PARTICIPANTS

Corporate Participants

David B. Wyshner – Chief Financial Officer & Senior EVP

MANAGEMENT DISCUSSION SECTION

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Next up is Avis Budget Group. Really, a leading company in the automotive rental business, has grown a lot, has expanded operations internationally as well as domestically.

And with us from the company is David Wyshner, the Senior Vice President and CFO, and Neal Goldner, the Director of IR. We're going to give them around 30 minutes, which will allow us to still make it to the next presentation, given we're starting a little bit late from the lunch running over. But – further ado I'll pass it over to Avis Budget Group.

David B. Wyshner, Chief Financial Officer & Senior EVP

Thanks, Doug very much. Good afternoon, everyone, and thank you for joining us today. Thank you also to all of Bank of America Merrill Lynch for inviting us to present at their Leveraged Finance Conference here today. My presentation today will include forward-looking statements. As usual, disclaimers and caveats apply, including our, as is customary for us, the fact that forward-looking statements that pertain to our projections speak only as of the date of our last earnings call.

I'd like to cover four topics today; one, an overview of our business; second, a discussion of our financial performance; third, a little bit of a discussion about our strategic initiatives; and then lastly, how those are driving revenue and earnings growth in our business.

Avis Budget Group provides vehicle rental services worldwide. We have more than 10,000 locations, about 0.5 million vehicles, 28 million rental transactions a year that total about 125 million rental days and help us generate $7 billion in annual revenue. These operating statistics are important not only as an indication of our scale, but also as the multipliers for cost reduction and productivity improvements in our business. When we save money on a per-transaction or per-rental day basis or per-vehicle basis, these are the numbers we use to multiply to calculate the savings.

We're a global leader in the car rental industry. We have locations in more than 175 countries, and we typically have a leading position in the markets we serve, whether we operate there directly or through a licensee. Our revenues are diversified along a number of different axes. The split between Avis and Budget is about 70/30, with Avis being roughly double the size of Budget. The split between commercial and leisure is pretty much straight down the middle at 50/50. We generate about 70% of our revenue on-airport and about 30% off-airport. And now that we have full ownership of our European business, we generate about 60% of our business – 60% of our revenue in the United States and about 40% internationally.

With that I want to move on to the discussion of our performance, and one of the key messages I want to highlight today is the strength of our results this year, as well as their consistent improvement over time. What we've seen is steady growth in revenue since the recession, and that's evident from this slide. But I think the other thing that's noteworthy is the absolute level of our revenues, excluding the acquisition of Avis Europe. Because the level of recession – the – because the level of revenue is still below pre-recession levels, we see this slide – we see these trends as indicating we still have significant opportunity for growth going forward.

Another noteworthy element of our business model and of our revenues is the significant amount of licensee revenues that we generate each year. It's averaged around $130 million a year over the last several years, and it's a particularly attractive revenue stream, number one, because it's steady, but number two, because it's high-margin. We have very few costs associated – very few incremental costs associated with these revenues. And third, it's attractive – these are attractive because they provide a very strong return on capital. There is virtually no capital requirement associated with these revenues on our part. We don't fund vehicles for our licensees, so the combination or the stability, the high-margin attributes, and the nearly infinite return on capital is what makes this portion of our revenue stream particularly attractive as part of our business model.

Another element of our business model that I think is noteworthy is that at its core, our business is a cash business. From a period from 2007 through 2011, a period of time when we obviously went through a very significant recession, we've been a generator of cash flow, fairly consistently generating more than $900 million of cash flow over that period. And I'll talk a little bit more about our 2012 cash flow in a bit.

Our results over the first nine months of the year I think have been strong. Volume and revenue growth has been up north of 30% and our adjusted EBITDA and our earnings per share, excluding items, have both been up in the range of 40%. A lot of this growth has been tied to our acquisition completed just over a year ago of Avis Europe, but even without these – even without the acquisition, we're seeing growth in all of these key metrics. And what's particularly noteworthy is that our strategies, as well as the acquisition of Avis Europe are contributing to the growth and profitability that we're seeing. And what I wanted to do next is talk a little bit about the strategic initiatives that we're pursuing, how they came together and how they're impacting our business favorably.

Beginning in 2010 and continuing into 2011 and this year, we spent a lot of time developing and refining our strategy. It revolves around four key pillars, the first of which is strategically and profitably accelerating our growth; the second of which is expanding our global footprint; the third of which is putting a customer first in a variety of different ways and I'll talk about that; and the fourth is driving efficiency throughout the organization. What these four pillars have in common is that they all share and support the same mission, and that is of driving sustained, profitable growth.

Looking at the first one, the growth initiatives in particular, we've been focused on the most profitable segments and portions and components and channels in our business to try to drive growth in a way that actually drives incremental profitability and margin at the same time. Some of the key initiatives or sub-initiatives here have been the growth of international inbound, which tends to be disportionately profitable; small business rentals where small business customers don't demand or can't demand the same level of volume discounts our large commercial accounts require; and growth in ancillary revenues, which allow us to make each transaction significantly more profitable.

Our focus in this area got us to significant growth in each of these areas in 2011, and thus far in 2012 we're again seeing growth that's above and beyond what we are experiencing in our overall volume. We're also co-branding local market locations in order to make that part of our business even more efficient and to capture additional revenue.

As I mentioned, in October 2011 we acquired Avis Europe, which for years has been an independently owned licensee of ours, and this acquisition is absolutely delivering on the promise associated with it. It enables us to control our brand proposition – both our brands, Avis and Budget globally. It gives us an increased presence in faster-growing markets through licensees in numerous developing countries, as well as through joint ventures. Our licensees in India and in China are both joint ventures of ours. In China, we're the 50% owner. We have a great partner there, and the opportunity to grow in that market is significant. But I think throughout the developing world, we see opportunities to continue to grow our licensee revenue streams. And in numerous other ways, particularly related to synergies we're seeing substantial opportunities as a result of the acquisition.

We'll just going into that in a little bit more detail; in the first year of ownership in 2012 we focused on what we refer to as Phase 1 of the integration of the European operations. It was primarily cost-focused and we've generated roughly $40 million in annual savings. We had a part-year benefit of that this year; we'll get a full-year benefit next year. And as Phase 1 wraps up, we're spending a lot of time now focused on Phase 2 of the integration, which is going to have more of a balance between cost savings and revenue synergies. On the cost front, we still have some additional standardization and consolidation to do. And we continue to ramp up our Performance Excellence process improvement initiatives in Europe. But we're going to supplement the opportunities that are there on the cost side with significant opportunities on the revenue side as well.

We see ancillary sales as a substantial opportunity for us. We want to take the playbook that we know worked in North America and continue to apply that in Europe so that we're recruiting and training and incentivizing our folks, particularly counter sales agents in a way that helps us grow ancillary revenues. And we see a significant opportunity for us to continue to grow the Budget brand. We had a very good summer this year with Budget growing in the triple digits. And we see continued opportunity for Budget to grow, to move up from the roughly 2% to 3% share it has now in Europe to the ideally 5% and 10% plus share that it has in other parts of the world.

We're investing in our North American and legacy businesses as well. An example of that is in the area of optimization. We're building a fully integrated demand fleet pricing system, and what this will allow us to do is optimize and manage yield more effectively in the business setting that we have. It's a setting that's somewhat unique in that our inventory is flexible and so is the inventory – so are the inventory levels of our competitors over a relatively short period of time, really week – days and weeks, and certainly no more than months. And so we're investing a lot of time and effort in building a system that will allow us to automate and – elements of this process and to optimize going forward. We see the opportunity for substantial benefits over the next few years associated with this.

As I mentioned, we are intensely focused on improving the customer experience. We want to drive customer satisfaction, customer loyalty, and really customer advocacy in what we're doing. A neat example and one that you may have run across is the recently rolled out Avis Preferred Select & Go Offering. It's available at more than 30 airports in the United States already. And this is a vehicle choice offering, as it's been very well received by our customers. We see it as not only improving customer satisfaction by giving – by empowering our customers, but also, it's creating some additional profit opportunities for us. The opportunities for upsells to higher vehicle classes and to luxury vehicles, that opportunity is going to be significantly greater as a result of this structural change.

We're investing in our brands and in our customer relationships to drive revenue and loyalty and we're investing in technology throughout our business in ways that should also help us drive improvements in the customer experience. When we put the four pillars of our strategy together, they really are having a favorable impact on driving revenue and earnings in our business. Starting with the top line, we're looking for roughly 24% growth in revenue this year to around $7.3 billion. Much of the growth is as a result of having the European business for a full year in 2012 versus just a quarter in 2011, but we're seeing organic growth in our business as well that's contributing to the growth this year.

We're benefiting from lower fleet cost, particularly in North America. We think fleet costs are going to be down 6% to 8% this year on top of a double digit decline last year, and that's certainly been a help to our earnings this year. The movement toward having somewhat – a somewhat higher risk car component to our fleet, cars where we bear the residual value risk as opposed to those where the manufacturers do, is also helping us a bit as we move from 2011 to 2012.

And then on our P&L, we've seen our asset-backed term debt rates move down fairly significantly, about 180 basis points over the last two years. This is generating about $25 million of annual interest savings year-over-year this year, and we see the opportunity for continued savings next year as well. The result of this is that we're expecting the roughly $7.3 billion of revenue this year to translate into $825 million to $840 million of adjusted EBITDA and a pre-tax income of $450-plus million, excluding items, and diluted earnings of $2.35 to $2.45 per share, which will represent an increase of around 45% versus 2011.

In addition, we expect free cash flow to be at least $375 million this year. Other than about $60 million of cash taxes that we pay, our pre-tax income turns into cash flow in our business, generally speaking. And the $375 million of free cash flow means that even with our stock price having moved up a bit over the last few months, we're trading at a free cash flow yield in the range of 18% to 20%.

We're working through our plan for 2013 right now. What we can say about it is that we expect demand trends in North America in 2013 will be broadly similar to what we've experienced in 2012, when we've had mid-single digit growth in volume. As I mentioned earlier, we expect to be able to continue to grow Budget rapidly in Europe despite macroeconomic challenges that are likely to persist there. The synergies that we've already – the synergy actions that we've already implemented have us at a run rate of $40 million of annual savings. We only recognized about $20 million of that this year on a part-year basis, so just based on what we've done already we have a $15 million to $20 million incremental benefit in 2013 and that doesn't even include the Phase 2 synergies that we'll start to layer in next year.

Earlier this quarter, we announced a small but noteworthy acquisition in the New Zealand/Australia region. It's a business called Apex Car Rentals. It's a nice example of what we mean by a tuck-in acquisition. It's a $29 million equity purchase price. It's a market leader in the third-tier segment that exists in the New Zealand market. We think it has applicability in Australia as well, where Apex has started to expand. And they have applicability in other markets beyond that. And our Asia-Pacific operations will have the benefit of Apex in their results in 2013.

And then lastly and importantly, we expect fleet costs to increase next year. We're looking at North American fleet costs that are likely to increase by at least $100 million in 2013 following the particularly low levels that we've experienced in 2011 and 2012. As a result of what we're – what we expect to see in terms of increasing fleet costs, it's increasingly clear that we're – that we shouldn't be and that we're not satisfied with our current pricing. We think the used car market has peaked and as a result fleet costs are going to go up. And it's causing us to focus on pricing whenever and wherever we can to try to take advantage of opportunities to move pricing up. The historical background for this I think is somewhat encouraging.

And by that I mean when we've seen cost push in our business and in our industry, particularly tied to fleet cost, those are the times when the industry has had the – and we as a company have had the greatest success in terms of moving prices up a bit. And our focus as a company is going to be very much on moving pricing where we can in order to try to offset the effects that we expect to see on the fleet cost side.

Since we're at a leveraged finance conference, I wanted to touch on our balance sheet and we feel very good about where our balance sheet is. Our net corporate debt to EBITDA is around 2.9 times, which is the lowest it's been in quite a while. We have no corporate debt maturities until 2014 and only $430 million of debt maturities over the next four years in total. So we feel good, not only about the balance sheet from a metrics perspective, but also about how our corporate debt maturities are laddered and about our liquidity profile.

The key messages, I think beyond our strong results so far this year are really about our strategies for growth going forward. This is what has me and has our entire team at Avis Budget excited about the rest of this year, about 2013, and really about the longer term. We're doing a lot of things in accelerating growth, focusing on having a strong global footprint, focusing on our customer relationships and driving efficiency through process improvement and other opportunities, all with an intense focus not only on growth, but on profitable growth. And I think these initiatives are having a real impact on our results already, and I think we have the potential for them to continue to compound upon each other in a way that can be very attractive going forward.

I want to thank Doug and Bank of America Merrill Lynch one more time for having us here. Thank you all for joining. And with that I'd be happy to take a few questions. Please.

QUESTION AND ANSWER SECTION

<Q>: [indiscernible] (21:04).

<A – David Wyshner – Avis Budget Group, Inc.>: Sure, sure. The question is really about our airport versus off-airport mix, and I think we feel good about it. Our core and the largest part of our revenues come from operating on-airport. And we feel really good about the service we provide there, about our ability to compete, about our ability to structure operations there. And as a result, we look to be a significant, substantial player at airports throughout the world, serving commercial and leisure customers there. We want everyone to know that wherever they're getting off a plane there is going to be an Avis and a Budget location there providing a predictable quality service.

With that being said, there are only so many airports that exist and so many being built. And as a result I think some of the growth opportunity may tend to be disproportionately off-airport, particularly in the more mature markets. In places like China there's going to be substantial airport growth. But in more mature markets, we do see opportunities for off-airport growth. And it's one of the reasons we're – in North America we're piloting an off-airport offering that doesn't even involve having a location. Our Avis On Location service offering is being piloted at corporate campuses right now and we're learning a lot from those pilots, including the fact that we have technology that works and that we have to – before we expand it significantly, we want to make sure we have a business model that works as well. So we do see opportunities for growth in the off-airport space going forward.

<Q>: [indiscernible] (23:27).

<A – David Wyshner – Avis Budget Group, Inc.>: In terms of the numbers, I don't see the mix changing a lot near-term, but over time it's certainly possible that the off-airport mix could increase a bit.

<Q>: Could you comment on the fleet acquisition costs in Europe?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure...

<Q>: Secondly, you seem to be quite aggressive in European pricing at the moment if one compares you to other competitors' offerings, right? You're quite happily offering 30% discounts. What is driving that, given that you want to improve pricing? Are you buying – try to buy market share?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. The – with respect to European fleet costs what we are – we're in the middle of our negotiations for fleet in 2013 right now. And that process in Europe is on a somewhat different calendar than in the United States. In the US a lot of that happens in the spring and summer tied really to a model year basis, whereas in Europe it's much – it tends to be much more tied to a calendar year basis. So we're working through that process right now. Our expectation is that fleet availability will be relatively good in Europe, in part because of the economic challenges there.

What we don't know yet is exactly where pricing is going to come out for European fleet costs. And clearly, the challenge that we as well as manufacturers have to deal with is the fact that the used – that residual values in the European used car market have been relatively weak this year. We buy most of our cars in Europe on a program basis, so that will provide – that provides a lot of cushion for us. But as we go into the negotiations we also have to know that our program cars are the manufacturers' risk cars. And so the weakness in the residual value market is likely to impact their thinking a little bit as well.

In terms of pricing, rental car pricing in Europe, we've – we are going to look to optimize pricing and profitability there. We've seen – we're – prices have been relatively stable on the Avis side and I think the only thing that – which you may be seeing that's a little bit different from us compared to the past is that we're pricing Budget as a value brand. And that's where we think Budget should be positioned and that's part of the growth strategy, having – growing that brand and having pricing that matches up with how we're going to position the brand for future growth and profitability. But we're pricing at levels that we think makes sense in the business and are intended for Budget to make a positive contribution to our results.

Unverified Participant

I think in interest of time, actually [indiscernible] (27:08) we will wrap it up. I know other folks have other presentations to get to, but thank you very much David.