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# Avis Budget Group, Inc. (CAR)

Q4 2016 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Avis Budget Group Fourth Quarter Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the meeting over to Mr. Neal Goldner, Vice President of Investor Relations. Please go ahead, sir.

Neal H. Goldner

*Vice President-Investor Relations, Avis Budget Group, Inc.*

Thank you. Good morning, everyone, and thank you for joining us. On the call with me are Larry De Shon, our Chief Executive Officer; and David Wyshner, our President and Chief Financial Officer.

Before we begin, I would like to remind everyone that the company will be discussing forward-looking information that involves risks, uncertainties, and assumptions that could cause actual results to differ materially from the forward-looking information. Important risks, assumptions, and other factors that could cause future results to differ materially from those expressed in the forward-looking statements are specified in the company's earnings release and other periodic filings with the SEC, which are available on the Investor Relations section of our website at [avisbudgetgroup.com](http://avisbudgetgroup.com).

We have provided slides to accompany this morning's conference call, which can be accessed on our website as well. Our comments will focus on our adjusted results and other non-GAAP financial measures that are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

Now I'd like to turn the call over to Avis Budget Group's Chief Executive Officer, Larry De Shon.

## Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

Thank you, Neal, and good morning. We had a successful 2016, despite what can best be described as a mixed fourth quarter. Our team worked aggressively in the quarter to keep fleet in line with demand, control costs, and make further progress on our internal initiatives to drive sustainably higher long-term margins. But the impact from the national election, the December calendar shift and over-fleeting among our competitors, resulted in revenue being more difficult to achieve in the quarter than we had originally anticipated.

In addition, movements in exchange rates had a \$7 million negative impact on adjusted EBITDA compared to what we had expected. Despite these challenges, we generated \$472 million of free cash flow in 2016 and used more than 80% of it to repurchase \$390 million of our own shares. And the progress our teams have made this year to win customers, increase productivity and succeed in the evolving mobility landscape gives me optimism not only about 2017, but the years beyond.

But before I get ahead of myself, let's start today's conversation with the fourth quarter. Americas volume declined 1% in the quarter as a result of uneven demand and our decision to stay out of some of the skirmishes for lower-price business that broke out. As we mentioned on our last earnings call, commercial volumes softened as we entered the quarter. This was exacerbated by Halloween moving to a weekday and the national election, which wound up having a more pronounced impact on travel than in previous election years.

Leisure volumes were also challenged in the quarter, primarily as a result of the shift in the December holidays this year and the industry, particularly one of our large competitors, having more fleet than the demand environment called for. The imbalance between industry supply and demand in the quarter impacted our volumes and our pricing. Faced with the decision to chase low-price business or get out of fleet, we chose to hold the line and get out of cars. The result was a modest decline in leisure volume in the quarter, and only a slight negative impact on utilization, due in part to increased recall activity.

The oversupply in the industry meant that our pricing in the Americas was weaker than we had anticipated, declining 70 basis points in the quarter. A highly competitive pricing environment in Florida contributed to almost half of this decline. Nonetheless, our leisure pricing in the quarter increased, albeit not as much as we had previously projected.

In our International segment, we delivered both leisure and commercial volume growth in the quarter. Growth in leisure rentals was particularly robust in France, Italy, and Scandinavia. Commercial growth in the quarter came primarily from Spain, Australia, and New Zealand, as demand in Germany and the United Kingdom remained soft. Inbound demand to Europe recovered after the U.S. election and strengthened further during the holidays.

While our rental volumes were up year-over-year, pricing remained very competitive across Europe. We offset some of the pricing challenges through higher ancillary sales. Currency movements negatively impacted our revenue growth by \$10 million year-over-year and by \$20 million versus our prior projection. The net result was International revenue growth in the quarter that was positive in constant currency, was short of expectations.

We completed our acquisition of France Cars in December, which gives us an expanded footprint in the French off-airport market and increases our presence in the important van segment of that market. And we signed a strategic partnership with Didi for outbound car rental from China in the quarter. So, while the revenue environment in Europe remained highly competitive, our International segment delivered increase volumes, earnings, and margins in the quarter.

Looking forward, as you saw in our press release last evening, we expect to take meaningful steps towards the long-term margin improvement goals we outlined at our Investor Day. While David will go into the specific details surrounding our guidance in a few minutes, I wanted to talk briefly about the significant opportunity in front of us to leverage our brands, technology and people to drive higher margins, while securing our position in the evolving mobility landscape.

We presented this roadmap to you at our Investor Day in November, so I'm not going to discuss every initiative this morning. But I think it's important to reiterate our goal to achieve 13% to 15% adjusted EBITDA margins by 2021 and discuss some of the larger initiatives that will take us there.

Starting with profitable revenue growth, two of our key initiatives to drive profitable revenue include the continued development of our Demand-Fleet-Pricing yield-management system, and our enhanced websites and mobile apps. As we discussed previously, we consider our Demand-Fleet-Pricing system to be an industry leader. In the Americas, the first phase of the project, a pricing robotic, has already made us significantly more responsive to market trends and opportunities. We are now beginning to roll out a Phase 2 of this system, the demand forecaster, which will position us to using Phase 3, the integrated optimization tool, later in the year.

And in Europe, we will begin implementing the pricing robotic over the next several months, with Phases 2 and 3 scheduled to launch in the following years. We also launched our new Avis website for North America in November. The initial results have been excellent, driving higher conversion rates, resulting in more direct bookings. The new website provides an easier user experience and we expect to introduce our new budget website with similar capabilities during the first quarter.

Some of the largest benefits to our margins, we expect, this year will come from our initiatives to drive operational efficiencies. Last year alone our manpower planning initiative helped contribute to significant increase in employee productivity. We increased our use of part-time employees other locations to begin – to better align with peak and off-peak periods. And this year, we plan to roll out new technology to further optimize and automate the matching of our staffing to activity levels.

Our shuttling initiative has also produced good results. In 2016, we executed a rule-based shuttling decision matrix to driver better shuttling decisions and we established dedicated fleets in more than 400 local market locations, lowering our shuttling per transaction expense by 5%. While this improvement was significant, saving us some \$8 million, we believe we are still in the early stages of what this initiative can deliver to our bottom line.

And as David will discuss in a few minutes, fleet optimization is proving to have some real benefits this year, as we expect our improved buying and selling initiatives to help offset some of the expected residual value declines in the marketplace. In short, our progress to-date is a big part of what I believe our effort to drive profitable revenue growth, deliver efficiencies throughout our operations and position ourselves to meet consumers' mobility needs will allow us to expand our margins meaningfully over time.

We also continue to be active in developing our capabilities as a technology-enabled mobility services provider. We launched Avis Now eight months ago, making us the industry leader in self-service rentals, and we see nearly 400,000 customers sign-up and have completed more than 300,000 self-service transactions. We are adding new features to the app regularly, including offering ancillary products, such as SiriusXM satellite radio while the car is on rent and allowing customers to change their drop-off destination and extend their rental through the mobile app.

We are very excited about the possibilities of Avis Now and believe this is truly the future of car rental. We are significantly adding to our Zipcar brand's ability to meet consumers' needs by expanding our one-way offering and building systems to manage a fleet of floating vehicles used and unreserved one-way Zipcar transactions. And our connected car efforts are allowing us to know more about the mileage, fuel level and condition of the vehicle the minute it is returned to one of our locations, which is extremely helpful to us in making on-lot movement and maintenance decisions.

We are developing our own mobility capabilities, including some technology that may be patentable, and leveraging the technology and capabilities of others. We're also looking at carefully considered partnerships with other companies that occupy a unique and meaningful position in the evolving mobility landscape.

For instance, in November we announced a global strategic partnership with Didi, China's and the world's largest mobile transportation platform, with over 300 million registered users. We see this as a significant opportunity to capitalize on substantial growth of outbound travel from China. As an example, within the first 10 days of launch, there were already over 200,000 views of our online interface with Didi, and this month we announced an agreement with Uber, through which our Zipcar brand will supply vehicles to Uber drivers on an hourly basis. The initial scale of this program will be limited, but we see the opportunities for significant growth.

So to reiterate, 2016 was a challenging year and we had disruption in the marketplace that worked against us, but we are staying the course and focusing on those things we can control. We made significant progress on several initiatives in 2016 and are optimistic about our future. In the year, our International segment achieved record earnings in constant currency. We successfully launched Avis Now with tremendous positive feedback. We initiated our manpower planning and shuttling initiatives, and continued our work on yield-management, process improvement, and fleet optimization.

Zipcar passed the 1 million member milestone and continues to play a leading role in urban and campus mobility. And we used our free cash flow to repurchase 13% of our outstanding shares. At the same time, we remain cautious in light of the industry over-fleeting and the pricing challenges we saw in certain markets at the end of 2016 and have reflected this view in our 2017 outlook.

As we move forward, we will leverage technology to drive efficiencies in our operations, we will continue to innovate to improve the service we offer our customers, and we will remain focused on our strategic initiatives to drive sustainable margin improvement. We have a strong team of dedicated people in place that are focusing on driving profitable revenue growth, optimizing fleet costs, driving operational efficiencies, and enhancing mobility platforms, all with the goal of improving margins, which makes me very enthusiastic about our future.

With that, I'll turn the call over to David.

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## David B. Wyshner

*President & Chief Financial Officer, Avis Budget Group, Inc.*

Thanks, Larry, and good morning, everyone. Today I'd like to discuss our fourth quarter results, our fleet, our balance sheet, and our 2017 outlook. My comments will focus on our adjusted results, which are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

As we reported last night, our quarterly revenue declined 1% from the prior year to \$1.9 billion, driven by a challenging pricing environment in many parts of the world, as well as currency effects. Adjusted EBITDA declined 5% to \$121 million in the quarter, primarily due to higher fleet costs. Our adjusted earnings were \$0.15 per share. For the full year, our total revenue grew 2% to \$8.7 billion and our adjusted EBITDA was \$838 million.

We had previously forecast full year EBITDA of approximately \$850 million. \$7 million of the shortfall versus our expectation was due to currency movements in the quarter, and the remaining \$5 million was driven by lower revenues.

For those analysts who compare company margins and valuations based on adjusted EBITDA before deferred financing fees and stock-based compensation, our 2016 adjusted EBITDA would be \$891 million.

Revenue in our Americas segment declined 1% year-over-year in the fourth quarter, driven by a 1% decline in volume. Commercial rental days declined 2% in the quarter and leisure volume was down by about a 0.5 point.

Calendar shifts reduced leisure volumes and commercial demand was negatively impacted by the U.S. elections, which had a larger and more prolonged effect than usual. Pricing in the Americas declined 70 basis points in the fourth quarter, and was largely unchanged for the full year. Leisure pricing increased 1% in the fourth quarter, offset by a 2% decline in commercial pricing. After two consecutive quarters of 1% to 2% total pricing growth, the flip back to a negative pricing comparison was a surprise to us. As Larry discussed, we believe loose industry fleet levels contributed significantly to our fourth quarter pricing challenges.

Adjusted EBITDA in the Americas declined 8% to \$101 million in the seasonally slower fourth quarter. For the year, adjusted EBITDA in the Americas declined 7% to \$633 million, primarily as a result of higher per unit fleet cost and incremental brand marketing. As we highlighted in our earnings release, our adjusted earnings metrics exclude an unprecedented \$26 million charge we had to record in the fourth quarter related to a motor vehicle accident involving a car that had been stolen from an Avis location. The judgment against us, in our opinion, is unsupported by the facts and we intend to appeal.

Revenue in our International segment declined by \$4 million in the fourth quarter, but was up in constant currency. Volume increased 3% in the quarter and pricing declined 3 points in constant currency. International adjusted EBITDA grew 13% to \$36 million due to higher volumes and cost savings. For the year, adjusted EBITDA in our International segment declined 1% on a reported basis to \$273 million, but grew 7% in constant currency.

Per unit fleet costs in the Americas increased 4% in the fourth quarter to \$308 per month. Our per unit fleet costs remained relatively stable throughout 2016, which is a testament to the people and processes we have in place to manage and adjust our fleet. We estimate that residual values as a percentage of cap costs for late model used vehicles declined around 3 points in 2016 compared to a year earlier. This put the market value of used vehicles a few points below the longer-term average.

Looking forward, we expect residual value pressures to continue this year, with the overall market declining 2 to 3 points from 2016. Despite that, as you saw last night, we're forecasting our per unit fleet costs to increase only modestly in 2017. We expect to mitigate the effects of somewhat softer residual values in a number of ways.

First, we expect our mix of risk vehicles to be in low to mid-70s compared to 67% of our fleet in 2016. This mix shift will save us a few dollars per car per month. Second, our analyses have us feeling good about the diversity and acquisition cost of our risk vehicles in model year 2017, which should allow us to outperform the market decline we forecasted.

Third, we continue to become increasingly sophisticated in our modeling and optimization of how many and which vehicles to in-fleet and de-fleet at various times and various places. This is how we achieved our full year fleet

cost target in 2016 despite a weaker than expected used car market. And we expect our growing capabilities in this area will provide ongoing benefits.

And fourth, we continue to enhance our end-of-life vehicle values by increasing our use of alternative disposition channels. Our sales through alternative channels increased to 37% of our risk car disposals in 2016, and we expect to grow that percentage further this year. To do so, we're expanding our direct-to-dealer, and direct-to-consumer networks, including by bringing more dealers on to our proprietary platform, displaying our used car inventory on select third-party sites, like TrueCar, opening used car lots in select markets, and increasing our sales of used vehicles to ride-hailing drivers.

Fleet optimization is one of our key strategies to achieve long-term margin growth. By applying sophisticated data analytics to inform our fleet acquisition decisions, leveraging technology to optimize utilization, and expanding our use of alternative disposition channels, we believe we can offset a considerable amount of the residual value pressure we're expecting in 2017.

Moving to our balance sheet, our liquidity position remained strong, with more than \$5 billion of available liquidity worldwide. We ended the quarter with nearly \$500 million of cash, no borrowings under our corporate revolver, and more than \$1 billion of availability under that facility. We had unused capacity of more than \$3 billion under various vehicle-backed funding programs. A ratio of net corporate debt-to-EBITDA was 3.6 times. We continue to target a leverage ratio at 3 to 4 times adjusted EBITDA, but prefer to be in the lower half of that range.

We were intentionally aggressive in repurchasing our stock throughout 2016. In the fourth quarter, we repurchased 2.8 million shares, with 3% of shares outstanding at a cost of \$100 million. That brings our total for the year to 12.3 million shares repurchased, or 13% of our shares outstanding, at a cost of \$390 million. Since we began our repurchase program three years ago, we've returned more than \$1 billion to our shareholders by buying back more than 25% of our outstanding stock. We expect to repurchase at least \$300 million of our shares again this year.

That's a good lead-in to a discussion of our expectations for 2017. We've, again, gone through a rigorous and detailed annual planning process, and our plan reflects our expectations that our strategic initiatives, particularly those focused on margin growth, will have a significant and positive effect on our 2017 earnings.

As we announced last night, we expect our revenues to increase 2% to 3% this year, and we expect our 2017 adjusted EBITDA to be between \$840 million and \$920 million, an increase of 5% at the midpoint. We expect our revenue growth to come primarily from increased rental volumes, with Americas pricing expected to be level to up 1%, and with higher ancillary revenues per rental day contributing a fraction of a point to overall revenue growth.

We expect our full-year adjusted EPS to be between \$3.05 and \$3.75 per share. This includes the benefit of our continued share repurchase activity, and represent EPS growth of 16% at the midpoint. We expect our cash taxes to be \$55 million to \$75 million and that our non-fleet capital expenditures will be roughly \$210 million this year.

As a result, we expect our free cash flow to be \$450 million to \$500 million, absent any significant timing differences. That would make 2017 the sixth straight year with free cash flow of more than \$450 million and would give us free cash flow of more than \$5 per share. Our forecast reflects our intent to invest roughly \$50 million through the P&L this year to support various growth efficiency and innovation initiatives. This figure is consistent with the P&L investment we made in 2016, so there's no significant year-over-year impact associated with spending on our key initiatives. In putting together our 2017 plan, near-term and longer-term margin growth were



key objectives for us. At the midpoint of our revenue and adjusted EBITDA projections, our margin would be nearly 10% this year.

At this point, we expect the quarterly spread of our earnings to be even more concentrated than last year in the middle two quarters of the year. Also, a year ago we were facing a supply/demand imbalance in the industry that created a difficult first quarter pricing environment. As a result, we had hoped that pricing in the first quarter 2017 would look pretty good against an easy comparison. Unfortunately, that is not occurring. Instead, the over-fleeting that emerged in the fourth quarter has continued into early 2017 and we do not expect our Americas pricing to be up year-over-year this quarter. We are, however, forecasting pricing to be level to up 1% for the year as a whole.

We estimate that currency will have a roughly \$10 million positive effect on adjusted EBITDA this year. We have again provided a slide that lays out our projection of the effects that currency movements will have for the year by quarter based on recent rates.

In closing, I think it's fair to say that there was a lot going on in our industry in 2016. And we ended up with a year in which pricing did not keep up with fleet cost or wage inflation, which negatively impacted our margins. At the same time, we focused on what we could control by improving processes and driving cost out of the business. And last year, we served more customers, some 35 million in total, than ever before. We also delivered a significant update of our longer-term strategic objectives in 2016, and shared it with you at our Investor Day in November.

Through our strategic plan, we have redoubled our commitment to building and benefiting from our world-class brands, to growing our margins over time, and to succeeding in the evolving mobility services space, including pay-to-use models. We are investing in technology and marketing and profits improvement to drive progress on these strategic initiatives. We also continue to churn out a significant amount of free cash flow, enabling us to be distributing cash in the form of share repurchases. We intend to continue on these paths.

In 2017, we expect to set another new record for number of customers served and to serve them well. We are targeting increased revenue and expanded margins this year, and that should translate into continued generation of earnings and a free cash flow that we can and will deploy to enhance shareholder value.

With that, Larry and I would be happy to take your questions.



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Chris Agnew of MKM Partners. You may ask your question.

Christopher Agnew  
*Analyst, MKM Partners LLC*

Q

Thanks very much. Good morning. First question on fleet cost guide. What needs to happen in 2017 for you to be at the higher end or lower end of your flat to 3% guidance range for per unit fleet costs? And what are you seeing today in the used car market? Thanks.

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

Good morning, Chris. I think the principal driver is going to be the market as a whole. As we mentioned, we're expecting residual values to be down 2 to 3 points as a percentage of cap cost. And where we fall on that metric is probably the principal driver of where we end up relative to the guidance that we've provided. I think the various initiatives we have are well underway. The better we execute, the more that will help, but I think the market as a whole is probably the item that will have the biggest impact one way or another.

In terms of the market right now, I think it's consistent with what we're expecting for the year. Residual values are down in that 2 to 3 point range. We saw the Manheim off-rental index being down a little bit over 3 points year-over-year in January. So I think what we're seeing is generally consistent with the market as a whole. And we're just moving into the period of time that becomes really important for looking at the spring buying season, typically around Presidents' Day we start to see the seasonal uptick in residual values and we're going to be watching carefully over the next few weeks to see how that develops.

Christopher Agnew  
*Analyst, MKM Partners LLC*

Q

Thanks. And then my follow-up question is, when you set your three to five-year margin goals back in November, did you envisage then the margin progression that you've guided for 2017 today? And if not, what changed? Thanks.

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

Yeah. I think as you think about the strategic initiatives, Chris, going forward, they don't move in equal parts year after year after year. So I think you get some low hanging fruit you grab right away. The other projects – these are transformational initiatives that we're working on. So they're harder to do. They're not for the faint of heart. So they take time to really align the resources, build the talent, build the capabilities, work on the technology, deliver the technology, and then allow these initiatives to kind of hit their maturity state. So I think they start off slower, and then they build over time. So I wouldn't expect to see margins improve year after year in kind of equal parts, that's just not the nature of these kinds of initiatives that we're really working on.

Christopher Agnew  
*Analyst, MKM Partners LLC*

Q

Okay. Thank you.

**Operator:** Our next question comes from Chris Woronka from Deutsche Bank. Your line is now open.

Chris J. Woronka

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey, good morning, guys. I wonder if we could maybe talk about the competitive landscape a little bit, and you can speak about it broadly if you'd like. But the over-fleeting you're referring to, is it your sense that that is kind of a – A, do you think it's temporary and it resolves itself by peak season? And B, do you think that's some kind of strategic action from one or more of your competitors, or do you think it is something else, some kind of – something not related to a strategy?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

As I look at it, and I think about how we would look at the marketplace, because I don't know what's behind the motivation of our competitors. I don't know what they're thinking, but it's not something that we would do is to purposefully over-fleet in the market. It's just – I think the industry has proven many, many times over and over again that that's just not a good recipe for success.

Our intention is to keep our fleet tight with demand. I think that what we're seeing in the marketplace right now, I think is temporary. Obviously, the fourth quarter it did – it was impactful for us in the fourth quarter. It did hurt our price and our volume. We just chose not to go down to the levels that we were seeing some of the rental activity requiring, particularly in Florida, where levels got quite low. So we just kind of stayed out of that business.

I don't think that's intentional. It wouldn't be on our side and I think what you would see is that as different rental car companies work to try to level their fleet to demand, eventually the fleets will tighten up. As we've seen in the past when these types of things happened, eventually the fleets will tighten up, and then those yielding opportunities will start to present themselves again. And that's what I expect will happen in 2017.

Chris J. Woronka

*Analyst, Deutsche Bank Securities, Inc.*

Q

Sure. And then just kind of a follow-up to that is, last year you had a 500 bps improvement in a kind of two-year stacked pricing between first quarter and second quarter in the Americas. Is there anything – and I know a lot of that had to do with more rational fleets industry-wide, kind of like you said you expect to happen this year. I mean, is there anything else out there that would prevent a pretty significant change in pricing from first quarter to second quarter again this year?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

When you look at what happened in the fourth and what's happening in the first quarter, a big part of the pricing challenge and the over-fleeting challenge is really in Florida. It's about half of our pricing challenge in the fourth quarter. And in the fourth quarter and first quarter it has a huge impact, as it represents a large part of our volume over those two quarters. So I think a lot has to do with how Florida fleets will tighten up and how demand starts to come in. So pricing's been challenging in Florida as we turned the year from the fourth to the first, but we are starting to see demand start to improve in Florida, which is a really good sign.

I mean, the pricing is still not there yet, but as demand improves and starts to soak up the fleet, hopefully that will present ourselves with some opportunities to start putting some yielding opportunities in place. So, you're right. Last year we were down 5%, and then we had a big change into the second quarter. And although we'll be down in the first quarter this year, we're hoping for another opportunity to have a change in our price per day as we turn into the second quarter as well. So, it really will depend on how well the fleets really kind of get back in line. Plus a later Easter this year will also help the second quarter a little bit.

Chris J. Woronka

*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thanks.

**Operator:** Thank you. Our next question comes from Brian Johnson from Barclays. You may ask your question.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Yes. Just wanted to kind of talk about some of the commercial trends in 4Q since employment and hotel data looked okay. I heard what you're saying about Election Day and Christmas. But if you kind of look at clean weeks that didn't have holiday impact, how was commercial demand tracking in what you might call a kind of clean year-over-year comp week?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

[ph] We look (32:30) at commercial, I would say as the fourth quarter started, commercial was really under pressure a lot. We had I think one less Thursday and one less Friday in the month of October for check-ins, which is a big check-in day for commercial, as you look at it year-over-year. And then as you look at the rest of the month, I think commercial started to improve. So I would – and, overall, the back half of last year was better in commercial than the first half of last year overall. So I think it started off tough. It was tough with the Halloween moving to a Monday, and then the next week being election week, you kind of lost two weeks in the month of November as well. So you normally go from a kind of a three or four-week commercial booking month to really down to two weeks of this year. So I think – overall, I think it was started off roughly. It got to be a little bit better as we went through the rest of the quarter.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

[indiscernible] (33:29) for example.

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

There were very few kind of clean weeks, if you will, kind of in the fourth quarter year-over-year, very few.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

What about sort of first three weeks of October, the first two or three weeks of December?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

Yeah. As I said...

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

[indiscernible] (33:47) year-over-year or flat year-over-year?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

... improve as you went through – as you got to the back half of the fourth quarter, we did start to see commercial volumes improving.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Okay. And was there any difference year-over-year in terms of no show or last minute cancellations in the Americas?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

No, nothing, nothing material that we know of.

Brian A. Johnson

*Analyst, Barclays Capital, Inc.*

Q

Okay. And then on the utilization, what are you assuming on the cost utilization? In the guide, you mentioned that fleet optimization kicks in second half, but how do you kind of avoid this utilization issue in first half?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

Well, the utilization, as you have a bigger risk fleet over a program fleet, that's going to put some pressure on utilization, because you idle cars longer to de-fleet them as – on risk cars than you do on program cars. So that's one of the challenges our team has as we take a look at that, those are some – that's one of the big challenges that they have to overcome. So as David mentioned, we're just getting a lot smarter using a lot more – lot better data around how we in-fleet, when we in-fleet, and where we in-fleet, and then also how we de-fleet as well.

So the goal this year is to improve utilization year-over-year, knowing that we've got kind of a headwind as it relates to a larger risk fleet. But the guys are really focused on using the initiatives that they've been developing and the data that they've been developing to really get smarter and more sophisticated about how they do the de-fleeting. So we are expecting to improve our utilization throughout the year.

**Operator:** Thank you. Our next question comes from Anj Singh from Credit Suisse. Your line is now open.

Anjaneya K. Singh

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning. Thanks for taking my questions. First off, I wanted to follow-up on some of the softer volume questions. As it relates to softer volumes at 4Q in the Americas, it seems that you may have known that the calendar shift could have impacted volumes and the election was bit of a surprise element. So did the calendar

shifts have a greater impact than you anticipated? I'm just trying to understand which factors perhaps hadn't been anticipated.

And, more broadly, it seems we haven't had negative volume growth in the Americas since just after the recession. So would appreciate any color on what you're sort of expecting or assuming for the reacceleration implied in the midpoint of your 2017 Americas guidance and how to think about volume growth going forward? Thanks.

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David B. Wyshner

*President & Chief Financial Officer, Avis Budget Group, Inc.*

A

Sure. Let me tackle the first part related to the fourth quarter. Clearly, we knew the way the calendar was shaping up and that the elections were taking place. I think both of them had a more significant impact than we had expected. For a lot of reasons, I think the elections had just a little bit more of a disruptive effect, and that would be true not only in the week or two leading up to the election. I think that continued for us in the week or two following that.

And then as we looked at Christmas and the holiday season, we had anticipated an impact. It had been a number of years since we had a calendar falling this way, and I think that took – the last time it happened was shortly after the recession. So we didn't have a really good historical to look at, and we ended up with a – just a more significant impact from the calendar shift in December than we had anticipated. So both of those things were, as you say, just a little bit greater than we anticipated.

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Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

I would just add that as each year as we take a look at how the holidays fall and vacation schedules and so forth, you go back in time to say, okay, when was the last year that that happened. And you can try to take a look at the impact that happened in that year. What you can't really recreate is the condition of the marketplace this time versus that time. And one of the keys is industry fleet levels and trying to superimpose that on to results that happened five years ago, for example, in this case are pretty difficult to do.

So, it's a good reference point to go back. We try to estimate the impacts of the calendar shifts as best as we possibly can. The election was by far a much bigger impact than any election years that we've seen prior to this. So, you try to do the best job that you can, and I think forecasting tools that we're developing will help us in the future with that. But it is pretty difficult to try to impose kind of the current market conditions and what happened five years ago.

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Anjaneya K. Singh

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Got it. And, I guess, with regards to the question – or the part of the question around the acceleration you're assuming, any thoughts around that in light of the negative volume growth in the quarter?

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David B. Wyshner

*President & Chief Financial Officer, Avis Budget Group, Inc.*

A

Sure. I think the – one of the reasons we wanted to highlight, whether it's Halloween or the elections or the calendar shift effects that we saw and that were bigger than we anticipated, is that those are all temporary phenomenon. And as a result, I think we're reasonably optimistic about the opportunities for growth. We're only

forecasting modest growth in volumes this year in the Americas, and I think we're – the trends over a little bit broader period of time give us a lot of reason to feel good about those.

Clearly, in the first quarter, the issue that we have to work through is having one fewer day because of leap year last year, so that will impact the first quarter numbers a bit. But I think the longer-term trend of modest growth is one that we feel good about. And as we look at boarder trends out there in terms of airline capacity and projections for travel volumes, I think the modest growth that we're forecasting is appropriate.

**Operator:** Thank you. Our next question comes from James Albertine from Consumer Edge Research. You may ask your question.

Derek J. Glynn

*Analyst, Consumer Edge Research LLC*

Q

Yeah, hi. Thanks for taking my questions. This is Derek Glynn on for Jamie. In terms of the recently announced supply agreement with Uber, I mean, I know it's very early innings here and you touched on it briefly. But how do you see this relationship developing over time, and how big of an impact could this be in the long run?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

It's really early stages. We're just testing it right now in one market. We just started it and we're testing it in a small way also in London. So we'll have to see how this develops and we're excited about it. We're excited about the partnership. We think that there are some really good synergies between the demand that their drivers may have and the vehicles, and particularly at that the time they have them versus the time that our normal – our usual Zipcar members are actually taking the fleet out, so we think there is some good utilization opportunities there.

But we'll just have to see how it plays out. It's pretty early, but we do have other markets that we're looking at, that if this market goes well, that we're going to be anxious to move on and expand the test into other markets as well. So we'll just see how it plays out over time.

Derek J. Glynn

*Analyst, Consumer Edge Research LLC*

Q

Okay. Thanks. And just very quick follow-up, just on the post-election climate here. Just curious if you could provide a little more detail in terms of how you are thinking about the puts and takes from any potential policy changes, and then how that could affect demand going forward?

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

It's a really interesting question, and we're watching some of the proposals that are out there very carefully. I think there are just too many possibilities and too much uncertainty about what they might look like and how they would be implemented for us to speculate at this point in time.

Clearly, one of the things we're going to watch most closely is whether anything develops with respect to border adjustment taxes that could impact fleet that has the potential to have – to impact us. It's just really hard to estimate what that could look like, when it might take effect, and what structures or alternatives would be available to help us in that situation. So that one is high up on our radar screen, but it's really hard for us to speculate at this point in time.

**Operator:** Thank you. Our final question comes from Hamzah Mazari from Macquarie Capital. You may ask your question.

Hamzah Mazari

*Analyst, Macquarie Capital (USA), Inc.*

Q

Good morning. Thank you. Just a question on volume again. Do you have a sense of how much business you walked away from in the 2% commercial decline in volumes that you referenced? And then any impact you are seeing on ride-hailing or ride-sharing on your volumes in the Americas? I know you had talked about it a few quarters ago, but any update there? Thank you.

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

A

Yeah, on the first question, as you take a look at the fourth quarter and the volume declines, and if you back out Florida, which had about 0.5 point impact of it – about half of the drop, and then you take a look at some low-yielding channels that we just decided to reduce our exposure to in the quarter, that pretty much makes up most of the decline. So it really was, I think, really heavily influenced by Florida and the fleeting situation in Florida and us just choosing certain segments not to really push for and go after. And so you could say that part was kind of self-inflicted on us. We just chose to hold the higher line on pricing and try to hold pricing in the market place. So I think if you back those two things out, that pretty much gets you close to – kind of close to the flat year-over-year.

On the second part of your question, as we continue to update our analysis of car-hailing or ride-hailing impacts on our business, and I think what we found is that they're fairly consistent with the analyses that we've been doing before. You can find certain markets that you could see maybe a larger impact than other markets, particularly on the one day or the multiday, but under 75-mile type of rentals.

Overall, though, as you look at those rentals as a percent of your total rentals, they don't really change that much across the country basis. It's just not that big of a part of our business to begin with. As we've said, our average rental is four days and 450 miles, so those kind of short mileage and short length of rental type transactions are not a big part of our volume. So we continue to look at it and we continue to update our analysis, make sure we're staying on top of it. But we're not seeing much from the last time we looked at it and we spoke about it.

**Operator:** Thank you. For closing remarks, the call is being turned back to Mr. Larry De Shon. Please go ahead, sir.

Larry D. De Shon

*Chief Executive Officer and Chief Operating Officer, Avis Budget Group, Inc.*

So before we close, I think it's important to reiterate the key takeaways from today's call. We had a successful 2016 despite some challenges in the fourth quarter. We're making substantial progress in our strategic initiatives to drive sustainably higher margins and we expect to grow our earnings in 2017 and to again generate more than \$450 million in free cash flow for the year. We have a full calendar plan this quarter and we hope to see many of you during our travels.

With that, I want to thank you for your time and your interest in our company.

**Operator:** This concludes today's conference call. You may disconnect at this time.



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