avis budget group

April 21, 2009

To our shareholders:

2008 was a year we will not soon forget. Avis Budget Group continued to be the leading provider of on-airport vehicle rental services in the United States and several other regions worldwide, and we made significant progress against key strategic objectives in 2008. But these achievements were overshadowed by substantial challenges that unfolded over the course of the year.

We completed nearly 28 million rental transactions in 2008 and achieved revenue of just under $6 billion, matching the record-setting level we reached in 2007. Avis was named "Best Rental Car Company" in the 2008 World Travel Awards, and Budget's web site was rated the best in our industry.[1] We successfully increased our ancillary revenues, including a 35% increase in rentals of our *where2* GPS navigation units. And our Performance Excellence process improvement initiative, which utilizes tools such as Six Sigma and Lean to help achieve incremental operating efficiencies, not only helped us save some $40 million in 2008; it was also recognized as the Best Organizational Achievement in Lean Enterprise Improvement among American companies.[2]

Despite these accomplishments, the economic recession that gripped the world took its toll on our financial results. We reported a pretax loss (excluding unusual items) of $48 million[3] in 2008, as demand for travel services progressively weakened during the year, and the capital markets that are the lifeblood of our industry virtually froze to almost any type of borrowing. Compounding these market conditions were significant concerns about our principal U.S. vehicle suppliers. By late 2008, we faced one of the weakest economic environments in recent memory. The result was predictable—our stock price declined markedly in response to these conditions. Although small consolation, all of these issues are impacting the entire vehicle rental industry, and we expect that these difficult conditions will persist for most of 2009, if not longer.

Faced with steep volume declines resulting from the deterioration of the global economy, we have reduced the size of our fleet and our workforce to keep them in alignment with demand for our services, and we will continue to take steps to keep them aligned. Despite the challenges in the credit markets, we renewed our asset-backed financing facilities to provide funding for our fleet in 2009, albeit at significantly higher interest rates.

We are managing our business as you would expect us to in a difficult environment. We have raised retail prices where possible, improved processes, successfully retained corporate accounts and important marketing partnerships, closed unprofitable locations and cut costs in both our field operations and our centralized functions.

Our workforce at year-end was 13% smaller than it was a year earlier. We are closing shared services facilities in Orlando, Florida and Wichita Falls, Texas. We have remained true to our pay-for-performance commitment and sharply reduced—in many cases eliminated—incentive compensation. Discretionary spending has been curtailed. And throughout our organization, we are finding ways to do more for less, while continuing to deliver on our promise of consistently providing outstanding customer service.

As we enter 2009, the actions that we took in response to the many challenges we faced last year will continue to form the core of our tactical and strategic focus. Our predominantly variable cost structure enables us to adjust significant portions of our business in response to fluctuations in demand and other external forces.

We are aggressively taking steps not only to adjust the variable components of our operations, but also to implement a far-reaching, incremental cost reduction and efficiency improvement program, which we announced in November 2008. We have made substantial progress in implementing this five-point plan, which focuses on:

1. Significant reductions in operating costs, fleet costs and selling, general and administrative expenses;
2. An ongoing review of location, segment and customer profitability to identify and respond appropriately to unprofitable aspects of our business;
3. Further targeted increases in pricing and changes to our marketing, affinity and selling programs in order to improve revenue per day and overall profitability;
4. Consolidation of purchasing programs and streamlined procurement practices; and
5. Further consolidation of both customer-facing and back-office functions and locations.

Going forward, we believe that each of these areas represents an ongoing opportunity to reduce our cost base and achieve greater efficiency in our management and operations, again while continuing to provide outstanding service and value to our customers.

We remain firm in our belief that the economy will, in time, begin to recover and that travel will likewise rebound. Along the way, we expect that there will continue to be fluctuations in demand, and we will continue to adjust accordingly. We believe that Avis Budget Group is focused on the right strategies for these turbulent times, and that our hard-working and dedicated employees will continue to provide an outstanding rental experience to our customers.

As a management team and as a Company, we will continue to be tenacious in the pursuit of operational austerity. This will be a characteristic of our Company not only during hard times; it will be part of our corporate fabric no matter what the state of the global economic environment might be.

Ronald L. Nelson
Chairman and Chief Executive Officer

F. Robert Salerno
President and Chief Operating Officer

[1] Keynote Customer Experience Rankings – Rental Cars.
[2] Annual award presented by Worldwide Conventions and Business Forums (WCBF).
[3] We reported a pre-tax loss of $1.343 billion, which included an impairment charge of $1.262 billion, restructuring charges of $28 million and a settlement of a litigation claim of $5 million.

Certain statements in this letter constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Statements that otherwise include the words "believes", "expects" and similar expressions or future or conditional verbs such as "will" are generally forward-looking in nature and not historical facts. Any statements that refer to expectations or other characterizations of future events, circumstances or results are forward-looking statements. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in Avis Budget Group's Annual Report on Form 10-K for the year ended December 31, 2008, including under headings such as "Risk Factors."