

Avis Budget Group (CAR)

\$40.22 (As of 02/25/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 02/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

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.

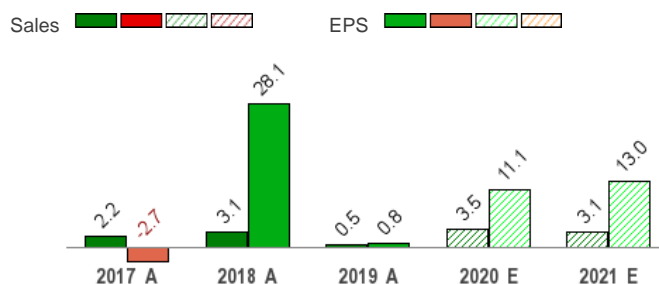
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.98 - \$23.65
20 Day Average Volume (sh)	1,391,153
Market Cap	\$3.0 B
YTD Price Change	24.8%
Beta	2.06
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Business - Services
Zacks Industry Rank	Top 35% (88 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	52.1%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	9.1%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	10.9
P/E F1	9.8
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,783 E
2020	1,979 E	2,411 E	2,838 E	2,221 E	9,492 E
2019	1,920 A	2,337 A	2,753 A	2,162 A	9,172 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.62 E
2020	-\$0.73 E	\$0.82 E	\$3.46 E	\$0.66 E	\$4.09 E
2019	-\$0.78 A	\$0.79 A	\$2.96 A	\$0.73 A	\$3.68 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 02/25/2020. The reports text is as of 02/26/2020.

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.

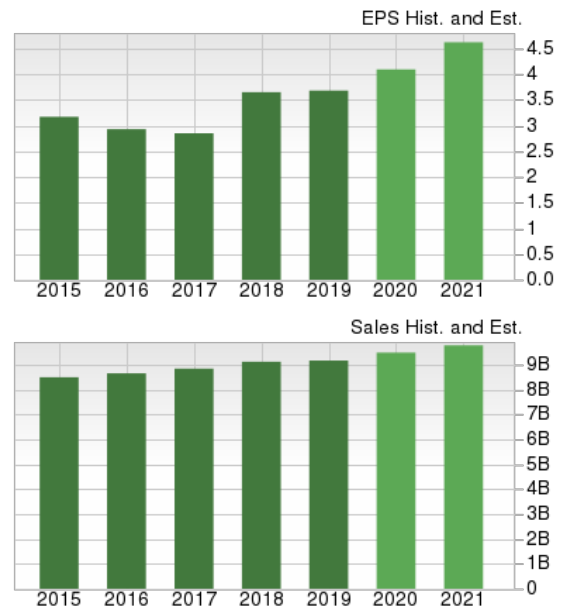
Avis Budget mainly generates revenues from vehicle rental operations. These include time & mileage fees charged to our customers for vehicle rentals; sales of loss damage waivers and insurance and other supplemental items in conjunction with vehicle rentals; and payments from customers with respect to 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 (69% of 2019 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 (31%) 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, 2019, 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 its global footprint and enhance brand presence. The company acquired several licenses, mainly in North America, in line with its strategy to re-acquire licenses to expand in locations where it operates. 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 its vehicle rental services footprint in Northern Italy.

▲ 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 2019, the company repurchased 2.2 million shares at a cost of \$62 million. In 2018, 2017 and 2016, the company bought back shares worth \$200 million, \$210 million and \$398 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 have risen** 11.9% over the past year, against 0.4% decline of the industry it belongs to. The outperformance can be partially attributed to better-than-expected earnings performance in three of the four quarters of 2019.

Risks

- 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.
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Last Earnings Report

Avis Budget Q4 Earnings Beat Estimates

Avis Budget Group reported solid fourth-quarter 2019 results wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of 73 cents beat the Zacks Consensus Estimate by 52% and increased 38% year over year. Total revenues of \$2.16 billion outpaced the consensus estimate by 3% and improved 5.5% year over year due to 5% increase in rental days and a 1% increase in revenues per day. Per-unit fleet costs increased 3% year over year and utilization improved 100 basis points.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	3.01%
EPS Surprise	52.08%
Quarterly EPS	0.73
Annual EPS (TTM)	3.70

Revenues by Segment

Americas segment revenues of \$1.53 billion increased 9% year over year. The segment accounted for 71% of total revenues. International segment revenues of \$632 million went down 2% year over year. The segment contributed 29% to total revenues.

Profitability

Adjusted EBITDA of \$143 million improved 1% year over year. Adjusted EBITDA margin was 6.6% compared with 6.9% in the year-ago quarter. Adjusted EBITDA for Americas was \$144 million (up 17% year over year), driven by 8% rental day growth and improved vehicle costs. Internationally, adjusted EBITDA came in at \$16 million, down 54% from the prior-year quarter.

Balance Sheet and Cash Flow

Avis Budget exited fourth-quarter 2019 with cash and cash equivalents of \$686 million compared with \$615 million at the end of the prior quarter. Corporate debt was \$3.44 billion compared with \$3.48 billion at the end of the prior quarter. The company generated \$655 million of cash from operating activities in the reported quarter. Adjusted free cash flow totaled \$161 million and capital expenditures were \$72 million. The company repurchased roughly 2.2 million shares for a total of \$62 million in 2019.

2020 Guidance

Revenues are anticipated in the range of \$9.4-\$9.6 billion. Adjusted EPS is expected between \$3.75 and \$4.75. Further, adjusted net income is projected in the range of \$250-\$350 million. Adjusted pretax income is expected between \$375 million and \$475 million. Adjusted EBITDA is anticipated in the range of \$750-\$850 million. Adjusted free cash flow is expected between \$275 million and \$325 million.

Recent News

On **Feb 24, 2020**, Avis Budget inked a new two-year cooperation deal with SRS Investment Management, LLC, its largest shareholder. The terms of the deal include the appointment of Jagdeep Pahwa, a current board member and president of SRS, as vice chairman of the board.

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 11.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 0.4% while those in the Zacks Business Services sector are up 18.1%, over the past year.

The S&P 500 index is up 14.7% in the past year.

The stock is currently trading at 9.76X forward 12-month price-to-earnings, which compares to 13.63X for the Zacks sub-industry, 25.39X for the Zacks sector and 18.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.94X and as low as 5.72X, with a 5-year median of 9.78X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$46.00 price target reflects 11.16X 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	9.76	13.63	25.39	18.44
	5-Year High	16.94	32.95	25.39	19.34
	5-Year Low	5.72	13.63	18.78	15.18
	5-Year Median	9.78	24.59	20.59	17.47
P/S F12M	Current	0.32	0.5	4.07	3.39
	5-Year High	0.74	0.73	5.14	3.43
	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	4.53	1.59	5	4.66
	5-Year High	21.88	4.1	6.71	4.9
	5-Year Low	3.4	1.17	4.13	2.85
	5-Year Median	7.39	2.33	5.26	3.62

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 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
Norfolk Southern Corporation (NSC)	Neutral
SP Plus Corporation (SP)	Neutral
J.B. Hunt Transport Services, Inc. (JBHT)	Underperform
Ryder System, Inc. (R)	Underperform

Industry Comparison Industry: Business - Services				Industry Peers		
	CAR Outperform	X Industry	S&P 500	HTZ Neutral	JBHT Underperform	NSC Neutral
VGM Score	A	-	-	A	B	C
Market Cap	2.99 B	224.46 M	23.50 B	2.35 B	10.79 B	50.24 B
# of Analysts	5	2	13	5	10	9
Dividend Yield	0.00%	0.00%	1.83%	0.00%	1.07%	1.93%
Value Score	A	-	-	A	C	D
Cash/Price	0.19	0.14	0.04	0.24	0.00	0.01
EV/EBITDA	4.75	7.01	13.56	6.48	10.79	11.76
PEG Ratio	NA	1.52	2.02	NA	1.20	1.79
Price/Book (P/B)	4.53	1.88	3.20	1.18	4.76	3.35
Price/Cash Flow (P/CF)	0.86	7.37	13.05	0.86	10.47	13.05
P/E (F1)	9.83	17.86	18.56	9.86	18.07	17.49
Price/Sales (P/S)	0.33	0.56	2.60	0.24	1.18	4.45
Earnings Yield	10.17%	4.73%	5.38%	10.12%	5.53%	5.72%
Debt/Equity	25.34	0.52	0.70	9.91	0.57	0.78
Cash Flow (\$/share)	46.76	1.03	7.03	19.23	9.67	14.93
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	5.91%	11.49%	10.85%	NA	11.91%	16.82%
Proj. EPS Growth (F1/F0)	11.20%	18.90%	6.90%	16.25%	14.60%	7.73%
Curr. Cash Flow Growth	35.37%	4.21%	6.78%	-2.39%	-2.99%	3.26%
Hist. Cash Flow Growth (3-5 yrs)	7.65%	5.62%	8.38%	40.24%	9.02%	5.66%
Current Ratio	0.96	1.32	1.22	1.53	1.43	0.90
Debt/Capital	96.20%	44.56%	42.37%	90.83%	36.37%	43.90%
Net Margin	3.29%	0.65%	11.57%	-0.59%	5.99%	24.10%
Return on Equity	60.29%	7.43%	16.80%	12.40%	25.65%	18.04%
Sales/Assets	0.39	1.03	0.55	0.39	1.70	0.30
Proj. Sales Growth (F1/F0)	3.49%	0.47%	4.03%	3.48%	6.96%	-0.02%
Momentum Score	A	-	-	A	B	C
Daily Price Chg	-8.90%	-0.55%	-2.98%	-14.77%	-3.87%	-4.01%
1 Week Price Chg	16.08%	-0.34%	-0.94%	2.74%	-0.34%	-0.62%
4 Week Price Chg	19.14%	-4.58%	-0.94%	2.74%	-10.27%	-4.84%
12 Week Price Chg	37.08%	-3.76%	1.75%	8.55%	-9.26%	4.64%
52 Week Price Chg	13.49%	-6.78%	10.97%	-17.79%	-6.23%	7.94%
20 Day Average Volume	1,391,153	24,989	2,001,782	2,734,629	640,238	1,520,285
(F1) EPS Est 1 week change	9.12%	0.00%	0.00%	0.00%	0.00%	-0.20%
(F1) EPS Est 4 week change	9.12%	0.00%	-0.05%	0.00%	-0.62%	0.64%
(F1) EPS Est 12 week change	9.12%	0.00%	-0.21%	0.00%	-6.88%	-1.50%
(Q1) EPS Est Mthly Chg	15.50%	0.00%	-0.49%	0.00%	0.00%	0.98%

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	A
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.

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