

Avis Budget Group (CAR)

\$37.34 (As of 02/10/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

Avis Budget's ability to cater to a wide range of mobility demands helps it expand and strengthen global foothold through organic growth. Avis Budget operates through distinct global brands that focus on different market segments and complement other brands in their respective regional markets. The company's fleet expansion and technology enhancement initiatives are likely to enhance its offerings. Due to these positives, shares of Avis Budget have outperformed the industry in the past year. On the flip side, the company faces intense competition from other players in terms of pricing in the vehicle rental industry. Pricing pressure in the international business is weighing on the company's revenue per day. The company's rental business experiences seasonal variations. The company has no plan to pay cash dividends on common stock.

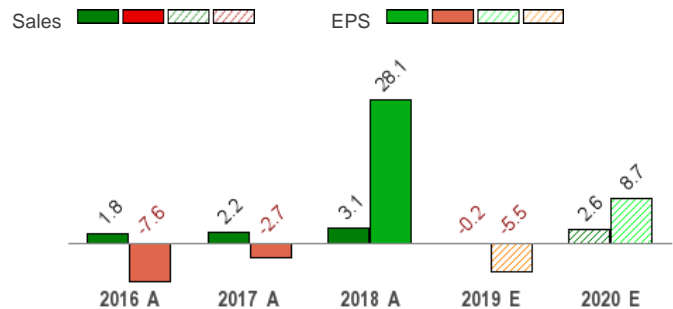
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.09 - \$23.65
20 Day Average Volume (sh)	809,300
Market Cap	\$2.8 B
YTD Price Change	15.8%
Beta	2.06
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Business - Services
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-18.9%
Last Sales Surprise	-3.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	10.7
P/E F1	10.0
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					9,344 E
2019	1,920 A	2,337 A	2,753 A	2,099 E	9,107 E
2018	1,968 A	2,328 A	2,778 A	2,050 A	9,124 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.86 E	\$0.97 E	\$4.01 E	\$0.37 E	\$3.75 E
2019	-\$0.78 A	\$0.79 A	\$2.96 A	\$0.48 E	\$3.45 E
2018	-\$0.74 A	\$0.57 A	\$3.33 A	\$0.53 A	\$3.65 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

Overview

Headquartered in Parsippany, N.J., Avis Budget Group operates as a leading vehicle rental operator in North America, Europe and Australasia with an average rental fleet of nearly 650,000 vehicles. The company is a leading global provider of mobility solutions through its three most recognized brands — Avis, Budget and Zipcar. The company has licensees in approximately 175 countries throughout the world.

Along with its licensees, Avis Budget operates in approximately 180 countries with more than 11,000 car and truck rental locations throughout the world. The company usually maintains a leading share of airport car rental revenue in North America, Europe and Australasia, and operates one of the leading truck rental businesses in the United States. Its Zipcar brand is one of the world's leading car sharing businesses which provides an alternative to traditional vehicle rental and ownership.

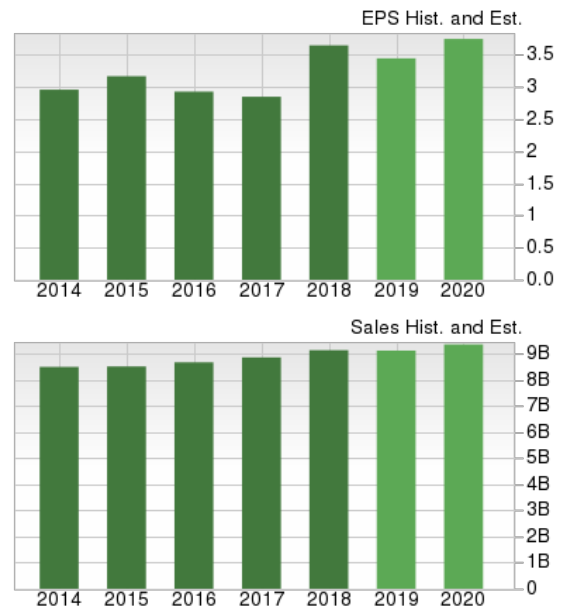
Avis Budget mainly generates revenues from vehicle rental operations. These include time & mileage fees charged to our customers for vehicle rentals; sales of loss damage waivers and insurance and other supplemental items in conjunction with vehicle rentals; and payments from customers with respect to certain operating expenses incurred, including gasoline, vehicle licensing fees and concession fees, which provide the right to operate at airports and other locations. Additionally, the company earns revenues for royalties and associated fees from its licensees in conjunction with their vehicle rental transactions.

The company reports its operating results under two segments:

Americas: This segment (68% of 2018 revenues) consists of vehicle rental operations in North America, South America, Central America and the Caribbean, car sharing operations in certain of these markets, and licensees in the areas in which the company does not operate directly.

International: This segment (32%) consists of the company's vehicle rental operations in Europe, the Middle East, Africa, Asia and Australasia, car sharing operations in certain of these markets, and licensees in the areas in which the company does not operate directly.

As of Dec 31, 2018, Avis Budget employed approximately 30,000 worldwide.



Reasons To Buy:

▲ Avis Budget operates through distinct global brands that **focus on different market segments** and complement other brands in their respective regional markets. While Avis is a premium brand that targets corporate and upscale leisure travelers, Budget is a mid-tier brand eyeing value conscious traveler. Payless is a deep-value brand, while FranceCars, Maggiore and Apex are recognized regional brands and Zipcar offers an urban alternative to car ownership. Avis Budget's ability to cater to a wide range of mobility demands helps it expand and strengthen global foothold through organic growth.

Acquisitions, technology enhancement and fleet expansion bode well for Avis Budget.

▲ **Acquisitions** over time have allowed Avis Budget to expand global footprint and enhance brand presence. The company made two important acquisitions in 2018 - Turiscar Group and Morini S.p.A. While Turiscar has enabled the company to strengthen and expand presence in the Portuguese market, Morini has expanded the company's vehicle rental services footprint in Northern Italy. It also acquired several licenses in North America and Europe, in line with its strategy to re-acquire licenses when advantageous to expand its footprint of Company-operated locations.

▲ Avis Budget continues to **enhance its technology** and improve offerings. The company is consistently trying to simplify customers' online interaction to make the reservation, pick-up and return process easier and more user-friendly. Further, Avis Budget entered into partnerships with various product and technology companies to enhance user experience with mobile and technology capabilities. By virtue of its partnerships with Alphabet and Amazon, users are likely to have voice-controlled access to the Avis Budget's services via Google Assistant and Amazon Alexa enabled devices.

▲ The company remains focused on **expanding its connected vehicles fleet**. It has crossed the 200,000 connected cars mark in 2019. Avis Budget's connected car program enables customers to manage their entire rental through the Avis mobile app. Expansion of connected cars fleet allows streamlining of operations and cost reduction. It enables enhanced tracking of idle vehicles, and automated processing of cars ready to rent. Also, it facilitates real-time inventory counts, mileage management and automated maintenance notification. Moreover, the massive data generated by these vehicles related to road conditions, accident prone zones, location mapping, weather report as well as user preferences during the driving will actually be a much-prized resource for the company, which it can monetize later.

▲ Avis Budget has an impressive track record of **rewarding shareholders** through share repurchases. In 2018, the company repurchased 5.9 million shares at a cost of \$200 million. In 2017, 2016 and 2015, the company bought back shares worth \$210 million, \$398 million and \$436 million, respectively. Such moves underline the company's confidence in business and help instill investors' confidence in the stock by positively impacting earnings per share.

▲ Avis Budget's shares are up 37.4% over the past year, significantly outperforming the 1.6% rally of the industry. The **outperformance** partially reflects better-than-expected earnings performance in two of the three quarters of 2019.

Reasons To Sell:

- ▼ Avis Budget currently has **no plan to pay cash dividends** on common stock. Payment of dividend in future depends on a lot of factors such as capital requirements for business, legal and regulatory requirements and covenants associated with certain debt obligations. Investors seeking cash dividends should avoid buying Avis Budget's shares.
- ▼ A major portion of the company's domestic car rental reservations come through third-party distribution channels. Consequently, it remains vulnerable to disruption and **termination of relationships** or reduction in transaction volume which may have an adverse impact on its financial condition as well as its operational results.
- ▼ Operating in the vehicle rental industry, Avis Budget faces **intense competition** from other players, mainly in terms of pricing. The company may lose rental volumes if it is unable to match up to industry pricing standards. On the other hand, an attempt to capture volumes by reducing prices may hurt its overall performance, in case of persistently high operating costs. Apart from this, pricing also depends a lot on the size of the rental fleets and supply of vehicles in the industry. If the company fails to adjust its rental fleet size in response to demand fluctuations, it may impact pricing and lead to loss of market share. Notably, the company is facing continuous pricing pressure in its international business, which in turn is weighing on revenue per day.
- ▼ The company's rental business experiences **seasonal variations**. Customer demand remains comparatively low in fall and winter seasons and high during the spring and summer vacation periods in most of the countries in which Avis Budget operates. The company changes its fleet size during the course of a year to manage these seasonal variations. Seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.

Inability to pay dividends, high competition and seasonality of business are headwinds for Avis budget.

Last Earnings Report

Avis Budget Q3 Earnings Miss Estimates

Avis Budget reported dismal third-quarter 2019 results wherein both earnings and revenues missed the Zacks Consensus Estimate.

Adjusted earnings per share of \$2.96 lagged the Zacks Consensus Estimate by 69 cents and decreased 11.1% year over year. Total revenues of \$2.75 billion missed the consensus estimate by \$91.9 million and decreased 0.9% year over year due to 1% decline in revenues per day partially offset by a 2% increase in rental days.

Full-year revenues are now anticipated in the range of \$9.00-\$9.20 billion compared with the prior guided range of \$9.20-\$9.50 billion. Adjusted EBITDA for 2019 is now expected in the range of \$750-\$800 million compared with the previously guided range of \$750-\$850 million.

Per-unit fleet costs increased 6% year over year and utilization improved 20 basis points.

Revenues by Segment

Americas segment revenues of \$1.87 billion increased 1% year over year owing to 3% growth in rental days, partially offset by 2% decrease in revenues per day. Per-unit fleet costs improved 9%, with utilization improving 30 basis points. The segment accounted for 68% of total revenues.

International segment revenues of \$885 million went down 5% year over year due to 1% decrease in rental days. Per-unit fleet costs grew 1%, excluding exchange rate effects, and utilization was flat. The segment contributed 32% to total revenues.

Profitability

Adjusted EBITDA of \$471 million declined 1% year over year. Adjusted EBITDA margin of 17.1% was flat year over year.

Adjusted EBITDA for Americas was \$321 million compared with \$313 million in the prior-year quarter. Internationally, adjusted EBITDA came in at \$169 million compared with \$178 million in the prior-year quarter.

Balance Sheet and Cash Flow

Avis Budget exited third-quarter 2019 with cash and cash equivalents of \$615 million compared with \$534 million at the end of the prior quarter. Corporate debt was \$3.48 billion compared with \$3.54 billion at the end of the prior quarter.

The company generated \$966 million of cash from operating activities in the reported quarter. Adjusted free cash flow totaled \$57 million and capital expenditures were \$61 million.

The company repurchased roughly 2.1 million shares for a total of \$59 million during the reported quarter.

2019 Guidance

Avis Budget reaffirmed its 2019 guidance for adjusted earnings, adjusted net income, adjusted pretax income and adjusted free cash flow.

Adjusted EPS is expected between \$3.35 and \$4.20. Adjusted net income is projected in the range of \$260-\$320 million. Adjusted pretax income is expected between \$350 million and \$450 million. Adjusted free cash flow is expected between \$250 million and \$300 million.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-3.23%
EPS Surprise	-18.90%
Quarterly EPS	2.96
Annual EPS (TTM)	3.50

Recent News

On **Feb 10, 2020**, Avis Budget announced that it has appointed Bernardo Hees to the Board of Directors and named him Independent Chairman of the Board and Chair of the Board's Executive Committee.

On **Jan 23, 2020**, Avis Budget announced that it has signed an agreement with Fiat Chrysler Automobiles (FCA) Group to connect more than 22,000 Fiat vehicles in Avis Budget Group's European fleet.

Valuation

Avis Budget shares are up 37.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 1.6% and 24.4%, respectively, over the past year. The S&P 500 index is up 21.2% in the past year.

The stock is currently trading at 9.91X forward 12-month price-to-earnings, which compares to 13.74X for the Zacks sub-industry, 26.23X for the Zacks sector and 19.27X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.91X and as low as 5.72X, with a 5-year median of 9.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$45.00 price target reflects 11.78X price-to-earnings.

The table below shows summary valuation data for CAR

Valuation Multiples - CAR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	9.91	13.74	26.23	19.27
	5-Year High	17.91	32.85	26.23	19.34
	5-Year Low	5.72	13.74	18.77	15.18
	5-Year Median	9.78	24.52	20.57	17.47
P/S F 12M	Current	0.29	0.49	4.15	3.55
	5-Year High	0.76	0.72	5.13	3.55
	5-Year Low	0.18	0.41	3.09	2.54
	5-Year Median	0.32	0.51	3.63	3
P/B TTM	Current	5.57	1.55	5.13	4.32
	5-Year High	21.88	4.08	6.72	4.42
	5-Year Low	3.4	1.16	4.13	2.85
	5-Year Median	7.42	2.34	5.27	3.62

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Herc Holdings Inc. (HRI)	Neutral
Hertz Global Holdings, Inc (HTZ)	Neutral
HyreCar Inc. (HYRE)	Neutral
Ingersoll-Rand PLC (Ireland) (IR)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Neutral
Norfolk Southern Corporation (NSC)	Neutral
Ryder System, Inc. (R)	Neutral
SP Plus Corporation (SP)	Neutral

Industry Comparison Industry: Business - Services				Industry Peers		
	CAR Neutral	X Industry	S&P 500	HTZ Neutral	JBHT Neutral	NSC Neutral
VGM Score	A	-	-	B	B	C
Market Cap	2.76 B	243.24 M	24.17 B	2.49 B	11.94 B	53.95 B
# of Analysts	5	2	13	5	10	9
Dividend Yield	0.00%	0.00%	1.77%	0.00%	0.96%	1.80%
Value Score	A	-	-	A	C	D
Cash/Price	0.24	0.16	0.04	0.29	0.00	0.01
EV/EBITDA	6.31	7.44	13.89	6.52	11.82	12.47
PEG Ratio	NA	1.55	2.05	NA	1.32	1.92
Price/Book (P/B)	5.57	2.02	3.27	1.25	5.27	3.59
Price/Cash Flow (P/CF)	1.13	7.45	13.60	0.52	11.59	14.02
P/E (F1)	10.10	17.64	19.00	10.45	19.87	18.75
Price/Sales (P/S)	0.30	0.63	2.66	0.26	1.30	4.78
Earnings Yield	10.04%	4.47%	5.26%	9.54%	5.03%	5.33%
Debt/Equity	34.23	0.53	0.71	9.91	0.57	0.78
Cash Flow (\$/share)	32.97	0.97	6.89	33.36	9.67	14.93
Growth Score	C	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	4.81%	11.49%	10.85%	NA	11.91%	16.82%
Proj. EPS Growth (F1/F0)	8.76%	18.90%	7.22%	18.89%	15.32%	7.94%
Curr. Cash Flow Growth	2.74%	1.36%	8.88%	-2.64%	-2.99%	3.26%
Hist. Cash Flow Growth (3-5 yrs)	3.69%	5.08%	8.36%	40.24%	9.02%	5.66%
Current Ratio	0.94	1.31	1.22	1.53	1.43	0.90
Debt/Capital	97.16%	46.11%	42.90%	90.83%	36.37%	43.90%
Net Margin	1.91%	0.49%	11.81%	-0.42%	5.99%	24.10%
Return on Equity	66.13%	7.39%	16.98%	12.04%	25.65%	18.04%
Sales/Assets	0.40	1.00	0.54	0.40	1.70	0.30
Proj. Sales Growth (F1/F0)	2.61%	0.46%	4.06%	3.19%	6.96%	-0.02%
Momentum Score	B	-	-	D	D	B
Daily Price Chg	7.08%	0.00%	0.45%	4.04%	-0.40%	-0.44%
1 Week Price Chg	6.31%	0.00%	2.47%	6.73%	4.25%	0.95%
4 Week Price Chg	4.55%	0.00%	0.95%	7.69%	-5.43%	4.48%
12 Week Price Chg	20.61%	1.54%	5.05%	7.76%	-3.50%	8.21%
52 Week Price Chg	35.39%	-3.56%	16.18%	2.40%	2.23%	18.25%
20 Day Average Volume	809,300	28,655	1,999,386	2,102,640	940,952	1,695,532
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-4.65%	-0.21%
(F1) EPS Est 12 week change	5.12%	0.00%	-0.18%	4.79%	-6.30%	-1.30%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-8.98%	-2.56%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.