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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to today's Avis Budget Group Third Quarter 2023 Conference Call. At this time, all participants are in a listen-only mode. Later, you will have an opportunity to ask questions during the question-and-answer session. Please note, this call is being recorded. (Operator Instructions) It is now my pleasure to turn today's call over to David Calabria, Treasurer and Senior Vice President of Corporate Finance.

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

Good morning, everyone, and thank you for joining us. On the call with me are Joe Ferraro, our Chief Executive Officer; and Brian Choi, our Chief Financial Officer. Before we begin, I would like to remind everyone that we will be discussing forward-looking information, including potential future financial performance, which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks and assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements. On this call, we will discuss certain non-GAAP financial measures. Please refer to our earnings press release, which is available on our website, for how we define these measures and reconciliations to the closest comparable GAAP measures. With that, I'd like to turn the call over to Joe.

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

Thank you, David. Good morning, everyone, and thank you for joining us today. Yesterday, we reported our third quarter results which delivered a record quarterly revenue of $3.6 billion and adjusted EBITDA of over $900 million. We all went into this quarter understanding that certain market dynamics of the third quarter of 2022 would not be tailwinds this year. However, our team was able to remain focused on cost discipline while delivering on record customer demand which produced earnings results that I'm incredibly proud of. I'd like to thank all our employees across the world for contributing to this achievement and demonstrating operational excellence throughout the year.

For the past few quarters, we pointed out normal demand seasonality has returned to our industry. As I stated on our last call, the second quarter is traditionally a transitional period into the summer peak and that showed this quarter in the Americas with the summer being the busiest on record with strong leisure activity and July having the most cars on rent in company history while representing the largest demand in the quarter, then sequentially declining into September as it normally does as summer travel diminishes and schools reopen.

Our ability to accurately forecast summer demand allowed us to yield appropriately to sequentially increase RPD and diminish the year-over-year declines versus the previous quarter. However, on the International side, we were forced to navigate a more unpredictable market environment this quarter that saw higher-than-expected inbound demand, but rate pressures on the intra-Europe business. We'll get more into the details on that later in the call. But before I do, let me review the key takeaways of the quarter for our Americas segment.

On our last call, I said the summer of 2023 would be one for the record books, and the Americas segment did not disappoint. We saw record rental days, record transactions and record revenue in the quarter, highlighting robust travel demand. Rental days this quarter were 7% higher year-over-year, and more impressively, that was on top of a rental day record being up 16% last third quarter. As long as I'm talking about year-over-year stats, I want to include, we were up 14% over 2019, which was our last full year pre-pandemic activity.

If you look quarter-to-quarter, our volume increase year-over-year was more than twice as large as the first 2 quarters, which were 3% and 3%, respectively. This does not reflect the shift in strategy in our part, but is rather an outcome to the long corporate and partnership business we've signed over the past years bearing fruit. We saw a sizable change in demand as we started the summer season as customers look closer in with a velocity never before seen as travel was peak and extremely robust.

We saw demand in both traditional outdoor environments like beaches and mountains with tremendous growth of inbound customers and different than prior year, more travel to the traditional cities, which was similar to what we saw pre-COVID, just at a much higher level. And demand has not stopped through October, which looks to be the busiest October on record with solid midweek commercial demand, coupled with leisure activity that supports the weekends.

October traditionally has the best mix of commercial as companies start traveling after summer and leisure influence as all gateways become prominent. The weather conditions are great for rentals related to foliage, footfall and outdoor activities all support increased leisure activity.

Moving on to RPD. There are several ways to analyze the results of this quarter. Pricing in the Americas was down 5% in the third quarter of 2023 versus the third quarter of 2022 and up 3% sequentially, which was in line with our expectations. If you recall, last year, pricing from the second to the third quarter was largely relatively flat due to coming out of Omicron and supply chain challenges surrounding semiconductor and vehicle part shortages.

When it comes to pricing, it's worth noting 3 things: one, we all knew that the supply and demand imbalance the industry saw the last 2 summers would not be repeated in 2023; two, the year-over-year decline in RPD went from 8% in the second quarter to 5%; three, we were able to achieve a greater level of sequential RPD growth from the second quarter to the third quarter than in 2022. All 3 of these notes depict a pricing environment that is more favorable than the absolute year-over-year growth would suggest.

However, perhaps the most encouraging thing we're seeing around pricing environment is best reflected in another metric we follow, which is quarterly RPD versus comparable RPD in 2019. For example, the RPD in the fourth quarter of 2022 was 31% higher than the RPD in the fourth quarter of 2019. In the first quarter of 2023, it was 33% higher than the first quarter of 2019. In the second quarter of 2023, it was again 33% higher than the second quarter of 2019. And lastly, in this quarter, RPD was 29% higher than the third quarter of 2019 which we believe would have been north of 30%, if not for the travel disruption in our highest RPD region of Hawaii due to the tragic effects of the Maui fires.

We interpret this as a sign that the industry supply and demand dynamics are well matched and resulting in RPD that's roughly 30% higher than pre-pandemic levels. Is this the new normal? Maybe so, but it's apparent that we are back to a more normalized seasonal trends just at a much higher level.

With regards to operating costs, the team was met with significant challenges across several market dynamics. Vehicle depreciation, which was a huge benefit in the third quarter of 2022 started to normalize, and we were faced with a $350 million headwind this quarter. The interest rate environment continued to climb this quarter on a larger fleet base with higher cap costs resulting in another $80 million vehicle interest costs versus the third quarter of 2022.

Utilization, while strong, was also negatively impacted due to higher-than-expected recalls and those Maui wildfires. However, despite these challenges, our teams continue to demonstrate stringent discipline while servicing a record number of customers and investing in our brand. Although rental days grew by 7%, and we continued our nationwide plan on our marketing campaign, direct OpEx and SG&A in the Americas grew by only 4%. This operating leverage we created by reducing the cost in our control helped us overcome those costs out of our control, and we're able to deliver our fourth consecutive quarter with Americas adjusted EBITDA margins over 25%.

On that note, let me provide a few additional income statement results in the quarter. In the Americas, revenue increased over $30 million year-over-year, comprised of record rental day growth of 7%, offset by RPD declines of 5%. Americas adjusted EBITDA during the same period decreased by roughly $445 million due to the aforementioned headwinds from vehicle depreciation, vehicle interest and rate. These factors will continue to be a headwind throughout the balance of the year. But as we did this quarter, we will continue to mitigate those costs within our control and demonstrate operating leverage that translates into adjusted EBITDA and margin attainment.

From what we currently see, as I mentioned earlier, travel demand remains healthy as we experienced the busiest October on record. Bookings for the outer months are robust as we look at reservation bills for the Thanksgiving and Christmas leisure periods. In summary, demand continues to be strong and price will adjust seasonally as it normally does from the third to the fourth quarter. And as always, we will continue to manage with operational excellence, and I'm confident that our teams will show what it means in the fourth quarter and beyond.

Now let's shift gears to International, which is more of a complicated story to unpack this quarter. On our last call, I detailed the different business segments we address in the International, which is made of Domestic, Cross-border and International-inbound. Typically, demand patterns for all 3 of these segments are correlated adjusting for predictable mix shifts due to normal seasonality.

This quarter, however, we saw significant strength in the International-inbound segment, primarily from U.S. customers traveling to Europe, but less apparent with Domestic and Cross-border business. The combination of these 2 factors resulted in a blended rental day growth of 1% for the region, significantly lower than the guidance of high single-digit rental day growth we gave on our last earnings call.

I'd like to provide a bit of color on what we saw and our latest thoughts going forward. Prior to the third quarter of 2023, our International segment saw 9 consecutive quarters of year-over-year revenue growth. Despite that growth in the second quarter of 2023, our International rental days was still down 23% versus the second quarter of 2019. Our view was that while the post recovery in Europe started later than the Americas, would eventually follow a similar trajectory with continued recovery in the days building throughout 2023 and into 2024. While we still believe this is the overall macro cost the industry will pay, this quarter shows that won't be a straight line. Europe is a more fragmented rental car industry. We saw small domestic operators build fleet inventory and what we all assume, would be a record summer.

However, what we saw in the third quarter, was unprecedented travel disruptions with labor strikes and flight cancellations, civil disruptions and protests in key markets and perhaps more importantly, a dour economic environment with high energy prices, surging borrowing costs and waning export demand, all negatively impacting European consumer confidence and spending.

Given that Avis Budget is a globally recognized brand with our home market being the U.S., we benefited from the boost in international inbound travelers. However, the domestic and cross-border segments saw a significantly weaker demand. Instead of chasing volume to meet previously communicated rental day targets, we quickly pivoted and made the conscious business decision to forego low RPD business this season and concentrate on those transactions that met our return on invested capital hurdles.

In an environment where monthly per unit costs are up 27% and monthly interest costs are up a multiple of that, we felt the only prudent decision was to remain disciplined and voluntary pass on low-margin business, and this is reflected in our results. Yes, rental days were only up 1% year-over-year, but we protected RPD, which was up 4% sequentially, focused on cost mitigation and delivered nearly $200 million of adjusted EBITDA at a 24% margin, the second highest quarterly adjusted EBITDA in our International segment's history.

Our goal is to continue to optimize margin through strategic pricing, stringent cost mitigation and fleets in line with demand. We continue to believe that substantial opportunity for recovery in this region exists, and we'll focus on capturing our share of it going forward. Moving on to fleet, as usual, we'll focus more on the Americas segment. On our last call, I said that while we saw a stronger-than-expected used car market in the beginning of the year, we did not expect gains at those levels to continue for the balance of the year. Residual values for used cars moderated from the second quarter and throughout the third quarter. They are still elevated over pre-pandemic levels, and there continues to be strong demand for used cars of our type. Used car inventory is still down and the price point of these cars to be more than $20,000 lower than a new car, which presents significant value for our consumers.

We have said that we expected our gains to continue to normalize and our monthly depreciation cost to continue towards our gross depreciation of roughly $300 per vehicle. This will happen by next quarter, and we're seeing it reflected in the October results. The lower gains on sale this quarter versus the second quarter of 2023, combined with the additional new vehicles we inflated increased depreciation costs in the Americas from $168 per vehicle per month in the second quarter of 2023, $219 per vehicle per month in the third quarter of 2023. We expect this trend to continue throughout the fourth quarter where our monthly net depreciation per vehicle continues to converge with our monthly straight-line depreciation of roughly $300 per year.

Let's shift gears now to monthly vehicle interest. In the Americas, monthly per unit interest cost grew from $62 per vehicle in the third quarter of 2022 to $105 per vehicle in the third quarter of 2023, an increase of 70%. On a fleet base of roughly 550,000 vehicles, that equates to over $70 million of cash outflow from interest expense. I've said it before, and I'll say it again, in an environment where our core input costs are rising, both the cost of vehicles and the cost of finance, we must be hypervigilant in matching our vehicle supply just under demand. We'd rather run out of the incremental vehicle than have an unutilized vehicle on our lot. You'll see us put this rhetoric into practice as we defleet in the fourth quarter, the sequential declines consistent with what we've historically done in pre-pandemic years from the third to the fourth quarter.

Lastly, with regards to vehicle availability and previous labor disruptions, deliveries are still on track, parts are still available, and we're progressing with our talks about future buys. Currently, our model year 2024 buys are largely complete. We have a great relationship with our OEM partners, and I want to thank them for their continued support.

Before I leave fleet, let me comment on EV's. As you know, our strategy is centered around ensuring that our infrastructure was developed to service vehicles of this type in a manner that's consistent with our operational logistics. We've been investing in those capabilities. And while we currently have all necessary resources to appropriately service our electric fleet today, we will continue to build our EV infrastructure resources across our footprint, commensurate with our anticipated growth. This provides us the ability to react given changes in the demand curve. We have ensured we have EVs of different makes and models from the majority of our manufacturers, which comes with customer demand and further insulates us from cost pressures associated with recalls and other maintenance-related activities.

We manage our EV's similar to how we manage our regular gas cars, focusing on our import activity, which gives us our best margin outcome while we continue to have supply slightly under our demand. This ensures our per unit economics stay in line. While our demand for EV's have improved considerably, we will continue to monitor our supply and ensure that it keeps up with this ever-changing environment.

Let's turn towards technology and how it's an integral part of everything we do. Our proprietary demand fleet pricing system continues to allow us to optimize price and volume by forecasting volume down to the store level, both close in and months out and pricing our vehicles at an individual vehicle level while optimizing utilization and contribution margin. This technology, along with our revenue management team and operational field experience continues to generate a significant advantage at maintaining our supply, demand and pricing process. We have made technological enhancements in our maintenance and repair processes generating efficiencies in operating expenses. These enhancements provide our technicians with faster visibility of data analytics to determine body damage or salvage decisions, as well as ensuring we optimize our spend with outside service providers.

We continue to see improvements in our field level productivity due to strengthening our workforce planning tool. We've been able to realize this improvement in our field direct operating expenses. The continuation of technology enhancements allows us to keep our costs inside of increasing demand and help margin profitability.

As you know, we have implemented vehicle telematics in our fleet, which provides actual fuel readings and helps insulate us from rising gas prices as well as provide improved asset control. On the customer experience side, we continue to promote a seamless experience for our customers. Our Avis Quick Pass offering, now at a majority of our airports enables our customers to select from a choice of vehicles on their phone, proceed directly to their car or they can exchange their car if they like, and drive to the exit gate, utilizing a QR code for an automated exit. On return, customers can close out their rental on their own, utilizing our connected car technologies.

Similarly, our Budget Fastbreak Choice is an expedited pickup process that allows you to select your vehicle right from your mobile device by taking a picture of the vehicle's license plate and proceed through an automated exit gate, thus expediting your rental checkout. On return, our connected car technology helps you to check in automatically and receive your receipt within minutes. These technologies have improved our customer experience and enhanced our overall NPS scores.

Before I conclude, I would like to make mention of our press release last night announcing changes to our management structure and Board dynamics. Brian Choi, our CFO, will be transitioning to a newly developed role in our company, EVP and Chief Transformation Officer. I asked Brian to step out of his current CFO role and take on this new challenge designed to help create sustainable adjusted EBITDA in the years to come. Brian has experience looking at our company, both from the outside during his days as an investor and over the past 3 years, helping us managing from the inside in his current role as CFO. He has a unique ability to analyze and digest data and turn it into a practical format like no other, and this will benefit our business as we look to grow our profitable revenue while creating efficiency in our cost lines by working with the stakeholders, both in our headquarters and our field operations, all designed to improve our overall performance.

Izzy Martins will move from her current role of EVP and Head of the Americas to fill Brian's role as CFO. Izzy's prior experience as the VP of Tax, Chief Accounting Officer and CFO of the Americas now combined with the operational experience she gained over the past 4 years, position her extremely well in our new role as Global CFO. Izzy has been instrumental in delivering the record-setting performance in the Americas over the last 3 years. We will get to know Izzy more formally in the coming months. Adding in is David Calabria with his experience in accounting, investor relations and the terrific work he's done in treasury make this a formidable team.

In addition, we announced some changes on the Board level as well. Bernardo Hees, the Executive Chairman since 2020, will transition from his current role and remain a member of our Board starting in May of next year. Bernardo has been instrumental in the company's performance, helping us navigate through the pandemic and transform into the company we are today. His insights and partnerships were very much needed and help guide our future, and I look forward to continuing to work with him as a member of our Board.

Jagdeep Pahwa will move from the Vice Chairman role to the Chairman role starting in May as well. Jagdeep, the President of SRS has been with our Board since 2018 and like Bernardo has been a large part of our success, and I look forward to working with him in a greater capacity in the months to come. We are extremely fortunate to have terrific talent on our team and a gifted Board to help align our strategies.

So let me conclude. We had another great quarter with record-setting revenue in the Americas and the strongest summer ever recorded with price improving from the second quarter to the third quarter as we noted on our last call. International continues to drive towards margin attainment with profitable revenue and cost efficiencies. The fourth quarter started off strong with good commercial and leisure demand and record-setting volume in the U.S. and advanced reservations surrounding Thanksgiving and the holiday seasons are strong. Price will moderate and adjust seasonally as done historically. As we come up on peak, we will continue to deplete our vehicles to keep them in line with demand. Our team is focused and driven to once again deliver another strong quarter to finish out the year.

With that, let me turn it over to Brian to go through our liquidity and our outlook.

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Thank you, Joe, for the kind words and opportunity to take on this new role. I'm beyond excited to start. But first, let me do what CFOs do and discuss our liquidity and near-term outlook. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in our press release.

I'd like to start off by addressing my favorite topic, capital allocation. We again took a balanced approach to free cash flow deployment in the quarter by addressing both fleet debt and return to shareholders. We voluntarily contributed over $100 million to our vehicle programs by foregoing the refinancings of higher cost tranches of our ASAP term debt as they came due and funded those tranches with cash on hand instead.

With interest costs in the high single digits now for our C and D tranches of our ABS, you'll continue to see us deleveraging here going forward. We also deployed nearly $500 million into repurchasing 2.2 million of our shares outstanding this quarter. Given that we strongly believe that our current share price does not reflect the fair value of our transformed company, we will continue to aggressively buyback shares until that gap closes, and this will be reflected in the cash flow usage of our fourth quarter.

The summer has filled our war chest, and we have full confidence that substantial free cash flow will continue to be generated in 2024 and beyond. However, as we've said on previous calls, we will be nimble and opportunistic with regards to capital allocation, and we'll consider all avenues of returning capital to shareholders. We continue to find ourselves in the privileged position of being in the strongest financial standing in the history of our company. Our last 12 months adjusted EBITDA is $2.8 billion. During the last 9 months, we've contributed nearly $1 billion back into our vehicle programs, deployed over $200 million into investments in our systems, operations, customer experience and EV capabilities, all while having a net leverage ratio of about 1.5x.

As of September 30, we had available liquidity of approximately $1 billion with additional borrowing capacity of $1.1 billion in our ABS facilities. Our corporate debt is well laddered with over 90% of our corporate debt, having maturities in 2026 or beyond and we are in compliance with all of our secured financing facilities around the world with significant headroom on our maintenance covenant test as of the end of September.

Let's move on to outlook. As you know, we've made the decision as a management team to forego giving formal annual guidance to allow ourselves the flexibility to make agile decisions as the business environment changes. Here's some color around what we're currently seeing for the fourth quarter. Rental demand in the Americas appears to be robust, and we are again expecting to fleet slightly inside of the strong demand we're currently seeing. We're encouraged by the strong corporate demand we saw in October and believe that will continue into late November when leisure holiday season kicks in. And as Joe stated, the advanced reservations around the holidays are strong. We believe this will translate to mid-single-digit rental day growth combined with the normal sequential seasonal decline we saw last year from 3Q to 4Q.

In International, as we stated previously, we expect to return to revenue growth with rental day growth in the low single digits and flat RPD. Consolidated monthly per unit vehicle interest, which was $92 in 3Q '23 will move up slightly above $100 as we indicated on previous calls. Monthly net vehicle depreciation will converge with our straight-line depreciation by the fourth quarter as we expect gains on sales to be insignificant. And while those gains will be missed, the silver lining is that we're returning to a more normal environment, both in terms of fleet and seasonal demand, which better enables us to do what we feel is our competitive advantage, analyzing the field, setting ambitious targets and executing operationally. All of this should translate into a full year adjusted EBITDA of over $2.5 billion, the second highest annual adjusted EBITDA in our company's history.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question from Stephanie Moore with Jefferies.

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

This is Hans Hoffman on for Stephanie. Congrats on the strong quarter, and I appreciate all the color. So for my first question, just thinking about 2024, understanding there's not a whole lot of visibility on demand environment. And right now, it looks like kind of vehicle funding costs are going up, vehicle depreciation kind of getting to a more normalized level. So I guess, kind of putting that aside, can you talk about in terms of what's -- kind of what's in your control and your sort of ability to preserve margins or will you mitigate some of those margin pressures next year?

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

This is Joe. I'll start off, and then Brian, if you want to jump in. So you're right. We're currently working on our business planning process. So I don't have all the details surrounding 2024. We'll be doing that over the next couple of months. But what I want to probably say is that -- and I said this earlier in our prepared remarks, we're back to a normal seasonality. So I would anticipate that, that would bring true going into next year as well. And what I mean by normal seasonality, the second quarter is bigger than the first and the third quarter is bigger than the second and the fourth quarter is somewhat in line with the second or thereabouts. And the demand patterns and the pricing patterns will adjust seasonally. I think that, that would be a good starting point with how we would look at 2024.

There is some guiding principles, however, that I think about. If you take a look at this past summer, it was the busiest peak that we've seen. And I -- going into it, and I said on the last call, but I thought the summer was going to be big, like it normally is, just a larger peak because the second quarter was like a transitionary period into the summer, which was exactly what we saw in 2019, right? So coming off a busy summer, you would say, well, as demand slowed down a little bit, are we going to see that going into the fourth quarter? And I have to tell you, October, like I said earlier, it's going to be the biggest October on record. We didn't formalize the exact metrics quite yet, but it's all indications that it will be.

And so the volume didn't stop, right? Demand is still strong. We see strong growth in commercial, and we see strong growth coming from leisure. And I see that continuing going into the fourth with surrounding holidays, Thanksgiving and Christmas and a good deal of fourth quarter activity, all said and done surrounds Christmas, and that looks pretty good.

I don't believe that that's going to stop when you get to January, February or March. And I think we'll start picking up, yes, it will just seasonally, but demand should be strong. And I think pricing, you've seen what I said earlier, very strong and elevated compared to 2019. And I see no reason why that doesn't change. However, we are facing interest costs, as you say, and the depreciation costs are starting to normalize. One of the key reasons why I asked Brian to come out of his role is to help us monetize some of the activities that we have surrounding data and data analytics to make our team better operators. I believe we have a great operational team right now. But the way we're looking at things today is uniquely different than maybe the way we looked at them in the past. And I believe that will give us an edge in keeping our direct operating costs and things of that nature more in line.

With that, Brian, I'll turn it to you.

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Yes, sure. I think you covered everything, Joe. Just the one thing to highlight is these interest cost pressures are going to continue into next year when the cost to play, to take on a new car is going to be over $100 per vehicle per month. Like you have to reevaluate the appropriate return on invested capital for that car. So I think that means that we're going to be very focused on yield management next year. We're going to be focused on utilization. And as Joe mentioned, we intend to fleet slightly below demand in order to remain disciplined around return on invested capital.

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

Got it. That's super helpful. And then just I appreciate kind of all the color around sort of Europe, but maybe just kind of wanted to unpack it a little bit more. So I guess maybe just thinking about Q4, have you seen sort of any easing in terms of some of the pressures on domestic and sort of cross-border travel? Or is it kind of the expectation that maybe just the European consumers may be weaker than kind of here domestically in that, maybe some of those pressures could kind of continue into Q4 and maybe into Q1, maybe offset a little bit by some continued strength in sort of the International-inbound segment?

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

Listen, there's a lot of geopolitical pressures over there, and I think we have to be -- we have to react. And so I'm comfortable with where we are today. I thought that the margin attainment in the third quarter was terrific. It was the second highest we had in company history. And you're going to see us operate that way. And if things change, we'll deal with it and react accordingly. But our fleet is going to be in line with demand. Our cost basis is going to be a line that allows us to produce margin. We still have an extremely strong, what I would call, inbound demand coming out of the United States. We have terrific partners with all our airlines here in the U.S., and they continue to drop customers off, and we will concentrate on our ability to generate that highly profitable business in Europe.

Now when we looked at it, compared to 2019 in the United States, we started to overcome the COVID-related challenges in 2021. And we thought that, that was going to happen this summer. But like I said, Inbound business, terrific -- European business and domestic, not so good. So we will prepare as if -- we will prepare to operate on a more of a drop-through basis. And if things change, we can react very quickly. And that's what I like about our business compared to where we were pre-COVID. We took a lot of costs out, we're able to optimize as we go.

Operator

(Operator Instructions) And our next question comes from Chris Woronka with Deutsche Bank.

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

So congratulations on another great quarter, first. And then my first question is really, when you think about fleet for 2024, I know you said most of your buys are already done. But what's kind of the macro -- very high-level macro view that kind of underpin your decision on sizing. There's a lot of stuff going on in the world. And we don't know what the economics look like next year. So can you just talk about kind of -- when you say you're entering next year with a more cautious view on overall fleet size than you did, and maybe in view of that with some apparent market share gains you've had that might make you want to go bigger on fleet?

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

So the way we operate, Chris, and you've covered us for a long while now. Our peak fleet is in the summer. And we do everything we can to make sure that our fleet is in line with demand going into summer, anticipating the strong or anticipating the strongest quarter of our year. And I think we did a really good job about that this year. We had our fleet size, where we thought it would be. Unfortunately, we had those Maui wildfires, which when those occur, they occurred without any notice obviously, and as tragic as they were for the people in the communities in Maui, they had a very large effect on our overall utilization and our fleet size, people just stop going not just on Maui, but to everywhere else. It was kind of like what happened during COVID very quickly.

But what normally happens every year is that when we come off the peak, we started to defleet and we defleet rapidly. You saw that last year as well. We came out of the third quarter peak with the most cars we have in our business and we start taking cars out in a rapid fashion. And we have done that in the month of -- starting in September and certainly October. And we'll continue to do that until we get the fleet size down to what we believe is a normal operating size to go into the first quarter and predominantly the winter months here in the United States.

I think the keyword for us for next year is flexibility. Over the years, we've proven that we can -- even during the COVID years, we've proven that we can get cars and fleet up as demand increases or we can take cars out quickly to ensure that we are in line with our demand. I think if you look historically at our company, you'll see that we do that. We have great experienced people. We have technology, with DFP that gives us some insights into what's going to happen by certain cities. And so we will continue to do that.

Going into next year, with uncertainties surrounding geopolitical environments and things of that nature, we will be prudent. And if demand goes up bigger than we think, we'll react. And if it doesn't, we will keep our fleets aligned. I think with the cost -- with the interest cost that we're seeing now and the depreciation more normalizing, I think that's the most prudent way to attack our strategy surrounding fleet.

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Chris, just to add to that on the market share front, I just want to reiterate, as we've had in the past that we don't solve to maximize market share here. We solve to maximize long-term sustainable EBITDA. I think that was shown this quarter as well, where we grew 7.5% in rental days in the Americas. That's well below the 11% that TSA volumes did year-over-year in the third quarter. You'll continue to see, like I said, fleet slightly below demand.

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

Okay. Appreciate that. And as a quick follow-up, I think we were pretty impressed of your DOE margin performance this quarter again. And as you're still growing volume or appear to be still growing transaction days in the U.S., we normally think about RPD prices flowing through to the bottom line and less so on volume given the variable cost, but it seems like have you reached a point where whether it's the utilization level where the incremental transactions are perhaps more profitable at the unit level, even if pricing is slightly lower, if that makes sense?

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

Part of that is absolutely true, Chris, as there are certain segments of our business that allow us to have a better price opportunity than others. For example, Inbound business. It comes with -- especially further out, it comes with a higher price and a lot of ancillary add on revenue that comes with that type of business. Some leisure demand, especially on our large company, our bigger brand, Avis, which actually we saw Avis grow at a much significant level -- more significant level than any of our other brands this quarter, and that comes with a higher price point. So to put -- to keep fleet at that brand or things of that nature, that certainly has a benefit on what we see as far as price.

As far as operating dynamics, we utilize technology in a differentiated way to look at how we manage our cost lines. And as I said earlier, Brian was running as a CFO and his part-time job was to kind of look at how we can better improve our -- some of our direct operating costs and that's why I moved him out into this role because I think that there is a future in our ability to keep knocking that down a little bit. But over the past couple of years, our efficiencies have improved, our productivities in a field, especially with our labor in the field is better than it was in 2019, and we've been able to improve our NPS. So I think overall, yes, there are segments of business that promote the best rate and the best profitable outcome as well as dynamics associated with how we manage our direct operating and SG&A.

Operator

And we have our next question from Ryan Brinkman with JPMorgan.

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

Thanks for the comments on capital allocation, including fleet paydown -- fleet debt paydown versus repurchases. Seems the allocation pivot there in 3Q like you indicated it would. Maybe just as a follow-up, given the changes in used vehicle prices and I guess, $1 billion now of these voluntary contributions in your vehicle programs in the first 9 months of the year. I just wanted to check in on like what percent equity you have across your programs or in your biggest vehicle programs currently versus the amount that you're required to maintain?

I ask firstly to understand like how much cash you could potentially take out if you wanted to, for repurchases or anything else? And then secondly, to maybe understand, I guess, conversely like how much of a cushion there might be there now in terms of what percentage decline in used car prices it would take before you might be required to put more cash into the programs, assuming similar fleet size, et cetera?

Brian J. Choi - *Avis Budget Group, Inc. - Executive Vice President & Chief Financial Officer*

Sure. Ryan, I'll take that question. In terms of the equity cushion that we have, you can take a look at our press release, we listed out every quarter what our vehicle assets are and what our liabilities are under our vehicle program subjected to, that's a good proxy for both the equity that we've -- the base equity we have in our fleet plus the additional contributions that we've made. And as you can see, that ratio has been growing kind of in favor of the assets, and that reflects kind of the voluntary contributions that we've made to that program.

We've mentioned before that we can -- what our advance rates are, that's remained fairly consistent. So we can go in the high 80s in a lot of markets. We've chosen not to do that. Like I said, the further down we go on our refinancing to the C tranches and the D tranches, those are becoming close to 10% now, 8%, 9%. And you'll kind of see -- you'll see us continue to forego refinancing at those high rates as those term debts become due. So we feel really good about where we are in terms of leverage ratios there. Again, you can see the assets which we marked on a monthly basis here and how much higher that is than the liabilities we have. So I mean, you can kind of calculate what the cushion is over there.

And in terms of capital allocation, as I said on the prepared remarks, we still believe that our shares are undervalued relative to the fundamentals around current and future earnings trajectory. We repurchased shares yesterday and we still have $1 billion remaining in our buyback authorization. But we're not going to be formulated when it comes to capital deployment. We evaluate the full spectrum of options from M&A, CapEx, debt repayment, dividends, onetime or regular and, of course, share repurchases. So we'll continue to allocate capital to those areas that best benefit all stakeholders.

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

Very helpful. And then just on EVs. What is the number of electric vehicles that you have globally? What are the brands there that you're most exposed to? And are you thinking any differently about how quickly you might onboard EVs or what percent of your fleet you might expect them to rise to over what period of time? Just in light of the lower electric vehicle prices we've seen this year and so I assume higher depreciation and maybe some of the direct operating cost implications to as highlighted by one of your competitors?

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

I'll take that. Trying to answer it, thinking about a little bit about strategy and then give you some insight to where we are as far as fleet. We want it to be consistent and measured in our approach to EVs and our strategy for these centers around a few principles. First thing we wanted to do is make sure we had an infrastructure. Everything we heard was that EVs are going to be very prominent as far as manufacturing goes. And obviously, that changed over the last couple of months. But we wanted to make sure that we had an infrastructure capable to rent these at a utilization level that's commensurate with our utilization levels on gas cars given the fact...

So like I said, to answer to this question, I'll give you insight to where we are on a level of cars. But I think when you look at our EV strategy, it centers around 3 real principles. We wanted to be consistent and measured in our approach. First thing was we need an infrastructure to support EVs, especially at our airports. And we spent the last 1.5 years doing just that. So I'm comfortable with our infrastructure is. Yes, there are more [applets] coming online as the grid levels increase at certain cities and airport authorities. So we will continue to do that.

The second is we wanted to have cars of different makes and models and from different OEMs. And similar to the way we run our gas car fleet, we believe that gives customer choice, it allows to insulate us a little bit from maybe recalls, other maintenance-related cost and certainly of late residual value pressures associated with some of the price declines we've seen in some of the cars that are being produced.

And third, the majority of our business occurs at our airports, and we wanted to make sure that we had the ability to rent cars to consumers that fly into our locations. So we spent a good deal of time trying to organize ourselves around that demand level. It gives us the opportunity to have our best margin outcomes on vehicles of that nature. And it's the atypical type of vehicle that we rent as far as gas costs because that's where the lion's share of our business is.

I think what I like most about it is we have ultimate flexibility. There are EVs available that the manufacturers want to sell. And right now, we are very much looking at keeping our EVs in line with our demand. As far as like the numbers, I don't like to get into that, but I will say this. If you look at the total amount of EVs sold as comparable to the total amount of cars were well under that percentage. I hope that helps. But I think this is -- as the situation grows, I think you'll find us to be able to take advantage of that just like we would in a normal car.

Sorry for the interruption on that. I don't know why we disconnected. I apologize for that.

Operator

And it looks like we have reached the allotted time for Q&A session. I will now turn the call back over to Joe Ferraro for any closing remarks.

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

Yes. So to recap, we had another quarter with solid earnings, driven by the strongest summer ever recorded with great demand, sequentially improving pricing. We will continue to invest in our technology to have improved customer experience and drive enhanced efficiencies in our operations. And finally, I would like to say thank you to all our employees for the hard work they put in this past year. Thank you for your time and interest in our company.

Operator

Thank you. That does conclude today's teleconference. Thank you for your participation. You may now disconnect.
