AVIS BUDGET GROUP, INC.
Form 10-K
February 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NO. 001-10308

AVIS BUDGET GROUP, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	06-0918165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6 SYLVAN WAY PARSIPPANY, NJ	07054
(Address of principal executive offices)	(Zip Code)

973-496-4700
(Registrant's telephone number, including area code)
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, Par Value $.01	The NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $2,564,141,255 based on the closing price of its common stock on the NASDAQ Global Select Market. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.
As of January 31, 2019, the number of shares outstanding of the registrant's common stock was 75,769,075.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement to be mailed to stockholders in connection with the registrant's 2019 annual meeting of stockholders (the "Annual Proxy Statement") are incorporated by reference into Part III hereof.

TABLE OF CONTENTS

Item	Description	Page
	PART I	
1	Business	3
1A	Risk Factors	23
1B	Unresolved Staff Comments	35
2	Properties	35
3	Legal Proceedings	36
4	Mine Safety Disclosures	36
	PART II	
5	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	37
6	Selected Financial Data	40
7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	42
7A	Quantitative and Qualitative Disclosures about Market Risk	54
8	Financial Statements and Supplementary Data	55
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	55
9A	Controls and Procedures	55
9B	Other Information	57
	PART III	
10	Directors, Executive Officers and Corporate Governance	58
11	Executive Compensation	58
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	58
13	Certain Relationships and Related Transactions, and Director Independence	58
14	Principal Accountant Fees and Services	58
	PART IV	
15	Exhibits and Financial Statement Schedules	59
	Signatures	60

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K may be considered "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements contained herein are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by any such forward-looking statements. Forward-looking statements include information concerning our future financial performance, business strategy, projected plans and objectives. These statements may be identified by the fact that they do not relate to historical or current facts and may use words such as "believes," "expects," "anticipates," "will," "should," "could," "may," "would," "intends," "projects," "estimates," "plans," and similar words, expressions or phrases. The following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

- the high level of competition in the mobility industry, including from new companies or technology, and the impact such competition may have on pricing and rental volume;

- a change in our fleet costs as a result of a change in the cost of new vehicles, manufacturer recalls, disruption in the supply of new vehicles, and/or a change in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;

- the results of operations or financial condition of the manufacturers of our cars, which could impact their ability to perform their payment obligations under our agreements with them, including repurchase and/or guaranteed depreciation arrangements, and/or their willingness or ability to make cars available to us or the rental car industry as a whole on commercially reasonable terms or at all;

- a change in travel demand, including changes or disruptions in airline passenger traffic;

- any change in economic conditions generally, particularly during our peak season or in key market segments;

- an occurrence or threat of terrorism, pandemic disease, natural disasters, military conflict, civil unrest or political instability in the locations in which we operate;

- any substantial changes in the cost or supply of fuel, vehicle parts, energy, labor or other resources on which we depend to operate our business;

- our ability to continue to successfully implement our business strategies, achieve and maintain cost savings and adapt our business to changes in mobility;

- political, economic or commercial instability in the countries in which we operate, and our ability to conform to multiple and conflicting laws or regulations in those countries;

- our dependence on third-party distribution channels, third-party suppliers of other services and co-marketing arrangements with third parties;

- our dependence on the performance and retention of our senior management and key employees;

- risks related to completed or future acquisitions or investments that we may pursue, including the incurrence of incremental indebtedness to help fund such transactions and our ability to promptly and effectively integrate any acquired businesses or capitalize on joint ventures, partnerships and other investments;

- our ability to utilize derivative instruments, and the impact of derivative instruments we utilize, which can be affected by fluctuations in interest rates, gasoline prices and exchange rates, changes in government regulations and other factors;

- our exposure to uninsured or unpaid claims in excess of historical levels;

1

Table of Contents

- risks associated with litigation, governmental or regulatory inquiries, or any failure or inability to comply with laws, regulations or contractual obligations or any changes in laws, regulations or contractual obligations, including with respect to personally identifiable information and consumer privacy, labor and employment, and tax;
- risks related to protecting the integrity of, and preventing unauthorized access to, our information technology systems or those of our third-party vendors, and protecting the confidential information of our employees and customers against security breaches, including physical or cybersecurity breaches, attacks, or other disruptions, and compliance with privacy and data protection regulation;
- any impact on us from the actions of our licensees, dealers, third-party vendors and independent contractors;
- any major disruptions in our communication networks or information systems;
- risks related to tax obligations and the effect of future changes in tax laws and accounting standards;
- risks related to our indebtedness, including our substantial outstanding debt obligations, potential interest rate increases, and our ability to incur substantially more debt;
- our ability to obtain financing for our global operations, including the funding of our vehicle fleet through the issuance of asset-backed securities and use of the global lending markets;
- our ability to meet the financial and other covenants contained in the agreements governing our indebtedness;
- our ability to accurately estimate our future results; and
- other business, economic, competitive, governmental, regulatory, political or technological factors affecting our operations, pricing or services.

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in Item 7, in "Risk Factors" set forth in Item 1A and in other portions of this Annual Report on Form 10-K, may contain forward-looking statements and involve uncertainties that could cause actual results to differ materially from those projected in such statements.

Although we believe that our assumptions are reasonable, any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could differ materially from past results and/or those anticipated, estimated or projected. We undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Table of Contents

PART I

ITEM 1. BUSINESS

Except as expressly indicated or unless the context otherwise requires, the “Company,” “Avis Budget,” “we,” “our” or “us” means Avis Budget Group, Inc. and its subsidiaries. “Avis,” “Budget,” “Budget Truck,” “Zipcar,” “Payless,” “Apex,” “Maggio “Morini Rent,” “Turiscar” and “FranceCars” refer to our Avis Rent A Car System, LLC, Budget Rent A Car System, Inc., Budget Truck Rental, LLC, Zipcar, Inc., Payless Car Rental, Inc., Apex Car Rentals, Maggiore Rent S.p.A., Morini S.p.A., Turiscar Group and AAA France Cars SAS operations, respectively, and, unless the context otherwise requires, do not include the operations of our licensees, as further discussed below.

OVERVIEW

We are a leading global provider of mobility solutions through our three most recognized brands, Avis, Budget and Zipcar, together with several other brands, well recognized in their respective markets. We and our licensees operate the Avis and Budget brands in approximately 180 countries throughout the world. We generally maintain a leading share of airport car rental revenue in North America, Europe and Australasia, and we operate one of the leading truck rental businesses in the United States.

Our differentiated brands help us meet a wide range of customer mobility needs throughout the world. Avis is a leading vehicle rental brand positioned to serve the premium commercial and leisure segments of the travel industry. Budget is a leading vehicle rental brand focused primarily on more value-conscious segments of the industry. Our Zipcar brand is one of the world’s leading car sharing networks offering an alternative to traditional vehicle rental and ownership.

On average, our rental fleet totaled nearly 650,000 vehicles in 2018 and we completed more than 40 million vehicle rental transactions worldwide. We generate approximately 65% of our revenue from on-airport locations and approximately 35% of our revenue from off-airport locations. We license the use of the Avis, Budget, Zipcar and Payless trademarks to licensees in areas in which we do not operate directly. Our brands have an extended global reach with more than 11,000 car and truck rental locations throughout the world, including approximately 4,600 car rental locations operated by our licensees. We believe that Avis, Budget and Zipcar enjoy complementary demand patterns with mid-week commercial demand balanced by weekend leisure demand.

We operate Budget Truck, one of the leading truck rental businesses in the United States, through a network of dealer-operated and Company-operated locations throughout the continental United States. We also own Payless, a car rental brand that operates in the deep-value segment of the industry in the United States and certain other international regions; Apex, which is a leading deep-value car rental brand in New Zealand and Australia; Maggiore and Morini Rent, leading vehicle rental brands in Italy; Turiscar, a well-established car rental brand in Portugal; and FranceCars, which operates one of the largest light commercial vehicle fleets in France. We also have investments in certain of our Avis and Budget licensees outside of the United States.

We categorize our operations into two reportable business segments:

- Americas, which provides and licenses the Company’s brands to third parties for vehicle rentals and ancillary products and services in North America, South America, Central America and the Caribbean, and operates the Company’s car sharing business in certain of these markets; and

- International, which provides and licenses the Company’s brands to third parties for vehicle rentals and ancillary products and services in Europe, the Middle East, Africa, Asia and Australasia, and operates the Company’s car sharing business in certain of these markets.

Additional discussion of our reportable segments is included in the Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 19 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Table of Contents

COMPANY HISTORY

Avis was founded in 1946 and is believed to be the first company to rent cars from airport locations. Since its founding, Avis has expanded its business throughout the United States and internationally, becoming one of the largest and most recognized car rental brands in the world. In 1996, Avis was acquired by HFS Incorporated and in 1997 merged with our predecessor company, with the combined entity being renamed Cendant Corporation. In 2006, Cendant spun off several significant subsidiaries and changed its name to Avis Budget Group, Inc. The Company is a Delaware corporation headquartered in Parsippany, New Jersey.

Budget was founded in 1958 to appeal to the value-conscious car rental customer. In 2002, we acquired the Budget brand and certain Budget vehicle rental operations, including the Budget truck rental business. In 2011, we acquired Avis Europe, an independently-owned Company licensee, to expand our international operations and globally reunite the Avis and Budget brands. In 2012 and 2013, we acquired our Apex and Payless brands, respectively, which allowed us to expand our presence in the deep-value segment of the car rental industry. In 2013, we acquired Zipcar, one of the world’s leading car sharing networks, to better serve a greater variety of our customers’ mobility needs. In 2015, we acquired Maggiore, a leading provider of vehicle rental services in Italy. In 2016, we acquired FranceCars, a privately held vehicle rental company based in France, which significantly expanded our presence in the French market. In 2018, we acquired Morini, which focuses on rentals of cars, vans and refrigerated trucks in Northern Italy, and Turiscar, a well-established vehicle rental company in Portugal, and also invested in our licensee in Greece. These acquisitions have allowed us to continue to expand our global footprint of Company-operated locations and brand presence.

OUR STRATEGY

Our objective is to drive sustainable, profitable growth for our Company by delivering strategic initiatives aimed at winning and retaining customers through differentiated brands and products, increasing our margins via revenue growth and operational efficiency and enhancing our leadership in the evolving mobility industry.

Supporting and Strengthening Our Brands

In executing our strategy, we will continue to position our distinct and well-recognized global brands to focus on different segments of customer demand, complemented by our other brands in their respective regional markets. While our brands address different use-cases and target customers, we achieve efficiencies by sharing the same operational and administrative infrastructure while providing differentiated value propositions tailored to each of our brands.

We currently operate our brands, either directly or through independent operators and licensees around the world and we plan to continue to strengthen and further expand our global footprint through organic growth and, potentially, through acquisitions, joint ventures, licensing agreements or other relationships:

- In countries where we have Company-operated locations, we will continue to identify opportunities to add new rental locations, to grant licenses to independent third parties for areas where we do not currently operate and do not wish to operate directly, to strengthen the presence of our brands and in certain cases to re-acquire previously granted license rights.

- In countries operated by licensees or partners, we will seek to ensure that those businesses are well positioned to realize the growth potential of our brands in those countries and are growing their presence in those markets, and in certain cases we will continue to consider the re-acquisition of previously granted license rights.

- In countries where we have either Company-operated or licensee-operated locations, we will also continue to identify opportunities to leverage our Zipcar brand and its car sharing model, which allows us to fulfill the expanding urban mobility needs of customers.

Since our Avis brand represents approximately 58% of our revenue and is recognized as a global leader in vehicle rental, we are particularly focused on maintaining and building its reputation as a reliably high-quality service provider. Our Avis Preferred loyalty program, which offers our customers the ability to bypass the rental

counter and also earn reward points, coupled with our continued investment in technology, including our Avis mobile application and websites, and our growing fleet of connected cars, are all key parts of our efforts to enhance the Avis experience for our customers.

We aim to provide a range of vehicles, products and services at competitive prices, to leverage various marketing channels and to maintain marketing affiliations and corporate account contracts that complement each brand's positioning. We also continue to invest in our brands through a variety of efforts, including both on-line and off-line marketing. We continue to see particular growth opportunities for Budget and our other local brands in Europe, as the share of airport car rentals for Budget is significantly smaller in Europe than in certain other parts of the world.

To further support and strengthen our brands, we are committed to serving our customers and enhancing their rental experience through new organic offerings that optimize our brands, our systems and our employees. We frequently solicit feedback from and survey our customers to better understand their needs and we have implemented actions to enhance our services, including the following:

- We created our Avis mobile application to provide a higher quality end-to-end user experience, building upon direct feedback from customers to re-design the rental experience to meet their needs. Our Avis mobile application allows customers to reserve, update and cancel reservations, choose their car, exchange or upgrade their vehicle, add ancillary products, extend rentals, return the vehicle with one click, view and share current and past rental receipts to expedite expense processing, review rental agreement details and the vehicle's insurance card, and, in the case of connected vehicles, lock and unlock the vehicle, confirm their fuel level at the beginning and end of their rental as well as miles driven, using their mobile device;

- We continue to upgrade our technology and the ways it can further serve our customers, to make the vehicle reservation, pick-up and return processes more convenient and user-friendly, with a particular emphasis on enabling and simplifying our customers' online transactions. We have partnered with other technology and product companies to continuously improve the user experience through various mobile and technology capabilities. These include working with Amazon to allow for voice-controlled access to our services through Amazon Alexa enabled devices; and

- We piloted and subsequently launched "Curbside Delivery" services in select U.S. airport markets, in which customers can bring their car to the Avis and Budget return lot, where an Avis or Budget employee will drive them to their appointed terminal or gate and complete the vehicle return process transaction at the curb.

We will continue to invest in these and other innovative efforts, with a particular emphasis on technologies, services and products that will allow us to not only serve customers more effectively and efficiently, but offer new brand-differentiating options.

Margins and Operational Efficiency

Our strategy is focused on identifying and implementing actions to increase our margins over the next several years. We see significant potential in opportunities that optimize our pricing and customer mix; increase sales of ancillary products and services through new product and service development; optimize our procurement processes; refine the deployment and disposition of vehicles (e.g. increasing the use of non-auction channels for selling our vehicles); drive operational efficiency in our business; and apply connected car/in-vehicle systems and other innovative mobility technologies in our operations.

We continue to pursue opportunities intended to drive our margins and increase our revenues and profitability, including:

- Offering our customers useful ancillary products and services, promoting car class upgrades, adjusting our mix of vehicles to match customer demand; repositioning our sales strategy to focus on the most profitable segments, increasing the number of rentals that customers book directly through our websites and mobile applications and increasing the proportion of "Pay Now" transactions by which customers prepay for rentals.

- Investing in yield management and pricing analytics tools, such as our Revenue Management System, to increase the profits we earn per rental day. We have implemented, and plan to continue deploying, new technology systems that strengthen our yield management decisions and enable us to tailor our product,

Table of Contents

service and price offerings to meet our customers' needs and react quickly to shifting market conditions. We will continue to adjust our pricing to improve profitability and manage our fleet to match changes in demand.

- Managing and improving our fleet decisions to better optimize and drive the purchase, deployment, and disposition of our fleet to lower costs and meet customer demand, grow our direct-to-dealer and consumer sales performance, reduce maintenance and repair expenses, better optimize our salvage costs, reduce the risk of damage to our vehicles, and improve fleet utilization benefits and savings by combining our vehicle rental and car sharing fleets when appropriate which we believe will create significant financial benefits.
- Seeking opportunities where our investments will generate strong margin returns, including expanding rental locations, acquiring and integrating existing licensees in key markets, participating in joint ventures and acquiring leading local brands.
- Increasing our Zipcar membership base within its existing markets, as well as expanding the brand into new markets.

We also continued to focus our efforts on rigorously controlling our costs, aggressively reducing expenses and increasing efficiencies throughout our organization by:

- Implementing process improvements throughout our business to increase efficiencies, reduce operating costs and create sustainable cost savings.
- Achieving reductions in underlying direct operating and selling, general and administrative expenses, including reductions in staff where and when appropriate.
- Assessing location, segment and transaction profitability to address less-profitable aspects of our business and focus on the more-profitable accounts that will help drive increased margins.
- Deploying changes to our sales, marketing and affinity programs to improve profitability.
- Integrating our acquired businesses, to realize cost efficiencies from combined maintenance, systems, technology and administrative infrastructure.
- Implementing innovative technological solutions like self-service voice reservation technology, mobile communications with customers and fleet optimization technologies to reduce costs.

We believe such operational improvements will continue to assist and in some cases, drive our financial performance.

Our Evolving Mobility Platform

We believe our Company is well-positioned as a global leader in the evolving mobility marketplace. Mobility is more than providing a clean reliable car of choice for a customer to use to get from point A to point B; it also means providing our customers the choice to rent a vehicle or share a vehicle, and to do so by the year, month, week, day, hour or fraction of an hour. Mobility means our customers, using their smartphones or tablets, can customize their experiences with our products, services, and employees, bypass the counter or change their minds about the make or model of a vehicle and review their options on their mobile device right up to the moment they exit the parking lot. Mobility also means providing customers with choices even on the shortest trips, including how they want to be transported to or from their rental vehicles at the airport or by providing them with real time data about the wait time for the next shuttle.

When our customers return their rental vehicles to our fleet, whether at an airport or off-airport facility or a designated customer parking spot, our preferred customers can receive their complete charges for their transaction including gas, ancillary products use, and any other applicable charges, via email or text, within minutes of their proper return of the vehicle. In the future we intend to deliver more data content to our customers in their vehicles and to their devices that will provide them with customized access to useful information they want to know about, including eating, shopping, lodging, emergency assistance and tips on just enjoying the location they are visiting.

With our connected cars, mobility means being able to collect data about the car that will improve customer service and vehicle safety. It also means that we will be able to provide a new suite of services for clients who are looking to utilize our operational experience and our technology to maintain and manage their own fleets, and provide supply chain services with quality and precision at levels that exceed their ability to do so themselves.

Table of Contents

Our current and growing list of business partnerships with other mobility service providers in adjacent business models allows us to offer more options to our business and leisure customers to satisfy a wide variety of mobility needs.
For our shareholders, mobility means seizing opportunities that will increase our overall value through strategies that expand the use of our technologies, fleet and employees, open new markets, increase revenue and margins across all our brands; and maintain our strength as an innovator in the expanding mobility market.

Since 2017, we have undertaken several initiatives and entered into partnerships in support of our strategy, including:

- Exceeding our goal of having more than 100,000 connected vehicles in our U.S. Avis fleet in 2018, delivering both customer benefits and operational efficiencies, including entering into agreements with Ford and Toyota to connect all their vehicles in our U.S. Avis fleet. We also expect to expand connected vehicles in Europe during 2019, bringing us closer to our goal of having a 100% global connected fleet;
- Our launch of our first-ever Mobility Lab in the Kansas City, Missouri area, utilizing fully connected vehicles that allows us to leverage our capabilities to deliver operational efficiencies through on-demand inventory counts, mileage management and automated maintenance notifications that enhance and optimize the Company's fleet management capabilities;
- Our integration with Amazon Alexa, which allows travelers to book and manage their car rental reservations through the voice platform on Amazon Echo;
- Our partnership with Waymo, an Alphabet Inc. company, through which we are offering fleet support and maintenance services for their growing fleet of autonomous vehicles in Phoenix, Arizona. This provides a unique opportunity to grow our understanding of the support and operational maintenance requirements for self-driving vehicles at the fleet level, including staffing and facility requirements;
- Our focus on emerging technologies through our collaboration with various international and local technology incubators;
- Our partnership with Lyft, in which we are enabling Lyft drivers across North America the ability to use Avis vehicles on a monthly and weekly basis as an alternative to using their own personal vehicle;
- Our partnership with Brightline in Florida, the only privately owned and operated passenger rail service in the United States, in which we offer Brightline passengers and those living or working near Brightline's stations convenient access to Avis and Zipcar vehicles that can be reserved via integration with the Brightline app; and
- Our use of Amazon Web Services' ("AWS") Connected Vehicle Solution to build our data analytics platform, providing highly secure and scalable cloud services and allows us to leverage AWS' capabilities for artificial intelligence, machine learning, and data management to develop a wide variety of innovative connected vehicle applications and mobility services.

We are committed to finding new and innovative ways of thinking and operating, and to leverage our technology, employees, global presence and capabilities to be leaders among the contributors that are now shaping the evolving mobility market.

OUR BRANDS AND OPERATIONS

OUR BRANDS

Our Avis, Budget and Zipcar brands are three of the most recognized brands in our industry. We believe that we enjoy significant benefits from operating our brands with services and products targeted to different customers and sharing the same maintenance facilities, fleet management systems, technology and administrative infrastructure. In addition, we are able to recognize significant benefits and savings by combining our car rental and car sharing maintenance activities and fleets at times to increase our fleet utilization efficiency and to meet demand peaks. We believe that Avis, Budget and Zipcar all enjoy complementary demand patterns with mid-week commercial demand balanced by weekend leisure demand. We also operate the Apex and Payless brands, which operate in the deep-value segment of the car rental industry, augmenting our Avis, Budget and Zipcar brands. In addition, our Maggiore and Morini brands in Italy, FranceCars brand in France and Turiscar brand in Portugal further extend the range of vehicle use occasions

we are able to serve.

Table of Contents

The following graphs present the approximate composition of our revenue by brand, customer and market in 2018.

* Includes Budget Truck.
** Includes Zipcar and other operating brands.
*** Includes Budget Truck and Zipcar.

Avis

The Avis brand provides high-quality vehicle rental and other mobility solutions at price points generally above non-branded and value-branded vehicle rental companies to serve the premium commercial and leisure segments of the travel industry. We operate or license the Avis vehicle rental system (the "Avis System"), one of the largest global vehicle rental systems, at approximately 5,500 locations worldwide, including in virtually all of the largest commercial airports and cities in the world.

The Avis System is comprised of an approximately equal number of company-owned and licensee vehicle rental locations worldwide, in both the on-airport and off-airport, or local, rental markets. The table below presents the approximate number of locations that comprise the Avis System as of December 31, 2018.

	Avis System Locations*		
	Americas	International	Total
Company-operated locations	1,550	1,300	2,850
Licensee locations	700	1,950	2,650
Total Avis System Locations	2,250	3,250	5,500

*Certain locations support multiple brands.

In 2018, our company-operated Avis locations generated total world-wide revenue of approximately $5.3 billion, of which approximately $2.6 billion was derived from commercial customers and approximately $3.6 billion was derived from customers renting at airports. The following graphs present the approximate composition of our Avis revenue by segment, customer and market in 2018.

We also license the Avis System to independent commercial owners who operate approximately half of our locations worldwide and generally pay royalty fees to us based on a percentage of applicable revenue. In 2018, approximately 33% of the global Avis System revenue was generated by our licensees. The graphs below present the approximate composition of the Avis System revenue in 2018.

Table of Contents

We offer Avis customers a variety of premium services, including:

- the Avis mobile application, which allows customers a new and innovative way to control many elements of their rental experience via their mobile devices without the need to visit the rental counter. The Avis mobile application also allows customers to track Avis shuttle buses to rental locations, find their vehicle, and locate nearby gas stations and parking facilities;

- Avis Preferred, a frequent renter rewards program that offers counter-bypass at major airport locations and reward points for every dollar spent on vehicle rentals and related products;

- the Avis Select Series, a selection of luxury vehicles including Mercedes, Jaguars, Corvettes, and others;

- availability of premium, sport and performance vehicles as well as eco-friendly vehicles, including gasoline/electric hybrids;

- access to portable navigation units, tablets and in-dash satellite radio service;

- Avis rental services such as roadside assistance, fuel service options, e-receipts, electronic toll collection services that allow customers to pay highway tolls without waiting in toll booth lines, and amenities such as Avis Access, a full range of special products and services for drivers and passengers with disabilities;

- Curbside Delivery, a service that provides customers at select airport locations in the United States with the added convenience of being dropped off at the airport terminal in the same car that they rented;

- for our corporate customers, Avis Budget Group Business Intelligence, a proprietary customer reporting solution that provides a centralized reporting tool and customer reporting portal for all corporate clients around the globe. This enables them to easily view and analyze their rental activity, permitting them to better manage their travel budgets and monitor employee compliance with applicable travel policies; and

- applications that serve our customers through various mobile and technology platforms, including Apple Watch devices and voice-controlled access through Amazon Alexa enabled devices.

Budget

The Budget brand is a leading supplier of vehicle rental and other mobility solutions focused primarily on more value-conscious customers. We operate or license the Budget vehicle rental system (the “Budget System”), which is comprised of vehicle rental locations at most of the largest airports and cities in the world.

The table below presents the approximate number of locations that comprise the Budget System as of December 31, 2018.

Table of Contents

	Budget System Locations*		
	Americas	International	Total
Company-operated locations	1,375	875	2,250
Licensee locations	650	1,100	1,750
Total Budget System Locations	2,025	1,975	4,000

*Certain locations support multiple brands.

In 2018, our company-operated Budget vehicle rental operations generated total revenue of approximately $2.7 billion, of which approximately $2.0 billion was derived from leisure customers and $2.1 billion was derived from customers renting at airports. The following graphs present the approximate composition of our Budget revenue by segment, customer and market in 2018.

We also license the Budget System to independent commercial owners who operate approximately half of our locations worldwide and generally pay royalty fees to us based on a percentage of applicable revenue. In 2018, approximately 29% of the global Budget System revenue was generated by our licensees. The graphs below present the approximate composition of the Budget System revenue in 2018.
Budget offers its customers several products and services similar to Avis, such as refueling options, roadside assistance, electronic toll collection, curbside dropoff and other supplemental rental products, emailed receipts and special rental rates for frequent renters. In addition, Budget's mobile application allows customers to reserve, modify and cancel reservations on their mobile device, and its Fastbreak service, expedites rental service for frequent travelers.

Budget Truck

Our Budget Truck rental business is one of the largest local and one-way truck rental businesses in the United States. As of December 31, 2018, our Budget Truck fleet is comprised of approximately 18,000 vehicles that are rented through a network of approximately 640 dealer-operated and 430 Company-operated locations throughout the continental United States. These dealers are independently-owned businesses that generally operate other retail service businesses. In addition to their principal businesses, the dealers rent our light- and medium-duty trucks to customers and are responsible for collecting payments on our behalf. The dealers receive a commission on all truck and ancillary equipment rentals. The Budget Truck rental business serves both the consumer and light commercial sectors. The consumer sector consists primarily of individuals who rent trucks to move household goods on either a one-way or local basis. The light commercial sector consists of a wide range of businesses that rent light- to medium-duty trucks, which we define as trucks having a gross vehicle weight of less than 26,000

Table of Contents

pounds, for a variety of commercial applications.

Zipcar

Zipcar operates one of the world's leading membership-based car sharing networks, which provides its members on-demand access to vehicles in over 500 cities and towns and at more than 600 college campuses around the world. Zipcar provides its members on-demand, self-service vehicles in reserved parking spaces located in neighborhoods, business districts, office complexes, college campuses and airports, as an alternative to car ownership. Members can reserve vehicles online, on a mobile device or over the phone, by the minute, hour or by the day, at rates that include gasoline, insurance and other costs associated with vehicle ownership. In 2018, we widened Zipcar's product offering by launching our Zipcar Commuter product, which is now available in 11 major markets in North America and provides unlimited, sole access to a vehicle and dedicated parking spot for Zipcar members who commute outside of the city for work. We also began offering our Zipcar "Flex" product in London providing for one-way rentals that are typically at a lower price than ride-hailing services.

Other Brands

Our Payless brand is a leading rental car supplier positioned to serve the deep-value segment of the vehicle rental industry. We operate or license the Payless brand, which is comprised of approximately 280 locations worldwide, including approximately 120 Company-operated locations and more than 160 locations operated by licensees. Company-operated Payless locations are primarily located in North America, the majority of which are at or near major airports. Payless' rental fees are often lower than those of larger, more established brands, but Payless has historically achieved a greater penetration of ancillary products and services with its customers. The Payless business model allows the Company to extend the life-cycle of a portion of our fleet, as we "cascade" certain vehicles that exceed certain Avis and Budget age or mileage thresholds to be used by Payless.

Our Apex brand operates in the deep-value segment of the vehicle rental industry in New Zealand and Australia, where we have approximately 30 rental locations. Apex operates its own rental fleet, separate from Avis and Budget vehicles. Apex generates its reservations through its proprietary websites as well as its contact center and online travel agencies and typically has a greater-than-average length of rental. Apex operates rental locations at, or near, major airports and in several metropolitan cities.

Our Maggiore brand is a leading vehicle rental brand in Italy, where we operate or license approximately 140 rental locations under the Maggiore name. Our Maggiore brand has a strong domestic reputation and benefits from a strong presence at airport, off-airport and railway locations, and benefits from the integration of our existing operations and fleet management expertise. In addition, our recently acquired Morini brand is a leading vehicle rental brand in Italy, which offers rental of cars, vans and refrigerated vehicles. We operate or license more than 40 rental locations under the Morini name throughout the country.

Our FranceCars brand operates one of the largest light commercial vehicle fleets in France from approximately 85 rental locations and leverages our existing operational processes and local customer base.

Our recently acquired Turiscar brand is a leading vehicle rental brand in Portugal, primarily in the corporate market, including light commercial vehicles, from approximately 25 rental locations throughout the country.

RESERVATIONS, MARKETING AND SALES

Reservations

Our customers can make vehicle rental reservations through our brand-specific websites and toll-free reservation centers, by calling a specific location directly, through our brand-specific mobile applications, online travel agencies, travel agents or through selected partners, including many major airlines, associations and retailers. Travel agents can access our reservation systems through all major global distribution systems, which provide information with respect to rental locations, vehicle availability and applicable rate structures.

Our Zipcar members may reserve cars by the minute, hour or by the day through Zipcar's reservation system, which is accessible through the Zipcar website, through the Zipcar application on their smartphone or by phone.

Table of Contents

We also provide two-way SMS texting, enabling us to proactively reach out to members during their reservation via their mobile device to manage their reservation, including instant reservation extension.

Marketing and Sales

We support our brands through a range of marketing channels and campaigns, including traditional media, such as television and print advertising, as well as Internet and email marketing, social media and mobile device applications. We market through sponsorships of major sports entities such as the PGA Tour, the New York Yankees, the Toronto Maple Leafs and Toronto FC. We also market through sponsorships of charitable organizations such as the Make-A-Wish Foundation. We utilize a customer relationship management system that enables us to deliver more targeted and relevant offers to customers across online and offline channels and allows our customers to benefit through better and more relevant marketing, improved service delivery and loyalty programs that reward frequent renters with free rental days and car class upgrades.

We maintain strong links to the travel industry including marketing alliances with numerous marketing partners, such as:

- Many major airlines, including Air Canada, Air France, Air New Zealand, American Airlines, British Airways, Frontier Airlines, Hawaiian Airlines, Iberia Airlines, Japan Airlines, JetBlue Airways, KLM, Lufthansa, Norwegian Air, Qantas, SAS, Southwest Airlines, Virgin America and WestJet Airlines;

- Many major hotel companies, including Best Western International, Inc., Choice Hotels International, Hyatt Corporation, MGM Resorts International, Radisson Hotels and Resorts, Universal Parks & Resorts and Wyndham Hotels & Resorts and in 2018, we became the exclusive car rental partner of Luxury Retreats, an Airbnb worldwide villa rental company;

- Offering customers the ability to earn frequent traveler points with many major airlines' and hotels' frequent traveler programs. We are the exclusive rental partner of the Aeroplan, JetBlue and Wyndham Rewards loyalty programs; and

- Relationships with non-travel entities, such as affinity groups, membership organizations, retailers, financial institutions and credit card companies.

In addition, we developed new relationships that provide brand exposure and access to new customers, including a multi-year deal with Lyft to provide vehicles to the Lyft Express Drive Program in cities across North America, an agreement with Amazon to reward customers who rent an Avis or Budget car with gift cards, and a mobility partnership with Brightline, a privately owned passenger rail service in Florida.

Approximately 60% of vehicle rental transactions in 2018 from our Company-operated Avis locations were generated by travelers who rented from Avis under contracts between Avis and their employers or through membership in an organization with which Avis has a contractual affiliation (such as AARP and Costco Wholesale). Avis also maintains marketing relationships with other organizations such as American Express, MasterCard International and others, through which we are able to provide their customers with incentives to rent from Avis. Generally, Avis licensees also have the option to participate in these affiliations.

Additionally, we offer "Unlimited Rewards®," an award-winning loyalty incentive program for travel agents, and Avis and Budget programs for small businesses that offer discounted rates, central billing options and rental credits to members. Budget has contractual arrangements with American Express, MasterCard International and other organizations, which offer members incentives to rent from Budget.

Our Zipcar brand also partners with other active lifestyle brands that appeal to our Zipcar members and we organize, sponsor and participate in charitable and community events with organizations that are important to our Zipcar members. Zipcar maintains close relationships with universities that allow us to market to the "next generation consumer" who, upon graduation, may continue their relationship with us and advocate for broad sponsorship of Zipcar membership at their places of work. Through our Zipcar for Business program, we also offer reduced weekday driving rates to employees of companies, federal agencies and local governments that sponsor the use of Zipcars.

Table of Contents

LICENSING

We have licensees in approximately 175 countries throughout the world. Royalty fee revenue derived from our vehicle rental licensees in 2018 totaled $135 million, with approximately $97 million in our International segment and $38 million in our Americas segment. Licensed locations are independently operated by our licensees and range from large operations at major airport locations and territories encompassing entire countries to relatively small operations in suburban or rural locations. Our licensees generally maintain separate independently owned and operated fleets. Royalties generated from licensing provide us with a source of high-margin revenue because there are relatively limited additional costs associated with fees paid by licensees to us. Locations operated by licensees represented approximately 45% of our Avis and Budget vehicle rental locations worldwide and approximately 31% of total revenue generated by the Avis and Budget Systems in 2018. We facilitate one-way vehicle rentals between Company-operated and licensed locations, which enables us to offer an integrated network of locations to our customers.

We generally enjoy good relationships with our licensees and meet regularly with them at regional, national and international meetings. Our relationships with our licensees are governed by license agreements that grant the licensee the right to operate independently operated vehicle rental businesses in certain territories. Our license agreements generally provide our licensees with the exclusive right to operate under one or more of our brands in their assigned territory. These agreements impose obligations on the licensee regarding its operations, and most agreements restrict the licensee’s ability to sell, transfer or assign its rights granted under the license agreement or to change the control of its ownership without our consent.

The terms of our license agreements, including duration, royalty fees and termination provisions, vary based upon brand, territory, and original signing date. Royalty fees are generally structured to be a percentage of the licensee’s gross rental income. We maintain the right to monitor the operations of licensees and, when applicable, can declare a licensee to be in default under its license agreement. We perform audits as part of our program to assure licensee compliance with brand quality standards and contract provisions. Generally, we can terminate license agreements for certain defaults, including failure to pay royalties or to adhere to our operational standards. Upon termination of a license agreement, the licensee is prohibited from using our brand names and related marks in any business. In the United States, these license relationships constitute “franchises” under most federal and state laws regulating the offer and sale of franchises and the relationship of the parties to a franchise agreement.

We continue to optimize the Avis and Budget Systems by issuing new license agreements and periodically acquiring licensees to grow our revenues and expand our global presence. Discussion of our recent acquisitions is included in Note 5 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

OTHER REVENUE

In addition to revenue from our vehicle rentals and licensee royalties, we generate revenue from our customers through the sale and/or rental of optional ancillary products and services. We offer products to customers that will enhance their rental experience, including:

- collision and loss damage waivers, under which we agree to relieve a customer from financial responsibility arising from vehicle damage incurred during the rental;
- additional/supplemental liability insurance or personal accident/effects insurance products which provide customers with additional protections for personal or third-party losses incurred;
-

products for driving convenience such as fuel service options, chauffeur drive services, roadside assistance services, electronic toll collection services, curbside dropoff, tablet rentals, access to satellite radio, portable navigation units and child safety seat rentals; and

- products that supplement truck rental including automobile towing equipment and other moving accessories such as hand trucks, furniture pads and moving supplies.

13

Table of Contents

We offer customized bundling of certain of these ancillary products and services, allowing our customers to benefit from discounted pricing and providing customers the flexibility to add multiple products or services that suit their needs.

We also receive payment from our customers for certain operating expenses that we incur, including vehicle licensing fees, as well as airport concession fees that we pay in exchange for the right to operate at airports and other locations. In addition, we collect membership fees in connection with our car sharing business.

OUR TECHNOLOGIES

Vehicle Rental

We use a broad range of technologies in our vehicle rental operations, substantially all of which are linked to what we call our Wizard system, which is a worldwide reservation, rental, fleet control, data processing and information management system. The Wizard system enables us to process millions of incoming customer inquiries each day, providing our customers with accurate and timely information about our locations, rental rates and vehicle availability, as well as the ability to place or modify reservations. Additionally, the Wizard system is linked to virtually all major travel distribution networks worldwide and provides real-time processing for travel agents, travel industry partners (such as airlines and online travel sites), corporate travel departments and individual consumers through our websites or contact centers. The Wizard system also provides personal profile information to our reservation and rental agents to help us better serve our customers.

We also use data supplied from the Wizard system and other third-party reservation and information management systems to maintain centralized control of major business processes such as fleet acquisition and logistics, sales to corporate accounts and determination of pricing. The principal components of the systems we employ include:

- Fleet planning model. We have a comprehensive decision tool to develop fleet plans and schedules for the acquisition and disposition of our fleet, along with fleet age, mix, mileage and cost reports, allowing management to monitor and change fleet deployment on a daily basis and to optimize our fleet plan based on estimated business levels and available repurchase and guaranteed depreciation programs.

- Revenue management system. We have a revenue management system which is designed to enhance profitability by providing greater control of vehicle availability, inventory movements and pricing at our rental locations. Our system monitors and forecasts both vehicle supply and customer demand to support our strategy to optimize volume and rate at each location. An integrated fleet distribution module takes into consideration the costs and benefits associated with distributing vehicles to various rental locations within a geographic area to accommodate demand, and make specific recommendations for movement of vehicles between locations. We utilize sophisticated systems to gather and report competitive industry rental rate changes every day using data from third-party reservation systems, which automatically scan rate movements and report significant changes for evaluation.

- Websites and mobile applications. Our websites and mobile applications leverage our technology across brands and provide a simpler, streamlined experience for our customers.

- Connected car services application. We have developed an enterprise-wide application that interfaces with various telematics solutions that support our self-service and connected car strategy. This application, among other things, enables a more accurate reading of fuel and mileage to enable a customer to self-service check-out and check-in their vehicle.

-

Campaign management. We have deployed tools that enable us to recognize customer segments and value, and to automatically present appropriate offers on our websites.

- Interactive adjustments. We have developed a customer data system that allows us to easily retrieve pertinent customer information and make needed adjustments to completed rental transactions online for superior customer service.

Table of Contents

Car Sharing

Our Zipcar car sharing technology was specifically designed and built for our car sharing business and has been continually refined and upgraded. Our fully-integrated platform centralizes the management of our Zipcar reservations, member services, fleet operations and financial systems to optimize the member experience, minimize costs and leverage efficiencies. Our platform allows for basic functions such as processing new member applications, managing reservations and keyless vehicle access, and providing the mobile and website applications used by our members. This platform also allows us to manage and monitor member interactions and communications, billing and payment processing, manage our car sharing fleet, including service and cleanings, vehicle locations and monitor and analyze key metrics of each Zipcar such as utilization rate, mileage and maintenance requirements.

Each Zipcar is typically equipped with a combination of telematics modules, including a control unit with mobile data service, radio frequency identification card readers, wireless antennae, wiring harness, vehicle interface modules and transponders for toll systems. This hardware, together with internally developed embedded firmware, vehicle communication protocols and datacenter software, allows us to authorize secure access to our Zipcars from our data centers and provides us with a comprehensive set of fleet management data that is stored in our centralized database.

Interactions between members and our Zipcars are captured in our system, across all communication channels, providing us with knowledge we use to improve our members' experiences and optimize our business processes. We continue to innovate our technology platform to provide scale to support growth, drive operational efficiency and improve the member experience.

OUR FLEET

We offer a wide variety of vehicles in our rental fleet, including luxury cars, specialty-use vehicles and light commercial vehicles. Our fleet consists primarily of vehicles from the current and immediately preceding model year. We maintain a single fleet of vehicles for Avis and Budget in countries where we operate both brands. The substantial majority of Zipcar's fleet is dedicated to use by Zipcar. We maintain a diverse rental fleet, in which no vehicle manufacturer represented more than 14% of our 2018 fleet purchases, and we regularly adjust our fleet levels to be consistent with demand. We participate in a variety of vehicle purchase programs with major vehicle manufacturers. The following presents the approximate percentage of fleet purchases by manufacturer in 2018.

* Includes all manufacturers for which fleet purchases were less than 5%.

Table of Contents

Fleet costs represented approximately 25% of our aggregate expenses in 2018. Fleet costs can vary from year to year based on the prices at which we are able to purchase and dispose of rental vehicles.

In 2018, on average, approximately 38% of our rental car fleet was comprised of vehicles subject to agreements requiring automobile manufacturers to repurchase vehicles at a specified price during a specified time period or guarantee our rate of depreciation on the vehicles during a specified period of time, or were vehicles subject to operating leases, which are subject to a fixed lease period and interest rate. We refer to cars subject to these agreements as “program” cars and cars not subject to these agreements as “risk” cars because we retain the risk associated with such cars’ residual values at the time of their disposition. The following graphs present the approximate percentage of program cars in both our average rental car fleet and fleet purchases within each of our reporting segments in the last three years.

Our agreements with automobile manufacturers typically require that we pay more for program cars and maintain them in our fleet for a minimum number of months and impose certain return conditions, including car condition and mileage requirements. When we return program cars to the manufacturer, we receive the price guaranteed at the time of purchase and are therefore protected from fluctuations in the prices of previously-owned vehicles in the wholesale market. In 2018, approximately 54% of the vehicles we disposed of were sold pursuant to repurchase or guaranteed depreciation programs. The future percentages of program and risk cars in our fleet will depend on several factors, including our expectations for future used car prices, our seasonal needs and the availability and attractiveness of manufacturers’ repurchase and guaranteed depreciation programs.

We dispose of our risk cars largely through automobile auctions and direct-to-dealer sales. In 2018, we continued to expand the scope of our direct-to-consumer car sales program to include the sale of our risk cars directly to consumers through our retail lots in several U.S. cities and through our Ultimate Test Drive program, which offers customers the ability to purchase well-maintained, late-model rental vehicles from our rental car fleet. Alternative disposition channels such as direct-to-consumer, online auctions, retail lots and direct-to-dealer sales provide the opportunity to increase vehicle sale prices and reduce relevant fleet costs compared to selling cars at auctions.

In 2018, our average monthly vehicle rental fleet size ranged from a low of approximately 557,000 vehicles in January to a high of approximately 746,000 vehicles in July. Our average monthly car rental fleet size typically peaks in the summer months. Average fleet utilization for 2018, which is based on the number of rental days (or portion thereof) that vehicles are rented compared to the total amount of time that vehicles are available for rent, ranged from 65% in January to 75% in July. Our calculation of utilization may not be comparable to other companies’ calculation of similarly titled metrics.

Table of Contents

We place a strong emphasis on the quality of our vehicle maintenance for customer safety and customer satisfaction reasons, and because quick and proper repairs are critical to fleet utilization. To accomplish this task, we developed specialized training programs for our technicians. Our Maintenance and Damage Planning Department prepares technical service bulletins that can be retrieved electronically at our repair locations. In addition, we have implemented policies and procedures to promptly address manufacturer recalls as part of our ongoing maintenance and repair efforts.

CUSTOMER SERVICE

Our commitment to delivering a consistently high level of customer service across all of our brands is a critical element of our success and business strategy. Our Customer Led, Service Driven™ program focuses on continually improving the overall customer experience based on our research of customer service practices, improved customer insights, executing our customer relationship management strategy, delivering customer-centric employee training and leverage our mobile applications technology and the enriched experience it provides our customers.

The employees at our Company-operated locations are trained and empowered to resolve most customer issues at the location level. We also continuously track customer-satisfaction levels by sending location-specific surveys to recent customers and utilize detailed reports and tracking to assess and identify ways that we can improve our customer service delivery and the overall customer experience. Our location-specific surveys ask customers to evaluate their overall satisfaction with their rental experience and the likelihood that they will recommend our brands, as well as key elements of the rental experience. Results are analyzed in aggregate and by location to help further enhance our service levels to our customers.

We understand our customers' time is valuable and we offer rental options that provide greater control and self-service capabilities. While our mobile applications provide a fast customer experience, our customers know a company representative is always available to meet their needs. Our survey platform includes specific questions to learn more about individual preferences and find innovative ways to better serve and anticipate our customers' needs.

EMPLOYEES

As of December 31, 2018, we employed approximately 30,000 people worldwide, of whom approximately 8,800 were employed on a part-time basis. Of our approximately 30,000 employees, approximately 18,000 were employed in our Americas segment and 12,000 in our International segment.

In our Americas segment, the majority of our employees are at-will employees and, therefore, not subject to any type of employment contract or agreement. Certain of our executive officers may be employed under employment contracts that specify a term of employment and specify pay and other benefits. In our International segment, we enter into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction. Many of our employees are covered by a variety of union contracts and governmental regulations affecting, among other things, compensation, job retention rights and pensions.

As of December 31, 2018, approximately 27% of our employees were covered by collective bargaining or similar agreements with various labor unions. We believe our employee relations are satisfactory.

AIRPORT CONCESSION AGREEMENTS

We generally operate our vehicle rental and car sharing services at airports under concession agreements with airport authorities, pursuant to which we typically make airport concession payments and/or lease payments. In general, concession fees for on-airport locations are based on a percentage of total commissionable revenue (as defined by each airport authority), often subject to minimum annual guaranteed amounts. Concessions are typically awarded by airport authorities every three to ten years based upon competitive bids. Our concession agreements with the various airport authorities generally impose certain minimum operating requirements, provide for relocation in the event of future construction and provide for abatement of the minimum annual guarantee in the event of extended low passenger volume.

Table of Contents

OTHER BUSINESS CONSIDERATIONS

SEASONALITY

Our vehicle rental business is subject to seasonal variations in customer demand patterns, with the spring and summer vacation periods representing our peak seasons for the majority of the countries in which we operate. We vary our fleet size over the course of the year to help manage any seasonal variations in demand, as well as localized changes in demand. The following chart presents our quarterly revenues for the years ended December 31, 2016, 2017 and 2018.

COMPETITION

The competitive environment for our industry is generally characterized by intense price and service competition among global, local and regional competitors. Competition in our vehicle rental operations is based primarily upon price, customer service quality, including usability of booking systems and ease of rental and return, vehicle availability, reliability, rental locations, product innovation and national or international distribution. In addition, competition is also influenced strongly by advertising, marketing, loyalty programs and brand reputation. We believe the prominence and service reputation of our brands, extensive worldwide ownership of mobility solutions and commitment to innovation provides us with a competitive advantage.

The use of technology has increased pricing transparency among vehicle rental companies and other mobility solutions providers enabling cost-conscious customers to more easily compare on the Internet and their mobile devices the rates available for the mobility solutions that fit their needs. This transparency has further increased the prevalence and intensity of price competition in the industry.

Our vehicle rental operations compete primarily with Enterprise Holdings, Inc., which operates the Enterprise, National and Alamo car rental brands; Hertz Global Holdings, Inc., which operates the Hertz, Dollar and Thrifty brands; Europcar Mobility Group, which operates the Europcar, Goldcar, InterRent and Ubeeqo brands; and Sixt AG. We also compete with smaller local and regional vehicle rental companies for vehicle rental market share, and with ride-hailing companies largely for short length trips in urban areas. Our Zipcar brand also competes with various local and regional mobility companies, including mobility services sponsored by several auto manufacturers, ride-hailing and car sharing companies and other technology players in the mobility industry. Our Budget Truck operations in the United States competes with several other local, regional and nationwide truck rental companies including U-Haul International, Inc., Penske Truck Leasing Corporation, Ryder Systems, Inc. and Enterprise.

INSURANCE AND RISK MANAGEMENT

Our vehicle rental and corporate operations expose us to various types of claims for bodily injury, death and property damage related to the use of our vehicles and/or properties, as well as general employment-related matters stemming from our operations. We generally retain economic exposure for liability to third parties arising from vehicle rental and car sharing services in the United States, Canada, Puerto Rico and the U.S. Virgin Islands, in accordance with the minimum financial responsibility requirements ("MFRs") and primacy of coverage laws of the relevant jurisdiction. In certain cases, we assume liability above applicable MFRs, up to $1 million per occurrence, other than in cases involving a negligent act on the part of the Company, for which we purchase insurance coverage for exposures beyond retained amounts from a combination of unaffiliated excess insurers.

In Europe, we insure the risk of liability to third parties arising from vehicle rental and car sharing services in accordance with local regulatory requirements primarily through insurance policies provided by unaffiliated insurers. We may retain a portion of the insured risk of liability through local deductibles, and by reinsuring certain risks through our captive insurance subsidiary AEGIS Motor Insurance Limited. In Australasia, motor vehicle bodily injury insurance coverage is compulsory and provided upon vehicle registration. In addition, we provide our customers with third-party property damage insurance through an unaffiliated third-party insurer. We retain a share of property damage risk through local deductibles and through AEGIS Motor Insurance Limited. We insure the risk of liability to third parties in Argentina and Brazil through unaffiliated insurers.

We offer our U.S. customers a range of optional insurance products and coverages such as supplemental liability insurance, personal accident insurance, personal effects protection, emergency sickness protection, automobile towing protection and cargo insurance, which create additional risk exposure for us. When a customer elects to purchase supplemental liability insurance or other optional insurance related products, we typically retain economic exposure to loss, since the insurance is provided by an unaffiliated insurer that is reinsuring its exposure through our captive insurance subsidiary, Constellation Reinsurance Co., Ltd. Additional personal accident insurance offered to our customers in Europe and Australasia is provided by a third-party insurer, and reinsured by our Avis Budget Europe International Reinsurance Limited subsidiary. We also maintain excess insurance coverage through unaffiliated carriers to help mitigate our potential exposure to large liability losses. We otherwise bear these and other risks, except to the extent that the risks are transferred through insurance or contractual arrangements.

OUR INTELLECTUAL PROPERTY

We rely primarily on a combination of trademark, trade secret and copyright laws, as well as contractual provisions with employees and third parties, to establish and protect our intellectual property rights. The service marks "Avis," "Budget," and "Zipcar" and related marks or designs incorporating such terms and related logos and marks such as "We Try Harder," "We Know The Road" and "Own The Trip, Not The Car" are material to our vehicle rental and car sharing businesses. Our subsidiaries and licensees actively use these marks. All of the material marks used by Avis, Budget and Zipcar are registered (or have applications pending for registration) with the U.S. Patent and Trademark Office as well as in foreign jurisdictions. Our subsidiaries own the marks and other intellectual property, including the Wizard system, used in our business. We also own trademarks and logos related to the "Apex Car Rentals" brand in Australia and New Zealand, the "Payless Car Rental" brand in the United States and several other countries, the "Maggiore" and "Morini" brands in Italy, the "FranceCars" brand in France and the "Turiscar" brand in Portugal.

CORPORATE SOCIAL RESPONSIBILITY

At Avis Budget Group, we take our responsibilities as a corporate citizen seriously. We remain aware of how our actions can benefit the community and are sensitive to the needs of the environment, our customers and our employees. We recognize that being a successful organization means our progress is measured not only in economic

terms, but also in the many ways we impact the world around us.

We believe in being responsible global corporate citizens and strive to establish and maintain best practices in corporate social responsibility through a focus on:

Table of Contents

- The Environment: As a responsible corporate citizen, we are committed to monitoring, measuring and managing our environmental impact, and working to reduce it where practicable on an ongoing basis. The following illustrate those commitments:

- Car Sharing: Through our Zipcar brand, operating one of the world's leading car sharing networks, considered to be one of the most environmentally-friendly transportation alternatives available;

- Fleet: Offering our customers a wide variety of vehicles that are environmentally friendly, including as defined by the U.S. Environmental Protection Agency's SmartWay Certification Program;

- Outreach: Partnering with our corporate customers to help them measure and manage the environmental impact of Avis and Budget rental vehicles used by their employees and, where applicable, partnering to help them achieve their sustainability goals;

- Compliance: Meeting or voluntarily exceeding the requirements of all federal, state and local health, safety and environmental protection laws; and

- Reduction: Limiting our use of natural resources and recycling where practicable, whether water, oil, tire rubber, paper, plastic or other materials.

- Our People and our Customers: We believe that our success has its foundation in how we treat our employees. Avis Budget Group is committed to maintaining a professional and supportive workplace built on trust between employees and management. In concert with our core values, we seek to foster an environment where communication among our employees is open, honest, and respectful; performance is recognized; growth is encouraged; and accomplishments – individual and collective – are celebrated. We also seek to support the well-being and development of the people we employ and the communities in which they work. The following initiatives reflect our commitment to achieving these goals:

- Employee Engagement: We periodically measure the success of our workplace initiatives in a Company-wide employee survey. Conducted by an independent third-party to ensure impartiality and confidentiality, the survey is part of a long tradition of listening to what employees have to say about the Company, about the job they do, and about what they expect. The findings from each survey are presented by managers to employees and plans to address areas for improvement are established;

- Employee Benefits Programs: Our employees are critical to our success. To ensure their well-being and professional growth, we generally offer a competitive salary, plus incentive compensation potential and comprehensive benefits. In addition, we offer health and welfare benefits that may include a range of training, employee assistance and personal development programs to help employees and their families prosper. Our employee benefit programs are all offered and administered in compliance with applicable local law;

- Live Well – Healthy Living: We maintain a comprehensive program of initiatives designed to encourage our employees and their families to be mindful of their health and to enhance their ability to care for themselves and manage their health care expenses;

- Equal Opportunity Employment: We are committed to providing equal employment opportunity to all applicants and employees without regard to race, religion, color, sex, sexual orientation, gender, gender identity, age, national origin, ancestry, citizenship, protected veteran or disability status or any factor prohibited by law, and as such we affirm in policy and practice to support and promote the concept of equal employee opportunity and affirmative action, in accordance with all applicable federal, state, provincial and municipal laws. In addition, the Company will reasonably

accommodate known disabilities and religious beliefs of employees and qualified applicants; and

- Diversity and Inclusion: As a growing global organization, the Company is proud of the diversity of its workforce. We strive to attract and retain talented and diverse people throughout our organization by engaging in several initiatives to support diversity and inclusion, including programs specifically designed to develop female leaders and to assist current and former military personnel.

20

Table of Contents

- Our Communities: The Company is committed to supporting the communities in which it operates by working with nonprofit organizations focused on assisting those in need such as Make-A-Wish. Through relationships with widely-recognized charitable groups and outreach through the Avis Budget Group Charitable Foundation and employee volunteer teams, the Company and its employees contribute to many worthwhile organizations and deserving causes that help improve and inspire change in our communities.
- Our Business: We hold our employees to high ethical standards. We place great emphasis on professional conduct, safety and security, information protection and integrity.
- Ethical Standards: Our employees are required to follow our Code of Conduct. This important document represents the core of our business philosophy and values and covers numerous areas, including standards of work-related behavior; safe work practices; security of information, systems and other assets; conflicts of interest; securities laws; and community service. We provide employees with training to help them understand both our Code of Conduct and how to interpret it in various situations.
- Sustainable Procurement: Our Third-Party Standards of Conduct represents the Company's commitment to fostering sustainable relationships with our business partners, agents, consultants, suppliers and other third parties and ensuring that they uphold ethical, social and environmental standards.
- Supplier Diversity: The Company also maintains an industry-leading supplier diversity program to promote the growth and development of suppliers who are disadvantaged, minority-owned or women-owned business enterprises. As a result of our commitment, we are honored to be one of America's Top Corporations for Women's Business Enterprises for 17 consecutive years and a corporate member of the Billion Dollar Roundtable.
- Data Protection: We are committed to taking appropriate measures to properly secure information, records, systems and property. Employees are trained to take particular precautions to protect the Company, our employees, vendors and customers, and, in many cases, themselves, from the unlawful or inappropriate use or disclosure of that information.

REGULATION

We are subject to a wide variety of laws and regulations in the countries in which we operate, including those relating to, among others, consumer protection, insurance products and rates, franchising, customer privacy and data protection, securities and public disclosure, competition and antitrust, environmental matters, taxes, automobile-related liability, corruption and anti-bribery, labor and employment matters, health and safety, claims management, automotive retail sales, currency-exchange and other various banking and financial industry regulations, cost and fee recovery, the protection of our trademarks and other intellectual property, and local ownership or investment requirements. Additional information about the regulations that we are subject to can be found in Item 1A - Risk Factors of this Annual Report on Form 10-K.

COMPANY INFORMATION

Our principal executive office is located at 6 Sylvan Way, Parsippany, New Jersey 07054 (our telephone number is 973-496-4700). The Company files electronically with the Securities and Exchange Commission (the "SEC") required reports on Form 8-K, Form 10-Q, Form 10-K and Form 11-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; registration statements and other forms or reports as required. Certain of the Company's officers and directors also file statements of changes in beneficial ownership on Form 4 with the SEC. Such materials may be accessed electronically on the SEC's Internet site (sec.gov). The Company maintains a website (avisbudgetgroup.com) and copies of our annual report on Form 10-K, quarterly reports

on Form 10-Q, current reports on Form 8-K, Section 16 reports, proxy materials and any amendments to these reports filed or furnished with the SEC are available free of charge in the Investor Relations section of our website, as soon as reasonably practicable after filing with the SEC. Copies of our board committee charters, Codes of Conduct and Ethics, Corporate Governance Guidelines and other corporate governance information are also available on our website. If the Company should decide to amend any of its

Table of Contents

board committee charters, Codes of Conduct and Ethics or other corporate governance documents, copies of such amendments will be made available to the public through the Company's website. The information contained on the Company's website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

Table of Contents

ITEM 1A. RISK FACTORS

The following is a cautionary discussion of the most significant risks, uncertainties and assumptions that we believe are significant to our business and should be considered carefully in conjunction with all of the other information set forth in this Annual Report on Form 10-K. The risks described below are not an exhaustive list of all of the risks that we face and are not listed by order of priority or materiality. In addition to the factors discussed elsewhere in this Annual Report on Form 10-K, the factors described in this item could, individually or in the aggregate, cause our actual results to differ materially from those described in any forward-looking statements. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could materially differ from past results and/or those anticipated, estimated or projected. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

RISKS RELATED TO OUR BUSINESS

We face risks related to the high level of competition in the mobility industry.

The mobility industry is highly competitive, with price being one of the primary competitive factors. To the extent that our competitors reduce their pricing and we do not provide competitive pricing or if price increases we implement make us less competitive, we risk losing rental volume from existing customers, as well as lessening the chances of success for future bids for new customer accounts. If competitive pressures lead us to lose rental volume or match any downward pricing and we are unable to reduce our operating costs, then our financial condition or results of operations could be materially adversely impacted.

Additionally, pricing in the vehicle rental industry is impacted by the size of rental fleets and the supply of vehicles available for rent. Any significant fluctuations in the supply of rental vehicles available in the market due to an unexpected decrease in demand, or actions taken by our competitors to increase market share by acquiring more fleet could negatively affect our pricing, operating plans or results of operations if we are unable to adjust the size of our rental fleet in response to fluctuations in demand.

We expect that the competitive environment for our mobility services will become more intense as additional companies, including automobile manufacturers, ride-hailing companies, car sharing companies, and other technology players in the mobility industry enter our existing markets or try to expand their operations. Companies offering new mobility business models, including ride-hailing or car sharing services, or autonomous vehicles, may affect demand for rental vehicles. Some of these companies may have access to substantial capital, innovative technologies or have the ability to launch new services at a relatively low cost. To the extent these companies can improve transportation efficiency, alter driving patterns or attitudes toward vehicle rental, offer more competitive prices or fleet management services, more effectively utilize mobile platforms, undertake more aggressive marketing campaigns, price their competing services below market or otherwise disrupt the mobility industry, we risk heightened pricing competition and/or loss of rental volume, which could adversely impact our business and results of operations if we are unable to compete with such efforts.

The risk of competition on the basis of pricing in the truck rental industry can be even more impactful than in the car rental industry as it can be more difficult to reduce the size of our truck rental fleet in response to significantly reduced demand.

We face risks related to fleet costs.

Fleet costs typically represent our single largest expense and can vary from year to year based on the prices that we are able to purchase and dispose of our vehicles. We purchase program cars, which are guaranteed a rate of depreciation through agreements with auto manufacturers, and non-program, or “risk” vehicles. In 2018, on average approximately 62% of our rental car fleet was comprised of risk vehicles.

The costs of our risk vehicles may be adversely impacted by the relative strength of the used car market, particularly the market for one- to two-year old used vehicles. We currently sell risk vehicles through various sales channels in the used vehicle marketplace, including traditional auctions, on-line auctions, direct-to-dealer sales, and directly to consumers through either retail lots or our Ultimate Test Drive consumer car sales program. These

Table of Contents

channels may not produce stable vehicle prices in the future, as the market for used vehicles is subject to changes in demand for such vehicles, consumer interests, inventory levels, new car pricing, interest rates, fuel costs, tariffs and general economic conditions. A reduction in residual values for risk vehicles in our rental fleet could cause us to sustain a substantial loss on the ultimate sale of such vehicles or require us to depreciate those vehicles at a more accelerated rate than previously anticipated while we own them.

If the market value of the vehicles in our fleet is reduced or our ability to sell vehicles in the used vehicle marketplace were to become severely limited, we may have difficulty meeting collateral requirements due under our asset-backed financing facilities, which could lead to decreased capacity in such facilities and effectively increase our fleet costs or adversely impact our profitability. In addition, if we are unable to meet our collateral requirements under such facilities, the outstanding principal amount due may be required to be repaid earlier than anticipated. If that were to occur, the holders of our asset-backed debt may have the ability to exercise their right to instruct the trustee to direct the return of program cars and/or the sale of risk cars to generate proceeds sufficient to repay such debt.

Program and leased vehicles enable us to determine our depreciation expense in advance of purchase. Our program and leased vehicles also generally provide us with flexibility to reduce the size of our fleet rapidly. This flexibility is affected by the percentage of program vehicles in our fleet and the features of the programs provided by auto manufacturers. Our inability to reduce the size of our fleet in response to seasonal demand fluctuations, economic constraints or other changes in demand could have an adverse impact on our fleet costs and results of operations.

While we source our fleet purchases from a wide range of auto manufacturers, our program purchases expose us to risk to the extent that any of these auto manufacturers significantly curtail production, increase the cost of purchasing program vehicles or decline to sell program vehicles to us on terms or at prices consistent with past agreements. Should any of these risks occur, we may be unable to obtain a sufficient number of vehicles to operate our business without significantly increasing our fleet costs or reducing our volumes.

Failure by a manufacturer to fulfill its obligations under any program agreement or incentive payment obligation could leave us with a material expense if we are unable to dispose of program cars at prices estimated at the time of purchase or with a substantial unpaid claim against the manufacturer, particularly with respect to program cars that were either (i) resold for an amount less than the amount guaranteed under the applicable program and therefore subject to a “true-up” payment obligation from the manufacturer; or (ii) returned to the manufacturer, but for which we were not yet paid, and therefore we could incur a substantial loss as a result of such failure to perform.

We face risks related to safety recalls affecting our vehicles.

Our vehicles may be subject to safety recalls by their manufacturers that could have an adverse impact on our business when we remove recalled vehicles from our rentable fleet. We cannot control the number of vehicles that will be subject to manufacturer recalls in the future. Recalls often require us to retrieve vehicles from customers and/or hold vehicles until we can arrange for the repairs described in the recalls to be completed. As such, recalls can result in incremental costs, negatively impact our revenues and/or reduce our fleet utilization. If a large number of vehicles were to be the subject of simultaneous recalls, or if needed replacement parts were not in adequate supply, we may be unable to utilize recalled vehicles for a significant period of time. We could also face liability claims related to vehicles subject to a safety recall. Depending on the nature and severity of the recall, it could create customer service problems, reduce the residual value of the vehicles involved, harm our general reputation and/or have an adverse impact on our financial condition or results of operations.

Weakness in travel demand or general economic conditions, and/or a significant increase in fuel costs, can adversely impact our business.

Demand for vehicle rentals can be subject to and impacted by international, national and local economic conditions. If travel demand or economic conditions in the United States, Europe and/or worldwide were to weaken, our financial condition or results of operations could be adversely impacted.

Any significant airline capacity reductions, airfare or related fee increases, reduced flight schedules, or any events that disrupt or reduce business or leisure air travel or weaken travel demand and tourism, such as work

---

Table of Contents

stoppages, military conflicts, terrorist incidents, natural disasters, disease epidemics, or the response of governments to any such events, could have an adverse impact on our results of operations. Likewise, any significant increases in fuel prices, a severe protracted disruption in fuel supplies or rationing of fuel could discourage our customers from renting vehicles or reduce or disrupt air travel, which could also adversely impact our results of operations.

Our truck rental business can be impacted by the housing market. If conditions in the housing market were to weaken, we may see a reduction in truck rental transactions, which could have an adverse impact on our business.

We face risks related to our ability to successfully implement our business strategies and to preserve the value of our brands.

Our strategic objectives involve winning and retaining customers through supporting and strengthening our brands, increasing operational efficiency and margins and enhancing our position in the evolving mobility industry. We see significant potential in the areas of optimizing our pricing, customer mix and sales of ancillary products and services; optimizing our procurement, deployment and disposition of vehicles, including increased use of non-auction channels for selling our risk cars; and applying connected-car/in-vehicle systems and other emerging technologies in our operations. If we are unsuccessful in implementing our strategic initiatives, our financial condition or results of operations could be adversely impacted.

The Company continues to further streamline its administrative and shared-services infrastructure through a restructuring program that identifies and replicates best practices, leverages the scale and capabilities of third-party service providers, and is designed to increase the global standardization and consolidation of non-rental-location functions over time. We cannot be certain that such initiatives will continue to be successful. Failure to successfully implement any of these initiatives could have an adverse impact on our financial condition or results of operations.

Any failure to adapt to changes in the mobility industry, provide a high-quality rental experience for our customers and members, adopt new technologies, capitalize on cost saving initiatives or meet customer needs could substantially harm our reputation and competitiveness, and could adversely impact our financial condition or results of operations.

We face risks related to political, economic and commercial instability or uncertainty in the countries in which we operate.

Our global operations expose us to a number of risks, including exposure to a wide range of international, national and local economic and political conditions and instability. For example, our operations in the United Kingdom includes a significant amount of cross-border business that could be negatively impacted by the withdrawal of the United Kingdom from the European Union. Uncertainty related to the proposed withdrawal of the United Kingdom from the European Union could lead to volatility in the global financial markets, adversely affect tax, legal and regulatory regimes, and could impact the economies of the United Kingdom and other countries in which we operate, which could have a material adverse effect on our results in such countries. Operating our business in a number of different regions and countries exposes us to a number of risks, including:

- multiple and potentially conflicting laws, regulations, trade policies and agreements that are subject to change;

- varying tax regimes, including consequences from changes in applicable tax laws;

- the imposition of currency restrictions, restrictions on repatriation of earnings or other restraints, as well as difficulties in obtaining financing in foreign countries for local operations;

- potential changes to import-export laws, trade treaties or tariffs in the countries where we purchase vehicles;

- local ownership or investment requirements, or compliance with local laws, regulations or business practices;

- uncertainty and changes to political and regulatory regimes as a result of changing social, political, regulatory and economic environments in the United States and internationally;

- national and international conflict, including terrorist acts; and

- political and economic instability or civil unrest that may severely disrupt economic activity in affected countries.

Exposure to these risks may adversely impact our financial condition or results of operations. Our licensees' vehicle rental operations may also be impacted by political, economic and commercial instability, which in turn could impact the amount of royalty payments they make to us.

We face risks related to third-party distribution channels that we rely upon.

We rely upon third-party distribution channels to generate a significant portion of our car rental reservations, including:

- traditional and online travel agencies, airlines and hotel companies, marketing partners such as credit card companies and membership organizations and other entities that help us attract customers; and

- global distribution systems ("GDS"), such as Amadeus, Galileo/Apollo, Sabre and Worldspan, that connect travel agents, travel service providers and corporations to our reservation systems.

Changes in our pricing agreements, commission schedules or arrangements with third-party distribution channels, the termination of any of our relationships or a reduction in the transaction volume of such channels, or a GDS's inability to process and communicate reservations to us could have an adverse impact on our financial condition or results of operations, particularly if our customers are unable to access our reservation systems through alternate channels.

We face risks related to our reliance on communications networks and centralized information systems.

We rely heavily on the satisfactory performance and availability of our information systems, including our reservation systems, websites and network infrastructure to attract and retain customers, accept reservations, process rental and sales transactions, manage our fleet of vehicles, account for our activities and otherwise conduct our business. We have centralized our information systems and we rely on third-party communications service and system providers to provide technology services and link our systems with the business locations these systems were designed to serve. A failure or interruption that results in the unavailability of any of our information systems, or a major disruption of communications between a system and the locations it serves, could cause a loss of reservations, interfere with our fleet management, slow rental and sales processes, create negative publicity that damages our reputation or otherwise adversely impacts our ability to manage our business effectively. We may experience system interruptions or disruptions for a variety of reasons, including as the result of network failures, power outages, cyber attacks, employee errors, software errors, an unusually high volume of visitors attempting to access our systems, or localized conditions such as fire, explosions or power outages or broader geographic events such as earthquakes, storms, floods, epidemics, strikes, acts of war, civil unrest or terrorist acts. Because we are dependent in part on independent third parties for the implementation and maintenance of certain aspects of our systems and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner, or at all. Our systems' business continuity plans and insurance programs seek to mitigate such risks but they cannot fully eliminate the risks as a disruption could be experienced in any of our information systems.

We face risks related to cybersecurity breaches of our systems and information technology.

Threats to network and data security are becoming increasingly diverse and sophisticated. As cybersecurity threats become more frequent, intense and sophisticated, costs of proactive defense measures may increase. Third parties may have the technology or expertise to breach the security of our customer transaction data and our security measures may not prevent physical security or cybersecurity breaches, which could result in substantial harm to our business, our reputation or our results of operations. We rely on encryption and/or

Table of Contents

authentication technology licensed from and, at times, administered by independent third parties to secure transmission of confidential information, including credit card numbers and other customer personal information. Our outsourcing agreements with these third-party service providers generally require that they have adequate security systems in place to protect our customer transaction data. However, advances in computer capabilities, new discoveries in the field of cryptography or other cybersecurity developments could render our security systems and information technology, or those used by our third-party service providers, vulnerable to a breach. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Risks of cybersecurity incidents caused by malicious third parties using sophisticated, targeted methods to circumvent firewalls, encryption, and other security defenses, could include hacking, viruses, malicious software, ransomware, phishing attacks, denial of service attacks and other attempts to capture, disrupt or gain unauthorized access to data are rapidly evolving and could lead to disruptions in our reservation system or other data systems, unauthorized release of confidential or otherwise protected information or corruption of data. The techniques used by third parties change frequently and may be difficult to detect for long periods of time. Any successful efforts by individuals to infiltrate, break into, disrupt, damage or otherwise steal from the Company’s, its licensees’ or its third-party service providers’ security or information systems could damage our reputation and expose us to increased costs, litigation or other liability that could adversely impact our financial condition or results of operations. Failure to appropriately address these issues could also give rise to potentially material legal risks and liabilities.

We face risks related to our property leases and vehicle rental concessions.

We lease or have vehicle rental concessions at locations throughout the world, including at most airports where we operate, and at train stations throughout Europe, where vehicle rental companies are frequently required to bid periodically for space at these locations. If we were to lose a property lease or vehicle rental concession, particularly at an airport or a train station in a major metropolitan area, there can be no assurance that we would be able to find a suitable replacement location on reasonable terms which could adversely impact our business.

We face risks related to the seasonality of our business.

In our business, the third quarter of the year has historically been our most profitable quarter as measured by net income and Adjusted EBITDA due to the increased level of summer leisure travel and household moving activity. We vary our fleet size over the course of the year to help manage seasonal variations in demand, as well as localized changes in demand that we may encounter in the various regions in which we operate. Any circumstance or occurrence that disrupts rental activity during the third quarter, especially in North America and Europe, could have a disproportionately adverse impact on our financial condition or results of operations.

We are dependent on our senior management and other key personnel.

Our success depends on our senior management team and other key personnel, our ability to effectively recruit and retain high quality employees, and replace those who retire or resign. The loss of services of one or more members of our senior management team could adversely affect our business. Failure to retain and motivate our senior management and to hire, retain and develop other important personnel could impact our management and operations, ability to execute our strategies and adversely affect our business and operating results.

We face risks related to acquisitions, including the acquisition of existing licensees or investments in or partnerships with other related businesses.

We may engage in strategic transactions, including the acquisition of or investment in existing licensees and/or other related businesses, or partnerships or joint ventures with companies in related or cross-function lines of business. The risks involved in engaging in these strategic transactions include the possible failure to successfully integrate the

operations of acquired businesses, or to realize the expected benefits of such transactions within the anticipated time frame, or at all, such as cost savings, synergies, sales and growth opportunities. In addition, the integration of an acquired business or oversight of a partnership or joint venture may result in material unanticipated challenges, expenses, liabilities or competitive responses, including:

Table of Contents

- a failure to implement our strategy for a particular strategic transaction, including successfully integrating the acquired business into our existing infrastructure, or a failure to realize value from a strategic partnership, joint venture or other investment;
- inconsistencies between our standards, procedures and policies and those of the acquired business, partnership and/or joint venture;
- costs or inefficiencies associated with the integration of our operational and administrative systems;
- the increased scope and complexity of our operations could require significant attention from management and could impose constraints on our operations or other projects;
- unforeseen expenses, delays or conditions, including required regulatory or other third-party approvals or consents, or provisions in contracts with third parties that could limit our flexibility to take certain actions;
- an inability to retain the customers, employees, suppliers and/or marketing partners of the acquired business, partnership or joint venture or generate new customers or revenue opportunities through a strategic partnership;
- the costs of compliance with local laws and regulations and the implementation of compliance processes, as well as the assumption of unexpected liabilities, litigation, penalties or other enforcement actions; and
- higher than expected costs arising due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies.

Any one of these factors could result in delays, increased costs or decreases in the amount of expected revenues related to combining the companies or derived from a strategic transaction and could adversely impact our financial condition or results of operations.

We face risks related to fluctuations in currency exchange rates.

Our operations generate revenue and incur operating costs in a variety of currencies. The financial position and results of operations of many of our foreign subsidiaries are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our Consolidated Financial Statements. Changes in exchange rates among these currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities in our consolidated financial statements. While we take steps to manage our currency exposure, such as currency hedging, we may not be able to effectively limit our exposure to intermediate- or long-term movements in currency exchange rates, which could adversely impact our financial condition or results of operations.

We face risks related to our derivative instruments.

We typically utilize derivative instruments to manage fluctuations in foreign exchange rates, interest rates and gasoline prices. The derivative instruments we use to manage our risk are usually in the form of interest rate swaps and caps and foreign exchange and commodity contracts. Periodically, we are required to determine the change in fair value, called the “mark to market,” of some of these derivative instruments, which could expose us to substantial mark-to-market losses or gains if such rates or prices fluctuate materially from the time the derivatives were entered into. Accordingly, volatility in rates or prices may adversely impact our financial position or results of operations and could impact the cost and effectiveness of our derivative instruments in managing our risks.

We face risks related to liability and insurance.

Our global operations expose us to several forms of liability, including claims for bodily injury, death and property damage related to the use of our vehicles, or for having our customers on our premises, as well as workers' compensation and other employment-related claims by our employees. We may become exposed to uninsured liability at levels in excess of our historical levels resulting from unusually high losses or otherwise. In addition, liabilities in respect of existing or future claims may exceed the level of our reserves and/or our insurance, which

28

could adversely impact our financial condition and results of operations. Furthermore, insurance with unaffiliated insurers may not continue to be available to us on economically reasonable terms or at all. Should we be subject to an adverse ruling, or experience other significant liability for which we did not plan and are unable to adequately insure against such liability, our results of operations, financial position or cash flows could be negatively impacted.

We reinsure certain insurance exposures as well as offer optional insurance coverages through unaffiliated third-party insurers, which then reinsure all or a portion of their risks through our insurance company subsidiaries, which subjects us to regulation under various insurance laws and statutes in the jurisdictions in which our insurance company subsidiaries are domiciled. Any changes in regulations that alter or impede our reinsurance obligations or insurance subsidiary operations could adversely impact the economic benefits that we rely upon to support our reinsurance efforts, which in turn would adversely impact our financial condition or results of operations.

Optional insurance products that we offer to renters in the United States, including, but not limited to, supplemental liability insurance, personal accident insurance and personal effects protection, are regulated under state laws governing such products. Our car rental operations outside the United States must also comply with certain local laws and regulations regarding the sale of supplemental liability and personal accident and effects insurance by intermediaries. Any changes in law that affect our operating requirements with respect to our sale of optional insurance products could increase our costs of compliance or make it uneconomical to offer such products, which would lead to a reduction in revenue and profitability. Should more of our customers decline to purchase optional liability insurance products as a result of any changes in these laws or otherwise, our financial condition or results of operations could be adversely impacted.

We offer loss damage waivers to our customers as an option for them to reduce their financial responsibility that may be incurred as a result of loss or damage to the rental vehicle. Certain states in the United States have enacted legislation that mandates disclosure to each customer at the time of rental that damage to the rented vehicle may be covered to some extent by the customer's personal automobile insurance and that loss damage waivers may not be necessary. In addition, some states have statutes that establish or cap the daily rate that can be charged for loss damage waivers. Should new laws or regulations arise that place new limits on our ability to offer loss damage waivers to our customers, our financial condition or results of operations could be adversely impacted.

Additionally, current U.S. federal law pre-empts state laws that impute tort liability based solely on ownership of a vehicle involved in an accident. If such federal law were to change, our insurance liability exposure could materially increase.

We may be unable to collect amounts that we believe are owed to us by customers, insurers and other third parties related to vehicle damage claims or liabilities. The inability to collect such amounts in a timely manner or to the extent that we expect could adversely impact our financial condition or results of operations.
Costs associated with lawsuits, investigations or increases in legal reserves that we establish based on our assessment of contingent liabilities may have an adverse effect on our results of operations.

Our global operations expose us to various claims, lawsuits and other legal proceedings that arise in and outside of the ordinary course of our business in the countries in which we operate. We may be subject to complaints and/or litigation involving our customers, licensees, employees, independent operators and others with whom we conduct business, including claims for bodily injury, death and property damage related to use of our vehicles or our locations by customers, or claims based on allegations of discrimination, misclassification as exempt employees under the Fair Labor Standards Act, wage and hourly pay disputes, and various other claims. We could be subject to substantial costs and/or adverse outcomes from such complaints or litigation, which could have a material adverse effect on our financial condition, cash flows or results of operations.

We outsource some of our business functions to third parties, including operations at many of our Company-owned locations, which are third-party independent operators who receive commissions to operate such locations. We are involved or may become involved in legal proceedings and investigations that claim that our third-party independent operators should instead be treated as employees. There can be no assurance that legislative, judicial or regulatory authorities will not assert interpretations of existing laws or introduce new

Table of Contents

regulations that would mandate that we change the classification of these operators. In the event of such a reclassification, we could be exposed to material liabilities and additional costs which could have an adverse effect on our business and results of operations. These liabilities and additional costs could include exposure under federal, state and local tax laws, workers' compensation, unemployment benefits, labor, and employment laws, as well as potential liability for penalties and interest.

From time to time, our Company and/or other companies in the vehicle rental industry may be reviewed or investigated by government regulators, which could lead to tax assessments, enforcement actions, fines and penalties or the assertion of private litigation claims. It is not possible to predict with certainty the outcome of claims, investigations and lawsuits, and we could in the future incur judgments, taxes, fines or penalties or enter into settlements of lawsuits or claims that could have an adverse impact on our financial condition or results of operations. In addition, while we maintain insurance coverage with respect to exposure for certain types of legal claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against any such claims.

As required by U.S. generally accepted accounting principles ("GAAP"), we establish reserves based on our assessment of actual or potential loss contingencies, including contingencies related to legal claims asserted against us. Subsequent developments may affect our assessment and estimates of such loss contingencies and require us to make payments in excess of our reserves, which could have an adverse effect on our financial condition or results of operations.

We face risks related to laws and regulations that could impact our global operations.

We are subject to multiple, and sometimes conflicting, laws and regulations in the countries in which we operate that relate to, among others, consumer protection, competition and antitrust, customer privacy and data protection, securities and public disclosure, automotive retail sales, franchising, corruption and anti-bribery, environmental matters, taxes, automobile-related liability, labor and employment matters, cost and fee recovery, currency-exchange and other various banking and financial industry regulations, health and safety, insurance rates and products, claims management, protection of our trademarks and other intellectual property and other trade-related laws and regulations. Recent years have seen a substantial increase in the global enforcement of certain of these laws such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act and similar foreign laws and regulations. Our continued global operations and expansion could increase the risk of governmental investigations and violations of such laws. We cannot predict the nature, scope or effect of future regulatory requirements to which our global operations may be subject or the manner in which existing or future laws may be administered or interpreted. Any alleged or actual violations of any law or regulation, change in law, regulation, trade treaties or tariffs, or changes in the interpretation of existing laws or regulations may subject us to government scrutiny, investigation and civil and criminal penalties, limit our ability to provide services in any of the countries in which we operate and could result in a material adverse impact on our reputation, business, financial position or results of operations.

In certain countries in which we have Company-operated locations, we may recover certain costs from consumers, including costs associated with the title and registration of our vehicles, or concession costs imposed by an airport authority or the owner and/or operator of the premises from which our vehicles are rented. We may in the future be subject to potential laws or regulations that could negatively impact our ability to separately state, charge and recover such costs, which could adversely impact our financial condition or results of operations.

We are subject to privacy, data protection, security transfer and other regulations, as well as private industry standards, that could negatively impact our global operations and cause us to incur additional incremental expense that impacts our future operating results.

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. Current consumer privacy and data protection laws, particularly the European Union's General Data Protection Regulation which became effective in 2018 (the "GDPR"), and other regulations in the jurisdictions in which we operate limit the types of information that we may collect, process and retain about our customers and other individuals with whom we deal or propose to deal, some of which may be non-public personally identifiable information. The GDPR, which is wide-ranging in scope, provides EU residents greater control over their personal data and imposes several requirements relating to the consent of the individuals to whom the personal data relates, the information provided to the individuals, the security and

30

confidentiality of the personal data, data breach notification and the use of third-party processors in connection with the processing of personal data. It also imposes significant forfeitures and penalties for noncompliance. The Company has adopted policies and procedures in compliance with the GDPR, however, such policies and procedures may need to be updated as additional information concerning best practices is made available through guidance from regulatory authorities or published enforcement decisions. Other privacy laws may be interpreted and applied inconsistently from country to country and impose inconsistent or conflicting requirements. Complying with varying jurisdictional privacy requirements could increase our operating costs, divert management attention or require additional changes to our business practices. Should we be found to not be in compliance with the GDPR or similar privacy and data protection laws, we could be subject to substantial monetary forfeitures and other penalties that could negatively impact our operating results or harm our reputation.

The centralized nature of our information systems requires the routine flow of information about customers and potential customers across national borders, particularly in the United States and Europe. Should this flow of information become illegal or subject to onerous restrictions, our ability to serve our customers could be negatively impacted for an extended period of time. In addition, our failure to maintain the security of the data we hold, whether as a result of our own error or the actions of others, could harm our reputation or give rise to legal liabilities that adversely impact our financial condition or results of operations. Privacy and data protection laws and regulations restrict the ways that we process our transaction information and the Payment Card Industry imposes strict customer credit card data security standards to ensure that our customers' credit card information is protected. Failure to meet these data security standards could result in substantial increased fees to credit card companies, other liabilities and/or loss of the right to collect credit card payments, which could adversely impact our financial condition or results of operations.

We face risks related to environmental laws and regulations.

We are subject to a wide variety of environmental laws and regulations in connection with our operations, including, among other things, with respect to the ownership or use of tanks for the storage of petroleum products such as gasoline, diesel fuel and motor and waste oils; the treatment or discharge of waste waters; and the generation, storage, transportation and off-site treatment or disposal of solid or liquid wastes. We maintain liability insurance covering storage tanks at our locations. In the United States, we administer an environmental compliance program designed to ensure that these tanks are properly registered in the jurisdiction in which they are located and are in compliance with applicable technical and operational requirements. The tank systems located at each of our locations may not at all times remain free from undetected leaks, and the use of these tanks may result in significant spills, which may require remediation and expose us to material uninsured liability or liabilities in excess of insurance.

We may also be subject to requirements related to the remediation of substances that have been released into the environment at properties owned or operated by us or at properties to which we send substances for treatment or disposal. Such remediation requirements may be imposed without regard to fault and liability for environmental remediation can be substantial. These remediation requirements and other environmental regulations differ depending on the country where the property is located. We have made, and will continue to make, expenditures to comply with environmental laws and regulations, including, among others, expenditures for the remediation of contamination at our owned and leased properties, as well as contamination at other locations at which our wastes have reportedly been identified. Our compliance with existing or future environmental laws and regulations may, however, require material expenditures by us or otherwise have an adverse impact on our financial condition or results of operations.

Environmental regulatory authorities are likely to continue to pursue measures related to climate change and greenhouse gas emissions. Should rules establishing limitations on greenhouse gas emissions or rules imposing fees on entities deemed to be responsible for greenhouse gas emission become effective in the countries in which we operate, demand for our services could be affected, our fleet and/or other costs could increase, and our business could

be adversely impacted.

We face risks related to franchising or licensing laws and regulations.

We license to third parties the right to operate locations using our brands in exchange for royalty payments. Our licensing activities are subject to various laws and regulations in the countries in which we operate. In particular, laws in the United States require that we provide extensive disclosure to prospective licensees in connection with

Table of Contents

licensing offers and sales, as well as comply with franchise relationship laws that could limit our ability to, among other things, terminate license agreements or withhold consent to the renewal or transfer of these agreements. We are also subject to certain regulations affecting our license arrangements in Europe and other international locations. Although our licensing operations have not been materially adversely affected by such existing regulations, such regulations could have a greater impact on us if we were to become more active in granting or selling new licenses to third parties. Should our operations become subject to new laws or regulations that negatively impact our ability to engage in licensing activities, our financial condition or results of operations could be adversely impacted.

We face risks related to the actions of, or failures to act by, our licensees, dealers, independent operators or third-party vendors.

Our vehicle rental licensee and dealer locations are independently owned and operated. We also operate many of our Company-owned locations through agreements with “independent operators,” which are third-party independent contractors who receive commissions to operate such locations. We also enter into service contracts with various third-party vendors that provide services for us or in support of our business. Under our agreements with our licensees, dealers, independent operators and third-party vendors (collectively referred to as “third-party operators”), the third-party operators retain control over the employment and management of all personnel at their locations or in support of the services that they provide our Company. These agreements also generally require that third-party operators comply with all laws and regulations applicable to their businesses, including relevant internal policies and standards. Regulators, courts or others may seek to hold us responsible for the actions of, or failures to act by, third-party operators or their employees based on theories of vicarious liability, negligence, joint operations or joint employer liability. Although we actively monitor the operations of these third-party operators, and under certain circumstances have the ability to terminate their agreements for failure to adhere to contracted operational standards, we are unlikely to detect all misconduct or noncompliance by the third-party operator or its employees. Moreover, there are occasions when the actions of third-party operators may not be clearly distinguishable from our own. It is our policy to vigorously seek to be dismissed from any claims involving third-party operators and to pursue indemnity for any adverse outcomes that affect the Company. Failure of third-party operators to comply with laws and regulations or our operational standards, or our inability to be dismissed from claims against our third-party operators, may expose us to liability, damages and negative publicity that may damage our brand and reputation and adversely affect our financial condition or results of operations.

We face risks related to our protection of our intellectual property.

We have registered certain marks and designs as trademarks in the United States and in certain other countries. At times, competitors may adopt service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered trademarks. From time to time, we have acquired or attempted to acquire Internet domain names held by others when such names have caused consumer confusion or had the potential to cause consumer confusion. Our efforts to enforce or protect our proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources and could adversely impact our financial condition or results of operations.

We face risks associated with tax reform.

In 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law, which broadly reforms the U.S. corporate income tax system. Several provisions of the Tax Act affect the Company, specifically the provision eliminating the use of like-kind exchange for personal property and the provision allowing for full expensing of qualified property purchases through the year 2022. Since 2004, we have utilized a like-kind exchange program whereby we replace

vehicles in a manner that allows tax gains on vehicles sold in the U.S. to be deferred, resulting in a material deferral of U.S. federal and state income taxes. The Tax Act repealed like-kind exchange treatment for vehicle sales as of January 1, 2018. The effect of the elimination of our like-kind exchange will be largely offset through 2022 by the full expensing provision of certain business assets in the year placed in service, which we believe includes our vehicles. However, an extended downsizing of our fleet would significantly decrease the amount of tax deductions available under the full expensing provision. This would result in the utilization of tax attributes and increased federal and state income tax liabilities that could require us to make material cash payments. Such a downsizing or reduction in purchases would likely occur if, and to the extent, we are unable to

obtain financing when our asset-backed rental car financings mature, or in connection with a significant decrease in demand for vehicle rentals. In addition, the full expensing provision phases out at the end of year 2022 and we are not certain if this provision will be extended. U.S. states continue to modify their tax statutes as a result of the Tax Act and such state legislation could negate the full expensing benefits granted under the Tax Act or negatively impact our tax liability in that state. Therefore, we cannot offer assurance that the benefits from the expected tax deductions will continue.

The Tax Act also makes significant changes to the U.S. Internal Revenue Code applicable to corporations. Such changes include a permanent reduction to the corporate income tax rate, a mandatory one-time repatriation tax on undistributed historic earnings of foreign subsidiaries, elimination or limitation of the deductibility of certain business expenses, and requiring the inclusion in the U.S. tax base certain earnings generated by foreign subsidiaries, among other changes. While the Company believes it will not be materially impacted by these changes, the ultimate impact of the Tax Act may differ from our current estimates due to changes in interpretations of the Tax Act, legislative action, changes in accounting standards for income taxes, among other things, which could adversely impact our financial condition or results of operations.

RISKS RELATED TO OUR INDEBTEDNESS

We face risks related to our current and future debt obligations.

Our ability to satisfy and manage our debt obligations depends on our ability to generate cash flow and on overall financial market conditions. To some extent, this is subject to prevailing economic and competitive conditions and to certain financial, business and other factors, many of which are beyond our control. Our outstanding debt obligations require us to dedicate a significant portion of our cash flows to pay interest and principal on our debt, which reduces the funds available to us for other purposes. Our business may not generate sufficient cash flow from operations to permit us to service our debt obligations and meet our other cash needs, which may force us to reduce or delay capital expenditures, sell or curtail assets or operations, seek additional capital or seek to restructure or refinance our indebtedness. If we must sell or curtail our assets or operations, it may negatively affect our ability to generate revenue. Certain of our debt obligations contain restrictive covenants and provisions applicable to us and our subsidiaries that limit our ability to, among other things:

- incur additional debt to fund working capital, capital expenditures, debt service requirements, execution of our business strategy or acquisitions and other purposes;
- provide guarantees in respect of obligations of other persons;
- pay dividends or distributions, redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- create or incur liens;
- make distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- consolidate or merge with or into, or sell substantially all of our assets to, another person; and
-

respond to adverse changes in general economic, industry and competitive conditions, as well as changes in government regulation and changes to our business.

Our failure to comply with the restrictive covenants contained in the agreements or instruments that govern our debt obligations, if not waived, would cause a default under our senior credit facility and could result in a cross-default under several of our other debt obligations, including our U.S. and European asset-backed debt facilities. If such a default were to occur, certain provisions in our various debt agreements could require that we repay or accelerate debt payments to the lenders or holders of our debt, and there can be no assurance that we would be able to refinance or obtain a replacement for such financing programs.

Table of Contents

We face risks related to movements or disruptions in the credit and asset-backed securities markets.

We finance our vehicle fleet purchases and operations through the use of asset-backed securities in the United States, Canada, Australia and Europe and other debt financing structures available through the credit markets. If the asset-backed financing and/or credit markets were to be disrupted for any reason, we may be unable to obtain refinancing for our operations or vehicle fleet purchases at current levels, or at all, when our respective asset-backed financings or debt financings mature. Likewise, any disruption of the asset-backed financing or credit markets could also increase our borrowing costs, as we seek to engage in new financings or refinance our existing financings. In addition, we could be subject to increased collateral requirements to the extent that we request any amendment or renewal of any of our existing asset-backed or debt financings.

We face risks related to potential increases in interest rates.

A portion of our borrowings, primarily our vehicle-backed borrowings, bears interest at variable rates that expose us to interest rate risk. If interest rates were to increase, whether due to an increase in market interest rates or an increase in our own cost of borrowing, our debt service obligations for our variable rate indebtedness would increase even though the amount of borrowings remained the same, and our results of operations could be adversely affected. As of December 31, 2018, our total outstanding debt of approximately $13.8 billion included unhedged interest rate sensitive debt of approximately $4.1 billion. During our seasonal borrowing peak in 2018, outstanding unhedged interest rate sensitive debt totaled approximately $5.5 billion.

Virtually all of our debt under vehicle programs and certain of our corporate indebtedness matures within the next five years. If we are unable to refinance maturing indebtedness at interest rates that are equivalent to or lower than the interest rates on our maturing debt, our results of operations or our financial condition may be adversely affected.

RISKS RELATED TO OUR COMMON STOCK

We face risks related to the market price of our common stock.

We cannot predict the prices at which our common stock will trade. The market price of our common stock experienced substantial volatility in the past and may fluctuate widely in the future, depending upon many factors, some of which may be beyond our control, including:

- weakness in general economic conditions and credit markets;

- changes in consumers’, investors’ and analysts’ perceptions of our industry, business or related industries;

- our quarterly or annual earnings, or those of other companies in our industry, including our key suppliers;

- financial estimates that we provide to the public, any changes in such estimates, or our failure to meet such estimates;

- actual or anticipated fluctuations in our operating results;

- changes in accounting standards, policies, guidance, interpretations or principles;

- announcements by us or our competitors of acquisitions, dispositions, strategies, management or stockholder changes, marketing affiliations, projections, fleet costs, pricing actions or other competitive actions;

- changes in earnings estimates by securities analysts or our ability to meet those estimates;

- the operating and stock price performance of other comparable companies;
- overall stock market fluctuations;

Table of Contents

- success or failure of competitive service offerings or technologies;
- tax or regulatory developments in the United States and other countries in which we operate;
- litigation involving us;
- actions of activist stockholders and responses from our Board and senior management; and
- the timing and amount of any share repurchases by us.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to litigation, including class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Our stockholders' percentage of ownership may be diluted in the future.

Our stockholders' percentage of ownership may be diluted in the future due to equity issuances or equity awards that we granted or will grant to our directors, officers and employees. In addition, we may undertake acquisitions financed in part through public or private offerings of securities, or other arrangements. If we issue equity securities or equity-linked securities, the issued securities would have a dilutive effect on the interests of the holders of our common shares. We expect to continue to grant restricted stock units, stock options and/or other types of equity awards in the future.

Certain provisions of our certificate of incorporation and by-laws, and Delaware law could prevent or delay a potential acquisition of control of our Company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation, amended and restated by-laws and the laws in the State of Delaware contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the prospective acquirer and to encourage prospective acquirers to negotiate with our Board of Directors rather than to attempt a hostile takeover. Delaware law also imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by effectively requiring those who seek to obtain control of the Company to negotiate with our Board of Directors and by providing our Board with more time to assess any acquisition of control. However, these provisions could apply even if an acquisition of control of the Company may be considered beneficial by some stockholders and could delay or prevent an acquisition of control that our Board of Directors determines is not in the best interests of our Company and our stockholders.

Our business could be adversely impacted as a result of actions by activist stockholders or others.

The Company values constructive input from investors and regularly engages in dialogue with its stockholders regarding strategy and performance. The Company's Board of Directors and management team are committed to acting in the best interests of all of the Company's stockholders. There is no assurance that the actions taken by the Board of Directors and management in seeking to maintain constructive engagement with the Company's stockholders will be successful, and we may be subject to formal or informal actions or requests from stockholders or others. Responding to such actions could be costly and time-consuming, divert attention of management and employees, and may have an adverse effect on our business, results of operations and cash flow and the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Table of Contents

Our principal executive offices are located at 6 Sylvan Way, Parsippany, New Jersey 07054 pursuant to a lease agreement that expires in 2023. We own a facility in Virginia Beach, Virginia, which serves as a satellite administrative facility for our car and truck rental operations. We also lease office space in Tulsa, Oklahoma, and Boston, Massachusetts, pursuant to leases expiring in 2022 and 2023, respectively. These locations primarily provide operational and administrative services or contact center operations for our Americas segment. We also lease office space in Bracknell, England, Budapest, Hungary and Barcelona, Spain, pursuant to leases expiring in 2027, 2021 and 2019, respectively, for corporate offices, contact center activities and other administrative functions, respectively, for our International segment. Other office locations throughout the world are leased for administrative, regional sales and operations activities.

We lease or have vehicle rental concessions for our brands at locations throughout the world. We own approximately 2% of the locations from which we operate and in some cases we sublease to franchisees or other third parties. The remaining locations from which we operate our vehicle rental businesses are leased or operated under concession agreements with governmental authorities and private entities. Those leases and concession agreements typically require the payment of minimum rents or minimum concession fees and often also require us to pay or reimburse operating expenses, to pay additional rent, or concession fees above guaranteed minimums, based on a percentage of revenues or sales arising at the relevant premises, or to do both. See Note 14 to our Consolidated Financial Statements for information regarding lease commitments.

We believe that our properties are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional space, as needed, on acceptable terms.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 14 to our Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON EQUITY

Our common stock is currently traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "CAR." At January 31, 2019, the number of stockholders of record was 2,517.

DIVIDEND POLICY

We neither declared nor paid any cash dividend on our common stock in 2018 and 2017, and we do not currently anticipate paying cash dividends on our common stock. However, we evaluate our dividend policy on a regular basis and may pay dividends in the future, subject to compliance with the covenants in our senior credit facility, the indentures governing our senior notes and our vehicle financing programs. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will also depend upon many factors, including our financial condition, earnings, capital requirements of our businesses, covenants associated with certain debt obligations, legal requirements, regulatory constraints, industry practice and other factors that the Board of Directors deems relevant.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information about shares of our common stock that may be issued upon the exercise of options and restricted stock units under all of our existing equity compensation plans as of December 31, 2018.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, Rights and Restricted Stock Units [a]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (Excludes Restricted Stock Units) ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column) [b]
Equity compensation plans approved by security holders	2,457,610	$ 0.79	5,889,509
Equity compensation plans not approved by security holders	—	—	—
Total	2,457,610	$ 0.79	5,889,509

(a) Includes options and other awards granted under the Amended and Restated Equity and Incentive Plan, which plan was approved by stockholders.

(b) Represents 3,469,070 shares available for issuance under the Amended and Restated Equity and Incentive Plan and 2,420,439 shares available for issuance pursuant to the 2009 Employee Stock Purchase Plan.

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

The following is a summary of the Company's common stock repurchases by month for the quarter ended December 31, 2018:

Period	Total Number of Shares Purchased[a]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs
October 2018	672,141	$ 31.83	672,141	$ 200,501,901
November 2018	804,549	29.89	804,549	176,451,029
December 2018	989,200	26.23	989,200	150,501,899
Total	2,465,890	$ 28.95	2,465,890	$ 150,501,899

(a) Excludes, for the three months ended December 31, 2018, 106 shares which were withheld by the Company to satisfy employees' income tax liabilities attributable to the vesting of restricted stock unit awards.

The Company's Board of Directors has authorized the repurchase of up to approximately $1.7 billion of its common stock under a plan originally approved in 2013 and subsequently expanded, most recently in August 2018. The Company's stock repurchases may occur through open market purchases or trading plans pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements and other factors. The repurchase program may be suspended, modified or discontinued at any time without prior notice. The repurchase program has no set expiration or termination date.

Table of Contents

PERFORMANCE GRAPH

Set forth below are a line graph and table comparing the cumulative total stockholder return of our common stock against the cumulative total returns of peer group indices, the S&P Midcap 400 Index, the S&P 500 Index and the Dow Jones U.S. Transportation Average Index for the period of five fiscal years commencing December 31, 2013 and ending December 31, 2018. The broad equity market indices used by the Company are the S&P Midcap 400 Index, which measures the performance of mid-sized companies and the Dow Jones U.S. Transportation Average Index, which measures the performance of transportation companies. The Company has elected to begin using the S&P Midcap 400 Index in place of the S&P 500 Index for future period comparisons because the S&P Midcap 400 Index is a more appropriate benchmark in light of the Company's equity market capitalization. The graph and table depict the result of an investment on December 31, 2013 of $100 in the Company's common stock, the S&P Midcap 400 Index, the S&P 500 Index and the Dow Jones U.S. Transportation Average Index, including investment of dividends.

	As of December 31,					
	2013	2014	2015	2016	2017	2018
Avis Budget Group, Inc.	$100.00	$164.10	$89.78	$90.75	$108.56	$55.62
S&P Midcap 400 Index	$100.00	$109.77	$107.38	$129.65	$150.71	$134.01
S&P 500 Index	$100.00	$113.69	$115.26	$129.05	$157.22	$150.33
Dow Jones U.S. Transportation Average Index	$100.00	$125.07	$104.11	$127.36	$151.58	$132.90

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

	As of or For the Year Ended December 31,				
	2018	2017	2016	2015	2014
		(In millions, except per share data)			
Results of Operations					
Revenues	$9,124	$8,848	$8,659	$8,502	$8,485
Net income	$165	$361	$163	$313	$245
Adjusted EBITDA (a)	$781	$735	$838	$903	$876
Earnings per share					
Basic	$2.08	$4.32	$1.78	$3.02	$2.32
Diluted	2.06	4.25	1.75	2.98	2.22
Financial Position					
Total assets	$19,149	$17,699	$17,643	$17,634	$16,842
Assets under vehicle programs	12,779	11,879	11,578	11,716	11,058
Corporate debt	3,551	3,599	3,523	3,461	3,353
Debt under vehicle programs (b)	10,232	9,221	8,878	8,860	8,056
Stockholders' equity	414	573	221	439	665
Ratio of debt under vehicle programs to assets under vehicle programs	80 %	78 %	77 %	76 %	73 %

(a) The following table reconciles Net Income to Adjusted EBITDA within our Selected Financial Data, which we define as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charges, restructuring and other related charges, early extinguishment of debt costs, non-vehicle related interest, transaction-related costs, net charges for an unprecedented personal-injury legal matters, non-operational charges related to shareholder activist activity and income taxes. Net charges for unprecedented personal-injury legal matters are recorded within operating expenses in our Consolidated Statements of Operations. We have revised our definition of Adjusted EBITDA to exclude non-operational charges related to shareholder activist activity. Non-operational charges related to shareholder activist activity include third-party advisory, legal and other professional service fees and are recorded within selling, general and administrative expenses in our Consolidated Statements of Operations. We did not revise prior years' Adjusted EBITDA amounts because there were no costs similar in nature to these items. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies. See Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7, for an explanation of why we believe Adjusted EBITDA is a useful measure.

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Net income	$165	$361	$163	$313	$245
Provision for (benefit from) income taxes	102	(150)	116	69	147
Income before income taxes	267	211	279	382	392
Add: Non-vehicle related depreciation and amortization	256	259	253	218	180
Interest expense related to corporate debt, net	188	188	203	194	209
Restructuring and other related charges	22	63	29	18	26
Transaction-related costs, net	20	23	21	68	13
Early extinguishment of corporate debt	19	3	27	23	56
Non-operational charges related to shareholder activist activity	9	—	—	—	—
Impairment	—	2	—	—	—
Charges for legal matter, net	—	(14)	26	—	—
Adjusted EBITDA	$781	$735	$838	$903	$876

(b) Includes related-party debt due to Avis Budget Rental Car Funding (AESOP) LLC ("Avis Budget Rental Car Funding"). See Note 13 to our Consolidated Financial Statements.

In presenting the financial data above in conformity with GAAP, we are required to make estimates and assumptions that affect the amounts reported. See "Critical Accounting Policies" under Item 7 of this Annual Report for a detailed discussion of the accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

Table of Contents

RESTRUCTURING AND OTHER RELATED CHARGES, TRANSACTION-RELATED COSTS, AND OTHER ITEMS

In 2018, 2017, 2016, 2015 and 2014, we recorded restructuring and other related charges of $22 million, $63 million, $29 million, $18 million, and $26 million, respectively. See Note 4 to our Consolidated Financial Statements.

In 2018, 2017, 2016, 2015 and 2014, we recorded $20 million, $23 million, $21 million, $68 million and $13 million, respectively, of transaction-related costs, primarily related to the acquisition and integration of acquired businesses with our operations. In 2018 and 2017, these costs primarily related to integration-related costs of acquired businesses and acquisition-related costs of businesses pursued. In 2016, these costs primarily related to integration-related costs of acquired businesses. In 2015, these costs were primarily related to acquisition- and integration-related costs of acquired businesses, including $25 million of non-cash charges recognized in connection with the acquisition of the Avis and Budget license rights for Norway, Sweden and Denmark and Avis license rights for Poland, costs associated with the acquisition of the remaining 50% equity interest in our Brazilian licensee, which is now a wholly-owned subsidiary, and expenses related to certain pre-acquisition contingencies. In 2014, these costs were primarily related to acquisition- and integration-related costs of acquired businesses, including a non-cash gain recognized in connection with the acquisition of our Budget license rights in southern California and Las Vegas, and contingent consideration related to our Apex Car Rentals acquisition. See Notes 2 and 5 to our Consolidated Financial Statements.

In 2018, 2017, 2016, 2015 and 2014, we recorded $19 million, $3 million, $27 million, $23 million and $56 million, respectively, of expense related to the early extinguishment of corporate debt. See Note 12 to our Consolidated Financial Statements.

In 2017, we recorded a $2 million impairment charge related to our Zipcar trademark.

In 2017, we recognized recoverable insurance proceeds of $27 million and a charge of $13 million related to an adverse legal judgment against us in a personal injury case. In 2016, we recorded a charge of $26 million related to the same legal matter. This adverse legal judgment is recorded within operating expenses in our consolidated statement of operations.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in this Annual Report on Form 10-K commencing on page F-1. Our actual results of operations may differ materially from those discussed in forward-looking statements as a result of various factors, including but not limited to those included in Item 1A, "Risk Factors" and other portions of this Annual Report on Form 10-K. Unless otherwise noted, all dollar amounts in tables are in millions.

OVERVIEW

OUR COMPANY

We operate three of the most globally recognized brands in mobility solutions, Avis, Budget and Zipcar together with several other brands, well recognized in their respective markets. We are a leading vehicle rental operator in North America, Europe, Australasia and certain other regions we serve, with an average rental fleet of nearly 650,000 vehicles. We also license the use of our trademarks to licensees in the areas in which we do not operate directly. We and our licensees operate our brands in approximately 180 countries throughout the world.

OUR SEGMENTS

We categorize our operations into two reportable business segments: Americas and International, as discussed in Part I of this Form 10-K.

BUSINESS AND TRENDS

Our revenues are derived principally from vehicle rentals in our Company-owned operations and 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 our customers with respect to certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as concession fees, which we pay in exchange for the right to operate at airports and other locations.

In addition, we receive royalty revenue and associated fees from our licensees in conjunction with their vehicle rental transactions.

Our operating results are subject to variability due to seasonality, macroeconomic conditions and other factors. Car rental volumes tend to be associated with the travel industry, particularly airline passenger volumes, or enplanements, which in turn tend to reflect general economic conditions. Our operations are also seasonal, with the third quarter of the year historically having been our strongest due to the increased level of leisure travel during such quarter. We have a partially variable cost structure and routinely adjust the size, and therefore the cost, of our rental fleet in response to fluctuations in demand.

Throughout 2018, worldwide demand for mobility solutions increased and used-vehicle values in the United States strengthened counterbalanced by the incremental impact of rising interest rates, higher salaries, wages and related benefits. In 2019, we anticipate that worldwide demand for mobility solutions will increase, most likely against a backdrop of modest and possibly uneven global economic growth.

We will aggressively pursue opportunities to enhance our profitability and return on invested capital. Our objective is to drive sustainable profitable growth by delivering on strategic initiatives aimed at winning customers through differentiated brands and products, increasing our margins via revenue growth and operational efficiency and enhancing our leadership in the evolving mobility solutions industry. Our strategies are intended to support and strengthen our brands and to grow our margins and earnings over time, and to achieve growth and efficiency opportunities as mobility solutions continue to evolve.

We operate in a highly competitive industry and we expect to continue to face challenges and risks in managing our business. We seek to mitigate our exposure to risks in numerous ways, including delivering upon our core

Table of Contents

strategic initiatives and through continued optimization of fleet levels to match changes in demand for vehicle rentals, maintenance of liquidity to fund our fleet investment and operations, appropriate investments in technology and adjustments in the size and the nature and terms of our relationships with vehicle manufacturers.

During 2018:

- Our revenues totaled $9.1 billion, increasing 3% compared to 2017, due to higher rental volumes.
- Our net income was $165 million and our Adjusted EBITDA was $781 million driven by higher revenues and Americas' lower per-unit fleet costs.
- We repurchased $200 million of our common stock, reducing our shares outstanding by approximately 5.9 million shares, or 7%.
- We amended the terms of our Floating Rate Term Loan due 2022 and our Senior revolving credit facility maturing 2021 and extended the maturity to 2025 and 2023, respectively.
- We issued €350 million of 4¾% euro-denominated Senior Notes due January 2026, the proceeds of which were used to redeem all $400 million of our outstanding 5 % Senior Notes due June 2022.
- We acquired Morini S.p.A in Northern Italy, Turiscar Group in Portugal, various licensees in Europe and North America, and a 40% ownership stake in our licensee in Greece.

RESULTS OF OPERATIONS

We measure performance principally using the following key metrics: (i) rental days, which represent the total number of days (or portion thereof) a vehicle was rented, (ii) revenue per day, which represents revenues divided by rental days, (iii) vehicle utilization, which represents rental days divided by available rental days, available rental days is defined as average rental fleet times the number of days in the period, and (iv) per-unit fleet costs, which represent vehicle depreciation, lease charges and gain or loss on vehicle sales, divided by average rental fleet. Our rental days, revenue per day and vehicle utilization metrics are all calculated based on the actual rental of the vehicle during a 24-hour period. We believe that this methodology provides us with the most relevant metrics in order to manage the business. Our calculation may not be comparable to the calculation of similarly-titled metrics by other companies. We present currency exchange rate effects to provide a method of assessing how our business performed excluding the effects of foreign currency rate fluctuations. Currency exchange rate effects are calculated by translating the current-year results at the prior-period average exchange rate plus any related gains and losses on currency hedges.

We assess performance and allocate resources based upon the separate financial information of our operating segments. In identifying our reportable segments, we also consider the nature of services provided by our operating segments, the geographical areas in which our segments operate and other relevant factors. Management evaluates the operating results of each of our reportable segments based upon revenue and "Adjusted EBITDA," which we define as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charges, restructuring and other related charges, early extinguishment of debt costs, non-vehicle related interest, transaction-related costs, net charges for unprecedented personal-injury legal matters, non-operational charges related to shareholder activist activity and income taxes. Net charges for unprecedented personal-injury legal matters are recorded within operating expenses in our consolidated results of operations. We have revised our definition of Adjusted EBITDA to exclude non-operational charges related to shareholder activist activity. Non-operational charges related to shareholder activist activity include third-party advisory, legal and other professional service fees and are recorded within selling, general and administrative expenses in our consolidated results of operations. We did not revise prior years' Adjusted EBITDA amounts because there were no costs similar in nature to these costs. We believe Adjusted EBITDA is useful as a supplemental measure in evaluating the performance of our operating businesses and in comparing our results from period to period. We also believe that Adjusted EBITDA is useful to investors because it allows them to assess our results of operations and financial condition on the same basis that management uses internally. Adjusted EBITDA is a non-GAAP measure and should not be considered in isolation or as a substitute for net income or other income statement data prepared in accordance with U.S. GAAP. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

Table of Contents

Year Ended December 31, 2018 vs. Year Ended December 31, 2017

Our consolidated results of operations comprised the following:

	Year Ended December 31,			
	2018	2017	$ Change	% Change
Revenues	$9,124	$8,848	$276	3 %
Expenses				
Operating	4,639	4,472	(167)	(4 %)
Vehicle depreciation and lease charges, net	2,179	2,221	42	2 %
Selling, general and administrative	1,220	1,120	(100)	(9 %)
Vehicle interest, net	314	286	(28)	(10 %)
Non-vehicle related depreciation and amortization	256	259	3	1 %
Interest expense related to corporate debt, net:				
Interest expense	188	188	—	0 %
Early extinguishment of debt	19	3	(16)	n/m
Restructuring and other related charges	22	63	41	65 %
Transaction-related costs, net	20	23	3	13 %
Impairment	—	2	2	n/m
Total expenses	8,857	8,637	(220)	(3 %)
Income before income taxes	267	211	56	27 %
Provision for (benefit from) income taxes	102	(150)	(252)	n/m
Net income	$165	$361	$(196)	(54 %)

____

n/m Not meaningful.

Revenues increased during 2018, compared to 2017, as a result of 4% higher rental volumes and a $41 million benefit from currency exchange rate movements, partially offset by a 1% reduction in revenue per day excluding exchange rate movements.

Total expenses increased as a result of additional rental volumes, higher salaries, wages and related benefits and higher vehicle interest rates, partially offset by lower per-unit fleet costs in the Americas. These increases to expenses include a $27 million negative effect from currency exchange rate movements.

Operating expenses increased to 50.8% of revenue during 2018 compared to 50.5% in 2017. Vehicle depreciation and lease charges decreased to 23.9% of revenue during 2018 compared to 25.1% in 2017, primarily due to Americas' lower per-unit fleet costs. Selling, general and administrative costs increased to 13.4% of revenue during 2018 compared to 12.7% in 2017, primarily due to higher salary related benefits. Vehicle interest costs were 3.4% of revenue during 2018 compared to 3.2% in 2017.

Our effective tax rates were a provision of 38% and a benefit of 71% in 2018 and 2017, respectively, which in 2018 included additional tax expense of $30 million related to the completion of the accounting for the one-time transition tax on the deemed repatriation of cumulative foreign subsidiary earnings initially recorded during 2017 related to the Tax Cuts and Jobs Act (the "Tax Act") and in 2017 included a $213 million provisional income tax benefit related to the Tax Act. This net benefit primarily consisted of a benefit of $317 million from the revaluation of net deferred tax liabilities as a result of the corporate income tax rate reduction and a provisional expense of $104 million for the one-time transition tax on the deemed repatriation of cumulative foreign subsidiary earnings.

For 2018, the Company reported earnings of $2.06 per diluted share, which includes a net tax provision related to the adjustment of the one-time transition tax on the deemed repatriation of cumulative foreign subsidiary earnings of ($0.37) per share and a benefit from the impact of our 2018 share repurchases of $0.05 per share. For 2017, the Company reported earnings of $4.25 per diluted share, which includes a net tax benefit from the impact of the Tax Act of $2.51 per share.

Table of Contents

Following is a more detailed discussion of the results of each of our reportable segments:

	2018		2017	
	Revenues	Adjusted EBITDA	Revenues	Adjusted EBITDA
Americas	$6,186	$ 558	$6,100	$ 486
International	2,938	287	2,748	305
Corporate and Other [(a)]	—	(64)	—	(56)
Total Company	$9,124	$ 781	$8,848	$ 735

Reconciliation of net income to Adjusted EBITDA		
	2018	2017
Net income	$165	$ 361
Provision for (benefit from) income taxes	102	(150)
Income before income taxes	267	211
Add: Non-vehicle related depreciation and amortization	256	259
Interest expense related to corporate debt, net:		
Interest expense	188	188
Early extinguishment of debt	19	3
Restructuring and other related charges [(b)]	22	63
Transaction-related costs, net [(c)]	20	23
Non-operational charges related to shareholder activist activity [(d)]	9	—
Impairment [(e)]	—	2
Charges for legal matter, net [(f)]	—	(14)
Adjusted EBITDA	$781	$ 735

(a) Includes unallocated corporate overhead which is not attributable to a particular segment.
(b) Other related charges include costs associated with the separation of certain officers of the Company and our limited voluntary opportunity plans.
(c) Primarily comprised of acquisition- and integration-related expenses.
(d) Reported within selling, general and administrative expenses in our consolidated results of operations.
(e) Impairment charge is related to our Zipcar trademark.
(f) Reported within operating expenses in our consolidated results of operations.

Americas

	2018	2017	% Change	
Revenues	$6,186	$6,100	1	%
Adjusted EBITDA	558	486	15	%

Revenues increased 1% during 2018, compared to 2017, primarily due to a 1% increase in rental volumes, partially offset by a $10 million negative effect from currency exchange rate movements.
Operating expenses increased to 49.7% of revenue during 2018 compared to 49.4% in 2017. Vehicle depreciation and lease charges decreased to 25.4% of revenue during 2018 compared to 27.4% in 2017, primarily due to 7% lower per-unit fleet costs. Selling, general and administrative costs increased to 11.9% of revenue during 2018 compared to 11.3% in 2017, primarily due to higher salary related benefits, partially offset by lower marketing costs. Vehicle interest costs increased to 4.1% of revenue during 2018 compared to 3.7% in 2017, primarily due to higher interest rates.

Adjusted EBITDA increased 15% during 2018, compared to 2017, due to higher revenues and lower per-unit fleet costs, partially offset by higher salaries, wages and related benefits, and higher interest rates. Currency movements increased Adjusted EBITDA by $3 million.

Table of Contents

International

	2018	2017	% Change
Revenues	$2,938	$2,748	7 %
Adjusted EBITDA	287	305	(6 %)

Revenues increased 7% during 2018, compared to 2017, primarily due to an 8% increase in rental volumes and a $51 million benefit from currency exchange rate movements, partially offset by a 3% reduction in revenue per day excluding exchange rate movements.

Operating expenses were 52.8% of revenue during 2018 compared to 52.7% in 2017. Vehicle depreciation and lease charges increased to 20.8% of revenue during 2018 compared to 20.0% in 2017, primarily due to lower revenue per day excluding exchange rate movements. Selling, general and administrative costs increased to 14.5% of revenue during 2018 compared to 14.1% in 2017, primarily due to higher marketing costs. Vehicle interest costs were 2.1% of revenue during 2018 compared to 2.2% in 2017.

Adjusted EBITDA decreased 6% during 2018, compared to 2017, due to lower revenue per day excluding exchange rate movements, increased maintenance and damage costs and increased marketing costs, partially offset by increased rental volumes and a $15 million benefit from currency exchange rate movements.

Corporate and Other

	2018	2017	% Change
Revenues	$ —	$ —	n/m
Adjusted EBITDA	(64)	(56)	n/m

____

n/m Not meaningful.

Adjusted EBITDA decreased $8 million during 2018, compared to 2017, primarily due to higher selling, general and administrative expenses which are not attributable to a particular segment.

Year Ended December 31, 2017 vs. Year Ended December 31, 2016

For the years ended December 31, 2017 and 2016, we measured performance principally using the following key metrics: (i) rental days, which represent the total number of days (or portion thereof) a vehicle was rented, (ii) time & mileage revenue per rental day, which represents the average daily revenue we earned from rental time & mileage fees charged to our customers, both of which exclude our U.S. truck rental and Zipcar car sharing operations and (iii) per-unit fleet costs, which represent vehicle depreciation, lease charges and gain or loss on vehicle sales, divided by average rental fleet and exclude our U.S. truck rental operations. We also measure our ancillary revenues (rental-transaction revenue other than time & mileage revenue), such as from the sale of collision and loss damage waivers, insurance products, fuel service options and rental of other supplemental products. Our rental days and time & mileage revenue per rental day vehicle rental metrics are all calculated based on the actual rental of the vehicle during a 24-hour period. We believe that this methodology provides us with the most relevant metrics in order to manage the business. Our calculation may not be comparable to the calculation of similarly-titled metrics by other companies. We present currency exchange rate effects to provide a method of assessing how our business performed excluding the effects of foreign currency rate fluctuations. Currency exchange rate effects are calculated by translating the current-year results at the prior-period average exchange rate plus any related gains and losses on currency hedges.

Table of Contents

Our consolidated results of operations comprised the following:

	Year Ended December 31,			
	2017	2016	$ Change	% Change
Revenues				
Vehicle rental	$6,219	$6,081	$ 138	2 %
Other	2,629	2,578	51	2 %
Net revenues	8,848	8,659	189	2 %
Expenses				
Operating	4,472	4,382	(90)	(2 %)
Vehicle depreciation and lease charges, net	2,221	2,047	(174)	(9 %)
Selling, general and administrative	1,120	1,134	14	1 %
Vehicle interest, net	286	284	(2)	(1 %)
Non-vehicle related depreciation and amortization	259	253	(6)	(2 %)
Interest expense related to corporate debt, net:				
Interest expense	188	203	15	7 %
Early extinguishment of debt	3	27	24	89 %
Restructuring and other related charges	63	29	(34)	n/m
Transaction-related costs, net	23	21	(2)	(10 %)
Impairment	2	—	(2)	n/m
Total expenses	8,637	8,380	(257)	(3 %)
Income before income taxes	211	279	(68)	(24 %)
Provision for (benefit from) income taxes	(150)	116	266	n/m
Net income	$361	$163	$ 198	n/m

n/m Not meaningful.

During 2017, our revenues increased as a result of a 5% increase in rental volumes, partially offset by a 1% decrease in time & mileage revenue per day. Currency exchange rate movements increased revenues by $58 million.

Total expenses increased as a result of higher rental volumes, a 4% increase in per-unit fleet costs (including a 1% negative impact from currency exchange rate movements) and increased restructuring and other related charges,

partially offset by cost mitigating actions. Currency movements increased expenses by $25 million year-over-year.

Operating expenses were 50.5% of revenue during 2017 compared to 50.6% in 2016. Vehicle depreciation and lease charges increased to 25.1% of revenue during 2017 compared to 23.6% in 2016, primarily due to higher per-unit fleet costs and lower time & mileage revenue per day, partially offset by higher utilization. Selling, general and administrative costs decreased to 12.7% of revenue during 2017 compared to 13.1% in 2016, primarily due to cost mitigating actions, partially offset by higher marketing commissions. Vehicle interest costs were 3.2% of revenue during 2017 compared to 3.3% in 2016.

Our effective tax rates were a benefit of 71% and a provision of 42% in 2017 and 2016, respectively, which in 2017 included a $213 million provisional income tax benefit related to the impact of the Tax Act. This net benefit primarily consists of a benefit of $317 million from the revaluation of net deferred tax liabilities as a result of the corporate income tax rate reduction and a provisional expense of $104 million for the one-time transition tax on cumulative foreign earnings. As a result of these items, our net income increased by $198 million.

For 2017, the Company reported earnings of $4.25 per diluted share, which includes after-tax restructuring and other related charges of ($0.48) per share, after-tax transaction-related costs of ($0.23) per share, after-tax debt extinguishment costs of ($0.02) per share, after-tax impairment charge of ($0.01) per share, after-tax reversal of charges for legal matter of $0.10 per share and a net tax benefit from the impact of the Tax Act of $2.51 per share. For 2016, the Company reported earnings of $1.75 per diluted share, which includes after-tax restructuring and

Table of Contents

other related charges of ($0.23) per share, after-tax debt extinguishment costs of ($0.18) per share, after-tax charges for legal matter of ($0.17) per share and after-tax transaction-related costs, net, of ($0.17) per share.

Following is a more detailed discussion of the results of each of our reportable segments:

	2017		2016	
	Revenues	Adjusted EBITDA	Revenues	Adjusted EBITDA
Americas	$6,100	$ 486	$6,121	$ 633
International	2,748	305	2,538	273
Corporate and Other [(a)]	—	(56)	—	(68)
Total Company	$8,848	$ 735	$8,659	$ 838

Reconciliation of net income to Adjusted EBITDA			
		2017	2016
Net income		$361	$ 163
Provision for (benefit from) income taxes		(150)	116
Income before income taxes		211	279
Add	Non-vehicle related depreciation and amortization	259	253
	Interest expense related to corporate debt, net:		
	Interest expense	188	203
	Early extinguishment of debt	3	27
	Restructuring and other related charges[(b)]	63	29
	Transaction-related costs, net [(c)]	23	21
	Impairment [(d)]	2	—
	Charges for legal matter, net [(e)]	(14)	26
Adjusted EBITDA		$735	$ 838

(a) Includes unallocated corporate overhead which is not attributable to a particular segment.

(b) Other related charges include costs associated with the separation of certain officers of the Company and our limited voluntary opportunity plans.

(c) Primarily comprised of acquisition- and integration-related expenses.

(d) Impairment charge is related to our Zipcar trademark.

(e) Reported within operating expenses in our consolidated results of operations.

Americas

	2017	2016	% Change
Revenues	$6,100	$6,121	— %

Adjusted EBITDA	486	633	(23 %)

Revenues decreased in 2017 compared with 2016, primarily due to a 1% reduction in time & mileage revenue per day, partially offset by 2% growth in rental volumes. Currency movements increased revenues by $9 million year-over-year.

Operating expenses decreased to 49.4% of revenue during 2017 compared to 49.6% in 2016. Vehicle depreciation and lease charges increased to 27.4% of revenue during 2017 compared to 25.5% in 2016, primarily due to a 6% increase in per-unit fleet costs, partially offset by higher utilization. Selling, general and administrative costs, at 11.3% of revenue during 2017, remained level compared to 2016. Vehicle interest costs, at 3.7% of revenue during 2017, remained level compared to 2016.

Adjusted EBITDA decreased 23% in 2017 compared with 2016, due to higher per-unit fleet costs, lower revenues and higher marketing commissions, partially offset by cost mitigating actions and higher utilization.

Table of Contents

International

	2017	2016	% Change
Revenues	$2,748	$2,538	8 %
Adjusted EBITDA	305	273	12 %

Revenues increased 8% during 2017 compared with 2016, primarily due to a 12% increase in rental volumes, including a 7% benefit from FranceCars which was acquired in December 2016, partially offset by a 2% reduction in time & mileage revenue per day (including a 1% favorable effect from currency movements). Currency movements increased revenues by $49 million.

Operating expenses were 52.7% of revenue during 2017 compared to 52.6% in 2016. Vehicle depreciation and lease charges increased to 20.0% of revenue during 2017 compared to 19.2% in 2016, primarily due to lower time & mileage revenue per day. Selling, general and administrative costs were reduced to 14.1% of revenue during 2017 compared to 15.1% in 2016, primarily due to increased revenues and cost mitigating actions, partially offset by higher marketing commissions. Vehicle interest costs were 2.2% of revenue during 2017 compared to 2.3% in 2016.

Adjusted EBITDA increased 12% in 2017 compared with 2016, due to increased revenues and cost mitigating actions, partially offset by higher marketing commissions. Currency movements increased Adjusted EBITDA by $24 million.

Corporate and Other

	2017	2016	% Change
Revenues	$ —	$ —	n/m
Adjusted EBITDA	(56)	(68)	n/m

____

n/m Not meaningful

Adjusted EBITDA increased $12 million in 2017 compared with 2016, primarily due to lower selling, general and administrative expenses which are not attributable to a particular segment.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We present separately the financial data of our vehicle programs. These programs are distinct from our other activities as the assets under vehicle programs are generally funded through the issuance of debt that is collateralized by such assets. The income generated by these assets is used, in part, to repay the principal and interest associated with the debt. Cash inflows and outflows relating to the generation or acquisition of such assets and the principal debt repayment or financing of such assets are classified as activities of our vehicle programs. We believe it is appropriate to segregate the financial data of our vehicle programs because, ultimately, the source of repayment of such debt is the realization of such assets.

FINANCIAL CONDITION

	As of December 31,				
	2018	2017		Change	
Total assets exclusive of assets under vehicle programs	$6,370	$ 5,820		$ 550	
Total liabilities exclusive of liabilities under vehicle programs	6,011	5,935		76	
Assets under vehicle programs	12,779	11,879		900	
Liabilities under vehicle programs	12,724	11,191		1,533	
Stockholders' equity	414		1.5	(0.5)	
Total		$1.0	$ (19.2)	$ 1.2	$(21.5)

The net of tax amount expected to be reclassified out of AOCI into earnings during the next 12 months is a $1.0 million loss.

The gains (losses) recognized against earnings for the ineffective portion of our designated cash flow hedges were as follows:

Designated Cash Flow Hedges	Income Statement Location	Amount of Gain/(Loss) Recognized in Income (Ineffective Portion)			
		Three Months Ended		Six Months Ended	
		July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Interest rate swap agreements	Other expense, net	$—	$ —	$(0.1)	$ —
Foreign currency forward contracts	Net sales	(0.1)	—	0.1	(0.3)
	Cost of sales	(0.1)	0.1	—	0.1
	Other expense, net	0.6	—	0.6	—
Total		$0.4	$ 0.1	$0.6	$ (0.2)

The effects of our non-designated derivatives on the Condensed Consolidated Statements of Operations were as follows:

Non-Designated Derivatives	Income Statement Location	Amount of Gain/(Loss) Recognized in Income			
		Three Months Ended		Six Months Ended	
		July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Foreign currency forward contracts	Other expense, net	$(1.6)	$ 5.2	$(8.5)	$(250.5)
	Interest expense, net	(0.6)	(1.0)	(0.5)	(3.5)
Total		$(2.2)	$ 4.2	$(9.0)	$(254.0)

NOTE 9 – ASSETS HELD FOR SALE

During the six months ended December 31, 2015, management committed to a plan to sell our U.S. Vitamins, Minerals, and Supplements ("VMS") and India Active Pharmaceutical Ingredients ("API") businesses. The VMS business is reported in our CHC segment and the API business is reported in our Other segment. When a group of assets is classified as held for sale, the book value is evaluated and adjusted to the lower of its carrying amount or fair value less cost to sell. At December 31, 2015, we determined that the carrying value of the India API business exceeded its fair value less cost to sell, resulting in an impairment charge of $29.0 million. During the three months ended July 2, 2016, we recorded an additional impairment charge to the India API business of

$4.3 million. In addition, during the three months ended July 2, 2016, we determined that the carrying value of the U.S. VMS business exceeded its fair value less cost to sell, resulting in an impairment charge of $6.2 million.

Assets and liabilities associated with the U.S. VMS and India API held for sale businesses were classified as held for sale at July 2, 2016 and December 31, 2015. The assets held for sale were reported within Prepaid expenses and other current assets and liabilities held for sale were reported in Accrued liabilities. The amounts consisted of the following (in millions):

	July 2, 2016		December 31, 2015	
	CHC	Other	CHC	Other
Assets held for sale				
Current assets	$59.4	$6.8	$55.1	$13.6
Goodwill	8.5	7.3	13.0	14.5
Property, plant and equipment	18.9	34.0	18.8	37.4
Other assets	0.9	3.2	—	3.2
Less: impairment reserves	(6.2)	(32.5)	—	(29.0)
Total assets held for sale	$81.5	$18.8	$86.9	$39.7
Liabilities held for sale				
Current liabilities	$27.0	$1.1	$30.5	$0.5
Other liabilities	—	2.1	—	1.7
Total liabilities held for sale	$27.0	$3.2	$30.5	$2.2

Perrigo Company plc - Item 1
Note 10

NOTE 10 – INDEBTEDNESS

Total borrowings outstanding are summarized as follows (in millions):

				July 2, 2016	December 31, 2015
Revolving credit agreements					
	2015 Revolver			$—	$ 380.0
	2014 Revolver			—	300.0
	Total revolving credit agreements			—	680.0
Term loans					
*	2014 Term loan due December 5, 2019			473.3	488.8
Notes and Bonds					
	Coupon	Due			
	1.300%	November 8, 2016	(2)	500.0	500.0
*	4.500%	May 23, 2017	(3)	200.5	195.5
*	5.125%	December 12, 2017	(3)	334.1	325.8
	2.300%	November 8, 2018	(2)	600.0	600.0
*	5.000%	May 23, 2019	(3)	133.6	130.3
	3.500%	March 15, 2021	(4)	500.0	—
	3.500%	December 15, 2021	(1)	500.0	500.0
*	5.105%	July 19, 2023	(3)	150.4	146.7
	4.000%	November 15, 2023	(2)	800.0	800.0
	3.900%	December 15, 2024	(1)	700.0	700.0
	4.375%	March 15, 2026	(4)	700.0	—
	5.300%	November 15, 2043	(2)	400.0	400.0
	4.900%	December 15, 2044	(1)	400.0	400.0
	Total notes and bonds			5,918.6	4,698.3
Other financing				4.6	86.0
Unamortized premium (discount), net				49.5	73.4
Deferred financing fees				(35.4)	(36.6)
Total borrowings outstanding				6,410.6	5,989.9
	Current indebtedness			(758.1)	(1,018.3)
Total long-term debt less current portion				$5,652.5	$ 4,971.6

(1) Discussed below collectively as the "2014 Notes."
(2) Discussed below collectively as the "2013 Notes."
(3) Debt assumed from Omega.
(4) Discussed below collectively as the "2016 Notes."

* Debt denominated in euros subject to fluctuations in the euro-to-U.S. dollar exchange rate.

We were in compliance with all covenants under our debt agreements as of July 2, 2016.

Revolving Credit Agreements

On December 9, 2015, our 100% owned finance subsidiary, Perrigo Finance Unlimited Company (formerly Perrigo Finance plc) ("Perrigo Finance"), entered into a $750.0 million revolving credit agreement (the "2015 Revolver"). On March 15, 2016, we used the proceeds of the long-term debt issuance described below under "2016 Notes" to repay the $750.0 million then outstanding under the 2015 Revolver and terminated the facility.

On March 30, 2015, we assumed a revolving credit facility with €500.0 million ($544.5 million) outstanding from Omega. On April 8, 2015, the €500.0 million ($539.1 million) outstanding under the assumed revolving credit facility was repaid and the facility was terminated.

25

Perrigo Company plc - Item 1
Note 10

On December 5, 2014, Perrigo Finance entered into a $600.0 million revolving credit agreement, which we increased to $1.0 billion on March 30, 2015 (the "2014 Revolver"). On March 15, 2016, we used the proceeds of the long-term debt issuance described below under "2016 Notes" to repay the $435.0 million then outstanding under the 2014 Revolver. There were no borrowings outstanding under the 2014 Revolver as of July 2, 2016.

Term Loans

On December 5, 2014, Perrigo Finance entered into a term loan agreement consisting of a €500.0 million ($614.3 million) tranche, with the ability to draw an additional €300.0 million ($368.6 million) tranche, maturing December 5, 2019, and we entered into a $300.0 million term loan tranche maturing December 18, 2015, which we repaid in full on June 25, 2015. During the six months ended July 2, 2016, we made $27.9 million in scheduled principal payments on the euro-denominated term loan.

Notes and Bonds

2016 Notes

On March 7, 2016, Perrigo Finance issued $500.0 million in aggregate principal amount of 3.500% senior notes due 2021 and $700.0 million in aggregate principal amount of 4.375% senior notes due 2026 (together, the "2016 Notes") and received net proceeds of $1.2 billion after fees and market discount. Interest on the 2016 Notes is payable semiannually in arrears in March and September of each year, beginning in September 2016. The 2016 Notes are governed by a base indenture and a second supplemental indenture (collectively, the "2016 Indenture"). The 2016 Notes are fully and unconditionally guaranteed on a senior basis by Perrigo, and no other subsidiary of Perrigo guarantees the 2016 Notes. The proceeds were used to repay amounts borrowed under the 2015 Revolver and the 2014 Revolver, as mentioned above. There are no restrictions under the 2016 Notes on our ability to obtain funds from our subsidiaries. Perrigo Finance may redeem the 2016 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2016 Indenture.

Notes and Bonds Assumed from Omega

In connection with the Omega acquisition, on March 30, 2015, we assumed:

- $20.0 million in aggregate principal amount of 6.19% senior notes due 2016, which was repaid on May 29, 2015 in full;
- €135.0 million ($147.0 million) in aggregate principal amount of 5.1045% senior notes due 2023 (the "2023 Notes");
- €300.0 million ($326.7 million) in aggregate principal amount of 5.125% retail bonds due 2017; €180.0 million ($196.0 million) in aggregate principal amount of 4.500% retail bonds due 2017; and €120.0 million ($130.7 million) in aggregate principal amount of 5.000% retail bonds due 2019 (collectively, the "Retail Bonds").

The fair value of the 2023 Notes and Retail Bonds exceeded par value by €93.6 million ($101.9 million) on the date of the Omega acquisition. As a result, a fair value adjustment was recorded as part of the carrying value of the underlying debt and will be amortized as a reduction of interest expense over the remaining terms of the respective debt instruments. The adjustment does not affect cash interest payments.

2014 Notes

On December 2, 2014, Perrigo Finance issued $500.0 million in aggregate principal amount of 3.500% senior notes due 2021 (the "2021 Notes”), $700.0 million in aggregate principal amount of 3.900% senior notes due 2024 (the “2024 Notes”), and $400.0 million in aggregate principal amount of 4.900% senior notes due 2044 (the “2044 Notes” and, together with the 2021 Notes and the 2024 Notes, the “2014 Notes”) and received net proceeds of $1.6 billion after fees and market discount. Interest on the 2014 Notes is payable semiannually in arrears in June and December of each year, beginning in June 2015. The 2014 Notes are governed by a base indenture and a first supplemental indenture (collectively, the "2014 Indenture"). The 2014 Notes are fully and unconditionally guaranteed on a senior unsecured basis by Perrigo, and no other subsidiary of Perrigo guarantees the 2014 Notes.

Perrigo Company plc - Item 1
Note 10

There are no restrictions under the 2014 Notes on our ability to obtain funds from our subsidiaries. Perrigo Finance may redeem the 2014 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2014 Indenture.

2013 Notes

On November 8, 2013, Perrigo Company issued $500.0 million aggregate principal amount of its 1.300% senior notes due 2016 (the "1.300% 2016 Notes"), $600.0 million aggregate principal amount of its 2.300% senior notes due 2018 (the "2018 Notes"), $800.0 million aggregate principal amount of its 4.000% senior notes due 2023 (the "4.000% 2023 Notes") and $400.0 million aggregate principal amount of its 5.300% senior notes due 2043 (the "2043 Notes" and, together with the 1.300% 2016 Notes, the 2018 Notes and the 4.000% 2023 Notes, the "2013 Notes") in a private placement with registration rights. We received net proceeds of $2.3 billion from the issuance of the 2013 Notes after fees and market discount. We plan to prepay the 1.300% 2016 Notes in September 2016. See Part II, Item 5.

Interest on the 2013 Notes is payable semiannually in arrears in May and November of each year, beginning in May 2014. The 2013 Notes are governed by a base indenture and a first supplemental indenture (collectively, the "2013 Indenture"). The 2013 Notes are our unsecured and unsubordinated obligations, ranking equally in right of payment to all of our existing and future unsecured and unsubordinated indebtedness. The 2013 Notes are not entitled to mandatory redemption or sinking fund payments. We may redeem the 2013 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2013 Indenture. The 2013 Notes were guaranteed on an unsubordinated, unsecured basis by the same entities that guaranteed our then-outstanding credit agreement until November 21, 2014, at which time the 2013 Indenture was amended to remove all guarantors.

Other Financing

Overdraft Facilities

On March 30, 2015, we assumed and repaid certain overdraft facilities totaling €51.4 million ($56.0 million) with the Omega acquisition. Our BCH segment uses overdraft facilities to increase the efficiency of its cash utilization and meet its short-term liquidity needs. We repaid the balance outstanding under these overdraft facilities during the three months ended July 2, 2016, but retain the ability to use these facilities in our day-to-day cash operations. The balance outstanding under the facilities was $82.9 million at December 31, 2015 and is shown in the above table under "Other Financing".

Perrigo Company plc - Item 1
Note 11

NOTE 11 – EARNINGS PER SHARE AND SHAREHOLDERS' EQUITY

Earnings per Share

A reconciliation of the numerators and denominators used in the basic and diluted earnings per share ("EPS") calculation is as follows (in millions):

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Numerator:				
Net income (loss)	$194.3	$ 56.4	$(140.3)	$(38.4)
Denominator:				
Weighted average shares outstanding for basic EPS	143.2	146.3	143.2	143.5
Dilutive effect of share-based awards*	0.4	0.5	—	—
Weighted average shares outstanding for diluted EPS	143.6	146.8	143.2	143.5
Anti-dilutive share-based awards excluded from computation of diluted EPS*	1.0	—	—	—

* In the period of a net loss, diluted shares equal basic shares.

Shareholders' Equity

Shares

We issued 19,000 and 57,000 shares related to the exercise and vesting of share-based compensation during the three months ended July 2, 2016 and June 27, 2015, respectively. We issued 98,000 and 92,000 shares related to the exercise and vesting of share-based compensation during the six months ended July 2, 2016 and June 27, 2015, respectively.

Share Repurchases

In October 2015, the Board of Directors approved a share repurchase plan of up to $2.0 billion, of which $1.5 billion is still available to be repurchased through December 31, 2018. We did not repurchase any shares under the share repurchase plan during the six months ended July 2, 2016.

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in our AOCI balances, net of tax were as follows (in millions):

	Foreign currency translation adjustments	Fair value of derivative financial instruments, net of tax	Fair value of investment securities, net of tax	Post-retirement and pension liability adjustments, net of tax	Total AOCI
Balance at December 31, 2015	$ (4.4)	$ (14.2)	$ 6.3	$ (3.2)	$(15.5)
OCI before reclassifications	44.8	(5.6)	7.2	0.5	46.9

Amounts reclassified from AOCI	—	(1.4)	1.3	—	(0.1)
Other comprehensive income (loss)	44.8	(7.0)	8.5	0.5	46.8
Balance at July 2, 2016	$ 40.4	$ (21.2)	$ 14.8	$ (2.7)	$31.3

NOTE 13 – INCOME TAXES

The effective tax rate for the three months ended July 2, 2016 was a benefit of 28.2% on income compared to 64.1% for the three months ended June 27, 2015. The effective tax rate for the six months ended July 2, 2016 was a benefit of 32.4% on a net loss reported in the period compared to 170.2% on income for the six months ended June 27, 2015. Income taxes recorded through July 2, 2016 were estimated using the discrete method. Due to sensitivity to small changes to forecasted annual pre-tax earnings, which created results with significant variations in the customary relationship between income tax expense and pre-tax income for the interim periods, we determined that using the discrete method is more appropriate than using the annual effective tax rate method.

Our tax rate is subject to adjustment over the balance of the prior fiscal year ended due to, among other things: income tax rate changes by governments; the jurisdictions in which our profits are determined to be earned and taxed; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; adjustments to our interpretation of transfer pricing standards; changes in available tax credits, grants and other incentives; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. GAAP; expiration of or the inability to renew tax rulings or tax holiday incentives; and the repatriation of earnings with respect to which we have not previously provided for taxes.

Israel passed legislation in January 2016, effective immediately, reducing the tax rate from 26.5% to 25%. The impact on our effective tax rate was minimal.

The total liability for uncertain tax positions was $353.4 million and $334.7 million as of July 2, 2016 and December 31, 2015, respectively, before considering the federal tax benefit of certain state and local items.

We recognize interest and penalties related to uncertain tax positions as a component of income tax expense. The total amount accrued for interest and penalties in the liability for uncertain tax positions was $55.3 million and $52.1 million as of July 2, 2016 and December 31, 2015, respectively.

We file income tax returns in numerous jurisdictions and are therefore subject to audits by tax authorities. Our primary income tax jurisdictions are Ireland, the U.S., Israel, Belgium, France, and the U.K.

Although we believe that the tax estimates are reasonable and that we prepare our tax filings in accordance with all applicable tax laws, the final determination with respect to any tax audit and any related litigation could be materially different from estimates or from historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our operating results and/or cash flows in the periods for which that determination is made. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties, and/or interest assessments.

The IRS audit of our fiscal years ended June 27, 2009 and June 26, 2010 had previously concluded with the issuance of a statutory notice of deficiency on August 27, 2014. While we had previously agreed on certain adjustments and made associated payments of $8.0 million, inclusive of interest in November 2014, the statutory notice of deficiency asserted various additional positions, including transfer pricing, relative to the same audit of fiscal years ended June 27, 2009 and June 26, 2010. The statutory notice asserted an incremental tax obligation of approximately $68.9 million, inclusive of interest and penalties. We disagree with the IRS's positions asserted in the notice of deficiency. In January 2015, we paid this amount, a prerequisite to being able to contest the IRS's positions in U.S. Federal court, and in June 2015, we filed a request for a refund. The IRS denied our request for a refund. We

anticipate filing a complaint in federal district court claiming a refund for these amounts in the first quarter of 2017. The payment was recorded during the three months ended March 28, 2015 as a deferred charge on the balance sheet given our anticipated action to recover this amount. An unfavorable resolution of this matter could have a material impact on our consolidated financial statements in future periods.

We have ongoing audits in multiple jurisdictions for which tax returns are not yet settled. These jurisdictions include, but are not limited to, the United States and Belgium. The IRS is auditing our fiscal years ended June 25, 2011 and June 30, 2012, and may make adjustments consistent with their claims for the 2009 - 2010 audit period. In February 2016, the Belgium Tax Authority notified us that all Belgium locations will be audited for the years ended

December 31, 2013 and December 31, 2014. At this time, we cannot predict the outcome of any audit or related litigation.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

In view of the inherent difficulties of predicting the outcome of various types of legal proceedings, we cannot determine the ultimate resolution of the matters described below. We establish reserves for litigation and regulatory matters when losses associated with the claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal matters may be substantially higher or lower than the amounts reserved for those matters. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably be estimated as of July 2, 2016, we have not recorded a loss reserve. If certain of these matters are determined against us, it could have a material adverse effect on our financial condition, results of operations, or cash flows. We currently believe we have valid defenses to the claims in these lawsuits and intend to defend these lawsuits vigorously regardless of whether or not we have a loss reserve. Other than what is disclosed below, we do not expect the outcome of the litigation matters to which we are currently subject to, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows.

Securities Litigation

On May 18, 2016, a shareholder filed a securities case against the Company and our former CEO, Joseph Papa, in the District of New Jersey (Roofers' Pension Fund v. Papa, et al.). The plaintiff purports to represent a class of shareholders for the period from April 21, 2015 through May 11, 2016, inclusive. The complaint alleges violations of Securities Exchange Act sections 10(b) (and Rule 10b 5) and 14(e) against both defendants and 20(a) control person liability against Mr. Papa. In general, the allegations concern the actions taken by us and the former executive to defend against the hostile takeover bid by Mylan in the period from April 21, 2015 through November 13, 2015. The plaintiff also alleges that we provided inadequate disclosure concerning alleged integration problems related to the Omega acquisition in the period from April 21, 2015 through May 11, 2016. The case is in an early stage. Four different plaintiff groups have sought appointment as lead plaintiff/lead counsel. The court will decide in the near term who will represent the purported class. Once the court has chosen a lead plaintiff, the plaintiff will likely file an amended complaint and the defendants will then have an opportunity to make a motion to dismiss the case.

A substantially similar case making virtually the same allegations for the same class period against the same defendants was filed in the Southern District of New York on June 21, 2016 (AMI - Gov't Employees Provident Fund Mgmt Co. v. Papa, et al.). The plaintiff in the AMI case voluntarily dismissed its action on July 12, 2016.

On May 22, 2016, shareholders filed a securities class action against us and five individual defendants Mr. Papa, our former Executive Vice President and General Manager of the BCH segment Marc Coucke, our Chief Executive Officer John Hendrickson and our Board members Gary Kunkle, Jr. and Laurie Brlas alleging violations of Israeli law in the District Court of Tel Aviv-Jaffa (Schwieger et al. v. Perrigo Company plc, et al.). On June 15, 2016, Perrigo filed a motion to stay the case pending the outcome of the securities class action pending in the New Jersey federal court. The plaintiffs did not oppose the motion. The Israeli court granted the motion on the same day, and the action is stayed.

Eltroxin

During October and November 2011, nine applications to certify a class action lawsuit were filed in various courts in Israel related to Eltroxin, a prescription thyroid medication manufactured by a third party and distributed in Israel by

our subsidiary, Perrigo Israel Agencies Ltd. The respondents included our subsidiaries, Perrigo Israel Pharmaceuticals Ltd. and/or Perrigo Israel Agencies Ltd., the manufacturers of the product, and various healthcare providers who provide healthcare services as part of the compulsory healthcare system in Israel.

One of the applications was dismissed and the remaining eight applications were consolidated into one application. The applications arose from the 2011 launch of a reformulated version of Eltroxin in Israel. The consolidated application generally alleges that the respondents: (a) failed to timely inform patients, pharmacists and physicians about the change in the formulation; and (b) failed to inform physicians about the need to monitor patients taking the new formulation in order to confirm patients were receiving the appropriate dose of the drug. As

a result, claimants allege they incurred the following damages: (a) purchases of product that otherwise would not have been made by patients had they been aware of the reformulation; (b) adverse events to some patients resulting from an imbalance of thyroid functions that could have been avoided; and (c) harm resulting from the patients' lack of informed consent prior to the use of the reformulation.

Several hearings on whether or not to certify the consolidated application took place in December 2013 and January 2014. On May 17, 2015, the District Court certified the motion against Perrigo Israel Agencies Ltd. and dismissed it against the remaining respondents, including Perrigo Israel Pharmaceuticals Ltd.

On June 16, 2015, Perrigo submitted a motion for permission to appeal the decision to certify to the Israeli Supreme Court together with a motion to stay the proceedings of the class action until the motion for permission to appeal is adjudicated. Perrigo has filed its statement of defense to the underlying proceedings and the underlying proceedings have been stayed pending a decision on the motion to appeal. The hearing on Perrigo’s motion to appeal the decision to certify the class action was held on July 11, 2016. At this stage, we cannot reasonably predict the outcome or the liability, if any, associated with this claim.

Tysabri® Product Liability Lawsuits

Perrigo and collaborator Biogen are co-defendants in product liability lawsuits arising out of the occurrence of Progressive Multifocal Leukoencephalopathy, a serious brain infection, and serious adverse events, including deaths, which occurred in patients taking Tysabri®. Perrigo and Biogen will each be responsible for 50% of losses and expenses arising out of any Tysabri® product liability claims. While these lawsuits will be vigorously defended, management cannot predict how these cases will be resolved. Adverse results in one or more of these lawsuits could result in substantial judgments against us.

NOTE 15 – COLLABORATION AGREEMENTS AND OTHER CONTRACTUAL ARRANGEMENTS

In May 2015, we entered into a development agreement wherein we transferred the ownership rights to two pharmaceutical products to a clinical stage development company to fund and conduct development activities for the products. We do not expect to incur any expense related to the development of either product. If the products are approved by the FDA, we will execute a buy-back agreement to purchase each product for a multiple of the development costs incurred. Based on the initial development budget for each product, the estimated purchase price for both products is approximately $78.0 million. If development costs exceed the initial budgeted amounts, the purchase price will increase but will not exceed approximately $105.0 million. If the products are approved by the FDA and we purchase the products, we estimate the acquisitions will occur in 2019 and 2020.

In June 2016, we added an additional product to the May 2015 development agreement that is subject to similar buy-back terms if the product is approved by the FDA. The estimated purchase price for this additional product, based on the initial development budget, is approximately $42.0 million. If development costs exceed the initial budgeted amounts, the purchase price will increase, but will not exceed approximately $57.0 million. If the product is approved by the FDA and we purchase the product, we estimate the acquisition will occur in 2020. There can be no assurance that any such products will be approved by the FDA on the anticipated schedule or at all.

NOTE 16 – RESTRUCTURING CHARGES

We periodically take action to reduce redundant expenses and improve operating efficiencies, typically in connection with business acquisitions. The following reflects our restructuring activity (in millions):

	Three Months Ended		Six Months Ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
Beginning balance	$13.0	$ 3.6	$20.7	$ 3.2
Additional charges	5.8	(0.1)	11.3	1.0
Payments	(6.6)	(1.9)	(24.8)	(2.6)
Non-cash adjustments	—	—	5.0	—
Ending balance	$12.2	$ 1.6	$12.2	$ 1.6

Restructuring activity includes severance, lease exit costs, and asset impairments. The charges incurred during the three and six months ended July 2, 2016 were primarily associated with actions we took to streamline our organization as announced on October 22, 2015 and did not materially impact any one reportable segment. There were no other material restructuring programs in any of the periods presented. All charges are recorded in Restructuring expense. The remaining $7.0 million liability for employee severance benefits will be paid within the next year, while cash expenditures related to the remaining $5.2 million liability for lease exit costs will be incurred over the remaining terms of the applicable leases.

NOTE 17 – SEGMENT INFORMATION

Our reporting segments are as follows:

- CHC is focused primarily on the global sale of OTC store brand products including cough, cold, allergy and sinus, analgesic, gastrointestinal, smoking cessation, infant formula and food, VMS, animal health, and diagnostic products.

- BCH develops, manufactures, markets and distributes many well-known European OTC brands in the natural health and vitamins, cough, cold and allergy, smoking cessation, personal care and derma-therapeutics, lifestyle, and anti-parasite categories.

- Rx develops, manufactures and markets a portfolio of generic and specialty pharmaceutical prescription drugs primarily for the U.S. and U.K. markets.

- Specialty Sciences is comprised primarily of royalties received from assets focused on the management of multiple sclerosis (Tysabri®).

We also have an Other reporting segment that consists of our API business, which does not meet the quantitative threshold required to be a separately reportable segment. Our segments reflect the way in which our chief operating decision maker reviews our operating results and allocates resources.

Perrigo Company plc - Item 1
Note 17

The below tables show select financial measures by reporting segment (in millions):

Total Assets	July 2, 2016	December 31, 2015
CHC	$4,021.9	$4,007.8
BCH	6,211.2	6,324.0
Rx	3,340.1	3,015.5
Specialty Sciences	5,758.4	5,833.5
Other	202.0	213.1
Total	$19,533.6	$19,393.9

	Three Months Ended					
	July 2, 2016			June 27, 2015		
	Net Sales	Operating Income (Loss)	Intangible Asset Amortization	Net Sales	Operating Income (Loss)	Intangible Asset Amortization
CHC	$686.3	$ 111.2	$ 19.0	$746.4	$ 143.3	$ 16.6
BCH	393.7	38.4	39.5	401.2	26.6	34.2
Rx	293.3	96.8	29.9	278.3	99.5	18.5
Specialty Sciences	89.9	13.3	72.8	83.6	6.4	72.8
Other	17.8	(1.3)	0.5	22.1	1.9	0.5
Unallocated	—	(20.1)	—	—	(50.8)	—
Total	$1,481.0	$ 238.3	$ 161.7	$1,531.6	$ 226.9	$ 142.6

	Six Months Ended					
	July 2, 2016			June 27, 2015		
	Net Sales	Operating Income (Loss)	Intangible Asset Amortization	Net Sales	Operating Income (Loss)	Intangible Asset Amortization
CHC	$1,386.6	$ 213.6	$ 38.8	$1,431.3	$ 247.6	$ 32.8
BCH*	711.3	(444.3)	74.9	401.2	26.6	34.2
Rx	550.0	184.2	59.4	529.9	199.5	36.9
Specialty Sciences	177.9	26.3	145.6	165.5	11.9	145.6
Other	38.4	4.1	1.0	52.9	12.4	0.9
Unallocated	—	(49.4)	—	—	(71.8)	—
Total*	$2,864.2	$ (65.5)	$ 319.7	$2,580.8	$ 426.2	$ 250.4

* The BCH segment was created on March 30, 2015 as a result of the Omega acquisition, thus data for the six months ended June 27, 2015 includes only three months of results from operations attributable to Omega.

NOTE 18 – SUBSEQUENT EVENTS

On August 5, 2016 we closed the sale of our U.S. VMS business to International Vitamins Corporation for $58.6 million in cash inclusive of an estimated working capital adjustment. During the three months ended July 2, 2016 we recorded an impairment of $6.2 million to bring the carrying value of the assets held for sale in line with the expected sales price. See Note 9 for more information.

33

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements included in this Form 10-Q and our Form 10-KT for the transition period from June 28, 2015 to December 31, 2015. These historical financial statements may not be indicative of our future performance. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks referred to under "Risk Factors" in Item 1A of our Form 10-KT for the transition period from June 28, 2015 to December 31, 2015 and Part II, Item 1A of our Form 10-Q for the three months ended April 2, 2016 and this Form 10-Q.

Perrigo Company plc was incorporated under the laws of Ireland on June 28, 2013 and became the successor registrant of Perrigo Company, a Michigan corporation, on December 18, 2013 in connection with the acquisition of Elan Corporation, plc ("Elan"). Unless the context requires otherwise, the terms "Perrigo," the "Company," "we," "our," "us," and similar pronouns used herein refer to Perrigo Company plc, its subsidiaries, and all predecessors of Perrigo Company plc and its subsidiaries.

We are a leading global over-the-counter ("OTC") consumer goods and specialty pharmaceutical company, offering patients and customers high quality products at affordable prices. From our beginning in 1887 as a packager of home remedies, we have grown to become the world's largest manufacturer of OTC healthcare products and supplier of infant formulas for the store brand market. We are also a leading provider of generic extended topical prescription products, and we receive royalties from sales of the multiple sclerosis drug Tysabri.® We provide "Quality Affordable Healthcare Products®" across a wide variety of product categories and geographies, primarily in North America, Europe, and Australia, as well as in other markets, including Israel, China, and Latin America.

Our reporting segments are as follows:

- Consumer Healthcare ("CHC") is focused primarily on the global sale of OTC store brand products including cough, cold, allergy and sinus, analgesic, gastrointestinal, smoking cessation, infant formula and food, Vitamins, Minerals and Supplements ("VMS"), animal health, and diagnostic products.
- Branded Consumer Healthcare ("BCH") develops, manufactures, markets and distributes many well-known European OTC brands in the natural health and vitamins, cough, cold and allergy, smoking cessation, personal care and derma-therapeutics, lifestyle, and anti-parasite categories.
- Prescription Pharmaceuticals ("Rx") develops, manufactures and markets a portfolio of generic and specialty pharmaceutical prescription drugs primarily for the U.S. and U.K. markets.
- Specialty Sciences is comprised primarily of royalties received from assets focused on the management of multiple sclerosis (Tysabri®).

We also have an "Other" segment comprised of our active pharmaceutical ingredients ("API") business, which develops, manufactures, and markets active API used worldwide by both generic and branded pharmaceutical companies. For results by segment, see "Segment Results" below and Item 1. Note 17.

Leadership Changes

On July 20, 2016, we appointed John Wesolowski Acting General Manager, Rx Pharmaceuticals, and accepted the resignation of Doug Boothe, Executive Vice President and General Manager, Rx Pharmaceuticals.

On April 27, 2016, Sharon Kochan's role as Executive Vice President and General Manager, International, was expanded to lead the BCH segment following the resignation of Marc Coucke as Executive Vice President and General Manager of the BCH segment.

Perrigo Company plc - Item 2
Executive Overview

On April 24, 2016, we named Laurie Brlas as Chairman of the Board of Directors, promoted John T. Hendrickson from President to Chief Executive Officer, and accepted the resignation of Joseph C. Papa as Chairman and Chief Executive Officer.

Interim Impairment Testing

In connection with the preparation of our financial statements for the three-month period ended April 2, 2016, we identified indicators of impairment associated with certain indefinite-lived intangible assets and goodwill acquired in conjunction with the Omega acquisition. The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long-range revenue growth forecast.

The assessment for indefinite-lived intangible asset impairment utilized the excess earnings method to determine fair value and resulted in an impairment charge of $273.4 million for the three months ended April 2, 2016, which represented the difference between the carrying amount of the intangible assets and their estimated fair value.

The assessment for goodwill impairment indicated that a portion of the goodwill acquired in the Omega acquisition was impaired as the reporting unit's fair value did not exceed its carrying value. Based on our evaluation and initial estimates of the fair value of the reporting unit, we recorded an estimated impairment charge of $193.6 million for the three months ended April 2, 2016. We finalized the fair value calculation during the three months ended July 2, 2016, which resulted in a $30.3 million reduction to the estimated impairment charges recorded last quarter.

For both the intangible assets and goodwill, the change in estimated and implied fair value, respectively, from previous estimates was due primarily to the changes in the market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio. Both the indefinite-lived intangible asset impairment and goodwill impairment were recorded within Impairment charges (credits) on the Condensed Consolidated Statements of Operations within our BCH segment. The carrying value for certain intangible assets and goodwill equals fair value, and as a result, any further deterioration in those assets' fair value would lead to a further impairment charge. Future performance different from the assumptions utilized in our quantitative analyses may result in additional changes in the fair value. We will continue to monitor and assess these assets for potential impairment should further impairment indicators arise, as applicable, and at least annually during our fourth quarter annual impairment testing.

In addition, due to the reprioritization of certain brands in the BCH segment and change in performance expectations for our impaired lifestyle brands previously recorded as indefinite-lived assets, we reclassified the remaining asset balance of $364.5 million to definite-lived assets with a useful life of 20 years and began amortizing the asset during the three months ended July 2, 2016.

See Item 1. Note 3 for more information.

Perrigo Company plc - Item 2
Executive Overview

2016 Year-to-Date Highlights

- We closed the sale of our U.S. VMS business to International Vitamins Corporation ("IVC") on August 5, 2016;
- Consistent with previously announced actions, we added a number of positions and processes to our Dublin headquarters across a range of corporate functions, including supply chain/global operations, procurement, enterprise risk management, and corporate finance, leveraging the strength of our global platform;
- We continued restructuring associated primarily with actions we took to streamline our organization as announced on October 22, 2015;
- We issued $1.2 billion of senior notes and repaid borrowings under revolving credit facilities;
- We issued a notice of redemption to prepay $500.0 million of senior notes in September 2016;
- We completed the acquisition of a generic Retin-A® portfolio, further enhancing our Rx extended topicals strategy; and
- We completed the acquisition of two development-stage specialty Rx products to further invest in our specialty Rx portfolio.

RESULTS OF OPERATIONS

CONSOLIDATED

Recent Trends and Developments

- We have experienced a reduction in pricing expectations during 2016 in comparison to historical patterns in our U.S. businesses, in particular in our Rx segment, due to industry and competitive pressures in the sector. The reduced pricing is attributable to a variety of factors including increased focus from customers to capture supply chain productivity savings, low raw material commodity pricing, competition in specific product categories, and the loss of exclusivity on certain products and consolidation of certain customers in the Rx segment. We expect this pricing environment to continue to impact us at least through the remainder of 2016.
- Our expectations for the BCH segment continue to be impacted by market dynamics in the lifestyle and natural health/vitamins categories. Factors impacting these categories include softness in key markets due to current macro-economic factors, change in timing of certain advertising and promotional campaigns compared to the prior year, and lower sell-in during the current year due to the re-staging of certain products.The BCH segment has established a brand prioritization strategy to address these market dynamics, with an objective to balance the cost of advertising and promotion investments with expected contributions from category sales.
- Our expectations for 2016 new product sales are consistent with those communicated in our first quarter Form 10-Q, but continue to remain lower than anticipated as of December 31, 2015. Several new product launches have been delayed due to the regulatory approval process for certain new products in the U.S. and modifications to market share penetration and timing assumptions for new products in our Rx and BCH segments.

36

Perrigo Company plc - Item 2
Consolidated

Consolidated Results

($ in millions)	Three Months Ended June 27, 2015	Three Months Ended July 2, 2016	% Change	Six Months Ended June 27, 2015	Six Months Ended July 2, 2016	% Change
Net sales	$1,531.6	$1,481.0	(3)%	$2,580.8	$2,864.2	11 %
Gross profit	$628.1	$567.2	(10)%	$1,007.0	$1,090.1	8 %
Gross profit %	41.0 %	38.3 %		39.0 %	38.1 %	
Operating expenses	$401.2	$328.9	(18)%	$580.8	$1,155.6	99 %
Operating expenses %	26.2 %	22.2 %		22.5 %	40.3 %	
Operating income (loss)	$226.9	$238.3	5 %	$426.2	$(65.5)	(115)%
Operating income (loss) %	14.8 %	16.1 %		16.5 %	(2.3)%	
Interest and other, net	$69.5	$86.7	25 %	$371.4	$142.1	(62)%
Income tax expense (benefit)	$101.0	$(42.7)	(142)%	$93.2	$(67.3)	(172)%
Net income (loss)	$56.4	$194.3	244 %	$(38.4)	$(140.3)	(265)%

The decline in consolidated sales for the three months ended July 2, 2016 as compared to the prior year period was due primarily to lower sales in the CHC segment's cough/cold, analgesics, and OTC contract manufacturing categories. This decrease was offset partially by higher sales in the Rx segment due to contributions from acquisitions and new products. Consolidated operating income for the three months ended July 2, 2016 increased from the prior year period due primarily to lower operating expenses due in part to the $30.3 million goodwill impairment reduction described above under "Interim Impairment Testing" and in Item 1. Note 3 and cost containment measures, offset partially by lower gross profit due primarily to reduced pricing in the Rx segment and product mix in the BCH segment.

The most significant change in our consolidated six-month year-over-year results is the addition of Omega Pharma Invest N.V. ("Omega"). Omega was acquired on March 30, 2015; thus, results for the six months ended June 27, 2015 included only three months of operations attributable to Omega. In addition, the operating and net losses for the six months ended July 2, 2016 were due primarily to goodwill and intangible asset impairment charges totaling $436.7 million, as described above under "Interim Impairment Testing" and in Item 1. Note 3. The net loss for the prior year period included a $259.8 million loss on derivatives we used to economically hedge fluctuations in the euro-denominated purchase price of the Omega acquisition as described in Item 1. Note 8.

Further details and analysis of our financial results for the three and six months ended July 2, 2016 and June 27, 2015 are provided below by reporting segment and line item.

Perrigo Company plc - Item 2
CHC

CONSUMER HEALTHCARE

Recent Trends and Developments

- On June 20, 2016, we announced the sale of our U.S. VMS business to IVC, which closed on August 5, 2016. As of July 2, 2016, the net assets of our U.S. VMS business were classified as "held for sale" as discussed in Item 1. Note 9. Sales attributable to the U.S. VMS business totaled $42.1 million and $39.6 million for the three months ended July 2, 2016 and June 27, 2015, respectively, and $89.2 million and $77.1 million for the six months ended July 2, 2016 and June 27, 2015, respectively.

- We have experienced a reduction in pricing expectations in certain categories within our CHC segment in 2016 due to various factors, including increased focus from customers to capture supply chain productivity savings, low raw material commodity pricing, and competition in specific product categories. We expect this pricing environment to continue to impact our CHC segment at least through the remainder of 2016.

Segment Results

Three Month Comparison

($ in millions)	Three Months Ended June 27, 2015	July 2, 2016
Net sales	$746.4	$686.3
Gross profit	$258.3	$230.3
Gross profit %	34.6 %	33.5 %
Operating income	$143.3	$111.2
Operating income %	19.2 %	16.2 %

Three Months Ended July 2, 2016 vs. Three Months Ended June 27, 2015

Net sales decreased $60.1 million, or 8%, over the prior year period due to:

- A net decrease in sales of existing products of $83.5 million due to:
  - Strong sales in our infant health and smoking cessation categories, more than offset by
  - Weaker sales in the cough/cold category due to timing of promotions and a weaker allergy season;
  - Pricing pressure primarily in the analgesics category due to increased competition; and
  - Lower sales in the OTC contract manufacturing and animal health categories;
- Discontinued products of $12.0 million due primarily to a label refresh within the infant formula category; and
- Unfavorable foreign currency movement of $6.0 million; offset partially by
- New product sales of $32.4 million related primarily to several new infant formula and food products and the launches of fluticasone nasal spray (generic equivalent to Flonase®), guaifenesin extended release (generic equivalent to Mucinex® ER); and
- Incremental net sales of $11.4 million from acquisitions (primarily the Gelcaps Exportadora de Mexico, S.A. de C.V. ("Gelcaps") and ScarAway® acquisitions).

38

Perrigo Company plc - Item 2
CHC

Operating income decreased $32.1 million, or 22%, as a result of:

- A decrease of $28.0 million in gross profit due to:
- Decreased sales of existing and discontinued products as described above; and
- Increased intangible asset amortization expense associated primarily with the Gelcaps and ScarAway® acquisitions; offset partially by
- Margin contributions from new products and strong performance in the infant health and smoking cessation categories; and
- Continued manufacturing and supply chain efficiencies.

- An increase of $4.1 million in operating expenses due to:
- A $6.2 million impairment charge recorded on the VMS held-for-sale business and
- Increased research and development investments due to timing of clinical trials; offset partially by
- Decreased selling and administrative expenses due to cost containment actions taken during the prior year.

Six Month Comparison

($ in millions)	Six Months Ended June 27, 2015	July 2, 2016
Net sales	$1,431.3	$1,386.6
Gross profit	$470.2	$444.1
Gross profit %	32.9 %	32.0 %
Operating income	$247.6	$213.6
Operating income %	17.3 %	15.4 %

Six Months Ended July 2, 2016 vs. Six Months Ended June 27, 2015

Net sales decreased $44.7 million, or 3%, over the prior year period due to:

- A net $66.1 million decrease in existing product sales due to:
- Strong sales in our infant health and smoking cessation categories; more than offset by
- Weaker sales in the cough/cold category due to a mild cold and flu season, weaker allergy season, and timing of promotions;
- Decreased sales of analgesics due to a mild cold and flu season and pricing pressure due to increased competition; and
- Lower sales in the OTC contract manufacturing and animal health categories;
- Discontinued products of $49.9 million related primarily to a label refresh within the infant formula category; and
- Unfavorable foreign currency movement of $12.6 million; offset partially by
- New product sales of $63.2 million related primarily to several new infant formula and food products, fluticasone nasal spray (generic equivalent to Flonase®), guaifenesin extended release (generic equivalent to Mucinex® ER), and several new animal health products; and
- Incremental net sales of $24.2 million due primarily to the Gelcaps and ScarAway® acquisitions.

Perrigo Company plc - Item 2
CHC

Operating income decreased $34.0 million, or 14%, as a result of:

- A decrease of $26.1 million in gross profit due to:
- Decreased sales of existing and discontinued products in the first half of 2016 as described above; and
- Increased intangible asset amortization expense associated primarily with the Gelcaps and ScarAway® acquisitions; offset partially by
- Margin contributions from new products and strong performance in the infant health and smoking cessation categories; and
- Continued manufacturing and supply chain efficiencies.

- An increase of $7.9 million in operating expenses due to:
- A $6.2 million impairment charge recorded on the VMS held-for-sale business; and
- Increased research and development investments due to timing of clinical trials; offset partially by
- Decreased selling and administrative expenses due to cost containment actions taken during the prior year.

BRANDED CONSUMER HEALTHCARE

Recent Trends and Developments

- Our expectations for the BCH segment continue to be impacted by market dynamics in the lifestyle and natural health/vitamins categories. Factors impacting these categories include softness in key markets due to current macro-economic factors, change in timing of certain advertising and promotional campaigns compared to the prior year, and lower sell-in during the current year due to the re-staging of certain products.The BCH segment has established a brand prioritization strategy to address these market dynamics, with an objective to balance the cost of advertising and promotion investments with expected contributions from category sales.

- Our expectations for 2016 new product sales are consistent with those communicated in our first quarter Form 10-Q, but continue to remain lower than anticipated as of December 31, 2015. Several new product launches have been delayed due to modifications to market share penetration and timing assumptions for new products in Europe.

- We continue to make progress on our previously announced restructuring plans to right-size the BCH business due to the impact of market dynamics on sales volumes. In addition, we made several strategic leadership changes during 2016, with additional hiring continuing.

Segment Results

Three Month Comparison

($ in millions)	Three Months Ended June 27, 2015	July 2, 2016
Net sales	$401.2	$393.7
Gross profit	$190.1	$173.1

Gross profit %	47.4	%	44.0	%
Operating income	$26.6		$38.4	
Operating income %	6.6	%	9.8	%

Perrigo Company plc - Item 2
BCH

Three Months Ended July 2, 2016 vs. Three Months Ended June 27, 2015

Net sales decreased $7.5 million, or 2%, over the prior year period due to:

- Decreased sales volumes of existing products totaling $65.4 million due primarily to:
  - Weaker current year sales in the lifestyle category due in large part to a product launch in the prior year period and the natural health/vitamins category due primarily to timing of promotional activities and the planned divestment of the Etixx® brand in addition to
  - Lower sales in France due to market dynamics; offset largely by
- New product sales of $28.3 million; and
- Incremental net sales of $29.1 million from the Naturwohl Pharma GmbH ("Naturwohl") and GlaxoSmithKline Consumer Healthcare Product Portfolio ("GSK Products") acquisitions.

Operating income increased $11.8 million, or 44%, as a result of:

- A decrease of $17.0 million in gross profit due to decreased sales of existing products in the lifestyle and natural health/vitamins categories as noted above, offset by

- A decrease of $28.8 million in operating expenses due to:
  - The $30.3 million reduction to the first quarter estimated goodwill impairment charge recorded in the current quarter; and
  - Decreased advertising and promotional investment due to previously announced strategic initiatives to better align promotional investments with sales; offset partially by
  - Restructuring expense totaling $4.8 million in the current quarter related to strategic organizational enhancements.

Six Month Comparison*

* The BCH segment was created on March 30, 2015 as a result of the Omega acquisition, thus comparative prior year data for the six months ended June 27, 2015 includes only three months of results from operations.

($ in millions)	Six Months Ended	
	June 27, 2015*	July 2, 2016
Net sales	$401.2	$711.3
Gross profit	$190.1	$329.7
Gross profit %	47.4 %	46.3 %
Operating income (loss)	$26.6	$(444.3)
Operating income (loss) %	6.6 %	(62.5)%

Six Months Ended July 2, 2016 vs. Six Months Ended June 27, 2015

Net sales increased $310.1 million, or 77%, over the prior year period due to:

- An additional three months of results from operations attributable to Omega;
- New products totaling $59.5 million; and
- Sales from the Naturwohl and GSK Products acquisitions totaling $66.7 million; offset partially by
- Decreased sales volumes of existing products due primarily to:
- Weaker current year sales in the lifestyle category due in large part to a product launch in the prior year period and the natural health/vitamins category due primarily to timing of promotional activities and the planned divestment of the Etixx® brand in addition to
- Lower sales in France due to market dynamics.

41

Perrigo Company plc - Item 2
BCH

Operating income decreased $470.9 million due to:

- A $139.6 million increase in gross profit due to an additional three months of operations attributable to Omega offset by

- An increase of $610.5 million in operating expenses due to:
- Intangible asset and goodwill impairment charges totaling $436.7 million recorded during the six months ended July 2, 2016 described above under "Interim Impairment Testing";
- An additional three months of operations; and
- Restructuring charges totaling $7.1 million related to strategic organizational enhancements; offset partially by
- Cost control measures employed to mitigate lower forecasted sales and operating income.

PRESCRIPTION PHARMACEUTICALS

Recent Trends and Developments

- We continue to experience a significant reduction in pricing expectations in our Rx segment due to industry and competitive pressures in the sector. This softness in pricing is attributed to various factors, including increased focus from customers to capture supply chain productivity savings, low raw material commodity pricing, competition in specific products, and consolidation of certain customers. We expect this softness to continue to impact us at least through the remainder of 2016.

- On January 22, 2016, we acquired a portfolio of generic dosage forms and strengths of Retin-A® (tretinoin), a topical prescription acne treatment, from Matawan Pharmaceuticals, LLC, for $416.4 million in cash ("Tretinoin Products").

- On March 1, 2016, we completed the acquisition of two development-stage specialty Rx products to further invest in our specialty Rx portfolio.

Segment Results

Three Month Comparison

($ in millions)	Three Months Ended June 27, 2015	July 2, 2016
Net sales	$278.3	$293.3
Gross profit	$161.4	$139.3
Gross profit %	58.0 %	47.5 %
Operating income	$99.5	$96.8
Operating income %	35.7 %	33.0 %

42

Perrigo Company plc - Item 2
Rx

Three Months Ended July 2, 2016 vs. Three Months Ended June 27, 2015

Net sales increased $15.0 million, or 5%, due to:

- Sales attributable to the Entocort® and Tretinoin Products acquisitions totaling $43.7 million; and
- New product sales of $25.6 million due primarily to sales of benzoyl peroxide 5%-clindamycin 1% gel (a generic version of Benzaclin™); offset partially by
- Decreased sales of existing products of $50.3 million due to lower sales volume of certain products, pricing pressure across the portfolio, and the lack of exclusive market position for two key products versus the prior year;
- Discontinued products of $2.8 million; and
- Unfavorable foreign exchange movement of $1.1 million.

Segment operating income decreased $2.7 million, or 3%, as a result of:

- A decrease of $22.1 million in gross profit due primarily to the pricing pressure noted above as well as higher amortization expense from the Entocort® and Tretinoin Products acquisitions; offset largely by
- A decrease of $19.4 million in operating expenses due primarily to the absence of an $18.0 million R&D payment made in connection with a research and development contractual arrangement in the prior year.

Six Month Comparison

($ in millions)	Six Months Ended June 27, 2015	July 2, 2016
Net sales	$529.9	$550.0
Gross profit	$303.1	$266.6
Gross profit %	57.2 %	48.5 %
Operating income	$199.5	$184.2
Operating income %	37.6 %	33.5 %

Six Months Ended July 2, 2016 vs. Six Months Ended June 27, 2015

Net sales increased $20.1 million, or 4%, due to:

- Net sales attributable to the Entocort® and Tretinoin Products acquisitions totaling $89.3 million; and
- New product sales of $36.8 million due primarily to to sales of benzoyl peroxide 5%-clindamycin 1% gel (a generic version of Benzaclin™); offset partially by
- Decreased sales of existing products of $100.4 million due to declined sales volume of certain products, pricing pressure across the portfolio, and the lack of exclusive market position for two key products versus the prior year;
- Discontinued products of $3.5 million; and
- Unfavorable foreign exchange movement of $2.0 million.

Segment operating income decreased $15.3 million, or 8%, as a result of:

- A decrease of $36.5 million in gross profit due primarily to the pricing pressure noted above, as well as higher amortization expense from the Entocort® and Tretinoin Products acquisitions; offset partially by
- A decrease of $21.2 million in operating expenses due primarily to the absence of an $18.0 million research and development payment made in connection with a research and development contractual arrangement in the prior year.

SPECIALTY SCIENCES

In February 2016, a competitor's pipeline product, Ocrevus®, received breakthrough therapy designation from the FDA and could potentially be approved in 2016. The product would compete with Tysabri® and could have a significant negative impact on the royalty we receive from Biogen Idec, Inc. ("Biogen") and the performance of the Specialty Sciences segment. We continue to monitor the progress of all potential competing products.

Segment Results

Three Month Comparison

($ in millions)	Three Months Ended June 27, 2015	July 2, 2016
Net sales	$83.6	$89.9
Gross profit	$11.1	$17.0
Gross profit %	13.3 %	19.0 %
Operating income	$6.4	$13.3
Operating income %	7.7 %	14.8 %

Three Months Ended July 2, 2016 vs. Three Months Ended June 27, 2015

Net sales increased $6.3 million due to an increase in royalties received from Biogen's sales of Tysabri®. Operating income increased $6.9 million due to the increased royalties as well a $1.0 million reduction in operating expenses due to lower legal costs in the current year.

Six Month Comparison

($ in millions)	Six Months Ended June 27, 2015	July 2, 2016
Net sales	$165.5	$177.9
Gross profit	$20.4	$32.3
Gross profit %	12.4 %	18.2 %
Operating income	$11.9	$26.3
Operating income %	7.2 %	14.8 %

Six Months Ended July 2, 2016 vs. Six Months Ended June 27, 2015

Net sales increased $12.4 million due to an increase in royalties received from Biogen's sales of Tysabri®, offset partially by $1.1 million of unfavorable foreign exchange movement. Operating income increased $14.4 million due to the increased royalties as well a $2.5 million reduction in operating expenses due primarily to the lack of restructuring and lower legal costs in the current year.

Perrigo Company plc - Item 2
Other

OTHER

Recent Trends and Developments

We are pursuing the sale of our API business based in India and expect the sale to take place during 2016. On July 2, 2016, the net assets of our India API business were classified as "held for sale" as discussed in Item 1. Note 9.

Segment Results

Three Month Comparison

($ in millions)	Three Months Ended June 27, 2015	July 2, 2016
Net sales	$22.1	$17.8
Gross profit	$7.2	$7.5
Gross profit %	32.8 %	42.4 %
Operating income (loss)	$1.9	$(1.3)
Operating income (loss) %	8.4 %	(7.1)%

Three Months Ended July 2, 2016 vs. Three Months Ended June 27, 2015

Net sales decreased $4.3 million due primarily to increased competition on certain products, in particular, U.S. sales of Temozolomide. The operating loss in the current year period was due primarily to a $4.3 million impairment charge recorded on the India API held-for-sale business, offset partially by reduced operating expenses.

Six Month Comparison

($ in millions)	Six Months Ended June 27, 2015	July 2, 2016
Net sales	$52.9	$38.4
Gross profit	$23.2	$17.4
Gross profit %	43.6 %	45.3 %
Operating income	$12.4	$4.1
Operating income %	23.3 %	10.8 %

Six Months Ended July 2, 2016 vs. Six Months Ended June 27, 2015

Net sales decreased $14.5 million due primarily to competition on certain products, in particular, U.S. sales of Temozolomide. Operating income decreased $8.3 million due primarily to a $5.8 million decrease in gross profit due

to increased competition, and a $4.3 million impairment charge recorded on the India API held-for-sale business, offset partially by a reduction in operating expenses.

Perrigo Company plc - Item 2
Unallocated, Interest, Other, and Taxes

Unallocated Expenses

Unallocated expenses are comprised of certain corporate expenses not allocated to the segments and are recorded in operating income. Unallocated expenses were $20.1 million for the three months ended July 2, 2016, compared to $50.7 million for the three months ended June 27, 2015, a decrease of $30.6 million. The reduction in unallocated expense was due primarily to fees incurred in the prior year period: $16.1 million of Omega acquisition-related fees and $13.4 million of fees related to our defense against the hostile takeover bid by Mylan N.V. ("Mylan"). In addition, we experienced a $15.0 million year-over-year reduction in share-based compensation due primarily to the resignation of Joseph C. Papa, which was offset by a $12.8 million increase in legal and professional fees in the current period.

Unallocated expenses were $49.4 million for the six months ended July 2, 2016 compared to $71.8 million for the prior year period, a decrease of $22.4 million. The reduction in unallocated expense was due primarily to fees incurred in the prior year period: $18.1 million of Omega acquisition-related fees and $13.4 million of legal and professional fees related to our defense against the hostile takeover bid by Mylan. In addition, we experienced a $10.9 million reduction in share-based compensation due primarily to the resignation of Joseph C. Papa, which was offset by a $12.8 million increase in legal and professional fees and $11.2 million of integration and restructuring related expense incurred in the current period.

Interest and Other (Consolidated)

Interest Expense, Net

Interest expense, net was $57.4 million for the three months ended July 2, 2016, compared to $45.9 million for the prior year period. The $11.5 million increase was due to interest incurred in the current year on the $1.2 billion senior notes issued on March 7, 2016.

Interest expense, net was $108.6 million for the six months ended July 2, 2016, compared to $89.2 million for the prior year period. The $19.4 million increase was due to interest incurred on the debt assumed in the Omega acquisition, borrowings on our revolving credit agreements during the six months ended July 2, 2016, and the issuance of $1.2 billion of senior notes on March 7, 2016. See the "Borrowings and Capital Resources" section below and Item 1. Note 10 for more information.

Other Expense, Net

Other expense, net, was $29.3 million for the three months ended July 2, 2016, compared to $22.7 million in the prior year period. The $6.6 million increase was due to a $22.3 million impairment charge on an equity method investment recorded in the current year period, offset partially by the absence of a $6.8 million goodwill impairment charge recorded in Other expense, net in the prior year, and the absence of $5.5 million of losses associated with an acquisition-related derivative and the termination of an interest rate swap recorded in the prior year. See Item 1. Notes 3, 7, and 8, for more information on the goodwill impairment charge, equity method investment loss, and derivative loss, respectively.

Other expense, net, was $33.1 million for the six months ended July 2, 2016, compared to $281.3 million in the prior year period. The $248.2 million decrease was due primarily to the absence of the $259.8 million loss we incurred in the prior year period on the derivatives we used to economically hedge fluctuations in the euro-denominated purchase price of the Omega and GSK Products acquisitions, offset partially by a gain of $12.5 million from the transfer of a rights agreement in the prior year. The losses on the derivatives due to the changes in the EUR/USD exchange rate

prior to their settlement economically offset the final settlement of the euro-denominated Omega purchase price paid on March 30, 2015.

Income Taxes (Consolidated)

The effective tax rate for the three months ended July 2, 2016 was a benefit of 28.2% on income compared to 64.1% for the three months ended June 27, 2015. The effective tax rate for the six months ended July 2, 2016 was a benefit of 32.4% on a net loss reported in the period compared to 170.2% on income for the six months ended June 27, 2015. Income taxes recorded through July 2, 2016 were estimated using the discrete method. Due to sensitivity to small changes to forecasted annual pre-tax earnings, which created results with significant variations in the customary relationship between income tax expense and pre-tax income for the interim periods, we determined that using the discrete method is more appropriate than using the annual effective tax rate method.

Our tax rate is subject to adjustment over the balance of the prior fiscal year ended due to, among other things: income tax rate changes by governments; the jurisdictions in which our profits are determined to be earned and taxed; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; adjustments to our interpretation of transfer pricing standards; changes in available tax credits, grants and other incentives; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. GAAP; expiration of or the inability to renew tax rulings or tax holiday incentives; and the repatriation of earnings with respect to which we have not previously provided for taxes.

Although we believe that the tax estimates are reasonable and that we prepare our tax filings in accordance with all applicable tax laws, the final determination with respect to any tax audit and any related litigation could be materially different from estimates or from historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our operating results and/or cash flows in the periods for which that determination is made. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties, and/or interest assessments.

The IRS audit of our fiscal years ended June 27, 2009 and June 26, 2010 had previously concluded with the issuance of a statutory notice of deficiency on August 27, 2014. While we had previously agreed on certain adjustments and made associated payments of $8.0 million, inclusive of interest in November 2014, the statutory notice of deficiency asserted various additional positions, including transfer pricing, relative to the same audit of fiscal years ended June 27, 2009 and June 26, 2010. The statutory notice asserted an incremental tax obligation of approximately $68.9 million, inclusive of interest and penalties. We disagree with the IRS's positions asserted in the notice of deficiency. In January 2015, we paid this amount, a prerequisite to being able to contest the IRS's positions in U.S. Federal court, and in June 2015, we filed a request for a refund. The IRS denied our request for a refund. We anticipate filing a complaint in federal district court claiming a refund for these amounts in the first quarter of 2017. The payment was recorded during the three months ended March 28, 2015 as a deferred charge on the balance sheet given our anticipated action to recover this amount. An unfavorable resolution of this matter could have a material impact on our consolidated financial statements in future periods.

We have ongoing audits in multiple jurisdictions for which tax returns are not yet settled. These jurisdictions include, but are not limited to, the United States and Belgium. The IRS is auditing our fiscal years ended June 25, 2011 and June 30, 2012, and may make adjustments consistent with their claims for the 2009 - 2010 audit period. In February 2016, the Belgium Tax Authority notified us that all Belgium locations will be audited for the years ended December 31, 2013 and December 31, 2014. At this time, we cannot predict the outcome of any audit or related litigation.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Cash and Cash Equivalents

* Working capital represents current assets less current liabilities, excluding cash and cash equivalents, and current indebtedness.

Cash, cash equivalents, and cash flows from operations are expected to be sufficient to finance our known and/or foreseeable liquidity and capital expenditures. In addition, we have the ability to borrow under our credit facilities. Although our lenders have made commitments to make funds available to us in a timely fashion under our revolving credit agreements and overdraft facilities, if economic conditions worsen or new information becomes publicly available impacting the institutions' credit rating or capital ratios, these lenders may be unable or unwilling to lend money pursuant to our existing credit facilities.

Operating Activities

We generated $399.6 million of cash from operating activities during the six months ended July 2, 2016, a $331.1 million decrease over the comparable prior year period due primarily to increased working capital, as noted above, as a result of the following:

- Changes in accounts payable, which contributed to a $41.1 million outflow in the first six months of 2016 compared to a $187.5 million inflow in the first six months of 2015. The primary reasons for the outflow in 2016 were the addition of Omega operations in the current year period and changes to the Omega accounts payable structure as discussed below.

- Changes in inventories, which led to a $50.3 million outflow in the first six months of 2016 compared to a $28.4 million inflow during the first six months of 2015. The current year outflow was due to increased

inventory levels attributable to both tactical build-up in certain areas of the business and lower than forecasted sales in certain international markets.

- Changes in accrued customer-related programs, which led to a $45.3 million outflow in the first six months of 2016 compared to a $18.1 million inflow for the first six months of 2015. The primary reason for the outflow in 2016 is the pricing dynamics in the Rx segment.

- Changes in accrued payroll and related taxes, which contributed to a $39.2 million outflow in the first six months of 2016 compared to a $3.8 million outflow in the first six months of 2015. The primary reasons for the increased outflow in 2016 were severance payments related to the restructuring activities and the addition of Omega operations in the current year period.

Offset partially by:

- Changes in accounts receivable, which contributed to a $42.3 million inflow in the first six months of 2016 compared to $77.2 million outflow in 2015. The inflow in the first six months of 2016 was due to reduced accounts receivable due to lower sales volumes, offset partially by a reduction of factoring in the current period.

- Changes in accrued income taxes, which provided a $21.8 million inflow in the first six months of 2016 compared to a $14.9 million outflow in the first six months of 2015. The six months ended June 27, 2015 included a $68.9 million incremental tax payment made in the first quarter in connection with the contested IRS audit described above under "Income Taxes".

Operating cash flow was also impacted by decreased net earnings after adjusting for non-cash items such as impairment charges and depreciation and amortization.

Our operating cash flow for the current year period was unfavorably impacted by actions we took to establish a more normalized cash flow pattern within our BCH segment. Generally our BCH segment has seasonally stronger sales and cash flow inflows in the second and fourth quarters and stronger cash outflows in the first and third quarters. In the past, accounts payable terms with suppliers were structured to take account of this seasonality. This payment structure had a favorable impact on operating cash flow during the prior year period as only the second quarter inflow from these payment structures was included. In order to establish a more sustainable cash flow pattern during the year, we changed these payment structures during the six months ended July 2, 2016, which had a one-time unfavorable impact on operating cash flow.

Investing Activities

Cash used for investing activities totaled $477.8 million for the six months ended July 2, 2016, compared to $2.5 billion in the prior year period. The cash used in the current year was due primarily to the Tretinoin Products acquisition, which used $416.4 million in cash. In the comparable prior year period, cash used for investing activities consisted primarily of a $2.1 billion outflow for business acquisitions, mainly attributable to Omega, as well as a $303.5 million outflow related to the cash settlement of non-designated foreign currency derivatives we used to

hedge the euro-denominated Omega and GSK Products purchase prices. Cash used for capital expenditures totaled $57.1 million during six months ended July 2, 2016 compared to $89.0 million in the prior period year. The decrease in cash used for capital expenditures over the prior year period was due primarily to several large infrastructure projects nearing completion.

Financing Activities

Cash generated from financing activities totaled $305.5 million for the six months ended July 2, 2016, compared to cash used for financing activities of $985.2 million for the comparable prior year period. The primary contributor to the cash generation in the current year period was the borrowing of $1.2 billion of long-term debt. This was offset in part by net repayments on our revolving credit agreements and other short-term financing totaling $803.9 million. In the prior year period, the cash used for financing activities was due primarily to payments of $889.0 million on long-term debt, which included the repayment of debt assumed from Omega and a $300.0 million legacy Perrigo term loan. For more information see "Borrowings and Capital Resources" below and Item 1. Note 10.

The declaration and payment of dividends, if any, is subject to the discretion of our Board of Directors and will depend on our earnings, financial condition, availability of distributable reserves, capital and surplus requirements, and other factors our Board of Directors may consider relevant.

In October 2015, the Board of Directors approved a share repurchase plan of up to $2.0 billion, of which $1.5 billion is still available to be repurchased through December 31, 2018. We did not repurchase any shares under the share repurchase plan during the six months ended July 2, 2016. The timing and amount of future repurchases, if any, will depend upon several factors, including market and business conditions, the trading price of our ordinary shares, available cash flow, and other investment opportunities.

Borrowings and Capital Resources

Overdraft Facilities

Our BCH segment uses overdraft facilities to increase the efficiency of its cash utilization and meet its short-term liquidity needs. We repaid the balance outstanding under these overdraft facilities during the three months ended July 2, 2016, but retain the ability to use these facilities in our day-to-day cash operations. The balance outstanding under the facilities was $82.9 million at December 31, 2015.

Accounts Receivable Factoring

We have multiple accounts receivable factoring arrangements with non-related third-party financial institutions (the "Factors"). Pursuant to the terms of the arrangements, we sell to the Factors certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. An administrative fee ranging from 0.14% to 0.15% per invoice is charged on the gross amount of accounts receivables assigned to the Factors, plus interest is calculated at the applicable EUR LIBOR rate plus 70 basis points. The total amount factored and excluded from accounts receivable on the Condensed Consolidated Balance Sheets was $54.7 million and $106.7 million at July 2, 2016 and December 31, 2015, respectively.

Revolving Credit Agreements

On December 9, 2015, our 100% owned finance subsidiary, Perrigo Finance Unlimited Company (formerly Perrigo Finance plc) ("Perrigo Finance"), entered into a $750.0 million revolving credit agreement (the "2015 Revolver"). At December 31, 2015, $380.0 million was outstanding under the 2015 Revolver. On March 15, 2016, we used the proceeds of the debt issuance described below under "Long-Term Debt" to repay the $750.0 million then outstanding under the 2015 Revolver and terminated the facility.

On December 5, 2014, Perrigo Finance entered into a $600.0 million revolving credit agreement, which we increased to $1.0 billion on March 30, 2015 (the "2014 Revolver"). At December 31, 2015, $300.0 million was outstanding under the 2014 Revolver. On March 15, 2016, we used the proceeds of the debt issuance described below under "Long-Term Debt" to repay the $435.0 million then outstanding under the 2014 Revolver. There were no borrowings outstanding under the 2014 Revolver as of July 2, 2016.

Perrigo Company plc - Item 2
Financial Condition, Liquidity and Capital Resources

Long-Term Debt

On March 7, 2016, Perrigo Finance issued $500.0 million in aggregate principal amount of 3.500% senior notes due 2021 and $700.0 million in aggregate principal amount of 4.375% senior notes due 2026 (together, the "2016 Notes") and received net proceeds of $1.2 billion after fees and market discount, which were used to repay the amounts outstanding under the 2015 Revolver and 2014 Revolver mentioned above.

We had $5.9 billion and $4.7 billion outstanding under our notes and bonds, and $473.3 million and $488.8 million outstanding under our term loan, as of July 2, 2016 and December 31, 2015, respectively. We expect to prepay our 1.300% $500.0 million senior note due November 2016 in September 2016.

We were in compliance with all covenants under our debt agreements as of July 2, 2016. See Item 1. Note 10 for more information on all of the above debt facilities.

Credit Ratings

Our credit ratings on July 2, 2016 were Baa3 (stable) and BBB- (stable) by Moody's Investors Service and Standard and Poor's ("S&P") Global Ratings, respectively. On August 10, 2016, Moody’s affirmed our Baa3 credit rating and changed our outlook to negative from stable.

Credit rating agencies review their ratings periodically and, therefore, the credit rating assigned to us by each agency may be subject to revision at any time. Accordingly, we are not able to predict whether current credit ratings will remain as disclosed above. Factors that can affect our credit ratings include changes in operating performance, the economic environment, our financial position, and changes in business strategy. If changes in our credit ratings were to occur, they could impact, among other things, future borrowing costs, access to capital markets, and vendor financing terms.

Contractual Obligations and Commitments

Other than the obligations related to the changes to our debt structure in relation to the 2016 Notes, as discussed in Note 10 of the Notes to the Condensed Consolidated Financial Statements, there were no material changes in contractual obligations as of July 2, 2016 from those provided in our Transition Report on Form 10-KT for the transition period from June 28, 2015 to December 31, 2015. See below for a revised schedule of our enforceable and legally binding obligations as of July 2, 2016 related to our short and long-term debt arrangements.

	Payment Due by Period (in millions)				
	2016[1]	2017 - 2018	2019 - 2020	After 2020	Total
Short and long-term debt[2]	$660.5	$1,682.1	$811.6	$5,508.4	$8,662.6

(1) Reflects remaining six months of 2016.

(2) Short and long-term debt includes interest payments, which were calculated using the effective interest rate at July 2, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our quantitative or qualitative disclosures found in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of our Transition Report on Form 10-KT for the transition period from June 28, 2015 to December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act) as of July 2, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of July 2, 2016 because of the material weakness in our internal control over financial reporting described below.

Perrigo Company plc - Item 4
Controls and Procedures

All systems of internal control, no matter how well designed, have inherent limitations. Therefore, even those systems deemed to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In connection with the preparation of our financial statements for the quarter ended April 2, 2016, management determined that we did not design and maintain effective management review controls that operated at a sufficient level of precision to ensure interim income taxes were properly recorded and disclosed in our consolidated financial statements in connection with the recording of an indefinite-lived intangible asset impairment and an estimated goodwill impairment. These control deficiencies resulted in a material misstatement in income taxes in the preliminary financial statements for the quarter ended April 2, 2016. The material misstatement in interim income taxes was corrected prior to the filing of the Form 10-Q for the quarter ended April 2, 2016. These control deficiencies did not result in a misstatement of the consolidated financial statements for the transition period from June 28, 2015 to December 31, 2015, and would have no effect on the accounting for income taxes for the fiscal year ending December 31, 2016. However, these control deficiencies created a reasonable possibility that a material misstatement to the interim consolidated financial statements would not be prevented or detected on a timely basis. Accordingly, management concluded that these control deficiencies represented a material weakness.

Remediation Plan for the Material Weakness

To remediate the material weakness in internal control over financial reporting described above, with oversight from the Audit Committee, we have:

- Reviewed the processes and controls in place to measure and record income taxes to enhance the efficiency and effectiveness of the design and operation of those controls;
- Enhanced monitoring activities related to income taxes by adding additional internal controls and checklists; and
- Evaluated and enhanced the level of precision in the management review controls related to income taxes by adding additional levels of review.

We are in the process of testing and evaluating the design and operating effectiveness of the control procedures and are assessing the effectiveness of the remediation plan, which we began implementing during the three months ended July 2, 2016. Until the remediation actions are fully implemented and the operational effectiveness of related internal controls is validated through testing, the material weakness described above will continue to exist. We are committed to achieving and maintaining a strong internal control environment and believe the remediation measures will strengthen our internal control over financial reporting and remediate the material weakness identified. We will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that we deem appropriate given the circumstances.

Changes in Internal Control over Financial Reporting

As discussed above under the heading entitled "Remediation of Material Weakness," there were changes in our internal control over financial reporting during the three months ended July 2, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Part I, Item 1. Note 14 to the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

Our Transition Report on Form 10-KT for the transition period from June 28, 2015 to December 31, 2015 includes a detailed discussion of our risk factors and our Quarterly Report on Form 10-Q for the three months ended April 2, 2016 contained certain additional risk factors. At the time of this filing, there have been no material changes to the risk factors that were included in the Form 10-KT other than those described below.

We are dependent on the services of certain key executive and scientific employees. We recently replaced our chief executive officer and the general managers of both our BCH and Rx segments. Our inability to successfully manage the transition with respect to these key executives, or the failure to attract and retain other key executive and scientific employees, may have a material adverse impact on our results of operations.

As previously disclosed in the "Risk Factors" section of our recent Form 10-KT, we are dependent on the services of certain key employees, and our future success will depend in large part upon our ability to attract and retain highly skilled employees.

- In April 2016, we announced that our former Chairman and Chief Executive Officer, Joseph C. Papa, resigned from the Company and that John T. Hendrickson, formerly our President, was appointed to serve as our new Chief Executive Officer. Mr. Hendrickson was later appointed to serve as a member of our Board of Directors.
- In April 2016, we announced that the former Executive Vice President and General Manager of our BCH segment, Marc Coucke, resigned from the Company and that our current Executive Vice President and General Manager, International, Sharon Kochan, would undertake expanded responsibilities that include providing leadership and strategic direction to our BCH segment.
- We recently announced the resignation of Doug Boothe, Executive Vice President and General Manager, Rx Pharmaceuticals, and the appointment of John Wesolowski, Acting General Manager, Rx Pharmaceuticals.

If this management transition is not successful, or if we are unable to attract or retain other key qualified employees, our future operating results may be adversely impacted.

Publishing earnings guidance subjects us to risks, including increased stock volatility that could lead to potential lawsuits by investors.

Because we publish earnings guidance, we are subject to a number of risks. For a variety of reasons discussed under “Cautionary Note Regarding Forward-Looking Statements”, this Item 1A, and Item 1A of our Transition Report on Form 10-KT for the transition period from June 28, 2015 to December 31, 2015, actual results may vary from the guidance we provide investors from time to time, such that our stock price may decline following, among other things, any earnings releases or guidance that do not meet market expectations.

On February 18, 2016, we announced our results for the fourth quarter and calendar year ended December 31, 2015, as well as our updated guidance for calendar year 2016, and on April 25, 2016 we announced our preliminary financial results for the first quarter ended April 2, 2016, as well as our updated guidance for calendar year 2016. Our stock price declined following each such announcement, resulting in a decrease in our market capitalization. Additionally, we announced updated guidance on August 10, 2016. It has become increasingly

commonplace for investors to file lawsuits against companies following a rapid decrease in market capitalization. These types of lawsuits can be costly and divert management attention and other resources away from our business, regardless of their merits, and could result in adverse settlements or judgments.

We are or may become involved in shareholder class action lawsuits and may experience unfavorable outcomes of such proceedings.

We are a defendant to a securities lawsuit in which the complaint alleges violations of Securities Exchange Act sections 10(b) (and Rule 10b 5) and 14(e) against both Perrigo and our former Chief Executive Officer, Joseph

C. Papa, and 20(a) control person liability against Mr. Papa. In general, the allegations concern the actions taken by the Company and former executive to defend against the hostile takeover bid by Mylan in the period April 21, 2015 through November 13, 2015. The plaintiff also alleges that we provided inadequate disclosure concerning alleged integration problems as a result of the Omega acquisition in the period April 21, 2015 through May 11, 2016.

We along with certain of our current and former executive officers and board members are also defendants in a securities class action suit where the plaintiff allege violations of Israeli law in the District Court of Tel Aviv-Jaffa. On June 15, 2016, Perrigo filed a motion to stay the case pending the outcome of the securities class action pending in the New Jersey federal court. The plaintiffs did not oppose the motion. The Israeli court granted the motion on the same day, and the action is stayed.

We intend to vigorously defend against these lawsuits, however, we cannot predict how the cases will be resolved. Adverse results in the cases could result in substantial monetary judgments. See Part I. Item 1. Note 14 for more information on the above mentioned lawsuits.

We may not be able to improve operating results in our business segments.

- We have experienced a reduction in pricing expectations during 2016 in comparison to historical patterns in our U.S. businesses, in particular in our Rx segment, due to industry and competitive pressures in the sector. The reduced pricing is attributable to a variety of factors including increased focus from customers to capture supply chain productivity savings, low raw material commodity pricing, competition in specific product categories, loss of exclusivity on certain products, and consolidation of certain customers in the Rx segment. We expect this pricing environment to continue to impact us at least through the remainder of 2016.

- Our expectations for the BCH segment continue to be impacted by market dynamics in the lifestyle and natural health/vitamins categories. Factors impacting these categories include softness in key markets due to current macro-economic factors, change in timing of certain advertising and promotional campaigns compared to the prior year, and lower sell-in during the current year due to the re-staging of certain products.The BCH segment has established a brand prioritization strategy to address these market dynamics, with an objective to balance the cost of advertising and promotion investments with expected contributions from category sales.

- Our expectations for 2016 new product sales are consistent with those communicated in our first quarter Form 10-Q, but continue to remain lower than anticipated as of December 31, 2015. Several new product launches have been delayed due to the regulatory approval process for certain new products in the U.S. and modifications to market share penetration and timing assumptions for new products in our Rx and BCH segments.

There can be no assurance that we will not continue to experience challenges related to our segments, and these challenges could have a material impact on our business, cash flows, and results of operations, result in impairment charges and the market value of our ordinary shares and/or debt securities may decline.

We have acquired significant intangible assets and goodwill that could become impaired or subject us to losses and may result in an adverse impact on our results of operations.

We have recorded significant intangible assets and goodwill on our balance sheet as a result of previous acquisitions, which could become impaired and lead to material charges in the future. We regularly review our intangible assets and

goodwill for impairment. Goodwill and indefinite-lived intangible assets are subject to impairment review on an annual basis and whenever impairment indicators are present.

During our impairment testing for the transition period of June 28, 2015 to December 31, 2015, we identified an impairment of certain indefinite-lived intangible assets purchased in conjunction with the Omega acquisition based on management's expectations of the prospects for future revenues, profits, and cash flows associated with these assets. The assessment resulted in an impairment charge of $185.1 million within our BCH segment, which represented the difference between the carrying amount of the intangible assets and their estimated fair value. See our Transition Report on Form 10-KT filed February 25, 2016 for a further discussion of this impairment charge.

In connection with the preparation of our financial statements for the three-month period ended April 2, 2016, we identified indicators of impairment associated with certain indefinite-lived intangible assets acquired in conjunction with the Omega acquisition. The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long-range revenue growth forecast. The assessment utilized the excess earnings method to determine fair value and resulted in an impairment charge of $273.4 million in Impairment charges on the Condensed Consolidated Statements of Operations within our BCH segment, which represented the difference between the carrying amount of the intangible assets and their estimated fair value. The change in fair value from previous estimates was due primarily to the changes in the market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio. The main assumptions supporting the fair value of these assets and cash flow projections included revenue growth based on product line extensions, product life cycle strategies, and geographical expansion within the markets in which the BCH segment distributes products, gross margins consistent with historical trends, and advertising and promotion investments largely consistent with the segment's growth plans.

In connection with the preparation of our financial statements for the three-month period ended April 2, 2016, we identified indicators of goodwill impairment in our BCH - rest of world (“BCH - ROW”) reporting unit, which comprises primarily operations attributable to the Omega acquisition in all geographic regions except for Belgium. The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long-range revenue growth forecast. Step one of the goodwill impairment test involved determining the fair value of the reporting unit using a discounted cash flow technique and comparing it to the reporting unit’s carrying value. The main assumptions supporting the cash flow projections used to determine the reporting unit’s fair value included revenue growth based on product line extensions, product life cycle strategies, and geographical expansion within the markets in which the reporting unit distributes products, gross margins consistent with historical trends, and advertising and promotion investments largely consistent with the reporting unit's growth plans. The BCH-ROW reporting unit did not pass step one of goodwill impairment testing. The change in fair value from previous estimates was due primarily to the changes in the market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio.

The second step of the goodwill impairment test required that we determine the implied fair value of the BCH - ROW reporting unit’s goodwill, which involved determining the value of the reporting unit’s individual assets and liabilities. Due to the complex and time-consuming nature of step two, based on our evaluation and initial estimates of the fair values of the assets and liabilities and the deficit of the fair value when compared to the related book value, we recorded an estimated impairment charge of $193.6 million in Impairment charges on the Condensed Consolidated Statements of Operations for the three months ended April 2, 2016. We finalized the step two fair value calculation during the three months ended July 2, 2016, which resulted in a $30.3 million reduction to the estimated impairment charge recorded last quarter.

While no impairment charges were recorded as a result of the goodwill impairment testing for the transition period of June 28, 2015 to December 31, 2015, our Specialty Sciences reporting unit's fair value exceeded the carrying value by less than 10%. Management evaluated the primary source of cash flow in this segment, the Tysabri® royalty stream, based on a combination of factors including independent external research, information provided from our royalty partner, and internal estimates. Based on this information, management’s assessment of future cash flow from this royalty stream has been reduced primarily due to anticipated new competitors entering the market and unfavorable

currency exchange effects. In February 2016, a competitor's pipeline product, Ocrevus®, received breakthrough therapy designation from the FDA and could potentially be approved in 2016. The product would compete with Tysabri® and could have a significant negative impact on the royalty we receive from Biogen Idec Inc. and the performance of the Specialty Sciences segment. We continue to monitor the progress of all potential competing products and assess the reporting unit for potential impairment should impairment indicators arise, as applicable, and at least annually during our fourth quarter impairment testing.

We perform an impairment analysis on intangible assets subject to amortization when there is an indication that the carrying amount of any individual asset may not be recoverable. Any significant change in market conditions, estimates or judgments used to determine expected future cash flows that indicates a reduction in carrying value may give rise to impairment in the period that the change becomes known. The carrying value for certain intangible assets and goodwill equals fair value, as such, any further deterioration in those assets' fair value

would lead to a further impairment charge. Future performance different from the assumptions utilized in our quantitative analyses may result in additional changes in the fair value. We will continue to monitor and assess these assets for potential impairment should further impairment indicators arise, as applicable, and at least annually during our fourth quarter annual impairment testing.

See Part I. Item 1. Note 3 for more information on the above impairment charges.

We identified a material weakness in our internal controls over financial reporting; failure to remediate the material weakness could negatively impact our business and the price of our ordinary shares.

In connection with the preparation of our financial statements for the three-month period ended April 2, 2016, we concluded that a material weakness existed in our internal controls over financial reporting, as described under Part II. Item 4. "Controls and Procedures." More specifically, we did not design and maintain effective management review controls that operated at a sufficient level of precision to ensure interim income taxes are properly recorded and disclosed in our consolidated financial statements in connection with the recording of an indefinite-lived intangible asset impairment and an estimated goodwill impairment for the three months ended April 2, 2016. In response to the identified material weakness, and with oversight from our Audit Committee, we are focused on improving our internal controls over financial reporting and remedying the identified material weakness.

To remediate the material weakness in internal control over financial reporting described above, with oversight from the Audit Committee, we have:

- Reviewed the processes and controls in place to measure and record income taxes to enhance the efficiency and effectiveness of the design and operation of those controls;
- Enhanced monitoring activities related to income taxes by adding additional internal controls and checklists; and
- Evaluated and enhanced the level of precision in the management review controls related to income taxes by adding additional levels of review.

We are in the process of testing and evaluating the design and operating effectiveness of the control procedures and are assessing the effectiveness of the remediation plan, which we began implementing during the three months ended July 2, 2016. Until the remediation actions are fully implemented and the operational effectiveness of related internal controls is validated through testing, the material weakness described above will continue to exist. We will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that we deem appropriate given the circumstances. We cannot assure you that we will be able to remediate this material weakness on a timely basis or at all. Failure to remediate this material weakness or difficulties encountered during implementation of these remediation efforts could result in material misstatements in or a future restatement of our financial statements, a failure to meet our reporting obligations, or the loss of investor confidence in our reported financial information, any of which could negatively impact our business and the price of our ordinary shares.

Our global operations could be negatively impacted by the economic and political instability caused by the United Kingdom ("UK") vote to leave the European Union ("EU").

The UK held a referendum on June 23, 2016 on its membership in the EU. A majority of UK voters voted to exit the EU ("Brexit"), and negotiations will commence to determine the future terms of the UK's relationship with the EU, subject to a negotiation period that could last up to two years after the UK government formally initiates the withdraw

process, including the terms of trade between the UK and the EU. Brexit has created significant instability and volatility in the global financial markets and could adversely affect European or worldwide economic or market conditions. Although it is unknown what those terms will be, they may impair the ability of our operations in the EU to transact business in the future in the UK, and similarly the ability of our UK operations to transact business in the future in the EU. Specifically, it is possible that there will be greater restrictions on imports and exports between the UK and EU countries and increased regulatory complexities. These changes may adversely affect our operations and financial results. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Further, among other things, Brexit could reduce consumer spending in the UK and the EU, which could result in decreased demand for our products. Any of

these effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, results of operations, financial condition and cash flows.

ITEM 5. OTHER INFORMATION

On August 9, 2016, we issued a notice of redemption to redeem all of the $500.0 million in aggregate principal amount of then outstanding 1.300% senior notes due 2016 (the "1.300% 2016 Notes"). We expect to redeem all of the 1.300% 2016 Notes on September 29, 2016 using available cash on hand.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation of Perrigo Company plc (formerly known as Perrigo Company Limited) (incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed on December 19, 2013).
3.2	Memorandum and Articles of Association of Perrigo Company plc, as amended (incorporated by reference from Exhibit 3.2 to the Company's Transition Report on Form 10-KT filed on February 25, 2016).
10.1	Amendment No. 3, effective as of April 24, 2016, to the Employment Agreement, effective as of October 9, 2006, by and between Perrigo Company and Joseph C. Papa (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 25, 2016).
10.2	Mutual Agreement dated April 27, 2016 among the Company, Omega Pharma NV, Perrigo Ireland 2 Ltd, Mylecke Management, Art & Invest NV, Alychlo NV and Marc Coucke (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 28, 2016).
10.3	Amendment dated April 27, 2016 to the Agreement for the Sale and Purchase of 685,348,257 Shares Of Omega Pharma Invest NV, dated as of November 6, 2014, by and among the Company, Alychlo NV and Holdco I BE NV (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 28, 2016).
10.4	Amendment dated April 27, 2016 to the Non-Compete Agreement between the Company and Marc Coucke dated March 30, 2015 (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 28, 2016).
10.5	Amendment dated April 27, 2016 to the Lock-up Agreement between the Company and Alychlo NV dated March 30, 2015 (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 28, 2016).
10.6	Amendment No. 4, effective as of May 6, 2016, to the Employment Agreement, effective as of October 9, 2006, by and between Perrigo Company and Joseph C. Papa (incorporated by reference from Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 16, 2016).

10.7	Waiver to Note Purchase Agreement, between Omega Pharma NV and the Prudential Insurance Company of America, dated May 16, 2016, in connection with the Note Purchase Agreement, dated May 19, 2011 (as amended by the First Amendment and Consent to the Note Purchase Agreement, dated as of October 7, 2011), with respect to the issuance and sale of EUR 135,043,889 aggregate principal amount of Omega's 5.1045% senior notes due 2023 (incorporated by reference from Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on May 16, 2016).
10.8	Amendment dated May 23, 2016 to the Waiver to Note Purchase Agreement, between Omega Pharma NV and the Prudential Insurance Company of America, dated May 16, 2016, in connection with the Note Purchase Agreement, dated May 19, 2011 (as amended by the First Amendment and Consent to the Note Purchase Agreement, dated as of October 7, 2011), with respect to the issuance and sale of EUR 135,043,889 aggregate principal amount of Omega's 5.1045% senior notes due 2023 (filed herewith).
10.9	Perrigo Company plc U.S. Severance Policy, as amended and restated effective June 14, 2016 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 17, 2016).

Perrigo Company plc - Part II - Item 6
Exhibits

10.10	Perrigo Company plc Change in Control Severance Policy for U.S. Employees, as amended and restated effective June 14, 2016 (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 17, 2016).
10.11	Amendment No. 2 to the Perrigo Company Annual Incentive Plan, effective June 14, 2016 (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 17, 2016).
10.12	Second Waiver to Note Purchase Agreement, between Omega Pharma NV and the Prudential Insurance Company of America, dated June 7, 2016, in connection with the Note Purchase Agreement, dated May 19, 2011 (as amended by the First Amendment and Consent to the Note Purchase Agreement, dated as of October 7, 2011 and the Waiver to Note Purchase Agreement, dated as of May 16, 2016, as amended by a letter agreement dated May 23, 2016), with respect to the issuance and sale of EUR 135,043,889 aggregate principal amount of Omega's 5.1045% senior notes due 2023 (filed herewith).
31.1	Rule 13a-14(a) Certification by John T. Hendrickson, Chief Executive Officer (filed herewith).
31.2	Rule 13a-14(a) Certification by Judy L. Brown, Executive Vice President, Business Operations and Chief Financial Officer (filed herewith).
32	Certification Pursuant to 18 United States Code 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (furnished herewith).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PERRIGO COMPANY PLC (Registrant)
Date: August 10, 2016	By: /s/ John T. Hendrickson John T. Hendrickson Chief Executive Officer (Principal Executive Officer)
Date: August 10, 2016	By: /s/ Judy L. Brown Judy L. Brown Executive Vice President, Business Operations and Chief Financial Officer (Principal Accounting and Financial Officer)

60