



# Industrial Stock: Avis Budget Group

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# Introduction and Background

Avis budget group is the world's leading car rental agency, founded in 1946 and based in New Jersey, as they operate the three most recognized brands in the car rental industry with thousands of locations in over 165 countries, the brands being:

- ▣ Avis, Budget, and Zipcar.

A largely recognised company that offer car, truck and car sharing services and a range of others for one-way hire with 21,000 people in their employ, and with many other subsidiaries under their name. Another example being QuickPass.

- Which was successfully deployed across all major US airports, allowing customers to bypass the counter, select their vehicle, and use an automated express exit.

The business saw a 72.4% increase in revenue from 2020, seeing 2021 earnings at \$9.313 billion, thus maintaining its superiority in its market and being a vital aspect when chosen by our team on whether to invest.

# Avis Group SWOT Analysis – STRENGTHS:

- One of the most well-known car rental brands, approximately 5,500 locations in over 165 countries. Due to this, they are cemented as a **highly reliable and trusted service provider**, guaranteed to continue gaining customers globally.
- They have a market share of 29.2%, the largest in the car sharing provider industry and making them a **working monopoly**. Stability in its market would be shown in its finances as investors and shareholders would maintain their confidence in the company.
- **Avis have many subgroups** due to the size of the company e.g., Avis, Budget and Zipcar. This allows them to meet the demands of many different types of consumers as they offer a wide range to suite the demands.
- They have also seen many successful mergers and acquisitions with other companies like Verizon to launch a digital travel assistant.
- On top of this, it has a **strong relationship with suppliers** because of their size in the market, which prevents them from feeling largely negative effects from any supply side shocks.

# Avis Group SWOT Analysis – WEAKNESSES:

- As good as their market share is, **demand for this type of product is not one on the rise in recent times** with the price of fuel and oil on the rise due to external global shocks.
- **They rely on factories making vehicles**, therefore even good relationships with suppliers may sometimes not be enough to aid them with the shortage of hire cars due to lack of automotive chips.
- Whilst a giant, they have **not been able to tackle new competitors well however**, with companies like Enterprise and Hertz, allowing Enterprise to become the largest car rental service in the US with 1.1 million vehicles under their service.
- Moreover, Avis have had trouble with their financial planning. The main dilemma being that their **inventory is too high and so must invest greatly in capital** to hold it. This may become too large of a cost in future and may impact its growth trajectory.



# Opportunities for Avis

- ▶ Avis continues to invest in their electric car fleet
- ▶ Main rival Hertz filed for bankruptcy in 2020, leaving them with big debts
- ▶ Enterprise is a private company so cannot raise funds as easily
- ▶ Uptick in leisure travel post covid
- ▶ Shows strength through share repurchases, 3 years in a row
- ▶ Offer the “ultimate test drive”- try old rental car before buying

# Threats for Avis

- ▶ Have to keep investing in new vehicles so are exposed to the price rises
- ▶ Customers may be less willing to rent if fuel prices remain high
- ▶ Compete in every location with two rivals
- ▶ Vehicles owned by debt funding methods-exposed to rising interest rates

# Upcoming pipeline/events/news



## **Tourism set to increase in 2023**

The Economist Intelligence Unit (EIU) released its tourism in 2023 report. The report finds that tourism arrivals will increase by 30% in 2023, however this will still be below pre-pandemic times.

## **Demand is likely to outweigh supply for Car Hire firms in 2023**

As in 2022, it is likely that we will see car hire companies struggling to increase their fleet sizes for the summer season. This means that the higher prices of renting a car are likely to continue in 2023, although possibly not to the same extent as last year. Chip shortages are the main reason for this prolonged backlog, however the shortages are recovering. Volkswagen believes that semiconductor supply is unlikely to meet auto industry demand until 2024.

## **Ubiquitous Telematics**

The car rental company Hertz says that by the end of this year, **100% of its U.S fleet will have telematics**. Other companies like Avis aren't far behind. Telematics have many uses from the basics of tracking stolen units to much broader fleet management around breakdowns, geolocation, tracking car mileage, accurate fuel readings, and customer data analysis.

## **The U.K. car rental market size is projected to reach US\$ 5.54B by 2032**

In 2022 the U.K car rental market is **estimated at US\$ 3.20B**. Leading players in the market are offering services aligned with customers' expectations to gain a competitive edge in the market. This includes **subscription models** which are increasingly gaining traction among customers as they are cost-effective and offer more convenience.



ESG



# Environmental

AVIS COMMITTED TO A GREENHOUSE GAS EMISSIONS REDUCTION TARGET OF 30% BY 2030.

IN 2021, AVIS BEGAN WORKING THEIR GOAL TO REDUCE THEIR WATER FOOTPRINT BY 30% AND ACHIEVING ZERO WASTE-TO-LANDFILL.

AVIS AIM TO DO THIS BY:

- ENSURING ELECTRIC AND HYBRID VEHICLES ARE AVAILABLE TO RENT AT MOST RENTAL LOCATIONS
- MAKING SUSTAINABLE TRANSPORTATION BY EXPANDING CAR-SHARING SOLUTIONS (ZIPCAR BRAND)
- EXPANDING TRANSPORTATION ACCESSIBILITY THROUGH PARTNERSHIP WITH VIA (A MICRO-TRANSIT COMPANY)



**623,475**

GALLONS OF USED  
MOTOR OIL  
RECYCLED OR  
REPURPOSED



**250,289**

TIRES RECYCLED OR  
REPURPOSED



**74,009**

WINDSHIELDS  
RECYCLED



**52,210**

WINDSHIELDS  
REPAIRED



**16,744**

CAR BATTERIES  
RECYCLED

# Environmental

7 YEARS AGO, AVIS ACQUIRED ZIPCAR, WHICH IS THE WORLD LEADING CARSHARING NETWORK THAT HAS IMPROVED CITY LIFE.

ZIPCAR PROVIDES ITS MEMBERS SELF-SERVICE VEHICLES IN RESERVED PARKING SPACES IN PUBLIC SPACES SO IS GREAT ALTERNATIVE TO CAR OWNERSHIP.

ZIPCAR USE REDUCES TRAFFIC CONGESTION, LOWERS GHG EMISSIONS, AND FREES UP PARKING SPACES IN CITIES.

IN 2021, ZIPCAR HAD 1 MILLION MEMBERS. TO DATE, THE MEMBERS OF ZIPCAR'S 10 LARGEST MARKETS HAVE HELPED KEEP MORE THAN 140,000 CARS OFF OUR STREETS.

# Social - Diversity, Equity & Inclusion (DE&I)

AVIS BELIEVES A DIVERSE WORKFORCE MEANS RICHER IDEAS AND BROADER PERSPECTIVES WHEN IT COMES TO CONSIDERING THE NEEDS OF GLOBAL CUSTOMERS, STAKEHOLDERS, AND EMPLOYEES.

INSTRUMENTAL TO THEIR ONGOING COMMITMENT TO DIVERSITY, EQUITY, AND INCLUSION IS THEIR AMBITION TO HAVE A MORE REPRESENTATIVE WORKFORCE ACROSS ALL FUNCTIONS IN OUR BUSINESS. THEY BELIEVE THIS WILL INSPIRE CURRENT EMPLOYEES, FUTURE JOB CANDIDATES, AND THE NEXT GENERATION OF AVIS BUDGET GROUP LEADERS

## U.S. MINORITY REPRESENTATION

Job category	% Minority Representation
Hourly	70%
Manager	44%
Director	24%
VP	21%
Board of Directors	66%
Total	66%

## GLOBAL GENDER REPRESENTATION

Job category	% Female Representation
Hourly	28%
Manager	35%
Director	40%
VP	23%
Board of Directors	33%
Total	36%

In 2021, the average base salary placement for women in management was 3% points higher than men in comparable positions.





# Social - Supplier Diversity

AVIS IS AN INDUSTRY LEADER IN SUPPORTING DIVERSE SUPPLIERS, INVESTING SIGNIFICANT TIME AND FUNDS INTO MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISES (MWBE).

THEY HAVE A PUBLIC COMMITMENT TO ACHIEVE A SPEND OF AT LEAST \$10 BILLION ON CERTIFIED DIVERSE SUPPLIERS BY 2030. THEY ARE WELL ON THEIR WAY, HAVING SPENT \$2.2 BILLION IN 2021 ALONE.

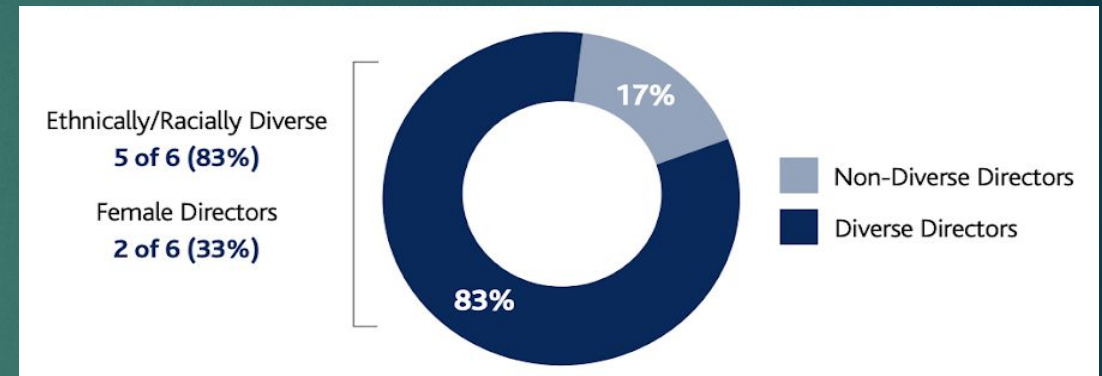
AVIS CONTINUE TO BE RECOGNIZED AS ONE OF AMERICA'S TOP CORPORATIONS FOR WBE BY THE WOMEN'S BUSINESS ENTERPRISE NATIONAL COUNCIL (WBENC).

IN ADDITION THEY ARE ARE THE ONLY CAR RENTAL COMPANY TO EARN A SPOT ON THE ANNUAL LISTING SINCE 1999.



# Governance – Diversity, Ethics & Compliance

DIVERSITY IS AN IMPORTANT ELEMENT IS AVIS'S ESG STRATEGY MEANING THEIR BOARD SEEKS MEMBERS FROM DIVERSE AND PROFESSIONAL BACKGROUNDS WHO HAVE EXPERTISE. THIS DIAGRAM SHOWS THAT 83% OF THEIR BOARD IS DIVERSE BY GENDER, ETHNICITY OR RACE.



Their commitment to ethics is a competitive differentiator that has contributed to their success.

One of Avis's core values is commitment to integrity and this plays a part on business decisions and the manner in which they conduct professional relationships.

The Board of Directors have adopted a code of conduct that applies to all officers and employees, to promote honest and ethical conduct, including the handling of conflicts of interest between personal and professional relationships.

ESG Risk Rating

COMPREHENSIVE?

20.0

Low Risk



Ranking

Industry Group (1st = lowest risk)

Transportation85 out of 385

Universe

Global Universe3838 out of 15556

Industry Comparison

Company	ESG Risk Rating	Industry Rank
Localiza Rent A Car SA	10.1 <div><div></div><div></div><div></div><div></div><div></div></div> Low	2 out of 385
Saia, Inc.	18.5 <div><div></div><div></div><div></div><div></div><div></div></div> Low	57 out of 385
Knight-Swift Transportation Holdings, Inc.	19.2 <div><div></div><div></div><div></div><div></div><div></div></div> Low	65 out of 385
Avis Budget Group, Inc.	20 <div><div></div><div></div><div></div><div></div><div></div></div> Low	85 out of 385
TFI International, Inc.	20.3 <div><div></div><div></div><div></div><div></div><div></div></div> Medium	96 out of 385



# Financials

# Financials-Balance Sheet

Ratios	Avis result	Interpretation
Current Ratio	0.77	This ratio measures the liquidity of the company. A result of 0.77 indicates the firm in general, is not that liquid. However, we can expect a low ratio because Car rental companies will have much equity tied up in non-current assets (Vehicles). Hetz - 1.97 Sixt - 2.65
Debt/Equity Ratio – Seasonal fluctuation and selling fleet. More reliable and get brand new cars.	-34.5	Measures the extent to which the company can cover its debt. The negative ratio shows its liabilities exceed its assets. This does generate a level of risk. Since vehicles have been purchased via debt, this is expected.

Note: Because Car rental companies seasonally buy and sell fleets of cars to acquire the latest models, the above ratios deem less significant when painting the financial health of Avis.



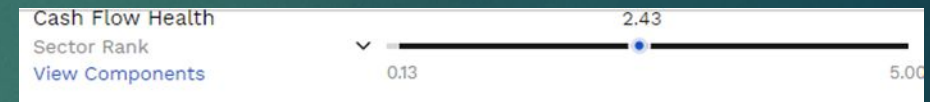
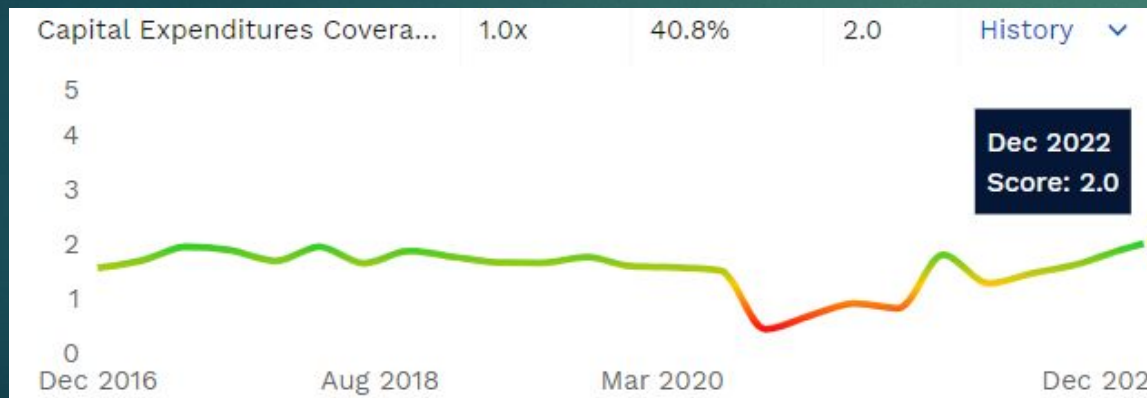
# Financials- Income Statement

Measure	End Q3 2022	Trend
Operating Revenue	\$1.397 Billion	<b>41.97%</b> <b>increase</b> year-over-year.
Net Income	\$1.034 Billion	<b>53.19%</b> <b>increase</b> year-over-year.
Shares outstanding	0.048 Billion	<b>26.16%</b> <b>decline</b> year-over-year.  As expected through the continued share repurchases, showing strength as seen in SWOT.

# Financials Cash flow Statement

**Cash flow** has remained healthy over the past year, despite the continued increase in Capital expenditure. We can expect Expenditure to further rise due to the increase in demand for electric vehicles.

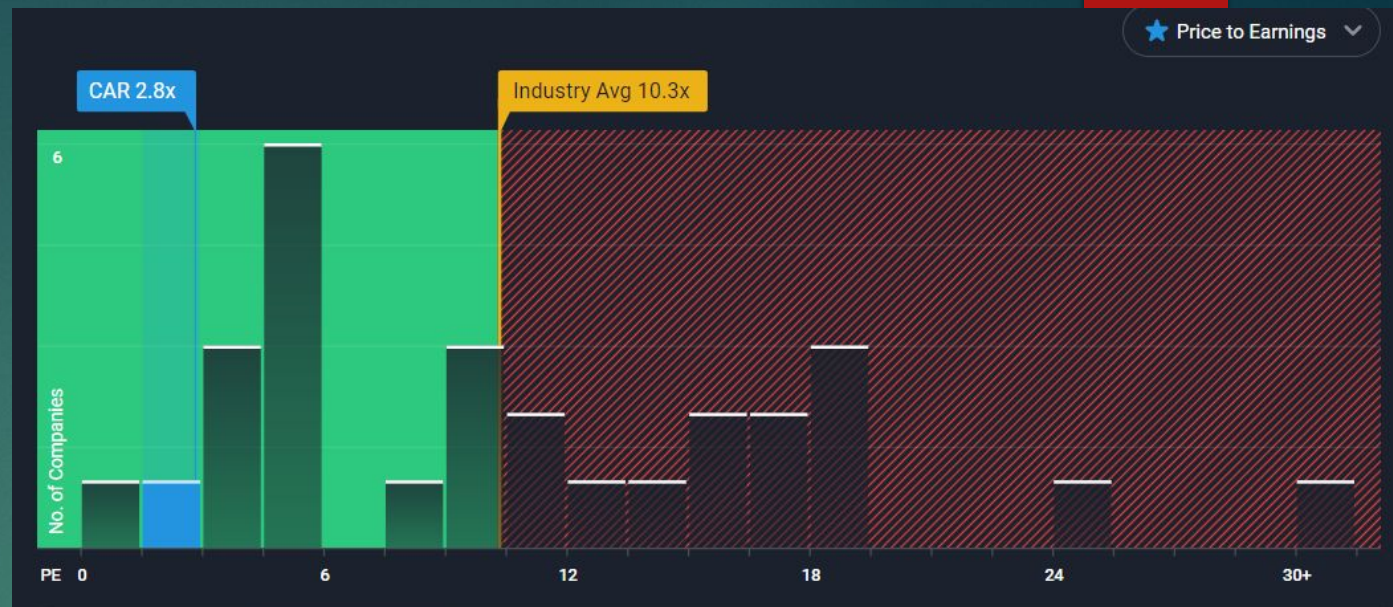
Investor fear over short-term high gearing ratios may create long-term buying opportunities.



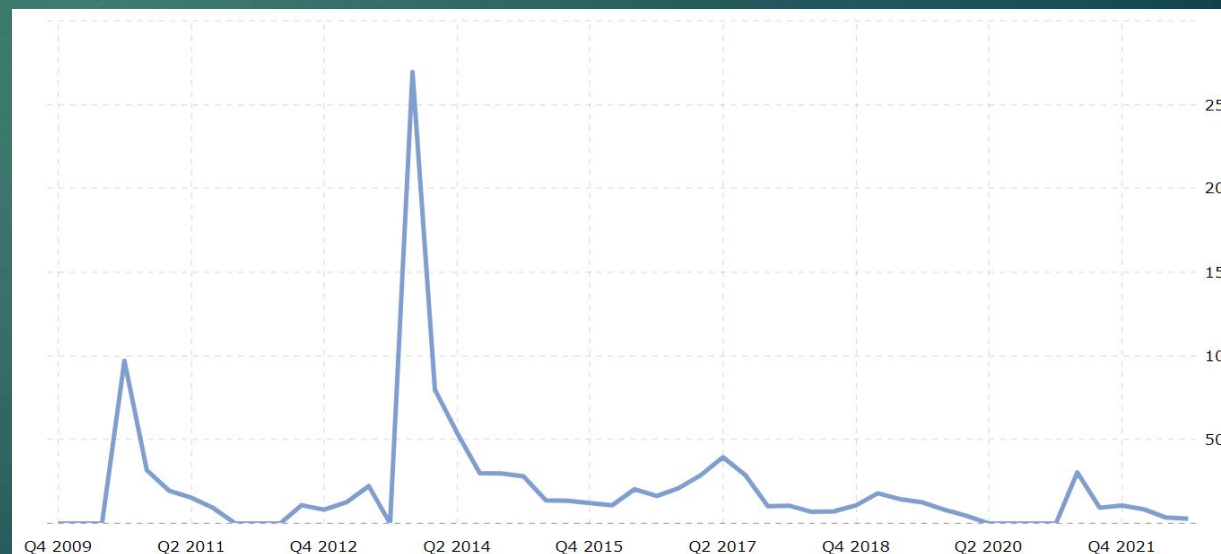
Overall average cash flow health, compared to rest of Industry, despite previous gearing ratios

# Valuation Metrics

PE ratio- **2.8x**. Industry average is significantly higher, suggesting good value for Avis.



PE has been trending **downwards** over the past 5 years, despite the rapid increase in earnings.





# Stock Price Forecast

## Stock Price Forecast

The 5 analysts offering 12-month price forecasts for Avis Budget Group Inc have a median target of 233.00, with a high estimate of 290.00 and a low estimate of 160.00. The median estimate represents a **+27.63%** increase from the last price of 182.56.





# Risk and Technical analysis

# Volatility associated with Avis Budget Group

- ▶ Avis Budget Group has a beta = 2.24. This shows us that Avis, historically speaking, has two times the percentage gains and losses of the market portfolio. This in itself shows that Avis presents a great opportunity for the current market. The implication of this is that the purchase of CAR stock should be in line with bullish movements in the overall markets. (This movements can be observed in index funds such as S&P 500 and DJIA).

# Company associated risks

- ▶ Avis Budget Group handles car rental within an app. They also use keyless car opening system and sometimes retain data from users for when they use their cars again. With this being said, Avis cars need a lot of chips for this smart technology and, with the current shortage in the chip manufacturing Avis wasn't spared, creating a risk for investors.
- ▶ Some market specific risks would also be the fact that the market of car rental has not yet consolidated so there is still a lot of competition for Avis. However, this also provides the opportunity of a potential increase in market share even though they are the leading car rental service in the market.



# Technical levels and Potential Entry Strategies





# RSI & SMA

- ▶ The Relative Strength Index is a momentum oscillator that measures the speed and change of price movements. Traditionally, RSI over 70 means overbought and RSI under 30 means oversold. In the case of Avis, the RSI is somewhere around 20 which indicates the potential that the stock is quite under-priced.
- ▶ Simple Moving Average (Blue lines) – Simply put, the SMA measures the average price of the stock over different periods of time. SMA is also a strong indicator for the price level and overall trend. In the case of Avis it shows that the stock might also be at a low price. This is because the price right now is below the SMA line. However, caution is needed as SMA also creates strong resistance/support levels which might mean that the stock might not actually move that much in the future. Furthermore, the SMA might indicate that Avis is currently on a downward trend.

# Potential plays

Based on technical analysis of the past data it looks like there is some strong support at the level of \$135 and some strong resistance at around \$319. If you were to enter now that would offer a 2.89 risk reward ratio. However, considering that the stock is on a downward trend. We would recommend waiting for a better risk reward position and/or a change in trend before entering. Especially as the candles that seem to form show a bit of indecision.



# Summary

- ▶ Avis' Financials are strong but seem risky. The high gearing ratios might create a good buying opportunity due to Investor Fear
- ▶ The buyback of shares. For the past 3 years, suggests confidence of board members the near future of the firm.
- ▶ We recommend waiting for a better risk/reward position before dollar cost averaging until speculation about further interest rate rises lowers. Avis is particularly affected by interest rate rises as a result of the high gearing ratios.
- ▶ Maintained growth is expected but at a decreasing rate to that coming out of the pandemic.