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CAR.OQ - Q4 2020 Avis Budget Group Inc Earnings Call

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PRESENTATION

Operator

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

It's now my pleasure to turn the call over to David Calabria. Please go ahead.

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

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

Before we begin, I would like to remind everyone that we will be discussing forward-looking information, including potential future financial performance, which is subject to risks, uncertainties and assumptions that could cause actual results to differ materially from such forward-looking statements and information. Such risks and assumptions, uncertainties and other factors are identified in our earnings release and other periodic filings with the SEC as well as the Investor Relations section of our website. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. And any or all of our forward-looking statements may prove to be inaccurate, and we can make no guarantees about our future performance. We undertake no obligation to update or revise our forward-looking statements.

On this call, we will discuss certain non-GAAP financial measures. Please refer to our earnings release, which is available on our website, for how we define these measures and reconciliations to the closest comparable GAAP measures.

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

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

Thank you, David. Good morning, everyone, and thank you for joining us today.

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It goes without saying that 2020 was the most difficult year in our company's history. However, as I look back on a year in review, I believe that 2020, while challenging, will also prove to be one of Avis Budget Group's most formative years.

When faced with unprecedented adversity, we found it in ourselves not only to persevere, but to structurally improve our business so that we exit this trial a more resilient and efficient company than when we entered it. This wouldn't have been possible without the efforts of our entire organization. They came to work day in and day out throughout this pandemic and proved that no matter what the challenge is, we at Avis still try harder.

I'm sincerely grateful for the amazing efforts of our employees. It's been 40 years since I joined Avis, and I've never been more proud to be a part of this team.

This morning, I will start by highlighting many of the accomplishments the team made during the year. Then provide an update on the actions we took in both the Americas and international regions. After that, I will discuss our continued commitment to cleanliness and safety through the Avis Safety Pledge and Budget Worry-Free Promise, including our innovative safety partnerships and touchless rental experience. Finally, I will discuss business trends and then hand it off to Brian to discuss our liquidity and cash position, which illustrates the overall strength of our company.

Yesterday, we reported our fourth quarter and full year results, closing the books on a year that certainly tested our resolve. However, while 2020 was difficult, it also demonstrated the strength, flexibility and future capabilities in our company.

When the pandemic first hit, we acted quickly. We immediately called our OEM partners to work with us to stop incoming new vehicles. We took quick, decisive actions with our property obligations and our vendors. We also made the hard decision to reduce staff and salaries. We're also very proud of the safety protocols we established. And our exclusive partnership with RB, the makers of Lysol, to ensure the safety of our employees and our customers.

After our initial actions, we put out a release stating that we removed approximately $400 million in expenses. But we quickly realized it wasn't enough and challenged our team to do more by continuing to align our cost savings with that of our revenue declines. This was the key to our survival, and they did not disappoint.

Ultimately, we removed over $2.8 billion of expenses and aligned our fleet to demand, removing 31% of our fleet, while capitalizing on the strong demand in the off-airport operations.

At the end of the third quarter, we showed our ability to take advantage of operating opportunities as travel returned, with fleet utilizations peaking back in the 70% area.

October continued that momentum. And it was the lowest year-over-year revenue decline since this pandemic started. Rates were positive and fleets were tight.

November looked to continue that trend and Thanksgiving weekend was developing into a good revenue opportunity for us as well as with some strong bookings leading up to this week.

However, with the resurgence of the virus occurring at this time, we saw a dramatic spike in reservation cancellations and ultimately, no-shows.

To put this in perspective, we had more vehicles out on rent during the Saturday of Columbus Day weekend than we did on the Saturday of Thanksgiving weekend, something that has never happened before in the history of our company. Christmas, although better than Thanksgiving, was still challenged due to virus transmission and government restrictions on travel.

As a result of our cost removal actions and the early alignment of fleet levels, we were able to remain agile and react quickly to those demand changes. We have talent and operators who know how to adapt to the challenges we face. We continue to look for, find and remove additional costs and keep our fleet aligned with customer demand. As a result, we achieved positive adjusted EBITDA for the second consecutive quarter

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since the pandemic began, driven by significant cost reductions globally and culminating in higher year-over-year margins in the Americas as a result of these diligent efforts.

As we stated previously, we ended the third quarter with the Americas generating more adjusted EBITDA this September than September of 2019. October continued that trend, delivering continued year-over-year improvements. As mentioned, October was the best month year-over-year since the pandemic began, down only 28% year-over-year. But then the second wave of the virus came and brought reduced demand.

The Americas delivered just over $1 billion in revenue, the lowest fourth quarter total in our history. But despite the reduction in revenue, the team delivered their third best adjusted EBITDA of $113 million.

Ultimately, the Americas finished the quarter with rental days down 35%, with a strong increase in pricing, up 3%, helping to offset the reduction and allowing us to finish with revenue down 33%.

However, the impacts of the virus was certainly greater out West in states like California and Hawaii, which saw the most severe travel reductions, with rental day reductions of more than 50%.

Volumes at local market stores continued to outperform airport volumes. But even with the reduced volumes on airport, we continue to see an overperformance of our volumes against TSA check-in data.

Our strongest segments in the quarter were off-airport operations, including local market rental locations, Budget truck package delivery, Zipcar and ride-hail. These areas performed especially well during the quarter. Our profitable ride-hail business has doubled year-over-year, confirming our strategy to expand and grow this business.

Revenues from our local market operations exceeded prior year levels in the quarter. And our decision to optimize our business for last-mile delivery has been outstanding.

On our last call, we announced that we had increased our package delivery fleet to capitalize on the additional demand from holiday peak package delivery season. This business improved significantly over an already strong 2019, culminating in our best season on record.

Zipcar also improved sequentially, delivering one of the strongest years, as urban customers sought private transportation to run errands or vacation outside the city.

The strong recovery of these operations resulted in us finishing the year with 46% of our revenue coming from non-airport activity, an increase from 30% in 2019.

During the quarter, our strategy to dispose of more fleet through alternative channels paid dividends. We continued to capitalize our alternative channel strategy to take advantage of this used car market. We sold more than 69% of our vehicle sales in the quarter, although alternative channels and a record 26% of those vehicles sold directly to consumers. In fact, we sold more than 22,000 vehicles directly to consumers for the year, significantly more than the 13,000 we sold in 2019, capitalizing our increasing capabilities in retail sales.

As you can see in our investor presentation, we have a strong history of aligning our fleet with rental demand, which we demonstrated again this quarter and this year to achieve peak utilization rates of approximately 70% in the Americas. The fact that our fleet is mostly risk enables us to dispose of vehicles profitably, showing our strength in managing logistics on fleet and on utilization.

During the quarter, the Americas fleet was in a healthy position and utilization rates held stable following similar trends from the third quarter, peaking on weekends, with business travel recovering slower than leisure.

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With the U.S. fleet down nearly 30% and utilization rates holding steadily in the 60% range on average, we started to in-fleet vehicles from our recently finished model 2021 fleet purchase. This vehicle rotation uniquely positions ourselves with lower-mileage refreshed fleet to serve our customers.

I would like to take a moment to address the semiconductor shortage that several OEMs have recently mentioned. We do believe this will have an impact on fleet deliveries and availability in our industry. We have always had strong relationships with the OEMs, and even in normal times, we work with them daily on any dynamics they are seeing from their production schedules. Currently, and based on our initial discussions, we believe we have the logistics and sophistication within our team to manage our fleet size appropriately. Keep in mind, a tightness of fleet in the industry usually bodes well for not only the used car market but for yielding opportunities.

The aligning of our fleet to demand has certainly improved our revenue per day, up 3%, even with the continued increase in our monthly rentals. As always, we have been managing our revenue per day as a strong measurement of profitability. And during the pandemic, we've been focused on longer length rentals as well. As customers rent cars for longer, there is a more significant drop-through because of fewer touch points. On longer-term rentals, you clean a car once, move a car once and refuel a car once, driving out variable costs and increasing efficiency. This has been an integral part of our business this year.

The international market continued to remain challenged, constricted by renewed lockdowns in numerous countries in Europe and travel restrictions in the region. The impact primarily impedes cross-border travel, resulting in a greater percentage of intra-country travel. This domestic customer segment usually has a lower ancillary attachment rates, negatively impacting overall revenue per day.

Revenue for the quarter declined to $326 million, approximately 48% lower than prior year, driven mostly by volume decline and rate impacts from reduced ancillary take rates. Volumes held generally stable at 44% below prior year. However, they were significantly better than the 65% declines we've seen in the first wave.

As in the Americas, our international team continues to remove cost from the business, with an average fleet in the quarter down 39% versus prior year. We profitably disposed of nearly 14,000 risk vehicles while utilization peaked in the mid-70% range. The team did a great job matching cost savings with revenue declines. With the change in business mix, the international team had overcome a greater decline than just the one related to volume. By proactive operational management and utilizing government furlough programs, they were able to reduce expenses by more than 42% to closely align with the 48% reduction in revenues. The team has set themselves up to take advantage of opportunities as they arise during the recovery in both EMEA and Asia Pac.

When we first started reacting to this pandemic, the most important initiative for us was to ensure the safety of our employees and our customers. We are proud of the way we've been able to navigate through these uncertain times, but even prouder of our industry-leading efforts to protect our employees and our customers. We established the Avis Safety Pledge and the Budget Worry-Free Promise to set what we believe is the highest standard of safety in our industry. Additionally, we launched our ABG Medical Advisory Council with well-established medical professionals from leading institutions charged with the reviewing and advising on our COVID-19 protocols. We continue to enhance these protocols and training while relying on our exclusive partnership with RB and are proudly using their well-known Lysol products across our locations to benefit from their proven effectiveness against COVID-19.

In addition to our safety partnerships, we continue to innovate through our award-winning app and Mobile Select product, now available at our top airports. Our Avis Preferred customers, upon arrival, can select their specific car on their phone, proceed directly to their vehicle and then utilize a unique QR code to exit our automated Express Exit for a completely contactless experience. I would encourage all our members to sign up for Avis Preferred. But if you're not an Avis Preferred member, you could still take advantage of our digital check-in on our websites, reducing transaction times and lines at our counters to quickly and safely get you on the road.

Our employees are critical to our every success, and I would like to thank them for keeping our customers, families and each other safe throughout this pandemic.

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In closing, I'd like to highlight an achievement in the fourth quarter that I'm particularly proud of. When a second wave of restrictions suddenly materialized before the key holidays, we were able to quickly flex our cost through the shock in demand and mitigate the impact of reduced revenue. Last quarter, we told you that we were building a leaner, more efficient organization, but we made that statement in an environment of sequentially improving demand. It's easy to be bold when the winds are turning in your favor, but what happens when things go against you? I'm proud to say that when we were tested in this fourth quarter, we delivered. In fact, the Americas achieved their highest fourth quarter margins in the company's history despite revenue being down 33%. I view this as not just a proof point validating our early assertions, but a stepping stone for what I believe will come when the impacts of this pandemics subside.

Because of this, I feel even more confident saying today that as the economy continues to recover, you will continually see meaningful improvements in our earnings and margins. Now I know you're all asking right now, what exactly does that mean? At this time, Brian and I are not ready to fully lay out our exact path. There are still significant uncertainties around when revenue normalizes and we're still in the process of refining our steady-state cost structure. What I can tell you today is this: Whenever the economy does normalize and we're back to the 2019 revenue levels, we believe we will be at or above the $1 billion in adjusted EBITDA.

With that, I turn it over to Brian to discuss our liquidity and cash positions.

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

Thank you, Joe, and good morning, everyone. I will now discuss our liquidity and near-term outlook. My comments today will focus on our adjusted results, which are reconciled from our GAAP numbers in both our press release and earnings call presentation.

As of December 31, we had available liquidity of $1.3 billion comprised of approximately $700 million in cash and cash equivalents and approximately $600 million in availability on our revolving credit facility.

Additionally, we had cash and available borrowing capacity of $6.8 billion in our ABS facilities.

Our proactive management of our corporate debt ensures we have no meaningful corporate debt maturities until 2023 and no need to refinance any of our ABS conduit facilities this year. We are in compliance with all of our secured financing facilities around the world, with significant headroom on our maintenance covenants tests as of the end of December.

Because of this strong liquidity position, we felt confident enough to return more than $600 million into our ABS facilities, giving us the flexibility to fund fleet levels higher than 2019 when necessary.

Given continued macro uncertainties, we are not providing guidance for the year at this time. We will provide further clarity as travel demand normalizes and visibility returns. However, I would like to make a few comments regarding the first quarter of 2021.

Even in a healthy year like 2019, first quarter EBITDA is slightly negative given the lower revenue base and reliance on corporate travel in the quarter. In 2020, with only 1 month of COVID impacting the business, first quarter EBITDA fell to negative $87 million. In 2021, we'll be facing 3 full months of a depressed travel environment, so the comparisons will be difficult and noisy.

As we learned last quarter, things can change quickly. But as of right now, here's what I feel comfortable saying. Due to our efforts around cost rationalization, we have been able to continuously improve on mitigating the adjusted EBITDA impact of significant revenue declines.

In the second quarter of 2020, our first full quarter in a COVID world, consolidated adjusted EBITDA was $557 million worse than prior year. By the third quarter of 2020, the decline narrowed to be $252 million worse in consolidated adjusted EBITDA versus prior year. In the fourth quarter of 2020, this decline reduced further so that our absolute adjusted EBITDA decline was now only $69 million worse versus prior year.

For the first quarter of 2021, I expect this improving trend in narrowing our absolute adjusted EBITDA decline to continue. Beginning the second quarter of 2021, when we start comping full quarters with the coronavirus impact, those declines will clearly shift to significant improvements

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year-over-year. This is what gives me, Joe and the team here the conviction to state that when our revenue base does return to 2019 levels, we expect to be at or above $1 billion in adjusted EBITDA.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Chris Woronka from Deutsche Bank.

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

Guys, thanks for all the helpful data points thus far. I was hoping, first question, maybe you can just talk a little bit about your outlook for fleet costs. There's going to be a lot of moving parts. You're going to be in-fleeting some new cars and used car prices might move around. We have the chip shortage. Just any high-level thoughts on how those might trend?

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

Okay, Chris. We did try to be as transparent as we could in our prepared remarks. Yes, the fleet situation is ever evolving. If you think back to last year, it was really about removal of fleet. We canceled orders. We had the best-selling month in the history of our company in the month of August. And traditionally, if you think about how we manage our business day-to-day, we don't normally do that, right, because the peak period starts in the summer and then you hold on the cars and you try to leverage that volume and revenue opportunity.

This year, it's a bit different. We came off, probably one of the better per-unit fleet cost in our company's history, largely due to the COVID shutdowns that some of the OEMs had and the delay in inventories on both the dealership lots and used cars. And we took advantage of that.

I would say that going out this year, we still see, as we saw in the fourth quarter, a pretty good used car market. That's -- it seems increasingly strong, I will say that. But we are getting our new cars in, and the new cars are important. When you think about fleet and fleet costs, it's not just how you buy them, but it's -- and how you sell them, and we've talked a lot about those in the past, buying cars with the right trim levels. People want to drive. And also they want to buy when we're done.

I think it's also becoming more increasingly important, especially this year, as we cycle in new vehicles and we keep our rotation solid. Because what ends up happening there, one of the key indicators of residual value is the mileage on cars. And as we get new cars in, that kind of tends to normalize.

I see going forward the opportunity to sell cars is solid. But you're right, the semiconductor thing, which I mentioned earlier, is going to have an impact on just new cars in general as well as, I believe, our industry. And we're working hard to mitigate any potential issues we might have.

I will circle back to one touch point, however. If you go back to 2014, or maybe even 2017, our industry was hit with a tremendous amount of recalls. Hundreds of thousands of cars, 1/3, if I recall, maybe in the third quarter of '17, of our entire fleet was under recall hold. And we able to -- we were able to manage through that. So I have confidence in our team. Do I think there might be disruption due to this travel -- due to the semiconductor thing? Yes. But as it stands right now, I'm comfortable with our fleet levels to both sell if we need to or maximize our volume as it comes.

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

Chris, it's Brian here. I just think it's a little early to be giving guidance on that. We're comfortable with where we are in terms of the 2021 model year buy. We're just getting into negotiations for the 2022 model year buy. So we'll see how that shakes out. And like you said, there are things going on with the semiconductor shortage. We have the impact of normal tax returns coming in. But we also have the potential stimulus coming in. There's a lot of moving pieces. So we'll update as things settle down.

The one thing that I will say is that I think what we proved in 2020 was that when the market is there for us, we were able to move the metal and sell the cars we need to quickly and efficiently. So we'll be ready for that if that materializes this year as well.

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

Okay. Very helpful. Just a quick follow-up. As we think about, hopefully, a much better kind of summer season and a lot of folks planning ahead and maybe a little bit to what you saw in the fourth quarter, is there any concern around kind of this increased cancellation rate with people just making a ton of reservations? And I know that's something this industry has dealt with over time. Does that give you any pause to maybe consider new initiatives to maybe, even if temporarily, just drive down this multiple reservation and cancellation kind of trend?

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

Yes. I'll take that. As we saw -- when we started this pandemic in March and April, unfortunately, the cancellation rates were pretty large. And as we got into the summer season last year, they started to come down to a more normalized level. I think what we saw in the fourth quarter, and if you recall, the government actions around Thanksgiving, only congregate with 10 people, they came quick and that was very public and people chose to cancel.

What I see now is the same level of close-in bookings. So close-in bookings deter the large, large cancellation factors that we have. I really don't see that changing in the near term. People tend to book closer in. We have a prepaid product that people tend to use, which removes a little bit of the cancellation factor. But we do tend to give that back, like most of the other travel companies, should there be a situation that warrants that. But the close-in booking is not going to change for a while. And I think that puts a little pressure on the business because we have to anticipate things closer in, but I will say this, that our Demand Fleet Pricing system, now in year 3, is learning as well as our operators on the ground, and we're able to anticipate where the potential opportunities might be, whether that be in cities or locations.

So yes, I think the close-in might protect us a little bit from the large ones. But that Thanksgiving deal, like I said, we came off a pretty, pretty good October, all things considered, down 28%, with having what I thought to be very good activity around Thanksgiving. And 3 days closer in, when the governmental actions and CDC announcements came in, it changed things quite a bit and carried through a little bit through December as we see it now.

Operator

Our next question is coming from Brian Johnson at Barclays.

Jason Flynn Stuhldreher - *Barclays Bank PLC, Research Division - Research Analyst*

This is Jason Stuhldreher on for Brian. Just two quick questions. I was hoping, and I appreciate we're not giving guidance right now, but as we think about some of the cash flow dynamics for 2021, I was hoping you could talk on just a few things.

I mean, firstly, fleet costs, the vehicle programs which was a bit of a tailwind in 2020 of around $200 million or so. Should we expect that to reverse in 2021 as you size up the fleet? And what the potential impact there could be?

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Secondly, on COVID-related costs, which are excluded from EBITDA, and I think we're around $120 million in the year. Do those go away or at least fade next year?

And then third, there seem to be kind of a working capital headwind in the fourth quarter. Is that also setting up for a tailwind next year?

So just those 3 dynamics. And anything else you want to call out for cash flow next year would be helpful.

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

Yes, sure. I'll take that in reverse order. I guess the working capital issues in the fourth quarter, that was just us catching up on some bills that we had been delaying. When the coronavirus pandemic was happening, preservation of cash was kind of first and foremost. As we felt comfortable enough to put money back into our ABS facilities, things that we've taken out, we felt more comfortable in our cash positions, we did the same things with our vendors and the counterparties as well, which I guess dovetails into the second portion. Vehicle programs was especially noisy this year. Money coming in, money coming out. I think we took care of all of that in the fourth quarter. And that was a conscious decision because we wanted as clean a 2021 as possible. We've funded over $600 million back in there in the fourth quarter. So I don't view that as having kind of any big swings for 2021.

Sorry, Jason, remind me, what was your third question again?

Jason Flynn Stuhldreher - *Barclays Bank PLC, Research Division - Research Analyst*

And just the COVID-related costs of $120 million or so.

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

COVID-related costs, yes. So that will be normalizing this year as well. We don't expect that to be as big. Certain charges that we had taken in 2020, we're not going to be taken in 2021. There are certain things in there that we'll still be taking below the line, but that will be normalizing this year.

Jason Flynn Stuhldreher - *Barclays Bank PLC, Research Division - Research Analyst*

Understood. And then -- and maybe if I could just try on the first quarter, which, as you alluded to, is usually a heavy commercial travel month. We know that you're split usually on a full year basis as kind of like 60-40, leisure versus commercial. Is there any way to understand what that is specifically in Q1? And the reason I ask is because ever since the second quarter trough, we've seen sort of a continuation of improvement of year-over-year declines and we saw that in Q4 as well. And is there any reason to think that maybe halt -- that improvement year-over-year decline kind of halts in Q1 as -- because it's such a big business travel month per quarter?

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

Yes. Okay. This is Joe. What I will say about the first quarter is, as November and December was as challenging as they appeared to be after the second wave, what we have seen is that our business still is really centering in on leisure customers traveling like on weekends or leisure periods and mostly in the off-airport versus the airport. That doesn't mean that we haven't seen improvements at all.

I will say this. What we saw for around the peak holidays -- now MLK isn't traditionally a very big travel holiday, especially this year, but we did see increased activity. And what I could tell you, the velocity of reservations that we see closer in have improved compared to what we saw in the third quarter, especially around this President's Day holiday.

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As far as commercial goes, I will say this. Our commercial business has been transacting better than what you see in the TSA stats that are generally published. We -- so we do see that. We see growth in some of the account types that you would imagine, defense contracting, logistics and distribution, aerospace, even some health care in that regard. And what we've seen is that our commercial clients are keeping the cars a whole lot longer. If you look at our fourth quarter, our commercial customers kept the car at full almost 80% longer than they did in the previous year.

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

So let me just clarify -- sorry, Jason, the -- some of what I said in the prepared remarks. So if you -- we actually -- we do expect the improving trends to continue into the first quarter. If we just go back to the prepared remarks, what I said was if you look at the second quarter of 2020, we put up a loss of negative $382 million in EBITDA in the second quarter of 2020. If you compare that to the year before, that was positive $175 million. That's a delta of over $550 million, right? And that was as bad as it got. By the third quarter, that delta improved to $250-ish million, right? We did $220 million of EBITDA in the third quarter versus $471 million in the third quarter of 2019. Again, that decline narrowed. In the fourth quarter, we did positive $74 million in EBITDA this quarter versus $143 million in the fourth quarter of '19, so that's a decline of $70 million. So the trend is going minus $550 million to minus $250 million to minus $70 million versus the EBITDA of the prior year. We do expect that to continue in the first quarter.

Operator

(Operator Instructions) Our next question is coming from Billy Kovanis from Morgan Stanley.

Billy Kovanis - *Morgan Stanley, Research Division - Research Associate*

I appreciate the disclosure on the call around travel trends. Are you able to further help us segment where the strengths and weaknesses are coming from on the travel demand thus far in 2021? I know you alluded to a few of those, but if you could summarize, that would be helpful.

And just how bookings are looking going forward?

And then finally, I know that commercial in 2020 was still around 40% of your revenue exposure. Was this driven by the last-mile business? Or a few of the other things you mentioned like defense logistics, aerospace, health care?

And I have one follow-up.

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

Yes, sure. It's Joe. Yes, like I said, the -- we've seen our activities surround more of a leisure-orientated approach right at the moment. And the holidays that we had in the first quarter were considerably better than what we had anticipated, both from, I think, volume and potentially, price.

The tail end of this quarter, the month of March is highly commercial. If you look at our 12 months, it's probably the most commercial month we've had in the past. And so the challenges are there. And I'm not quite sure what spring break usually on March event is going to be like. I just heard airlines talking about not expecting so much. So I think we have to look at that.

The thing that's going in our favor, fortunately, unfortunately the weather has been pretty dynamically bad throughout the country, which allows people to think about maybe wanting to get some place warmer. But in my opinion, it's all going to come down to virus transmissions, vaccine distribution and things of that nature that will establish some level of confidence in the traveling public. And those are really very hard to predict, right? We hear different messages. We listen to the same things you do. We're very encouraged by the amount of vaccines that are getting administered of late. But it changes. We heard April everybody, and now we hear maybe July and August. It's hard to predict.

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I think the thing that we want to leave you with is the fact that we will be ready, ready for business to rebound or ready for us to take potential actions, like in the fourth quarter when it did not.

As far as commercial, what we're seeing now is that, yes, I'm pretty pleased with our commercial business. If you look at it, we have a very high retention rate. So our corporate accounts are still signing up with us, somewhere in the area of 98% to 99%, which is very good, but not traveling as much. I think for the commercial market to come back, there's going to have to be a couple of things that are going to happen. One is they're going to have to -- everyone's going to have to go back to their offices, which, right now, a good deal of our accounts that we're dealing with are not there yet. And then they have to let people in to their offices to see if they want to travel. And that, of course, isn't there, isn't happening yet. And then it's whether or not there'll be a willingness.

I did hear the other day that GBTA, which is a large travel group, is having in-person meetings this year. I think that this disconnection that's probably felt in the commercial, as companies feel, working remotely and working from home, is going to have to be remedied. And whenever that is, I don't know. But I do will tell you this, we will be ready.

Billy Kovanis - *Morgan Stanley, Research Division - Research Associate*

Helpful. And then just a question on the long term here. I think one area of unlocked potential is the real-world miles data that's collected from your vehicles. Can you remind us what percentage of your fleet is currently connected? And is there any plan contemplated around how you could potentially monetize these miles to capitalize players like tech world to invest in autonomy [assets]?

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

Yes. This is Joe. To answer your first question, about 60% of our fleet in the U.S. is currently connected, maybe a little higher.

What I will talk about is how we utilize some strategies as it pertains to mileage within our company. We have 3 kind of initiatives that I look at. One of them involves fleet cost, right? As we were able to lower up fleet costs over the past couple of years, one of them certainly centers around our ability to manage mileage. We've talked about it on previous earnings calls, mileage optimization. And basically, that's just making sure that we spread our mileage evenly over the entire fleet. So cars are served up to our rental sales agents in a way that we understand, based on history and segments, how many miles a potential customer might drive. We believe if we can lower this universally across our fleet, it would give us a big benefit and internally for fleet cost. That's one.

We've looked at mileage, and one of the things that we've established in our company is cascading of cars. So we have a Payless brand that we send the cars to. People who rent from Payless don't rent as often, nearly as often, maybe once a year, at that, or shorter. And so we have cars there that we've cascaded mileage, and we've done that also in our ride-hail business. And we found that, that gives us a benefit to the fleet cost and when we go to sell the cars.

And lastly, it's this Connected Car situation. There are certain opportunities in Connected Cars that deal with customer experience. Customer returns one of our cars, crosses over a geo fence, all the mileage is accurate and they get billed without any guesswork. And I think that has helped not only our customer experience but our adjustments.

We have many, many initiatives that are dealing with our Connected Cars from something as simple as a tire that comes in that might be underinflated. Instead of an employee going around to all 4 checking, knowing that the left front and goes to that one, that has to happen. We have monthly rentals that get rolled over automatically without having to reach out to anyone to say what's the mileage on that vehicle. We know that when a car is overdue, we have the opportunity to get that car back a full 2 days prior to what we've done in the past, reducing our overall fleet costs and our damage and body damage situation that might occur with cars that are a bit overdue. And we do -- and we have inventory that allows us to upload our inventories right now without having going out to Connected Cars.

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I think we're kind of scratching the surface. 2020 was all hands on deck to figure out a way to remove costs. As you see us going into '21 and the situation normalizes, we'll be excited to talk about more things that we're doing in the connected space.

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

Billy, and you bring up an interesting point, though. In a normal year like 2019, just in the Americas alone, we're doing over 100 million rental days and our average customer is putting on 100 miles per day in that vehicle. That's 10 billion miles of data we're collecting every year once our fleet is fully connected. We think that's an extremely valuable asset that is incredibly difficult to replicate. But to Joe's point, at this time, we're figuring out how to use that data to kind of lower our costs and deliver a better experience to our customers versus kind of monetizing with a third-party.

Operator

The next question today is coming from Hamza Mazari from Jefferies.

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

My first question is just on the $1 billion EBITDA figure on the 2019 revenue base, could you maybe talk about your confidence level in that? And then as part of that, has your mix between variable and fixed costs changed just given you have a clean slate to add back costs where you want and the cost takeout has been very impressive during COVID?

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

Yes. Thank you. This is Joe. I have to say this, we are a more efficient company today than we were in the past, and we believe that will continue to improve as time goes on. And the $2.8 billion of cost removal that I talked about earlier this morning, it's both fixed and variable, I should say.

When we took a look at the fixed cost, we looked at couple of different ways. One was reorganizing the work and maybe restructuring some of it and even relooking at our spans of control. I mean, the whole goal there was to create a sustainable environment that all this hard work of cost removal allows us to continue forward with more expense reduction and bigger drop-throughs.

Variable cost is all about operational improvements. I think the last 2 quarters of '19 showed very different paths to very similar results. First, third quarter was -- revenue was growing. September was better from an EBITDA standpoint than prior year and we had margin improvement. This fourth quarter was distinctly different. It started out really well in October. And then all of a sudden, there was a shock to the system when the restrictions in the second wave of COVID hit and we had to react differently. I think both those scenarios show our ability to manage our cost basis.

If you think about the fourth quarter, it was the third best fourth quarter from an EBITDA basis in the Americas business unit and the best from a margin perspective. And I think you're going to see the same thing in Europe and our ability to remove cost there. As revenue returns and the mix of business changes to be more or less what it used to be in '19, inbound versus the kind of the local stuff, you'll see a much improved opportunity in Europe as well. I'll turn it over to Brian for the mix changes of that (inaudible). Brian?

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

Yes, sure. Hamza, there is -- I wouldn't say there are significant changes in terms of the mix fixed versus variable. We are still today going through mapping exercises of where exact line items should sit. But generally, I would think kind of 3/4 variable to 2/3 variable is the right number to think about, which is consistent with kind of what we've said in the past.

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The one thing that gives us a lot of confidence to come out with that target now is that in any given like major restructuring that a company like undergoes, I think the hardest part is actually taking the cost out, right? Like that involves a lot of difficult decisions, a lot of difficult conversations. We've already gone through that at the very start of the pandemic and we've been able to keep the costs out.

And keeping the cost out, which is what we need to do right now, like that involves discipline. And the reason why I have confidence is that we've shown month after month that we can continue to do that. Yes.

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

Got it. Very helpful. And just my follow-up question is sort of just a clarification question. Did you sort of give what January and February trends look like relative to the down 41% in December?

And then also, Brian, maybe when you talk about Q1 '21 moderating EBITDA declines, is that versus the Q1 '20 baseline or Q1 '19 baseline?

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

Sure. Why don't I start with that. I'm talking about the Q1 '20 baseline. And I think that's important because in Q1 of '20, just to talk about the monthly trends, January and February were actually very strong months for us pre COVID in 2020. We only had 1 month of a full kind of COVID impact, full month in international and probably half a month in '20, versus this year, we're going to have 3 full months of like what a depressed travel environment. So the comp will be against the 1Q '20, but -- and in terms of the kind of the trends and the mix changes, I'll turn that back over to Joe.

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

Yes, I'll just add to what Brian said. We had double-digit growth last year in January and February. And plus there was a leap year, so you have to take that into consideration.

I think what we see now is when I -- compared to Christmas and Thanksgiving, if you just look at the peak periods which were these holidays, we have seen an increased velocity of reservations close-in. It's not like they're coming 1 week or 2 in advance. But we have seen that improve, and that's hopeful.

Like I said, I'm not sure March, as it stands right now, highly commercial in the past years, and not totally sure spring break and things of that nature, which would drive leisure business. I am hopeful that people still -- as the vaccine distributions increase, we'll still want to get away and potentially vacation in warmer climates.

Operator

The next question today is coming from Michael Millman from Millman Research Associates.

Michael Millman *- Millman Research Associates - Research Analyst*

Sort of touching on what you just talked about. The airlines seem to be talking about how they're seeing reservations increasing and increasing in line with vaccinations increasing. In that connection, do you see some of that? If indeed, that's true, that you will lose some of mileage in terms of rentals because now, at least hearsay, is that lots of people have switched to renting and driving distances rather than airlining.

The second question is, what are you seeing in terms of pricing from [AMAC] and from Hertz?

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

Okay. All right, Michael, I'll take that, this is Joe. As I said earlier, we do see an improvement compared to the TSA stats that come out. And when you think about that airport environment, I think that's important. And we do see an improvement as it pertains to that.

I mean, if you look at the -- I made a comment in my prepared remarks. If you look at what happened in the fourth quarter, there were parts of the country that were very robust and overperformed compared to what we had thought, and we see some of that in the first quarter. But it's regionalized. So the lockdowns in California, for example, or Hawaii, were pretty substantial. And those are big markets for us and they were just challenged by governmental actions and quarantines. So I wouldn't lose sight of that. The quarantine situation that occurs, if someone has to go somewhere and then stay home for 5 or so more days, I mean, that does -- that is an impediment. But as I said earlier, I have seen some good velocity of opportunity.

The second question on price is -- I think fleet, a lot of times, fleet dictates that. And the fleets have been rationalized. That's the best that I can tell you.

Operator

Our next question is coming from Ryan Brinkman from JPMorgan.

Rajat Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

This is Rajat Gupta on for Ryan. I just had one follow-up. Appreciate the color on the fixed versus variable structure. Could you give us any puts and takes on 2021 specifically? Any kind of scenario analysis or something? Your overall OpEx to sales was roughly 65% in 2019, 72% in 2020. It looks like it might shake out somewhere between that in 2021. But could you give us some sense on what it might look like in a down 25% year-over-year scenario versus like down 30% or like down 20%? Any color on that would be helpful, just to frame our models.

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

Yes, Rajat, I'll take that. We're not going to provide further clarity around kind of the fixed variable and the different scenarios. I think as -- when you look at it as a percentage of sales, kind of how that contribution of revenue materializes moves that in terms of whether it comes from price or comes from volume, we just don't want to get into that level of detail at this time.

Rajat Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. But is it safe to say that it's going to be more closer to the 2019 levels versus 2020 just because of the fixed cost or just the permanent cost reduction that have come out from the business?

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

I do expect it to improve kind of coming off of 2020. Again, where that shakes out, it's not something that we're providing clarity on at this time.

Operator

Our next question is coming from Aileen Smith from Bank of America.

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Aileen Elizabeth Smith - *BofA Securities, Research Division - Analyst*

Following up on an earlier question, and not to beat a dead horse here so perhaps asked another way. As we look at the incremental amount in cost savings that you guys achieved in 2020 versus your projections through the year, so specifically the increase from $2 billion to $2.5 billion to then $2.8 billion ultimately at the end of the year, how much of this would you estimate that you achieved was more structural in nature versus more variable as you saw demand pressure return in 4Q with wave 2 outbreaks?

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

Sure. Listen, the numbers that you're quoting, the $2.5 billion, the $2.8 billion, that's a GAAP number, right? We're just taking OpEx and the depreciation cost and subtracting it from the year before.

To me, true cost savings is like what are the fixed costs that you've structurally taken out of the business that are never coming back and how much more productive are you on a variable basis that you can service the same amount of rental days with fewer costs associated with that.

So I think, listen, those costs -- a lot of those costs are going to come back as the revenue scales, right, in terms of we need more cars. But in terms of the true cost savings, that's what's allowing us to get to the EBITDA estimates that we're providing at this time.

Maybe for a little more context, the -- we're still coming -- we're still working through exactly what the right structure -- cost structure should look like, which is why we can't provide kind of like point by point more detailed guidance right now.

To be perfectly honest, when this happened at the start of 2020, the cost takeout wasn't done surgically, right? We took a machete to this, and we took all the costs out that we could.

But the good news is, at this point, we're at a very, very lean base. We're trying to figure out right now, the team and Joe, to figure out how do we add costs back, like there are some areas of our business that absolutely need relief. Certain that those costs are going to come back. There are certain areas that we need to invest in to provide like the customers the best possible experience and get an ROI from that. And so we're looking to see where we invest in that.

So from this base, we're taking an approach where every line item of cost that comes back in, we're making sure is thoughtful, has an ROI attached to it and that we're adding kind of muscle versus fat as these costs come back.

Aileen Elizabeth Smith - *BofA Securities, Research Division - Analyst*

Okay. Understood. That's helpful. And then touching around one of the questions on fleet purchases. Have the order cancellations that you guys very necessarily executed in 2020, as you were depleting, impaired your relationships with the automakers at all in terms of pricing for vehicles that you're trying to acquire for fleet in 2021 and specifically potential implications for fleet cost per unit?

And then as a follow-up to that, specifically around the semiconductor shortage, obviously, what we're seeing in the industry is that a lot of these chips are fungible in nature and automakers are choosing where to prioritize production maintenance around higher mix and price vehicles in the retail category, less so fleet. I know you touched upon the vehicles themselves, but is that impacting acquisition price for you in any way as you make sure you're trying to have a fresh fleet?

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

I'll take that. The first question about our relationship with the OEMs, I can honestly say it hasn't been better. We reached out to our OEM counterparts. We've been doing business with many of these companies and manufacturers for a long, long period of time. And our relationships with them are solid. If you think about just our overall fleet, we talk to at least 15 or 16 manufacturers. We have 100 different makes and models. And we've been

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in high-level discussions with them last year. And I would say there isn't a week that goes by that we don't communicate with them this year. So I have to say the relationship is fine. And we were very much appreciative of what they did. And we've always worked with our OEM partners when we needed to, when they've asked us to. So I'm very confident of that.

I'm sorry, the second part of your question, please.

Aileen Elizabeth Smith - *BofA Securities, Research Division - Analyst*

The second part of my question around the semiconductor shortages and automakers -- yes.

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

The semiconductor, like I said, we first saw about it through the press. There were a number of companies that talked about how they were going to change makes and models to try to get to the more productive ones. I think that's going to be evident.

I think what I'm confident in right now, is I think we have the expertise and the logistics to deal with whatever comes our way. We have been speaking to them about potential disruption. So we are well aware of that. But like I said, we've faced some of these challenges in the past with many, many, many recalls that come up the day before that you have to put them down as we do in our industry. And I'm confident in the conversations, very collaborative with the OEM partners that we could find a way through this. But like anything else, it's a very iterative process and things may change. But I'm confident in our ability to kind of get us through this.

Aileen Elizabeth Smith - *BofA Securities, Research Division - Analyst*

And one last question. That's helpful. And one last question, if I may. I wanted to touch upon the 8-K that you guys issued last night in conjunction with the results, specifically the amendment in your credit agreement. Can you talk about some of the flexibility that, that covenant headroom provides you? What you expect to execute upon through 2021 that you might not have been able to do had you not secured that amendment?

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

Yes, for us, we always -- this is David. We always want to make sure we have the flexibility and opportunity to manage our balance sheet as effectively as we could, which we did all during the pandemic. So for us, this was just another step for us to work with our banking partners to make sure that we have the flexibility to do what we need to do as we go forward. So we're -- it is a really important amendment for us. We did get the cushions that we needed, and we're ready to move forward and take action when it's required.

Operator

Our next question is coming from John Healy from Northcoast.

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

I wanted to ask kind of a big-picture question, Joe. Competitively, from a market share standpoint, either looking at the U.S. or Europe, some of your biggest competitors are somewhat impaired these days. So when you look at kind of the issues they're facing, do you see this as a long-term share gain opportunity for the company, either on the corporate side or on working with mobility partners? Or would you view kind of share gain potential over the next couple of years as largely unchanged because of the pandemic?

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

Yes. So I'm not really going to comment about some of our competitors. I will say this. We are in a very competitive industry. We're very much aware of the public documents that are out there talking about one of our public competitors.

I would rather say this about our company. I would tend to concentrate on the things we do and do them really, really well. And I think if we do that, then we would see the opportunity for growth and things of that nature, as you discussed. We have a good product that our consumers have come to expect and want. And that's -- we have a good employee base that's empathetic in dealing with our travelers and our customers. We manage supply and demand, I think, really well. We have BFP in technology, both on the car rental side and the car sales side to put proprietary channels to manage that very large expense item that -- in managing our fleet. And we've provided safety protocols this past year that we believe allow confidence to our customers and employees to do business with us. And we've run a really efficient business. I think if we do that and we do it well, then I think we see sustainability on a go-forward basis, why the comment about $1 billion as we get to 2019 levels.

Operator

We've reached the end of our question-and-answer session. I'd like to turn the floor back over to Joe for any further closing comments.

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

Yes. So thanks for joining us today. To summarize, I'm incredibly proud of our team's resiliency and ability to navigate our company through these unprecedented times. We will remain flexible and adjust our actions to respond to future market conditions. Our financial position remains strong, and we'll continue to capitalize on any level of recovery as travel demand returns.

I want to thank you for your interest in our company, and I want to thank all our employees around the world for really working hard this past year. I look forward to speaking to you guys again soon.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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