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CAR - Q4 2014 Avis Budget Group Inc Earnings Call

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OVERVIEW:

Co. reported 4Q14 revenue of $1.9b. Expects 2015 revenue to be approx. $8.8b and diluted EPS to be $3.15-3.75.

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PRESENTATION

Operator

Good morning, and welcome to the Avis Budget Group fourth 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 Goldner - *Avis Budget Group, Inc. - VP of IR*

Thank you, Stephanie. 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 fourth quarter results, I would like 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 also focus on our 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 of our website. Now, I'd 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*

Thanks, Neal, and good morning. 2014 was nothing short of an outstanding year for our Company. We delivered on financial performance, executed on strategic initiatives, and allocated capital in a reasonable and return enhancing way. Along the way, we laid the foundation for continued growth throughout the cycle and reported the highest adjusted EBITDA and earnings per share in our Company's history.

Here's some of the more notable elements of that performance. We increased volume and pricing in North America for the second consecutive year. We continued to strengthen our international presence, led by another year of substantial growth for Budget in Europe. We grew our Payless brand significantly, adding more than 60 new locations in North America, more than doubling its revenue, and increasing its pricing substantially. We expanded Zipcar's presence to additional campuses, cities, and countries and started making Zipcars available for one-way transactions.

We elevated our investment in the people and technology that power our business, spending more on talent and systems development then we've ever spent in the past. We expanded our global footprint by acquiring our Budget licensees in Southern California, Las Vegas, Edmonton, and Portugal. Finally, we returned cash to our shareholders, repurchasing $300 million of stock over the course of the year with $90 million in the fourth quarter alone on an average price of $53 per share.

Despite what could be best described as an uneven tone in the market, we finished the year on a positive note, reporting record fourth quarter results with every segment showing year-over-year growth in adjusted EBITDA. Clearly, we achieved much in 2014 and entered 2015 stronger than ever. It's worth a minute, however, to discuss some of the trends we saw in the fourth quarter, how they're shaping up as we roll through the first, and then talk about what they mean for 2015.

The best place to start is North America. The fourth quarter marked the fourth consecutive quarter of positive volume and pricing in our largest region. Pricing was up over 1% in constant currency, even after a 30 basis point mix effect from the growth of Payless. We again achieved price increases across all of our brands, both on- and off-airport and in both leisure and commercial rentals.

Despite these gains, pricing was a little more difficult to come by, as fleets in the non-holiday periods seemed a little out of sync with demand, more than likely due to the September, October volatility in the used car market and the effect of recalls being cycled back into the used fleets. On the sales side, we continue to be true to our commitment to improve pricing in the commercial market. During the quarter, we extended 330 commercial contracts with approximately 75% renewed at either flat or increased rates, some 25% better than that same stat in 2013.

Given the seasonal nature of our business, the more moderate pricing gains we achieved in the fourth quarter needs to be looked at in the context of the full year. For the full year, we grew revenue per day by almost 2.5 points in constant currency, reflecting several factors. First, we initiated 15 across the board price increases in 2014, with Budget and Avis always participating. Some of these price increases met with better success than others. All of them probably cost us some volume, but we delivered on our commitment to take action to strengthen our realized pricing.

Second, we continued our strategic push to accelerate growth in our most profitable sales channels, customers segments, and car classes. These efforts, particularly the 6% increase in the number of non-core vehicles in our fleet, all had a positive effects on prices. Third, we deployed the first phase of our demand fleet pricing yield management tool with more than 100 markets over the course of 2014. As we've noted before, the real benefit from this first phase of DFP is our improved ability to change prices multiple times a day across all car classes, literally making millions of pricing changes daily based on the algorithms that we've developed.

This tool has had a disproportionately positive effect on Budget pricing, utilization, and volume, as you would expect, given its lesser reliance on contracted business. All of these efforts contributed to our pricing gains, whether the market followed us are not, and we expect that they will continue to contribute going forward.

We also saw strong volume in North America in the fourth quarter, augmented by the growth of our Payless brand and our Budget licensee acquisitions. Overall, we saw our rental volume increase 6% in North America, with commercial activity up 5%, and leisure volume up 7%. The Thanksgiving and Christmas holiday periods were particularly robust, and we continue to see the benefits of our initiatives to grow faster in areas of the business we consider most attractive.

To be more specific, international inbound revenue, our single most profitable customer segment, increased 11%. Small business revenue grew 7%. Revenue from our higher margin specialty and premium vehicles increased 10%, and ancillary revenues per rental day increased 5%, and are now 14% higher than they were in 2010 despite a predictable softening of GPS revenue.

We also continue our initiative to move reservations toward our proprietary websites, again reflecting a year-over-year shift of almost 200 basis points more volume toward our proprietary channels in the fourth quarter alone. This includes not only our websites but also our redesigned mobile apps which saw volumes increase 80% at Avis and almost 150% at Budget. Our mobile apps now represent almost 5% of all reservations, and the adoption curve would tell us we're just getting started.

Another genuinely important accomplishment for us in the quarter was our acquisition of the Budget licensee for Southern California. To describe it simply as Southern California doesn't really do justice to its significance. Included are many of the largest gateway and leisure markets on the West Coast, Los Angeles, Burbank, San Diego, Ontario, Santa Barbara, Palm Springs, as well as Las Vegas. We will operate the Budget brand directly at LAX and Burbank airports, as well as in the surrounding local market areas, and collect license fees from what are now our direct licensees in the other airports. Eventually, these license markets will figure into our acquisition plans, but in the meantime, we will collect marketplace royalties without a commensurate fleet investment.

The early returns on this investment have been encouraging. Since the acquisition, we've introduced our demand fleet pricing model in these markets allowing the Budget brand to benefit from enhanced yield management. We've opened 60 additional Budget local market locations by dual branding with our existing Avis off-airport stores. We've added additional fleet to capture more higher-priced late booking business, and in January, volume grew 12%, enabling us to capture more of the available demand in this important market. We really couldn't be more enthusiastic about the near- and medium-term opportunities this acquisition presents.

I also want to take a minute update you on Payless. Since acquiring Payless in July of 2013, we've expanded the brand to 50 additional markets, growing the Payless fleet accordingly and integrated the brand into our existing marketing partnerships with AARP, Southwest Airlines, and others. The results have been nothing short of spectacular. In the fourth quarter alone, Payless revenue more than doubled from the prior year with pricing up more than 15%.

As we discussed when we announced the acquisition, we acquired Payless in order to have a brand whose value proposition would enable us to participate in the faster growing, deep value segment of the industry, but Payless does more for us than just that. It enables fleet cascading from Avis and Budget to Payless and provides an even greater outlet for used cars purchased specifically for this business. Both of these actions allow us to reduce our per unit fleet costs.

As with all our acquisitions, it allows us to further leverage our physical and systems infrastructure, lowering our operating costs. Particularly in peak seasons, it's an added source of customer flow, enabling us to offer a good, better, best vehicle offering to enhance yield and attract all types of customers. Looking forward, we plan to expand Payless to an additional 25 North American markets in 2015, and believe this brand has untapped opportunities outside of North America in the years ahead of us.

Our Zipcar brand continues to be the global leader in car sharing with total driving hours that we believe are a multiple of any other market participant. Zipcar membership moved north of 900,000 worldwide in 2014, pricing increased, and both usage and membership revenues were at record levels. Over the past year, we took several steps to expand the brand both in North America and around the globe.

We expanded Zipcar to 44 airport locations by the end of 2014, compared to 28 a year ago. We also added Zipcar to 50 Avis and Budget local market locations, making it easier for members to get wheels when they want them and garner more of the unconstrained demand in the brand. We expanded onto 44 more colleges and universities. Zipcars are now available at more than 400 campuses in North America. We continue to promote our existing partnerships and corporate contracts, such as Southwest Airlines, to capture incremental sources of demand for Zipcar service.

We launched a test of one-way vehicle availability in Boston which is allowing us to refine our offering to best meet our members' needs as we prepare for the potential rollout of one-way availability in other markets. We continue to find ways to share fleet between Zipcar and our car rental brands to increase the availability during peak periods. Finally, we continue to expand globally with the launches of Zipcar and Paris and Madrid in the second half of 2014. We consolidated our activities in Barcelona and Vienna, and had our first licensee launch in Istanbul.

Looking forward, the future for Zipcar remains bright. The car sharing market continues to expand rapidly supported by urban demographic and technological trends. Its business model and use cases are distinct from Uber and Lyft, with the average Zipcar driver renting for over six hours.

We expect to invest in 2015 to continue our expansion of Zipcar internationally, launching Zipcar in Australia later this year, as well as an additional anchor in satellite European markets. Zipcar remains an engine of growth for us, and we expect that to be the case for quite some time.

Our international results continue to be a triumph of will over environment. By this I mean we continue to realize benefits and efficiencies in the areas we can control despite lingering macroeconomic conditions virtually everywhere in the world but North America that are not proving to be helpful. That said, we increased earnings. We achieved increased earnings and higher margins in the fourth quarter, and on a constant currency basis, reported record results in our international segment.

To break this down a bit further, the environmental challenges we faced included weak consumer and commercial demand in Europe and Australia, industry overfleeting that limited our ability to offset demand softness with pricing, and to be sure, currency swings. In the face of these difficult conditions, we managed costs aggressively, reduced our fleet levels to preserve profitability, tried to maintain pricing as much as we possibly could, and drove record utilization. As a result, we managed to grow our international adjusted EBITDA in the fourth quarter. Our team showed a will to persevere in an otherwise hostile climate.

Despite these headwinds, we maintained our resolve to take those actions of that will improve the long-term profitability of our business. We continue to grow the Budget brand aggressively in Europe with volumes up 19% in the quarter and 20% for the year. We recently found a new license in France of that will effectively double the Budget footprint and revenue potential in 2015.

Our sales training initiatives continue to pay dividends as high-margin ancillary revenue per day was up 13% in constant currency. We reduced our SG&A costs by 6% and increased fleet utilization 100 basis points year-over-year, and we continue to invest in new digital and mobility platforms and new advertising programs for both Avis and Budget, and in our ongoing integration efforts toward a unified global IT and shared services infrastructure.

In short, while it's unclear when the macroeconomic environment in our principal international markets is going to improve, I'm encouraged by the work our international team has done to drive profitability and position our business for the future. No matter how you measure it, 2014 was a successful year for us, but that was then, and this is now. We're on to 2015. As we announced last night, we expect 2015 to be another record year for our Company. I am as optimistic about our business and industry fundamentals and what I believe is attainable as I was all of last year.

While we continue to work to achieve our goal of earning $1 billion of adjusted EBITDA this year, the $40 million headwind from foreign exchange, residual values in the 75% area, and continued soft macro economic conditions in Europe were certainly not part of the calculus when we set that goal for ourselves. It will make hitting that goal more difficult than we anticipated even just a few months ago. Clearly, as we went through a financial plan for 2015, we found opportunities to streamline operations and defer investment to make hitting the target easier this year.

What I hope you know about this management team is that where it makes sense for the longer term strength of our brands, we're not going to give into short term-ism. We will continue to make all of those investments that provide solid ROIs and visible earnings growth. A sampling of those investments for 2015 includes self-service connected car technology, which not only is a top priority experience with our customers, but also represents a host of fleet management efficiencies that on their own justify the investment; additional digital investments here and abroad that enhance conversion, drive traffic to our proprietary websites, and most importantly enable our customers to transact with us when, how, and where they prefer; marketing and affiliations that keep our brands in the forefront of the travelers' mind and further expansion of Zipcar to new cities and countries.

While all of these have some measure of 2015 P&L drag, we think they are the right decisions for the medium- and long-term growth of our Company, and we expect these investments to make us more profitable in the year ahead. Where that leaves us is that $1 billion of adjusted EBITDA is at the high end of the expectations we're publishing today, but in the middle of every discussion we have internally as we steer our business.

Let me comment on some of the underlying assumptions. In North America, we expect revenue to increase 6% to 8% in 2015, including roughly a 2% increase in constant currency pricing. We're continuing to be aggressive on pricing having launched several price increases over the last seven weeks. Competitor response has been better than what we experienced throughout 2014 and will be critical if we are to reach our $1 billion target.

More generally, as we look at 2015, we believe we can achieve pricing growth in a variety of ways, in addition to that which results from broad-based price increases. For example, continuing our emphasis on growing in our most profitable channels and customer segments, driving incremental benefits from our demand fleet pricing capabilities, especially as we roll it out globally, car class upsells and mix, just to name a few. Increased revenue in these areas almost always reflects itself in increased pricing.

As usual, weather is creating some disruption this time of the year. Like last year, we've experienced a number broad-based winter storms. The midweek timing of many storms last year allowed us to generate a fair amount of higher-priced, one-way business in the first quarter as commercial travelers found themselves stranded and used our cars to get home. That revenue helped mitigate the impact of thousands of flight cancellations.

Many of this year's storms on the other hand seem to be occurring on Mondays, which is depressing commercial rental volumes and not providing us with the same one-way rental opportunities. We were already facing a difficult first quarter pricing comp with last year, and overall rate per day was up 4%, and the soft commercial volumes and lack of storm related one-way business this year will make that comparison just that much more difficult.

What does that mean? Through January, composite Avis Budget pricing trends look a lot like the fourth quarter in constant currency, and as we make our way through in past President's Weekend which is really when the Florida season shifts into high gear, trends are improving. We do believe North America pricing overall will be up in the first quarter, notwithstanding the downdraft in pricing resulting from the oil business decline in Canada and continued mix effects from Payless. These two items alone may impact first quarter pricing by as much as a point.

On the cost front, looking at the year as a whole, we expect to see some pressure on residual value, certainly in year-over-year comps pushing our per unit fleet costs higher. Fortunately, used car prices seem to have stabilized over the last couple of months after a very choppy start to last year's fourth quarter.

In our international segment, we're hoping but not planning for improvement in macroeconomic conditions. Like most US-based multinational companies, we will face a meaningful headwind from the dramatic movements in currency exchange rates that have occurred over the last several months, not just from the euro although that is certainly the most dramatic and significant in our mix, but from the Australian, Canadian, and New Zealand dollars as well. These four currencies are down year-over-year by 18%, 13%, 15%, and 11%, respectively.

We estimate the effect of currency movements on our 2015 results to be about 5 points of revenue growth, $40 million of adjusted EBITDA, and $0.15 of diluted EPS. In this environment, we still expect that our international revenue increase will be driven primarily by double-digit growth from Budget in Europe, and the acquisition of our licensee for Avis and Budget in Scandinavia, which is expected to contribute about $100 million of revenue. We are accelerating the introduction of the demand fleet pricing tool into Australia and New Zealand to the second quarter of this year, and we expect to have the yield component of demand fleet pricing ready to rollout for Europe by the back half of the year.

In total, however, we expect earnings to increase this year through a combination of revenue growth, aggressive cost controls, and fleet optimization, as well as our new global effectiveness initiative which David will discuss in a minute. I also see 2015 as being an important time both for tactical execution to drive current year results and for strategic progress in positioning our business for the future.

In closing, let me leave you with three thoughts. One, we delivered as promised on our strategic and financial objectives in 2014. Two, the fundamentals of our business and our industry remain intact. We will grow this year on an absolute basis and even more so on a constant currency basis, and three, while $1 billion of adjusted EBITDA is at the upper end of our guidance due to the headwinds I discussed, and while we're not going to make shortsighted trade-offs to get there, rest assured we are still working beyond diligently toward that number. With that, let me turn the call over to David.

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

Thanks, Ron, and good morning, everyone. Today I'd like to discuss our full year and fourth quarter results, our fleet, our new global effectiveness initiative, 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.

As Ron said, 2014 it was a record year for our Company. With full year revenue increasing 7% to $8.5 billion, and adjusted EBITDA growing 14% to $876 million. Our margins expanded by 60 basis points to 10.3%, and our earnings per share were $2.96, a year-over-year increase of 35%.

For the fourth quarter, revenue increased 2% to a record $1.9 billion, primarily due to higher rental volumes and increased pricing in North America. Adjusted EBITDA grew 13% to $129 million, with every segment reporting a year-over-year improvement. For those analysts who compare Company margins and valuations based on adjusted EBITDA before deferred financing fees and stock-based compensation, our 2014 adjusted EBITDA would be $51 million higher or $927 million.

Revenue in our North America segment grew 7% to $1.2 billion. Volume increased 6% in the quarter while pricing was up 1% and up almost 1.5 points excluding Payless and currency effects. Ancillary revenue per day grew 5%, driven by higher damage waiver and insurance product penetration, as well as our in-car Sirius XM satellite radio offering.

For the fourth consecutive quarter, we saw a positive volume and pricing in both our leisure and commercial segments. Leisure revenue increased 8% in the quarter, with volume up 7%, and pricing up 1 point. Commercial revenue grew 6%, including a 5% increase in volume and about a 0.5 point increase in pricing. North America adjusted EBITDA rose 9% year-over-year primarily due to increased pricing and higher volume partially offset by 4% higher per unit fleet costs.

Revenue in our international segment declined to 7% in the fourth quarter, but was unchanged in constant currency. Rental demand was soft in many countries, reflecting macroeconomic conditions. Our international volume declined slightly. Pricing was down 3% in constant currency, and ancillary revenue per day increased 13%. International adjusted EBITDA grew 17% year-over-year to $56 million in Q4, and margins improved 210 basis points, due to reduced vehicle insurance costs, continued productivity improvements, and utilization increases across Europe.

In our truck rental segment, volume increased 3% and revenue was unchanged, despite a 10% reduction in our fleet. Adjusted EBITDA increased $5 million in the fourth quarter, driven by lower maintenance and damage costs for our refreshed truck fleet. As we've been discussing for several quarters, the restructuring of our truck rentals segment was designed to produce a more profitable, albeit smaller, business, and the earnings growth in the fourth quarter is a perfect example of that. Finally, our corporate and other expenses increased $5 million year-over-year primarily due to mark-to-market requirements related to a portion of our stock-based compensation grants.

I'd like to take a few moments to talk about North America fleet costs. In the fourth quarter, per unit fleet costs increased approximately 4% to $317 per month. For the full year, North America fleet costs were $313 per unit per month, an increase of approximately 5% from 2013 levels. There are a number of dynamics likely to affect our fleet costs in 2015. For starters, we are expecting a higher supply for off-lease vehicles and relatively strong new car sales to put incremental pressure on residual values.

On the other side, we expect used car financing will continue to be available to consumers at attractive rates which will lend support to new and used car values. We expect the level of vehicle recalls to subside a bit in 2015, although we anticipate that recall volumes will be higher than historical norms for the foreseeable future. We therefore predict that used car values measured as a percentage of purchase price will decline approximately 2 points to 75% this year.

As a result, for 2015, we expect per unit fleet cost to increase 2% to 5%, to $320 to $330 per month. In addition, we have reduced the percentage of risk vehicles in our fleet from 65% in 2014 to approximately 50% this year which has the effect of reducing our exposure to unexpected movements in residual values. We expect to realize incremental benefits from our fleet management system to optimize the timing of the in-fleeting and de-fleeting of our vehicles. We'll take advantage of the seasonality of the used car market and variability in residual value performance by make, model, and region.

We will continue to cascade cars from Avis and Budget to our Payless brand, as well as acquire low mileage used cars for Payless whenever possible. Finally, we increased our use of alternative disposition channels to more than 25% of our risk vehicles in 2014, and we expect non-auction channels to represent an even higher percentage of our risk car sales in 2015.

Before moving on to the balance sheet and outlook, I want to take a minute to talk about a global effectiveness initiative we launched last year. We call it Transformation 2015, or T15 for short. Over the past several years, we've acquired several businesses, from Avis Europe to Zipcar to Payless as well as a number of our licensees, transforming our Company from a primarily domestic car and truck rental business to a multinational organization offering a range of vehicle services to a large, diverse group of customers.

Each of our regions has been laser focused on driving efficiencies within its respective geography to deliver at a continually lower cost, the high quality service our customers have come to expect. Given the substantial amount of intraregional work to be done, that focus was intentional and appropriate. What it has meant is that up to now, and subject to some exceptions, particularly in the areas of financing and information technology, we have deferred tackling the opportunities that exist in our organization to capitalize on our scale and breath on a truly global basis.

Seizing those opportunities is the goal of our T15 initiative. We're still in the early stages at T15 but we've already completed a zero-based budgeting exercise that allowed us to eliminate more than 70 overhead positions in the fourth quarter, renegotiated a major IT vendor contract on a global basis, saving us millions of dollars a year, begun to consolidate the global management of certain functions, and identified other significant opportunities that we're working on now.

While many of the details are not yet ready for public consumption, here's the punchline. We expect to deliver more than $20 million in savings from this initiative in 2015 and more than $40 million in 2016. In the process, we expect to make Avis Budget a more nimble operator and a more consistent global service provider. This initiative is an important next step in Avis Budget's evolution. Now is the right time for us to be tackling this opportunity, and this is something that we as a management team will be highly focused on throughout the year.

Turning to the balance sheet, our liquidity position remains strong with $6 billion of available liquidity worldwide. We ended the quarter with $624 million of cash, no borrowings under our corporate revolver, and more than $1 billion of availability under that facility. We had unused capacity of $4.4 billion under various vehicle backed funding programs, and a ratio of net corporate debt to LTM adjusted EBITDA at the end of the quarter was 3.2 times, up slightly from last quarter, due to our Budget licensee acquisition in Southern California.

As we enter 2015, we have no corporate debt maturities until 2017 and plan to refinance our remaining $225 million of 9.75% notes which become tolerable in September. In January, we issued $650 million of five-year vehicle backed debt at an average rate of 2.7% which will replace maturing ABS debt that carries an average interest rate at 3.6%. This transaction highlights our continued strong access to substantial amounts of investment grade funding for our fleet.

Throughout 2014, we generated and deployed free cash. We produced $456 million of free cash flow, for more than $4 per share, even after reinvesting $185 million in our business in the form of capital expenditures, the largest components of which were information technology and airport facilities. We used our free cash flow to complete the acquisitions of our Budget licensees for Edmonton, Southern California, Las Vegas, and Portugal at an aggregate cost of $282 million.

We believe each of these acquisitions will be value additive to us, even compared to the alternative of repurchasing stock, and most importantly, we bought back 5.7 million shares of our stock in 2014 or 5% of our outstanding shares at a cost of $300 million. Our average repurchase price during 2014 was $53 per share.

Now, before we move to Q&A, I'd like to spend a few minutes discussing our 2015 outlook. Over the last several months, we've gone through a detailed global planning process with extensive involvement from all parts of our organization. Based on that work, we now expect our 2015 revenues to be approximately $8.8 billion or roughly 4% increase compared with 2014, including a 5 point negative impact related to exchange rates.

In North America, we expect our rental days to increase 5% to 7% and our pricing to increase approximately 2% in constant currency. As I mentioned earlier, we expect North America per unit fleet costs to be in the $320 to $330 range, a 2% to 5% increase, and as a reminder our per unit fleet costs were only $299 per month in the first quarter of 2014. The increase in fleet costs we're expecting this year will be a headwind particularly in the first quarter.

As we announced last night, we expect currency movements to negatively impact adjusted EBITDA by approximately $40 million. We expect our adjusted EBITDA in 2015 will be $900 million to $1 billion. This should translate into pretax income excluding items of $535 million to $635 million. We estimate 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 $3.75, an increase of 6% to 27% compared to 2014. This projected growth, 17% at the midpoint, reflects the combination of growth in our earnings and a lower share count. We expect our cash taxes to be approximately $50 million to $75 million. We estimate that our non-fleet capital expenditures will total around $200 million this year as our investment in technology and facilities continues in 2015.

Finally, we expect our free cash flow to be approximately $450 million to $525 million this year, absent any significant timing differences. Our approach to deploying free cash flow is unchanged as we move into 2015. You should expect us to pursue a combination of tuck-in acquisitions and share repurchases. Our principal acquisition targets continue to be licensees, in or near areas where we operate already as well as independent operators outside the United States. The acquisition of our Avis and Budget licensee in Scandinavia which closed in January falls squarely in this zone.

In the area of share buybacks, we entered 2015 with about $285 million of remaining repurchase authorization, and our diluted share count forecast assumes that we fully utilize such capacity over the course of the year. Given how our free cash flow is skewed towards the second half of the year, our share repurchases may be moderately back-loaded as well.

To wrap up, we're proud of all that we accomplished in 2014. In North America, we achieved top line growth that included increases in rate and volume in both our leisure and commercial segments all year long. We continued our focus on growing in the more profitable segments of our business, including non-core car classes. We expanded the Payless brand, doubling our revenue in 2014, and we rolled out the first phase of our demand fleet pricing system, and its success exceeded our expectations.

Internationally, we continued to see growth at our Avis and Budget brands amid weak economic conditions. Our Apex brand expanded into new locations in New Zealand and Australia where it grew annual revenue by almost 20%. We completed the acquisitions of our Budget licensees for Southern California, Edmonton, and Portugal which will position us for significant growth in these markets in 2015 and beyond. We continue to take advantage of historically low interest rates, refinancing corporate debt, at a savings of 275 basis points a year. We returned to $300 million of cash to our shareholders through stock repurchases.

While we are proud of all we accomplished in 2014, our focus is now on 2015 and delivering on our strategic initiatives. We are focused on achieving higher realized rate and greater levels of profitability wherever we can. We are focused on mitigating lower fleet residual values through fleet optimization and alternative disposition channels. We are focused on investing in technology, particularly in the areas of yield management, our digital presence, and our agility.

Finally, we are focused on identifying best practices and transforming our organization to drive efficiencies on a global scale. 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*

Good morning, guys. I wanted to ask a little bit of a clarification question. The guidance on North America volumes, the 5% to 7%, coming off a strong year you've had this year, I was hoping you could give us some perspective in terms of what assumptions have gone into that 5% to 7% growth target, and maybe the contribution that Southern California or the growth in Payless locations and things along those lines are having to that number?

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

Sure, John. Good morning. We're seeing enplanementsand airline capacity increasing in the 2% to 3%, 2% to 4% range based on the some of the capacity runs that are out there. We're expecting Southern California to contribute a little over a point of incremental growth, and that's part of our expectation. We are expecting to continue to have outsized growth in the Payless brand, so those are really some of the things that are driving growth that's a little bit above what we would see for enplanements and airline capacity.

John Healy - *Northcoast Research - Analyst*

Great. Then I wanted to ask, Ron, your comments that the competitors have been behaving a little bit better in 2015 than you saw in 2014, in terms of following on pricing, can you maybe talk to that a little bit more? Maybe a little bit more detail?

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

Sure. We put in, I think, four price increases, John, since the first of the year. Two of them were met with what I would call unprecedented adoption rates in the 70s and 80s. Two of them had to be rolled back. That's a far better batting average than we had on price increases throughout all of 2014. I think that all the signals from our competitors are that they're moving to raise prices. They have the same cost pressures that we do. Certainly they have the FX headwinds. They have fleet costs, probably in greater abundance then we do.

I do think that you can draw some encouragement from what's happen in the first few weeks in terms of pricing. As we look past Presidents' Weekend, pricing has been improving in all the brands, quite honestly, and across both leisure, and particularly in leisure, and in commercial, and so I think that's a good trend, and one that's certainly better than we saw last year.

John Healy - *Northcoast Research - Analyst*

Great. Thank you guys.

Operator

Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Good morning, guys. I wanted to ask you a little bit about the international segment and I guess your longer-term strategy and goals there. You've talked about expanding Zipcar and potentially making some other acquisitions. I guess, how do we add that up or square that with you've also talked about some cost initiatives and some realignments. Maybe if you could give us a high level overview of your longer-term goals internationally?

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

First of all, you've got to start from the standpoint that we do believe that the economies in Europe will turn around, and that this is a viable market. It is a far less consolidated market than the US, as we've talked before. It's still somewhere, 35% of the European market, is independent. There's probably far greater acquisition opportunities in Europe than there are remaining in North America.

I think you can go country by country, and there are different reasons why each country is doing better or worse than another. Taking in aggregate, none of them are doing particularly well, and they all seem to be suffering from some economic malaise. Now, hopefully what's going on with the ECB will provide some incremental stimulus to the economy and drive incremental demand. We're not counting on it. I think we remain enthusiastic about the long-term viability of that market and our ability to grow that business. Certainly, all the things that we control on the cost side, we're doing everything we can to optimize those costs.

I think the initiatives that David's talking about are really aimed at running the business as a global enterprise as opposed to a regional enterprise. I think we talked about it at the investor meeting last year. We've got five call centers across the world. We've got three different shared services center. We probably have four or five different financial reporting centers.

All of those things are really ripe for consolidation and integration into a single global infrastructure, and so I think these things take time. Obviously, it starts with making sure that your processes and your IT systems are consistent across the globe but, by the way, we do everything the same way almost in every part of the world, so that isn't such an enormous hurdle.

I do think that these things will contribute a fair amount of operating expense savings over the course of the next three to four years as we consolidate them. Other than improving margins of any of our business, I don't think they have anything to do with revenue or opportunity in the international markets. That's probably more than you wanted to hear, but it's an important topic for us.

Chris Woronka - *Deutsche Bank - Analyst*

No, that's great color, Ron. Thanks. Just a quick follow up, as it pertains to the US, do you think that as we go through the year, does there need to be an improvement in utilization rates for pricing to improve? Do think it's more about the competitor actions and other things? Could we really see meaningful pricing growth with utilization flat or only slightly better?

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

Yes. I think utilization improvement is a fallout. It's a consequence of what needs to happen. What really needs to happen is that fleets need to get in sync with demand. Once fleets get in sync with demand, then I think pricing becomes within the control of what the competitors want to do with pricing. I think when you think back over the past year, we had one very large competitor that was in financial disarray. They were admittedly overfleeted. We had recalls that played havoc with fleet levels.

Even in that environment, the industry and in particular us got some fairly attractive pricing gains. I think people are going to get their arms around recalls. I think our competitor is obviously on its way to solving their financial issues and solving their fleet issues, and it is for me what gives me confidence that the business and industry fundamentals are still really good. If we can achieve the kind of performance and things that we did in the last 18 months, in an environment that was as I described, then I feel pretty good about the next 12 to 24 months.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. Very good. Thanks, Ron.

Operator

Brian Johnson, Barclays.

Brian Johnson - *Barclays Capital - Analyst*

Good morning. Just following up on that, about a year ago you presented us with an earnings bridge at your Investor Day, getting to $1 billion of EBITDA in 2015. You're now guiding $900 million to $1 billion. Could you walk us through what's changed since then, and maybe quantify some of the buckets? Is the bucket on volume growth, on cost synergies, around fleet costs, and then offset by fleet costs and inflation? You have the FX headwind. That's $40 million, but M&A for $35 million tailwind, so I'm wondering about the rest of the walk in terms of incremental pricing, incremental fleet costs, and then the investment in technology as well as other non-repeated recall costs?

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

Sure, Brian. Good morning. Clearly, some of the things you mentioned are the drivers here. It starts with of the $40 million impact year-over-year related to foreign currency which also impacted us last year as well. The impact on 2015 versus where we were a year ago is actually a little greater than $40 million. I think fleet costs have been a little bit more of a challenge than we expected at that point in time. The international and macro environment both in Europe and Australia has really not improved at all, and in fact, may be a little bit weaker in Australia, and as a result, that's been a negative.

Then as we talked about in our opening comments today, we have included in our 2015 forecast investments for the longer term health of our business and our brands, whether it's in brand marketing, the expansion of Zipcar, or the investment in connected car technology. Those were there to some extent a year ago. I think the amount that we're planning to invest this year is a bit greater, and so when you put that litany of items together, only partially offset from the increased EBITDA from the acquisitions that we've completed. That's really what's driving us to have $1 billion at the high end of our forecast for this year.

Operator

Chris Agnew, MKM Partners.

Chris Agnew - *MKM Partners - Analyst*

Thanks very much. Good morning. I wanted to touch on international inbounds and just get a sense. What are the assumptions you've built with respect to international inbound and into 2015? Can you give us, what's the mix of international inbound between business and leisure? Thank you.

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

Sure, Chris. Good morning. The assumptions with international inbound are that overall, it should probably be a wash. It will impact different areas differently. Euro zone to euro zone, we don't really see an impact, other than with respect to the UK, since so many of the countries are euro denominated. Switzerland is clearly going to be a tough environment. Our guess is that transatlantic volume will shift more from west to east. It will be more volume from North America into Europe, than from Europe into North America given how exchange rates have moved.

As I said, given our global presence, I think this is going to be primarily a wash. With respect to the second part of your question, I don't have the specific numbers as to how international inbound breakdown between commercial and leisure, but I'd expected to be maybe a little bit heavier on the commercial side then our overall business. Call it 60/40 rather than 50/50, but that's my guess. We can follow up with some exact numbers for you.

Operator

Anjaneya Singh, Credit Suisse.

Anjaneya Singh - *Credit Suisse - Analyst*

Hi. Thanks for taking my questions. I was wondering if you could delve into fleet capacity a little bit after the weaker pricing at Q4 [through] these issues. I'm wondering how you view the fleet capacity in the industry year-to-date and for 2015, how that might impact your 2% pricing assumption, particularly as one of your competitors continues to dispose of a lot of fleet through the first half of 2015?

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

Yes. I'm not sure capacity is the right word that I would use. I think if you look back over Q4, the area where I think pricing suffered was really in the shoulder periods between the holiday period between Thanksgiving and Christmas. I think a lot of it has to do with the fact that everybody was cycling recalls back into their fleet, and if you were heavily risk oriented, you were probably hanging onto more cars so that you weren't selling them into a softer used-car market in Q4 and selling them, hanging on that to them to sell them in the first quarter.

Now, I think some of that carried over into January. January pricing looked a lot like December pricing, and I think that January pricing is always soft, and fleets are always a little bit out of sync with demand. As we've seen things tighten up, going past the Presidents' Weekend and into March, pricing seems to come back.

The other thing that I think we've noticed is that the manufacturers were not selling a lot of cars in Q4, and so they are starting to sell cars going into the program cars that we put back to them or others put back to them. They're starting to sell those in the first quarter. That's actually a little encouraging because as more and more volume comes into the market, we're actually seeing a relative stability in the used car market despite increased volumes.

These things are inherently unpredictable, but I am feeling like even though one of our competitors probably does have some more cars to get rid of, and the manufacturers have some cars to sell, it looks as though the market's going to be able to absorb those without any impact on where the pricing water level is currently. I would hope that certainly by the summer that everybody's got their fleet levels in sync with demand and that has a positive impact on pricing.

Anjaneya Singh - *Credit Suisse - Analyst*

Okay. I appreciate the color there. On a similar topic, if you could discuss fleet utilization a little bit, what were the factors driving it higher in international? Was a primarily attributable to your yield management system or would you call out some other factors? How sustainable is that trajectory for 2015? What is baked into your guidance for fleet utilization by region for 2015?

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

I think the fleet utilization gains that we got in international are simply about getting our arms around fleet management in what was a fairly disparate set of fleet management systems and fleet management processes. The utilization gains had a lot to do with just simply managing the fleet better and getting our arms around how people buy fleet, and how people sell fleet, and how they move it through the whole supply chain. In particular, there was a real effort put on shortening the amount of downtime for out of service cars and they required maintenance. That actually helped utilization fairly significantly.

I see the utilization gains continuing to improve in Europe. I think you're talking in percentage points, certainly single digits. Utilization is really hard to move once you get to a steady-state. If utilization is up by a point or two that's a fairly significant number, but the utilization gains in Europe were real. I think they will continue over the course from the next couple of years, and they'll provide some real benefits.

Operator

Afua Ahwoi, Goldman Sachs.

Afua Ahwoi - *Goldman Sachs - Analyst*

Thank you. Good morning. Two questions for me, first on the impact of Payless, I know you provided the impact on volume. Could you remind us what it is on pricing? I know in the past you've given the impact of Payless as 2% on your constant price in number. Then maybe if you can just discuss a little bit of the impetus behind deciding to lower your fleet cost guidance from 2% to 5%, from 3% to 6%, when you last gave an update. I understand the Manheim is much better. It's been stronger over the last couple of months, but how confident are you that those levels will hold, and it doesn't get worse? Thank you.

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

Sure. Good morning, Afua. With respect to Payless, the impact, we've anniversaried the acquisition of Payless. The only thing that's driving Payless to impact our percentage growth in pricing is it's faster growth. Call it a mix effect. That should be somewhere in the maybe half a point drag on pricing growth this year, maybe a little bit less. I do want to make sure we're very clear that it's a mix effect. The results we've had for Payless itself have had some very significant pricing increases year-over-year, but it's the rapid growth of Payless is creating a mix of fact that's likely to be in the quarter to half point range.

In terms of the one-point change in our fleet cost guidance for North America, I think part of it is due to foreign exchange and the impact the Canadian dollar has there. Part of it is definitely due to the fact that the used car market, residual values, have been stronger over the last two, three months than we'd expected. The first month-and-a-half of this year has been better than we initially expected, and we've been pleased by the strength of the used car market. It's nothing huge in the scheme of things, but I'd call it within the range of what we would've expected but toward the better end of that range which is helpful.

As Ron just mentioned, I think we're hopeful that that will continue to an extent going forward as well. We're taking advantage of it, and we're continuing to use our optimization tools to maximize the values we're getting out of cars and even doing some things in terms of which regions we're selling vehicles in that we haven't done in the past to take advantage of differences by region that have appeared over the last few months. I think it's a combination of foreign exchange, a healthy used car market, compared to our expectations, and actions that we're taking allowed us to take a point out of our guidance there.

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, let me reiterate what I think are the key points from today's call. 2014 was a record year, driven by strong volume and pricing in North America. Our four pillar strategy has been the driver of our success and will continue to be the foundation for our future growth. 2015 will be another record year, despite currency and macroeconomic headwinds, and we will continue to return cash to shareholders through share repurchases.

We have a full investor calendar this quarter starting with the JPMorgan investor conference next week. We hope to see many of you during our trips, and with that, I want to thank you for your time and your interest in our Company.

Operator

This concludes today's conference call. You may disconnect at this time. Again, this does conclude today's conference call. You may disconnect at this time. Thank you.