

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

CAR - Q1 2020 Avis Budget Group Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2020 / 11:00AM GMT



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

CORPORATE PARTICIPANTS

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

John F. North *Avis Budget Group, Inc. - Executive VP & CFO*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

Derek J. Glynn *Consumer Edge Research, LLC - Senior Equity Research Analyst & VP*

Hamzah Mazari *Jefferies LLC, Research Division - Equity Analyst*

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

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

PRESENTATION

Operator

Greetings, and welcome to the Avis Budget Group's First Quarter 2020 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. David Calabria, Treasurer and Senior Vice President of Corporate Finance for Avis Budget Group. Thank you. You may begin.

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

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

Before we begin, I would like to remind everyone that we will be discussing forward-looking information that involves 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. 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. - Interim President & CEO*

Thank you David, and good morning, everyone. First, I hope everyone is staying safe and healthy, and I'd like to thank all the medical workers, first responders, essential service providers, and in particular, our frontline employees who are ensuring people around world can still access critical transportation solutions during these challenging times.

MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

This morning, I'd like to first provide an update on our safety protocols, and then I will discuss our operational actions and cost-removal efforts in more detail, along with our outlook for the second quarter and the rest of the year. After that, John will discuss liquidity and our current cash position, which is sufficient to take us through the balance of 2020 and into 2021. Our first priority remains the health and well-being of our employees and our customers. We are laser-focused on emphasizing safety, trust and empathy in all our actions. Car rental is one of the most hygienic forms of transportation, and it empowers our customers to control their own environment. We have a strong legacy of providing clean vehicles and improving the customer experience. In times of uncertainty, our customers can count on us to get them wherever they need to go both safely and conveniently. We demonstrated this in March and April as we provided transportation options for customers looking to leave crowded metro areas, or avoid mass transit as they return home from vacations or business travel. We removed fees associated with younger driving ages to assist students returning from school. We created a national discount program for frontline medical workers to safely get to where they need to go. We offered complimentary trucks from our Budget Truck fleet for food delivery throughout the city of New York, and provided free vehicle rentals to the University of California San Francisco School of Medicine for their outreach efforts in the Navajo Nation.

We promoted unprecedented flexibility in waiving cancellation fees to allow people to alter their travel plans, and we announced an extension of our loyalty program, given the significant reduction in travel activity.

We are most proud of the differentiated rental experience that we offer, as it is ideal for the current environment. Our multi-year investment in technology, including our Avis app, the highest-rated car rental travel app by J.D. Power, enables our customers enrolled in Avis Preferred to bypass the counter, maximizing social distancing and allowing a best-in-class, no-touch, high-quality rental experience.

We also offer counter bypass options for our Budget FastBreak members to allow for additional convenience and certainty.

Over the last 60 days, we've augmented and enhanced our operating procedures to ensure maximum focus on both facility and vehicle cleanliness, with special attention paid to the most critical interior customer touch points. We do not just clean our vehicles, we disinfect and sanitize them before and after each rental transaction with products that are CDC-recommended and EPA-certified to be effective against human coronavirus, including the one responsible for COVID-19, to provide customers with peace of mind and ensure the continued health of our employees and our customers.

We have sourced additional personal protective equipment for our frontline staff, including gloves, masks and hand sanitizers, and installed plexiglass "sneeze shields" in airports to safeguard both employees and customers. We've implemented social distancing and additional hand-washing procedures and ensure we meet or exceed all CDC, state and local guidelines. You can see a video demonstrating our enhanced sterilization and safety protocols on our website.

We are working tirelessly to ensure our employees and customers have a safe and convenient environment to access private transportation solutions and to stay healthy in these unprecedented times.

Now I'd like to discuss our operational results and the actions we have taken in response to the pandemic. In January and February, we continued the strong momentum we had from the end of 2019. We were pacing towards a record first quarter and record year. Through February, all our key operating metrics improved with revenues up 9%, driven by a 15% improvement in the Americas, with increased volume, higher revenue per day, significantly better utilization and continued record-low per-unit fleet cost. At the end of February, we were \$60 million ahead of prior year in adjusted EBITDA.

However, the pandemic impacted travel and shelter-in-place requirements caused significant deterioration in revenue beginning in March. We were off to a record start for the year. In less than a week, we pivoted the entire organization to respond to these unprecedented effects in our business and our economy.

We took dramatic action, including significant reductions in personnel, shrinking the size of our fleet and halting all nonessential spending, initially targeting \$400 million in annualized cost savings, which we've materially improved upon over the last month.



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

We took early actions to accelerate the number of cars sold, as evidenced by U.S. auction reporting in the month of March. We believe this positioned us well to adjust our fleet size before demand for used vehicles started to wane. As a result, we were able to dispose of 35,000 cars in the month. In addition, we took unprecedented step to cancel 80% of our incoming rental vehicle orders in the United States for the remainder of the year.

Given our quick and decisive action to reduce the number of units being added to our fleet, we anticipate needing to dispose of fewer vehicles over the next 3 months and throughout the balance of 2020. We expect revenues to be down significantly in the second quarter with a gradual recovery thereafter, and we've taken actions to reduce our costs as well as to maintain a 75% variable and 25% fixed cost mix.

As you will find in our investor presentation, we have a history of quickly matching our fleet size with our rental demand to find the proper balance to service our customers while maintaining effective utilization. Given fewer vehicle rentals, we are not accreting as many miles across the fleet, which will allow additional flexibility in the length of time we hold vehicles compared to our historical trends.

As a result of the decisive action and extraordinary effort undertaken around the world, we will achieve over \$2 billion in annualized savings, including \$500 million of fixed cost removal alone, driven by significant reductions in personnel, shrinking the size of the fleet, and halt all nonessential spending. We're estimating for the second quarter we have reduced costs by more than 40% compared to the same quarter last year.

Based on our current expectation, the second quarter will be the most difficult quarter this year. We have seen revenue declines of 80% in April and expect similar in May. We expect demand to begin to recover in June, with further improvement throughout the year, as travel restrictions are lifted and leisure demand begins to recover. Our current reservations show improvement in June and over the balance of the summer. In markets where shelter-in-place restrictions are being lifted, we're seeing early indications of improving demand, leaving us hopeful for a recovery beginning in the third quarter, and we set our strategy so the team is ready to maximize the recovery as the situation improves.

Should our outlook prove to be too optimistic, or if we see a change in behavior, we are prepared with additional actions to remove costs and scale the business to match the demand. We'll be ready and adapt to any further changes in the business environment and will stay vigilant to focus on matching our costs with revenue levels around the world.

Our local market business has provided more stability for us, while airport travel demand remains low. Our off-airport rental operations, ride-hail, package delivery, and Zipcar business are less impacted by the outbreak and are down less than 50% in April compared to prior year. We expect these businesses to remain more stable for the rest of the year, as food, package and health care delivery, as well as localized travel, remains essential. As evidenced by recent rental data in markets where restrictions have been lifted, our leisure business is recovering due to pent-up demand from customers.

In the Americas, we anticipate fleet to be reduced by 20% in June compared to prior year. The majority of our disposals will be through alternative channels, including direct-to-dealer and direct-to-consumer. We operate 14 retail locations in 5 states as well as online direct-to-consumer sales offering Ultimate Test Drive. In fact, during the second half of April, our retail sales to consumer more than doubled from the levels we were achieving at the beginning of the month as demand for used vehicles recover.

We will continue to investigate different ways to dispose of vehicles to reduce our dependence on physical auctions and potential disruptions in used car values in this channel. We would also highlight that in North America, we maintain approximately 20% of our fleet value as program vehicles, which insulates us from residual risk as prices we receive for the inventory time of sale is guaranteed by the manufacturers. This is a differentiated advantage that we have and will utilize throughout the balance of the year.

April revenue for International was down around 80% below prior year. However, our off-airport, long-term business including our light commercial vehicles, are proving more resilient. We are beginning to see European countries starting to ease current lockdown restrictions with the recovery commencing in May.

International fleet actions are on track to reduce April closing fleet by more than 50,000 units compared to prior year, with tight management of program vehicle returns versus purchase commitments for the balance of the year. Program vehicles are the majority of our fleet in the International segment, reducing the impact of residual value declines around the world.



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

We've taken dramatic actions to remove costs from the business, and we continue to scrutinize every expense line for additional opportunities.

In conclusion, we're emphasizing safe rentals with sanitized facilities and vehicles for all our customers, and offering a touchless experience to allow our customers and our employees to maintain social distancing and remain healthy.

We've taken quick and decisive actions to reduce headcount, right-size the fleet and remove an unprecedented amount of both fixed and variable costs, exceeding \$2 billion annually.

We're optimistic that demand will begin to recover in June and over summer, and we're seeing initial indications of improvement in markets and countries where shelter-in-place requirements are lifted. Additionally, it appears that consumers may be choosing to rent vehicles as a safe alternative to other modes of transportation, given the ability for our customers to control their environment and maintain personal space.

We have sufficient liquidity for 2020 and into 2021, launched a \$400 million secured notes offering yesterday, and continuing to investigate additional capital market transactions or government assistance we may be eligible for around the world. We will navigate through these challenging times and are preparing the company to dynamically respond and generate improved adjusted EBITDA and cash flows as the world returns to normal.

With that, I'll turn it over to John to discuss our liquidity and cash position.

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

Thanks, Joe. Good morning everyone.

As of March 31, 2020, we had available liquidity of \$1.6 billion, comprised of \$700 million in cash and cash equivalents, approximately \$700 million of accessible cash from our vehicle programs, which is not consolidated on our balance sheet, and approximately \$200 million in availability on our revolving credit facility after taking into consideration needs for letters of credit.

We estimate our cash burn for the second quarter to be approximately \$800 million, excluding \$100 million of debt retirement associated with our senior notes due 2023 that were redeemed in April.

At March 31, our net corporate leverage was 4x, and we anticipate this amount will increase in the balance of the year as we anniversary our strong 2019 performance. To address this, on April 27, we amended the credit agreement governing our existing senior credit facilities, obtaining approval from 97% of our creditors. This effort afforded us with a waiver of the leverage covenant until June 30, 2021, and provides for a relaxed covenant until June 30, 2022. Additionally, the amendment allows us to incur up to \$750 million of additional first lien debt. I'd like to thank our treasury team for their tireless work in accomplishing the amendment in record time.

We have no meaningful corporate debt maturities until 2023 and have no need to refinance any fleet debt this year. Based on current operational assumptions, we have adequate liquidity for the balance of the year and beyond.

To further bolster our cash position, as Joe mentioned, we launched a \$400 million secured notes offering yesterday. I wanted to take a few minutes to provide further clarity on our vehicle debt, specifically securitization, which is comprised of ABS term debt and bank conduit facilities around the world.

We were in compliance with all of our facilities at the end of the first quarter. For example, our largest structure, AESOP in the United States, continues to have plenty of room on the maintenance covenant test as we met the monthly mark-to-market test by more than 106% and met the disposition test by more than 112% at the end of March.



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

Our ABS structure is unique in the industry in many ways and takes a conservative approach to asset-backed securities financings. We have two different depreciation rates in our company. The first is GAAP depreciation, which is non-cash, and the second is compliance depreciation, which is cash that goes into our ABS structure monthly.

Our GAAP depreciation amounts can be found in our financial statements, and we are required to depreciate our assets at a rate that results in expected zero gain or loss when a vehicle is sold. This depreciation amount is currently approximately 1% of the cost basis each month.

Compliance depreciation, or the cash amount we pay into the structure each month, is not shown in our income statement. It is set at 1.67% per vehicle per month, far higher than the GAAP depreciation rate. Assuming an average vehicle life of 18 months, we will depreciate a vehicle 18% under GAAP, but 30% in our ABS facility, which creates a 12% differential and a 15% cushion to residual value at the end of the vehicle life.

The differential between the GAAP and the ABS depreciation rates provide an equity cushion for each vehicle in the event residual values are impacted. Also, due to the cash depreciation paid into the ABS structure, we can unlock fleet equity, which is cash we can utilize as we sell down the fleet.

Another way our ABS structure is unique and conservative is that we maintain approximately 20% equity in the ABS structure, meaning we have a loan-to-value ratio of 80% on a worldwide basis.

Because of the GAAP to cash depreciation difference, the 20% equity held in the structure, and reduced fleet needs this year, our facilities are a source of capital, and we were able to extract significant equity from the structure for general corporate needs, as outlined in our March 23 press release. I'd point you to Slide 19 of our investor presentation for a graphical explanation of these concepts.

Turning quickly to our first quarter results. We finished the quarter with \$1.8 billion of revenue, down \$167 million on 7% lower volume, revenue per day down 1% and a 720 basis point decrease in utilization due to less travel around the world resulting from shelter-in-place orders. Per-unit fleet costs were a highlight, performing approximately 7% better than prior year as the used vehicle market held up well through mid-March and as we accelerated turnbacks of program vehicles.

The combined effect of these drivers, offset by the significant actions Joe shared with you, resulted in our adjusted EBITDA being down \$87 million for the quarter. Net loss and diluted loss per share were \$158 million and \$1.40, respectively.

Finally, I'd like to discuss our outlook for the remainder of the year. While any projection for the future remains difficult to predict, we have internally modeled numerous scenarios for how the recovery from the virus may play out. In our base case, we are anticipating to be cash flow positive in July and beyond. Despite this, we remain focused on additional cost-removal options, and will continue to evaluate opportunistic financings as well as accessing funds made available under the CARES Act and other government programs around the world.

While we do not know exactly how the recovery will look, we have a unique opportunity to provide a safe alternative to other modes of transportation, including ride hail. We continue to emphasize safety, trust and empathy in all of our actions during these unprecedented times.

And with that, Joe and I are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Hamzah Mazari with Jefferies.



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

I hope everybody is safe and healthy. My first question is just on the potential Hertz bankruptcy. Is that positive or negative for you guys? Could you talk about how you think about implications of that to your business?

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

This is Joe. I can't really comment on the Hertz affairs. We were hit with an unprecedented change in events this past quarter. We started off really strong. Quite frankly, we thought we were going to have a record quarter. And things looked really well going into March, April and even May. And we had to pivot, and we had to pivot quickly. When this happened, we took decisive actions to try to get out of a whole lot of cost and a whole lot of fleet. And we will continue to do that based on supply and demand.

I don't think anybody really can predict what the future holds. We are seeing improvement as we move forward. And we will operate our business as we normally do, based on the drivers that we look at, the metrics that we manage, the cost basis that we need to achieve and the potential volume that we're seeing as well as used car sales. And we'll continue to do that and take advantage of every opportunity that we see.

Hamzah Mazari - *Jefferies LLC, Research Division - Equity Analyst*

Great. And just a follow-up question. On the cash burn, does the cash burn of \$800 million in Q2 include your assumptions on mark-to-market around the ABS?

And then just the -- and then in relation to that, just the \$400 million note offering liquidity-wise, any reason why you didn't upsize that or go for the \$750 million?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

Yes. This is John. The cash burn amount that we have improves sequentially through the second quarter. So we said it was going to be \$400 million in April, \$250 million in May and \$150 million in June. We made some assumptions in terms of residual value declines in our forecast. But given the room that we have, particularly in ASOP that we talked about, and if you go back and look at what happened in 2008 and 2009, where we saw vehicle values fall 5%, 10-plus percent, we didn't have a compliance issue back then. And so our expectation is, given the significant amount of room, we won't have a major need for liquidity there. Obviously, that's all a prediction and it's fluid and we'll have to react as best as we can, but that's what we're seeing right now. And I would say, the data we saw in April in terms of vehicle sales prices, certainly, we're affected, but not to the degree that we saw or that was published in things like the Manheim Index. And so we're picking our punches, and we're being nimble, and I think we can manage through it.

In terms of the deal, I mean it's still open. I would say we've had very significant investor demand. Certainly, people are trying to get up to speed on ABS in a way they haven't before. And I noted that David and the treasury team has done a lot of education out there in the marketplace.

I think we want to get a transaction that makes sense. We're also balancing the yield in terms of the size, and we want to make sure that we keep all of our options open, but also protect the transaction to make sure that it's as favorable as it can be for us, and that's the balance we're trying to strike.

Operator

Our next question comes from the line of Adam Jonas with Morgan Stanley.

MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

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

And I also echo my thoughts and for everybody in the Avis community and everyone on this call. And I want to thank the Avis team for really those extraordinary efforts in helping to narrow the knowledge gaps. It's been very, very helpful and very timely, so thanks for that.

Just one question from my side is, can you confirm that the ABS holders don't have any legal claim on any other assets of Avis, such as the Avis brand or the Budget brand or your systems and tech and things of that nature. No claim on assets outside of the vehicles and the trusts?

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

Adam, this is David. They do not have any claim anything outside of the trust. It's just the vehicles and the vehicle receivables that are in there.

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

The reason why I ask is because I wanted to eliminate any possibility of any concessions that might have been made to the ABS holders to include more than what was in those trusts. But you're confirming that there's not, so I appreciate that.

Operator

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

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

Hope you're staying well. My question was on the length of -- I think you've mentioned in the April -- in the presentation that you're seeing longer rentals and that has a little bit of an impact on RPD. But I'm wondering what the offset is on the cost side. I mean how much does a meaningful increase in longer-term business, how does that kind of change the unit-level economics per transaction?

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

Yes. Thank you. It's Joe. Yes, we are seeing much longer length of rental, actually. With the average LOR, as we call it, is 4-or-so days. It's now above 8. And what we've seen early on, this is in the recovery aspect, is that people are keeping -- customers are keeping the cars longer. And that could be because as they shelter in place, they keep a vehicle out, that could be because they want security and if they have the need to use a vehicle to get somewhere. So we have seen that.

And our bookings, we've seen our growth in monthlies, and we've seen growth in weeklies. There -- this past weekend, however, we did see a pretty good surge in weekend business. I think weather got a little bit better. The shelter-in-place rules have been restricted in some cities, and so we saw some of that turn on. Quite frankly, it was the first weekend that we've actually seen that. But all in all, the length of rental and the revenue per transaction has been staggering. It's been close to 40% up in the month of April, which is really high.

Now what that does for you, I mean, if you -- transactions, however, are down. But what that does for you in the scheme of things is allows what we believe to be a more significant drop-through because you clean a car once, you move a car once, you repair a car once, and it goes out for a longer period of time. So we have seen some of that. So I think that's going to be long term. It still seems like it's an effect. But as the recovery continues, we expect maybe a little bit more dealing with the normalcy than we've had in the past. But right now, we've seen that to a pretty significant degree.



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

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

Okay. Great. Appreciate that color. And then as we think about a little longer term, say, beyond third quarter, none of us really know what fourth quarter is going to look like or beyond. But how are you planning fleet decisions later in the year?

And the question is really kind of, if demand changes in a bigger way, for better or for worse in the fourth quarter, do you still have the adequate flex that you're kind of showing right now? Or are you going to have to make more difficult longer-term decisions in terms of how you think about the size of the fleet?

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

Yes. It's a good question. So I think the one thing that we've done over the years, and you go back to our investor presentation, since 2008, we've done a good job in aligning demand with fleet supply. Even this first quarter, if you would think about the growth that we had, right? In the Americas, we were up 13% in February -- or month-to-date February in rental days. And we didn't run a 13% fleet. Quite frankly, our utilization was much improved over 200 basis points improvement during that period of time.

So in a good time, we've showed that we could flex the fleet to get maximum demand. We have systems in place that allow us to understand better where the demand patterns are and what city should have them and should have more cars and less, and we've been utilizing our demand fleet pricing model exclusively for the past couple of years. So in times that were -- are uncertain, as we go out, we always build upside or downside flexibility in the fleet.

We started off as a -- just our -- 2020 buy with buying less cars than we bought last year, so we're starting off with less cars. And quite frankly, the industry, if you look at the first quarter, I think it's been reported that the month of March there were 34% less cars bought. And I think April was pretty much near 70%.

So the industry is obviously looking at right-sizing fleets as we go out. But I believe in our company and our business we have the ability to flex based on customer demand by city, by segment. And we will take advantage of that should the situation occur that we would need more cars. And if it doesn't, we'd have to reduce the fleet as well.

Operator

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

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

Just wanted to ask a little bit more color on the \$800 million cash burn in Q2. If you were to size that, what would be the expectation for restructuring and severance expense and CapEx? And with the -- net of that against the \$800 million just mere kind of the potential loss in EBITDA for the quarter?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

John, this is John. I don't know how granular we want to get into all of that. Obviously, the biggest burn for us is the fleet and the cash depreciation payments that go in. And the reason that April is larger than the other months is because we're a month in arrears. So that's the March activity that's going out in April.

I mean our CapEx, we had said we were going to spend, I think, \$240 million this year. We've taken a very significant reduction to that. There was obviously money that was already out the door as this thing happened so fast. And so I would say Q1 was a bit of an anomaly. And you can go back and look at our Qs and get a sense of where that is. We tried to get that on file early so that everyone would have an opportunity to have as much information as we could share.

MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

Joe has been relentless. And the team, the operators are relentless about matching our cost to the revenue. And we've gone line by line through the P&L to do that. And you could see the effects that it has in slowing the cash burn in May and June where we've shown sequential improvements that are pretty significant. And the primary driver of that is a function of getting fleet out and then the costs that are there. And certainly, there are severance costs and other things that are not insignificant given the number of reductions we've done.

But I think -- I recognize you're probably going to model it, but I'd say, hopefully, the run rate's helpful and the fleet-sizing assumptions are helpful. And other than that, we maintain the 75-25 kind of variable/fixed structure. And I think we're well on track to deliver pretty equal savings in both buckets.

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

Great. And just wanted to ask a little bit more about the government assistance opportunities. I know Europe, I think they announced that they got some help from some of the European nations. Just kind of curious how ACRA is kind of progressing with the U.S. government? And do you see opportunities internationally? Are they moving faster, slower than maybe what can happen here in the U.S. for maybe some direct assistance to the rental car industry?

John F. North - Avis Budget Group, Inc. - Executive VP & CFO

Sure. This is John again. We're looking around the world, obviously, and paying close attention to some of the programs that Europcar has taken advantage of in France and in Spain, in particular. Our understanding of those programs are that they're taking a security interest. And so the \$750 million increase we got and the ability to incur senior secured debt was not unintentional, coupled with a \$400 million offering, and that it gives us additional capacity around the world to potentially participate in those programs.

Within the U.S., I think our belief is there's probably not going to be a specific rental carve-out although we obviously remain very focused with ACRA to try to find one. But I think we're preparing under the assumption that, that may not come to fruition, and so we better investigate every other option we can and certainly are looking to take advantage of the other programs that are there, whether they're income tax-related reform or payroll tax deferrals. The \$454 million that's been earmarked in the Cares Act and how we can potentially access that. And then everything else is on the table as well. So we're leaving no stone unturned around the world. We will continue to be aggressive and relentless in trying to find ways to increase our liquidity. And we've done everything in a very sequential and controlled and thoughtful way with that in mind, from the credit amendment that we needed first, which allowed us to upsize that 97% of the investors sign, to the launching of the deal yesterday, the continued communication to the street around what we're seeing to try to get people more comfortable with the potential to put more capital in place, and we feel really good about all that stuff. So we're going to continue to do the same thing in terms of governmental programs. We'll trying to also preserve as much flexibility as we can and try to protect our equity holders as well, which is a very important consideration for us. So I guess I'd answer it that way.

Operator

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

Ryan J. Brinkman - JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst

Maybe just to circle back on Slide 13. I'd agree you've historically been able to manage fleet demand or fleet size very closely with demand, managing utilization rate within an impressively narrow band.

But just drilling down on that a little bit more in 2Q and going forward, with revenue down 80% in April and May and employees have been reduced by something like -- something similar 70% or so, and I know you haven't given similar figures for June, let alone for 3Q, which you need to prepare for at 2Q end, but I just wanted to -- I guess I was a little surprised to see the fleet size not down more severely by 2Q end. And can you talk about



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

what enters into that fleet target size of at least down 20%? Is that as quickly as you're able to de-fleet? Or are you preferring to maybe wait for an anticipated recovery in vehicle prices? And what does that -- does that imply a historically low level of utilization? And what are the sort of ramifications of that level of utilization on maybe industry pricing or your pricing or profitability, et cetera?

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

Yes. That's a great question. So this is Joe.

Yes, we've had historically been able to match our supply with our demand, and we take a lot of pride in that. And when we think about what has happened near term, right, in the -- we got in early in the selling in March, and that was by design. We came out of February, and everything seemed to be fine. And then very quickly, we decided that it would be prudent for us to try to get out of cars. So we did, and we took out 35,000 cars in the month of March, getting in really early and having some really good selling periods in the first couple of weeks, which helped us out a lot. Plus we had, as we mentioned earlier, we have cars that we have that are program cars, which we were able to move out relatively quickly.

April started out okay, and then the auctions closed, right? And all the activity and the dealerships with the shelter-in-place orders, all started to close up. So the demand kind of slowed down quite a bit. We've seen that pick up in the latter part of April. And quite frankly, at -- on our retail lots, we had an actually very good week the last week of April. As the situation starts to turn around and we're able to sell more cars, we certainly will.

The other action that we took, which we'll start to catch up, is the fact that we were able to cancel a good number of orders, over 80% for the rest of the year in North America. And that's going to start paying dividends as we go out because those cars that we would be expecting to come in will not and certainly put a lot less pressure on our need to sell cars and to sell them quickly.

We look to get our fleet right-sized if -- put a point in time, based on our anticipated activity sometime in July. Now if that doesn't happen, we have to take a -- we would have to do other things. But we have that ability to kind of do that.

So we're looking at the recovery. We're trying to see what's going to happen as it goes out. July and August are traditionally leisure periods, not much commercial, leisure period. The leisure volume is the one that's starting to come back sooner as these shelter-in-place orders get lifted, as we've seen this past weekend. And we'll continue to match our demand with our fleet. And if things change, we'll obviously change.

The other thing is -- and one last item on that, is that we're accreting less mileage, right, in the months of March and April and potentially, even May. And so then we have decisions to make to say, "Do we want to sell a car with a certain amount of months and low mileage? Or do we want to hold on to it?" So those are decisions that we will face. But I'm pleased with the flexibility that we have and the ability to augment our fleet to meet the current levels of supply or to get out of cars, if we need to.

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

Okay. That's helpful. And just on that used vehicle market or the potential for different prices at disposition, my understanding is it's fairly illiquid right now. What are you estimating when you look out a couple of months and some of the dust settles? What wholesale prices could ultimately settle at relative to what they were maybe prior to the pandemic or relative to your earlier expectations?

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

Yes. Prior to the pandemic, we were getting fairly large gain on sales. So that opportunity existed. I mean eventually, there's going to be what we believe some pent-up demand. When that's going to take place is hard to predict, and I certainly wouldn't say that I'd put a line in the sand and say then that would happen.

MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

I think the key here in all our actions, as you know, are we ready? And can we adapt? And are we flexible to deal with what may come in the current months, whether that be selling cars or rental line? And I think that's the key in how we manage going forward.

So I do think when the -- when these shelter-in-place rules are lifted, we'll have more demand because we saw it this past week. We've been selling a good number of our cars over the past quarters with less dependency on traditional auctions. 70% of the cars we sold in the fourth quarter through alternate channels. And in this first quarter was 68%. So we rely heavily on direct-to-dealer, which we have terrific relationships, and our direct-to-consumer product, whether it be who are -- we have 14 retail stores now. We didn't have that many last year and the year before that, certainly. And we have our online ultimate test drive where a customer can rent a vehicle and then buy it.

So those 2 are working in our favor, and it's different than what we've had in the past. And we will -- and we saw signs in this last week that that's starting to come back. So we're pretty pleased with that.

Operator

Our next question comes from the line of Brian Johnson with Barclays.

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

Yes. I recognize airport volumes are way, way down, but if you look at your rental volume, a, versus the other rental companies; and b, rental volume versus people getting off airplanes, are there any trends that are apparent in terms of kind of rentals as a share of arrivals that might bolster your argument about displacing PNCs in favor of more hygienic personal spaces?

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

Yes, that's -- it's is Joe. That's an interesting question. So it's early on, right? The airlines have been reported to have reduced capacity, tremendously reduce routes down to 15% of their routes. And obviously, that would hamper our airport traffic. It's way too early to say what anyone's market share on that is. I will tell you, going into the period, our market share in November, December, January and February was well above prior year and above a lot of the competitor set. So -- but right now, it's kind of early.

And we monitor our activity. Now that doesn't mean we will not get people who live locally to come to airports and rent cars. We've seen that. I would say right now, if -- with early indications, 15% of our business is coming from people who get off airplanes, and the remainder is coming from people who are local.

As states start to reduce restrictions and airlines increase capacity, obviously that'll change. But we've seen that environment. Currently, today, there is a surge in people who want to rent cars for -- that live locally. And we think that's going to continue.

When talking to some of our corporate accounts, there are some that tell us that if you're in 5 hours of an appointment, you should drive. So we think that, that might be a good alternative. And you're right about your last comment.

When you think about our cars, we're going to clean the car after someone returns it. We're going to clean it before they get rented. We're going to disinfect it. We're going to use the products that are certified by the CDC and EPA-approved. And you're going to get in a car that's clean and safe. And in this environment, you would control it. You let in who you feel you need to.

We think that's going to be an advantage compared to other modes of transportation. On average, you think about rental cars and you say, "Wow. They change hands all the time." On average, we change a car -- a car will change hands 4 times a month. It's not a whole lot, compared to mass transit and other environments where you can't control it. So yes, we think there's going to be an advantage in that. We're promoting safety and a safe work environment. And we'll see what transpires as time goes on. But I do think that there'll be at least an initial rush to use maybe our mode of transportation versus some others. We've at least seen that early on during this pandemic.



MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

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

And just a follow-on, you did mention kind of market there 4Q, kind of 1Q before things turned down. Could you maybe talk a little bit about -- and any numbers would be helpful, about, again, kind of pre-crisis car rental share at airports versus ride share? Because I think there's this easy media headline going around that if one of your competitors does indeed wind up in bankruptcy, that it's all due to ride share taking away business. So maybe you could comment on that.

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

Yes. Like I said, our market share during -- if you look from November, December has been growing. So we were pretty pleased with that. I think one of the other stats that might be helpful is that if you look at commercial business, where you think commercial is the group of customers that augment more to ride hail. Our commercial business in the first -- in January and February, as far as rental days, were up about 8% in the United States. So that -- there was a pretty good book of business that we were enjoying there, whether it be through large commercial or mid-market or small business. And we were pretty pleased with that growth. And we would just -- we spent a good number of years dealing with the ride-hail activity, and we were coming over the top. So yes, we thought that, if you're asking for indicators, that was pretty sound for us.

Operator

Our final question this morning comes from the line of Derek Glynn with Consumer Edge Research.

Derek J. Glynn - *Consumer Edge Research, LLC - Senior Equity Research Analyst & VP*

And I hope you all are well. In the recent slide deck, you mentioned the possibility for a Cash for Clunkers 2.0 program. How may that be helpful in expediting a recovery? In what ways do you think you would benefit from such a program? And can you remind us of the impact that original program had on your business when it was rolled out back in 2009?

John F. North - *Avis Budget Group, Inc. - Executive VP & CFO*

Sure. This is John. Maybe I'll start off just given my previous experience at -- with -- in '08, '09, I think it was '09 when the original program came out, and it was a huge boost. If I remember correctly, I think the monthly SAAR hit 21 million or some massive number like that. It was exactly what everyone needed, and it was a real shot in the arm for the manufacturing industry and for the dealers. And -- but it was a real benefit, I believe, for used car values as well because it takes a lot of that older vehicle supply off and people that are trading up, and then it also creates a scarcity of used cars going forward that helps to really support residual values. And so it's a benefit to the whole automotive ecosystem and really helps to get manufacturing rolling again as well. So I think it's something that we think would make sense.

I think if you look at vehicle sales and some of the days supply numbers coming out, given the SAAR in April at 8.6 million, obviously, you're seeing days supply go up over 100 days for most of the OEMs. But as the SAAR recovers and with particular production still closed and probably likely going to be slow after that, I think our belief is that days supply may drop pretty rapidly. And so it might take a bit of time for production to get going, and it's probably something that would likely come later in the year as opposed to something you might see in June and July.

But we certainly think it would be helpful, and we're advocating for it in Washington. And are trying to stay really close to it with our OEM partners as well. We want them to stay healthy. And certainly, they've been very flexible with us.

MAY 05, 2020 / 11:00AM, CAR - Q1 2020 Avis Budget Group Inc Earnings Call

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

Yes. And this is Joe. I was here during -- when we had it. And I had to say, if I recall, it was like real big 6-month boost. And John's right, it took cars off the road, and there was a high demand for used vehicles at pretty good prices. Yes, so it was a it was definitely a benefit for us back then. And if it comes again, we certainly believe it will be a benefit for us now.

Operator

Ladies and gentlemen, that concludes our time allowed for questions. I'll turn the floor back to Mr. Ferraro for any final comments.

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

Yes. Thank you, everyone. Thanks for joining us so early today.

So just to summarize, I'm incredibly proud of our team's resiliency and our ability to navigate our company through these unprecedented times. And we never lose sight of our first priority, which is the safety of our employees and our customers. We've taken decisive actions to remove costs and are ready to adapt our cost basis with any changes in the business environment. We have sufficient liquidity to see us through 2020, and we'll capitalize on the recovery as travel demand returns.

I want to thank you for your interest in our company, and I look forward to speaking to you again soon. Until then, stay healthy and stay safe.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.