

FINAL TRANSCRIPT

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CAR - Avis Budget Group Inc at Deutsche Bank Securities Inc Leveraged Finance Conference

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PRESENTATION

Ed Roland - Deutsche Bank - Analyst

Hi, good morning. I'm Ed Roland with Deutsche Bank. Welcome to the 19th annual Deutsche Bank Leveraged Finance Conference. We're honored today to have with us management from Avis. With me on my left is David Wyshner, the CFO, and to his left, Neal Goldner, in charge of Investor Relations. With that, I'll turn it over to them.

David Wyshner - Avis Budget Group, Inc. - Senior EVP, Global CFO

Thanks, Ed, very much. Thank you all for joining us today, and a particular thanks to Deutsche Bank for inviting us to present at their Leveraged Finance Conference once again.

My presentation today contains forward-looking statements, which, of course, are subject to uncertainty.

In structuring our presentation today, what I'd like to do is cover four principal topics that I think that we think differentiate and distinguish Avis Budget as a company. The first are our presence as a leading global car and truck rental company. The second, our investments in strategic initiatives to drive profitable growth. Third, the expansion through the acquisition of Avis Europe. And fourth, the progress that we have made in driving revenue and earnings.

Starting on the first topic, we have two highly-recognized global brands in Avis and Budget. We generate over \$7 billion in annual revenue. We complete 27 million vehicle rental transactions and generate 115 million rental days a year, serving both commercial and leisure travelers.

We have a dual-brand strategy and have had a dual-brand strategy for almost a decade with Avis as a premium brand and Budget more focused on more value-conscious travelers. We use both brands in a way that has separate customer touchpoints between the two brands, but shared back-office functions and a shared infrastructure between the two brands. We believe that this approach saves us more than \$100 million a year, but also allows us to have the shelf space and the brand presence associated with two separate and distinguished brands.

We have a diverse set of revenue streams, with Avis representing about two-thirds of our revenue and Budget about one-third. We have a balanced mix of revenue from both commercial and leisure customers and we are geographically diversified with 40% of our revenue coming from outside the United States.

Focusing on the U.S., we're a leading domestic car rental company providing vehicle rental services throughout the U.S. We generate nearly three out of every 10 on-airport vehicle rentals in the U.S. and we also have the second-largest domestic truck rental company in Budget Truck.

In addition to our domestic business, we generate well more than \$2 billion of annual revenue from our international operations, which now include Europe, the Middle East, Africa, and Asia as a result of our acquisition of Avis Europe.

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We operate directly in 17 countries outside the U.S. and we have licensees in more than 150 countries. We have the number-one airport share in Australia, Canada, and New Zealand, and the number-two share across Europe.

An important part of our recent history is that we made the difficult decisions during the recession. We closed unprofitable locations, we shrunk our headcount significantly, and we reduced the volume of unprofitable transactions that we have. All of our actions allowed us to drive significant margin expansion. In fact, in 2010 we achieved the same profitability as in 2007, despite having \$800 million less revenue.

And the actions that we took during the recession have allowed us to continue to expand our margins this year. As part of that, we have significantly reduced our costs by an estimated \$575 million by the end of this year. This includes nearly \$250 million of savings from our performance excellence process improvement initiative. These cost reductions are enabling us to capture volume that was unprofitable a few years ago, and our success with performance excellence and replicating process improvement projects throughout our organization gives us comfort that we will be able to drive significant process improvement across Avis Europe as well.

Importantly, we are reducing cost without sacrificing quality. We reduced headcount by more than 30% and we increased productivity by 10%, yet our customer satisfaction scores have actually improved and our commercial account retention remains north of 99%.

Turning to the second key topic I want to cover today, our strategic investments to grow profitably in the future are a big part of where we've spent our time as a Company and as a management team over the last year. We're pursuing a number of key initiatives that have the capability to sharpen our value proposition, build brand loyalty, capture new growth opportunities, further reduce costs, and accelerate revenue and profit growth.

We've grouped them into three categories, the first being investments for growth and profit. These are clear line of sight projects that were expected to produce and are producing measurable benefits in 2011. The second group is evolutionary or medium-term projects, and the third group are sustained long-term initiatives, which include our performance excellence process improvement initiative.

Let me talk about some of these initiatives. For starters, we're increasing our investment in our brands. Earlier this year, we launched an integrated marketing campaign for Avis. That includes print, online, TV, and airport signage. The ads are based on actual customer letters or e-mails or feedback all around the theme of treating people like people. We believe this theme resonates with customers, particularly with business travelers, and it has been a -- it works well in terms of us communicating with our employees about what we want them to be doing.

We're also, for the first time, running Budget TV spots with a celebrity spokeswoman. These commercials are generating incremental volume as well.

We're accelerating our efforts to win small business customers. This is actually something that had been started in 2010, and we believe a substantial opportunity exists here. Small businesses are the fastest-growing segment of the economy. They spend more than \$1 billion annually on car rental, and they do so at pricing that is typically higher, quite a bit higher, than our standard large commercial accounts. We've been very encouraged by the results of our efforts here. Our volume from small businesses grew 15% in the first half of the year, and we see continued opportunity here as well.

We've also been re-looking at how we operate in the off-airport or local market arena. This is a \$10 billion market where last year we had about a \$750 million share, and it is growing faster than the on-airport space. We're looking to improve our off-airport margins by strengthening our footprint, by better locating stores, by having a dedicated fleet for local market, and by dual-branding locations that allow us to share a single cost structure while capturing the volume associated with two brands.



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We're also investing to drive incremental volume through existing sites, and our volume off-airport was up 7% in the first half of 2011. And we've had particular success in growing small business volume in local markets, essentially a link between our two strategic initiatives.

We're also making investments in what we refer to as self-service technology that will enable customers to transact with us when they want, how they want, and using technology that is most convenient for them. What virtual technology will enable us to do is to place cars where customers need them, particularly, in our case, locations such as corporate campuses, to improve the customer experience and to add incremental rental volume in the process. We expect to have thousands of virtual-enabled cars in our fleet ahead of next summer.

We're applying technology to improve and optimize our fleet costs, and we're investing in systems that will enable us to improve our fleet efficiency from acquisition to deployment to disposition. We already dispose of 30% of our fleet through nontraditional channels and we continue to look to further optimize our fleet disposition process.

Another long-term opportunity here lies in more effectively managing cars while we own them, such as cascading cars. For us, this may mean moving them from Avis to Budget as they get older, as well as to the local market. All of this is with the goal of maximizing the return we generate from our fleet.

The third and perhaps the most timely key topic I'd like to cover today is our expansion through the acquisition of Avis Europe, which we completed earlier this month. After operating separately for 25 years, we reunited our world-class brands on a global basis, and we have done so in a transaction that is attractive from both a strategic and a financial perspective. The acquisition of Avis Europe gives us increased presence in faster-growing markets and will allow us to deliver meaningful benefits and synergies as a result of the transaction.

Along those lines, we expect to achieve synergies that will provide more than \$30 million of annual savings and we expect to do so within the first six to 12 months following the acquisition.

The \$30 million number is important because it represents more than 40% of Avis Europe's pretax income last year, so the synergies that we expect to bring here represent a significant boost to the profitability of Avis Europe going forward. And one of the reasons we're particularly confident in our ability to do this is not only our experience with transactions like this, but also the fact that a substantial majority of the cost -- of the synergies are cost savings.

We assume very little for revenue enhancement. We think there is a significant opportunity there over the medium term, but the synergy that we focus on are primarily tied to costs, everything from public company costs to rolling out at best practices across the organization to take advantage of what we've already learned from performance excellence. We feel confident about our ability to do this and we've started this process already.

The acquisition of Avis Europe will also allow us to compete more effectively for multinational accounts, and we believe as a result that over time the synergies can and should and will be significantly larger than the \$30 million we're focused on achieving in the first six to 12 months.

From a strategic perspective, the Avis Europe acquisition gives us an extensive global reach. We now have licensees or joint ventures in each of the BRIC countries, as well as a number of important -- a number of other important areas, such as South Africa and the Middle East. And the portfolio of licensees that we have should also represent a meaningful opportunity for us to grow inbound rental volumes throughout the world.

Along those lines, international travel -- international inbound travel is a multibillion-dollar car rental market. It represents a particularly profitable customer segment. It often has higher revenue per day. It almost always has higher ancillary and insurance product penetration.



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And Avis Budget is and has been undershared in this profitable space relative to our overall share. And late in 2010, while we and Avis Europe were still largely independent of each other, we adopted a number of strategies to improve our cross-border penetration, and our revenue was up 15% in the first half of 2011 as a result of this. But we think being under common management and being one global company will allow us to accelerate growth in this space and provide some significant opportunities not only for revenue, but particularly for profit.

Thinking about some of the fastest-growing markets that are out there, our joint venture in China now makes us the largest international car rental company in China. We have an outstanding partner there, one of the largest automotive manufacturers in China. We have been achieving rapid growth in this space and we believe that market conditions in China provide a solid foundation for both car rental -- for car rental, including car sharing, and this is driven by both government regulation in China, as well as China's largest population and expanding middle class. The number of locations that we have for our joint venture there is expected to more than double to 100 by the end of next year.

Another important part of Avis Europe's business model is its licensee revenue stream. It represents a diverse and stable source of cash flow, as most licensees pay us a percentage of revenue. The operating profit from licensees represents about 80% of Avis Europe's pretax income, and approximately half comes from non-European licensees. The import of this is that the licensee base, the strong licensee base that Avis Europe has, will allow us to capitalize on growing global travel demand with revenues coming from a diverse and dispersed set of licensees.

The fourth and last area I want to touch on today relates to the progress we've made and are making toward driving revenue and earnings growth. One of the ways we've done this is by having and expanding significant marketing partnerships. These drive incremental revenue, and in fact, we generate millions of transactions a year through our affiliations with travel and marketing companies. The addition or expansion of our relationships with American Airlines, Frontier, and Southwest have helped us grow our business thus far in 2011.

Another important step that we've taken is to instill more of a sales culture throughout our organization to drive growth. Ancillary products in particular, as well as upsells, carry a significantly higher margin than our core rental business. So we've implemented training and incentive programs for our rental agents to drive incremental penetration of ancillary products and of upsells. We're focused on increasing penetration rates and adding new products that improve the customer's rental experience.

Turning to our balance sheet, we don't have any corporate debt maturities until 2014. On a pro forma basis, pro forma for the acquisition of Avis Europe, our net debt to EBITDA at the end of June was 3.9 times, including expected synergies. This is pretty much at the high end of our targeted range of three to four times net debt to EBITDA. And having just completed a significant acquisition in Avis Europe, our strong desire is to work to reduce our leverage, to bring our leverage down a bit, over the coming quarters.

We have the benefit of having been off to a strong start in 2011. Revenue was up 8% in the first half; fleet costs declined significantly. Adjusted EBITDA nearly doubled, and as of June 30 our LTM EBITDA was almost \$550 million.

We pre-announced our anticipated third-quarter results in September. We expect this to be a record quarter for our earnings, the best single quarter in our history. Revenue is projected to be up 7% to 8% year over year. Domestic volume growth is going to be in the range of 5% to 6%, and adjusted EBITDA is expected to grow more than 20%. We also announced that we expect fourth-quarter volume growth to be -- domestic volume growth to be 4% to 6%, generally consistent with the third quarter.

Avis Europe's first half was similar. They reported their best first-half performance since 2003. Rental revenue increased 6%, and they demonstrated continued tight control over costs and improved fleet efficiency.

I want to spend a minute or two just talking about what we're seeing in Avis Europe's preliminary third-quarter results. The third quarter was largely consistent with our expectations and their expectations for the business. Revenue was up, primarily due to volume. Demand trends were relatively balanced with both leisure and commercial revenues up in the quarter. Pricing was

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essentially flat. Fleet costs were down year over year, as were interest costs, and employee productivity was up. The net result for Avis Europe is that their operating profit increased significantly year over year in the third quarter.

As we look at the acquisition having closed, we are excited about how the early days of being under common management have gone, and we'll talk more about our outlook for Europe when we announce our third-quarter results in early November. But one thing I can say is that we remain absolutely committed to \$30 million in annual synergies coming out of the transaction.

So with that, to wrap up, I want to emphasize that we are, as a Company and as a management team, excited about how 2011 has shaped up and about how our strategic initiatives have positioned us for the future. Our demand trends remain positive. Our productivity initiatives continue to provide incremental benefits. Used car market conditions should remain favorable for the foreseeable future, and we're excited about the acquisition of Avis Europe. With that, I'd be happy to take your questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

David Wyshner - Avis Budget Group, Inc. - Senior EVP, Global CFO

Sure. For the benefit of those listening in on the webcast, the question is a three-parter related to our off-airport strategy, the Dollar Thrifty situation, and Avis Europe. Let me work backward through them.

The Avis Europe transaction was -- at the time we struck the deal in June, we looked back at the 2010 multiple and we were acquiring, including synergies, at about 7.5 times and we were trading at 8.1 times at the time. From that perspective, we're actually fortunate to be able to announce a transaction at a creation multiple that was lower than where we are trading, despite the need to pay a controlled premium in the transaction.

With respect to Dollar Thrifty, are we disappointed not to be pursuing the acquisition there? I think, as we said in the past, we did believe it could be an attractive transaction for us. But the opportunity that we had and that we realized to acquire Avis Europe, that's been on our radar screen for quite some time and strategically has been very important to us, we think represents -- also represents a very good opportunity for us, and we're really excited about how that is playing out strategically.

And then, lastly, as we look at our off-airport strategies, the thinking is that given that we have a 7% or 8% share in that space and we don't have the same footprint in terms of number of locations that Enterprise has, we don't need to be, nor do we want to be, everything to everybody off-airport. We can pick our spots in terms of what types of customers, what types of locations we want to have, and we're going to do so in a way that focuses on profitability.

Generally speaking, for us, that means more of a focus on general-use business. We will take some insurance replacement business on the side, but the best locations for us tend to be ones that can be profitable based solely on general-use business, and then any incremental insurance replacement business that comes along is gravy on top of that.

As we go through site selection and thinking about our strategies, I think this is an approach that allows us to focus on profitability and probably limits the extent to which we're trying to tackle Enterprise in the insurance replacement space, where they're both very strong and have some significant economies of scale. So we feel very good about our approach there.

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Unidentified Audience Member

How committed are you to getting to the lower end of your debt target, and a timeframe or your priority (inaudible)

David Wyshner - *Avis Budget Group, Inc. - Senior EVP, Global CFO*

Sure. The question is about our debt targets and the use of free cash.

I think -- we've adopted a range for our target for a reason, because we think it's a range that makes sense. I think we'd prefer to be in the middle to lower half of that range, but where we are is always going to be somewhat dependent on a variety of factors that are hard to predict. So we don't have a particular timeline for necessarily getting down to the low end of the range, but our belief or our expectation is that deploying cash flow in a way that allows us to reduce our leverage a bit, to move more to the middle to low end of the range, is going to be -- is the right trajectory for us to be on.

From quarter to quarter, there will probably be some noise around it, depending on a variety of things, including the relative opportunities that exist. But I think the trend that you should look to see over time is that we do want to move down to the middle to the lower end of that range.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

David Wyshner - *Avis Budget Group, Inc. - Senior EVP, Global CFO*

Sure. The question is again about off-airport.

What dedicating fleet off-airport allows us to do is essentially have a fleet, and in particular a fleet that tends to be a little bit more lower cost because it may accumulate fewer miles and can be a little bit older on average, and we can set that dedicated fleet essentially equal to the minimum amount of volume we expect to have off-airport. And then, we can use other parts of our fleet to load balance between on-airport and off-airport and optimize the fleet.

So in some ways, our game plan is to get the best of both worlds. If you picture the -- some peaking in off-airport demand, either by month or week or even day of week, we want to pick the essentially minimum level and make sure we always have enough fleet dedicated to capture the volume we're going to have there, and then we want to get the fleet-optimization benefits of being able to optimize how the incremental car, the marginal car that can be on-airport or off-airport, how that car is utilized based on pricing demand and relative profitability at various points in time.

I think it's a -- we're putting ourselves in a situation where we're really going to be better able to manage the base business on- and off-airport to maximize profitability, and then to realize essentially a synergy out of having both businesses that can share a portion of the fleet.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

David Wyshner - *Avis Budget Group, Inc. - Senior EVP, Global CFO*

Sure. For those on the webcast, the question is about our fleet mix, particularly split between program and risk cars.

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For the last couple of years, our program/risk mix has been roughly 50-50, and certainly this is a substantial change from the early part of the decade when we and the rest of the -- most of the rest of the industry were heavily skewed toward having program cars.

Our 50-50 mix domestically has us with a -- carrying a bit less risk and a few more program cars than our competitors. We think it has been appropriate from a risk mitigation standpoint to do so, and as we look ahead to 2012, I think the mix, while we're not religious about the mix, we really do tend to view it as an optimization exercise, we also wouldn't expect it to vary a lot from the 40/60 to 60/40 range over a period of time. It is most likely going to be -- trend up probably toward about 55% risk in 2012, based on the deals we've signed up.

And the background for that, by the way, is that as we have gone through the model-year 2012 negotiations with manufacturers, they clearly have done well with their program cars this year, in light of the strength in the used car market. And we think that has informed the pricing that they were offering to us on model-year 2012 program cars, which made them relatively attractive this year.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

David Wyshner - Avis Budget Group, Inc. - Senior EVP, Global CFO

Sure. The question for those on the webcast is the impact of Dollar Thrifty potentially being acquired on an on-airport competition.

You know, our expectation is that it's unlikely to change the core nature of competition off-airport. We're already in a situation where we and Hertz and Enterprise each have roughly 30% of the on-airport market.

And what I think that means and what I think Dollar Thrifty -- what I know Dollar Thrifty has themselves pointed out is that they tend to be more of a price taker than being in a position to be a price leader with a share that is significantly smaller than their three principal competitors. And I think that means that whether Dollar Thrifty is acquired or not, I'd expect that to continue to be the case.

The possibility would be the Dollar Thrifty on its own, or Hertz as a new owner of it, tries to do something different with the brands in terms of how they're positioned and the share that they have. But realistically, I think how Dollar Thrifty has managed their brands and optimized them has made a lot of sense, and I think continuing to play in the space where the Dollar Thrifty brands resonate with customers is going to be what either Dollar Thrifty or Hertz is most likely to do with the brands.

With that being said, my view is conjecture, and certainly asking those two management teams may get you more insight than I can provide.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

David Wyshner - Avis Budget Group, Inc. - Senior EVP, Global CFO

Sure. The question is about fleet age and implications for fleet costs.



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Our fleet age has stayed relatively constant over the last year or so, averaging about seven months to eight months old, which means that the average vehicle we're getting out of typically at around 14 months on average. And as a result of that staying relatively constant, our fleet age hasn't been a driver one way or another of the changes in fleet costs this year.

We clearly saw strength in the used car market as a result of the -- both as a result of the longer-term secular trend that we've spoken about in the past, as well as the effects of the earthquake in Japan, which caused a bit of a spike in used car prices between March and August.

I've got about half a minute. I think there was one more question.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

David Wyshner - *Avis Budget Group, Inc. - Senior EVP, Global CFO*

Sure. The question is about booking trends.

We've seen solid booking trends in our business, probably a little bit stronger than the 4% to 6% domestic volume growth that we've projected. But based on other factors, based on airline capacity as well as what we're all hearing about the economy and the consumer, we're factoring in not only our current bookings and reservation volumes, but also a variety of other factors in coming to the guidance of 4% to 6% volume growth domestically.

With respect to Europe, we're digging into more of that now as we have access to information that we didn't have access to in September, and I think we're going to be prepared to talk more about that in early November when we announce our results.

Again, I want to thank you all very much for joining us.

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