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CAR.OQ - Q2 2022 Avis Budget Group Inc Earnings Call

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CAR reported 2Q22 results.

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PRESENTATION

Operator

Greetings, and welcome to Avis Budget Group's Second Quarter 2022 Conference Call. (Operator Instructions) As a 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 of Corporate Finance. Please go ahead, sir.

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 quarterly results in our company's history, making this our fifth consecutive earnings report where we delivered record high adjusted EBITDA for that given quarter.

This wouldn't have been possible without the dedication and focus demonstrated by our employees, and I want to thank them for driving record results for 15 months in a row now. Last quarter, I referenced the outside travel demand that begin to materialize around President's Day and strengthen throughout the remainder of the first quarter. This demand continued to build globally, and we're currently in the busiest summer travel season I've ever seen.

Demand has accelerated, rate has elevated and advanced bookings are strong. And while there is uncertainty surrounding the economy at large, we have not seen it. Travel is robust, and our key indicators support this certainly throughout the summer as customers, both leisure and commercial are dedicating their share of wallet to us.

We, at Avis, are doing everything possible to meet that demand and get our customers on the road again. We built off a record first quarter 2022 and generated over $1.2 billion of adjusted EBITDA in the second quarter. That is a 50% increase over the prior quarter, and the earnings increase exceeded normal quarter-to-quarter seasonal trends.

That puts us at over $2 billion of adjusted EBITDA in the first half of 2022 alone. It goes without saying that 2022 is shaping up to be an exceptional year for Avis Budget Group. But before we get into that, let's review our second quarter results. And as usual, let's start with the Americas segment.

The Americas had another outstanding quarter, nearly every business metric, cost control, RPD, rental days, fleet cost, fleet availability, all working together to optimize operations. The results of that was over $1 billion in adjusted EBITDA in the second quarter for the Americas segment alone or $1.8 billion for the year so far.

As I said earlier, demand was accelerated. Rental days were up 28% versus 2021 and up 9% versus 2019, depicting what we believe is a more normalized environment. Leisure was strong, surrounding vacation destinations and commercial came back as corporate customers got back on the road. We've a varied group of products with traditional offerings like Avis Budget and Payless, which provide great growth and other areas like Zipcar, Ride-hail and Budget Truck helped diversify our mobility offerings.

On our last quarter call, we said that for the quarter, volume would be above the second quarter of 2019 and RPD would be above the second quarter of 2021, and we delivered on that promise. If you recall, RPD really started to elevate in the second quarter of 2021 as vaccine distributions grew and virus transmissions declined.

But the overall strength in demand in the second quarter of 2022 allowed us to even surpass those 2021 levels. RPD grew by 2% versus 2021 and 45% versus 2019. We started to see a more normalized trends as it pertained to RPD. Frankly, it's starting to mirror 2019 in its seasonality, but at a much higher level than we saw in 2019.

We saw this trend as a more normalized level in both demand and price, which is carrying through to this current quarter as well. Speaking of normal market dynamics, we're also seeing a return of normal seasonality month-to-month in RPD trends. In 2021, RPD in the Americas increased sequentially every month in the first half of the year.

Demand was indiscriminate to normal seasonality. In the second quarter of 2022, we saw an increase in RPD in April for Easter in the spring break, a slight decline in the shoulder period of May, followed by an increase into Memorial Day, which continued throughout June.

We believe we'll continue to see these seasonal trends throughout the balance of the year, as employees return to the office and we settle into a new normal environment. This second quarter sets a new benchmark for what we define as operational excellence, but it wasn't an easy environment to operate.

In 2021, the industry was so constrained in vehicle supply that nearly every market was under-fleeted. What we're now seeing is not just overall strength across the Americas, but also more distinction between hot markets versus average markets. In other words, more of a return to normal market dynamics, which require positioning fleet across the country.

Fortunately, we pride ourselves in our operating proficiency and our ability to make dynamic fleet decisions to ensure that our fleet is slightly inside of demand throughout the country. And that's clearly reflected in our RPD and rental day metrics in this quarter.

With the continued uncertainty surrounding a greater number of vehicle recalls, which impacted about a point of utilization, along with uncertain fleet deliveries and flight cancellations, we made the prudent decision to hold on to fleet to ensure we had the capacity to meet demand in the peak summer months.

This caused a slight decline in our utilization for the quarter by 2.6 points year-over-year, but ensured our ability to take full advantage of the opportunities presented to us at the end of the quarter and into July and maximize our revenue opportunities.

Excluding recalls, we were in line with 2019 utilization levels. As you recall, 2021 was solely about in-fleeting. We're back to operating an environment with improved fleet rotation, allowing us to delete older more mileage vehicles. We pride ourselves on our fleet management and proven over the years that we keep fleet size slightly in the consumer demand and will ensure that this is the case going forward.

By now, most of the fleet moves have been completed for the summer, and we believe our utilization metrics will return to normalized levels in the third quarter. I'll be getting into details around fleet later in this call, but I do want to point out that in the Americas, we disposed of more fleet than we initially anticipated at the start of the quarter. We were able to do this, thanks to our OEM partners who helped us grow our fleet in advance of the summer season, enabling us to dispose of targeted high-mileage fleet at attractive gains.

Given macroeconomic uncertainties, we believe it's prudent to trim vehicles in order to ensure a proper return on invested capital on our fleet asset base. Therefore, similar to the first quarter, weak sale gains resulted in monthly per unit fleet cost in the Americas to be significantly lower than our straight-line depreciation in the second quarter.

Moving on to the income statement results of these metrics. In the Americas, revenue increased by roughly $590 million year-over-year. Americas adjusted EBITDA during this period increased by roughly $410 million for an incremental margin of 69%. If you compare our most recent results to the first quarter of 2019, Americas revenue increased by roughly $940 million while adjusted EBITDA increased by $890 million for an incremental margin of 95%.

Gains on disposed vehicles contributed to these results, but less so than in the first quarter of 2022. That's not the secret of our success here. It's our consistent and relentless focus on cost control which allows us to maximize the revenue and depreciation benefits that drop to the bottom line. So I'll close the second quarter results of the Americas the way I began. Demand exceeded 2019 levels and RPD improved over 2021. That, along with operational excellence and favorable market dynamics, resulted in Americas adjusted EBITDA of over $1 billion.

I wanted to repeat that 1 last time now. It's in our rearview mirror. We're on to the third quarter where the Americas team looks to continue the incredible momentum we've built since the pandemic.

With that, let's move over to our International segment, which posted record results as well. For the past few quarters, we've been saying how the stringent cost control in our International segment sets us up to outsized EBITDA recovery when top line recovers. The second quarter results for international reflect the magnitude of this transformation.

What we're currently seeing in EMEA is similar to what we saw in the Americas in the early stages of the recovery, which is significant travel demand across all regions, combined with vehicle supply shortages. This led to sequential RPD and rental day growth throughout the quarter and adjusted EBITDA of $183 million.

Let's put that number in perspective. Compared to the second quarter of 2019, international revenue has gone from $710 million to $677 million, a decline of $33 million. However, adjusted EBITDA has grown from $40 million to over $180 million in the same period despite that lower revenue base.

They've been able to accomplish this without the benefit of significant monthly depreciation gains due to the structural nature of program cars in EMEA, which means that in the first half of 2022, our International segment has already recorded more adjusted EBITDA than the full year of 2019, despite headwinds from foreign currency.

With the return of inbound travelers from the U.S. as COVID restrictions were removed, we see trends strengthening in the peak of the summer. It's been a long and difficult struggle for our international team since the pandemic began. But despite the prolonged downturn in that region, our employees continue to remain confident that the work we put in would bear fruit.

We're hopeful this marks the beginning of an extended period of recovery for our International segment. Moving on to fleet. We're consistent with last quarter, we'll focus more in the Americas segment. In the Americas, our average fleet size in the quarter was sequentially higher at 500,000 vehicles.

This average is a combination of management decision to hold fleet due to fleet delivery uncertainty in April and the decision to dispose of aged fleet in May and June as deliveries arrived. In the first quarter of 2022, our average fleet size was 12% higher than the first quarter of 2019.

This quarter, our average fleet size was 10% higher than the second quarter of 2019, a sequential decline in growth rate versus 2019. As I mentioned earlier, as we continue to receive new deliveries from our OEM partners, we will continue to dispose of aging fleet to a more normalized rotation and strike the appropriate balance between industry demand and supply.

The disposal of these older units resulted in outside fleet gains again this quarter. Our consolidated monthly depreciation cost per vehicle in the second quarter of 2022 was $117. That's sequentially up from the $62 we posted in the first quarter of 2022, but substantially lower than the $260 monthly depreciation cost we saw in the full year of 2019.

We had $194 million in gains from dispositions in the quarter, and we expect that number to moderate as the quarters progress and we deplete our older model vehicles. If you adjust for fleet gains, you'll see that our straight-line depreciation is still set at over $210 per month per vehicle, which we believe accurately reflects the current state of the market and our vehicle asset base.

We are working with our OEM partners on our model year 2023 buy. And while it's early, all indications are that industry supply challenges will continue to exist and demand for used car will remain strong.

Next, I want to give an update from where I last spoke about our electrical vehicle integration. We have been hard at work to meet our ESG goals of reducing our carbon footprint by 30% over the next 10 years, and we're focused on meeting both our corporate and leisure customers desire to rent EVs.

We've been growing our EV fleet with a number of OEMs. And we are deploying Level 2 EV chargers across select airports and local market stores. We know that our average customer length of rental is more than 4 days, and we want to scale our EV fleet to match the infrastructure build to provide comfort and confidence to our customers traveling in unfamiliar cities.

We are doing this at a fast pace already, but expect it to grow significantly in the back half of the year. As usual, we are working on maximum utilization, where is a prerequisite for demand. We are also diversifying our vehicles through our OEM partners in order to provide options to our customers and more certainty surrounding vehicle parts and repairs.

We're excited for this growth we see in this area, and we'll continue to talk about it in the quarters to come.

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

These industry-leading capabilities completely puts our customers in control of their rental. 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. We've been deploying QuickPass at all the major airports and have seen an over 10-point increase in Net Promoter Scores for those customers utilizing this service.

In addition to this service and revenue-generating offering, we continue to use technology to power additional capabilities. As you know, we've been optimizing the use of vehicle telematics in our cars for some time now. Gas collections at an all-time high, helping to neutralize the higher gas prices we've seen of-late. In addition, we have seen many other benefits as it pertains to asset controls surrounding use of our vehicles.

Also, productivity enhancing systems are being utilized to help reduce both labor and waste pressures, and we will continue to roll these out across our operating network. DFP, our proprietary demand fleet pricing system, enables us to place vehicles in the most optimal locations and price them in a way that provides maximized contribution margins.

We are consistently iterating this process to enhance our revenue generation, and the results can be seen in our earnings. Mileage optimization rolled out in the latter part of 2019, provides a more even distribution of mileage throughout the fleet, making sure the best available vehicle is served up to our customers that fit their customer use criteria.

Our system identifies based on our customers' rental patterns which vehicle is best utilized for that need. This allows us to lengthen the life of the vehicle, while not lengthening the mileage accretion. You will continue to see us develop the use of technology to drive additional services, revenue and cost control.

Next, let me comment on Avis' commitment to safety and our latest views around industry disruptions caused by COVID-19. Our Avis Safety Pledge and Budget Worry-Free Promise remain in full effect and provides both our customers and our employees, industry-leading protocols to keep everyone safe.

While there has been an increase in cases over the past few months, we've not seen any impact to our booking demand and remain ready for any future variants and the potential impact on our travel industry.

Let me wrap up my prepared remarks by saying how proud I am of our team and the results we delivered thus far in 2022. But we're not done yet. We have the back half of 2022 to go, and our organization is ready for what I believe will be the busiest travel season in recent memory with demand strong and significantly higher RPD than 2019 even as travel patterns continue to normalize.

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 capital allocation. As you'll recall, we aggressively repurchased shares in the first quarter of 2022, deploying roughly $1.3 billion in buybacks. In the second quarter, our pace of repurchases slowed to $450 million, with the vast majority of that amount being deployed under our prior 10b5 plan in April.

While we believe our stock is undervalued and that buybacks represent an extremely compelling opportunity to create permanent value for our shareholders, we thought it prudent to take a more restrained approach over the past 3 months. Given rising interest rates and general macroeconomic uncertainties, we believe that deployment of our free cash flow will be more balanced in the coming quarters as we consider other areas such as corporate debt paydown or fleet equity contribution in addition to share repurchases.

We're patient allocators of capital at Avis and today, we're evaluating our options thoroughly before deploying substantial resources. We will, as always, opportunistically allocate capital to those areas that benefit all stakeholders of Avis Budget Group.

We continue to be in the strongest financial standing in the history of our company. One year ago, our LTM adjusted EBITDA was $965 million in 2Q '21. Today, we are $3.8 billion in LTM adjusted EBITDA. Our net leverage ratio remains the lowest in our company's history at less than 1.1x, despite historically targeting a leverage range of 3x to 4x.

As of June 30, we had available liquidity of $850 million with additional borrowing capacity of $1.9 billion in our ABS facilities. Our corporate debt is well laddered with nearly 90% 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 June.

Let's move on to outlook. As you know, we've made the decision as a management team to forego 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 third quarter. As Joe mentioned earlier on the call, the underlying demand environment is currently strong for both our Americas and International segments.

International will continue to see recovery in both rental days and RPD. In the Americas, rental day growth will continue relative to 3Q '21 and 3Q '19, but with growth moderating from the levels we saw in the second quarter. We believe third quarter RPD in the Americas will be lower than what we saw in the third quarter of 2021. However, we believe that the benefit we're seeing in rental days, depreciation and most importantly, cost savings will more than offset an RPD decline.

The net result of all this is that at this point, we believe that we'll generate higher adjusted EBITDA in the third quarter of 2022 than we did in the third quarter of 2021, putting us on track to 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) Our first question comes from John Healy with Northcoast Research.

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

Joe and Brian, I was hoping we could talk a little bit maybe about an area that doesn't get a lot of attention on the call typically, at least from our side of things, the cost savings side of things. I'd love to dive into what you've done in more detail and what you can still do?

I guess when I look at the results, just really impressed with the OpEx and the SG&A largely rivaling 2019 levels. So would just kind of love to dive into more what you've done. How much is needing to come back and how much comes back in different ways and maybe what's left to do? So just love to spend some time on the cost saving side to get more of an appreciation there?

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

John, this is Joe. I'll start and then Brian can add color. We learned an awful lot during the pandemic, its effects on our business. And we took a real hard look at our cost bases both fixed and variable. I mean we attacked fixed really hard. We looked at our infrastructure and profitable ways to run our business and a lot of that cost will never come back.

But we're very careful to monitor that. And that doesn't say we don't look at our initiatives and our strategic environment to say where we need to spend money, but we're pretty comfortable at our operating levels, the way it stands now with our growth in rental days that we had compared to 2019 on a fixed cost basis.

On a more variable side, we're dealing with the effects of inflation like anybody else. And we've spent a lot of time and energy trying to develop strategies that will minimize these effects on us. For example, and I mentioned in our prepared remarks, our productivity environment has improved greatly since 2019. In other words, we're getting more production out of the current base of our employees, and probably I have to say that's probably in the double-digit range as it stands right now through technology innovations on peer group rankings on how people clean cars and how many cars people rent per day, an hour, et cetera, things like that.

You know we've been very heavily involved in vehicle telematics over the years. Those have helped us develop strategies to guard ourselves against gas and the rising cost of gasoline. So that certainly has helped minimize that disruption to the point where we are having record gas collection months in the previous last couple of months.

We have the ability to augment and price our vehicles and place them in the best possible places, which has helped our overall revenue and also our fleet and make sure they get utilized in the right spots. So we'll continue to look at both fixed and variable. We have a number of initiatives that we are examining every day.

It's part of our strategic footprint on how we want to operate. And I'm very comfortable with the fact that we were able to see oversized revenue have a more meaningful drop through to the bottom line.

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

Great. And just wanted to ask a question about kind of fleet plan for the remainder of the year. Last week, Hertz made some comments about managing its fleet to a start of 2022 level by the end of the year. I was just hoping to get some perspective from you guys on if that's something that you're thinking is something that might be in the cards for you guys? Or maybe how are you kind of viewing kind of the end-of-the-year fleet goal? Or is it more of a we're going to watch it closely and respond to it? Just would love to get some perspective there.

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

Yes. Look, from where we sit, we've always been maniacal about our fleet size and how we manage it compared to our demand. If you look historically back over the years, you could see that very clearly. Even during the pandemic, I think that we executed in a very quick and efficient fashion to get our fleet size more in line with the demand and that was certainly a challenge, but we were able to do that.

If you think about last year, John, last year, 2021 was all about vehicle acquisition and vehicle growth, right? The industry started off at very low levels of cars due to the 2020 pandemic and the demand started to increase, and we all had to figure out how to get cars in, not many car sales.

I think when you look at it going forward, when you talk about elements of fleet, how you buy cars, how you sell cars, one of the most important that's not readily talked about is how do you utilize the fleet? And different than 2021, we are now into rotating our fleet on a more normalized basis.

What does that mean? That means we exit out cars that are aged and mileage and replace them with newer cars and looking at the seasonality trends. As I mentioned in my prepared remarks, we're seeing more seasonality that's likened to 2019. And if you think about our year at large, in general, July has the most rental days of any of the months in the calendar year, followed closely by August. But then the next 5, including the early parts of the year, start to go down.

Our fleet has to be in line with that seasonality trend. So you will see us manage that fleet line very much in line with the rental day dynamics. So I'm going to tell you what that means as far as opening fleets and things of that nature. But as our demand naturally seasonality starts a decline, whether it be in September or November or December, which is traditionally about holidays and then January and February, the winter months, our fleet will definitely be in line with that. I hope that helps.

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

Yes, john, I think we're just -- we're not going to comment on that. Just 2 reasons. One is we're not giving forward guidance that far out is 1. And 2, it's -- like Joe said, that's just not how we manage our business. We manage our business to fleet to slightly below demand, and that changes, as you know, on a day-to-day basis.

Operator

Our next question comes from Hamzah Mazari with Jefferies.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

This is Hans Hoffman filling in for Hamzah. Congrats on the quarter. So could you just remind us what your assumption is for residual values and how you're thinking about sensitivity to your cash flows and earnings from changes in used car pricing? And then what offsets you may have through better selling channels or any other items?

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

Yes. I'll start off, and Brian, if you want to add color on, you certainly can join in. When you look at the used car industry, and I referred to it earlier, it's very robust. And I think when you examine the used car business right now, you have to think about what's going on in new cars.

So new cars, supply is very challenged. The SAARs comings out keeps going down and the amount of cars that are being sold, they're facing challenges with supply, challenges with the war in Ukraine, challenges with semiconductors, challenges with logistics, the imports are facing challenges at the port in L.A.

So supply is very much constrained. And what happens when new car supply is constrained, you have this potential need for used cars, which we have seen, and we continue to see -- if you think about it, with less new cars being purchased, there's less trade-ins. What used to affect this industry a lot was the off-lease vehicles.

If you recall, a lot of us talking about that has been limited over the past number of years. New cars are being sold without incentives, which makes a newly used product, quite attractive for the current consumer. So it seems the way it goes that way it seems right now is the used car benefit that we have in our fleet is going to go on from now through the foreseeable future. That's why I'm confident in us rotating the fleet and getting our fleet sizes in line. So -- and that's kind of the way I see it right now. And it seems like that to me is certainly going to extend into this year and next.

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

Yes. So just to add to that. If you look at our 10-Q, you'll see that if you take away the gain of sale on vehicles in the quarter, we're still depreciating our vehicles at a little over $210 per month. That's roughly 20% below where we were in the same period in 2019, and that's due to 2 major factors.

One, our vehicles are older, which means we're at a flatter part of the depreciation curve. And 2, we're getting more efficient around both disposition timing and channels. The gain on sales this quarter was $194 million, which is significant, but that's down from $303 million we saw in the first quarter. You'll see depreciation levels normalize closer to where we're straight-lining as the year progresses and continue to increase as we take on more model year '23 vehicles.

Hans Peter Hoffman - *Jefferies LLC, Research Division - Equity Associate*

Got it. That's helpful. And then could you just remind us how much of your international business is Europe and specifically what you're seeing there in terms of revenue trends? And then also just competitively, any impact from your change in ownership?

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

Well, we're actually very proud of the European business. We started on a European journey back in 2019. And just to give you a little bit of color. We examined all our countries and locations and looked at the revenues, the costs and the infrastructure that we were dealing with. And frankly, we concentrated on those countries and areas that matter the most.

And then we were maniacal about our cost discipline there, whether it be fixed or variable. And I have to say that we saw and we hinted at that in the last quarter some green shoots of opportunity as demand and revenue started to sequentially come back into that business. Towards the end of last year, we saw places that were struggling from an EBITDA standpoint start to turn profitable with very little revenue. And that gave us confidence that should the opportunity exists that demand starts to increase, we would be able to enjoy a lot of that.

And then you have the fact that during this past quarter, mass restrictions were removed from flights, certainly traveling on 8 hours, people don't have to wear mask going over to Europe from the United States. And then the COVID restrictions were eliminated as far as entry back into the U.S.

I think those things materially affected our activity and plus the strength of the dollar. So now you have this convergence of a lot of scenarios cost removal, concentrating on the places that matter the most and then the ability to get fleet. And I talked about fleet in the United States on an earlier question. The fleet in Europe is significantly more challenged.

And the team was able to secure a fleet and what you have now is you have a high amount of demand with incredible drop-throughs. So I think we're in the early innings here. The team out in Europe is operating now on all cylinders, and we're certainly very proud of the EBITDA performance and how it helps our company.

Operator

Our next question comes from Chris Woronka with Deutsche Bank.

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

Congratulations on the quarter. Thanks for the comments about 3Q RPD expectations in the U.S. I guess maybe to triangulate that a little bit. Is that you think purely a function of kind of normalization of both demand levels and also mix? Because, I mean, last year, (inaudible) comp, you did get a $4 bump sequentially and now I think you're saying it's not going to be that way. So just can you give us some of the factors that are going into that?

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

Yes, sure. Let me start and Joe can add his thoughts. So I think you're right. Mix has something to do with it. But as we said in our prepared remarks, the summer season is robust, but RPD is leveling off. July RPD in the Americas is roughly flat with June, and that should remain the case for August.

However, as Joe mentioned, we are seeing a return to normal seasonality. So September will see a pullback in RPD as leisure travel slows and corporate travel picks up. It's tough to say at this point how much of an RPD impact we'll see, but for purposes of modeling, given that mix shift that you talked about, Chris, I would say that 3Q '22 pricing being sequentially flat with 2Q '22, would probably be the ceiling for RPD. Joe?

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

Yes. And let me just highlight on what we see on the demand side for you, Chris. When you think about what's going on now, the last quarter, I said we had more cars on rent than we did at any time during the summer of 2021 in the month of March, I think it was with spring break.

In the month of June, we eclipsed that record. We have more cars rented ever in the history of our company. And I have to tell you, in the month of July, we eclipsed that prior June number. So the demand is incredibly robust, given the fact that TSA volumes are down in the 10 to 12 range. We have seen just this increase in the level of activity.

Now we have seen both leisure and commercial growth in this quarter. And if you think about it, we had commercial growing, I think it was as a percent of our business, close to 40% this quarter, we still had price in the $82 range. So we've seen our commercial business, whether it be large, commercial, mid or small, have price elevation as well and certainly driving a pretty significant amount of days.

When you look back at '21, what makes these comps kind of like interesting is the fact in 2021, people just started to get fully vaccinated by the spring and then stuck in their homes, there was a tremendous amount of travel. People were working remotely and kids were up from school and things of that nature and the fleet sizes were very constrained. So you had this abnormality that I would call in the third quarter last year.

What we're seeing now is, and I think it's good news, is more of a seasonality of what things were and how we can operate in that level of environment. And so while, yes, Brian mentioned about what we believe price to be, we still think demand will be high, we still think that our cost controls will be great, we still think that used car market will be strong and that should affect our earnings in the third quarter.

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

Great. And then as a follow-up, this might be a little bit of a premature question given how early you are on the -- in the EV adoption evolution. But as you begin to bring more of those cars into the fleet, I guess 1 question is, when would the first 1 potentially exit? What we're trying to do, right, is to get a sense for how this changes your depreciation kind of curve going forward.

But maybe the question would just be at what point do you think it's significant enough that we see a change in the absolute depreciation number from the EVs?

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

Yes. As you know, we would probably take a cautious look at how we model our depreciation because residual values on those cars right now over a prolonged period of time is a little bit unknown. Right now, you can buy an EV and probably sell it in a couple of weeks, maybe at a higher price because of the demand situation. But as you know, we wouldn't be able to do that with the fleet that we buy from the OEMs.

As far as how we're managing this going forward, we have EVs in our fleet currently today. We will have more EVs in our fleet as we go forward. We had liked to take a look at our vehicle mix with the intent on having a varied range of vehicles.

We deal with, call it, 16, 18 OEMs and hundreds of thousands of vehicle types. We believe this is important because it creates this custom demand. People tend to want to rent cars that they kind of own. So we think that that's important for us. It insulates us a little bit from what we saw this quarter about recalls, maybe parts issues and supplier challenges.

The OEMs right now, we're talking to them, as I mentioned, about our 2023 buying. A lot of them are talking to us, and we're talking to them about EVs. I think it's important when you understand the OEMs dynamics. They all have strategic initiatives, and we all have strategic initiatives. And then you have to figure out how you bolt the line. I mean we have some OEMs saying that a greater portion of their cars are going to be EVs. And over the next 10 years, we have other OEMs saying that they're going to be totally EV by 2035.

Understanding what they're looking at and what we are looking at and how that applies to our business is increasingly important. And I'll just lastly say this, we are working on the electrification of our facilities. The turnaround time on the current gas cars is minutes and these are going to be hours.

And we have to get used to renting more of those at the airport because the RPD on those that we have at the airport currently today is much, much higher than it is in the off-airport environment. So I don't know if it gets to your answer. I think we're cautiously looking at our depreciation rates and what they could be at time of sale, and we're starting to get more and more of these into our business as we speak today.

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

Chris, just to add to that, when you look at the 3 components of depreciation, which is the cost at which you purchase the vehicle, the price at which you dispose of the vehicle divided by how long do you hold the vehicle. To Joe's point, we don't know yet what the cost of disposition or the price of disposition will be, that's an unknown to us, and we're starting to test that out, and we always take a cautious approach here at Avis.

And we also know that the price of a like-for-like EV, the cost at which we buy from the OEMs is higher than a traditional ICE vehicle. But fortunately, on the denominator side of things, you can hold an EV for much longer, and it's still a very healthy vehicle than you could an ICE vehicle.

So you will be depreciating that asset over a longer time, being able to take advantage of the flatter part of the depreciation curve. We've also noticed that the maintenance costs of these vehicles are lower as well. I think 1 of our competitors gave some very thoughtful comments around EVs, and we're seeing similar things. We, at Avis, EVs as an opportunity on the depreciation side of things.

Operator

Our next question comes from Ryan Brinkman with JPMorgan.

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

How should we think about the trend in gains on sale tracking going forward relative to the, I think, $194 million realized in 2Q? Are you able to maybe help us with say what number or percentage of your vehicles might now be fully depreciated, which I know is an unusual phenomena relative to, say, at the start of the quarter? Or what's the right way to think about this?

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

Sure. As I mentioned earlier on the call, this is going to normalize. The gains on sale in the first quarter just around numbers was $300 million. This quarter, it was a little under $200 million. You'll continue to see that normalize and decrease as the quarters go on. I can't give you an exact number because, as we said throughout this call, we're very nimble in terms of how we manage our fleet and where and when we dispose of our vehicles. So we can't pinpoint a number, but I can tell you that the gains on sale will decrease in the back half of the year, and we will get closer and closer to where we're straight-lining the cars right now. Joe?

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

Yes. I mean, Brian is the one who did the mathematics behind it. I will tell you we here are very sensitive to vehicle rotation. And it was kind of minimized last year, and we are going to make sure that our vehicles, our age vehicles and our mileage vehicles that are in service right now will get eliminated. It's going to have variable cost with more efficiency in our maintenance operations. And I think it's more pleasing to our customer base. So we're going to continue to look at our ability to get back to a more normalized fleet rotation like we saw in 2019.

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

Okay. Great. And that kind of feeds into my follow-up question relative to sourcing and age of fleet. Are you able to source all the vehicles from automakers that you need? I'm curious like what percent of vehicles that you currently purchase are sourced from the used vehicle market? How that might be tracking relative to history?

And what you think the trends might be going forward? Do you see this as greater reliance on the used market or is it more or less temporary dynamic, a sort of like coping mechanism for the tightness of new vehicle supply? Or could the industry maybe operate with a bit older fleet than it had historically, including as you rent into the TNC market, which might be less sensitive to the age of the vehicle? I imagine that could be a healthy thing from a fleet cost perspective, but curious to get your perspective.

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

Yes, all very good points. Let me start off by just giving you some of the dynamics of the new -- of the industry purchases. If you think about from this public, so if you look at from January through June, the industry purchased, call it, 350,000 cars. In 2021, that number was over 700,000 cars.

And in 2019, which was a big year, was about 1 million. So it's apparent that the supply chain challenges are there and the fact that new cars or retail of new cars is at the highest. I don't see that changing so much, right, even going into next year.

So I do think that we're going to have to figure out and be nimble on how we manage both our fleet buy as well as our fleet sale. Does that mean slightly older vehicles and on the average?

Yes, it might be. But you're right, we do have a very growing, robust ride-hail business that doubled in its fleet size year-over-year. And we continue to think that's an opportunity for us. We have a value brand called Payless, which we could take -- which we have taken and rotated older vehicles into that group.

So we have -- we believe we have the sourcing to enable us to utilize the fleet in various different segments of our company. As far as used vehicles, we learned an awful lot about used vehicles because we really, for the first time in many, many years, we bought some, as you know, this year.

And our strategy on those is a relatively young used vehicles that we can get more than 1 season out of and have the mileage so that when it comes around to next summer, they're still able to be in our fleet. And I think you'll continue to see us utilize those.

In the past, we utilized spot buys. The manufacturer would say, "You know what, I got 10,000 cars and I can't sell them in a retail lot, maybe do you guys want to buy them?" I think spot buys will be apparent maybe later in the cycles. But if that doesn't happen, we will certainly look in the used criteria as well.

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

Just to add to that, though, I think -- sorry, just to add to that 1 last thing, Ryan. The used purchases in our fleet was always a very small amount. It was just -- we were very discriminate in terms of those vehicles that fit our criteria, and there just aren't that many of them. We were forced to do slightly more in the used market this year than normal just given the supply chain dynamics.

We don't view this as a permanent source -- a significant source going forward. Our primary source of vehicles is always through our OEM partners -- new vehicles through our OEM partners.

Operator

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

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

Yes. Thank you. So to recap, we reported our best quarter earnings in our company's 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 in adjusted EBITDA in a quarter, and International achieving the highest second quarter adjusted EBITDA ever.

More 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 yet. We continue to be on track to deliver the highest full year adjusted EBITDA in our company's history, and I want to thank all of you for your time and interest in our company.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
