



Avis Budget Group, Inc.

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SPEAKER 1: Speaker 1: This presentation is going to be web-cast, so we're, we are live happy to have Nelson here, chairman and CEO of Avis budget group. Front row Mr Matt Flaherty on the investor relations team. So, kind of jump right into it and, obviously the, the key emphasis on the, the investor side right now, like you said is, is pricing. So we'll, we'll get that kind of started, and, and out of the way early and then we can talk about all the great things that, that Abe is doing is from a strategy perspective. But, so generally, you maybe give us an update on how you feel about pricing both here domestically looking at the, the, the leisure customer. We've also sprinkled in some anecdotes or commentary on kind of what the corporate landscape looks like as well.

SPEAKER 2: Speaker 2: Well, look I think we've now had about two years of executive pricing gains in the industry they've been certainly more pronounced on the leisure side than the commercial side. But, I think out of the eight quarters, we probably had five quarters of positive pricing on the commercial side. And I, I continue to believe that that pricing gains are going to be achievable, certainly over the course of 2015 and, and, and well into the future. And I think for a couple of reasons if, if, if nothing else that I think all the car rental companies run by rational people and they wanna protect their margins. Fleet costs are up this year by virtue of residual values declining our fleet cost guidance is up to two to 5% for the balance of the year and they're at about 30% of our. Our cost structure, so you need about a half to a point and a half of price just simply to keep your margins even we've put into our guidance this year two points of price. I think that we have we this is the first year we've actually built price into our guidance we feel. Pretty good about it, one because we think of the residual value necessity, there is, there is, there is gonna be upward pressure in pricing but more than that I think our experience last year gave us some confidence. There are ways to get price without having the water level in the industry have to go up. And I would give you talk over the last last couple of years, things like shifting channel mix, shifting car class mix getting aggressive about all these things reflect as higher pricing. And and and so, I think as we went into this year we said well look the industry's not gonna go backwards on margins so you need some price to protect your margins. But more than that we think the initiatives that we have in place are gonna be able to drive price. On the commercial side most of the pricing gains that we've seen in commercial are really a function of next. We've

really shifted our marketing emphasis, emphasis into small business and mid market. We try very hard to get pricing gains in the large contracted commercial market and the best I can say is we're not getting any worse. You know, one quarter we're down a couple of tenths, and another quarter we're up a couple of times but, I think that market's gonna remain very competitive. And if, if you're looking to achieve commercial pricing gains over the next year or two, it's really gonna be about mix, and, and moving more on the uncontracted, either small business or mid market.

QUESTION: Question: Okay, as it relates to, to the competitive follow through, I mean what, what have you seen? Cuz obviously Enterprise Hertz, Davis controls the, the, the, the industry pricing dynamic, what have you seen from a competitive follow through perspective with your with your price leadership that frankly done over the last 18 months?

ANSWER: Answer: Right, so I think if you look at 2014 we initiated 15 price increases. I think on the majority of them, Enterprise was a very fast follower. On a few of them Hertz was but you, you know overall it, it, it, most of the price schemes we got last year were in large. I, I would say about half the price schemes we got last year were in large measure due to the initiatives. We started out the year with a price increase. We've put five in so far, I think two of them are going to pay dividends. The follow through on the two was very good with the competitors. And I, it it's certainly the follow through on the first five was better than it was all last year on all 15, so it's, it's encouraging to me and I think our, our, our at least our other public competitor is certainly saying all the right things about the importance of pricing. So I, you know, I'm encouraged by the follow-through to date, we're you know, we, we feel like pricing is the responsible and important thing to do in our industry, and we're gonna push very hard in our shop to, to garner some price increases.

QUESTION: Question: As it relates to to just customer demand and consumer demand for your product. What does the, the forward booking curve look like you know, how do you feel about your the, the leisure customer, you know, as we go into the kinda spring obviously way to early for summer. But, you know, what what's your view on the consumers.

ANSWER: Answer: Well, the forward booking curve in car rentals is not all that instructive we do more than 50% of our bookings in the last 14 days leading up to the rental. We look a lot at Marriott, Marriott's pretty good service for, for the booking curve because they have a good mix of commercial and leisure and that gives us a sense of where, where things are going. Look I, you know, I think user demands actually gonna be pretty good this year and, and I just take that from the GDP forecast and what all the travel companies are saying about their view of where where leisure demand is headed. Commercial demand is actually a little softer. It was a little softer in the fourth quarter and it certainly been soft in January, I think that that's more a function of of the weather in the North East and across the mid west. Snow storms are a great thing if they happen

on a Wednesday because people are where they are and they get stranded and they need one way rentals. And one way rentals are very profitable. Snow storms that happen on a Monday aren't very good now because they cancel out commercial and there's no one way to mitigate it. We have four snow storms in January and they all occurred on a Monday so volume has been somewhat somewhat challenged you know over the first first six weeks of the year because of the weather. Leisure demand has picked up nicely particularly in the Florida after the President's holiday. We're getting good pricing gains going forward. And I, you know, I think one of the things that, that you need to parse through in terms of the value and our results. You know, 90% of our business comes the Avis budget brand in the US but we report North America which includes Canada and Pay Less. So, when you take Canada has tax issues and you take Pay Less out of the mix the two primary brands are still booking at 2% in January and, and well into the, well into then through February as well then into March. You know, Canada's got a particular issue with with tax and then on top of it sort of weakness in the oil field in Edmonton, and so that's having a, a that's having some challenges on the on the on the pricing side of it. I, I think over the course of the year, you, you know, we've given volume guidance of five to seven percent. We've broken it down, the two points are going to come from our budget SoCal acquisition, we'll get another point from Payless. And so, the primary brands in, in Avis and Budget, domestically are, are going to be about 4%. And that sorta coincides with a multiplier on GDP. If you take GDP. And we usually put a 2x multiplier on it. You know, 4% to 5% in the primary business, is about what we think we're gonna drive this year.

QUESTION: Question: Okay. Great. Yes.

ANSWER: Answer: By supplier, you're referring to fleet? I mean really your fleet auto track with your, your forecast of rental base so if, if we're forecasting lets put Pay Less and SoCal aside, if we're forecasting at 4%, you ought to see our fleet at 4%. And I think generally that should be, how the in I think that's probably, how the industry forecasts. Demand I mean you put a forecast out there. You look at GDP, you look at the multiplier unemployments. You look at any sort of acquisition issues and then, you know, adjust it for your market share, and and you buy your fleet based upon what that forecast drives, so. It's, it's, it's really more a function of where you think the demand is going. Supply, supply, auto track, demand. If our, if our volumes at 4%, our fleet should be at 4%. Utilization is a really hard metric to move.

QUESTION: Question:

ANSWER: Answer: It, it, utilization's a really hard to metric to move. That, that's the, the efficiency metric that you're, you're looking at. I mean we, we. Target 74, 75% utilization. Our other competitors measure it differently, so you're gonna see a higher number reported out of them. But its, its just a difference of the calcul, or the, the equation and, and not, not any, any

significant change in, in real utilization. But I, I and, and utilization's variable, you know, utilization is softer in the fourth and first quarter. And it's start and it peak and it tracks from Easter you know, through the end of end of the summer period. Sort of tracks the demand flows of the commercial business, and the leisure business.

QUESTION: Question: On the topic of of supply obviously last summer, was a bit of a disappointment in, in Europe given the over supplied nature of the market. What are your expectations for, for Europe this year, or your international business kinda what do you think the current state of the, the, the fleet environment is in North American and internationally?

ANSWER: Answer: Well, I think Europe got effected two ways last year. One was I think the World Cup put a real downer on on intra, Inter-European Travel. The World Cup wasn't over until the end of July, and, and, you know, we look back every four years when the World Cup. Happens and we should have seen this but, but it does have an effect on, on demand going into the, the vacation territories. I think the other thing that happened last year was that, we did extraordinarily well in summer of 2013. We got both price, and we got volume. And I think our competitors saw that and fledged up, and decided that they would come after it. So, the combination of the World Cup and, and competitor actions I think sort of kept a, kept cap on, on summer. We actually did very well but on a, on a relative basis not as well as we did in 2013. I mean, the, the way we deal with, with fleet commitments are a little different in, in Europe, we buy about 65, we make 65% of our fleet commitments in January. And then we track the pricing and demand curve going into the summer season, in April particularly after Easter. Easter's a pretty good sense of where the summer's gonna come out. And we make the remaining 35% of our fleet commitments right after Easter, when we have a better sense of where, we think the peak is gonna come out. And how, how strong the pricing's gonna be over the summer so. It's a little early to say Kevin, you know, where this summer's gonna come out you know, I, I, I'm guessing that given the weak Euro that in bound travel into Italy, and France, and Spain is going to be stronger likely offsetting any short falls we might have. In bound travel and to into the U.S. and I think our majority acquisition will certainly add incrementally to the to the pot at least for us.

QUESTION: Question: In the, and so on that topic how, how does the majority brand kinda fit into the the overall either budget strategy or Avis strategy in Europe, and maybe kinda walk through the. The rationale for the deal, and kinda of what gets you excited about the transaction?

ANSWER: Answer: Yeah, well there are a lot of things to be excited about on majority. I'm and one certainly is the fourth largest car rental company in, in, in Italy and, and our budget grant was not, not particularly big within Italy. We're gonna co-grant. Majority budget, that'll be majority budget, or budget majority and, you know, we'll follow the progress to see whether the budget brand actually gets more traction because of it. But we think from a booking perspective it'll now

make budget grand the 4th largest brand in, in Italy, so that's one. Two whenever you do these kinds of, of in country acquisitions there's a fair amount of synergies. They take a little bit longer to get in Italy because of unions and social plans, and things like that. But we think over time we're gonna develop an EBIT, which will translate into an acquisition multiple somewhere South of six times earnings. And, and finally the, the incremental margins over the summer peak in Italy are far higher than they are in anywhere else in, in, in Europe and so. Getting our hands on incremental volume in, in Europe is, is disproportionately advantageous to the acquisition just because of the, the high volume. So it then you, you know, Italy is really all about managing the shoulder periods. And the shoulder periods are really all about the domestic economy. So that's gonna be the art in all this, to get the best return out of it.

QUESTION: Question: And in terms of the, the revenue and EBIT and tax. That was not included in your guidance.

ANSWER: Answer: Sure. Well it was not in, it was not in the guidance.

QUESTION: Question: Okay.

ANSWER: Answer: We gave for 2015, that's correct. But, you know, I would say it's gonna be a couple, a couple three years before we hit the EBIT number that we put in the press release for majirior it just does take that long to integrate acquisitions in, in Europe and to do them right, it takes that long.

QUESTION: Question: Okay, that's great. Thinking about just acquisition. So, obviously free cash flow. Big part of the, the, the Avis budget story. If, if you could kinda walk us through, you know, what your principal uses of that free cash are. You know, are there. You know, over the last year you've done a lot of. Purchase you purchase a lot of the licensee brand locations that you have.

ANSWER: Answer: Mm-hm.

QUESTION: Question: You know, what's the pipeline look on that front, are there other brands that you're, you're interested in. Kinda tuck in opportunities what, you know, what you see the from a transaction?

ANSWER: Answer: You know, I think our capital allocation policy this year is pretty much the same as last year, it's stuck in acquisitions and share repurchase. What David Wisner, our CFO said on the call, was that he thought that about half of our free cash flow would go to acquisitions and half would go to share repurchase. I'll probably have to amend that in that we're we're already about half of our projected free cash flow with the Scandinavia acquisition and the majority acquisition. The pipeline is, is definitely got candidates in it. They all tend to be of the

Tuckian or Independent flavor, where there's a fair amount of synergies. You know, these things are always opportunistic. You never know whether you're gonna be able to close them or not but to the extent that we do no more acquisitions this year, which hopefully is unlikely we're gonna use the free cash flow to buy back, buy back shares. We, we continue to believe in the earnings growth of our company over time. So we think buying at this price, it makes a lot of sense. And we're happy with what our debt, debt level is. You know, we're at 3.2 into, into the year. It'll go down by virtue of the numerator going up, not by virtue of the denominator getting smaller. And so no. I, I, I, I think those are the two principle uses.

QUESTION: Question: And from a, from a target leverage standpoint, is there any real reason that you're more focused on lowering the range of the higher end just given, you know, the more positive feel in the economy?

ANSWER: Answer: Yeah, I, I think its just a level of comfort. We like our debt ratings where they are and, and y-, you know I, I think some of it has to do with how you get to the upper end. If we get to the upper end because we've acquired a company, and you know, we're gonna need a year or two to work down the synergies, I think the, the rating agencies understand that and, and they will look through the increase in debt capacity. If you do it because of share re-purchase. Then I think they have a different shading on it. And so I, so I think that, the, the, the you know, where we're in the three to three and a half range, I think it just feels better and it gives us the incremental debt capacity to, to move on acquisitions and, and you know, not, not effect our debt rating. I, I, I think we're it's, it's important that we keep our debt ratings where we're at, when we, clearly have to finance our fleet with AAA paper and, and we like our corporate family rating where it's at now, and I think a downgrade would be, might, a challenge so, those are the considerations.

QUESTION: Question: Kinda switching gears. Looking at, at fleet costs, obviously that's one of the, the key cost pressures as we, as we go through the, the next couple of years. Give us your, your, your, your current views on, on residuals, where you see them going, you know, what, you know, Avis is doing to, to offset those, those challenges outside of just price increases.

ANSWER: Answer: Yeah. So you know I think the irony on, on, on residual values is that the pattern that they've been following over the last five or six months isn't the typical trending pattern that it always follows. Residual values drop in September and October, they level off in November and December. And they start to climb back up in January, February, March, and April. And that is the pattern that we're seeing. Now, I do think the drop was more precipitous in, in September and October than we expected. I actually think it was more due to the impact of recalls last year than it, than it was to anything else. But I do think that anybody that went into 2015 thinking residual values weren't gonna decline was kidding themselves. It is a volume-driven market. And volumes

are clearly based on the SAR and off lease vehicles and, and things of, of that nature. What we've seen is I think we said on the call through January and, and mid February residual values have held pretty constant at 75, 76% of cab cost. They've actually picked up a little, in the last two weeks. I don't, I don't know whether its a mix issue, you know, what we sold and what we didn't sell. But, the, they're, they're, they're affirming, and they're staying you know, right into the value where I think we in, in the residual value estimate that is driven fleet costs guidance that we gave, we gave the Street last week.

QUESTION: Question: And in terms of your, your negotiations for model year 15 cars. You know, where did, where did those end up in-.

ANSWER: Answer: Yeah you know obviously we're done with model year 15 we're starting model year 16, right, actually this month. You, you know, acquisition cost came out, by and large, roughly equal to last year. We didn't see any appreciable gain in acquisition costs despite the fact that we changed our risk program mix pretty significantly, we're moved from 65% risk last year to 50% risk this year. So I, you know I think when you look at our guidance of, of two to 5% a lot of it is driven by, by, by residual value declined on a, on a year over year basis. So it's you know, I think there the modest uptick that I think in acquisition cost but that we would talk about would be more because of mix than anything else. We continue to increase the richness of the mix within our within our fleet because A, there's consumer demand and B, it drives higher revenue.

QUESTION: Question: One of the, the questions that I get all the time is, is you know, how, you know, Uber and, and kind of that model impacts car rental or Zipcar maybe just give us your, your kind of view of, of if, it does impact it, you know, if it does not kind of what the, the different use cases are.

ANSWER: Answer: Yeah.

QUESTION: Question: For, for, for your model versus.

ANSWER: Answer: And, and, and, and that's exactly the way you, you, we analyze it, at least, is on a use base basis when you look at the average car rental customer, our average customer keeps a car for 3.7 days and they drive over 100 miles a day. That's not a use case that, that would work well in an, in an Uber environment with, with labor costs. On the Zipcar front, our average Zipcar customer keeps a car for, drives a car for six hours. Still not a customer, still not a use case that that lends itself to an Uber. Our, our largest investor has asked us a few times to look at markets where Uber has been very has gotten a lot of traction, is doing very well. And, and while I wouldn't take the results of the analysis as conclusive, or determinative. The, the few markets that we looked at actually are doing far better than, than the other markets are. I don't know whether it has to do with Uber, you know, driving more of a sharing economy and people

are renting more cars or whether it just has to do with the health and vitality of the market, I tend to think the latter. But the, but the bottom line on Uber and Uber-like services to me is the use cases don't overlap. And, and, even on one day rentals, which is the other issue that people bring up about 7% of our rentals are one day rentals. They're not terribly profitable, in, if we did lose them. But people have always had the option to do something different on a one day rental. There's always been taxis or car service and, and if they're only travelling short miles, they've already made, the decision to either rent a car or, or take another form of transportation. So. You know, I think if there's any friction on the one day rentals, it's, it's modest. You know, it's, it's, you're not gonna lose 7% of your volume. You know, if we lost a point, I'd be surprised, and if we did, I wouldn't care, because we don't make any money one day rental.

QUESTION: Question: So, that's good. That's good. Good comment. On, on, on the owner's call more recently, more of a global cost reduction program kind of give us an, an overview of what that is what, what, you know, the potential benefit of that, of that program is and kind of how we should view the roll out?

ANSWER: Answer: Sure. So as, you know, over the last three years we've been fairly aggressive about globalizing our business. We're now at 175 countries. 10,000 locations and say for the restricted countries and maybe one or two others there's no place where we don't have a presence. We do basically the same thing in every market that we participate in. We have the same processes. We use the same reservation system, the same booking system. But when you look at it, what we have assembled through the course of acquisition is something like five different call centers, three different shared service centers three financial reporting centers. And, you know, I, the numbers are something like we have 3,000 people doing back office work. Very little of which has anything to do with the customer. It's all about processing paper and, and totaling up the numbers. So what what, what we're going through we're calling a T15. We're through a process of globalizing our shared services infrastructure. The target that I've given the guys for this year is a run rate of 50 to 70 million cost take out by the end of the year we've included about 25 to 30 million in year savings for that. And I, and I think that by the end of the project, you know, the run rate of cost take out will be 80, 80 to \$100 million. It, it, it just is yu, yu, you know, as you, as you become more and more globalized, you need to look at these things to drive the efficiency in your, in your operation, you know. You don't really need multiple centers to do exactly the same thing.

QUESTION: Question: Okay, that's good. Going back to in terms of a dividend, and when, you know, at what point in your corporate life cycle do you consider a dividend, and is it-

ANSWER: Answer: Well I mean the honest answer is that, you know, I hope we have enough uses for our free cash flow in terms of opportunistic salary purchases and tucking acquisitions,

and payroll multiples with that you don't need to consider a dividend. I I I'm, look I, you know dividends are considered very differently by the rating agencies. They're very much a fixed cost I I think the street would tell you if you're not going to pay a 2% dividend, then don't. Don't, don't bother, because you're not gonna get any sort of traction from it. And, you, you know, I, I feel pretty good that you know, for, for a number of years to come we're gonna have an acquisition pipeline and share re-purchase opportunities that are gonna consume our per free cash flow. So I, I, I wouldn't, I wouldn't think about a dividend certainly not in the near and, it's, it's questionable in the intermediate term and you know, I had an investor yesterday walk me through it. It was very much, you know, on board with share repurchases, a dividend was not necessary, because look anybody that wants a dividend can manufacture. A dividend out of their portfolio holdings. I mean, you know, they can, they can either sell some stock and, and, and garner the same amount of income that they'd get from the dividend, and allow you to use the cash to buy back stock and they maintain their same ownership and they've gotten the dividend. That made a lot of sense to me. Taxes might have something to do with it but. But I just thought it was an interesting take on, on on investor view that, you know, he didn't think dividends were particularly necessary.

QUESTION: Question: Any, any questions from the crowd here?

SPEAKER 1: Speaker 1: Okay. All right. I think we're, we're good. Thank you very much.

SPEAKER 2: Speaker 2: All right.

SPEAKER 1: Speaker 1: Appreciate your time.

SPEAKER 2: Speaker 2: Thank you Kevin. Thanks to all of you.



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