THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CAR - Q2 2015 Avis Budget Group Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2015 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q15 YoverY revenue decline of 1%. Expects 2015 revenue to be $8.6-8.7b and diluted EPS to be $3.15-3.45.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Neal Goldner *Avis Budget Group Inc. - VP, IR*

Ron Nelson *Avis Budget Group Inc. - Chairman & CEO*

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

CONFERENCE CALL PARTICIPANTS

John Healy *Northcoast Research - Analyst*

Chris Agnew *MKM Partners - Analyst*

Chris Woronka *Deutsche Bank - Analyst*

Brian Johnson *Barclays Capital - Analyst*

Kevin Milota *JPMorgan - Analyst*

Anj Singh *Credit Suisse - Analyst*

Afua Ahwoi *Goldman Sachs - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Avis Budget Group second-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.

Neal Goldner - *Avis Budget Group Inc. - VP, IR*

Thank you, Rhea. 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 second-quarter results I want to remind everyone that the Company will be discussing forward-looking information that involves risks, uncertainties, and assumptions that could cause actual results to differ materially from the forward-looking information. Important risks, assumptions, and other factors that could cause future results to differ materially from those expressed in the forward-looking statements are specified in the Company's earnings release and other periodic filings with the SEC, which are available on the investor relations section of our website at AvisBudgetGroup.com.

We have provided slides to accompany this morning's conference call which can be accessed on our website as well.

Our comments will focus on results excluding certain items and other non-GAAP financial measures that are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

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

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

Thank you, Neal, and good morning. It's no secret that pricing was challenging throughout the first half of this year. It also isn't news that one sizable insurance replacement contract switching hands last year had an impact on our competitors' fleeting decisions, which in turn have had an interim disruptive effect on the marketplace.

But all of that, in our view, is transitory in nature and should not overshadow the fact that in the face of a challenging environment we had a strong second quarter with adjusted EBITDA rising 15% in constant currency and earnings per share growing 24% year over year, excluding certain items. How did we do that? Well, we did it the old-fashioned way, through strong execution, expense discipline, and nimble fleet management.

Let's look at the facts. First, as we expected, year-over-year pricing in the Americas improved from April to May and again from May to June. This trend also continued into July.

While pricing overall for the quarter was down, there remained modest overfleeting in the market. Compounding that was the difficult comps we faced this quarter. In a quarter that is traditionally difficult to get pricing, last year's pricing was up 4% in constant currency, 6% in leisure alone, and benefited from a very favorable Easter calendar.

Second, used vehicle residual values continued to be firm and we took advantage of that strength to have opportunistically completed 70% of our planned risk car sales for the year by the end of June and 77% as of the end of July. Third, America's EBITDA margins improved 30 basis points and fleet utilization improved by over 1 point. In July, utilization tracked almost 3 points over last year.

Now, to be sure, some of that reflects the absence of the significant recall activity we had last year, but many of the levers we pull are of our own making, including expense control and fleet management, and all are about the execution skill of our team. I will talk more about that in a moment.

Fourth, our international segment grew its adjusted EBITDA by 11% on a reported basis and 42% in constant currency. We expanded our international margins by some 150 basis points. Yes, the Scandinavian Maggiore acquisitions played a role, but in our view those are reflective of the disciplined capital allocation strategy relating to acquisitions. And those acquisitions will add even more to what is shaping up to be a strong summer for the EMEA region.

Finally, the other leg of a disciplined capital allocation strategy is our share repurchases. We repurchased some 130 million of our own shares between April and July, capitalizing on the softness in our share price. We would have repurchased even more stock in June and July if we had been controlling our share repurchases in an open trading window, rather than operating under a 10b-5 plan.

That plan has now expired and, as we announced last night, we have increased our share repurchase authorization by an additional $250 million, which underscores the confidence we have in our business. Given our current stock price, you should expect us to be significantly more aggressive in repurchasing shares in the second half of the year than we were in the first.

Still, I'm sure the topic on everyone's mind this morning's pricing, so let's start there. As we reported last night, overall pricing in the Americas declined 2% in the second quarter, with 80 basis points of the decline attributable to currency effects, an additional 30 basis points of the decline due to the growth of our Payless brand. We were hopeful that pricing trends would improve enough as the quarter progressed to overcome this, and while they did, in fact, improve as the quarter developed, with US pricing for our Avis and Budget brands down 1.5 points in April, down 0.5 points in May, and flat in June, we simply weren't able to overcome the soft April.

While the velocity of price improvement hasn't been as much as we had hoped, the good news is that favorable month-by-month trend continued into July. We do believe there are reasons to be enthusiastic that pricing in the back half of the year will be better than in the front half. A few thoughts on that score.

First, the sequential trends we saw in the second quarter continued as we entered the summer with pricing for our Avis and Budget brands up nearly 50 basis points in the US, on top of the 5% increase we achieved in July 2014. Second, the negative mix effect related to Payless will diminish as the second half progresses. By the way, Payless pricing itself is increasing, rising more than 5% in the second quarter.

Third, based on the length of rental restrictions we are seeing across the US this summer, it appears that overall industry fleet levels are more aligned with rental demand than they were in the first half. Finally, our year-over-year pricing comps are easier in the second half of the year than they were in the first.

As we have said for some time now, we're going to continue to push for higher realized pricing where and when we can get it. We initiated four price increases in the second quarter but, unfortunately, their impact was mixed at best. In hindsight, it shouldn't have been surprising. One competitor was overfleeted and another achieved a de facto price increase by virtue of swapping the positioning of its two value brands.

That said, we continue to believe we can achieve higher effective pricing outside of across-the-board price increases. For example, our focus on growing in those channels, segments, and car classes which are disproportionally profitable is paying dividends.

International inbound rentals to North America grew by 7% in the second quarter, despite the strength of the dollar. Our demand fleet pricing tool continues to generate incremental pricing and utilization benefits, especially in the Budget brand. We are now using that tool in more than 130 markets in North America and are just now rolling it out across Australia and New Zealand to encouraging, literally, results.

Before leaving pricing I think it's important to keep things in perspective. The fact is our pricing decline in the second quarter had as much to do with our success last year and the difficult comparisons we faced this year than anything else. Just to remind everybody, last year our year-over-year pricing growth for Avis and Budget by quarter in the US was plus 3%, plus 5%, plus 3%, and plus 2%. If you do the math, what that means is our pricing comps are about 1.5 points easier in the second half than they were in the first.

So easier comps, a reduced mix effect from Payless growth, an overfleeted competitor getting right-fleeted, and our demand fleet pricing initiative are the reasons why we expect year-over-year pricing trends to be more favorable in the second half than in the first.

One last point, self-serving as it may be. It can be tempting to get caught up in each quarter's year-over-year pricing growth. Pricing in our industry is seldom linear, and for that reason, it is useful to take a longer view.

Over the last two years we have seen good growth in realized pricing. In the US we've grown pricing 4 points in our Avis and Budget brands from the first half of 2013 to the first half of 2015. And even with our updated estimate of flat year-over-year pricing this year, our Avis and Budget pricing will have grown 4% from 2013 to 2015.

That said, we are continuing our efforts to increase our realized pricing and we have been growing our margins. Our ability to expand our margins, even in a soft pricing environment, stems from our strategic and tactical execution targeting more profitable transactions, increasing ancillary sales, rigorously controlling costs, and driving productivity, including through our performance excellence initiative. I take an enormous amount of pride in our organization's efforts in these areas.

Moving to volume, volume in the Americas increased 3% in the quarter, driven by a 6% increase in leisure volume, aided by the growth of Payless and our acquisition of Budget Southern California. There were several areas in particular that showed strength in the quarter.

As I mentioned, international inbound volume remained resilient despite the strength of the dollar. Local market revenue in the US increased 5% in the quarter with both volume and pricing up year over year. Demand for BMWs, Mercedes, Cadillacs, Corvettes, Navigators, and other premium vehicles continued to be strong, with revenue from our Signature fleet increasing 14% in the quarter. And high-margin ancillary revenue continued to grow, increasing 6% in the quarter.

To be sure, there were also some challenges. One, commercial volumes were softer than we had expected, driven in part by oil-related customers that we have in North America and in part by a softer economic environment generally. Two, the transition of airline partners from United to American and JetBlue took longer than expected as neither account was active until late in the second quarter, even though we had walked away from United towards the end of last year.

Three, being a pricing leader doesn't come without a cost. Each price increase we implement affects volume for at least three days until we see whether we are going to get any traction with the pricing in the marketplace. And, finally, we continue to pull back on opaque channels, especially those where we don't control the pricing.

We also continued our efforts to shift more reservations to higher-margin channels. This includes not only our proprietary websites but also our mobile apps, which saw volumes increase 50% at Avis and over 85% at Budget. We continued to prominently display our prepaid offering on our websites and prepaid rentals now represent about a quarter of our website reservations.

Complementing our price and margin initiatives, last month we launched our new loyalty program for Avis. This points-based program allows customers to earn rewards based on their spending and gives them the freedom to use their points how they choose and when they choose on free rentals, upgrades, ancillary products, and with no blackout dates.

And while this program is all about enhancing the customer experience, we do expect it will enable us to capture a larger portion of shared commercial accounts as well as our existing customers' car rental spend. We are actively encouraging existing and prospective customers to enroll to start earning Avis Preferred Points as soon as possible.

In our international segment, revenue increased 12% in constant currency, driven by volume growth at both Avis and Budget as well as the acquisitions of Maggiore, the fourth-largest car rental company in Italy, and of our Avis Budget licensee in Scandinavia. Organic volume growth was 4%. The international pricing environment continues to be challenging, reflecting generally one of our competitors in Europe trying to grow volume at the expense of pricing ahead of its June IPO.

Car rental demand appears to be stable and improving in most regions. For example, we saw strong growth in Spain in the second quarter, driven by a double-digit increase in commercial volume. We saw strong leisure demand in Italy, Germany, France, and the UK, which is an encouraging indicator for the summer. And volume in both Australia and New Zealand increased in the second quarter.

At the same time, we've continued to focus on what we can control: containing costs, being prudent about our fleet levels, optimizing the various channels we use to generate revenues, and driving ancillary revenue growth. Our integration of Maggiore and our Scandinavian licensee is progressing as planned. Both businesses have been outperforming our initial expectations.

And the IT investments we have been making are paying off this year. We've rolled out a pan-European fleet management system and utilization has been tracking up 30 to 40 basis points over the last couple of quarters. Our new digital platform, which has been tested in the UK for the last few months, is delivering conversion rates 15% to 20% above the old platform. It will be rolled out to the remainder of the European markets by the end of the year.

Finally, we are having great success in managing our fleet generally with our per-unit fleet costs down 12% in constant currency. The net result, as I noted earlier, is that our international adjusted EBITDA grew 42% in constant currency and the substantial majority of that growth was organic.

As you know, travel patterns in Europe are more seasonal than in the Americas, which makes the summer very important to our international operations, and I think that when the summer is over we will have had very good results. Rental volumes and total revenue per day are up nicely in the critically important southern markets -- Italy, Spain, and France -- along with volume increases in Germany, Portugal, and Holland.

We're driving more reservations through higher-margin proprietary channels. We're seizing opportunities to boost pricing when we see them. We have developed and are using proprietary tablet software and other tools to help manage the volume surge at leisure destinations. And, finally, we feel right-fleeted for the demand in the peak period.

Zipcar is the leader in its space and continues to represent an important global growth opportunity for us. Some of the elements of that opportunity: we are now in 12 more markets and on over 150 more college campuses than we were two years ago, as well as more than 60 airports. Our initial pilot of ONE)WAY transactions has been well received by members. Members that use ONE)WAY transact with Zipcar almost three times more than the average member and we expect to add several more ONE)WAY test cities in September.

We continue to be a leader, not just among car sharing companies, but in our ability to interact online with members. We have recently rolled out instant join technology. This not only continues our history of member-friendly and member-enabling innovation, but should also materially increase our conversion rate for visitors that start the application process and then actually turn into Zipcar members.

We believe our co-marketing and fleet buying relationships with Ford, Honda, and other manufacturers are mutually beneficial. With more than 30 makes and models available at Zipcar, the diversity of our fleet differentiates us in a meaningful way compared to our largest competitor.

People living in large cities increasingly see Zipcar as an attractive alternative to car ownership, as demonstrated by a recent national transportation survey that found nearly 1/4 of our members in Seattle have disposed of a personal vehicle after joining Zipcar. This means there are more than 15,000 vehicles no longer on Seattle's streets, reducing congestion and helping to alleviate parking challenges in the city.

And our outstanding member satisfaction scores continue to indicate that we are doing a great job of providing wheels when you want them. City dwellers and others continue to look for attractive alternatives to car ownership and Zipcar is determined to be a leader in meeting that need.

Before moving to our outlook, I want to take a minute to talk about capital allocation. We stepped up our share repurchase activity in the quarter, repurchasing over $85 million of stock in the second quarter, nearly 3 times as much as we did in the first. This brought the June 30 year-to-date total to $115 million and we repurchased an additional $45 million of our shares during the months of June and July.

Combined with our tuck-in acquisitions, we deployed significantly more cash in the first half of the year than we generated, demonstrating our confidence in our second-half cash flows. As we've stated for some time, we have two principle uses for free cash flow: share repurchases and tuck-in acquisitions. And at this point, with our stock price where it is and having done three meaningful transactions over the past 10 months, I currently expect a higher portion of our free cash flow to be directed towards share repurchases rather than tuck-in acquisitions.

On that note, we were pleased to announce last night a $250 million addition to our existing repurchase authorization, giving us a total of $420 million of available authorization for repurchases as of July 1 and roughly $375 million as of August 1. And while we're not likely to utilize all of our now-existing authorization this year, I do anticipate that we will end up spending well more than the original $285 million target for the year.

Turning to our full-year outlook, as we announced last night, we now expect adjusted EBITDA this year to be $900 million to $950 million, an increase of about 5% at the midpoint of the range. We expect volume to increase 4% to 5% in the Americas, driven by our acquisition of Budget Southern California; the growth of Payless, our new and expanded airline partnerships agreements with American, JetBlue, and Southwest; our new exclusive multi-year marketing partnership with Universal Parks and Resorts; and the industry-wide increases in airline capacity planned for this year.

Pricing increased in July in constant currency, which makes me cautiously optimistic about the second half. Having said that, we now expect constant currency pricing in the Americas to be largely unchanged this year, reflecting our first-half results and a cautious outlook for the second half. Partially offsetting this, we now expect per-unit fleet costs in the Americas to come in at or below last year's level.

We have an established history of managing our fleet levels to be in line with demand and we continue to strengthen our capabilities in this area.

Looking at fleet capacity, we expect our average US fleet will likely grow something less than our volume as we are tracking to utilization gains north of 2% in July and August. If we are tighter fleeted, this may impact our ability to take some last-minute short-term rentals and we're okay with that, especially as the summer season winds down and fall defleeting starts to affect residual values. Our approach to fleet capacity the summer is consistent with our continued focus on achieving pricing growth and on profitability.

In our international segment we continue to expect rental days to increase more than 15% this year, including our acquisitions. We expect international pricing to be under pressure and our acquisition of Maggiore will negatively affect our reported pricing by a point or two. We continue to expect that currency movements will have about a 14 point impact on revenue and more than a $35 million negative impact on international adjusted EBITDA this year.

So to sum up, despite the recent softness in our stock price, neither the demand environment nor our set of competitors has changed significantly. Yes, pricing has been challenged, but we continue to believe that disruptive share shifts, overfleeting, better-than-expected residual values, and competitor brand repositioning explain most of the challenge. And all of those things are transitory in nature.

In that context, we are staying the course from a strategic perspective. We had strong second-quarter earnings. I am encouraged by what we are seeing thus far in the third quarter and we remain confident that 2015 will be another record year of record earnings for us.

Demand in the US is growing. The industry fleeting situation should normalize. Airline capacity is up and used vehicle residual values remain strong. Europe is positioned to have a strong summer and we are investing in yield management, self-service, and other technologies to drive longer-term success.

We remain as focused as ever to drive the business for profitability and generate significant free cash flow, which you should expect us to deploy more aggressively in share repurchases in the second half of the year.

With that, I will turn the call over to David.

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

Thanks, Ron, and good morning, everyone. Today I would like to discuss our second-quarter results, our fleet, our balance sheet and cash flow, and our outlook. My comments will focus on our results, excluding certain items which are reconciled to our GAAP numbers in our press release and in the earnings call presentation on our website.

I share Ron's enthusiasm for our results and our prospects. We had a solid second quarter. Revenue declined 1% in the quarter, but increased 5% in constant currency, reflecting both organic growth and acquisition effects. We grew our margins by 70 basis points.

Adjusted EBITDA increased 7% on a reported basis and 15% in constant currency. Our trailing 12 months adjusted EBITDA is $890 million, and for those analysts who compare company margins and valuations based on adjusted EBITDA before deferred financing fees and stock-based compensation, our 12-month adjusted EBITDA would be $56 million higher or $946 million.

In our Americas segment, revenue grew 1% in the quarter to $1.6 billion. Volume increased 3%. Reported pricing declined 2%, and 1% excluding the growth at Payless and currency effects. Ancillary revenue per day grew 4% in constant currency, driven by higher damage waiver and insurance product penetration.

Leisure volume increased approximately 6% in the quarter and leisure pricing declined 2%, reflecting the Easter timing shift in the growth of Payless. Leisure pricing at our flagship Avis and Budget brands in the US declined about 50 basis points for the quarter.

Commercial volume and pricing were both down about 1.5 points in the second quarter. Importantly, large commercial pricing in the US increased slightly. In fact, pricing in most commercial segments in the US was up, offset by a decline in unaffiliated rates and in Canada.

On the volume side, we faced an extremely difficult comp since commercial rental days were up 7% in second quarter 2014. Adjusted EBITDA in the Americas grew 3% year over year, primarily due to increased rental volumes and higher fleet utilization.

In our international segment, currency exchange rates had a negative effect on our second-quarter results, whereas our international acquisitions favorably impacted our revenues and earnings. And we know that Maggiore's lower base rate and higher ancillary revenue mix is temporarily making some of our published operating metrics less helpful than you would like. As a result, we have provided in the earnings call presentation a number of key international metrics with and without Maggiore.

Reported revenue in our international segment declined 5% in the second quarter, but revenue increased 12% in constant currency, driven by volume growth. Pricing declined 5%, but excluding Maggiore our total revenue per day was down only 2% in constant currency.

International adjusted EBITDA grew 42% in constant currency in the quarter and two-thirds of this growth was organic. A $17 million year-over-year negative effect of currency movements reduced the reported EBITDA growth to 11%. Our international margins improved by 150 basis points. The principle driver of our margin improvement was reduced fleet expenses, reflecting both lower per-unit costs and higher utilizations.

We continue to make good progress on our demand fleet pricing yield management initiative. Phase one of this initiative, the pricing robotic, is now live in more than 130 airports and local markets across the United States and Canada. We recently began piloting phase two, the demand forecaster. As we have mentioned in the past, the forecaster lays the foundation for phase three, the fleet optimization module, which is where we will realize the full potential of this initiative.

When the system is fully operational we will have a state-of-the-art tool that will maximize profitability by market, by managing pricing and fleet decisions in real time in an interdependent way that is not possible today. We hope to begin piloting the full system around year-end, delivering benefits beginning in 2016 and throughout 2017.

We have also begun the rollout of the pricing robotic internationally with a handful of test markets launched in Australia and New Zealand just a few weeks ago. The initial results in Australia suggest that the robotic could turn out to be significantly more impactful and beneficial than we had projected. Our pricing team keeps reminding me that it's still early days there, but those days have been really encouraging.

In Europe, we continue to work on the systems needed to support the pricing robotic with the expectation that we will begin the European rollout in early 2016.

Turning to our fleet, per-unit fleet costs in the Americas declined 2% to $295 per month in the second quarter. The healthy used car market we saw earlier in the year continued into Q2, and by the end of June, we had completed the majority of our full-year planned risk care sales at prices that were higher than we had initially anticipated. We continue to sell cars in July and to do so at attractive prices, and we are down to about 30,000 risk cars remaining to be sold in the US this year, which is the lowest number for early August that I can remember.

We also continue to benefit from an increase in our vehicle sales through alternative disposition channels. In the second quarter we sold more than 35% of our risk vehicles through alternative channels, such as online and dealer-direct sales. Compared to about 25% a year ago. Our use of alternative fleet disposition channels was worth more than $5 million to us in the quarter.

Importantly, our negotiations for model year 2016 vehicle purchases in the US are well underway. Generally speaking, our conversations with manufacturers have gone smoothly and have indicated a few things.

First, vehicle availability is somewhat tighter than we are used to seeing, but not to the point of being a problem for us. Second, while we felt that the OEMs made program cars more attractive last year, causing us to increase the program car component of our fleet, that trend is abating a bit this year. And, third, we are generally seeing inflationary increases in the price of risk cars and the monthly depreciation rates for program cars.

As a result, we are picking and choosing and negotiating and optimizing to try to minimize the impact of any rate increases. The net result is that, so far, I would describe most of the negotiations as uneventful. We fully expect to be able to source the volume and variety of vehicles we need at prices that are reasonable.

Our program risk mix, which will be roughly 50/50 this year, is probably going to tilt a few points more toward risk cars in 2016. And our fleet will continue to be diversified among a number of domestic and foreign manufacturers, with no one manufacturer representing more than 25% to 30% of our fleet next year.

Moving to our balance sheet, our liquidity position remains strong with more than $3 billion of available liquidity worldwide. We ended the quarter with $529 million of cash, no borrowings under our corporate revolver, and roughly $1 billion of availability under that facility.

We had unused capacity of $2 billion under various vehicle-backed funding programs. Our ratio of corporate debt to LTM-adjusted EBITDA at the end of the quarter was 4.0 times and our ratio of net corporate debt to EBITDA was 3.4 times, reflecting our acquisition of Maggiore in April.

As Ron mentioned, we repurchased $85 million of stock in the quarter as well as an additional $45 million in July. We entered into a 10b5-1 trading plan in May to cover June and July and we repurchased more than $90 million of our own shares during those two months. The trading plan we put in place during the second quarter was structured to have us spend more on repurchases at lower share prices than it would have at higher prices, but to be fair, it did not have us buying back as much stock as we would have if we had been able to make buying decisions each trading day.

Before I wrap up, I would like to discuss our expectations for the remainder of the year.

As we announced last night, we expect our 2015 revenues to be $8.6 billion to $8.7 billion, a 1% to 3% increase compared with 2014, including a 5 point negative impact related to exchange rates. We have brought our revenue forecast down to reflect modestly lower projected volume growth in the Americas and internationally, as well as somewhat lower pricing.

In the Americas, we now expect our rental days to increase approximately 4% to 5% and our pricing to be largely unchanged in constant currency, reflecting first-half trends and our expectations for the remainder of the year. Total company fleet costs this year are now expected to be $280 to $290 per unit per month or down 5% to 8% after a 4 point currency benefit.

Per-unit fleet costs in the Americas are expected to be in the $300 to $310 a month range, or down by as much as 3% year over year. International per-unit fleet costs are expected to decline mid single digits in constant currency.

Our Transformation 2015 initiative to increase global process consolidation and reduce costs continues to go well. We made meaningful progress in the quarter, outsourcing our damage collection and vehicle liability function, which will benefit us significantly over the next couple of years. T15 is contributing more than $30 million in savings this year and will provide a further $30 million benefit next year as we transform many of our non-field activities from a regional to a global support structure, taking advantage of our worldwide scale.

We now expect our adjusted EBITDA in 2015 will be $900 million to $950 million. The narrowing of our projected EBITDA range to the lower half of our prior estimate primarily reflects our reduced revenue outlook. Our forecast of pretax income excluding items is $535 million to $585 million.

We expect that our effective tax rate in 2015 will be 37% to 38% and our diluted share count will be approximately 106 million. Based on these expectations, we estimate that our 2015 diluted earnings per share will be $3.15 to $3.45, the increase of 6% to 17% compared to 2014.

We expect our cash taxes to be approximately $25 million to $50 million. We estimate that our non-fleet capital expenditures will total around $200 million this year. And, finally, we expect our free cash flow to be approximately $475 million to $525 million this year, absent any significant timing differences. This works out to roughly $4.50 to $5 per share, giving our stock a free cash flow yield of 11% to 12%.

We have again provided the slide that lays out our estimate of the affects that currency movements will have our revenues and adjusted EBITDA this year by quarter. In particular, we estimate that currency will be a $36 million EBITDA headwind in the third quarter.

In closing, we had a solid second quarter, driven by better-than-expected fleet costs and rigorous cost management throughout the organization, which delivered despite a challenging global pricing environment. As we look forward, we remain enthusiastic about the rest of the year and our business in general. Used car residual values have been stronger-than-expected and we took advantage of the market to both lock in better sale prices and reduce the number of cars that we need to sell in the remainder of the year.

We are seeing good demand across Europe this summer. Easier comps, competitors getting right-fleeted, and strong airline capacity growth are key reasons why our second half, including pricing, can be stronger than our first. We are piloting the second phase of our demand fleet pricing system in the Americas and we recently introduced the pricing robotic in Australia and New Zealand.

We are already seeing synergies from our acquisitions of Budget Southern California and Maggiore. We have increased our share repurchase authorization by $250 million, and with our stock trading at current levels, we plan to prioritize share repurchases over tuck-in acquisitions. And while the first half of the year had its headwinds, we have overcome them and are well on our way to having a record year for our company.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Healy, Northcoast Research.

John Healy - *Northcoast Research - Analyst*

Thank you. Ron, wanted to ask a little bit more about the pricing commentary that you provided for the month of July. Just wanted to clarify that that was for the Avis and the Budget brand in the US.

And it really seems surprising; there's a lot of chatter in the marketplace that July has been a really tough month for pricing. Was hoping you could maybe try to talk to maybe why there is this disconnect with the market in terms of what people are expecting with pricing and what you guys are actually seeing, because I think it's quite impressive. Then maybe you could touch on a little bit about the brand repositioning that you referenced, maybe a little bit more color there.

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

John, you know we focus on the Avis and the Budget brands in the US because it's 85% to 95% of our revenue and really drives our results. Yes, it is positive. It's not going to knock anybody's socks off in terms of the ultimate result. And I think a lot of what happens in pricing surveys is that you miss the impact of the upgrades, ancillary sales, and things of that nature that allow us to get higher pricing.

It also doesn't -- I think when you guys do your pricing surveys you don't take into account -- you don't get pricing for international inbound and that drives a fair amount of incremental pricing. So I don't know why the July pricing is showing up less, but I do think that there is always a fair amount of noise between the surveys that analysts do on their own and what our results are. And so, again, I don't know that, as I said, even though the pricing is positive it's not going to be that significant.

In terms of our competitor's flip, if you follow the marketplace, Enterprise has basically swapped positioning with the Alamo brand and the Enterprise brand is far bigger than the Alamo brand. So they have effectively gotten a price increase by repositioning Enterprise into the Alamo slot and using Alamo to compete with Dollar Thrifty, and at times even competing with Payless. And so that effectively shows up on their revenue line as a price increase.

John Healy - *Northcoast Research - Analyst*

Got you, that makes sense. I just wanted to ask a little bit more about the share repurchase plans. It seems like there's a lot of potential beyond what you have current authorization for, so wanted to think just how you think about share repurchase on kind of a multi-year plan going forward.

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

Look, I don't think our priorities are going to change between tuck-in acquisitions and share repurchases. As you know, we always sort of keep one eye on our debt ratio. Right now our gross debt ratio is at 4 times; our net is about 3.4.

We are right there in the comfort zone and the way we evaluate how much we spend is to stress those ratios for recessions so that we don't find ourselves repurchasing stock at a point in time that would have our debt ratio go north of 4 and sort of challenge our positioning with the rating

agencies. The rating agencies, over the course of the last two years, have been very comfortable with where we're at in terms of share repurchases. We have been fairly clear with them what our guidelines are and how we are doing it.

And so I think we are comfortable with what we've announced. I think we will do well more than $300 million this year, but I don't think you are going to see us do an amount that would tax our debt ratio and move it up into the 4 range on a net basis.

John Healy - *Northcoast Research - Analyst*

Great, thank you.

Operator

Chris Agnew, MKM Partners.

Chris Agnew - *MKM Partners - Analyst*

Thanks very much. Good morning. First question I wanted to ask: how you approached pricing guidance for the rest of the year. I know in the past you have only included or you have not included any pricing past the point to visibility, which I think would be around August. Then also can you touch on August pricing trends and also international inbound trends? Thank you.

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

Look, I think on pricing guidance, we changed our philosophy this year and decided to build into our forecast pricing guidance. We haven't done that in a number of years, and lo and behold, we got burned.

Look, I don't want to suggest that pricing isn't going to continue to be challenged over the course of the rest of the year. I think it will be, but I think we are likely to revert back to being cautious in terms of what we do on pricing guidance for the balance of this year and certainly going into next.

August pricing looks a lot like July. There's not going to be anything that differentiates it much from what's happening in July with the Avis and Budget brands up some -- up modestly.

And I think your third question on international inbound --?

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

International inbound has been up. In the Americas it was up in July and currently is holding up for August as well.

Chris Agnew - *MKM Partners - Analyst*

Great, thanks. If I could one more on commercial volumes. It's weaker in the first quarter as well as the second quarter, and I know, David, you mentioned you've tough comps in the second quarter. But can you maybe just give us a little more color on is there additional industry pressure or external competitive pressures? And how do those comps for commercial fair through the rest of the year? Thanks.

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

I honestly don't think they're going to be a lot different. I think that -- we've been saying actually since the first of the year that commercial was softer than we had thought it would be. And I think some of it was that we really didn't focus on the [bi]-customer challenges that we had in the oil industry and I think they certainly materialized in the second quarter.

Canada, which is included in the Americas number, is predominantly oil related and they had down volume, and have had, since the first of the year. And I think some of what impacted our commercial volumes was small business. We get a fair amount of small -- we got a fair amount of small business leads and small business rentals from our airline contract with United and when we walked away from that, based on an inability to earn any money, it did affect the reservations and rentals that we got from small business.

I expect those will pick up as the American volume comes online and as the JetBlue volume comes online. But I don't get a sense, Chris, that you are going to see significant changes in commercial volume over the course of this year. I think there seems to be a little more pessimism about the economy in terms of the forward-looking momentum, but I hope I'm wrong.

We're going to continue to manage our business for profitability and we're going to can keep our fleet sized with demand. And those things are important.

Chris Agnew - *MKM Partners - Analyst*

Great, thank you.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Good morning, guys. Just wanted to follow-up a little bit on the volume and maybe get the cadence throughout the quarter. Was it something where June --? Was the problem more June than May or April? And then maybe kind of how you are thinking about the August and September months on volume, whether you see any uptick or downtick?

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

Sure, Chris. Volume issues have been, I would say, a somewhat steady drip since February, when we went out with our initial guidance. When we updated that guidance in April, we were still in the range but we had moved down a little bit in terms of our on-point estimate and then volumes just continued to soften over the course of the second quarter.

We have seen the Fed continue to push out lift off amid economic numbers that were just a little bit weaker than everyone expected and I think that is impacting us. We have looked to see whether there are impacts in any particular markets from external factors that could impact places like San Francisco and Boston and Chicago and New York more than other places. And that doesn't seem to be -- it doesn't seem to be an issue, because we are seeing good industry-wide revenue growth in each of those four markets.

So we are looking at it as being an issue that's sort of developing slowly over time for all the reasons Ron mentioned, primarily a softer economy and some particular customers and accounts and affiliations having a little bit more of an impact than we had estimated. And our comps, particularly in the first half, being tougher than we perhaps give them credit for being at the outset of the year.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, that's helpful. Then just wanted to shift over to Europe for a second. You guys have I think made a lot of progress there already on the cost front. How much more is there to do and where do you --? Are there any kind of rough targets or goalposts for where you get margins to over time with the acquisitions once they fully stabilize?

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

It's a good question. We do continue to believe there's more opportunity there. You may remember we acquired Avis Europe in the middle of 2011 and the economy there, while it has been growing the last couple of years, is off a base that shrunk fairly considerably in 2011 and 2012. And as a result, we still think volumes are below longer-term trends, which provides an opportunity for us.

We see significant opportunity still to grow the share of our Budget brand in Europe, which is under shared compared to the amount of volume it does in other parts of the world. And that creates a growth and a margin opportunity for us as well. Some of our initiatives, like the T15 initiative that I spoke about for global consolidation of certain functions, is all about continuing to reduce our SG&A costs and I think this has particular opportunity for us in Europe as well.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, very good. Thanks, David.

Operator

Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Good morning. First question, you signaled lower volume growth. How are your --? I guess a couple questions around that.

Where is your capacity plan given that expected lower volume growth? And related to that, one of your competitors is now communicating their capacity expansion plans, perhaps in a page taken from the airline playbook. Is that something that you would consider doing?

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

I think in general, Brian, because of recalls last year our utilization is up pretty significantly. We don't see an awful lot of fleet growth this year and generally our strategy is we are going to grow our fleet consistent with our demand. I don't think we're going to plan on announcing our fleet growth.

If you have our volume growth, then you probably have a pretty good estimate of what our fleet growth is going to be, because we generally assume that we're not going to get any utilization gains. And I think, obviously, the ones that we are getting this year are pretty significantly impacted by the fact that we had so many recalls and out-of-service cars last year that it skewed the numbers.

But I don't think we have any plans to sort of overtly announce our fleet growth other than giving you a sense of what our volume growth is.

Brian Johnson - *Barclays Capital - Analyst*

Okay. And I guess second question is what do you with your Board and when you were part of a private or a division of the Company, what do you focus on as the best annual indication of how the business is doing? Is it EPS? Is it cash flow? Or is it corporate EBITDA? It's a more philosophical question, back to the discussions you and I have had on the various flavors of ownership models for car rentals over the decades.

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

I can tell you at Cendant the two metrics that we focused on the most were what was the growth in EBITDA and what was the free cash flow that was coming out of the business. As you probably recall, car rental was the lowest multiple business in the portfolio of businesses at Cendant and so we generally took the free cash flow from car rental and reinvested it in our other businesses.

We continue to focus on those metrics, but we are also now using the free cash flow to obviously invest in our businesses through tuck-in acquisitions. And we've had a heightened capital expenditure program now for the last three or four years with our technology initiatives and all the things that we are doing to take costs out of the system, primarily in Europe. But those were the focus.

Brian Johnson - *Barclays Capital - Analyst*

Okay, thanks.

Operator

Kevin Milota, JPMorgan.

Kevin Milota - *JPMorgan - Analyst*

Good morning. Thanks, guys. As it relates to the rental demand cut or the volume cut that you have for the Americas, how do you guys feel about your fleet position as we work here through August and into September?

And then the second question would be is it possible to give us the comparable Americas fleet cost per unit per month for the third quarter and fourth quarter of 2014? Thank you.

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

We feel really good about our fleet positioning. The strength in the used car market has allowed us to get out of cars whenever we've needed to and we are really coming at this from a position of having historically managed our fleet tightly and for utilization.

So as we think about our position in the second quarter, we felt good about our fleet. We feel very good about the fleet now. It's a little tight and we are -- as Ron mentioned, we are likely to see 2 to 3 points of utilization improvement in the third quarter, partly due to recalls last year and partly due to how we are managing the fleet.

We've also seen increases in our fleet utilization internationally. And we approached this issue of being a regular weekly, and sometimes more than weekly, management activity for us around the world, so it's something that is ingrained in how we operate and is an important part of our operating management's activity day to day, week to week. And as a result, we have been in a situation where we really have not had our fleet get out of line with our demand for more than a few weeks at a time without getting rectified and fixed through this process. And we expect to continue that going forward.

I think the per-unit fleet cost changes that we are expecting in the second half of the year in the Americas are roughly consistent with what we have seen in the first half.

Brian Johnson - *Barclays Capital - Analyst*

Okay. Then on the -- just one more question on just organic volumes. If you could strip out the Southern California acquisition, what do organic volumes look like for your Americas segment?

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

Sure, we expect Southern California and the Americas to contribute about 1.5 points of volume this year. So if you take the midpoint of our guidance range on America's volume, that raised about 3 points of organic growth.

Brian Johnson - *Barclays Capital - Analyst*

Okay, very good. Thank you.

Operator

Anj Singh, Credit Suisse.

Anj Singh - *Credit Suisse - Analyst*

Thanks for taking my questions. First off, I was hoping you could discuss your comments on shifting to more risk cars for 2016. I realize this is something rather fluid with regards to residuals, but how do you expect this to translate to fleet depreciation per unit in the Americas for next year?

Do you think you will be any more susceptible to declining residuals? Will this be manageable through the use of alternative disposition channels? Anything to help us out there, thanks.

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

Sure, I would interpret the comment of potentially increasing a few points on risk as being more focused on the fact that our risk and program mix is not changing significantly from where it was this year than anything noteworthy. It may move a few points -- risk may move up a few points, but that would still have it below where it was in 2014 and 2013. So I don't really see us having a significant increase in terms of our exposure there and we view it as a normal amount of variation around a relatively conservative posture that we take in terms of our fleet composition.

Anj Singh - *Credit Suisse - Analyst*

Okay, got it. And then a follow-up question on the pricing topic. I'm just trying to balance your outlook on pricing in light of the commentary on some patches of weaker demand.

Do you think that the factors you called out with regards to some tighter fleet in the industry and the rollout of the demand forecaster, etc., will continue to enable some pricing despite some weaker demand? Just trying to understand the moving pieces there a little bit better.

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

Yes, the goal of a yield management initiative like demand fleet pricing is to achieve more pricing and more utilization. Essentially other things being equal or than we would have without the yield management tool.

And we absolutely believe demand fleet pricing is contributing that already. We expect it to provide similar benefits in Australia and New Zealand. We're hopeful about Europe as well.

And then the rollout of subsequent phases should provide another layer, another level of benefits from the initiative. I think this sort of work is similar to what's going on in other industries, particularly other travel industries, but the inventory flexible nature of our business makes the optimization work associated with demand fleet pricing just a little bit more challenging, a little bit more difficult to work through than in inventories where inventory is much more static or less available to be changed over the short term.

And that's why we think what we are building is really going to be state-of-the-art and quite valuable for us.

Anj Singh - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Afua Ahwoi, Goldman Sachs.

Afua Ahwoi - *Goldman Sachs - Analyst*

Good morning. Just two quick ones for me. First, on the -- if we look back to the past year and a half is there any way you can quantify to us maybe if you've gained any volume from maybe the internal disruptions that were going on at Hertz? And if so, do you forecast that to abate or it will take some time for you to work your way through?

Then I guess, as we think about the -- I think it's been touched on, so apologies if I forgot it. But if you think about the fleet cost increase for the full year, how much of that is the benefits you've seen to date versus your outlook for what you'll sell for the rest of the year also going higher? Or is it just flowing through the gains you've seen already? Thank you.

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

Sure, good morning. Let me work through them in reverse. In terms of fleet costs, we have had some gains in the first half of the year and so I think what we are seeing in terms of fleet cost improvement is slightly more front-end loaded because of the gains. But as I mentioned earlier, the per-unit decline in fleet costs should be relatively consistent from the first half to the second half.

Then with respect to the volume gains or the opportunity for volume gains, our share at the airports has been relatively consistent year over year and has been relatively consistent in the 27% to 28% range for the last five years running. So we've been consistent with what we have said there over time about looking to hold on to our share, but not necessarily growing it over that period of time. And I think that has been and continues to be important to us.

There's certainly some accounts where we have -- large commercial accounts are we have had some additional opportunities due to disruption and issues at some of our competitors and we have looked to seize those. But it hasn't resulted in a significant change or movement in our share.

Afua Ahwoi - *Goldman Sachs - Analyst*

Perfect, thank you.

Operator

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

Ron Nelson - *Avis Budget Group Inc. - Chairman & CEO*

Thanks. Before we close, I think it is important to reiterate what I believe are the key points from today's call.

We are on track for record earnings this year with comparisons easing in the second half at a competitor likely rectifying its overfleeted situation. We believe pricing in the second half of the year should be stronger than in the first.

We are enthusiastic about how the summer is shaping up in Europe and throughout our organization we have lowered our fleet costs and rigorously controlled non-fleet expenses in order to drive margin growth. Finally, given where our stock is currently trading, we intend to be significantly more aggressive in buying our own stock in the second half of the year.

We do have an active investor calendar this quarter with several events planned and we look forward to seeing many of you during our travels. With that, I want to thank you for your time and interest in our Company today.

Operator

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