

Avis Budget Group, Inc.

Company▲

CAR
Ticker▲J.P.Morgan Global High
Yield & Leveraged Finance
Conference
Event Type▲Feb. 28, 2012
Date▲**— PARTICIPANTS****Corporate Participants****David B. Wyshner** – Global Chief Financial Officer & SEVP**Other Participants****Yilma Abebe** – Analyst, JPMorgan Securities LLC**— MANAGEMENT DISCUSSION SECTION****Yilma Abebe, Analyst, JPMorgan Securities LLC**

Good morning. My name is Yilma Abebe; I'm the services analyst at JPMorgan. [ph] From company this afternoon we have (0:05) Avis Budget Group and we have David Wyshner, CFO, and up front we have Neal Goldner, Investor Relations. Gentlemen, thank you for coming.

David B. Wyshner, Global Chief Financial Officer & SEVP

Thanks, Yilma, and thank you very much, everyone, for joining us today. I'd like to give particular thanks to JPMorgan for inviting us to present at today's conference. I should point out that my presentation today will include forward-looking statements and these statements are not guarantees of future performance.

The way we've structured the presentation today is to talk about four items that we think distinguish Avis Budget Group as a company, our leading position in the vehicle rental industry, our expansion through the acquisition of Avis Europe which closed in October, our focus on investing in profitable growth initiatives and the fact that we're driving revenue and earnings as a result of all of these.

Starting with the first, we are an industry leader with two global brands, Avis and Budget. We generate more than \$7 billion in annual revenue from roughly 28 million rental transactions a year and we serve both commercial and leisure travelers needs with both our brands.

We provide vehicle services throughout the world with locations in more than 175 countries, and we have leading airport shares including being number one in Australia, Canada and in the Middle East and Africa, and the number two airport share in both the United States and Europe and we're ahead of Hertz in each of these markets.

Our revenue sources are diversified. The split between Avis and Budget is roughly 70-30. Our split between commercial and leisure business is almost exactly 50-50. With the acquisition of Avis Europe, we're now generating about 30% of our business off airport versus 70% on airport and the geographic split of our revenues is about 60% U.S. and about 40% international. That really takes care of the background that I wanted to cover. And what I would like to focus on next is the fact that we've heard that there may be some confusion in the investor community about our strategy, so let me clarify.

We have a four pronged strategy to grow revenue and profits. The key elements of it are to grow faster in more profitable segments, to expand our global footprint, to put the customer first and to

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drive efficiency throughout the organization. We've adopted near, intermediate and long-term initiatives to support our strategy. These initiatives contributed to our growth and our record results in 2011 and I will talk about them in more detail in a few minutes.

Before that though, I would like to talk about our billion dollar acquisition of Avis Europe, which as I mentioned closed in early October. Prior to October, Avis Europe was an independent company operating the Avis brand in Europe and Asia under royalty free license since 1986. This acquisition is strategically and financially attractive to us. From a strategic perspective, it reunites our brands globally and gives us an increased presence in faster growing markets.

And here is a point that I think some of the folks who follow us haven't fully appreciated. The acquisition of Avis Europe, with 2011 being done, we now know that the acquisition of Avis Europe added \$100 million – would have added a \$100 million to our pre-tax earnings in 2011, including synergies. So that means without issuing a single share of additional stock, we added \$68 million to our pre-tax earnings on a pro forma basis. And with the \$35 million of synergies we expect to get, we look at the deal as having on a pro-forma basis added about a \$100 million to our pre-tax earnings.

Other attractive attributes of the transaction includes a significant amount of licensee and sub-licensee revenue that Avis Europe generates. Licensee revenue of approximately \$80 million a year represents an annuity like cash flow stream and more than half of it comes from outside of Europe. The margins associated with this revenue stream given its nature tend to be extremely high.

We feel very good about how the integration of Avis Europe has been proceeding so far. Our integration plan is detailed and actively underway. We are looking for run rate synergies of \$35 million a year by the time we're 12 months into the acquisition, and we expect to generate those from a variety of sources including the elimination of public company expenses; reduced senior management costs; the leveraging of shared services infrastructure and other efficiencies; process improvement initiatives along the lines of our Performance Excellence project; IT consolidation, at least the initial stage of it producing several million dollars; the centralization of procurement and the renegotiation of leases wherever appropriate.

As important as how good we feel about the near-term integration synergies is that the longer-term opportunity is substantially larger than the \$35 million we're looking for this year. Additional cost synergies already – have already been identified, they include consolidation of fleet management systems and of software platforms as well as savings from fleet financing going forward.

We see opportunities after 2012 to take advantage of high ROI investment opportunities, which the severely capital constrained Avis Europe really wasn't taking full advantage of and that creates a significant opportunity for us going forward. We see incremental revenue growth, especially for Budget over the intermediate term and I'll talk more about that in a second. And clearly the acquisition of Avis Europe gives us a significant presence in rapidly growing markets like India and China. And in China, our joint venture there already has the leading presence among international car rental companies.

The opportunity for Budget is significant. To highlight that, you can see that budget is typically a 10% to 20% player in the markets that we've operated directly, but it has less than a 3% share in Europe. Each point of share in Europe represents about \$100 million of revenue so the opportunity to have Budget play at the 10% to 20% range in the European marketplace is very significant to us. And we feel we can make significant progress here without necessarily attacking the larger players in the market, because there is a substantial number of smaller regional players that have significant shares in various markets in Europe.

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With the acquisition in Avis Europe, we're also better positioned to capture high margin international travel demand to North America. We saw significant growth last year, with our inbound revenue to North America increasing nearly 15%, and we're also better positioned to meet demand from North America. We expect that cross-border traffic will continue to grow at fairly significant rates and did so even in the fourth quarter.

With that being said, based on a variety of sources, I think it's fair for us to expect the macroeconomic environment in Europe will be somewhat challenging this year. We're actively planning for that, and we're dealing with the economic headwinds in Europe in ways that you would expect by aggressively managing fleet levels and seasonal staffing, curtailing discretionary spending, accelerating integration and synergy efforts, and using – and looking for opportunities to use the market dislocation to make targeted investments in Europe.

With that said, as we integrate Avis Europe, we're also focused on investing in profitable growth initiatives throughout our business. As part of our four-prong strategy, we're pursuing key initiatives across a range of different timelines.

On a near-term basis, we're focused on the international inbound market, and have been. We're focused on small business as an opportunity for incremental profitability, where we've been investing in brand marketing to strengthen our brands for the long term, and we've also looked for opportunities to improve profitability in our local market operations.

In the intermediate term, we're focused on the customer experience we offer and are looking to improve that through our Customer Led, Service Driven initiative. We're also taking steps to optimize our fleet cost through investment in technology and process evolution.

Over the longer term, we're focused on the opportunity that virtual rental may represent and we also continue, over both the short term and for an extended period of time, to invest in our process improvement initiative known as Performance Excellence. This delivered \$70 million of incremental savings in 2011, and we're looking for an incremental \$45 million above that in 2012.

Just to talk about a few of these strategic initiatives in a little bit more detail, the fact is that we're already realizing benefits from some of them. A great example of that would be our efforts to win small business customers. We like the small business customers because they offer us an average daily rate that's roughly \$4 higher than what we achieve from larger commercial accounts. And in 2011, we were able to grow our volume from small businesses by 11%.

Another example is inbound international business, which was a focus of ours even before the acquisition of Avis Europe. We like the international inbound business because it also tends to be more profitable than average business due to the higher average daily rate that it offers, the longer average length of rental, and the higher ancillary product take rate associated with this sort of business.

The net result is the average revenue per transaction associated with international inbound is 47% higher than what we see on a typical leisure rental and we were able to grow our revenue in this space by 14% in 2011.

Another example of an important strategic initiative is in local market, where we've been moving to multi-branded locations, ones where we offer both Avis and Budget rentals, and in some cases even offer Budget truck rentals as well.

The focus for us in this space is primarily on general use rentals as opposed to insurance replacement, and we were able to achieve same-store revenue growth in the local markets of 9% last year, which significantly helped us improve our profitability there.

I mentioned earlier that we're looking at what we refer to as virtual rental. We're excited about the self-service technology that we've been piloting in corporate campuses. Our corporate customers like it and we think that this technology and this product offering has broader applicability, both in the U.S. and globally.

What's probably most important about these strategic initiatives is the fact that they are actively and currently helping us drive growth in our business. In 2011 even excluding the impact of Avis Europe, we saw revenue – we saw rental days increase 6% year-over-year leading to revenue growth of 7% in 2011.

This translated into record results on the bottom line for us. Our adjusted EBITDA excluding items was \$610 million and our diluted EPS excluding items was \$1.65. Pro-forma EBITDA including Avis Europe without synergies was \$781 million in 2011.

We clearly benefited from some of the supply disruptions following the earthquake in Japan, but adjusted EBITDA increased 17% excluding \$130 million of car sale gains that we attribute to the earthquake.

This has had a significant impact for us in terms of our margins. We look at our 2011 margins excluding items as being north of 10% and we're north of 8% excluding the \$130 million of car sale gains attributable to the earthquake in Japan.

We still feel we have work to do to operate consistently at the 10% figure, which is our intermediate-term target. One of the efforts that has helped us strengthen our margins is ancillary products, which drive not only incremental revenue but drop a significant amount to the bottom line as well.

This has been an initiative of ours over the last several years and what you can see is that since 2007 our average daily rate, out time and mileage revenue per day has increased 3%, which is significantly better than our largest competitor. But only tells a portion of the story. What we've done by focusing on ancillary revenue growth as well is achieved 7% growth in the combination of time and mileage in ancillary revenue per rental day, which has also been a key part of helping us improve our margins.

We also believe the used car market is likely to remain strong for the foreseeable future. The supply of off-lease vehicles will probably be at a modern era low in 2012 and will continue to be below to longer term average through 2015. This all points to a continued, limited supply of late model used vehicles in the used car market, which we think will help maintain strength in that market.

We also have a longstanding history of keeping fleet levels in line with demand. We want to continue to do that, but we also want to take advantage of opportunities such as Florida in February, where vehicles that may have a little bit below average utilization can still be quite profitable. We saw this in our fourth quarter results, where we took advantage of opportunities to do that and I think you'll continue to see that in the first quarter as well, where we will continue to look at and focus on utilization, but it's not the sole metric we watch in terms of making decisions about whether to include additional fleet.

The net result of all of this is that I think we're well positioned for growth in global travel, and we have a positive outlook as we look not only to 2012, but beyond. We expect our volume growth will continue to exceed employment growth. Our strategic initiatives are actively and significantly contributing to growth in our business. We remain adamant and rigorous in our focus on controlling

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costs throughout the organization, and we're realizing significant benefits from the acquisition of Avis Europe.

With that, I'd be happy to take your questions.

QUESTION AND ANSWER SECTION

<Q – Yilma Abebe – JPMorgan Securities LLC>: And so thank you David. I'll kick it off. On the pricing front, we've seen pricing pressure in the industry in the fourth quarter. Can you give us a little bit more color in terms of – what you've seen so far this year? Any color on the outlook there, please?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. We reported pricing that was down 3% year-over-year in the fourth quarter. I think it was the – it was the best performance of the public company set and we look at it from a couple of perspectives. The first is that we want to do better. The second is that when we look at 2011 as a whole, we were in a situation where our fleet costs – our largest single cost was down about 20% on a per unit basis.

And in that context, we're able to hold on to about 98% of our pricing. And we're able to expand margins as a result. And I think it's important to look at the two in the context of each other, because it did create – the fleet dynamic did create some – probably some natural pressure on pricing in the fourth quarter, yet we were still able to hold on to the substantial majority of pricing despite that.

As we look ahead, the first half of the first quarter looked a lot like the fourth quarter. And so in January, we initiated a price increase of \$30 a week, \$5 a day that the rest of the industry matched. That caused us to – and that was effective as of mid-February. It caused us to launch a second increase in RAC pricing also of \$30 a week, \$5 a day effective as of March 1. And we saw a good matching across the industry of that as well.

So our hope is that we can continue to fight for pricing. We're looking at a first quarter that will definitely be impacted by the fact that the first half of the quarter looked very much like the fourth quarter. But we're looking for opportunities to strengthen pricing as we go into 2012, and we take the dynamics about how folks reacted to our – to the price increases we initiated as being a positive, and probably an indication that we and our competitors, we're all seeing the same thing in terms of our pricing numbers.

<Q – Yilma Abebe – JPMorgan Securities LLC>: [ph] Betsy (20:55)?

<Q>: My – so my question has to do with consolidation, both in the U.S. and/or North America and in Europe. Things are kind of quiet on the consolidation front in North America, although Hertz said, the other day that they are still interested in Dollar Thrifty. And they continue to work through all these FTC problems, which we're going on almost two years now, which doesn't make any sense to me, what is taking them so long. But also in Europe there might seem to be some consolidation opportunities, because there are some smaller participants there, and some weaker ones, especially in this environment. So can you comment on that?

<A – David Wyshner – Avis Budget Group, Inc.>: No and yes. I think with respect to Dollar Thrifty, we've said what we wanted to say – I've nothing new to add there – and that is to say in September we made the decision to step away from that potential transaction in light of market conditions at the time.

With respect to Europe, I think our acquisition of Avis Europe is a very significant step to at least bring Avis Europe under common control and representing part of the global consolidation of companies. I think my sense at this point is that you're right. There may be some additional opportunities for consolidation in Europe. Our focus at this point is primarily on the integration of Avis Europe, but we will look at, I think we'll be thoughtful about looking at opportunities over time, but job one is the integration of Avis Europe.

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<Q>: Hi. Since the pricing on used car sales have been very strong, do you plan to do any changes on your distribution channel?

<A – David Wyshner – Avis Budget Group, Inc.>: You're absolutely right that used car prices have been strong and we expect them to continue to be strong for the foreseeable future for the reasons I talked about. As we look at distribution channels, our experience in the auction markets continues to be very good. We're using both physical and online auctions effectively, and we do feel it's an efficient market.

At the same time, we're actively looking at alternative distribution channels as well to make sure we optimize the proceeds we achieve on the disposition of vehicles. We have established a program with a leading retailer. It's in pilot stage in three states right now that allows us to sell vehicles indirectly, but much more directly to end buyers by working through somebody who already has a used vehicle infrastructure – retail infrastructure in place.

So we're looking at that as a potentially significant opportunity for additional sales, but we also continue to feel that, particularly in North America, the combination of physical and online auctions tend to be quite efficient for disposing of the number of vehicles, roughly 150,000 a year, that we need to – that we sell into the risk vehicle space each year. So we're actively looking at alternative channels. We're piloting some things and we'll do whatever makes the most sense to optimize the proceeds we generate on disposition.

<Q>: On your recent earnings call, you cited how pronounced the seasonality is in Europe. Is that because you have a less of a corporate mix there and more leisure dependent or is there some other reason why Avis Europe is more seasonal from quarter to quarter?

<A – David Wyshner – Avis Budget Group, Inc.>: The question's about the seasonality in Europe and I guess the – my initial two reactions are it is what it is. It's where the demand is and then I think a second element of it has to do with some social factors around vacation policies throughout a lot of the European countries. What we see is more seasonality, but I think we have a similar mix between commercial and leisure business there that I wouldn't expect to change a lot, but what we deal with is the fact that a much – well, the summer is particularly important here. The European model tends to have an even larger percentage of the population taking vacations at the same period of time, which creates more peakiness.

We're used to seeing a similar model in Canada, probably more – as much due to weather as cultural factors there. So we are used to operating in markets that are more seasonal than the U.S. and that's what we're planning for in Europe as well. The fact that we have about 70% of our cars on a program basis, including a number of cars that are relatively short-hold periods, about five or six months each, helps us manage the seasonality associated with Europe quite well.

<Q>: In the back of the presentation, it shows the steadily declining leverage that you guys have had, despite doing the Avis Europe transaction, from 5.5% to 3.5% to 3.1% with synergies. If you guys wanted to do further M&A of whatever variety, do you guys have covenants or an internal limit as to what you would be comfortable re-levering this company up to?

<A – David Wyshner – Avis Budget Group, Inc.>: We have a longer-term target of staying, trying to be within the range of three to four times net debt to EBITDA. We have the – I guess, we have a little bit of the headwind in this calculation associated with the fact that, as we've disclosed, we're looking at potentially \$130 million of vehicle sales gains that we had in 2011 being attributable to the earthquake and therefore – the earthquake in Japan – and therefore not expected to recur in 2012.

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So we feel good about the targeted range of three to four times. I think we're more comfortable in the lower half of that range, 3 to 3.5 times. And what I think it most likely does is gives us a – gives us a flexibility to make targeted investments in areas that make sense. And we often look at licensee acquisitions that tend to be relatively small in the scheme of things.

So that we're in a position that our primary focus for deployment of cash is going to be to reduce debt or reduce our net debt. I think it will also give us the flexibility to look at opportunistic acquisitions, probably – or opportunistic investments – probably focused on licensees or small players in markets that we're already in.

David B. Wyshner, Global Chief Financial Officer & SEVP

Seeing no further questions, I'd like to thank you very much for joining us today.

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