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David B. Wyshner – Chief Financial Officer & Senior Executive Vice President

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Avis Budget Group Third Quarter Earnings Conference Call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the meeting over to Mr. Neal Goldner, Vice President of Investor Relations. Please go ahead, sir.

Neal H. Goldner, Vice President-Investor Relations

Thank you, Tanya. Good morning, everyone, and thank you for joining us. On the call with me are Ron Nelson, our Chairman and Chief Executive Officer, and David Wyshner, our Senior Executive Vice President and Chief Financial Officer.

Before we discuss our results for the third quarter, I would like to remind everyone that the company will be making statements about the future results and expectations, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Such statements are based on current expectations and the current economic environment and are inherently subject to economic, competitive and other uncertainties and contingencies beyond the control of management.

You should be cautioned that these statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements. Important assumptions and other important factors that could cause actual results to differ materially and those in the forward-looking statements are specified in our earnings release which was issued last night, our Form 10-K, our most recent Form 10-Q and other SEC filings.

If you did not receive a copy of our press release, it is available on our website at ir.avisbudgetgroup.com. We've also provided slides to accompany this morning's conference call, which can be accessed on our website as well. Also, certain non-GAAP financial measures will be discussed on this call and these measures are reconciled to the GAAP numbers in our press release.

Now I'd like to turn the call over to Avis Budget Group's Chairman and Chief Executive Officer, Ron Nelson.

Ronald L. Nelson, Chairman, President, CEO & COO

Thanks, Neal. Good morning and thanks to all of you for joining us. As you no doubt read in our release, we had record third quarter results. And while there are many elements of that performance that we will touch on this morning, the three headlines that summarize my view of the quarter are: one, the acquisition of Avis Europe is making a substantial and meaningful contribution on a strategic, economic and operating basis; two, the important initiatives that have been guiding our efforts over the past year are paying meaningful dividends; and three, as fleet costs begin to normalize, pricing becomes key in our outlook for the future.

Fundamentally, all of our businesses did well during the quarter despite the uneven economic environment, especially in Europe. But other than a continuing benefit from fleet costs in North America, none of them had what we would call record-setting performance in the two most important metrics: price and volume. The encouraging part of this is what it suggests for performance in better economic circumstances. The reassuring part is what we've achieved in less than optimal circumstances. It's hard to characterize the third quarter performance as anything other than solid.

We successfully managed the summer peak in what was a period of modest economic growth in North America and challenged economic growth elsewhere. We had record earnings and reported our highest quarterly adjusted EBITDA margin in our history of 17%. We made progress on many of our strategic initiatives, including meaningful enhancements to the customer experience we offer.

We continued to successfully integrate the operations of Avis Europe. We signed a small, but noteworthy tuck-in acquisition in Australia and New Zealand. And we generated significant free cash flow and continue to strengthen our balance sheet. I believe these accomplishments and the $825 million of adjusted EBITDA we've generated over the last 12 months serve as a testament to how we positioned our company for even greater success and better economic times.

Clearly, those are the positives, owing primarily to the strategic decisions we've made over the last two years. Nonetheless, there were and are challenges in the operating environment, including the European economy, which has impacted both demand and vehicle residual values; pricing, which is modestly tougher than we had expected; and continued normalizing of residual values in North America, which isn't a surprise, but did mean that with the depreciation adjustments we took earlier in the year, car sales gains weren't available to mitigate any issues in the third quarter.

So at the risk of jumping straight to the punch line, these three factors are the reason we have narrowed our projected adjusted EBITDA to the lower end of the range that we initially provided in May. At the same time, I would be remiss, if I didn't also point out that this is likely to be our most profitable year ever.

So, let me talk in more detail about the trends we've seen. In Europe, we had positive volume growth driven by strong leisure demand spurred by the expansion of Budget. On the other hand, corporate demand continued to be soft and is probably more reflective of the economic challenges. In total, leisure volumes increased nearly 25% while corporate rental days declined 6%. Volume was particularly strong in Spain and Italy, driven by in-bound leisure travelers, which tend to be among our most profitable customers. Budget's rental days more than tripled in the third quarter while Avis leisure volume was up nearly 10%.

We pointed out in prior calls that Budget's anemic 2% share in Europe represents a tremendous opportunity to grow its presence there. The initial target for the EMEA team is to get Budget to a 5% market share, which is still half of what it is in the U.S. and even less than half of what it is in neighboring international territories. Third quarter results would suggest the target is reasonable, as Budget accounted for nearly 13% of our European volume in the quarter versus only 5% a year ago. As a reminder, each share point equals roughly $100 million of revenues and the opportunity here can be quite large.

Our EMEA licensees are also doing well. To be sure, there are a few pockets of softness, most notably, Greece, but overall, licensee royalties held steady in constant currency in the third quarter, with our larger markets; South Africa, Saudi Arabia and Turkey continuing to do well. The stability provided by this earnings stream continues to be an important element of our European profit stream.

With the peak summer leisure period now behind us, our results in Europe over the next two quarters will largely [ph] hang (6:14) on corporate demand, which has been tepid all year. In the near term, we are not anticipating that trend will improve, but as a reminder, these are also on the seasonally slowest quarters. So disciplined expense control can have a mitigating impact.

In addition, vehicle residual values are soft, particularly in Southern Europe. We are in the fortunate situation of having a fleet that is more than 75% program, which substantially minimizes our exposure, but it does not completely eliminate it. That said we do feel we have adequately provided for this contingency in our guidance.

While we can't control economic conditions in Europe, there are issues we can control and we're executing well in these areas. We continue to find that commercial accounts and marketing partners are enthusiastic about our ability to offer integrated, multi-brand, global solutions, which has resulted in new contract wins as well as expanded relationships with existing customers. We're also continuing to expand Budget. We expect the combination of new agreements and Budget growth will result in rental volume growth that outpaces the overall market.

Further, our integration activities continue to go well and we now expect to achieve $40 million in annual synergies on a run rate basis by the end of the year. As a result, these efforts are helping mitigate the effect of macro issues that are beyond our control and our work is creating a solid foundation for sustainable profit growth longer term.

Volume in our Latin America, Asia-Pacific region increased 2% in the third quarter and our operations there continue to perform well. We enhanced our position in Asia during the third quarter with the opening of Budget operations in Singapore and Avis became the first international car rental company to operate in Taiwan. In addition, our joint venture in China opened its 80th location solidifying Avis' position as the leading international car rental brand in the country.

Importantly, we announced the acquisition of Apex Car Rentals during the quarter. Apex has grown rapidly and profitably over the last decade to become the leader in New Zealand's expanding deep value car rental segment. Apex currently has a fleet of over 4,000 cars and under our ownership, we expect that it will continue to grow in New Zealand and will provide significant incremental growth opportunities in Australia, where Apex currently only operates at one airport.

In North America, our strategic initiatives to accelerate growth in the most attractive segments of the market continue to delivery results. Specifically, our small business volume increased 9% in the quarter, including nearly 25% growth at Budget. International inbound volume increased 7%, including 20% growth with Budget. We sold approximately 40% of our risk vehicles through alternative channels in the quarter as we continue to pursue opportunities to optimize our use of lower cost disposition channels.

And we grew the number of co-branded off-airport stores to almost 600, an increase of more than 25% since the beginning of the year. Combined Avis Budget locations now represent over half of our local market footprint. This helped our local market volume grow 7% in the quarter, excluding insurance replacement with an average price per day of $39; excluding replacement business, our strategy to grow local market volume profitably is clearly working.

And while the impact of advertising is always difficult to measure, if you consider that Avis has had its strongest leisure performance in many years, we have to assume that the consumer advertising we are doing is achieving its desired goal. Other initiatives also continued to progress nicely. We extended our successful partnership with Southwest Airlines. We expanded Ultimate Test Drive, our direct-to-consumer car sales initiative with AutoNation, adding Texas to the list of states where retail consumers can buy one of our cars directly from our rental fleet, often when the vehicle is still on rent. While still early days, initial indications suggest that this program could help us lower fleet costs over time, while all without us investing in either the bricks-and-mortar or logistical infrastructure typically involved with direct-to-consumer sales.

And feedback regarding the Avis Preferred Select & Go, the vehicle choice program we recently introduced has been incredibly positive. We'll be nearly doubling the availability of this service by the end of the year. This initiative has two very real benefits. First, giving the customer a choice almost guarantees greater satisfaction, and our early results actually support that contention. Second, most of our Preferred customers bypass the counter, which has generally eliminated the opportunity for vehicle up-sell, but all of the Select & Go locations now have an upgrade line, where the customer can choose a premium or luxury vehicle at an incremental cost without having to talk to one of our agents. This and other customer experience projects for more transparent rental documents to improved car cleanliness is really having an impact in our customer satisfaction scores, which have risen sharply in each of the last three months.

Looking forward, we expect trends in North America in the fourth quarter to be consistent with what we've seen all year with volume growth driven primarily by leisure demand and incremental benefits from our clear line of sight strategic initiatives. We don't see much change in pricing trends and our per-unit fleet cost should be down a few points. As we mentioned in August, the fourth quarter does have some calendar risk due to the Presidential election and an early Thanksgiving, so we'll have to see how that plays out.

The impact of Hurricane Sandy is hard to quantify at this moment. Aside from physical damage, we saw weak volumes all up and down the Eastern seaboard early in the week. But we are already seeing strong FEMA and Red Cross demand, as well as robust one-way and replacement business in the affected areas. It's too early to know if the two will completely offset, but history would suggest it likely will.

In our International segment, we expect Budget to continue to show strong growth in Europe. We'll continue to benefit from new and renewed corporate accounts we signed this year and the recent acquisition of Apex in New Zealand will add incrementally to results. Unfortunately, we do think the soft economic environment in Europe will remain a headwind. We are also in the midst of our detailed 2013 planning and I want to share just a few preliminary thoughts about next year.

In North America, we expect the economy will muddle along at about the same 2% growth we are tracking to this year, resulting in demand trends that look a lot like 2012. We expect to continue to supplement market demand with greater than average growth in small business and international inbound channels grows with other strategic initiatives we've been pursuing. And while contracted corporate pricing will be down year-over-year reflecting agreements that have been signed this year and last, you should expect us to aggressively pursue pricing everywhere we can, including our corporate contract renewal discussions. I'll come back to this topic in a minute.

In Europe, while we're currently not planning for much improvement in corporate travel demand for at least the first half of next year, our rental volumes should continue to benefit from the rapid growth of the Budget brand, while our Latin America, Asia Pacific region will benefit from the recent Apex acquisition. Adjusted EBITDA on our International segment will have a $15 million to $20 million profit boost from having our Phase 1 synergies in place for the full year versus providing only a part year benefit in 2012. We also expect to realize some benefits next year for the next phase of our integration work. We expect North America fleet cost to increase next year and I've asked David to talk a bit about our 2013 fleet, which he'll do in a few minutes.

Vehicle and corporate interest expense should decline due to the refinancings we completed this year and our debt repurchases. And finally, our fully diluted share count, which was 118 million in the third quarter, will benefit from the $215 million of convertible debt repurchases that we've completed in 2012.

Before I turn the call over to David, I want to make a few comments on pricing. As you've heard us say, gains in pricing have historically occurred during periods of cost push, particularly fleet costs. So given that the used car market appears to have peaked earlier this year, we believe fleet costs will rise meaningfully and you should expect us to go after pricing at every opportunity to try and offset rising costs. Our brands provide not only convenience but great value to commercial and leisure travelers and we are confident that equation will persist even if our prices are $1 or $2 higher per day.

We've heard comments from some in the analyst community that the industry needs more pricing discipline. While I'm not going to comment on others' pricing practices, I do want to highlight that our pricing has actually increased about a point since 2008 and if we add in ancillaries, which are not included in our time and mileage per day figure, our realized price would be up several hundred basis points.

But even with all that, we're not satisfied where our pricing is in many markets and we're determined to do what we can to improve it. We truly believe that despite intense competition, there's room to do so. In fact, we implemented a price increase in September effective October 1. We implemented a price increase in October effective November 9 and on this past Monday, we implemented a price increase, which is effective for travel beginning in early December. In any case, we're doing what we can to allow the increases in our sticker prices to positively impact our realized rate.

Of course, the real question is the sustainability and the percentage of rentals impacted by these increases. That ultimately impacts our results. But we are nevertheless determined to seek price across our entire book of business in corporate and leisure to maintain our returns on invested capital at competitive rates and grow our share price. With pricing having almost three times the impact on profitability than fleet costs do, it doesn't take much pricing to offset rising costs.

With that, let me turn the call over to David.

David B. Wyshner, Chief Financial Officer & Senior Executive Vice President

Thanks, Ron, and good morning, everyone. Today, I'd like to discuss our third quarter results, our fleet, our balance sheet and our outlook. My comments will focus on our results, excluding certain items. As Neal mentioned, these results are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

This quarter, certain items include $128 million non-cash income tax benefit resulting from the favorable resolution of an old tax issue. We exclude this benefit when we talk about our third quarter results and our full year expectations.

In the third quarter, revenue increased nearly 35% to $2.2 billion, primarily due to the acquisition of Avis Europe. Adjusted EBITDA increased at a similar rate to $377 million, the best single quarter in our history. Excluding the acquisition, revenue was up 1% and adjusted EBITDA increased 1% to $275 million.

We continue to control our costs carefully. Direct operating costs declined 40 basis points as a percentage of revenue, both including and excluding the acquisition. SG&A expense declined 50 basis points as a percentage of revenue. Again, revenue includes or excludes the acquisition.

Over the last 12 months, we generated $825 million of adjusted EBITDA excluding items. Our margin is over 11% and our diluted earnings per share are $2.32. For analysts who calculate EBITDA before financing fees and stock-based compensation, our LTM adjusted EBITDA would be $44 million higher, or $869 million.

In the third quarter, our North America revenue increased 2%, reflecting 4% growth in volume and 7% growth in high margin ancillary revenues, partially offset by a 3% decline in pricing. Leisure volume increased 6% in the quarter, a significant achievement on top of last year's 11% third quarter growth and leisure pricing declined 4%. Commercial volume increased 2% in the quarter and pricing declined 2 points. Growth in small business rentals helped offset declines in insurance replacement business as we continue to focus our energies on growing in our most profitable segments.

North America adjusted EBITDA increased 7% year-over-year to $232 million, and margins expanded 90 basis points despite lower pricing and a 3% increase in per-unit fleet costs. Results benefited from volume growth, higher ancillary revenues per rental day, lower operating cost and lower vehicle interest expense.

In our International segment, revenue increased more than 300% in the third quarter, primarily due to the acquisition of Avis Europe. Excluding the acquisition, revenue increased 4% in constant currency due to 2% growth in volume, partially offset by a 1% decline in pricing.

In Europe, revenue increased 5% on a pro forma basis, excluding currency effects. The 9% increase in rental volumes was partially offset by a 6% decline in pricing. Both variances reflect the strong growth of the Budget brand.

Currency movements' negatively impacted reported revenue by 11 percentage points as the euro averaged approximately $1.25 in the third quarter versus more than $1.40 in last year's third quarter.

Before the summer, we took aggressive action across our European business to mitigate economic challenges in the region. We put a strong focus on ancillary sales to maximize the opportunity available during the summer peak. We adjusted pricing for ancillary products and fuel. We curtailed discretionary spending and we adjusted our fleet mix to better match demand and create up-sell opportunities. These actions made a difference in our third quarter results, including helping us achieve nearly 15% growth in ancillary revenues.

International adjusted EBITDA more than tripled year-over-year, primarily due to the inclusion of Avis Europe. Excluding the acquisition, adjusted EBITDA decreased 8% to $34 million, but was up slightly in constant currency. On a pro forma basis, EBITDA declined $21 million, but only declined $8 million in constant currency, consistent with our August projection.

The integration of Avis Europe continues to proceed well. In the quarter, we relocated more than 200 positions to our shared service center in Budapest. We launched a project to centralize and grow telesales to small and mid-sized businesses from our Barcelona call center. And we ramped up our performance excellence initiative in Europe, executing profits improvement projects that will produce some $10 million in annual benefits.

As Ron mentioned, we now expect to reach a run rate of $40 million annual synergy from Phase I of the Avis Europe integration by the end of the year. We've also laid the groundwork to begin deriving benefits from Phase II of the integration, including incremental ancillary sales growth and process improvements, further expansion of the Budget brand and additional cost savings. Our target is for synergies from this second phase of integration to add an incremental $55 million to $75 million in annual profit by the end of 2015.

Revenue in our Truck Rental segment declined 3% as a two-point increase in pricing was offset by a five-point decline in rental volumes. Adjusted EBITDA declined $8 million primarily due to lower revenue and higher maintenance costs incurred to increase the average number of trucks available for rent.

We're facing a tough competitive environment in Truck Rental, some softness in commercial and consumer demand and the need to increase our maintenance costs a bit to manage our truck fleet that's slightly older on average than it was a year or two ago. In response, we will be repositioning our Truck Rental business to right-size it for the demand we anticipate. In conjunction with this initiative, we expect to incur approximately $20 million of incremental restructuring and other expenses between now and summer of 2013.

Shifting gears, we continue to have a well-diversified car rental fleet with no manufacturer representing more than 30% of our cars in North America and no manufacturer representing more than 20% of our fleet in Europe. Our model year 2013 fleet negotiations in North America have been relatively uneventful, marked by OEM discipline on production quantities, low-to-mid single digit increases and the purchase prices for risk cars and low-single digit increases in program vehicle depreciation costs.

Our largest suppliers in North America should again be Ford, GM, Chrysler, Kia, Nissan and Toyota, plus Volkswagen in 2013. We're adding more BMWs, Cadillac Escalades, Camaro Convertibles, Ford Expeditions, Lincoln MKSs and Volvos to our fleet. These carry some incremental costs, but also create additional up-sell opportunities. The risk component of our fleet is expected to increase approximately three to five points next year to around 65%, which should offset some of the inflation in our program car costs.

While the volume of vehicle is coming off-lease in the United States will be higher in 2013 than it was this year, it will remain around 25% below pre-recession levels, which we believe is helpful to residual values in the used car market. In addition, retail incentives remain well below pre-recession levels. And our own efforts to diversify our fleet sales into online, direct-to-dealer and direct-to-consumer channels, should also help us optimize residual values.

With that being said, you may recall that we had expected the strong used car market in 2011 following the tsunami in Japan to produce $120 million to $140 million fleet cost increase in 2012. That headwind obviously did not materialize in 2012, as stronger than expected residual values in the first half of the year were reflected in our car sales gains and depreciation adjustments, but we still feel that $120 million to $140 million is the order of magnitude of adjustment that will eventually be required.

We feel that this view is supported by the Manheim Index. While the broad Manheim Index is an imperfect proxy for our subset of used car sales, particularly in a given month or quarter, the fact is the Manheim Index is currently about 3 percentage points below its year-to-date average. In addition, we believe the residual values of newer used cars generally move a bit more than the Index overall.

So, let me walk you through the math. On a $15,000 used car, the three-point movement in the market translates into around a $450 to $600 change in value. Given that we hold a risk vehicle for 14 to 17 months on average, we see the potential for a $30 to $40 per month market headwind on the risk car component of our fleet next year. This equates into about a $20 to $25 per month market headwind on our overall fleet. Therefore, as a result of all the factors I've discussed, I would be very surprised if our North America fleet costs didn't increase by at least $100 million next year, which as Ron discussed is why we're so adamant about doing all we can to improve our pricing.

I expect that we'll have a more refined sense of fleet costs and much more to say about 2013 in general in February. Performance Excellence, our process improvement and productivity enhancement initiative continues to deliver substantial benefits. We're reducing the repair costs and out-of-service time for vehicles that have sustained body damage. We're making the customer service agents in our contact centers more efficient and more effective, and we're being innovative in applying proven car rental best practices to lower our truck rental operating costs.

We expect PEx to generate $50 million in incremental benefits in 2012 compared to 2011. Importantly, the process that we have developed to identify new projects should keep our pipeline of opportunities full for many years helping to offset inflationary pressures in our operating costs. As I mentioned, I'm also enthusiastic about the impact Performance Excellence is beginning to have on our European operations. To-date, our PEx team there has initiated 90 projects, including optimizing cross-border shuttling costs, reducing shipping costs for vehicles being sold, reducing IT hardware costs at our rental locations.

Turning to the balance sheet, our liquidity position remains strong with more than $2 billion of available liquidity worldwide. We ended the quarter with over $550 million of cash, no borrowings under our $1.4 billion corporate revolver and roughly $280 million of availability under that facility. We had unused capacity under various vehicle-backed funding programs of $1.8 billion. We've also achieved our goal of retiring more than $300 million of corporate debt this year. Specifically, we used available corporate cash in the third quarter to retire $50 million of our 7.75% notes due 2016. We retired approximately $40 million of term loan debt in October, while extending $200 million of term loan maturities to 2019 and reducing annual interest costs on that debt by 200 basis points.

We used available cash to repurchase and retire more than $215 million of our outstanding convertible debt this year, including approximately $15 million in October. In the process, we've reduced the potential equity dilution related to the converts by 13 million shares, or more than 10% of our diluted share count. Along the way, we have significantly reduced our leverage. Our ratio of net corporate debt to LTM adjusted EBITDA at the end of September was 2.9 times.

Our access to the asset-backed debt market remains excellent. In October, we renewed our $2 billion domestic conduit facility through October 2014. In conjunction with the renewal, we reduced the interest rate and increased the advance rate for the facility, which should save us roughly $4 million in interests next year. In the near-term, we will continue to consider using free cash flow for corporate debt reduction as well as for tuck-in acquisitions of licensees and other businesses, and we see a good strategic and geographic fit, and the potential for an attractive return on capital. A recent example of this is our acquisition of Apex.

I'd like to spend a few minutes on our outlook before moving to Q&A. As we announced last night, we expect revenues to be approximately $7.3 billion this year, an increase of 24% versus 2011. We revised our 2012 adjusted EBITDA estimate to $825 million to $840 million excluding items, an increase of 35% to 38% or 6% to 8% on a pro forma basis. Per-unit fleet costs in North America are projected to decline 6% to 8% in 2012 compared to 2011. We estimate that our full year corporate interest expense will be approximately $265 million. We now estimate that our 2012 pre-tax income will be $450 million to $465 million excluding items.

We expect our effective tax rate in 2012 will be 36% to 38% and our diluted share count will be approximately 121 million. Based on these expectations, we estimate that our 2012 diluted earnings per share excluding certain items will be approximately $2.35 to $2.45, a year-over-year increase of about 45%. We expect our capital expenditures to be around $125 million in 2012, our cash taxes are expected to be $60 million to $65 million this year, and our free cash flow should be at least $375 million.

So to wrap things up, we're on pace to report record revenues, adjusted EBITDA and earnings per share this year despite some economic headwinds. Our operations around the world to taking advantage of profitable growth opportunities, we're controlling costs and our strategic initiatives are not only helping us produce solid results this year, but also positioning us for future success.

With that, Ron and I would be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we are ready for the question-and-answer session. [Operator Instructions] Our first question comes from Brian Arthur Johnson with Barclays. You may ask your question.

<Q – Brian Johnson – Barclays Capital, Inc.>: Hi. Just a couple of strategic questions and a quick housekeeping question at the end. In Europe, in the last quarter, you talked about some of the smaller competitors potentially exiting the market due to the depressed macro there and therefore just benefiting the larger players. Have you seen any of that play out yet?

<A – Ron Nelson – Avis Budget Group, Inc.>: I don't know that we've seen a lot of it, Brian, none that I could concretely point to and say that it's happening. But, when you look at what's going on, particularly in Spain, the banking industry is the worst there of anywhere in Spain and the likelihood that these small competitors are going to get refinancing or get the same amount of refinancing I think is going to be small, so I think you just extrapolate.

I think a lot of what's happening is the fleet that they have, they're running out on a very, on a much longer string, so they're just hanging onto it and progressively running it at lower rates because it's got 60,000, 70,000, 80,000 kilometers on it. But I do think that over the course of the next year, we'll start to see a fair amount of fallout. We took a lot of volume out of Spain. If you look at our Spanish volume and Budget, we were up I think almost 300% or 400% and that came from somewhere, because I don't think that the market was up that substantially in general. So – and it didn't come from Avis and I don't believe it came from Hertz or Europcar, so I do think we're going to see this happen, but I can't...

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay. So it's kind of when their financing lines run out?

<A – Ron Nelson – Avis Budget Group, Inc.>: Yeah.

<Q – Brian Johnson – Barclays Capital, Inc.>: And just to kind of recap what you were saying about 2013, I got the $100 million. The fleet cost per vehicle range you were talking about was what?

<A – David Wyshner – Avis Budget Group, Inc.>: Brian, we haven't gone out with a specific number, but $100 million would work out to be somewhere in the 12% range.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay. Then my question is – goes back to the strategic is, so obviously as both you and your major competitor pointed out, price increases are desirable to offset that, yet one of your major competitors already very heavy into direct-to-consumer after-market remarketing. Another one claims to offset fleets cost by ramping it up. You of course have your AutoNation deal. How do you see that dynamic playing it out and could you see one of those two other players saying, well, okay, I can sell more direct to the consumer. That will offset some of the increase in the auction, or decrease in the auction prices. Therefore, I don't have to follow the price increases that you might be putting out?

<A – Ron Nelson – Avis Budget Group, Inc.>: Nothing that's in the last few increases that have been posted would suggest that our competitors are anything other than just as aggressive about pricing as we are. The other thing, and obviously I can't speak for enterprise because they are private. But, I think if you go, all of us are going to have fleet costs that vary from quarter to quarter depending on what depreciation adjustments you make and when you make them. But I think if you go back over a three-year period and you look at sort of a regression line on fleet costs, nobody's fleet costs are all that different. And so I don't, I mean, I hear the comments about providing lower fleet cost by way of bigger direct-to-consumer sales and I clearly believe the opportunity is there.

But honestly, when I go back over the last three years, I don't see it showing up in sort of a trend line on fleet costs. So, I think we're all going to have cost push on fleet costs next year. So, I mean, we all have risk cars, we're all going to sell them in the market and we do believe these residual values are coming down, and they have. So...

Operator: Our next question, John Healy with Northcoast Research. You may ask your question.

<Q – John Healy – Northcoast Research Partners LLC>: Thank you, guys. Ron, you gave us way too many things about 2013 for me not to ask this question. So when you kind of run through all of the different assumptions in the outline here, is the message that you're trying to give to the investment community is when you look at EBITDA, you look at earnings, assuming that the economy allows you to have similar growth trends in 2013 that you had in 2012 and if the pricing environment doesn't take a step back. I don't want to pin you down to a number, but EBITDA and earnings levels in 2013 shouldn't take a material step down from where we are today and maybe even has the potential of being similar to maybe slightly up a little bit. Is that the message you're trying to give here?

<A – Ron Nelson – Avis Budget Group, Inc.>: No. I think the only message we're trying to deliver at this point, John, is that there's pressure on fleet costs. And planning in our business and every business I've ever been in is an iterative process. The first cycle comes through and everybody kitchen sinks it and then you go back and you then go through a very detailed buildup of what's in the plan and what do they really need and what do they not need and that's the process we're going through now and that's why we actually didn't – we're not prepared to put a forecast or a guidance on the table for 2013. But as you know, over the last six months, the principal focus in our investor meetings has been fleet costs in Europe. And while we've tried to deal with Europe as plainly and transparent as we can, we felt that we had to talk about fleet costs and at least give some indication of where we thought they were going next year and how all that plays into a forecast for next year, we'll be able to tell you in February. But, I'm not trying to tell you that EBITDA will be up, flat or down. The fleet costs are going to be up.

<Q – John Healy – Northcoast Research Partners LLC>: Okay, fair enough. Along the lines of fleet cost, in European fleet costs, should that maybe work the other way for you next year or is it too early to tell?

<A – David Wyshner – Avis Budget Group, Inc.>: John, I think it's too early to tell for a couple of reasons. One, there has been a fair amount of movement in residual values and so it's early to tell what those are going to look like. But the real, the bigger issue is that our 2013 fleet purchases in Europe are really going to be taking place over the next several months. It's not on a model year basis there; it's more on a calendar year basis with negotiations actually going into the first quarter and early part of the spring. So, as a result of that, it really is too early to say about 2013 fleet costs in Europe.

<Q – John Healy – Northcoast Research Partners LLC>: Okay, thank you guys.

Operator: Our next question comes from Afua Ahwoi with Goldman Sachs. You may ask your question.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Thank you. Good morning, guys. Just on Europe a little bit. The 9% volume growth and the 6% constant currency price in declined, could you please parse out the impact of Budget to both those numbers and should we expect a similar spread maybe going forward as you continue to aggressively roll out budgeting Europe?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. Good morning, Afua. The trends, the 9% up on volume and the 6% decline in pricing were both significantly driven by the expansion of the Budget brand. As we look at Avis, its volume was essentially flat year-over-year and price was down a few points there. So as Ron mentioned, I think that's probably more reflective of the overall trends in the marketplace there whereas the larger growth and greater decline in price was very much driven by the growth in Budget. I think the – with respect to the second part of your question, is that going to continue? I think it will continue but to a more limited extent going forward. The third quarter obviously contains a summer travel season and that's where the – particularly large opportunities for Budget in Spain and Italy reside and we took advantage of those to grow revenue and to contribute in the third quarter. So rapid growth of Budget will continue to have an impact, but I think it was larger in the third quarter because of the summer leisure demand.

<Q>: Great, thanks. And then just a follow-up. On the alternate channels as a means of selling fleet, I think you mentioned it was 40% of your risk fleet this quarter. Do you have a target for where that number can go? And I apologize if you said it before, but I don't recall.

<A – David Wyshner – Avis Budget Group, Inc.>: There's not a specific target in that. We'll look to optimize fleet costs in whatever way makes sense and it does more or less use of alternate channels. We're not dogmatic about a number. We're focused on optimizing fleet costs. With that being said, I do think the trend is probably going to be toward increased use of alternate channels both because of us taking advantage of opportunities we see and direct-to-dealer and direct-to-consumer as well as the way demand from dealers and other wholesale buyers is developing.

<Q>: Okay, perfect. Thank you so much.

Operator: Our next question comes from Chris Agnew with MKM Partners. You may ask your question.

<Q – Chris Agnew – MKM Partners LLC>: Thanks very much. Good morning. Couple of questions on cash flow. I know it can be a little bit lumpy maybe because of the fleet. Is there anything we need to be aware of in 2012 causing it to be notably higher or lower? And then, also on the use of cash, you made no mention of potential share repurchases which I think you've mentioned before. Is that a change and does that mean that you're prioritizing or have identified better acquisition opportunities? Thanks.

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning, Chris. Thanks for those. With respect to the first part I don't think there's any particular lumpiness at least thus far in our cash flows. Our $339 million of free cash flow so far this year is in the range of pre-tax income, certainly in the range of pre-tax income minus the amount of cash taxes that we've had. So we look at it being generally consistent with what we would look for there. In getting to the expectation of at least $375 million of free cash flow for the year, we're sort of assuming that we don't have any particular sort of timing lumpiness right at the end of the year that could swing things a little bit up or down. But generally speaking, we're not looking for a lot of lumpiness there. I would not – going to the second and probably more important part of your question, I would not read anything into the fact that we didn't mention share repurchases explicitly. Going forward, we will actively consider the range of alternatives available including the opportunity to improve our credit profile by reducing our net debt, tuck-in acquisitions and share repurchases.

<Q – Chris Agnew – MKM Partners LLC>: Then maybe a quick follow-up. Do you have any target leverage, leverage targets?

<A – David Wyshner – Avis Budget Group, Inc.>: We do. We continue to have the target of three to four times leverage measured by net corporate debt-to-LTM adjusted EBITDA. That number is currently at 2.9 times so we're slightly below the low-end of that range. And we're not uncomfortable with that, but our range, our target continues to be in the three to four times range.

<A – Ron Nelson – Avis Budget Group, Inc.>: Chris, this is Ron. I mean, I'd just reiterate as well since you've had it in your report last night. I mean, I think if our net debt to EBITDA gets down to the 2.5 range, we're going to be interested in share repurchases.

<Q – Chris Agnew – MKM Partners LLC>: Great. Thank you very much.

<A – Ron Nelson – Avis Budget Group, Inc.>: We're not pulling back from that at all.

Operator: Our next question, Adam Jonas with Morgan Stanley. You may ask your question.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Hey, Ron. Hey, David. Just one question, going back in time, when you had guided to 3Q D&A per unit in North America of up 4% to 6% and then it came in at basically almost about half a tad up 3%, what did you see that drove that outperformance relative to your expectations for the quarter itself? Is it the broader market holding up a little better or your channel dispositions or just a little extra color there? That's it. Thanks.

<A – David Wyshner – Avis Budget Group, Inc.>: I think coming in at 3% versus a range here of 4% to 6% is probably a little bit more noise than anything else. We did all right with our vehicle dispositions in the third quarter. In total, we had about $8 million of gains and most of that was within North America. So things went reasonably well for us there even as we saw the market normalize.

<Q – Adam Jonas – Morgan Stanley & Co. LLC>: Thanks.

Operator: Our next question comes from Steve O'Hara with Sidoti & Company. You may ask your question.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Hi. Yeah, I was just wondering about the distribution of revenue from Europe. Avis Europe used to have a presentation about where they kind of outlined the distribution of revenue or maybe it was EBITDA, I can't remember. But could you go over that quickly or maybe include that in some of your slides going forward?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. Are you thinking about the geographic distribution?

<Q – Steve O'Hara – Sidoti & Co. LLC>: Yes. That's it.

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. The five largest economies in Europe continue to represent north of 80% of our European revenue. The UK, Germany, Spain, Italy and France are the big countries there. Generally speaking, they're each between about 15% and 25% of our revenue. Some of the Southern European countries, along the Mediterranean tend to be a bit more seasonal so they represent a higher percentage during the third quarter and a lower percentage during the fourth and first quarters. I think clearly for Avis Europe, that distribution was meaningful in the scope of a larger company. I think it's somewhat less pragmatic, but we take your point.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Okay. And then in terms of free cash flow, I know somebody touched on it earlier, but I mean do you see other, smaller, kind of tuck-in acquisitions out there and my assumption would be they'd be more in the international space than domestic, is that fair to say?

<A – Ron Nelson – Avis Budget Group, Inc.>: I think that's right. And I think the biggest source of tuck-ins are going to be our licensees, Steve. We have a number of smaller licensees that – if we get synergies out of them and they make good strategic sense and we're able to leverage our infrastructure, then we're interested. We don't particularly chase them, but rather wait for a licensee to come to us. And we always have half a dozen or so on our development report. It doesn't mean that we'll get them done, but they don't tend to be very big.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Okay. All right. Thanks.

Operator: Our next question comes from Michael Millman with Millman Research Associates. You may ask your question.

<Q – Mike Millman – Millman Research Associates>: Thank you. Yesterday Hertz said that October was up 11%. Just wondering what you were up and kind of wondered to what extent there was some price involved there? And kind of related is as you pointed out, there were a number of potential price increases in the [ph] fall (50:06), I guess, we're still in the [ph] fall (50:08) and residuals were going down and yet those price increases did not hold. So playing devil's advocate, what makes you think that there's not going to be one or two competitors who will use any increases or potential increases as [ph] ceilings (50:30) against you going forward?

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning, Mike. With respect to volumes, we didn't come in particularly on October, but we do expect the trends in the fourth quarter in terms of volume to be generally like what we had – what we've seen so far this year. We don't expect a significant ramp-up generally speaking. We're still trying to figure out what the impacts of Hurricane Sandy will be. Clearly, it's going to give rise to some additional insurance replacement demand, some short-term, it's going to give rise to some additional demand for one way rentals. And I think some of the normal business and even leisure travel into the Northeast may be reduced over the next couple of weeks. And we're still trying to sort out how that's going to work out, but we're doing everything we can to try to make vehicles available to customers who need them in this area.

In terms of the impact of price increases, we generally don't think that price increase is of the sort that we've been talking about will change industry-wide demand for car rental services. And as a result, I think what you will see is the normal playing out of increases. We have seen our competitors match many of our price increases, but not necessarily in all markets. And we'll have to see how that plays out in the future. But I think, as Ron mentioned, our strategy is going to be to try to look for opportunities to get some additional price from our customer base in a way that we think makes a lot of sense.

<Q – Mike Millman – Millman Research Associates>: Can you talk about October – did you have something like an 11% increase?

<A – David Wyshner – Avis Budget Group, Inc.>: We were in the single digits consistent with our – generally consistent with the longer-term trends.

<Q – Mike Millman – Millman Research Associates>: And so, why do you think that Hertz was able to do that? Was it a pricing issue that helped them not issue, but promotion that helped them?

<A – Ron Nelson – Avis Budget Group, Inc.>: One of the things you probably – I mean you want to ask Hertz that, but one of the things that I might ask is how much opaque volume did you take, and how profitable was it?

Operator: Our next question, Yilma Abebe with JPMC. You may ask your question.

<Q – Yilma Abebe – JPMorgan Securities LLC>: Thank you. Good morning. In terms of the $100 million of higher fleet costs next year, how does that break down Europe versus the rest of your book of business?

<A – Ron Nelson – Avis Budget Group, Inc.>: That was the North American number that we gave you. We weren't talking about globally.

<Q – Yilma Abebe – JPMorgan Securities LLC>: So, is there a similar number for the rest of the book of business that you can give us on the fleet cost side?

<A – Ron Nelson – Avis Budget Group, Inc.>: I don't think the order of magnitude will be anywhere near that because there hasn't been the same residual value issues in the rest of the world that there has been here. I mean, this market has benefited significantly from a run-up in used car prices, whereas used car prices are actually soft in Europe, as we said, and they're steady in Latin America and Asia Pacific. So there aren't the same sort of dynamics affecting fleet costs. It'll really all be about acquisition and mix in those markets.

<Q – Yilma Abebe – JPMorgan Securities LLC>: Thank you. That's all I had.

Operator: Our next question, Jordan Hymowitz with Philadelphia Financial. You may ask your question.

<Q – Jordan Hymowitz – Philadelphia Financial Management of San Francisco LLC>: Thanks, guys. First, a couple of things on fleet costs. You said the Manheim down 3.6%. So you're assuming like a 116 Manheim next year? I just want to know what the starting point is using the current period end or the average for the year?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. Yeah, Jordan, to be clear, I was – the 3 point decline I was referring to is the difference between I believe it's the 121-ish where the Index is right now and a year-to-date average in the 125 range – 124, 125 range.

<Q – Jordan Hymowitz – Philadelphia Financial Management of San Francisco LLC>: Okay. So you're not assuming it's down 3.5% next year?

<A – David Wyshner – Avis Budget Group, Inc.>: No, no. To be very clear, I was talking about where it is today, call it the most recent reading compared to the year-to-date average.

<Q – Jordan Hymowitz – Philadelphia Financial Management of San Francisco LLC>: And in the $100 million to $120 million, are you assuming it stays at the 121 or are you assuming some depreciation for next year?

<A – David Wyshner – Avis Budget Group, Inc.>: Effectively, the assumption there is that the market would continue to look generally the way it looks now, not the way it has looked on average over the course of the year.

Operator: Our final question comes from John Healy with Northcoast Research. You may ask your question.

<Q – John Healy – Northcoast Research Partners LLC>: Thank you, just a quick follow-up. I believe in the fourth quarter last year, if my memory serves me right, you had a big step-up in SG&A to kind of lay the groundwork for 2012. Is there anything we should be thinking about the SG&A trends in this fourth quarter versus last fourth quarter or maybe how we go into next year?

<A – David Wyshner – Avis Budget Group, Inc.>: That's right, John. I think if anything, we will – that creates a little bit of an easier comp for us on that line. We'll probably look for that to come down a bit year-over-year.

<Q – John Healy – Northcoast Research Partners LLC>: Okay. Thank you.

Operator: For closing remarks, the call is being turned back over to Mr. Ronald Nelson. Please go ahead, sir.

Ronald L. Nelson, Chairman, President, CEO & COO

Before we close, I think it's important to reiterate what I believe are the key points from today's call. First, we had a strong quarter, we are well on the way towards having our best year ever. Second, the strategic initiatives we've been talking about for some time now continue to position us for growth above what we are seeing in the overall market. Third, despite softness in the European economy, our efforts to streamline our operations, put the customer at the heart of everything we do, build Budget into a major competitor throughout Europe and expand our relationships with corporate clients, put us in an excellent position to benefit when the European economy ultimately turns around. And fourth, we substantially lowered our vehicle borrowing costs, which is not only helping us this year but will benefit us in years to come. And we'll use a substantial portion of our free cash flow generation this year to reduce debt and potential share dilution.

And finally, I hope it is abundantly clear to you from our comments today that we're not satisfied with pricing and we're doing what we can to improve it, especially in the face of potential fleet cost increases next year.

David and I and Neal will be presenting at a number of conferences over the course of this quarter, and we hope to see many of you during our travels.

With that, I want to thank you for your time today.

Operator: This concludes today's conference call. You may disconnect at this time.