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CORPORATE PARTICIPANTS

Larry D. De Shon *Avis Budget Group, Inc. - C.E.O., President & Director*

Neal H. Goldner *Avis Budget Group, Inc. - VP of IR*

CONFERENCE CALL PARTICIPANTS

Brian Johnson *Barclays PLC, Research Division - Managing Director*

PRESENTATION

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Why don't we start the clock? I'll start introducing while we're getting mic-ed up here. Very pleased to have with us, continuing on this theme of next-generation mobility, Avis Budget Group, where we're joined by, walking on my right, Neal Goldner, Vice President, Investor Relations; and sitting down in the blue suit, Larry De Shon, Chief Executive Officer, Chief Operating Officer, President of Avis Budget Group, leading provider of rental services. Prior to that, he headed international, where I first met him, joined in 2006 and was at United Airlines before that, back when (inaudible). So he has an interesting background in the travel business.

QUESTIONS AND ANSWERS

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And why don't we just jump right in with the sort of follow-up to the earnings call? Larry, you mentioned on the 3Q call that October price was down 50 basis points, but leisure was up almost 300 basis points. Your implied guide from 4Q is flat to up 2%. So what gives you comfort in positive pricing in November, December to offset that October weakness? (inaudible) sustainable? Sorry. Yes, sorry. You mentioned on the 3Q call that October price was down 50 basis points. Leisure was up 300 basis points, yet your implied guide is flat to up 2% for the entire 4Q. So how do you get there in terms of pricing in November and December to offset that October weakness?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

So October leisure was strong. Pricing was strong. Commercial was down, and that had a bit of a drag from the release agency rentals that we're transacting on October, because those are longer length of rentals so they end up with a lower rate per day. And that was -- the majority of that 0.5 point down was really agencies just running off. As you look at November going forward, the good news is that November fleets are pretty tight, and this is the first time we've seen November where fleets are so aligned with demand in the last several years. So as you look across the country and you look at restrictions that rental car companies put in by location when they're very tight on fleet and you're seeing a lot of restrictions being put in place every week in the month of November, so pricing has been good in November. And as I -- I'm pretty positive about how pricing looks for the rest of the year. So I think we'll get there.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And in terms of the fleets being aligned, gets to the age-old question, which we've discussed 3 years in a row. I ask a couple of things. One, the impact of ridesharing activities on airport and commercial, airport demand, particularly commercial demand. It's interesting that commercial price is flat. So yes, our fleets, is that -- you and others have talked about a low single-digit percent impact. Is that still playing out? And very importantly, are the fleets being resized at airports to reflect that?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes, yes. We've -- we said a number of times that our plan is to try to keep our fleet under demand so that we can keep pushing the field to drive increases in utilization, and a lot of things are helping us do that. So we've been working long on demand fleet pricing, and part of that is the forecasting module, which allows us to forecast demand further out and by customer segment. So to a degree that we can continue and the industry continues to enhance their technology to be able to focus on things like getting forecasting right allows you to get your fleet mix right and your fleet optimized for that. We're buying thousands of less cars next year because we're going to push -- obviously, we have a mix change between risk and program as we've been accelerating our risk buying, but we're also buying, just overall, less cars. And that is to keep the pressure on to really try to drive utilization. Technology like connected car, where you can manage your idle time and know where cars are and why they weren't put on rent, and that can help you find solutions to that and help you drive utilization. So there's -- we have no desire to over-fleet, and that's why our forecasting modules are really important for us so that we can really get closer and closer and closer to getting that -- the fleet position really close to the demand. And I have to say, since the mid -- since mid-June, the fleets have been really in good position, and we haven't seen that period of time in a long time.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And as you kind of work on your forecasting models, are they -- how do you get comfortable that they're staying up-to-date on how, perhaps, on a sunny day with no surge pricing, Uber might mean people are no shows, yet on a cloudy -- rainy day with surges, they come to your lot? I mean, just -- I worry when companies become data-driven that they're using old data in a changing world.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. But there's still an oversight as well. So we saw when it came to revenue management, people are using the tool and have some oversight over the tool. What the tool allows us to do is actually look at more markets than what any human being can look at in their portfolio, so they can address more markets and they can make more pricing changes more dynamically every day. And that allows us -- and the system also self-learns. So it's working off the trends and what it's seeing, and it realizes -- and it goes back self-corrects. So it says -- if this is what we saw leading up to the day and this is how we performed, where did we leave money on the table? And how will we correct that performance for the next time when those conditions are the same? And so there's different levels of -- we think our condition on this day will be X 1 through 7, and so the system constantly relearns and then recalibrates as it goes forward. So the longer it runs, the smarter it gets and better we get at managing it.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And as you kind of look at trends in utilization with ridesharing out there, is it -- any evidence of smoothing out the midweek peaks and, therefore, helping utilization?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

No. If anything, they would be taking kind of more one day.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Right. Then 1 day midweek.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

And so your length of rental would -- you would assume would grow because you're losing some of that short traffic. And when length of rental grows, that's more profitable business for us. So -- but our peaks, we don't -- our peaks are still our peaks. We're not really noticing anything changing really with our peak activity.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And then I guess the other structural thing we talk a lot about in rental car, in addition to ridesharing, is just one of -- just the competitive state of your competitors. So just -- we won't name them, but there's a publicly traded competitor who had been over-fleeted in the past. They now talk about being fleets in line. Are you comfortable? And are you seeing that in terms of their pricing?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Absolutely. I think when you take a look at the strength of November pricing right now, that it all comes back to fleet. And when you have -- when the industry is more tight to demand, you have more opportunity throughout the month to yield your pricing up. And what our DFP tool is allowing us to do is to forecast that further in advance than what we ever could've done before, to put those length of rental restrictions in place much earlier, to say, "We know by the time we get to this day, we're going to be really tight on cars, and industry will be tight on cars." So we don't want to take 1-day business now when we can hold out for a 3-day rental close rent. But when you don't have that technology, then you've got operators saying, "Okay. Well, I don't want to take that length of rental because I want to make sure you had all my cars on rent." So they take the 1 day, the 1 day, the 1 day leading up. And then their yielding opportunity is really limited because they've already rented the fleet. So this is saying, "Hold your breath. We're going to take length of rental restrictions now. We're going to hold our fleet until we get closer in because we believe that the yielding opportunities will be there and the industry will be tight." And that's proving out as we roll out the final phase of DFP into locations. We're seeing our length of rental grow in the locations we're doing this because it's telling us, "Take the length of rental restriction really early in the process." So right now, I would say that the fleets are about as best positioned for demand as I've seen in a long time, particularly for November.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

That would explain why, when I was in Jacksonville last Wednesday or whenever it was, I couldn't find a rental car. So I wound up taking Uber, and that might have actually been better for your bottom line.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Could've been.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Doing that 1-day rental or forego. What you're saying is you're willing to forego that 1-day rental.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes, exactly. And get a 3 day.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

So that gets in -- I guess the other competitor, the question around fleet has always been with a large insurance replacement local business, their -- it's been seen that their ability to move fleet from local parking lots back to the airport and back again is very high. And it seemed as if, in the past, that they were putting pressure to gain airport market share by pulling fleet out of local markets. I mean, has that been -- are they now sort of also rightsized fleet? And have you just even think when you gauge fleet utilization about that kind of large pool of off-airport cars?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. As we've been working on our shuttling project, it's one of the -- one of our key initiatives we've been working on in the last 2 years is to help improve our margins. What we've learned is when you shuttle cars, and there's a real cost to that, and you got to make sure that when you move cars, that you're moving it not for the one rental but for 4, 5, 6, 7 rentals beyond that. And what we found is that when you run it through the model, actually, shuttling less is usually the right answer. And the fact that the competitor you're referring to has had this insurance replacement business, they've had it for years and years. And so the market is the market, and that's divided the ways it's divided. And so we focus on where -- how we're going to maximize the profitability on every transaction and not move cars for the sake of one rental or 2, but move cars for -- basically, for a permanent position in a new location. So we've been dedicating fleets to our local market stores to get out of the shuttling back and forth, back and forth. And we brought our costs, our shuttling cost per transaction way down. And it's not impacted -- it's not hurt our revenue. In fact, it's given the local market stores the cars that they can count on to actually go out and try to drive more business from the store. So always worrying, am I going be able to keep the car or not? I have to send it back to the airport. They're afraid to go drive the business. This allows them to drive more business with confidence that they've got the fleet.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And you see similar thing at that large private competitor in terms of how -- do you think they're shuttling less now than when they seem to be putting pressure on (inaudible)?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

I don't -- it's hard for me to tell whether the cars get rented, where they got rented, how they got there would be impossible for me to know.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Let's talk -- before going into fleet costs a little bit, one final question on pricing. You mentioned on the 3Q call that commercial price was flat. It's the first time we've seen that in a while. Is that just -- anything to read into that? Are -- is the industry together sort of resisting some of the price-down request from the large corporate travel buyers? Are they not pressing as hard? Or...

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

I think the way to think about it is that we've been working really hard on trying to grow more profitable segments within the overall corporate segment, within the commercial segment. And not every commercial account's the same as far as from a profitability perspective. And so we realigned inside the company to be really focusing on those areas that we think can drive more profitable business for us. But the other key factor is that in the quarter, when you're able to raise spot pricing, a lot of your corporate accounts work off of spot pricing, and so when spot pricing goes up, their price is going to go up as well. Although they get a discount that it's going to be from a higher base. And so it always comes back to fleet. I mean, every answer pretty much comes back to fleet in our industry. And that's why people working on technology, on fleet optimization technology, forecasting models, these are all important in our industry so that, overall, the industry can keep their feet aligned with demand and not have these kind of big hiccups that we've had over the last 4 or 5 years.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Okay. I want to get into the cost of fleet. Before I do that, I want to see if there's any questions around the broad theme of pricing or volume. If you have questions from the webcast, e-mail dan.levy@barclays.com. Okay, so let's talk a bit about fleet costs. You've experienced a stretch in which the net of fleet depreciation and -- well, first off, just what do you think of the puts and takes of fleet costs into 2018? What did you see as you wrapped up model year 2018 negotiations with the OEM in terms of capital cost? Was it reduced? Was it higher? How do you see the residual environment holding up, especially in light of some of the hurricane impacts you've seen in recent month or two of auctions?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. Well, that's a good -- there's a lot that goes into calculating fleet costs as we go forward. And you mentioned a few of them, and there's a number of them, as you know. If you start with just cap cost of the '18 model year cars, our program cars were about the same as '17. Our risk cars, we were able to get a couple of points reduction in costs. And so then from there, you have to really take a look at what's the mix of those two that you're buying. And we actually bought more program '18 model year than we did '17 model year. So we're going to increase a couple of points overall in the fleet, but we bought several points more program than risk, particularly in those models that have been suffering in residual values. Those are some of the areas where we stayed away from risk as much as we did in '17 model year. And then you look at how you're going to dispose of the cars in '18 and how you can increase your alternatives disposition channels and the benefits that you can get from that. So we'll be working rotation models through the rest of this year by market to make sure that we understand how we're going to flow the fleets in, the '17s, the '18s, when they'll exit and where they'll exit to maximize the value of the cars when we go to sell them. And so that's a lot of work that we still have to work through. But there are a number of different puts and takes that go into this. I have to say, we started off well with getting the '18 model year, a reduction in '18 model year, and we're buying a lot less cars than we did this year. We advanced some sales we thought we were going to sell in the first quarter into the fourth quarter, so we could tighten the first quarter as we turn the year. And that's really going to be the initiative, is to make sure that we just keep trying to keep that tight as we go through.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And how do you think about the recent strength in used car pricing, especially in the last couple of months? And what -- is there any risk that there was prebuy in the auctions that then could come back in December with some negative comps? Or was it -- or on the other hand, the bullish thesis that the GDP growth is improving, wage inflation is happening and maybe there's just better underlying demand for used cars. I mean, how do you look at that?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Well, the encouraging thing was pre-hurricanes, as you got into July, we started seeing residual values really improve. It was significant change from what we experienced in the first half of the year. Plus the inventory had come down as the industry had kind of worked through the over-fleeting issue in the first half of the year. And so before the hurricanes, you started seeing this -- the tide turn on this, and you started seeing improvements. And then the hurricane happened, and we saw a fairly large pop. That pop has kind of worked its way back down now. And now I think we're kind of back to where we would've been pre the hurricanes. And it's still better than it was the first half of year, significantly better. So that's what we just have to watch as we go through the balance of the year and into next year, and we'll be trending those residual values by derivative to see how they're performing.

Neal H. Goldner - *Avis Budget Group, Inc. - VP of IR*

And just as a -- remember, by the end of October, we had sold more than 90% of the risk cars we planned on selling this year. So in your thesis, if something happens in December, frankly, we're not selling a lot of cars. And usually, November, December, even January aren't typical. They aren't typical of what the year is going to be because the number of cars that are being sold are just so low relative to what you saw in the spring.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Let's talk a little bit about international before going on to some of the longer -- question?

Unidentified Analyst

Yes. Just following up, a question from the crowd. If you think about your longer-term average per-unit fleet cost, if you strip out maybe the couple of years where you had significant gains on sale, roughly $330 year-on-year, you're going to trend this year in the $320 to $330-ish type range. How to think about your level relative to historical averages, considering the amount of vehicles coming off-lease, the uptick there?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

There's so many different mixes in there as you think about trying to compare it year-over-year over the last 3 or 4 years. One of the things that really change your fleet cost per unit but actually helps you on your revenue is do you skew more towards not what we call noncore cars. So you're going to spend more money to acquire the car. It's going to cost you more from a depreciation perspective per month. But you're going to get more revenue per unit, and in some cases, many cases, the residual value when you go to sell the car is much greater than some of your core cars. So there's been some significant shifting as consumer demand has changed over the years. There's been significant shifting out of the core car class into kind of the noncore, the big SUVs, specialty cars and so forth. And that's becoming a bigger and bigger percentage of our overall fleet. So they're almost -- as you look back in time, it's almost apples and oranges trying to compare those 2. And then alternative disposition channels are giving us a benefit. We grew that 13 points in the first 9 months of this year over last year. So 50% of our fleet worked its way through alternative disposition channels. And so obviously, we have a long road ahead of us to continue to work that. So those comparisons are pretty difficult. The whole thing has completely shifted and changed.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

I mean, another way of asking that, because you had mentioned, for example, you've got a better mix of vehicles, (inaudible). Yes, how do you think about the $330 per vehicle per month versus the revenue per vehicle per month? And kind of in general, it seems, until recently, that the net of fleet depreciation and pricing has been negative. So then do you think that's going to reverse? And how do you make sure -- one issue is how do you make sure you get paid for these better content vehicles? There's been a competitor where customers have noted that they get frequently upgraded from the mid-car the corporate reserves for them into a SUV. It's great for the renter, probably not so great for that company's spread of depreciation to pricing. But just how do you look at that?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. It's not -- it's a really good point because you just can't go out and buy them and let -- just let it run, right? So we actually manage our noncore fleet. So we actually have metrics by locations as far as what is the revenue per unit you're getting, how many times was there an upgrade paid for, how many times was an upgrade not paid for, why. It's something you have to really manage so that you position -- there's a little bit of art to this because you have to position your noncore fleet at locations where you actually can stay open for business and take reservations. If you try spreading them all over the country, then people have just a few of them. So they don't open for reservations because they're afraid that they'll sell more than they have. So they use them for upgrades, and that's when you start to run into that problem. So we tend to concentrate them at certain big airport locations, where we know we get open reservations, we have enough of them in inventory, we can take reservations and not just depend on the upgrade opportunity. But they are good for paid upgrades. People will pay for upgrades for these cars. So it's not something that you just buy and hope it all works out. You have to really manage it location-by-location.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And just a broader trend, pricing net of depreciation. Do you think -- the argument has been -- we've heard back from the bulls in rental car that if the costs go up for various reasons, pricing will go up. It's didn't play out first half of the year.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. And it didn't because it always comes back to fleet. So it all starts with, is fleet going to be right to demand. And if fleet is right to demand, you'll be able to yield and get price increases. And you get yield and price increases, you'll cross that line. I mean, pricing will be able to offset the cost. When you've got abundant amount of fleet, pricing is not going to be able to yield up. And when that happens, you're not going to be offset the cost. It's that simple.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Let's start quickly about international. You talked about a fragmented market and just general pressures in international. What needs to happen for the competitive environment there to improve? And do you see consolidation? And would you play a part of that?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. It's, I think, 2 things. One is consolidation, and it has started to happen. We bought Maggiore a few years ago in Italy, which is the largest independent rental company there, which has given us well over 30% market share in Italy now. We bought FranceCars last year in France, which was a fairly large, independent operator in France and gave us a lot of expansion into the cargo van business in France. Europcar recently just bought that Buchbinder in Germany. They bought Goldcar in Spain and Italy. And so they're starting -- the consolidation is starting to happen. These are some of the bigger players, but there are -- particularly in the southern tier part of Europe, there is a lot of little players, like literally thousands. And so when you think about 30%, 35% of a rental car capacity is in that kind of other category, that is not like the United States, where it's much more consolidated. So I think consolidation will continue to happen over time. And then I think what you saw this year, which is what has put pricing pressure all year long, is that the registrations of fleet going into the rental car industry overall was way up this year. So there's just a lot of these companies, smaller companies are taking a lot of fleet. And that's just -- it's not a good answer for the long run. It's not helpful for them. It's not helpful for us. And I'm sure that, over time, people learn that that's not the fastest way to profitability. People are going to protect their market share. And so when that happens, people just lower price. Somebody lowers price to try to take it. Somebody's going to lower price to keep it. And that's just a bad outcome for the industry. So that's been a lot of the problem this year. And I'm hoping that as people look at their buys for the next year going into it, that they'll start to try to align their fleet more to the demand that...

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

And to what extent does that rental fleet hold versus OEM making deals the fleet operators push in order to keep OEM share going?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. I mean, that's -- that obviously plays into it, that the -- if the OEMs are unable to get their capacity down to what the demand is, then you're always going to have that risk where they're trying to push cars into (inaudible) streaming. Here, obviously, that's helped a lot where the OEMs have been able to reduce capacity and actually make that offer to the rental car industry a little bit tighter. I think that's helpful overall.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Question, up in front here?

Unidentified Analyst

Avis has been always a technology leader. I just was curious how you are leveraging technology to either gain share or enter new markets.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. We have a lot of -- thank you for the question. We have a lot of technology initiatives rolling. We -- I talked about one, demand fleet pricing, which we're now in the final phase of rolling out the integrated -- fully integrated solution for that, which has really been focusing on the forecasting module. And connected car is a -- just a huge initiative for us. But we have probably 60,000 cars connected right now. We're going to add another 50,000 next year.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

In what city? I keep trying to find out.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

You'll find out soon enough. And then we're testing some other devices as well. But what we've done is we've connected a full city. So we've connected an entire fleet in one city so that we -- our folks on the ground there, we've got a team in place there, can start saying, "Okay. If every car is connected, we can literally manage the car very differently. How do we start changing all of our processes on how we manage our fleet?" And there's benefit that you get no matter where the car is that's connected, on just getting accurate mileage and getting accurate fuel readings, and that's a lot more transparent for us and for the consumer. But there's all these manual processes that -- without connected car, that you have to use as you manage the fleet's life cycle all the way through from acquisition to disposition. And there's a lot of idle time that happens in there. And just -- when you have thousands of cars rolling through, people just can't manage it as tightly as they could with data. And so these cars in the connected city now, they're actually telling us when they're available for rent. They're putting themselves on the ready line to be rented. They're inventorying themselves so we have a dynamic inventory throughout the day, what cars are ready versus a onetime count in the morning. There's just all these manual processes that now are going away. And all of our fleet management reports that we've pulled out of our systems are now being updated by the connectivity. And so they're just much more accurate and more dynamic. So these are the types of things -- we have a full roadmap of what connected car opportunities we think there are, and the roadmap is endless. Every time we get in and look at it, we'd add 5 more things to it. So there's a lot that we can manage around idle time to drive higher utilization, and there's also ways, over time, to manage miles on every specific car, that you don't end up with cars running too many miles and actually diminishing your residual value at the end. You can spread those miles over your whole fleet by managing them better. There's lots of opportunities like that.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

So building on that, but also your other technology initiatives, about a year ago at your Investor Day, you talked about a variety of initiatives, many of them with technology underneath them, to drive $350 million to $550 million of benefits and getting towards a 13% to 15% long-term EBITDA margin target. I guess a couple of questions. Did -- what -- any early scorecard on those? Were those including the connected car ideas that even in their early days, there are puts and takes there with the cadence and timing of those benefits?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. So things like connected car, we actually baked the benefits in later in the buildup to 13%, 15% margins over 5 years. But the shorter-term ones, like manpower planning, like shuttling, alternative disposition channels, these are all -- these are the types of initiatives, DFP, or Demand Fleet Pricing, integration, our new websites, our digital revenue optimization, which we launched, our new mobile apps, these are all things that we've done this year, last year to help us start driving towards that 13% to 15% margin improvement. So some of it's revenue-based, by just driving a richer mix of revenue, more profitable revenue, driving your cars to the distribution channels that are less costly to you and maximizing things, like ancillary revenue being sold online and those types of things. Manpower, we built out a new manpower planning system, not new -- well, new for us. We never had one. So a brand-new manpower planning system that's allowing us to get much more strategic and surgical and where we put our manpower at the time that we have our peaks throughout the day and shuttling technology as well to help us make better shuttling decisions. So these are just some -- and alternative channels is a good example. So there are some that we've really moved up and accelerated as we face these challenges with pricing and fleet cost this year to try to offset some of those costs. And then there's others that have a longer tail to them. As the technology rolls out, that you'll get the benefits later on, like connected car. As we talk about that 13% to 15%, we said that, that assumes fleet cost will be offset by pricing. And that certainly didn't happen these last 2 years. So -- but every -- as we -- as I always tell the team, don't focus on that. Focus on the things we've committed to that are within our control to work on, and let's make sure we get those done. So that when the pricing fleet cost flips and pricing's offsetting fleet cost, we have this work done, and that's when we'll see the pop in profit margin.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Speaking of pricing and speaking of technology and the midterm targets, we always, first glance, focus on T&M, time and mileage. Yet there's also a trend in ancillary, which both you and your competitor flagged as massive move-away from -- if I could just say, move-away from GPS as an add-on feature because everyone has a smartphone. Could you maybe talk about that? Does it put -- is it big enough to put the 13% to 15% at risk? And what are the other -- can you compensate for that, either with cost saves on the connected car or other value-added ancillary sales?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes. I think what you're seeing is you have the secular changes in things like GPS, where people just don't need it as they used to need it, and we've been seeing that revenue come down year after year after year. But there are -- there's other dynamics happening, where people are maybe going on to a mobile app and actually booking a car and taking a car versus going to a counter on a walk-up, just walking by, having a reservation, do you have a car and having that engagement on the counter. So there's more people moving to online tools to book those cars, which means we have to be smarter and better about how we offer our products online. So we started a product in the -- actually, in Germany that we rolled out into a few countries in Germany, and we just started here last week, where we are offering very simple bundles, packages, if you will, with very clear -- we're part of our own worst enemies, where people really don't understand the description of some of these items and why they should take advantage of them. If they need them, it'll be hard for them to understand which one's going to provide it. So we've built these packages that are very simple terminology, just explains exactly what it does for you. And you can just click on the package. And what we're seeing is a very high take rate of those in Germany and other countries in Europe. So we started bundling products last week in the U.S., and we also created the opportunity that we can discount certain bundles as well. So that you take this whole bundle, you'll kind of get this off of the bundle. And we just launched it Thursday on the Budget site and Friday on the Avis site.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

So these are the insurance bundles, ski bundle?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

It's usually around insurance packages, but also it could include a GPS or include a Wi-Fi unit or tablet or other types of products that we offer. The beauty of online is that you can constantly play with the pricing, and you can constantly play with the bundles and see which ones drive more take rate and at what rate do they drive more take rate. So through multivariable testing, there's a lot you can do online to really understand what's the right mix by market that really makes sense.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Questions? Well, I think I'll end -- now that we're talking about technology. You -- just could you talk to me maybe about a couple of things? Just short to midterm, how the relationship with Waymo is going, how that -- the early learnings from that? And then longer term -- you've talked about a role in fleet management from the OEM. You talked about a role in fleet management. Some of the car dealers even have talked about a role in fleet management. One of your competitors has talked about bringing -- or at least, their owners talked about they have repair shops, they've got rental cars, they've got some -- other [interest] actually, manufacture auto parts. They've got a -- how do you just see the -- that future for fleet management evolving in terms of who's best positioned to play?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Okay. I'll start with Waymo. So the partnership is going well. We just finally kicked off the locations in Phoenix this past week. We're actually now managing the fleet entirely for them. We had already started with some products we're offering them a few months ago, but this month is when we kicked off the full management of their fleet. And it is interesting for us because, I mean, autonomous vehicles are going to be a reality. We're going to have them in our fleet someday. We have to really start learning how to manage them, how to work on cars that have that kind of technology on them to make sure we protect that kind of technology, how to protect the cars overall, how you even stage the cars on the lot to rent with the technology that's on the car. So there's a lot of early learnings from them as well, and they've been a great partner. And we look to expand with them as they continue to grow the markets that they're going to take that into. And Waymo just decided early on, after they've been managing their own fleet, that they didn't have the infrastructure, the people, the system, the skill set to do it and wanted to partner with someone that they knew could and did. And so that partnership came together pretty quickly and really easily. So they've been really great to work with. It is a core competency of ours. We've been doing it for 70 years, and we do it in more countries than anyone in the world. We can manage a fleet in 180 countries. And we built up the systems over time, and we built up the skill sets, and the people, the infrastructure. So it is something that we're seriously looking at for the future. We're in conversations with a lot of people who have actually asked us to look at it for them and can we do it. We already do them on the Zipcar side, on a B2B product that we offer. Of course, small fleet management companies or companies that have small fleets, we've been doing it for a number of years on the Zipcar side. And we've been working on a new platform for them as well that we might be able to leverage as we look at it broader on the rental car side as well. So as you look in mobility and how car ownership is going to change and if you believe that there'll be people that'll have more fleets and bigger fleets. The only people that know how to have a high touch on managing hundreds of thousands of cars are the rental car companies. I mean, nobody else. There's really no one else out there that can touch a car frequently throughout the day and to turn it to another customer to another customer to another customer and be able to do that at 500,000 cars than the rental car industry.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Now is your real estate well positioned on that, especially if I think vis-à-vis Enterprise, which has much more of a local market presence, let's say? Is that going to be an advantage versus expensive airport real estate?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

You can leverage your local market stores. But when you have connectivity, you can be a store anyplace you park a car.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

It has -- the Zipcar experience.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes, you don't need to have a lot that can hold 50 cars in the local market, a community. You can park 5 cars on this hotel parking lot, and that could be a location. If it's autonomous cars, you don't need to worry about where you're parking it. You're going to find the cheapest parking as long as it's close in because it's going to be a depot. We're going to service vehicles. The cars are going to go to the consumer.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

So the Zipcar use the airport depots now or...

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Zipcars on our airport locations.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Okay -- no. But I mean, in terms of where they go to be cleaned up and gassed. Or is it mobile?

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

We have cars that are at -- yes. We have cars that are at the airport. We clean those cars. And the cars that are kept in the local markets or in the cities, those are mobile cleaned.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Okay, okay. You don't need to bring those to the airport.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

No. And that's the other thing is that we...

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

So you -- actually, what you're saying is you have experience in mobile cleaning, the contributed base, that is transferable to autonomous.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Yes, exactly. On the car share side, we've had to learn how to do it in a mobile environment. And on the rental car side, you do it in your depots where you're keeping your cars serviced. So we have the ability to do both.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Okay. Well, thank you very much.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

You're welcome.

Brian Johnson - *Barclays PLC, Research Division - Managing Director*

Thank you, Larry.

Larry D. De Shon - *Avis Budget Group, Inc. - C.E.O., President & Director*

Thank you.
