minutes and sometimes an hour. If the Big Mac came out differently each time or if you ordered a Big Mac and found chicken nuggets in the bag instead. And yet in our industry, that kind of inconsistency is commonplace.

No cars available, long lines, wrong vehicle class, we've all been there. Our commitment is simple: deliver products consistent enough to build brands around. In an industry often seen as unreliable, service and dependability can be a differentiator. Customers don't just want the lowest price. They want the highest value.

Great companies earn pricing power by delivering value worth paying for. That's where we intend to live. So that when corporate procurement teams choose a rental partner, they know Avis holds itself to higher vehicle standards than they require. Or when families plan annual vacations,

they know budget won't waste their precious time waiting for a car. Delivering that peace of mind through a dependable product builds brand equity, trust and loyalty.

All of that is within our control. It's repeatable if we impose discipline on ourselves and it's the path we've chosen. We will define and deliver a better product, exceed customer expectations and build brands that actually stand for something. The alternative path is to keep participating in the zero-sum game this industry has been playing for years, fighting over basis points of share and torching brand equity in the process. We have no interest in that.

We are a service company and dependability delivered at the best value proposition is what we stand for. This is why we launched Avis First last quarter. It's that principle in action, and it's only the beginning. The same rigor around customer experience will cascade through every brand in our portfolio, Avis, Budget, Payless and beyond. The fact that we operate a family of global brands is a competitive advantage that we haven't fully leveraged.

I said it on our last call but it's worth repeating. We can't keep relying on this old-school binary view of premium versus value. That framework doesn't reflect how consumers behave today. In rental car, premium brands focus on commercial accounts. Value brands chase leisure travelers and the differentiation between those lanes is actually minimal.

That's very different from how the airlines across their cabin classes and hotels across brands have approached segmentation. But it's not limited to the travel industry. Think about streaming, the Netflix and Spotifys of the world. They offer clearly defined segments, ad-supported, basic, standard, premium family plans. The more defined your product tiers, the better you can optimize value for both the customer and the business.

We need to apply the same logic to our company. When we set out to operationalize this philosophy, we asked ourselves a simple question. What would our St. Regis look like? What would the ideal rental car experience be if you combine the agility of a digital-native company with the scale and expertise of an industry leader?

The answer is Avis First. We're not tweaking at the margins with this product. We're making a statement. Avis First is the opening salvo in our broader transformation, proof to customers, employees and investors that we're serious about moving this business out of the commodity trap. It's been just three months since launch, and the results confirm we have real product market fit.

Concierge coverage has expanded rapidly at our earliest airports in response to strong demand. We've tripled our footprint from a dozen locations at launch to 36 today. We continue to refine the technology stack to minimize delivery and collection times, proving to our airport partners that even during busy periods, curbside flow remains smooth.

But here's what I'm most proud of. With Avis First, we don't have to rely on proxy metrics like NPS to gauge customer satisfaction. Every transaction comes with a direct customer rating, 0 to 5 stars. Launch to date, across thousands of rentals nationwide, Avis First renters are giving us an average of 4.9 stars. Did anyone think that was even possible in the rental car industry? Name another major consumer brand with ratings like that. It's rare.

Our customers clearly see the value and are willing to pay for it. At an RPD of over \$100, Avis First proves that when we deliver consistent excellence, we earn both customer satisfaction and meaningful margin expansion. It's a true win-win for the traveler and for our business. But let me level set expectations. Avis First RPD is higher but it hasn't scaled yet.

Our overall Americas RPD still declined 3% this quarter, and I'm not okay with that. Given the pressures we're seeing from rising costs, everything from vehicles to wages to financing, we believe we can reach a structurally higher base RPD. We have a lot of work ahead of us to reshape how consumers perceive car rental but we now know it's possible.

We simply need to be brave enough to hold ourselves to higher standards to reinvest in our people and technology and rental by rental, location by location, day by day, deliver a service that we can be proud of. Brand equity and customer experience don't show up in this year's EBITDA.

They're investments, and we're making them because we believe that over time, those returns will flow to the bottom line. Jeff Bezos put it best when he wrote, take a long-term view and the interest of the customers and shareholders align. We couldn't agree more. We ask for your patience and support as we stay true to that principle. On our calls next year, I'll share more about the operational work underway and the resources we're deploying to deliver on this gameplan.

For now, though, I'll hand it over to Daniel, who will walk you through the highlights of this quarter's results.

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**Daniel Cunha** - Avis Budget Group Inc - Chief Financial Officer

Thanks, Brian, and good morning, everyone. Having now completed my first full quarter with Avis Budget Group, I'm excited to share my perspective on the company's performance and financial position. Over the past several months, I've seen firsthand the strength of our operating model, the resilience of our business and the dedication of our global team.

Today, I'll cover our third quarter performance and provide updates on liquidity, capital allocation and outlook. My comments will focus on adjusted results, which are reconciled to GAAP in our press release and in the supplemental financial materials posted on our website.

Overall, we're pleased with how the summer played out. As Brian mentioned, revenue grew 1% year-over-year, while consolidated adjusted EBITDA increased 11%. This adjusted EBITDA growth came despite a challenging RPD environment in the Americas and meaningful fleet recalls. Let's go through some of that in more detail. Consolidated pricing declined 1% but dynamics between our regions varied significantly.

In the Americas, RPD decreased 3%, reflecting softer leisure pricing, consistent with the weak pricing we saw in the industry overall. Our mix continues to shift towards leisure, which carries higher ancillary attachment rates, a trend that partially offset the broader RPD decline. In International, RPD grew 5%, excluding exchange rate effects, driven by an intentional mix shift towards higher-margin leisure and inbound business.

As Brian mentioned last quarter, we were impacted by a large safety recall affecting vans and mini vans, vehicles that typically yield higher RPD. These units remained out of service through the quarter, reducing utilization and pressuring fleet costs. To meet peak summer demand, we retained some older vehicles we had planned to sell earlier. These carried higher depreciation expense and impacted per unit fleet cost. We had initially expected most recall-related repairs to be completed by the end of Q3.

However, roughly two-third of those vehicles are still awaiting parts. We now expect the majority of this impact to linger through the fourth quarter and potentially into early 2026. We remain in active dialogue with our OEM partners to accelerate repairs and return these vehicles to service as quickly as possible. Speaking of OEMs, let me also provide an update on our model year 2026 buy. Our 2026 model year buy took longer to finalize than in previous years, largely due to uncertainty around tariffs.

Our discussions with long-standing OEM partners were constructive. Both sides approach the table with a shared understanding this is a long game, not just about this year's purchase volume but about relationships we've built over decades through multiple economic cycles. I'm pleased to report that the vast majority of our anticipated purchases are now complete. We've achieved our goal of refreshing the fleet to deliver exceptional customer service while maintaining strict ROI discipline.

A few negotiations remain outstanding, and on our next call, we'll be in a position to share more detail around our expected depreciation per unit for fiscal '26. Now let's move on to liquidity and capital allocation. As of September 30, we had available liquidity of nearly \$1 billion and additional borrowing capacity of \$1.9 billion in our ABS facilities.

In July, we extended our \$1.1 billion floating rate term loan debt, pushing the maturity out to 2032. Year-to-date, our adjusted free cash flow was negative \$517 million, driven by more than \$1 billion in voluntary fleet contributions. This \$1 billion was funded by \$500 million of our operating cash flow and \$500 million of corporate debt raised in this first quarter with the intention to repay in the fourth quarter.

Our long-term allocation priorities remain unchanged, which are to maintain a strong balance sheet, invest in fleet and technology modernization as well as return capital to our shareholders opportunistically. Looking ahead, we now expect our 2025 EBITDA to be toward the low end of our

previously stated range. The shift in vehicle recall impact into the fourth quarter represents the single largest headwind relative to our prior outlook. We are also monitoring declines in the government business tied to the shutdown and softer commercial demand internationally. Even so, our teams remain focused on closing the year with the same discipline and execution that defined the third quarter.

With that, I'll turn the call back to Brian for closing remarks.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Thanks, Daniel. Before we wrap up, I want to take a moment to speak directly to our people, the employees who make this company run every day everywhere around the world. The progress we've talked about today from stabilizing revenue to launching Avis First didn't happen in PowerPoint slides or in the boardroom. It happened at our rental counters in our service space and across our airports. It happened through the effort and pride of thousands of people who still believe that service matters.

Over the last few years, this industry and our company have been through a lot. We had to fight for survival, and we did it by tightening our belts and pushing through uncertainty. But now we're doing more than surviving. We're building our brands back up. Every car prepared to standards, every customer greeted with respect, every rental turned around just a little faster.

That's what drives our flywheel. That's how we earn trust one customer at a time. It's the kind of excellence that can't be mandated. It has to be owned. So thank you for stepping up and owning that responsibility.

Let's keep the momentum and let's keep holding ourselves and each other to the higher standard that's now defining Avis Budget Group. Okay. Operator, let's open it up for questions.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions)

John Healy, Northcoast Research.

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**John Healy** - Northcoast Research - Analyst

Thanks for taking the question, guys. Brian, I was hoping we could talk just a little bit about the summer season. You kind of expressed some disappointment in the US RPD but also in the prepared remarks, you guys seemed happy with how the summer went. So would just love to understand kind of where we're at in the kind of continuum of pricing? And what do you describe as kind of the main factor of why we saw RPD down this year, at least through the summer months? Thanks.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Hi, John, so in terms of the RPD decline for the summer, so the 3% decline is an average for the quarter. But within the quarter, we saw a stronger performance in July and August, and then there was some softening in September. What we're seeing in the market is fairly typical seasonal behavior, higher RPD during the peak leisure demand like summer and lower RPD in shoulder periods post Labor Day.

And you know as well as I do, that's normal market dynamics. But like you said, and I said on my prepared remarks, I'm not satisfied with it. Just given the inflationary pressures we're seeing, we believe that a structurally higher base RPD is justified. We're going to continue to push for that to meet our return on capital thresholds.

One thing that's encouraging, though, is when you look at RPD over the past four quarters on a two-year stack, you can see clear stabilization in the trend. And when we look forward to the fourth quarter, it's always harder to predict because demand is concentrated around thanksgiving and Christmas. But that said, we're pleased with how the book of business is shaping up so far, even though it's still early.

So Americas RPD down 3% in Q3. But from where we stand right now, we currently expect a modest improvement in Q4.

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**John Healy** - Northcoast Research - Analyst

Got it. Thank you. And then just for the finance team there, I was hoping we could get maybe just a little bit of a cliff notes way to think about kind of interest expense going into next year. Obviously, there's been some rate movements and probably some expected ones, and you guys have done some refinancings and stuff like that.

I was just trying to think about how we might think about interest expense, both on the fleet and the corporate level for next year given all the movements. Thanks.

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

Sure, John. So from a vehicle interest standpoint, we have \$3 billion of maturities, term maturities next year. Half of those were issued at lower interest rates. Half of them were at these higher interest rates. So you got to take a look at that as we're going through and as you're modeling out what size you think we are, that will have that impact.

But we'll have to refinance half of it at higher rates and the other half at a little bit lower rates. On a corporate interest standpoint, I would say it's probably going to be pretty steady, right? We have some debt that we'd like to pay down at the end of this year. So if you remove that, it will be a little bit lower, and we'll go from there. But with the rates as they continue to drop, most of our debt is fixed.

So you're going to have a little bit that's going to come down just based off the lower rates going forward.

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**Operator**

Chris Woronka, Deutsche Bank.

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**Chris Woronka** - Deutsche Bank AG - Analyst

Hey, good morning guys, thanks for taking the questions. I guess to start off, Brian or Daniel, I was hoping maybe you could at least bucket for us the recall impact, whether you want to talk about kind of Q3 or maybe full year '25 basis, just between things like RPD, volume, DOE, fleet costs because I think not everyone appreciates the fact that those are all intertwined when you have a bunch of elevated recalls. So if there's a way to kind of bucket that out in terms of overall impact, I think it would be super helpful. Thanks.

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**Daniel Cunha** - Avis Budget Group Inc - Chief Financial Officer

Yeah, Chris, thanks for the question. You can see we were able to navigate the summer a little better. And as you saw, we had a modest decline in utilization in spite of almost 5% of the Americas fleet being grounded. And we have seen a sizable impact just in cost alone, right, between depreciation, interest, shuttling, parking expenses. something closer to \$60 million.

In Q3, we anticipated another \$40 million. We're probably going to be in the \$90 million to \$100 million range for the full year, right? In terms of expectations here for Q4, I think you should expect it to be a little bit more challenging for us to continue to post a high utilization for two reasons.

One, there's a seasonal decline, typically demand go down in Q4 and with less demand, it's a little harder to optimize the fleet. And we still have a significant amount of vehicles that are waiting parts, right?

So we typically have sold them by now. We're going to have to carry them for the bulk of Q4 potentially into Q1.

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**Chris Woronka** - Deutsche Bank AG - Analyst

Okay, that's very helpful. Thanks, Daniel. And then as a follow-up, Brian, I'm encouraged by kind of what you're saying about trying to, I guess, de-commoditize this industry for your company specifically. I guess the question would be, do you expect do others need to follow your lead in terms of making their product differentiated? And do you think they will?

And if they do, is that a good thing? Or do we ultimately end up back at Square One with a kind of re-commoditized product? I'd love to hear your thoughts on that. Thanks.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Yeah. Listen, we think that we're going to focus on customer experience as a differentiating factor for Avis. We think the bar is fairly low, like I said, in the industry. If the rest of the industry comes and delivers a better product to the overall customer, I think that's better for the traveling consumer, and we're happy to compete on that environment. I think that the benefit you get from there is that in order to get a structurally higher RPD, you need to give the customer something a little more.

And I think that we, as an industry, can hold ourselves to higher standards in terms of what's possible. So we're going to lead the charge. If others follow, we're welcome to see them do the same.

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**Operator**

Lizzie Dove, Goldman Sachs.

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**Lizzie Dove** - Goldman Sachs Group Inc - Analyst

Hi there, thanks for taking the question. Just to expand on Chris's question, bigger picture question here on RPD. It sounds like you do think that can be structurally higher for all the reasons that you pointed out. I guess, how long do you expect these investments to kind of take to play out? Or said differently, is the base case that RPD in the Americas can be up next year? What needs to happen from a competitive standpoint or an industry defleeting standpoint?

And how do you balance that? And are you willing to kind of, I guess, give up some share at the expense of RPD? Just curious about the kind of overall algo, I suppose.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Yeah. Lizzie, we're not going to get into guidance in terms of what RPD can be for next year. I'm going to stick to kind of what we said before that we think that RPD, just given the cost inflation that we're seeing across several major categories of our business should be going up. We are pushing for that. In terms of -- we don't manage to share over here.

We manage to thresholds on return on invested capital, and that has a high pricing component to it. So we're very focused on making sure that we meet those thresholds. And the last thing that I'd point to is what I said earlier, I can't forecast for you and we're not prepared to give out

guidance, like I said, for next year. But if you do look at what the two-year stack has been doing with pricing, there is some stabilization there. So we're encouraged by that.

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**Lizzie Dove** - Goldman Sachs Group Inc - Analyst

Got it. That's helpful. And then I guess, like nearer term and in terms of what you have been seeing, could you maybe share how the competitive environment has been tracking? Has it been more aggressive, less aggressive than usual and how you've seen that kind of play out quarter-to-date?

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Yeah. I mean I think it's reflected in the trends we've been seeing this summer and actually all throughout the year. It's a competitive market. It always has been. I wouldn't characterize it as any more or less aggressive than in previous years.

And that's why I think our focus has to be if we want to offer a differentiated product, our stand is going to be on customer experience. We're going to have to find a way to have the customer choose to come to Avis. And my hope is that by offering a better product, we can command a slightly higher price. We don't want to be subject to just always the overall market demands. We're a macroeconomic-driven business.

Some of that you can avoid, but that which we can, we're going to try and put a line in the sand, offer a differentiated product and hopefully earn some pricing power for ourselves.

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**Operator**

Chris Stathoulopoulos, Susquehanna International Group.

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**Christopher Stathoulopoulos** - Susquehanna Financial Group LLLP - Analyst

Good morning. Thanks for taking my questions up. Brian, if we could dig a little bit more into demand here. I'm surprised on the September side with leisure or perhaps not though, that's usually when corporate shows up. So curious if actually did corporate show up or sort of take the baton from leisure there because it is a dynamic that we did see in airlines. But bigger question here, if you could want to dig into the travel segment pie here. Maybe speak to what you're seeing here with leisure and business for the fourth quarter, US domestic, international inbound, cross-border, how you're thinking about the shutdown?

And then next year, there are a few events here as I think about leisure and certainly my coverage here, potential catalyst, World Cup, America's 250 midterm elections. Your thoughts on how Avis is preparing or just sort of participation around that? Thank you.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Okay. Sure, Chris. A lot to unpack here. So just jump in with a follow-up if I get one of those things. But let's start with a high-level just macro overview in terms of what we're seeing.

So we're seeing a mixed environment. So demand has held up better than many expected but it's uneven across segments and geographies. So like you said, leisure remains healthy. Although it's -- that's causing peaks during the weekends. And I mentioned our government segment being affected by the shutdown.

But even more than that, before that even on the commercial side of things, and I think this is something more unique to Avis is we have a large government adjacent business, like think of the defense segment. And that's been challenged all year long, and we've been seeing that in our business.

From our perspective, I think the right way to navigate this environment isn't to forecast the macro. It's to stay disciplined and agile. So our cost base is lean. Our fleet planning is flexible, and we're focused on controlling what we can, which is service consistency, dependability and execution.

I think those are levers that perform in any cycle and will perform in next year as well. We think that the World Cup, and we're planning for that site by site specifically. In certain areas, we think it's going to be a benefit in certain areas that are maybe more city-centric, maybe less so it would be like the Olympics. It kind of depends on the city.

America 250, I think, is going to be a help. We're not exactly sure how to model that at this point but we are positioning ourselves to provide vehicles to our consumers for the great American road trips. So we think both of those will be net positive for 2026.

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**Christopher Stathoulopoulos** - Susquehanna Financial Group LLLP - Analyst

Okay. And my follow-up here. So I appreciate all the commentary and the color around the customer experience. So we -- there are two airlines out here in the US that have been working towards this more premium focus or customer-centric brand loyal focus here for 10 or so years.

That's Delta and United, and I'm sure you're aware of that. It's certainly not an overnight event. I'm curious, at a high level, this is the second call that we've been talking about this. What does this plan look like sort of over the next one, three and five years because this is going to take some time. And ultimately, of course, this has to translate into margin improvement, earnings, free cash flow, ROIC.

What are some of the guardrails here? And maybe, Dan, you can speak to us at a high level. I know you're not giving guidance for the out year. But as we put all this together here, conceptually, ultimately, this has to be one about confidence and sustainability of EBITDA but at a high level here, anything we should think about with respect to equity earnings or ROIC. Thank you.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Yeah. Chris, I appreciate the question, and you're absolutely right. Investing in your brand, investing in your customer experience is not for the faint hearted, and it is a long game. Like you said, with Delta and United, it's been a 10-year journey. And -- but you can see clearly today how that's benefiting both the business and the consumer.

So we take that as a framework to model after ourselves. And we're making a very deliberate shift from treating the customer experience as an abstract NPS number, which is a year-to-year thing to running it as an operating system for the company.

Our Head of Americas always says you only manage what you measure, and we're doing just that and building customer service around two pillars, one being the customer journey and the other being customer care. So the customer journey, it comes down to three things. One is predictability.

We're improving vehicle readiness and accuracy, and we now monitor fleet uptime and car ready status real time, day-to-day, hour by hour at our major locations. Number two is speed, and we want to be deploying technology that lets customers no matter how they book across channels to precheck before pickup for a smoother, faster experience.

And the third is empowerment. That's giving our frontline teams tools to resolve issues on site in the moment instead of escalating them to the back office. So that's one side on the customer journey. On the customer care side, we're reengineering our contact center model with an AI lens. The goal is to resolve the most common post-rental issues. So billing, rental extensions, roadside assistance. We want to solve all of that faster and with less friction.

And there's a lot of exciting things happening there. So I'll share progress on that in the quarters ahead. But like you said, this is going to require investments. The way that we're viewing this is that we need a baseline of EBITDA for the business. We've said this before in the past that it's going to be over \$1 billion in a normalized annual environment. On top of that, so we want to maintain that base level of EBITDA.

And that \$1 billion isn't a target. It's a floor, which we intend to build from. And while maintaining that floor and growing that base, we want to continue to invest in the customer experience. So in our -- from our perspective, Chris, we have to do both. We're going to continue to deliver on a level of EBITDA that we think that the company is capable of and requires.

And at the same time, we're going to look forward into the future and continue to invest in ourselves and providing a better experience for our customers.

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**Operator**

Ryan Brinkman, JPMorgan.

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**Ryan Brinkman** - JPMorgan Chase & Co - Analyst

Hi, thanks for taking my questions. I thought to ask first on fleet management, including utilization, it looks like it only fell 20 bps year-over-year in the Americas despite the massive increase in recall vehicles being held back as they await repair. So firstly, just how did you manage that better underlying result? And then secondly, what kind of utilization rate or progress in the fleet management front might we be talking about this quarter if it were not for the elevated level of industry recalls?

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**Daniel Cunha** - Avis Budget Group Inc - Chief Financial Officer

I'll take this one. And as you pointed out, the operations team did a fantastic job over the summer. I think one of the key levers here, repositioning the fleet, moving it where the demand was the highest to maximize utilization as much as we could was how the team got there. Brian can probably touch on a few technology investments the company has been made that has facilitated getting those results.

As we pointed out, the fleet being 5% of the Americas fleet being out of service had about a 2.8 point utilization impact in Q3. So that was significant, and that was mostly offset by this great execution. Anything you want to add, Brian?

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

No, just like you said, maybe the one thing I'd add is we've been investing heavily in our field operating systems and the benefits are starting to show. It's new technology. We're excited about. We're very proud of what the teams are building but it's still in rollout mode. So we'll share more detail on that platform and results in a future call once the implementation is further along.

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**Ryan Brinkman** - JPMorgan Chase & Co - Analyst

Okay. That's helpful. I think I heard you say in response to an earlier question that the full year impact of the elevated level of recalls might be \$90 million to EBITDA. Did I hear that right? And then my follow-up to that is, what line of sight, if any, might you have based on your conversations with your OEM partners or anything else you might be hearing as to when the level of the elevated level of recalls, it might settle down to something more normal for the industry overall or even specifically for the vehicles that are most impacting you right now?

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**Daniel Cunha** - Avis Budget Group Inc - Chief Financial Officer

Yes, you did hear that right. So we're estimating \$90 million to \$100 million of impact for the full year. This is just cost, right? There's no estimate here on lost profits or anything else. So this is all very tangible.

And as I mentioned, we still have over two-third of our vehicles are awaiting parts. The parts are starting to come in. They are not coming in, in very large numbers. And then the repair itself is somewhat of a lengthy process, two to four hours per vehicle. So we are anticipating bleeding down the number of out-of-service vehicles through the quarter, but we're potentially going to have still some amount into Q1.

So that's what we know right now.

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**Operator**

(Operator Instructions)

Dan Levy, Barclays.

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**Dan Levy** - Barclays - Analyst

Hi, good morning, thanks for taking the questions. International is a segment that doesn't generally get a ton of airtime. I know it's the smaller of the two segments. But maybe you can just talk about the underlying trends in international because it has driven some of the upside versus street expectations. I know it's gone through a bit of a transformation here. You've done some restructuring.

Maybe you could just talk about the underlying trends in international, what the runway is on some of the increasing RPD, which we saw in the third quarter.

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**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

Hi, Dan, thanks for the question. So a few things are happening in International. First, I want to acknowledge that the leadership team there is really hitting its stride. So Anna, our President of International; and James, our Chief Commercial Officer in the International segment. They're about a year in, and the organizational and strategic changes they've implemented are really coming together.

So we've taken a very deliberate approach to shifting our business mix internationally. This involves increasing exposure to higher RPD leisure demand and exiting some local market monthly business that didn't meet our return requirements. And you're seeing that reflected in the higher RPD and lower volume numbers that we're reporting, and that's by design.

And so like you pointed out, this top line mix shift, combined with disciplined cost management, that's what's really driving the substantial EBITDA increase, which is up nearly 40% year-over-year. Are we going to expect that level of increase next year?

No, I think we're not going to be catering at those levels. But the overall strategy and trend will remain where we're going to be more deliberate about the leisure business that we take and pruning those -- that business that doesn't really make sense for us. What I would say, Dan, as you rightly pointed out, no other rental car company has the global reach that we do.

And historically, given the relative size and where [HQ sits], ABG has been Americas focused but we're really changing that mindset today. So we're embracing the fact that we're a truly global company, and you'll see increased focus and investment in our international business going forward.

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**Dan Levy** - Barclays - Analyst

Great, thank you. My second question is on DPU trends and overall depreciation. And I know you'll give us an outlook early next year. But maybe you could just talk within the quarter, to what extent the recalls were weighing on the total DPU. And into next year, a, I know you said that you'll give us commentary on the cap costs, but if there are any early reads.

But b, given you just did a big fleet refresh for the model year '25, shouldn't we view that as really the driving factor on your DPU next year and the broader residuals because you've already done the lion's share work and you'll have proportionately lower refresh next year?

**Brian Choi** - Avis Budget Group Inc - Chief Executive Officer

So I'll start and then maybe, Daniel, you can chime in. So broadly speaking, I agree with your assessment, Dan. So if you take what's happened this year, so the impact of tariffs certainly provided some uplift to the used car market this year. And what we're seeing is pretty consistent with what the Manheim Value Index -- Used Vehicle Value Index is showing. So there was a bump during the April tax refund season and values have remained relatively stable since.

But in the first half of October, we're seeing a bit of giveback, which follows normal seasonal trends. You know as well as I do that by the fourth quarter, when next year's models like really hit the market, it's typical to see a sequential decline in the used car market. The good news is, yes, we did plan for that. So like you said, we've already disposed of a substantial portion of our model year '23 and '24 vehicles throughout the year. We still do have some that we're going to sell in the fourth quarter and in the first quarter of next year.

But our fleet mix is shifting towards the newer model year '25 cohort as planned. And like you said, we do think that, that should be the primary driver next year of where depreciation shakes out. So I can't really give you too much commentary around the model year '26 buy. We're still in negotiations with a few of our larger OEM partners. But generally speaking, we think that the model year '26 is going to look pretty similar to the model year '25.

That's what we've seen in the deals that we've closed. So we do think that model -- next year, it will be more specifically model year '25, model year '26 driven, and we don't think that we need to rely on kind of the macro shifts we see in the overall industry.

**Daniel Cunha** - Avis Budget Group Inc - Chief Financial Officer

Maybe the only color I would add that those macro changes in fleet mix were mostly like Brian shared. But to recall, because those vehicles tend to be larger because they tend to carry higher DPU in the \$400 to \$500 range per unit in 4% to 5% depending on what fleet you're looking at and what quarter was around that had close to \$20 impact on our per unit in the quarter, and we expect it to continue in Q4.

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